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Q2 2024 Earnings Call

Prepared Remarks

Emily Liu, Investor Relations

Thanks, and good morning, everyone. Welcome to Wix's second quarter 2024 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.

I'm very pleased to share that we finished the first half of 2024 with excellent Q2 results. By successfully executing our strategy and delivering innovative solutions to our users, we were able to drive impressive year-over-year bookings growth of 15%. This is a significant acceleration from the 10% bookings growth we saw in Q1 and underscores our leading position as the go-to platform for any user or business to create, grow and succeed online. We also generated 12% revenue growth, which again exceeded the top end of our guidance.

These strong top-line results reflect the encouraging reception and performance of our key product initiatives that are continuing to propel our momentum. I'll share some updates on Wix Studio and our AI strategy before letting Nir dive into the incredible progress we've made in expanding our commerce platform.

First, we continue to see outstanding results from Studio as we steadily add new features and enhancements. This quarter, we rolled out new dynamic no-code design expressions, business-enablement capabilities and tools to help Partners work better with their clients and grow their business. Most notably, we announced a highly-anticipated Figma plugin, a top Partner request. Partners can now leverage Studio's no-code

animations, built-in business and AI solutions, CMS and workflow management tools to transform their Figma designs into powerful and dynamic websites seamlessly. Feedback has been very positive following this launch.

The number of Studio accounts and rate of new Partners joining the Wix platform through Studio continue to outperform expectations. We also saw an acceleration in the pace of Studio subscription purchases. This, along with strong retention of existing subscriptions and the ramping of Partners purchasing their second, third and fourth Studio packages, drove quarter over quarter Studio bookings growth of 20%. Our platform is increasingly resonating with the professional community as we continue to deliver best-in-class innovations and grow our Partner ecosystem.

Second, we continue to build up our suite of AI capabilities as a result of the numerous AI initiatives and workstreams across Wix. Last quarter, we introduced our plan to embed AI assistants across our platform and products. I am excited to share that we have released 17 AI business assistants so far to date. These assistants span a wide range of use cases to support users with minimal hands-on support, thus streamlining their experience.

These conversational AI assistants act as a right-hand aid for users to guide them through the entire lifecycle of ideating, creating and managing their online presence. Our offering includes an analytics assistant that can

help Wix users find the data they need without having to search through dozens of reports, and an assistant that helps users create events through a conversational chat. We have already received positive feedback on this first set of AI assistants with dozens more set to launch later this year.

Additionally on the AI front, we launched AI creation capabilities for our mobile app builder in June. This new solution enables users to create and edit iOS or Android apps through an AI chat experience. Once AI understands the user's goals, intent, and desired aesthetic, our technology generates a branded app that can be customized and managed from the app editor.

We also recently released a suite of new AI features designed to help users identify relevant topics for blogs as well as generate outlines, content, and images for their target audience. With this new experience, users can swiftly turn ideas into near-ready articles, significantly reducing the time and effort required to create engaging content, and, ultimately, changing the blog creation experience.

Both Self Creators and Partners, continue to show excellent engagement with our AI tools. As we expand the breadth of our AI technology, we expect it to continue to be a competitive advantage for us as well as a significant driver of growth going forward.

We have built up a lot of momentum in the first half of 2024 with many exciting and impactful innovations powering meaningful growth acceleration. We expect to continue this momentum into the back half of the year with many exciting things still to come. Thank you to the entire Wix team for your hard work to make Wix the web creation platform of choice and thank you to our users for trusting us to help you achieve your goals.

With that, I'll turn it over to Nir.

Nir Zohar, President & COO

Thank you Avishai.

I'd like to start with a quick update on our user cohorts before diving into the third leg of our growth strategy, our commerce platform.

First, Q2 was another great quarter marked by strong business fundamentals and robust user behavior. Our Q1'24 user cohort remains our strongest non-COVID cohort, generating more cumulative bookings in its first two quarters than our Q1'23 cohort while having 9% fewer users. This is a result of our continued marketing strategy targeting high-intent users.

We have continued to expand our user base with Partners and Self Creators, adding 4.7 million new high intent users in the second quarter. These new users continue to demonstrate strong conversion and increased ARPS and TROI compared to past cohorts.

We continue to benefit from the success of strategic initiatives completed over the past year. Our AI tools continue to drive user conversion, Wix Studio uptake and contribution continues to ramp and consumption of the price increase implemented earlier this year by new and existing users remains strong. All of these factors are driving bookings growth, which we believe is reflecting our unmatched value proposition and durable business model.

