

Wix Fourth Quarter 2021 Results Conference Call February 16, 2022

Operator: Good day, and thank you for standing by, and welcome to the Wix Fourth Quarter and Full Year 2021 Earnings Conference Call. (Operator Instructions) I would now like to hand the conference over to your speaker today, Maggie O'Donnell, Director of Investor Relations. Please go ahead.

Maggie O'Donnell: Thank you, Michelle, and good morning, everyone. Welcome to Wix's Fourth Quarter and Full Year 2021 Earnings Call. Joining me today to discuss our results are Avishai Abrahami, CEO and Co-Founder; Nir Zohar, President and COO; Lior Shemesh, our CFO; and Joe Pollaro, our GM of the U. S.

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, and you can find all reconciliations between our GAAP and non-GAAP results in the earnings materials and our interactive annual center on the Investor Relations section of our website, investors.wix.com. I apologize about the background noise around me. But with that, I'm going to turn over the call to Joe, who will be moderating the Q&A with the team.

Joe Pollaro: Great. Thanks, Maggie, and welcome, everyone. So Avishai, let's start off with you. We're coming up on 2 years now through this pandemic, and so much has changed in this period of time. So just give us your view on the current state of the market and also the level of demand we're seeing here at Wix.

Avishai Abrahami: Well, as corona started, right, we enjoyed really high level of demand. And this has grown very quickly, and the peak of it was Q1 last year. After that, we saw a slowdown, and it slowed down through Q2 and Q3. And then it's now stabilized in Q4. I think that this is an effect that pretty much everybody around us has experienced. We saw it in many of the other companies -- kind of like the Internet growth has slowed down or consumption of the Internet has slowed down.

However, we do see that it's stabilizing and starting to reverse the trend a bit. So, we're starting to see growth on that again. For us at Wix, a few things that we noticed is that the fundamentals have stayed pretty much the same or improved, which means that because they're behaving in the same way that we had before COVID, and they continue to be at the same way during COVID and they still continue to be the same way now. Churn is the same. Everything is the same.

We did notice that average revenue per subscribers did go up, so 10% last year and again, so overall 20%. Initiatives like partners and payments are growing. So, we do see that. But I think, overall, it was a really great beginning in corona and then slowed down in the second year of corona.

Joe Pollaro: Great. So, despite some of these dynamics, though, 2021 was actually a great year for Wix in a lot of regards, especially even when you compare to 2019, which was before the pandemic. So just to read off some of the numbers. We ended 2020 with revenue and bookings up 29% year-over-year compared to 2020. And when you compare to 2019, revenue actually grew 67% and bookings grew 70% over that two-year period. And this growth, as you kind of said, has been driven by really stronger user cohorts of ours. So, talk about specifically this growth we've seen in these user cohorts.

Avishai Abrahami: So, we've dramatically grown from where we were at the end of 2019. And if you try to look at it and say, to isolate corona as an event and then if you look at it -- so I don't know if we are post corona, but at this phase where we are when we compare to 2019, of course, we see massive growth. A really good way to look at it is that if you look at the Q1 this year and Q1 last year, obviously, the growth rate, right, is based on the best cohort we ever had, which was last year. So obviously, this year, it looks a bit smaller.

We do see that we are still continuing to expand our reach to new markets, which is done by a lot of work from partners, a lot of work from commerce. And we can see that we actually have higher quality subs now. I think a lot of it is because we removed lot of the things that blocked users from using Wix. So, by removing things -- by adding e-commerce capabilities, for example, tools for partners, we actually enabled people that would have normally higher value as a sub to come to Wix and use Wix as a service for what they need. So, we do see that, and I'm very optimistic about what it says for the future. Hopefully, we're starting to see the reverse of the trend.

Joe Pollaro: Great. So, we shared that our focus on growth really is going to come from three areas now moving ahead. One is bringing more self creators

to Wix. The other is bringing more partners to Wix who are building sites for others. And these are both really kind of go-to-market initiatives of ours. And then the third very product focus, which applies to both types of audiences, are commerce and payments. So, I want to go through each of these for investors and how you view them and how we're going to drive growth. So, start with self-creators.

