

**Wix Fourth Quarter and Full Year 2020 Results Conference Call
February 17, 2021**

Operator^ Ladies and gentlemen, thank you for standing by, and welcome to Wix Fourth Quarter and Full Year 2020 Earnings Call.

(Operator Instructions)

Please be advised that today's conference is being recorded.

(Operator Instructions)

I would now like to turn the conference over to your host, Maggie O'Donnell, Director of Investor Relations. Please go ahead.

Maggie O'Donnell^ Thanks, Sarah. Good morning, everyone, and welcome to Wix' Fourth Quarter and Full Year 2020 Earnings Call. Joining me today to discuss our results are Avishai Abrahami, our 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 our interactive analyst center on the Investor Relations section of our website, investors.wix.com.

With that, I will now turn the call over to Avishai for some opening remarks. Avishai?

Avishai Abrahami^ Good morning, everybody, and thank you for joining us today. I think that if you look at the numbers, it's kind of obvious to say that this was our best year ever. So it's really exciting for us. But even more than that, I want to point out 2 things that might be less obvious that I get excited about even more. And this is that we have incredible, more than doubling growth on e-commerce. And of course, more than doubling growth from partners, people that are building websites for others.

Both those things, they present new kind of businesses that -- which we sell, new revenue streams that we have now on Wix. And both, by nature, are compounding, right? E-commerce because you have more people adding, and also there are more payments. And then on the other hand, all of the partners because they build multiple websites, that's their business to build more and more websites. So for us, at Wix, this is a big turning point where we are actually expanding our offering to be much wider.

In fact, if you look at that and you think about the growth rate of Wix and the size and renewal of things on the Internet -- of online presence on the Internet, I believe that it's kind of -- well, maybe a bit ambitious but achievable, right? Assume that in 5 years, half of all the new things on the Internet will be built on Wix.

In fact, I'm so confident about it that I have to say that if we continue to have great execution, then this is something that we should achieve. And for me, as the CEO of Wix, this is super exciting. It's really amazing to be in a place that you see such growth in all of the new things we released, and of course, that it position us as such a core part of the Internet going forward.

So thank you, everybody. Thank you for joining us. And with that, I'll go back to Maggie.

Maggie O'Donnell^ Thank you, Avishai. All right. I think we are ready for Q&A. Operator?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions)

Our first question comes from the line of Brent Thill with Jefferies.

Brent Thill^ Avishai, just your vision of moving upstream to service, not only small businesses but mid-enterprise and enterprise. Can you just update us in terms of the vision and traction you're starting to see beyond the smaller start-ups? And how much do you want to...

Avishai Abrahami^ Of course. Of course. So actually, this goes in a few different directions, right? So the first thing is that the product today, your product at Wix, right, you can build huge websites with Wix. But beyond that, it's also Editor X, which allows you to create this very sophisticated design

going all the way to what you would see in the most complex websites existing today.

The business stack below that, the ability to actually use Velo and connect everything to your back-end to your enterprise offering. And of course, it's a challenge because most of the larger customers do not build the website themselves, they work with partners, they have somebody that does it for them. So our ability to serve with those would be a great offering as well.

And all of this has pretty much happened this year. So for me, it's really exciting. And we're already starting to see. We've shared some examples on the Editor X launch 2 weeks ago. And we're really starting to see more and more larger companies using Wix.

Operator^ Our next question comes from the line of Sterling Auty with JPMorgan.

Sterling Auty^ Just one question from my side. Looking in the presentation materials, the discussion around the take rate on payments, it's a really impressive rate for company being in the payments business as long as you have. I'm curious, what's allowed you to get to those level of take rates? And are those take rates when you first start with a customer? Do you ramp to those levels? Or are you at those levels from the beginning and they hold steady when a customer comes on to Wix payments?

Nir Zohar^ Sterling, it's Nir. So thank you, and I think it's a great question. And we created relatively early. And actually, I'm 100% sure that the take rate is actually going to improve over time, as you've seen it improving so far.