Our commerce business was a particular highlight this quarter with transaction revenue growing an impressive 21% year over year and take rate increasing to a record 1.68 percent. Take rate expanded 10 basis points sequentially, the largest quarter over quarter improvement in recent years.

Over the past few years, we have built Wix into a full, end to end commerce platform enabling business owners of every size, across every industry and in any geography to build, manage and grow on Wix. By introducing new features and capabilities, we have steadily expanded our platform with more merchants globally choosing and trusting Wix for their business and livelihood.

Our platform has expanded in two ways: growing GPV paired with increased monetization of our GPV.

First, we are maximizing the GPV flowing through our platform in a few ways:

- One – we are continually expanding into new verticals in order to facilitate any business need and diversifying our platform, which helps to insulate us from macro volatility. This quarter, we introduced Wix Donations which provides a tailored solution for NGOs, and Wix Proposals, which helps professionals across various industries create, manage and finalize proposals easily. By expanding our supported verticals, we are appealing to a wider pool of merchants and attracting additional GPV as a result.
- Two – we are increasingly onboarding larger merchants with higher average transaction size onto our platform. We expect this to continue as we increasingly win share of the professional market.
- Three – we are enabling existing merchants to grow their businesses through a growing suite of commerce tools, from online advertising and email marketing to AI based product management. The success of our existing users drives compounding growth and is key to the success of our commerce strategy.

In addition to growing GPV, we are also increasing monetization of our GPV by:

- One - adding new payment partners to our Wix Payments platform, which is what we did this quarter. By expanding our base of partners, we are increasing our ownership, and thus monetization, of the GPV that flows through Wix.
- Two - driving higher Wix Payments adoption as new and existing merchants increasingly choose Wix Payments over other providers. The Wix Payments experience is seamless for merchants with an integrated payments dashboard and built-in dispute tool. Meanwhile, merchants' customers have an easy and smooth native checkout experience. New merchant adoption of Wix Payments has steadily ticked up over the last few years and we expect this to continue.
- Three - providing additional platform solutions such as POS, "credit card on file" and mail and email ordering capabilities. These solutions are moving more of our offline GPV online, thus allowing us to capture and monetize better.
- Four - enhancing payment offerings to capture more wallet share, particularly of international markets. Earlier this year, we introduced new payment providers in India and entered into a partnership with Global-E to power cross-border selling on Wix.

We started making commerce a focus in 2020, and our platform has grown tremendously since as a result of our initiatives. GPV in the most recent quarter was more than two times that of Q2'20 GPV. Our monetization has improved even more significantly with Q2'24 transaction revenue more than five times that of our Q2'20 transaction revenue. As a result, our quarterly take rate has more than doubled over this period.

Today, our full stack commerce solution provides Wix merchants with all of the tools they need to succeed online and drives strong user retention and higher ARPS. We believe that our commerce platform will remain a key growth driver of both Self Creators and Partners in the years to come.

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

Lior Shemesh, CFO

Thanks, Nir.

Strong execution of the key growth initiatives you just heard about as well as solid business fundamentals resulted in incredible growth momentum and additional margin expansion in the second quarter. As we continue to focus on accelerating top-line growth and improving profitability margins in the back half of the year, we now expect to achieve the Rule of 40 in 2024 at the high end of our guidance ranges. I will share more about this exciting milestone as well as our updated outlook shortly.

First, let's dive into the details of the second quarter. We experienced standout bookings performance with total bookings of \$458 million dollars, or 15% growth year over year. This was a significant acceleration from 10% growth in Q1 as a result of strong user absorption of the price increase implemented earlier this year as well as contribution from the strategic initiatives you just heard about. Contribution from Studio and our growing suite of AI capabilities continue to ramp and are expected to be the main drivers of growth in the coming years. Notably, growth accelerated across both Self Creators and Partners, demonstrating the underlying strength of the entire Wix platform.

Q2 revenue was also very strong and finished above the high end of our guidance. Total revenue grew to \$436 million dollars, up 12% year over year, with growth driven by the same factors that benefited bookings.

This quarter, our commerce business performed extremely well with transaction revenue growing 21% to \$54 million dollars as a result of healthy GPV growth along with improving monetization.

GPV growth was a product of larger merchants joining Wix and compounding GPV from existing businesses. Our Bookings and Events products were the best performing verticals this quarter with GPV growth of approximately 20% and 25%, respectively.