Avishai Abrahami: Self-creators is where Wix started, right? This is still our biggest customer base. And I think we are the market leader in that category. I don't think anybody else is similar to us in terms of size. And we still see growth there. We do intend to do a few more things to enable faster growth there. And the first thing is with the core product, the Editors. So, we have some innovation coming soon out and we know from history that this usually drives massive increase in subscribers.

The other thing is that again, we removed barriers that people had. So, we allowed self-creators to do more with commerce. It's very important because we have small businesses. In many different ways. I want to remind everybody that when we say commerce, we don't just talk about shopping cart. We are also talking about things like scheduling, bookings, restaurants, hotels and many different types businesses that actually want to drive their businesses. If they try to do it as self-creators, they need the functionality to be successful. So, when we add functionality, we enable them to use Wix. And this is a strategy that worked for us really well in the past.

Another thing that we did is a really large investment in customer care. And we know that self-creators usually have less knowledge than professionals on how to use Wix. And they need help, right? So, we have somebody that can help them. That's the concept behind it, I think we're doing very well there.

The last part is that we are growing internationally. We've always been. There's a lot of small things we need to do in every country in order to have Wix do really well in that country. And it can be simple things like changing text or it can be adding payment providers. It can be how you do some kind of business functionality for example, booking in Germany and the United States act very differently. You can actually pay later after you did something, which is uncommon in other places.

So all those things, when we keep removing those things that are the barrier to success, we see growth in self-creators. And traditionally, we've been really good at doing that, and I think we have a lot of very exciting things coming this year.

Joe Pollaro: Great. So let's move on to partners. And when we talk about partners, there's different kinds of partners that we have at Wix. We have agencies that we know build sites. We have freelancers that are building sites for others. We also have large businesses like Vistaprint and NTT, which are using Wix to help their customers be successful online as well. So with partners generally across the board, how do you see us driving growth here?

Avishai Abrahami: Well, we started to have agencies, designers like what we call partners, on the first day that we pretty much opened Wix. What we did in the last couple of years is we started to invest a lot into making their lives easier.

So, we did this by many different ways. First of all, we give them tools where they can manage many different websites, right? So let's say you're an agency, you have three designers in your agency and you have 300 customers, right, so websites. So obviously, you need to manage 300 websites, manage permissions for your team members, unique tools to enable billings, so how you charge your customers, how you track who paid whom. All these things are things that we've added, and we saw really great success because we did that.

Another thing that we did -- is to make Wix more of a professional tool. So I'll give you an example, search engine optimization, the ability to how you affect ranking of our website on Google, what place your website is in, right? So for self-creators most of the time, you want it to be automatic because you just wanted to have really good results without doing anything. For professionals, they want to be able to go under the hood and tweak everything and be able to control every small thing. And so, this is something that we've added to the product, enabling them to have this amazing search engine optimization capabilities that can go deep into Wix and do a lot of different things.

We released this product that is specifically for designers and agencies: Editor X. And of course, we've added a team that gives them special support. Again, if you are supporting 300 websites, you need different support than somebody who is has one website and their main business is doing yoga.

And even if the question sounds the same, the answer would be very different, right? Because one guy hardly knows anything about Wix and he knows too easy to build the website and the other guy is super professional. So even if it's a similar question, the answer is very different. And of course, the response time has to be very different.

So, we created that team and we saw massive growth this year in partners and agencies. And we think that this is a really good strategy. I think the more we continue with the strategy, the more growth we'll see from that.

Joe Pollaro: Great. And we'll come back to the partner's data in a minute. But before that, I want to go on to commerce very quickly. Commerce, obviously, you mentioned that both with self-creators and to partners, we shared transaction revenue, which is essentially payments revenue, a big indicator how our commerce business is performing. In 2021, it was \$130 million or 134% year-over-year. GPV on Wix was \$9.6 billion, up 78% year-over-year. Just expand a little bit more about what is driving our success in commerce.

