

WIX

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Q3 2023 Earnings Call

Prepared Remarks

Emily Liu, Investor Relations

Thanks, and good morning, everyone. Welcome to Wix's third quarter 2023 earnings call. Joining me today to discuss the results are Avishai Abrahami, CEO and Co-Founder; Nir Zohar, our President and COO; and Lior Shemesh, our 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 actual 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 and key operating metrics. You can find all reconciliations between our GAAP and non-GAAP results in the earnings materials and in our Interactive Analyst Center on the Investor Relations section of our website, investors.wix.com.

With that, I'll turn the call over to Avishai.

Avishai Abrahami, Co-founder and CEO

Thanks Emily and good morning, everyone.

We delivered a tremendous third quarter that exceeded both growth and profitability expectations for another consecutive quarter. Revenue in Q3 grew to \$394 million dollars, which is \$3 million dollars above the high end of our guidance. We generated more than \$62 million dollars of free cash flow, or 16% of revenue, ahead of our expectations.

As a result of our outperformance year to date, we are again raising revenue and free cash flow guidance for the year, and we now expect to finish 2023 ahead of the margin targets set at our Analyst Day in August.

As we begin to wrap up an outstanding year, I want to spend most of my time today talking about products that we expect will be our primary growth engines going into 2024 and years to come: Wix Studio and AI.

Like prior quarters, our Partners business was a meaningful driver of our strong top-line performance in Q3, growing 38% year over year. We continue to find success with professionals through ongoing dialogue to better understand their needs and best-in-class product innovation that resonates with this community.

As we spoke about at our Analyst Day in August, we took all that we have learned from Partners over the years and created Wix Studio, our new cornerstone product for Partners. The reception, feedback and early KPIs have been incredible. The resounding consensus is that Studio provides agencies with everything they want and more for all of their web creation and project management needs.

Users particularly love Studio's responsive AI technology that simplifies high-touch and time-intensive tasks such as ensuring consistent design across web pages on different screen sizes. They are also enjoying the AI Code Assistant inside the new Wix IDE, which allows them to write cleaner code and detect errors easily.

Most importantly, Studio optimizes Partners' workflow and productivity while elevating their own client offering, ultimately helping them scale their business.

Features like the workflow management dashboard enable agencies to easily manage all of their clients, projects and teams in one place, and Client Kit allows Partners to provide a seamless handoff experience with built-in tutorials for their end client, saving time and resources.

We already have thousands of Studio sites live and many actively generating GPV. The total number of registered Studio accounts and conversion of existing sites to Studio have exceeded our own expectations.

All of these early signs of success could not have been possible without the team that traveled across 12 cities over 2 months to bring Studio to life through countless educational workshops, Q&A forums and onboarding sessions. This tour gave us the opportunity to hear directly from hundreds of Partners around the globe, and it allowed Partners to learn from each other.

Wix Studio is now fully live to all partners. We have a strong team that continues to execute well and a growing community of professionals excited about Wix. These factors are what give me confidence in the long period of growth ahead in this business.

We did not let off the gas in terms of product innovation as we continued to add to our industry-leading AI and genAI product offerings. As we spoke about at our Analyst Day, we have nearly a decade of working with AI and machine learning to reduce friction and enable better creation by leveraging AI for co-creation for our users.

Earlier this week, we released our latest AI products. The first was AI Meta Tags Creator, a groundbreaking SEO tool powered by AI and our first AI-powered feature within our collection of SEO tools. Both self creators looking to generate SEO-friendly tags for each of their pages and professionals looking to enhance their efficiency and make real-time adjustments will benefit from this product.

The second was our Conversational AI Chat Experience for Business. This feature, which is now live, paves the way to accelerate onboarding using AI in order to get businesses online more quickly and efficiently.

These new tools continue to demonstrate our leadership in utilizing AI to help users of all types to succeed online.

It has been a busy year at Wix filled with many product and financial milestones, but we are not done yet. We expect to continue this strong momentum into the fourth quarter and accelerate profitable growth even further.

