



**August 3, 2023**

**Q2 2023 Earnings Call**

**Prepared Remarks**

## **Emily Liu, Investor Relations**

Thanks, and good morning, everyone. Welcome to Wix's second 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](https://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 continued the momentum built up over the past few quarters into a strong Q2, exceeding expectations as we accelerated both profitability and growth for a third consecutive quarter. This is a testament to our focused commitment to growth while balancing operational efficiency.

Revenue in Q2 grew to \$390 million dollars, above our guidance. We generated more than \$49 million dollars of free cash flow, or 13% of revenue, also outperforming expectations.

A meaningful driver of the strong performance this quarter was our Partners business, which grew revenue 36% y/y in Q2.

Throughout the last several years that our partners business has grown, we have been listening to our partners' needs and innovating on a set of solutions tailored especially for professionals. This all has led to the launch of one of our most significant product releases in the last few years -- Wix Studio, the new cornerstone platform of our partners' product experience.

Wix Studio is a first-of-its-kind web creation and development platform, made specifically for agencies and freelancers. It is an all-in-one platform for professionals to create websites, easily collaborate and delegate

amongst teams, manage workflows and clients at scale, and grow their business more efficiently.

I want to share a bit more about how Wix Studio came to life.

Three years ago, we launched Editor X. Since then, we have gained significant traction with agencies and designers and have learned a great deal about the types of projects they build, about their needs in design and control and about how they run their businesses. We learned that agencies and freelancers need more than just a high end design environment, they need tools to manage and grow their businesses.

The knowledge we have gained has enabled us to take a significant leap forward in our offering for partners, which we now deliver with Wix Studio.

Wix Studio brings so much more to agencies and freelancers in one platform than we believe anyone else has ever offered.

The Wix Studio Editor provides a simple way to do complex things online and layers of control over all aspects of design while still allowing the in-depth sophistication of Editor X for the most advanced users.

One of the hardest issues that agencies have is keeping consistent design across multiple screen sizes. We are greatly simplifying this challenge with responsive AI technology.

Wix Studio also includes a full suite of native business solutions, all supported on Wix infrastructure, like Wix Stores and Wix Bookings, as well as the ability to add third-party apps.

For specific business logic that is sometimes needed for clients, Wix Studio offers developers new capabilities and tools to create custom applications better and faster. For that, we're introducing Wix IDE, our completely new professional development environment based on VS code. Using Wix IDE, developers can extend the functionality of our business solutions using 100s of APIs and integrations.

We've integrated AI here as well -- developers can use an AI-powered code assistant to write cleaner code and detect errors.

With Wix Blocks, partners can create custom components, widgets and apps that can be reused on multiple sites. Partners can even sell the apps they create using Blocks to millions of Wix users in the App Market.

Finally, Wix Studio is made especially for professionals who build sites for a living. The Wix Studio Workspace includes a powerful dashboard to manage clients, projects and teams, which is also accessible on the dedicated Wix Studio mobile app.

And for when an agency hands over a site, Wix Studio includes a client-facing dashboard and editor with features such as quick-edit, which allows clients to make easy changes to the site on their own, and the ability for the agency to add relevant resources for their clients such as videos, guides and tutorials.

These are just some of the many ways Studio addresses all of our Partners' needs from building complex projects to managing client relationships all in one place. These capabilities were built with all types of agencies across all specialties and skill sets in mind, not just design experts.

We are incredibly proud and excited for the release for Wix Studio, and we believe it will be a meaningful driver of continued growth with partners.

In addition to Wix Studio, we also made meaningful strides in our AI innovation this quarter with the announcement of AI Site Generator and AI Assistant for Business – just two among many other exciting products in our pipeline we'll be rolling out to users later this year. These add to our already robust suite of AI and genAI products developed over the past decade. AI remains a key part of our growth strategy for both Self Creators and Partners alike.

There are so many more exciting features and highlights of Wix Studio as well as our AI pipeline and vision, so, we'll be sharing more detail and some demos next week at our Analyst Day – I hope you'll join us there.

With an excellent first half of the year behind us, I'm confident in our ability to continue this momentum and even accelerate profitable growth through the rest of 2023. So, we're again raising our revenue and free cash flow outlook for the full year. The outperformance of the last few quarters puts us closer on the path to achieving "Rule of 40" in 2025. There are many exciting things still to come this year and only made possible by the incredible team here at Wix. So thank you all for your hard work and dedication to our users.

With that, I'll turn it over to Nir to speak more about the Partners business.  
Nir?