When you look at a specific customer, then we -- you don't ramp up. We start at a higher take rate. But obviously, the -- our ability to increase the overall take rate on the platform comes from the ongoing improvements that we apply to the platform and the expansion we are doing to the platform also internationally.

Operator^ Our next question comes from the line of Ron Josey with JMP Securities.

Ron Josey^ Maybe a similar question in terms of the graduation rate for users. I was pretty impressed to see 37% of 2020 cohort revenue from newer online customers or subscribers or commerce subscribers. And I think you

talked about maybe a 2x increase in terms of the rate of those subscribers adopting G-Suite and Ascend and Facebook Ads.

Can you just talk about the journey of how a new commerce subscriber goes about adopting these products? Is this something immediate? Is this something that happens over the next couple of months once they start using the product? That would be helpful.

And then maybe, Lior, on subs, I have to ask with 185,000 new subscribers this quarter, can you just talk about the strategy here? I think they declined sequentially and just maybe a little bit more about just the new subscriber growth.

Avishai Abrahami^ Of course. So most of the time, what we're seeing is that people will start with a very basic e-commerce business. And as time passes, they will extend and add new things to it. So it's not like you come in one day and build everything. I think that -- for example, if you look at the automatic advertising product, that can happen after a few years or after a few months, but it almost never happened in the first month, right?

And we're seeing that the consumption of additional tools from us is something that is -- now more people know the system, the standard system, and actually, appreciate it, and have trust with it, right? That's where they start looking around and saying, "Okay, how we can accelerate our business?"

And -- so normally, people will come to Wix, and in the first couple of, I would say, week or so, they'll build their online presence for like the basic offering, right? So if it's a shopping cart business, they add the products, they set up the billing, the payments, the policies, and then try and start selling. If it's selling, it has do booking. They build the basic offering of booking, have some of the teachers or some of the classes and start working from that. After that, they'd usually start using the applications, right? So they make your application. And after that, they start going deeper and deeper into business tools.

So it's, usually, the process that takes a bit. And -- so it usually takes something that takes time, and that's what we're seeing. By the way, the other things that we're seeing is that a lot of them will start adding different tools. So somebody that has a booking business will start selling products, right, to his customers. So we're starting to see there. And then somebody just doing selling product, which they're offering classes and teaching and things. So we're seeing a lot of this cross between the verticals. Hotels,

obviously, they have a store, they have a spa. So there's a lot of cross between the verticals. So it's more of a vertical offering, necessarily, vertical customers in many places -- in many cases.

Lior, you want to take the second one?

Lior Shemesh^ Yes. So with regard to the question about the net subs. So Q4 2019, actually, the growth was about 107% more than Q4 2019. Meaning that 2020, actually growth was doubled -- more than doubled than Q4 last year. That said, Q4 was, in a way, also impacted by typical seasonality with a bit of a higher volatility due to the pandemic, and probably, also because we came out of a very strong Q3. So obviously, we see that the impact is kind of temporary for the fourth quarter, and it's also reflected in the Q1 guidance that we provided that the growth, for example, of creative subscription is more than 30%.

I think that it's also important to mention that the value of each subscription is so different, so it's really hard to measure and compare. And this is why, by the way, we -- in a way, we are valuing or looking at ourselves as the value of the cohort. Just as an example, and I think that we also provided to you in the shareholders update, the 2020 cohort generated nearly 7.5x the amount of revenue compared to 2016 cohort. I think that it's a great indication to understand that each subscription today, the value of it is much higher than a subscription a year or 2 or 3 years ago. So I hope that it answers your question.

Operator^ Our next question comes from the line of Naved Khan with Truist Securities.

Naved Khan^ So Avishai, on your vision of maybe accounting for the 50% of new sites by -- in 5 to 7 years, where do you think you are on that metric today in terms of share? And maybe, if I heard you correctly, just a clarification, did you say that the contribution or the growth in the partner channel doubled last year? And how should we think about growth in that channel for this year?

Avishai Abrahami^ Yes. So I did mention that. And I think that, hopefully, it was more than doubled this year as well. And this is something that 2 and 3 years ago, we spoke to everybody here, and we mentioned that we're going to invest into that. And I think we're seeing really massive success.

