

**Wix.com Q2 2018 Earnings Call**  
**July 25, 2018**

**Operator:** Good morning. My name is Karina and I will be your conference operator today. At this time, I would like to welcome everyone to the Wix.com 2018 Second Quarter Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions). I will now hand it over to Maggie O'Donnell, Director of Investor Relations.

**Maggie O'Donnell, Director of Investor Relations, Wix.com Ltd.**

Thank you. Good morning, everyone, and welcome to Wix's second quarter 2018 earnings call. Joining me today to discuss our results are Avishai Abrahami, CEO and Co-Founder; Nir Zohar, President and COO; and Lior Shemesh, CFO. During this call, we may make forward-looking statements and these statements are based on current expectations and assumptions. Please consider the Risk Factors included in our press release and most recent Form 20-F that could cause our results to differ materially from these forward-looking statements. We do not undertake any obligation to update these forward-looking statements. In addition, we will comment on non-GAAP financial results. You can find all reconciliations between our GAAP and non-GAAP results in our press release, presentation slides, shareholder update and our Interactive Analyst Center on the Investor Relations section of our website. Now, I will hand it over to Avishai Abrahami who is going to say a couple of words about the quarter.

**Avishai Abrahami, Co-Founder, Chief Executive Officer & Director, Wix.com Ltd.**

Thank you, Maggie, and good morning everyone. Thank you for joining us today. We had another great quarter at Wix. The momentum and excitement we shared at our Analyst & Investor Day in June are reflected in these strong results. Both collections and revenue beat our expectations again. Revenue increased 41% year-over-year and collections grew 37% year-over-year. Free cash flow also grew in the quarter to nearly \$24 million, our highest ever. These results prove that what we talked about at the Analyst Day, that Wix continues to be a rare combination of strong top line growth and growing cash flow. We believe this trend will continue and we are again increasing our full year outlook for all metrics.

We continue to drive increasing cohort value, driven by conversion and retention improvements. We've added 205,000 net subscriptions this quarter, and we are maintaining our TROI of 7 to 9 months. As a reminder, for every 100,000 new subscriptions we add, we estimate future collection of more than \$165 million over the next 8 years. We now expect our existing cohort to generate \$4.6 billion in collection over the next 8 years based on our current cohort behavior. Finally, consistent with what we shared at our Analyst & Investor Day, the momentum of our product development is expanding our market opportunity. We continue to provide Wix users of all skill levels and backgrounds with a complete product platform so they can create their dreams online. Development of Wix Code continues. Users of all skill levels, including experts and professionals, are creating many different kinds of websites and web applications.

Activity in the Wix Code Forum, our community for Wix Code users, is also increasing. Users have contributed over 35,000 posts and comments which have generated over 1 million views. We remain excited about opportunity Wix Code presents for the coming years. We also recently launched a mobile site builder for Wix, enabling users to create professional looking websites entirely from a mobile device. And Wix ADI continued to be a positive contributor to the overall conversion improvements. We are experiencing early success in additional languages other than

English and plan to release more before the end of the year. I am very happy by our progress so far this year and remain very excited about the remainder of the year. With that, I am going to hand it back to Maggie.

**Maggie O'Donnell – Wix.com:** Thank you. Please limit yourself to one question so that everyone gets a chance to ask a question. Can we have the first question please?

**Operator:** Your first question is from Brent Thill with Jefferies. Please go ahead.

**Brent Thill, Jefferies:** Thank you. You had mentioned that Code users are starting to buy more premium subscriptions, although in the quarter the premium growth actually decelerated from past periods. I'm curious if you could just walk through what you're seeing and perhaps there's some anomalies that are creating a deceleration in that growth as it relates to some of the metrics that you released.