Avishai Abrahami: Well, I want to emphasize again, e-commerce is very diversified, right? It's not just shopping cart. A lot of it is shopping cart, but we also have the ability to schedule services, the ability to sell time, the ability for restaurants. So, there's a lot of different things that we do. And I think what drove the success is that we actually give the right products, right? Before that, if you came to Wix as a self-creator or as a partner and you wanted to do a lot of those things, you couldn't. We didn't have the functionality. So by building this functionality into Wix, now self-creators and agencies and partners can do it. And the result from that was growth, right? So, it is all driven by adding the right products and creating really good products.

We see because of that, strong GPV growth. And because we know there is a lot more things we need to do there, we are very optimistic on accelerating that into the future because we know what the customers are saying, "Well, I want to do that. I cannot do it on Wix. Can you please add something that enable me to do it?" The upside of it is, of course, higher revenue per subs and, of course, additional revenues from Wix Payments.

Joe Pollaro: Great. So Nir, let's move on and talk a little bit more about going back to the partner's revenue. So this is the first time we're sharing this number, revenue generated through partners. It was \$257 million in 2021. That was up 75% year-over-year and up 3x over what it was in 2019. Talk a little bit more about why this has been successful for us and why partners are so important and meaningful for us and why this extra data is something we're going to be providing.

Nir Zohar: Absolutely. First, thank you all, of course, everyone, for joining us today. We wanted to give this breakout and structure it to all of you guys

because this is how we think about our own business. So we wanted to try and kind of match that internal thinking to how we explain it outwards.

And essentially, when we think about our business, there's really 2 parts to it, right? There's the direct acquisition, which we bring traffic in users for those self-creators right, to our platform. By the way, we capture a lot of those partners also by that direct acquisition. But those people are coming to us directly, okay? And the partners, and it doesn't matter if they're the small freelancer, one-man show or an agency or a big B2B partnership. In all of those cases, this is basically kind of an indirect go-to-market because in this case, we are reaching customers that we can't reach otherwise because those customers are people who don't want to do their own website. For whatever reason it is, they want someone else to help them out with it -- different ways and scales of help. And this is why we think differently about the partner section of our business. As Avishai mentioned before, we've always been an attraction for professionals, but we've obviously structured much more of what we do to help them and make them more successful in the last few years.

And when you look at what we delivered to them at the end of the day, it's basically given them the platform. We give them the technology and it doesn't matter if they're the freelancer, the agency or the big company, we give them technology to be successful to deliver value to their own customers. And that's obviously a massive growth opportunity for us.

Joe Pollaro: So you mentioned these big company partners. So Vistaprint, obviously, was a significant one last year. Can you just give us an update on where we are with the Vistaprint partnership?

Nir Zohar: Yes, absolutely. I think it's obviously been a very significant and interesting partnership product. I think that it's also one at a higher scale, which obviously this time around required that we need to do some adjustments in order to facilitate it, which is also great because it's infrastructure that we don't need to repeat next time around.

To be honest, it got me a little bit worried that we may not meet timelines, but I think the great news is that we are actually exactly where we wanted to be, meaning that we already started testing the full mutual funnel in some territories, and it looks good. And we are on schedule to deliver and launch it this quarter, Q1, which makes me assume that we'll start seeing the contribution in revenues sometime in Q2 and throughout the rest of the year.

I think one other maybe interesting point about this Vistaprint deal is that they also have a very large volume of legacy websites that we intend to migrate to our platform throughout the year. This is a project that we are pursuing already and we believe will be finished by the end of the year.

Joe Pollaro: Great. So -- now let's move on and zero in on our user cohorts. So first of all, we ended the year with nearly 222 million users and almost 6 million subscriptions. We shared that we added 478,000 net subscriptions in 2021. Not surprising that, that was down compared to 2020. 2020 was obviously a very unusual year.

That created a huge demand and had a big impact not only in 2020 but also on 2021. At the same time, our revenue per subscription, as Avishai already mentioned, it was up 12% year-over-year in 2021 and that came off of a year when ARPS was up 10% in 2020. So just put all this together and talk more about how that looks in our user cohorts.