I think that 50%, right, of the new sites being on the Internet, built on Wix, obviously, it's an ambitious goal, right? And I think that this company want to

be ambitious. But I think that you could just play a little bit with the mathematics, right? And you'll see that it's not hard to imagine that we'll be there. It's actually very likely that unless something changes, right, we'll be able to achieve that.

Of course, we'll be -- we'll need to do an excellent execution, and we'll have to continue to innovate and drive product. But I think this year's growth rate, and we look at the history of the growth rate, is such that it's showing that it's very likely to happen. Yes, it can be not 5 years, but 6 years, right? But it can also probably be 4 years. So I think when I say in 5 to 7 years, I believe that determines that is very achievable. And for the thing as a message internally for the company, it's a very important thing because this is really something we believe we can achieve, and this is something that we worked very hard to achieve.

Operator^ Our next question comes from the line of Ken Wong with Guggenheim Securities.

Ken Wong^ I wanted to maybe touch on payments again. Previously, you guys updated us that about 30% of the installed base had attached payments and 80% of the new, any refresh of those numbers?

And then on the take rate as you think about where you guys could go, any rough sense of what that feeling is? Some of your competitors out there have roughly 250 basis points. Is that what we should be thinking for Wix' payments longer term?

Nir Zohar^ Ken, it's Nir. So in terms of, I think, the 30%, 80%, it's growing. It hasn't changed dramatically. I don't think there's something different to report at this stage. But it's -- the adoption continues at the high pace.

I think that in terms of the take rate, yes, I think that definitely, over a longer period of time, we will get to industry standards as we keep on evolving the product and expanding it. That's definitely the goal.

Operator^ Our next question comes from the line of Nat Schindler with Bank of America.

Nat Schindler^ So you mentioned in the gross margin discussion that there was a -- the decline was partially there due to the customer care expansion. How much of that is leverageable? And longer term, where do you think the gross margins will settle out?

Secondly, if I look at your TROI slide, I think this is one of the first times that I've seen just in -- on the Q1 slide, which should be, I think, on average, 10.5 months of time from that -- on that Q1 result, and it still hasn't gone into positive returns. So a little off your 7 to 9. Was that a function of just Q1 this year and some seasonality? Or is that an actual trend that you're looking to expand your TROI?

Lior Shemesh^ Okay. So I will start with the first question about the gross margin. I think that I want to divide the question -- the answer into 2: First, let me talk about the creative subscription. So you're absolutely right, the creative subscription is, actually the gross margin went down as a result, mainly, of the expansion of our customer care to address the huge demand that we see right now, but also in the future.

Obviously, we see that demand is now continuing to grow. So we have to make sure that we prepare ourselves, prepare our ability to support users that come to Wix and looking to build an online presence. So we hired about 700 agents in 2020, which obviously has a full impact on 2021, but we'll continue to hire more, about 600 more in 2021. So it has an effect.

To your question, you're absolutely right. I think that -- and we mentioned that by second half of 2022, we are going to be back to about 80% of gross margin as we stop hiring in accelerated mode. And also, there is a lot of infrastructure improvements that we've done in order to support this growth that we won't do, obviously, in the near future. So definitely, it's kind of a temporary effect in order to answer the growth. And we feel very good about it.

With regard to the business solution, nothing dramatically changed, except of 2 things. The first one is the change of mix where payments become more dominant in term of the business solution. Actually, in 2021, it will be the -- like the number 1 revenue stream on the business solution, kind of amazing, taking into consideration that we just started this business. And the gross margin of payments is increasing as we scale up.

We talked about the take rate, for example. So we also are investing a lot in order to build the infrastructure to support payments, everything about the onboarding process, about the support. So next year, for example, we are not going to invest as much as we are investing this year. So gross margin is expected to go up as well there.

But it's also important to mention that the focus of business solution is about the product for users, not necessarily the gross margin, because in the end of the day, it generates incremental free cash flow to our balance sheet, and this is very important. It also has an indirect effect over the retention of the creative subscription. So this is obviously something that is very important for us.