**Lior Shemesh – Wix.com Ltd.:** Sure, this is Lior. So obviously let's remember that in terms of seasonality, Q2 is weaker than the first quarter. Usually the first quarter is very strong, especially about premiums. There are many, many reasons for that. Second, I think that we had some impact, we kind of forecast it when we provided the guidance for the quarter, specifically from the World Cup. So we need to also take it into account. But overall, the conversion is up even when we look at the new cohort in the second quarter compared to the first quarter. And the main reason for that is for the adoption of the Wix Code and also the contribution of the ADI in other places of the world. So it actually was even above our expectations.

**Operator:** Your next question is from Ron Josey from JMP Securities. Please go ahead.

**Ron Josey, JMP Securities:** Avishai, in the press release you mentioned 2 goals for 2018. I think it was increased penetration of existing markets and then continue to see progress in the benefits of larger market opportunities. I just want to understand that a little bit more as we head into the back half of the year. Talking about increasing penetration of existing markets, is that just more marketing, more products? And then as it relates to the larger market opportunity, just any plans around Code and broadening the appeal as we head into the back half would be helpful. And then Lior, just a follow-up to Brent's question, you talked about Code above expectations, any insights on users there would be helpful. Thanks again.

**Avishai Abrahami:** So I think that, this is Avishai, answering the first part of the first question, which is what we are looking at is actually to continue to expand to new markets in terms of geography and in terms of things that people can do with Wix. Wix Code is of course a dramatic and big step toward that direction. But on the other hand, we are also looking at increasing marketing of the product in different markets. So it's a combination. But I think a big part of it is the additional products that we are launching and having them be accessible to more users.

**Lior Shemesh:** For the other question with regard to the users and so on – so, in general we see that the increase of conversion, although sometimes it's really hard to tell as you know. But we know that there is a contribution for the new cohorts, specifically for people that's using the Wix Code. We do see more professionals and agencies and experts actually using the Wix Code, creating an amazing website. And it's pretty much consistent with what we saw although with the performance was a bit better. But I think that overall it's even more increased our excitement about the contribution of the Wix Code for the next coming years.

**Operator:** Mark Grant with Goldman Sachs, please go ahead.

**Mark Grant, Goldman Sachs:** I just wanted to get a better handle on some customer trends here. On the gross new subscriptions, it seems like the mix of the annual subs has stayed pretty consistent around that 2/3 range. Can you give us a sense of how retention has trended among those annual subscribers? I'm not asking for specific retention numbers, just hoping you can help us understand how that behavior has trended over the last couple of years and if you've noticed anything changing there.

**Nir Zohar – Wix.com Ltd.:** Hey, it's Nir, Mark. So in terms of both the trending of the split between the annuals and the monthlies, as you said, it's pretty stable. In terms of the retention of those over the past few years, we've actually seen a slight improvement. If you remember the presentation and discussion we had around the business model and the negative churn, it's basically just a positive retention when we look at new cohorts. And we clearly saw that the newer cohorts have better retention than the older ones. Naturally, that has not changed since the Analyst Day, but that's basically the year-over-year trend that we're seeing.

**Operator:** Deepak Mathivanan from Barclays, please go ahead.

**Deepak Mathivanan, Barclays:** First one, sort of related to the question from a couple of ones ago, I don't think you factored in the direct monetization from cohorts in the back half guidance at this time. But how should we think about the benefits to conversion that's factored in? Obviously you raised back half guidance a little bit more than 2Q performance, so do you expect or have you factored in continued improvements on Code related conversion in the guidance for back half? And then second question related to GDPR. GDPR is now in effect. Are you seeing any constraints in converting a previously registered user through campaigns like email marketing or something where efficiencies might be a little less now? More broadly on that topic, how should we view the registered user base at this time? I mean what percent do you think long term you can target and convert? Because some of them probably are now registered under the old privacy laws.