Nir Zohar: Absolutely. So Joe, you kind of mentioned this, I would say, different behavior which is something that is a dynamic that is significant for these 2 years, okay? When we look at '21 compared to '19, we had a much higher demand, okay? Gross subs were up 16%, so 16% higher than 2019.

But because of the massive amount of subscriptions and the huge size and demand of the cohorts of 2020 going into that Q1 of 2021, we basically had this kind of dynamic, where even though the churn rates were the same or even slightly better, we actually saw on absolute numbers a little bit of cannibalization into the 2021 numbers of the net subs, which kind of makes sense, right? But since it's all based on that, we actually see that as a onetime effect. It's something that we don't expect to repeat in 2022.

That being said, when you look at those cohorts and you look at this value generated, you see that it's much stronger because it has better monetization. First of all, we've seen the users coming with a much higher intent towards building a business website. So, we see an adoption of the higher priced packages almost on all of them. And also, they're starting to generate GPV. The GPV is compounding also into the value of those websites and then to the value of the cohort itself. So, it's much better monetization.

And when you look at that overall potential of all of the cohorts under our hood, that number has grown to well above \$15 billion. It's roughly \$15.7 billion, I think, at this point, which is a huge increase. All this becomes the result of that evolution that Avishai spoke about, that investment into our

products, into our users that has expanded our business and the fundamentals of our business significantly within these 2 years.

Joe Pollaro: Great. And finally, net revenue retention for 2021 actually grew to 116% from where it was in 2020 at 113%. Just touch on what drove this.

Nir Zohar: Well, as I just mentioned, as you see monetization increase across the board within the cohorts, we see ARPS going up. When you see the GPV going up, obviously, you will also get higher-quality users that will generate more retention of revenues over time. But in fact, you actually see them staying longer because their businesses are more successful.

So our expectation is that this is a phenomenon that not only is here to stay but actually can improve over time even more. And again, it's through investment into product more than anything else.

Joe Pollaro: Great. So now let's turn to financials, Lior. First, I want to talk about our results in Q4. We came in towards the lower end of our range for bookings and a little bit above the midpoint for revenue range. So, talk just a little bit more about what happened in Q4 with our top line results.

Lior Shemesh: Sure, Joe, and thank you, everyone, for joining us today. So just to remind you, when we provided the guidance for the year and obviously for the quarter, that was really the range that we saw at that time. And when we look at revenue, we came in exactly how we expected near the high end of the range. And as for bookings, about \$14 million of B2B partnerships that we expected to have were actually postponed for later this year. And as a result of that, we came in towards the low end of the range for bookings.

It's very important to mention that with regard to the B2B partnership, still the year was very strong, more than \$70 million in terms of bookings -- and we said before, this is a lumpy business from the very beginning. And as long as we continue to increase the funnel of this business, it will be less lumpy in the future. And we feel very excited about it because in the end of the day, it's part of the strategy, part of our partner strategy, and we already started to see the contribution in terms of number of websites, premiums and revenue.

Joe Pollaro: Let's move on to 2022 now. So we're not providing annual guidance right now. Talk about why and talk also about what are we going to provide.

Lior Shemesh: So Avishai spoke about it before about the in clarity about the business, about the macroeconomics and specifically about COVID. So we will continue to provide annual guidance, and we have enough clarity to do so with the amount of confidence that we like. We are not in a place where we want to provide guidance just for sake for providing guidance. We obviously want to feel comfortable about the numbers. We want to feel that we can actually predict the numbers. And we will continue to doing so when we have more clarity.

We see that there is a lot of volatility in the market today. And again, Avishai mentioned that a lot in the very beginning of this call, and it's giving us less visibility into our model on an annual basis. So for now, we are going to provide the guidance on a quarterly basis, simply because of the fact that we see much more clarity in the short term rather than the long term. And again, as usual, our guidance for the quarter reflects the range based on what we know today.

Joe Pollaro: Okay. So just really quick -- just walk through specifically the guidance that we're providing for Q1 revenue.

