

Wix.com Ltd.(WIX)

\$140.71 (As of 03/04/20)

Price Target (6-12 Months): **\$150.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/25/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

Growth: A

Momentum: F

Summary

Wix.com reported fourth-quarter results wherein revenues improved year over year. Solid conversion and retention rates in user cohorts have been aiding collection growth and boosting the company's top line. Additionally, robust increase in average revenue per subscription (ARPS), net premium subscriptions and registered users remain tailwinds. Further, the company continues to launch a number of user-friendly applications for meeting the requirements of a dynamic retail environment, evidently adding to its user base, which is a positive. Notably, shares of the company have outperformed the industry in the past year. Nevertheless, rising investments in product development, infrastructure and platform as well as heightened level of hiring in 2020 will further increase expenses, thereby keeping margins stressed.

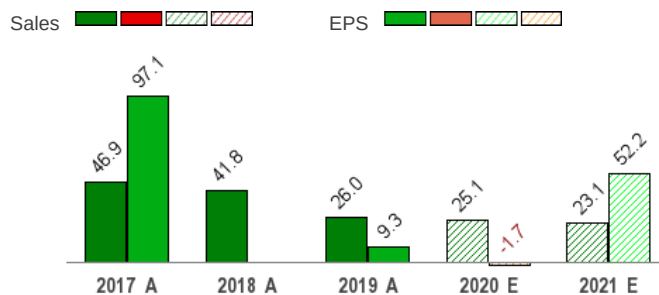
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$156.40 - \$104.61
20 Day Average Volume (sh)	905,468
Market Cap	\$7.0 B
YTD Price Change	15.0%
Beta	1.45
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computers - IT Services
Zacks Industry Rank	Top 40% (101 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	44.4%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	-15.2%
Expected Report Date	05/21/2020
Earnings ESP	119.6%
P/E TTM	120.3
P/E F1	122.4
PEG F1	4.7
P/S TTM	9.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	267 E	284 E	303 E	315 E	1,172 E
2020	217 E	231 E	246 E	260 E	952 E
2019	174 A	185 A	197 A	205 A	761 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.01 E	\$0.46 E	\$0.47 E	\$0.50 E	\$1.75 E
2020	-\$0.02 E	\$0.32 E	\$0.35 E	\$0.41 E	\$1.15 E
2019	\$0.03 A	\$0.34 A	\$0.41 A	\$0.39 A	\$1.17 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/04/2020. The reports text is as of 03/05/2020.

Overview

Headquartered in Tel Aviv, Israel and founded in 2006, Wix.com Ltd. is a cloud-based web development platform. The company's platform offers solutions that enable businesses, organizations, professionals and individuals to develop customized websites and application platforms.

The company's core products and services include Wix Editor, Wix ADI, Corvid by Wix (formerly Wix Code), Wix Mobile, Web, Wix App and Wix SEO Wi.

Wix Editor offers ready templates, and drag-and-drop editor tool to facilitate Website editing to make web stores look professional without any design experience.

Wix ADI allows users to design websites customized to meet their specific needs. Corvid by Wix is designed to aid developers manage their workflow in a streamlined manner.

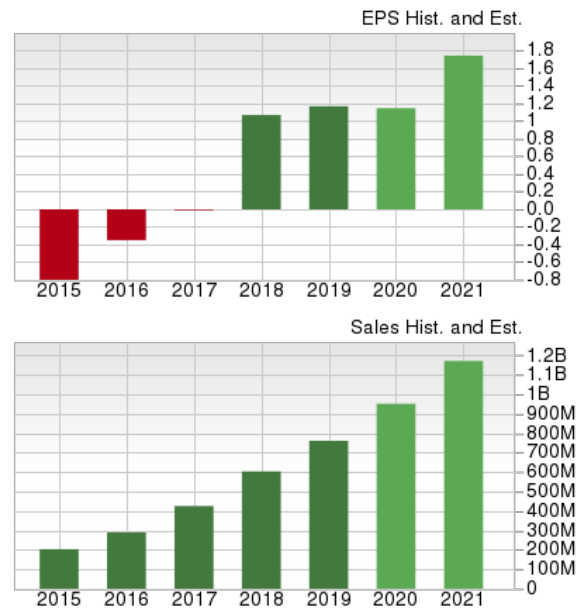
Ascend by Wix suite comprises of advanced features which allow users to seamlessly connect with customers, automate work processes, and aids in expanding business. Moreover, with Wix Logo Maker users can generate a logo by utilizing artificial intelligence.