**Lior Shemesh – Wix.com Ltd.:** Hey, Deepak. So with regard to the Code and the improvement of conversion, so as always, you know the guidance that we provide is based on what we see right now. So we have seen some improvement in conversion and it's already embedded in the guidance we have provided for the second half of the year. Actually, the fact that we increased the guidance for the full year is mainly because of that. And look, I think that we are very, as I mentioned before, we are very excited about it and we think that we can, the Wix Code is a major contribution you know in the future for the new cohorts. And to the improvement of conversion in the following years, then it will take some more time. But it doesn't embed any -- there is no impact in continuous improvement of conversion on the guidance that I provided. Just what we see right now.

**Nir Zohar:** Hey, Deepak, it's Nir. In regards to the GDPR, so it's been a few months now that we are in full compliance to the new regulation. I have to say that we actually saw no impact. Neither on registration of new users or behavior of the existing users or conversion in any manner.

**Operator:** Alyssa Johnson with KeyBanc Capital. Please go ahead.

**Alyssa Johnson, KeyBanc Capital Markets:** I was hoping to ask about international. Was wondering if you could kind of parse out any kind of one-time impacts that you saw on World Cup versus how we would think about that as a driver in the back half of the year. As you have new products kind of with ADI rolling out more and more internationally as well as your new mobile site builder, how that kind of plays into your existing markets as well as new potential international markets.

**Lior Shemesh:** Okay, so with regard to the World Cup, we know as a fact that it has impacted the quarter. It's hard to tell by how much. We do see for example a drop in the overall number of users on specific days, especially the last days and during the finals of the game. But so basically there is an impact, it's how to estimate exactly what was the impact. With regard to the ADI and other new products, we do expect that conversion will be improving over time from those products. And as I mentioned before, at this stage it includes only what we see. I don't assume right now continuous improvement, although we hope, certainly we hope, that there will be continuous improvement with regard to that.

**Operator:** Naved Khan with SunTrust, please go ahead.

**Naved Khan, SunTrust Robinson Humphrey:** I have 2 questions. One, on the premium tier for Code, I believe at Analyst Day you said there is a good possibility of introducing that. How should we think about it in terms of timing? Do you think we might see it sometime this year or do you think it's more likely that we see it next year? And then I had a follow-up on the ARPS after that.

**Lior Shemesh:** Okay, so with regard to the Code, we just mentioned that we do expect that the improvement specifically about conversion will continue into 2019, and as I mentioned, will be a positive impact on the new cohorts in 2019. And I think that this is something that has started, but we need to remember that when we start a year, most of the topline is actually coming from existing cohorts. So we need to take it into consideration. But when we talk about the new cohorts, so yes, we do anticipate continued improvement as a result of that. And in terms of future additional modeling of monetization of different tiers, for Code we have a quite a few ideas of things that we intend to test in the next several months in order to understand what works best. Once we kind of understand and stabilize them, then those things will have to be modeled into the future and into 2019.

**Naved Khan:** Perfect. Then on the ARPS, I think you called out 2 factors. One is the vertical apps and the second was improved mix of higher priced subscription package. What is contributing to the mix of higher priced subscription packages?

**Lior Shemesh:** think as you indicated, it's mostly the continued uptick of vertical application adoption. If we try to compare it on a year-over-year basis, right now the adoption of vertical by new cohort is approximately, is a bit more than 40%. So actually, it's a 30% increase on a year-over-year basis which is quite big. This is something that is super, super interesting because what you see right now is the direct contribution of the adoption of the vertical which obviously increases the ARPU. But the indirect effect is even bigger because when you think about it, it's increased the satisfaction of the customer, the stickiness of our customers, and obviously especially the conversion. So I think that this is a nice evidence to the fact that the strategy that we took and decided to use the vertical basically to enable more kind of tailor-made for those kinds of professionals to use the vertical, I think that it was the right decision, because obviously we can see the fruits of it right now and some of it you'll see as the increase in the ARPU.