Lior Shemesh: Yes. So the guidance for the first quarter -- in terms of revenue, is \$338 to \$343 million, which represents a growth of about 11% to 13% on a year-over-year basis. Again, we need to remember that it's on the most difficult year-over-year comparable we faced this year because the first quarter of 2021 was an unusually strong quarter. So I do expect that for the rest of the year, the year-over-year growth of our revenue and obviously, for bookings will be much higher than the first quarter.

As for the new initiatives like partners and payments, we do expect to generate a much higher growth also this year as a result of the investments that we've made, and we've already started to see the fruits and the fact that it's started to become more profitable than last year.

Joe Pollaro: Great. And gross margins and gross profit. So, what are you expecting on the gross margin trends for 2022?

Lior Shemesh: So with regard to Creative Subscriptions gross margin, we expect to have a modest improvement in the second half of the year. As we mentioned last year, we will start to see leverage. And by the way, this is one of the reasons why we expect the free cash flow to be better this quarter in terms of its margin this year than last year. And obviously, a massive improvement in 2023 just because of that. As for Business Solutions, we

expect improvement throughout the year. It means gross profit on a year-over-year growth will accelerate.

Joe Pollaro: Great. And just to wrap up then, free cash flow. So, we ended 2021 at about \$52 million in free cash flow. That excludes the CapEx that we're using for our new headquarters build-out. So that was 4% margin on revenue. We've obviously invested a lot into the business in the last couple of years, as you mentioned. So just talk about your outlook on the free cash flow going forward.

Lior Shemesh: So Joe, I think that this is really exciting because in the end of the day, the way that I look at it is the same as when you invest in start-up costs. When you have a new company, you start to build the infrastructure, you're adding sales team, you are building the team to support the product. So at the very beginning, you have more expenses than income. And this is exactly what we had before, and this is why we thought that it makes a lot of sense to improve the infrastructure in order to support those new initiatives.

Both Avishai and Nir mentioned partners is growing 3x in the last 2 years. We saw how payments is growing. And I think that this is something that will continue and even accelerate. We already started to see the early results. We know that it's working. The numbers keep on increasing.

We started to see the leverage of those investments, and we will see more this year and certainly next year. So, this year, we said that free cash flow is going to be about 5% of revenue. And next year, probably, we are going to double it. And this is all coming from a point that the massive amount of the investment has already been done, meaning that we will continue to invest but not at the same level. So, we are going to get much more of leverage.

And think about it this way. The costs are not going to grow the same as the top line. The top line is going to grow simply much faster and higher, which will enable us to start to generate profitable growth in the second half of this year and certainly next year.

Joe Pollaro: Great. Maggie, I'll hand it back to you to open it up for questions.

Maggie O'Donnell: Great. thanks, Joe. Michelle, I think we're ready to open up the line for some questions.

Operator: (Operator Instructions) And our first question comes from the line of Ygal Arounian with Wedbush. Your line is open. Please go ahead.

Ygal Arounian: Hey. Good afternoon, guys. I want to go into the growth initiatives, first on the first self-creator and the agencies. And it's great to see that growth on the partners and that right now it's still largely coming from agencies. Can you talk a little bit more first on the agency side? Maybe dive a little bit more into the trends, the kind of agencies at this point in time, is there an ability to keep going upmarket to larger agencies and what that can look like in the coming year or two?

And then on the self-creator side, obviously, still a huge focus there. I believe I'm doing this the right way. So, if you back out the partner's revenue from total revenue, the self-creator revenue still strong in 2020 but decelerated materially over the course of the year. I think the guidance would imply that it steps down again in 1Q. I know there's a lot of trends from COVID, but maybe we could pull that out and talk about the overall health of the self-creator environment as well.

Avishai Abrahami: So let me -- if I understand right, the first question in the question was to give more color on the type of agencies that we see at Wix, right?

Ygal Arounian: And the opportunity -- continued great strength and just a continued opportunity.

Avishai Abrahami: Of course. I think that if you look at the total agencies, we see it's very diversified, right? We have a lot of the smaller guys, what you would call the freelancer. That's a big portion. And then we have a big portion of agencies that are the one that are building tons of websites, right, then of course, notice that we've got to build a lot of websites. And they do it very quickly.