Finally – before I turn it over to Nir, I'd like to end with a quick thought. The terrorist attacks in Israel a month ago were terrible beyond imagination, but we at Wix have navigated unprecedented challenges before and ultimately emerged stronger from them. This war is no different. Even against the current backdrop, I am more confident than ever in the strength of our global team and the execution of our strategy and growth trajectory.

With that, I will hand it to Nir.

Nir Zohar, President & COO

Thanks, Avishai.

Following the strong performance that we've seen so far this year, I want to revisit the key growth pillars we spoke about at our Analyst Day which we expect will drive our business in the coming years.

First, as Avishai mentioned, Q3 was another quarter of accelerating growth in Partners revenue. We expect growth in the Partners business to continue with a long runway of opportunity ahead, particularly as Wix Studio ramps.

The initial months of Wix Studio have been fantastic with more partners coming to Wix and an increase in projects per Partner. We also continue to see Partners adopting more Business Solutions products and driving meaningful growth in GPV. Combined, these behaviors give us confidence that the compounding growth in Partners cohorts and revenue will continue.

Compounding Partners growth is complemented by re-accelerating growth in our stable and profitable Self Creators business, which we saw once again this quarter. We expect our market-leading product innovation as well as our powerful AI products and technology to drive higher conversion, monetization and retention as we maintain our leadership position in the website building space.

Avishai spoke about the AI Chat Experience for Business, and in its early weeks we have already seen its positive impact on conversion and revenue. We have more AI products in our pipeline that we believe will continue this trend, and I am confident that our innovation paired with a macro recovery will return our Self Creators business to double-digit growth.

The third pillar of our strategy is Business Solutions growth. We saw outstanding transaction revenue growth in Q3, increasing 22% year over year, highlighting higher GPV as well as increased adoption of Wix Payments. We expect continued increases in transaction revenue and GPV as well as better adoption of business applications will drive growth across both Partners and Self Creators.

This quarter was a continuation of the momentum in growth we experienced in the first half of the year, and it increases our excitement about what's to come in the years ahead.

Finally, I'd like to briefly address our operations amidst the ongoing war in Israel.

With all of our employees accounted for and our business continuity plan in place, there has been no disruption to our business and we do not anticipate any significant impact to operations going forward, even as the war continues. As a reminder, all of our infrastructure and internal networks are cloud-based and located completely outside of Israel. Importantly, our users have not experienced any disruption to performance or support throughout this period.

As we have shared, less than 5% of our global workforce were called up to military duty, and we have already implemented contingencies to take on their responsibilities.

In the immediate weeks following October 7th, as we focused on the well being of our employees and their families, we experienced slight delays to some product development timelines. In response, we shifted priorities and efforts to successfully mitigate impact on our product pipeline. We intend for these delays not to impact our overall product development plans.

Over the last several weeks, we have successfully launched a number of products, including the full global roll out of Studio as well as our newest AI capabilities. We will continue to introduce new products and features in the coming quarters as planned.

Our people in Israel are obviously adjusting to a new work environment. We are supporting them in any way we can, including with the implementation of a work routine that prioritizes the physical safety and mental well-being of our team and their families.

In addition to supporting our Wix teammates, our global team has implemented multiple initiatives to support our users and broader community during this time as well. We are leveraging our robust platform, global footprint and technological expertise to connect those in need with vital resources, assist small businesses impacted by the war and ensure the reliability of our platform for those who are depending on it most.

The resiliency of this incredible team along with the support of our community of users and partners give me confidence in our growth strategy as we all look forward to better times.

With that, I will hand it over to Lior to walk through our financials, outlook and progress against our refreshed three-year plan. Lior?

Lior Shemesh, CFO

Thanks, Nir.

We carried forward our positive momentum into Q3 with another quarter of results that exceeded both growth and profitability expectations. Our exceptional performance year to date enables us to increase full year guidance again and provides increased confidence in our ability to achieve, and even exceed, the milestones in our three-year plan provided at our Analyst Day in August.

