



May 17, 2023

Q1 2023 Earnings Call

Prepared Remarks

Rona Davis, Head of PR & Communications

Thanks, and good morning, everyone. Welcome to Wix's first 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 Rona and good morning, everyone.

We have had a fantastic start to 2023 and I am pleased to say that we exceeded our expectations across many areas of our business. The drivers of our results this quarter were broad based across our business, both on the top line and on profitability.

Revenue in Q1 grew to \$374 million dollars, above our guidance. We generated \$44 million dollars of free cash flow excluding one time charges and our headquarter build out costs, also ahead of our expectations.

These great results are a testament to the strong execution of our strategy to provide the best platform of innovative products for our users while increasing operational efficiency and discipline.

Much of the growth this quarter was also driven by our Partners business. This year, scaling our business with Partners, including designers, freelancers, and enterprise partnerships, remains a key strategic focus.

Partners revenue growth accelerated this quarter, up 27% year over year. We recently announced some exciting products for Partners, including Wix Headless, and have many more incredible product announcements and marketing plans for later this year.

The outperformance of this first quarter is very encouraging, so we are raising our revenue and free cash flow outlook for the full year as well as pulling forward many of our profitability targets for 2023.

Our profitability out-performance bolsters our confidence in achieving the "Rule of 40" in 2025.

I will let Nir and Lior share more details about the quarter, and then I will close with my thoughts on AI.

Nir?

Nir Zohar, President and COO

Thanks Avishai.

I'll share a bit more details about our performance this quarter as it relates to our user cohorts, some color on our marketing investment in the quarter following the recently announced strategy shift, and an update on our focus on operational efficiency.

Starting with user cohort performance. Our Q1'23 new user cohort performed exceptionally well with 5.4 million new users collectively generating more than \$30 million in bookings in this first quarter, easily the highest same quarter Bookings in a non-Covid cohort, and on a base of a significantly smaller sized cohort -

This clearly indicates the inherent improvements in the fundamentals of our business, including subscription conversion and average collections per subscription, as well as stable retention.

Diving deeper into these fundamentals shows the returns from our focus on bringing higher-intent self creator users and partners, which convert at higher rates.

It is also the result of higher monetization driven by users choosing higher priced subscriptions, 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. We expect these trends to continue in the coming quarters this year.

Lastly, this performance is a testament to the strength and scale of our global brand as reflected in the success of our marketing strategy shift implemented last year.

As a reminder, based on tests we started last summer, we determined that we could keep new cohort bookings stable even if we reduced acquisition marketing spend by half. We continued this marketing strategy this quarter and decreased acquisition marketing spend by approximately 47% year-over-year while still increasing new cohort bookings.

After more than 8 months of expanding and perfecting this new strategy, we are confident in the results and therefore expect investment in acquisition marketing to remain at reduced levels throughout the rest of the year and beyond

In addition to the strong fundamentals and the significant increase in marketing effectiveness, we also intensified our focus on driving operating efficiency across our business. We successfully implemented the cost savings outlined last quarter as well as realized additional hosting optimization opportunities and continued to decrease headcount.

We ended Q1 with 5,006 employees, down 18% year-over-year from nearly 6,100 employees in Q1'22.

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

Lior Shemesh, CFO

Thanks, Nir.

This quarter was marked by fantastic profitability improvements that allowed us to achieve our 2023 profitability targets much earlier than anticipated. Even more importantly, these steps firmly put us on the path to achieving “Rule of 40” in 2025 with significant expansion of our margins.

In Q1, we grew gross profit margins by nearly 500 basis points, driven by hosting optimization and headcount efficiencies, among other cost savings.

We further drove operating leverage by executing on our new marketing strategy, reducing headcount, and implementing savings across our entire operating cost structure.

Non-GAAP operating expenses as a percentage of revenue declined significantly from 77% in Q1’22 to just under 54% in Q1’23, resulting in the highest non-GAAP operating income in our history. These efforts drove free cash flow generation to finish higher than anticipated.

Looking past this year, we expect to continue this quarter’s momentum by advancing our commitment to operational efficiency across all aspects of our organization. Continued cost management, mostly across operating

expenses, will enable us to drive further leverage and expand our cash flow margin significantly.