And recently, we're seeing more and more of agencies that are building very high-end websites, so things that are like campaigns for very big commercials or very big companies, and we see a lot of those joining Wix now.

In terms of the potential, we believe that the potential there is huge because we think that this market is probably 10x bigger than the self-creators overall. Of course, there's 2 sides to it, right, because the more we add functionality and simplify the self-creators, we're going to get more of a bigger market in the self-creators. So that's one side of it. The other side of it is that a lot of people don't want to build the web and will pay somebody to do it. And

obviously, that goes to the second category. So we think that there is a very big potential for growth here. Nir, do you want to take the second part?

Nir Zohar: Yes, absolutely. So in terms of the self-creators obviously, still a very big focus of ours in terms of the product, as Avishai just mentioned. And when you look at the growth there, okay, if you cover the year over 2 years growth of that specific segment, it grew 50% in 2021 on 2019, which is very, very healthy growth. Naturally, when you try to compare '21 to '20, where we have the tougher comp of '20, it looks like a slowdown but it still remains a very healthy, very strong part of our business.

And when we think about it going forward in terms of will it keep on growing fast, let's think about what needs to happen for it to decelerate, okay? It's one of basically two. Either people will steer away from needing to take their business online and move away from websites and transact less on the Internet. Or alternatively, there will be some very massive change in terms of competition and somebody is going to capture our market share.

Obviously, we don't think the first is going to happen. We believe that when we see people keep on onboarding their businesses online, and we haven't seen any significant change in terms of market share. In fact, we believe that we're gaining market share. So we are very confident that, going forward, we'll keep on expanding that business and growing fast.

Ygal Arounian: Okay, thanks. And maybe a quick follow-up for Lior. On the free cash flow, just because right now in the current market environment, there is such a heightened focus on cash generation and I understand the dynamics of investments coming through the margins improving over the next couple of years. If you look out to your 2023 guidance on the margins, it's still nicely below where you guys were in 2017 to 2019, where the margin was between 16% and kind of 17% on revenue. Do you expect to get back to those kinds of levels? And what would it take to get there?

Lior Shemesh: So first of all, for sure, we are going to go back to this level. I think that the 2 different ways to look. The first one is about -- in the past, we didn't really have business solutions like payments, for example, which is with a low margin, right? So, I don't expect to have the same free cash flow margin from this type of activity. That said, if we exclude the investments that we've made for the last 2 or 3 years, we are certainly higher than 20% of free cash flow for the core business. And this is something that is really important to mention and very important to understand.

I believe that what we have managed to do is to generate finally an opportunity to continue with a very healthy growth. And this is why we are going to see the leverage of those expenses. And for sure, we are going to go back to the same level of free cash flow that we've been before. And I believe that we are actually going to exceed that.

Ygal Arounian: Thank you, guys.

Operator: And our next question comes from the line of Deepak Mathivanan with Wolfe Research.

Zack Morrissey: This is Zack on for Deepak. First, just on the Q1 guide, can you just help us think about the implied bookings growth in 1Q? And I know you called out the \$14 million of B2B partnerships that was deferred out of 4Q. Did that drop into 1Q? Or is that more spread out over the course of the year?

And then second on just transaction revenues. When you think about the drivers of growth this year, do you think the primary driver of growth will be better penetration of the existing merchant base or new merchants coming on to the platform? And I guess, anything you can share just in terms of your expectations for GPV and transaction revenue growth for this year would be helpful.

Avishai Abrahami: I think the first one is for you, Lior.

Lior Shemesh: Yes. So for the first quarter guidance, we are going to see that, as you mentioned, the B2B partnership. I don't know yet if this is something that we will be recognized or booked during the first quarter or during the second quarter. And by the way, this is one of the reasons especially around an uncertainty macroeconomics to provide those type of guidance even for the next quarter.

So to answer your question, I don't know. For sure, it is going to be postponed, right? But it will be recognized somewhere during 2022. I'm talking specifically about those missed deals from the fourth quarter.