Avishai Abrahami^ Nat, this is Avishai. I just want to -- about your question about TROI in the first quarter. So it was influenced by a couple of things. And first of all, it was that if you remember in the first month of the pandemic, everything actually slowed down a bit, and then accelerated, obviously, in that quarter. The second thing is that we launched -- we spent marketing dollars on launching new product.

And that always -- you always spend there to start creating this pool. So that was mostly -- so that was the effect of that. Then the last part of it was that we started to invest into e-commerce product. And the behavior of retaining cash is influenced also by, of course, our take of payment, and that's something that we have to learn how to include better into the mathematics.

However, I want to say that, as the CEO, we came up with the number 7 to 9 months because we thought that this means that we're efficient in a certain way. But for me, if we're in 10 months, or it's actually better than if we are in 6 months, right? Because that actually is what I would be worried about more. And by the end of the year -- by the way, last year, we came back again to the same range of 7 to 9 months.

But thank you for noticing that, and I think it was influenced again by the pandemic, releasing of new products and trying to think about why is the model with which we should measure all the commerce things, which, of course, have a different way to behave in terms of return on investment. Because they tend to go more in the future, right? So if in the first year, you get x, usually, in the second year, you get 1.5 or 2x from them. So maybe we should be a bit more open to spending a bit more on those guys.

Operator^ Our next question comes from the line of Jason Helfstein with Oppenheimer.

Jason Helfstein^ So maybe to start with a question about your comment about you're targeting half of all new sites or things in 5 to 7 years. Where are you today? So kind of what's the starting point that you're using to get to that glide path?

And then a question about the gap between collections and revenue. Maybe take us through just the puts and takes because we get a lot of questions from investors on kind of -- we go through periods where, obviously, it's the gap, right? So the deferred revenue is expanding, and then it narrows. So just kind of take us through that.

Avishai Abrahami^ Right. So I think that as I answer one of your questions from -- as far as I know, if you look at the Internet, right, we have to divide it, right, between a few different sectors. So the first thing would be people that are building small business website, mostly building themselves. And I think they're self-creators, which is, by the way, a trend that is super growing on the Internet, right? So that trend in itself is growing. And in that trend today, I think, Wix is already above 50% or very close to 50% of new sites being created on the Internet today, so from self-creators on the Internet.

And then if you look at partners and designers, so it's very hard to estimate exactly why do they have numbers on the planet. But I assume always that their numbers on the planet is probably equivalent to the amount of people using Photoshop, right? It's not exactly, but very similar. So about 3 million or 4 million. And we are getting to be about -- well, I don't know if we disclosed that number or not, but we're already double digits in that -- from that, right? And this is a new offering that we have.

So even without doing -- just continuing to go in the same rate that we go, we'll be at 50% of those. Now those guys are responsible for 2 kind of websites. They're responsible for people that buy websites, right? So if somebody else is designing their website. And of course, for enterprise -- for most of the enterprise or large company's website. So I think just by looking at those 2 key factors, right, you can see that it's very achievable for us to be 50% on all the new Internet websites.

And the one thing that we don't address as much today but we're seeing growth already with Editor X happening today, are companies building their own websites or enterprises or medium-sized companies or large-sized companies. And again, we're seeing growth with Editor X, which is surprisingly fast, 10% month-over-month. So more than 10% month-over-month. So I think that if you factor all of that, it's very easy to extrapolate that we'd probably be at 50% of all new websites being built in the world in -- within 5 years.

Lior Shemesh^ Jason, with regard to the second question about collection and revenue. A general comment about it. I think that we need to relate to 2

different behaviors. The first one is the creative subscription, which mostly is recognized over time, as you know. Business solution is mostly recognized immediately, for example, payments. So collection is equal to revenue with regard to payments, for example.

In Q4, we had more collections coming from payments than what we anticipated initially. Therefore, the revenue was all recognized immediately, and it was a kind of -- increased more than what we anticipated, as I mentioned before.