In addition to our continued profitability improvements, I'm also very excited about the execution of our strategic initiatives, particularly our focus on the Partners business, that will enable us to continue to deliver growth in the coming years.

Now onto the details of the quarter. The fundamentals of our business remained strong this quarter, which led us to exceed the top end of our guidance range for revenue. Total revenue was \$374 million this quarter, up 10% year over year. Total bookings were \$415 million in Q1, up 6% year over year.

Remember that we signed our partnership with LegalZoom in Q1'22, creating a difficult comparison this quarter. Removing this amount from bookings in Q1 of last year, our FX neutral year over year bookings growth was 13% – a better indication of our growth compared to the prior year quarter.

We saw an acceleration in transaction revenue growth this quarter, up 16% year over year to \$42.3 million. This growth was driven by higher GPV of \$2.7 billion, up 6% year over year, as well as higher overall take rate as merchant adoption of Wix Payments continues to increase.

As Avishai mentioned, Partners is a major area of focus and growth for us this year. Partners revenue grew to \$103.9 million, up 27% year over year. This is an acceleration in growth compared to the prior couple of quarters as more agencies and developers build projects on Wix, and we increase our monetization of professionals, particularly as they increasingly generate more GPV.

This quarter, we also began to see some early, but still very minimal, revenue contribution from the B2B partnerships we signed over the past couple of years.

More impressively this quarter – we intensified our focus on driving operational efficiencies across the business. These actions allowed us to achieve the profitability milestones planned for later in the year much earlier in Q1.

By implementing the cost savings strategy introduced last quarter as well as additional hosting optimization and headcount efficiencies, Non-GAAP gross margin increased to 67% in Q1, making it the highest quarterly gross margin since 2020.

Growth in the Creative Subscriptions revenue along with cost discipline drove non-GAAP gross margin for Creative Subscriptions to above 80% in

Q1, an increase of 450 basis points year over year. Both of these gross margin targets were originally anticipated for later in the year.

Our continued implementation of our new marketing strategy that Nir spoke about earlier, along with additional savings across our operating cost structure this quarter resulted in the highest quarterly non-GAAP operating income in our history of \$48.5 million, or 13% of revenue.

As we mentioned last quarter, we did take a one-time charge of \$25.3 million dollars related to the headcount reduction we announced in February and impairment charges related to operating leases as we align our footprint with our current needs.

As a result of higher growth and a focus on operational efficiency, we generated \$44 million dollars of free cash flow, or 12% of revenue. This excludes capex related to the buildout of our headquarters as well as the cash portion of the one-time severance charges I just discussed, which was about \$2.1 million in Q1.

Free cash flow performed better than expected and gives us more confidence in our ability to achieve the Rule of 40 in 2025.

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

We expect total revenue in Q2 to be \$380 million to \$385 million, representing approximately 10% to 12% y/y growth.

For the full year, we are increasing our outlook. We now expect total revenue to be approximately \$1.522 billion to \$1.543 billion dollars, representing approximately 10% to 11% year over year growth. This is an increase from our prior expectation of \$1.51 billion to \$1.535 billion dollars, or 9 to 11% growth.

We are also updating our profitability expectations for the full year as we continue to drive efficiencies across our operating cost structure. We now expect non-GAAP gross margin to increase to 67% for the year, up from the 66% previously expected. Creative Subscriptions non-GAAP gross margin is now expected to be 81%, up from 80% previously expected.

Non-GAAP operating expenses in 2023 are now expected to be down year over year to 58-59% of revenue compared to 59-60% of revenue as previously expected, driven by lower sales and marketing expenses and general incremental operational efficiencies.

As a result, we are increasing our outlook for free cash flow for 2023 to \$172 million to \$180 million, or 11 to 12% of revenue, exiting the year with a free cash flow margin of more than 13%.

This compares to our previous expectation of \$152 million to \$162 million, or 10 to 11% of revenue and an exit margin of 12 to 13%.

Note that our FCF outlook excludes our headquarters buildout costs as well as approximately \$4.5 million of cash restructuring costs.