This GPV growth was paired with increased monetization, driven by the addition of a new payment partner to Wix Payments platform. As a result, take rate in the second quarter reached a record high of 1.68 percent. This is an increase of 10 basis points sequentially. We expect GPV and take rate to continue to steadily improve over the long term as we grow our commerce platform.

Our Partners business was another major driver of overall top-line growth this quarter. Partners revenue grew 29% year over year as we onboarded new agencies, empowered existing Partners to build more projects on Wix and improved monetization of our professional user base. Notably, Studio contribution continued to ramp as usage and adoption increased. The

accelerating pace of Studio package purchases, strong retention of Partners and significant increase in the number of Partners building their second, third and fourth websites on the platform give us confidence that Studio will be a meaningful driver of Partners growth in the coming years.

Moving on to the cost side of things. Total non-GAAP gross margin in Q2 was 68%, which was in-line with our expectation of 68-69% gross margin for the full year.

Impressively this quarter, we saw a significant improvement in operating margin. Both GAAP and non-GAAP operating margin increased more than 400 basis points sequentially as a result of lower operating expenses. Q2 operating expenses decreased quarter over quarter as a result of payroll efficiencies, lower overhead costs from lower property taxes on our headquarters and additional subleasing of our office footprint as well as seasonally lower advertising expenses. We expect to sustain this lower base of payroll and overhead costs through the rest of the year while Studio-related sales and marketing costs increase through 2H as planned.

As a result, Non-GAAP operating margin totaled 21% of revenue while GAAP operating margin was 7% of revenue.

Q2 free cash flow excluding headquarter buildout costs totaled almost \$118 million, or 27% of revenue, due to continued strong top-line growth and a more efficient operating cost base. This quarter marked the

completion of our headquarter construction with no additional buildout related capex anticipated going forward.

This now leads me to our expectations for the back half of 2024.

We expect total revenue in Q3 of \$440 to \$445 million dollars, representing approximately 12 to 13% year over year growth.

For the full year 2024, we are updating our outlook as we expect to sustain the momentum built up in the first half of the year. We now expect total bookings of \$1,802 to \$1,822 million dollars, or 13 to 14% year over year growth.

We began to see FX volatility materialize in late Q2, which has continued into early Q3. Due to this and a bit more macro unpredictability broadly, mostly related to Payments, we are building more conservatism into our outlook.

I want to highlight that this updated guidance still reflects an acceleration in total bookings growth to 16% at the high end of our expectations. This has not changed from what we shared in May as we continue to see broad-based strength across our platform.

We continue to expect to see Self Creators and Partners growth continue to accelerate in 2H at the high end of our expectations as our AI products and Studio platform perform ahead of plan.

Additionally, we now expect total revenue of \$1,747 to \$1,761 million dollars, or 12 to 13% year over year growth.

On the cost side, we continue to expect non-GAAP total gross margin of 68 to 69% for the full year.

As we sustain the lower operating expense base achieved in the most recent quarter, non-GAAP operating expenses are now expected to be approximately 50% of revenue for the full year. This is slightly lower than our previous expectation of 50 to 51% of revenue.

As a result, we expect to generate free cash flow, excluding headquarter costs, of \$460 to \$470 million dollars, or approximately 26 to 27% of revenue in 2024. This is an increase from the \$445 to \$455 million dollars, or 26% of revenue previously expected.

We now expect to achieve the Rule of 40 milestone this year assuming the high end of our revenue and FCF guidance ranges. This will be a major milestone that we have steadfastly worked towards for the past three years. Even more impressively, we will be achieving this goal one year ahead of plan. This is a testament to the successful execution of our strategic initiatives and focused commitment to profitable growth.

But this is certainly not the finish line for us. The bookings acceleration expected this year sets us up for revenue growth acceleration in 2025. We also expect continued incremental FCF margin improvements as we

maintain our stable cost structure while our business scales. As a result, we are positioned to surpass the Rule of 40 in 2025 more meaningfully than previously expected.

Finally, I would like to finish with highlighting another aspect of our three-year plan that we are tracking ahead of – our share repurchase commitment. In the second quarter, we repurchased \$225 million of shares, marking the completion of the Board-authorized plan approved last August. This marks more than \$1 billion dollars of share repurchases executed since 2021.

We remain committed to returning value to shareholders and consider share repurchases a key tool in our capital allocation strategy. As such, our Board authorized a new \$200 million program to repurchase our securities.

The progress made over the past couple of years demonstrates our track record of not just executing, but outperforming, our set goals. I look forward to building on our momentum in the second half of the year and the milestones still to come.

Operator, we're now ready for questions.