So obviously, the gap between revenue to collection is really depends on the nature of the growth. If the growth is more coming from creative subscription, you will see that the gap is increasing. If you see that the growth of business solution is increasing, so the opposite. So it really depends. But again, this quarter, it was nice -- it was very nice to see how business solution is scaling up, especially payments, which obviously was all recognized.

Operator^ Our next question comes from the line of Ygal Arounian with Wedbush.

Ygal Arounian^ I wanted to ask around the \$60 million in incremental investments this year. And how you think about that being the right level of investment? How that flows through to the revenue collections guidance this year and next year as well?

And then within that, you have 2 real big initiatives, I guess, right, Editor X and Editor X in the partners and commerce. Is Editor X with 200,000 subs kind of tracking where you thought you'd be at, at this moment? And how does Editor X contribute to commerce? Are you seeing more commerce sites being built on Editor X? Is it a boost to the commerce initiative? And then I have a few kind of technical follow-ups, I'll ask after.

Lior Shemesh^ So I will start with the \$60 million incremental investments that we've made. So we mentioned that we are going to use it for several things. The first one is about the clear headcount, expanding it. So it's a good question because internally, we try to understand how many people, how many agents we need to support the continuous growth. We also assume that the growth will continue.

I mean we talked also last quarter about the new state of mind. And it's actually happening. The growth continues, and the demand is actually increasing. So in order to support that, we have to recruit more people at

more agents. And it takes time to train them. So I believe that 2021, we are going to increase the investments, as we mentioned before. We are going to see the benefit of it already in 2021, but mostly in 2022, as the gross margin actually increasing again to 80% for creative subscription.

We are going to use it in order to support payments. We talked about the payments, the product and the growth and how we increased the take rate. And there is a huge opportunity for us on payments. Payment has already started to deliver free cash flow on the bottom line. I think that next year, it would be much more significant for us, and the same goes for account management. So we believe that this is like the appropriate amount that we need to invest. Obviously, we are not doing it in day 1. It will be based on the actual growth that we are going to see and witness throughout the year.

Avishai Abrahami^ And I just want to add that I think that many companies that have a balance sheet as strong as ours will use that in order to grow the business through M&As. I think that Wix -- our approach is that most of our growth will always come from innovation. I think we've proven that investing into innovation it -- is what works best for us to generate that future growth.

Ygal Arounian^ Okay. Helpful. And I wanted to -- just a couple of mechanical things. So people have asked about payments and the take rate. Can you just explain the gap between the 1% and what's there on your website, which has - - kind of amounts to 2.5% to 3% already. What's the difference between what's listed on your site and what you're recognizing? Are chargebacks being accounted for in the take rate? Or is it cost?

And then, again, going back to the creative subscriptions collections, which decelerated this quarter and you're expecting to accelerate again next quarter, is that all coming from the kind of pull-forward you talked about in subs in 3Q and normalizing again in 1Q? Or are there other seasonal elements that are causing that?

Lior Shemesh^ So I'll start with the second question. It's exactly what we said before about the seasonality effect that we've seen and the volatility that we had in the fourth quarter, again, especially after a very strong Q3. But we've already seen on January numbers that it's going up again to more than 30% on a year-over-year basis. So I think that it's a great indication for the fact that it's only a temporary effect, and we are back to the growth that we've seen before.

Avishai Abrahami^ As for Editor X, you asked about growth for Editor X. So I got to say that it's a -- your first question was about growth of Editor X. And for me, I think, this is, by far, the fastest-growing product we ever released and in terms of growth. And taking into account that this is not something that you just can broadcast and use regular marketing channel because you're going after professional people, I think this is amazing, and it's a testament to the quality of the product and to the quality of the marketing team working on this product.

On -- in regards to does it do? It's growing over the 10% month-over-month, 200,000 users already. So really, it's fantastic. In terms of contribution to e-commerce, we do see more e-commerce there, and we do see more complex projects there. And I think a big part of the reason for that is that this is not -- Editor X is really a tool for professionals. I struggled to finish a website with it. It takes me time. Having that, if you use ADI, obviously, it's never an issue, but even if we use the classic editor, it's very simple to do. Editor X is much harder. Of course, because using that are more professional, they have bigger projects, deeper projects, and that's part of it. Again, for me, the most amazing thing is that I did not expect it to be anywhere near where it is now in terms of numbers or growth rate. It's amazing.