We now expect to exit the year with FCF margin of 20-21%, which is within striking distance of the minimum 25% FCF margin targeted for 2025. Additionally, we also expect to generate more than \$3.50 of FCF per share in 2023, above the \$3 per share anticipated in August, as a result of robust FCF generation and careful dilution management throughout the year.

Notably, following a second consecutive quarter of positive GAAP net income in Q3, we expect to achieve positive GAAP net income for full year 2023 with GAAP profitability expected to be achievable in 2024 as well. I am incredibly proud of this achievement as it puts us ahead of the GAAP target in our three-year plan.

Moving on to the details of the third quarter. Total revenue of \$394 million was up 14% year over year and exceeded the top end of our guidance range by \$3 million dollars as we continued to execute on our strategic initiatives. Total bookings were \$389 million dollars, up 10% year over year.

Strong top-line growth was again driven by our Partners business. Partners revenue grew 38% year over year in Q3, marking a third consecutive quarter of accelerating growth.

With Partners now contributing to more than 40% of overall GPV, total GPV in Q3 grew 14% year over year. This growth in GPV coupled with an increased take rate as merchants continue to adopt Wix Payments resulted in transaction revenue growth accelerating to 22% year over year this quarter.

Before I move onto profitability, I want to take a moment to highlight our B2B business. After three years since the signing of our first partnership, our B2B business has scaled tremendously and is now profitable on a standalone basis. Today, we are able to integrate with any large business looking to bring the power of Wix to their customers without additional meaningful technological investments from our end. As a result of this achievement, as well as the uncertain macro environment, we are now able to offer partners “pay as you go” terms and will no longer recognize unbilled contractual obligations in bookings beyond 12 months.

One example of this evolution in our B2B model is the strategic partnership we signed with Intuit earlier this quarter. This partnership represents significant potential in the future but will be recognized based on usage on an ongoing basis. We believe this shift opens up our pipeline to more partnership opportunities going forward.

Moving on now to the profitability improvements made this quarter. Non-GAAP gross margin of 68% was up approximately 380 basis points compared to the prior year quarter. We continue to benefit from a more optimized cost structure as well as better gross margins in our payments business.

We generated a fourth consecutive quarter of positive non-GAAP operating income, which was 15% of revenue. Q3 included non-recurring increases to compensation as well as increased marketing activities associated with Wix Studio, both according to our annual budget. These increases in operating spend were partially offset by continued execution of our streamlined marketing strategy as well as lower headcount and overhead expenses compared to the prior year quarter.

As a result of our continued growth and leaner cost structure, we generated stronger free cash flow than expected this quarter. Free cash flow grew 28% year over year to over \$62 million dollars, or 16% of revenue, and accelerates our path to achieving the targets in our three-year plan. Note that this excludes capex related to the buildout of our headquarters.

Now, I want to finish with our outlook for Q4 and 2023.

We expect total revenue in Q4 to be \$400 million to \$405 million, representing 13% to 14% growth year over year.

Following our revenue outperformance year-to-date, we are increasing our full year outlook again. We now expect total revenue to be approximately \$1.558 billion to \$1.563 billion, representing approximately 12 to 13% year over year growth, an increase from our previous expectation of 11 to 12% year over year growth.

We also expect accelerating profitability as we exit 2023.

We are increasing our outlook for free cash flow for 2023 to \$235 million to \$240 million, or approximately 15% of revenue. This indicates an exit free cash flow margin of 20-21% this year, putting us that much closer to our minimum 25% FCF margin anticipated for 2025. This compares to our previous free cash flow outlook of \$200 million to \$210 million, or approximately 13% of revenue and an exit rate of approximately 15%.

This updated free cash flow outlook along with careful dilution management throughout the year also enables us to increase our FCF per share target for the year.

Following the incredible performance so far this year, I am more confident than ever in our ability to achieve our three-year plan as we accelerate along our expected path to the “Rule of 40” with a FCF margin target of at least 25% in 2025.

Operator, we are now ready for questions.