With regard to the transaction revenue growth, I do believe that GPV is going to have a significant increase during this year. But we prefer at this point of time, because of the uncertainty, not to provide the exact guidance. But as we mentioned before, we are going to report on it.

Zack Morrissey: Got it. Should we expect GPV disclosure on a quarterly basis going forward?

Lior Shemesh: Yes. We are going to disclose it on a quarterly basis.

Zack Morrissey: Perfect, thank you.

Operator: And our next question comes from the line of Clarke Jeffries with Piper Sandler.

Clarke Jeffries: First, a housekeeping item just to understand Lior, what's embedded in the guidance between Business Solutions and Creative Subscriptions for the Q1 guide? Do you believe Creative ARR on a net basis can kind of improve from here in Q1?

Lior Shemesh: Yes, I do believe that it can improve. I mean, for sure, it will improve. Again, remember that when we talk about Creative Subscriptions and you compare it to the first quarter of 2021, it's kind of difficult. But as I mentioned before, I think that throughout 2022, we are going to accelerate the growth, both on Creative Subscription but also on Business Solutions.

Clarke Jeffries: All right. Understood. And then I think just if you could help us contextualize sort of the dynamics of the funnel on the Creative side and what was lending to the volatility, should we think of this as the conversions of users, the premium subscriptions, the journey of completely net new premium subscriptions or even just a broader traffic or interest level kind of an engagement overall at the highest level of the funnel, just to help understand what was happening on the customer addition side in Q4?

Nir Zohar: So hi, it's Nir. So I think it's mostly on kind of a fluctuation around demand and uneven demand in the top of the funnel more than anything. A little bit of a slowdown on GPV in terms of commerce happening mostly in December, where some economies are starting to go into these kind of Omicron-induced lockdowns.

If you look kind of the conversion and the ARPS, those actually stayed very strong as well as the mix towards high-priced packages. So, it's mostly about that kind of volatility. Again, I think the fundamentals remain the same where they were before.

Clarke Jeffries: Appreciate it. Thank you very much.

Operator: And our next question comes from the line of Andrew Boone with JMP Securities.

Andrew Boone: I want to talk about the macro environment and just how the macro environment today is different than pre-COVID. So really, my question is, is business formation slowing? Or is it really the conversion of long-tail legacy businesses that have come online that's changing the macro environment growth rate?

So the reason that I want to think about this is just as we think about the macro environment backdrop over the next 3 years, how do we think about that impacting results, right? Can business be driven by business formation? Or is there still kind of that long tail conversion going on?

Avishai Abrahami: So I think that what we're seeing is pretty much going back to normal, maybe a bit slower than normal, but what's happening in COVID is that you had a lot of traditional businesses, that normally would not move. I think we spoke about Italian grocery stores, right?

Like you would not imagine them having a website and suddenly they had. And then we saw this in many different kinds of businesses, right, not just in Italy. So what we had is that in 2020 and the first quarter in 2021, we had a lot of traditional businesses that normally would not need a website, suddenly needing a website and moving online.

And as COVID relaxed, this demand from those guys sort of disappeared or slowed down. What we do see is that if you look at the core kind of customers that we had in 2019 pre-COVID, we are seeing now those guys are, again, the vast majority of our customers, and we are actually in higher numbers than we were in 2019.

So we think it went almost back to the 2019 rate and then started to go up from there. So I think that -- the best way to look at what happened in -- at least in my mind, it's very hard to predict the future, we had this single event, which is called COVID, which made everything go up, and as this event started to fade out, we are back to where we were before but with higher numbers, right?

And so, I think this is kind of how I look at it. And of course, we know my ability to look at it is only from what we see at Wix, but also from what I read from other companies. I think pretty much from Netflix to Shopify to Spotify, everybody is experiencing a very similar phenomenon where people were

locked up at home and we had to solve that. And then, well, we're back outside now, things are getting back to normal, and we're going back to the same kind of growth we had in 2019.

Andrew Boone: Okay. That's very helpful. And then just as a follow-up is, as you guys move to commerce users that have more needs, do you think the competitive environment changes? Like is it harder to attract those customers? Is it more competitive versus kind of the lower end self-serve customers?