**Operator:** Jason Helfstein with Oppenheimer. Please go ahead. Jason Helfstein, your line is open.

**Jason Helfstein, Oppenheimer & Co.:** How are you thinking about your product outlook relative to the guidance? Does the guidance or at least the high end of guidance assume impact from any new products in the back half? And then kind of timing third quarter versus fourth quarter. And then secondly, anything you can share with us about the dynamics of a Wix Code subscriber? Because we can't really see it within the numbers, but are you seeing a Wix Code subscriber generally having a higher ARPU? Any kind of color around what type of customers that's bringing in. And obviously, your comment suggests there's a longer-term benefit from that, and just how we should think about that. Thanks.

**Lior Shemesh:** I will start with the first question about the new product. So as always, we include in the guidance the products that exist today with their current performance. New products are not in the guidance or improvement in performance of existing products also are not part of the guidance. We would like to guide it when it happens. With regard to the second question, Nir?

**Nir Zohar:** So again, these are initial trends that we've observed, so I think we still need more time in order to actually build a model out of it. But definitely I think it's two interesting behavior that we see - is that on one hand they take longer to convert, which kind of makes sense because it's a more complex product and just building a web application or a complex website functionality on Wix Code just takes a longer time. On the other hand, we do see that these users are building more websites. Which is -- I think it's indicative towards the fact that it's something that professionals and people -- professionals need in order to achieve I would say a higher value of return on their own business of catering for customers.

**Operator:** Sterling Auty with JPMorgan, please go ahead.

**Sterling Auty, JP Morgan Chase:** Did you guys get a full quarter worth of benefit from the new languages with ADI or maybe just a partial quarter? And is there any additional languages that you anticipate rolling out in the coming quarters?

**Nir Zohar:** Sterling, this is Nir. It's some and some. In some languages we had the full impact of the quarter. In others, it was partial, it was rolled out within the quarter. And yes, we do intend to roll out further languages throughout the second half of the year. Absolutely.

**Operator:** Matt Pfau with William Blair, please go ahead.

**Matthew Pfau, William Blair & Company:** Just wanted to get some further clarity on the guidance, the revenue guidance for the back half of the year here. So if I look at the guidance, it kind of implies that there is going to be a further deceleration in growth of net premium subs added in the back half of the year. So just trying to understand perhaps what puts and takes or factors there are for premium sub additions in the back half of the year. Thanks.

**Lior Shemesh:** Let me -- I will relate to both top line and premiums because I guess that you are talking about both of them. So with regard to the topline, we actually increased the guidance for the quarter, the guidance for the full year by approximately \$3 million, on the high range of what we provided before. Very important also to mention that we had some negative impact of currency. It was not significant. It was small during the second quarter mainly from the decrease of the Euro

and the British Pound compared to the dollar. It actually went down by approximately 4%, so it has the impact of a few million dollars. So it's something that is also important to mention although it's not significant. But the other thing about the premiums, we need to remember that the fourth quarter is behaving totally differently from all the other quarters. Because usually you see on apps an increase in collection while you see decrease in net premiums. The reason for that is obviously because of all the holidays and vacations during the fourth quarter which obviously impact the cohort. But on the other hand, you see the renewal of all kinds of promotions that usually you do during this period and it's coming in with a full price. So I think in terms of seasonality, the second quarter is totally different than, the second half of the year is totally different from the first half of the year. But I do anticipate that this year is not going to be different from any other year before meaning that it's in line with what we've seen before.

**Operator:** Mark Mahaney with RBC, please go ahead.

**Mark Mahaney, RBC Capital Markets:** I want to ask about some of your international markets and the registered user growth. The registered user growth continues to be up year-over-year and you do provide this detail on your increased geographic penetration. So is that a decent proxy for where your new registered users are coming from? Just any color on the geographic mix shift of new registered users. Then in that same vein on the international side, I assume that these markets, given your business model, kind of ramp profitability the same way that others do. That there's probably not dramatic startup costs in any of these markets since you don't have really a salesforce. Can you just comment on as the business becomes increasing geographically dispersed or diverse, what that means to profitability, if anything? Thank you.