Finally, stock-based compensation is expected to decrease to 14% to 15% of revenue in 2023, down from our previous expectation of 15% and down from 17% of revenue in 2022, as headcount across the organization declines more than originally anticipated.

I'm very happy with our results this quarter and our revised outlook for the remainder of this year.

I'll now turn it back to Avishai

Avishai Abrahami, Co-founder and CEO

Thanks Lior. I have been getting a lot of questions about AI lately, so I want to share my thoughts to close out our time today.

My own background prior to Wix was in the development of advanced computing algorithms, including AI, which is why I find the recent AI breakthroughs so exciting.

In fact, the data science and AI group here at Wix report directly to me. Over the past decade, we have been unlocking more and more opportunities based on AI breakthroughs while also collaborating with the best teams on the planet at OpenAI, Google X, IBM and others.

My thoughts on AI can be summarized in three key points:

First, our goal at Wix is to remove friction.

The easier it is for our users to build websites, the better Wix is. We have proven this many times before, through the development of software and products, including AI. As we make it easier for our users to achieve their goals, their satisfaction goes up, conversion goes up, user retention goes up, monetization goes up and the value of Wix grows.

In 2016 we launched Wix ADI, an AI based site creation platform.

In fact, it's equivalent to using a prompt to build a site. The user enters some basic information about their business, and the AI recommends pages, images and text that make sense, and then generates the site personalized to the business.

Obviously, the text generation abilities in 2016 were a bit naive compared to the recent genAI tools of today. That said, due to our long-established team and institutional knowledge of AI, it was easy for us to replace that initial text generation tool with OpenAI's ChatGPT for our AI Text Creator, which we introduced earlier this year.

Today, new emerging AI technologies create an even bigger opportunity to reduce friction in more areas that were almost impossible to solve a few years ago. When we embed these technologies into our platform, it increases value for our customers.

We believe this opportunity will result in an increased addressable market and many more satisfied users.

We have over 200 AI and genAI models deployed on our platform, both to simplify complex technology for our users and to improve our internal workflows and development efficiency.

These models power many processes and innovations of ours including full site creation, text creation, image manipulation and enhancement, site design, user support, user sentiment analysis, site classification, recommendation engines, semantic search, forecasting and many more.

In the coming months, we will introduce even more AI tools fully powered by LLMs and proprietary algorithms, which will of course include full site creation that not only generates content but also the design and layout. It will also integrate with everything you need to run a business such as e-commerce, scheduling, SEO and more.

The second important point is that there is a huge amount of complexity in software, even with websites, and it's growing.

The question today is not when AI will be able to create the content -- that has already been possible for many years. Wix ADI fully demonstrated that.

The big question today is what happens when AI can generate all the content AND code all of the software needed to run a fully functional website?

For example, even if AI could code a fully functional e-commerce website -- which I believe we are still very far from -- there is still a need for the site to be deployed to a server, to run the code, to make sure the code continues to work, to manage and maintain a database for when someone wants to buy something, to manage security, to ship the products, to partner with payment gateways, and many more things.

So even if you have something that can build pages and content and code...you still need so much more.

This gets me to my third and final point

And that is that even in the far future, if AI is able to automate all of these layers, it will have to disrupt a lot of the software industry. You will no longer need database management, server management and cloud computing.

I believe we are very far from that and that before then, there will be many more opportunities for Wix to leverage AI and create value for our users.

To add to that, the value in what we do today is allowing our users to capture their story and bring it to the web. It's not the text that ChatGPT generates....it's helping the user use ChatGPT to create their version of the text to tell their story.

It's not about using MidJourney to create images for your business -- for example, like a yoga studio or an amusement park -- you need an image of YOUR yoga studio and YOUR amusement park.

For your e-commerce site, you need images of YOUR products that are being sold.

The images have to be real and the story needs to be real -- the value of telling that story online and how to do it well is a big part of what we do here at Wix.

As you can tell, I'm tremendously excited about the power that AI is bringing and the amazing opportunities it will create for our users and our business.

Thank you again for joining, and we will now take your questions.