Was there any more questions? Or we answered everything.

Ygal Arounian^ Yes. And then the pay -- what's the difference between the 1% take rate and payments? And what's been on your site? What are the factors there?

Avishai Abrahami^ So you have to remember that, first of all, this is a young product and we're evolving it. A lot of our existing users who are transacting on our system are not necessarily on their own gateway, and in which case, we have different kind of commercial terms with the other gateways. So naturally, it's not as favorable as to ours. We're not forcing them to move. We're enticing them to move by offering a better product and higher value. This is also why you see the take rate taking off from the 0.5% it was in '19 to the 1.3% it should be in 2021. And we are very confident that it will continue to go up.

Operator^ Our next question comes from the line of Nick Jones from Citi.

Nick Jones^ I guess a follow-up on some of the incremental investment, specifically on the growing the account management team for the high-volume commerce users. How do you feel the Wix platform is positioned

against some of the, I guess, competitors for kind of agencies or higher-volume e-commerce companies are -- with the suite of solutions today adequate for someone to scale to a sizable e-commerce company? Or is that a risk as they get bigger, that they turn to maybe custom applications to improve speed or things like that?

Avishai Abrahami^ Well, I think that we're at a place where we are actually very competitive in those categories. And I think that if you use Wix e-commerce, which is really a fantastic product, and then Editor X, which nothing compares to it in ability to design, edit, controlling sites, work as a team, right? We're the only company on the planet to give you a way to actually work as a team when you build projects like that, right? So you can use concurrent editing, right? For that, you have the history diversion in. And then you have Velo, right, the Wix code solution. So you can actually custom build whatever you need, and you don't have to rebuild new servers and infrastructure.

So I'd say that if you look at our ability to compete this year on bigger project, it's fantastic. I think we have the best offering on the planet.

Operator^ Our last question comes from the line of Chris Kuntarich with Deutsche Bank.

Chris Kuntarich^ Maybe two, if I can. You talked about having these commercial relationships with some of the other gateways. Can you just help us think about the opportunity for Wix to charge a transaction fee similar to what some of your peers are doing on transactions that are taking place on other payment rails and not through Wix payments?

And then just kind of thinking through your 2021 payment disclosures that you -- or guidance that you've given here. How should you think about -- yes, as we look at gross payment value from existing users versus new users? How should we think about the drivers there? And just curious -- yes, why is the revenue guidance so tight at this point in time for a product that's growing so quickly?

Nir Zohar^ It's Nir. I'll take the first part. And I think Lior, you'll cover the second one. So in terms of the opportunity to charge transaction fees for other payment gateways, first of all, of course, we have that opportunity. At this stage, we haven't implemented it or don't intend to do it in the near future. We believe that our ability to move the merchants and -- or the customers is through the depths of our product and offering and making it so

excellent that it's just much superior. We may do that in the future. Currently, we don't think that, that's the best way to go about it.

Lior Shemesh^ With regard to the 2021 payment guidance, so obviously, we see a strong growth coming from both existing and new users. But for example, a lot of new users in 2020 are driving the growth. It's -- in a way, think about it as a compounding effect, where you see the growth of our users. In addition, we are getting more because also the mix is changing, and we are getting more kind of business users. So we've seen more than that, and it's actually growing. And at the same time, we also increased the take rate. So all those indicators actually lead us to believe that the guidance for 2021 is actually something that is quite realistic. We are very excited about it.

And actually, it can -- I can tell you that it can be even more than that. It really depends on how the year will be and how much people are going to embrace the new product. For example, point of sale, point of sale is going to move many people from off-line to online. So it's also going to contribute to a global expansion of Wix payments. So there's a lot of opportunities over there, but certainly, also long-term opportunities that we intend to pursue.

Operator^ I will now turn the call back over to Maggie O'Donnell for closing remarks.

Maggie O'Donnell^ Thank you, everybody, for joining us today. Hope you have a good day. Bye.

Operator^ Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.