## **Nir Zohar, President & COO**

Thanks, Avishai.

I want to start by sharing a bit more about the significance of Wix Studio for our business, and then I'll share more about this quarter's performance.

While professionals have always used the Wix platform, over the last several years, we have invested significantly into infrastructure, product development and marketing to expand our TAM by building the go-to platform for professionals.

Last year we presented how the partner cohorts generate compounding growth. This growth is inherent to the difference between partners and self creators. Partners take on more and more projects over time, and therefore each partner generates more subscription revenues over the lifetime of the cohort. Partners websites also deliver higher GPV, and they have a deeper grasp of advanced capabilities, adopting more business solutions and generating higher ARPS across the board. We continue to see this behavior, and we will share more at our Analyst Day next week.

The financial results from all of this have been outstanding as Partners now makes up 30% of our total revenue and continues to grow. This growth is a testament to the success of our investments.



Wix Studio represents an important milestone in this journey. With Wix Studio, we are not only delivering to partners an updated, powerful design and development experience with AI technology, we are also bringing something completely new that meets their specific needs. With the Wix Studio Workspace and its set of new workflow tools that will help agencies manage their business, scale and grow, we believe Wix Studio is a unique offering that no one else provides.

And there will be much more to come -- we will continue to add products and tools to Wix Studio as our partners grow with us.

We believe that this product will enable us to enhance the Partner cohort behavior I described before as well as grab even more market share and accelerate our penetration into this massive TAM.

Moving onto the quarter, starting with cohort performance. Our Q1'23 user cohort generated \$42.5 million dollars in cumulative bookings in its first two quarters ending in Q2. This was approximately 6% higher than that of the Q1'22 cohort in its first two quarters, despite the Q1'23 cohort containing about 13% fewer users compared to the Q1'22 cohort and lower acquisition marketing investment.

We benefited from solid conversion of new and existing users and continued growth in bookings per subscription and stable retention.

These fundamentals show the positive returns from our focus on bringing higher-intent self creator users and partners, which convert at higher rates as well as higher monetization driven by favorable pricing mix, strong adoption of Business Solutions applications, more transaction revenue as a result of higher GPV and increased take rate, and continued contribution from our B2B partnerships.

Finally, this quarter's performance again demonstrates the strength and scale of our global brand as reflected in the success of our marketing strategy shift implemented last year.

With that, I will now hand it over to Lior to walk through our financials and outlook. Lior?

## **Lior Shemesh, CFO**

Thanks, Nir.

As Avishai mentioned, we continued to make progress in the disciplined execution of our profitable growth strategy in Q2 with growth and profitability accelerating for another consecutive quarter. Continuing to meaningfully expand margins will ultimately drive us to reach “Rule of 40” in 2025 under a variety of scenarios. At our Analyst Day next week, I will show you how we plan to reach this goal from where we are today.

This quarter, we accelerated gross profit margins further, up nearly 580 basis points year over year as we continued hosting optimization and benefited from the cost efficiencies completed over the past year.

Non-GAAP operating expenses as a percentage of revenue declined meaningfully from 66% in Q2’22 to 51% in Q2’23. This decline was a result of continued execution of our streamlined marketing strategy and the cost savings actions executed over the past year and completed last quarter. This drove us to log a new record high for quarterly non-GAAP operating income. Additionally, we achieved the first quarter of positive GAAP operating income in Wix history. This milestone demonstrates the strides we’ve taken towards sustained GAAP profitability, which we believe we are very close to achieving.

Non-GAAP operating expenses also declined more than 300 basis points sequentially from increased operating leverage as revenue grew 13% year over year while operating expenses remained stable.

This outperformance in Q2 caps off an incredibly strong first half to 2023, with free cash flow generation of \$93 million, or 12% of revenue, which was better than expected. Excitingly, we expect to accelerate margin expansion in the back half of the year as we drive further leverage.

Now onto the details of the quarter. Total revenue of \$390 million exceeded the top end of our guidance range by \$5 million as we continued to execute on our strategic initiatives, with our Partners business performing exceptionally well. Total bookings were \$398 million in Q2, up 12% year over year and also above our expectations.

As you just heard Nir speak about in detail, our Partners business continued to outperform as it remained a key strategic focus for us. Due to better fundamentals and increased ARPS through increased Business Solutions attachment and more GPV generation, Partners revenue growth accelerated to 36% year over year. We expect meaningful growth to continue as we improve the Wix experience for professionals through new products tailored for their needs, such as our new Studio platform.