Avishai Abrahami: We came to commerce because people came to Wix and said, "Hey, I want to build a shopping cart. I need a shopping cart on my website, guys can you give me a shopping cart?" To remind everybody, in the beginning, our solution for shopping cart was Shopify. That was the thing we added. At some point, we realized we needed to build one of our own, this is becoming a real part of our business.

And we don't see any change in how people behave. So it's not like we get less. I think we actually get more as a percentage. So I would say a positive change. Of course, when it comes to shopping cart, specifically, there is a giant in the room, right, there's an elephant in the room, which is Shopify. However, it's a really good business for us that is growing very quickly. When it comes to the rest of what we do in commerce like scheduling, booking, events, hotels, restaurants, we don't see any real giants and they are doing really, really well and again, accelerating.

Andrew Boone: Thank you, guys.

Operator: And our next question comes from the line of Ken Wong with Guggenheim Securities.

Ken Wong: I wanted to just circle back on the volatility that you're seeing. Obviously, a lot of moving pieces in your business now, but would you say that volatility leans more towards the self-service? Is it just purely because B2B is so lumpy? Or is it the payments now that is much more transactional? Where is the visibility largely being clouded?

Avishai Abrahami: Well, we see it in everything. I'll start with commerce because that was the easiest thing. I think everybody saw that December of course had less e-commerce transactions than anybody expected in any company in every market. So, that was an example where our ability to predict according to what happened in October and November was reduced.

We see it in the fact that we went back to, if you look at last year, Q1 was the best ever, right, at 47% growth, and then Q2 was not, right? And then Q3 was even more than Q2, and then Q4 stabilized. But even there, it was above what was in 2019.

So, overall, one of the things that we're trying to say is that if you look at the volatility we're describing, the volatility that makes it hard to predict, because usually being the CEO of Wix and doing prediction was the easiest job ever. How many subscribers we had, how does the trend line look, let's extend that, and we know where we are. It's only these external events that make that prediction that much harder. Because in the next Q, if Q2 would be as strong as Q1 last year, of course, all of our results would change, right? And if we're going to see another deceleration, all of it would change and all of that is happening without us changing anything in the product or our competitors doing anything. So, it's kind of like trying to predict global economy and COVID trends. And we think that we are much better at predicting premium subscribers and GPV and less COVID trends. So that's why we felt that there is volatility created with those events outside, and we have less of an idea how to predict that.

Ken Wong: Thank you very much.

Operator: And our next question comes from the line of Elizabeth Elliott with Morgan Stanley.

Elizabeth Elliott: Hi. Thanks so much for taking the question. I want to dig into the sustainability of the revenue per subscription. The 12% in fiscal 2021 and 10% in fiscal 2020 was certainly impressive. So, what's your view on the sustainability of double-digit growth in revenue per subscription?

Lior Shemesh: I believe that it will be a double-digit growth in revenue per subscription also during this year, certainly during next year.

Obviously, some of the reasons, and we did mention before, the growth of partners, partners are growing amazingly well. I mean, we provided some of the numbers, right, 3x over 2 years. And this is something that we believe that is going to continue and even accelerate. We need also to remember that commerce will continue to bring higher-priced subs, GPV growth, and some new other products that we are going to do. So, all of it together cause us to believe that it's going to be double-digit growth, and we feel very excited about it.

Elizabeth Elliott: Got it. And then just a clarification. I noticed that you referenced that the take rate improved. I just wanted to get a sense for how that compared versus your target for the 1.25%, 1.3%? And what are the levers for incremental improvement going forward?

Lior Shemesh: Yes, it's slightly improved compared to what we thought. As we added much more functionality and integration with payment providers, we were able also to penetrate to more geographies and more countries. So overall, it's improved the take rate. Again, this is something that we believe that is going to continue also this year.

Elizabeth Elliott: Thank you.

Operator: And this concludes today's question-and-answer session. And I would like to turn the conference back over to Maggie O'Donnell for any further remarks.

Maggie O'Donnell: Thanks, Michelle. Thanks, everybody, for joining us today. Have a great day.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.