**Lior Shemesh:** I will start with the first question, we don't see any change from previous periods in terms of where the users are coming from. Again, a big part is coming from outside of North America when we talk about users, about 2/3. So there is no change from previous periods. But I do think that you are right, there is opportunity in other places of the world like Asia Pacific and so on. But it depends on many, many, many factors. But in general, I don't think that there will be any impact on our profitability while we are penetrating into these countries. First of all, you are right, it's a software business model and we don't need feet on the ground in order to be successful there. The second thing, we always act according to the TLY. Meaning that if someone theoretically, the payments or the pricing is different, so obviously also the investment in marketing is different. So on a TLY basis, it really remains the same and therefore, the profitability should be the same. And we actually already see that because the behavior and the economics of Latin America for example are totally different than North America. So this is the way that we manage it.

**Operator:** Jonathan Kees with Summit, please go ahead.

**Jonathan Kees, Summit Insights Group:** It's really one topic. Just curious if you've gotten any product changes or directional changes from your in-processing partner Square? Or if you're also going to take any different direction there in terms of who you're going to use as a partner for a POS, maybe use another vendor or just add some partner duplicity there? Thanks.

**Nir Zohar:** Hey, Jonathan. So I'm assuming that you are asking about the Square due to the Weebly acquisition. In fact, yeah, the fact is that we haven't seen any change in the kind of overall behavior in the market. And the way we think about it, Square has been a good partner for us in terms of the POS and the payments for our users who need it. Our customers like it, the users ask

for it and they want that service. So we don't anticipate any changes in the near future in that aspect. It's a good product and a very good relationship between the 2 companies.

**Jonathan Kees** And no changes from them in terms of how they want to take this?

**Nir Zohar:** No. None.

**Operator:** Tim Klasell with Northland Securities, please go ahead.

**Timothy Klasell, Northland Securities:** A question also on the competitive environment. With Code, maybe you can give us some color on who you think is the type of customer you're attracting? What were they using, what could have they been using? And as part of that, are you seeing any more -- you're competing more up against Word Press, we've noticed more of them in our channel set. Thank you.

**Avishai Abrahami:** So when we look at Wix Code, the first part was what kind of customer. So we see --

**Timothy Klasell:** Who have they historically used or what were they using before they jumped over to Wix Code?

**Avishai Abrahami:** So we do see -- if you're asking if we do see an increase of people that used to use Word Press and now are moving to use Wix, the answer is yes, we do see that. But it's not only that. We also see people that used to really code from scratch moving to Wix Code and we see people using systems like Drupal moving to Wix Code. So it's a bigger set than just saying, oh, takes from Word Press. And this is by the way what's got us so excited. Why? Because it means that the potential is so much bigger. And the functionality that people use from Code, the more -- we see a lot of database use, and that's something very common. Where people -- and this is something that we also see in designers that are very capable of doing and really enjoying seeing how they do that and how it works. Beyond that, there is tons of people that actually go in and just program stuff, which I found to be fascinating because it just showed that the level of need for the additional functionality Wix will provide is tremendous.

**Maggie O'Donnell:** I think we have time for one more question.

**Operator:** Lloyd Walmsley with Deutsche Bank, please go ahead.

**Seth Gilbert, Deutsche Bank:** This is actually Seth on for Lloyd. I was just curious if you could talk about the new mobile site builder and what you're seeing in terms of behaviors for users coming into that funnel. Are you seeing any better site completion rates or premium upgrade rates or any other insights you can share there? Thank you.

**Avishai Abrahami:** We just launched a product and we believe that long term it's a strategic product because we think that long term more and more people that grew up using a mobile phone, a smartphone as their computer, will be using that product to build their websites. It's a pretty awesome product. If you didn't try it, you should definitely try it. It's really using the full capabilities of ADI to build your site, to really manage it and do everything from there. So it's a fantastic product. For now, the results that we see are very early stage, but of course we believe that long term that will be an important product in a toolset.

**Maggie O'Donnell:** Great. Thank you, Seth. Thanks everyone for joining today.

**Operator:** This concludes today's call. You may now disconnect.