Partners' GPV growth, strength across geographies and commerce verticals, as well as higher average GPV per site drove overall GPV to increase 10% year over year to \$2.8 billion in Q2. Higher GPV and a continued increase in take rate as more merchants choose Wix Payments resulted in accelerating transaction revenue growth of 21% year over year to more than \$44 million.

Strong growth in Creative Subscriptions ARR continued this quarter, accelerating to 10% year over year as we continued to benefit from strong cohort behavior, price increases and growing revenue contribution from partners. Net new ARR growth in Q2'23 was approximately 66% year over year. We expect net new ARR to continue its meaningful year over year growth through the rest of 2023 as incremental subscriptions from our ramping Partners business layer onto our core Self Creators base.

On top of accelerating revenue and bookings growth, we also saw an acceleration in margin expansion as well in Q2.

Through continued hosting optimization and benefits from previously completed headcount efficiencies throughout the past year, Non-GAAP gross margin increased to 68%, adding another 160 basis points on top of Q1's record high and up approximately 580 basis points year over year.

Non-GAAP Creative Subscriptions gross margin increased to 83%, marking a 230 basis point expansion sequentially and more than 700 basis points year over year. This improvement was driven by strong revenue growth in this segment as well as continued hosting efficiencies.

Non-GAAP operating margin improved nearly 470 basis points quarter over quarter to 18% of revenue in Q2. This was mainly driven by continued execution of our streamlined marketing strategy focused on higher-intent users. Q2 surpassed last quarter's record high for non-GAAP operating income.

As a result of continued growth and profitability acceleration, we generated over \$49 million dollars of free cash flow, or 13% of revenue. This excludes capex related to the buildout of our headquarters as well as the remaining cash portion of the one-time severance charges related to the headcount reduction we announced in February.

Free cash flow performed better than expected again this quarter, giving us full confidence in our ability to achieve the Rule of 40 in 2025.

Accelerating FCF growth and expanding margins over the past three quarters demonstrate the strength of our business and the success of the cost efficiency actions executed over the past year, which have been completed.

Now, let me finish with our outlook for Q2 and 2023.

We expect total revenue in Q3 to be \$386 million to \$391 million, representing approximately 12% to 13% year over year growth.

For the full year, we are increasing our outlook again. We now expect total revenue to be approximately \$1.543 billion to \$1.558 billion dollars, representing approximately 11% to 12% year over year growth. This is an increase from our prior expectation of \$1.522 billion to \$1.543 billion dollars, or 10 to 11% growth. With this new guidance, we expect revenue growth in the second half of the year to accelerate compared to the first half of the year.

Additionally, we are also updating our profitability expectations for the full year as we see operating leverage from the cost actions completed over the past year as we scale.

We now anticipate non-GAAP gross margin to be approximately 68% for the full year, up from our previous expectation of 67%, driven by increased profitability across both Creative Subscriptions and Business Solutions.

We now anticipate Creative Subscriptions gross margin to be approximately 82%, up from our previous expectation of 81%. For

Business Solutions, we expect gross margin of approximately 28%, up from our previous expectation of 27%.

Full year non-GAAP operating expenses are now expected to be down year over year to 56-57% of revenue compared to 57-58% of revenue as previously expected, driven by lower marketing expenses and operational leverage from previously completed cost actions.

As a result of higher revenue growth and additional profitability improvements, we are increasing our outlook for free cash flow for 2023 to \$200 million to \$210 million, or 13% of revenue, exiting the year with a free cash flow margin of approximately 15%.

This compares to our previous expectation of \$172 million to \$180 million, or 11 to 12% of revenue and an exit margin of approximately 13%. With this updated guidance, we expect free cash flow margin to accelerate in the second half of the year compared to an already very strong and profitable first half.

With our cost efficiency plan now complete and behind us, the operating costs in the second half of the year will reflect the necessary run rate to drive meaningful operating leverage going forward and carry us to achieve the Rule of 40 in 2025.



Additionally, stock-based compensation is expected to decrease to 14% of revenue in 2023 versus our previous expectation of 14-15%.

Finally – we are committed to increasing FCF per share going forward. Our updated guidance, combined with our share repurchase activity year to date, positions us well to generate over \$3 of FCF per share in 2023, a significant increase over 2022 FCF per share of 51 cents. We will share more about our plans to increase FCF per share through 2025 at our upcoming Analyst & Investor Day.

I'm extremely pleased with the results and accomplishments we've made on all fronts over the first half of the year and am looking forward to continued growth and profitability acceleration in the back half.

Operator, we're now ready for questions.