Apart from the company's own payment solution Wix Stores, payment wallets like Apple Pay and Google Play is also available to the merchants, who they offer to customers for completing transaction done on the Wix App. Additionally, Wix Payments platform allows users to accept payments from customers via Wix Website.

In 2019, revenues came in at \$761.1 million. Growth in the number of registered users and premium subscriptions are key revenue drivers. Registered users as of Dec 31, 2019 were 165 million, up 16% year over year. Wix added a total of 89K net premium subscriptions in the fourth quarter, up 13% year over year, to reach 4.5 million as of Dec 31, 2019.

For increased transparency, beginning the fourth quarter, Wix reported revenues, collections and cost of revenues under two segments: Creative Subscriptions and Business Solutions. Creative Subscriptions and Business Solutions contributed 75.6% and 14.7% to total fourth-quarter revenues of \$204.6 million.

The company also started providing Annualized Recurring Revenue (ARR) as the primary KPI for growth of its Creative Subscriptions segment. As of Dec 31, 2019, ARR was \$707.2 million, up 21% year over year.



Reasons To Buy:

- ▲ The National Retail Federation (NRF) said that it expects retail sales to climb higher than what had been earlier projected. Spending at retailers for this year is predicted to grow in the range of 3.5-4.1%, amounting to \$3.9 trillion. Moreover, strong growth in e-commerce spending bodes well for Wix. The company's cloud-based platform is well-positioned to address the growing needs of merchants at a time when social media, cloud computing, mobile devices and data analytics are transforming the e-commerce market place.
- ▲ Wix continues to add functionality to its platform, which is responsible for driving merchant base. Of late, consumers are gravitating toward mobile devices, businesses, organizations and professionals for websites and dynamic digital presence that helps in interacting with customers, suppliers, partners and employees online and in real time. Consequently, demand for high-level customer engagement products and services are increasing. The company offers web development, design, solutions and apps via online platform that enables businesses, organizations, professionals and individuals to create digital presence. Through registration, users can access company's Wix Editor, Wix ADI and Corvid by Wix capabilities. These tools help users to enhance their digital presence. We believe there is a significant opportunity for the company to provide a cost-effective solution to aid the increasing demand of businesses, organizations, professionals and individuals in the digital market.
- ▲ Notably, the percentage of registered users using Wix Payments grew every quarter throughout 2019. The company's registered users increased to 165 million as on Dec 31, 2019, up 16% year over year. Wix added a total of 89K net premium subscriptions in the fourth-quarter of 2019, up 13% year over year, to reach 4.5 million as of Dec 31, 2019. Wix continues to launch a number of user-friendly applications to meet the requirements of a dynamic retail environment, consequently adding to user base. Management anticipates this trend to continue as the company expands shipping partners and add new features. We believe that product innovations and partnership deals will boost user base that will eventually drive top-line growth in 2020.
- ▲ Mobile focus provides significant leverage to Wix. The company's Wix App, a mobile application accessible on iOS and Android, allows users to create and manage content on their websites from a mobile device. We note that the company is benefiting from retail's rapid transition to mobile and social sales channels. We believe that this rapid growth will present significant opportunities for Wix in the long term.

Wix benefits from the launch of a number of user-friendly applications. Massive growth in e-commerce along with its sound liquidity and cash flow bodes well for Wix.

Reasons To Sell:

- ▼ Wix is relatively a new player in the e-commerce marketplace. Although it is not a direct competitor to behemoths like Alibaba and Amazon, but companies like Shopify and BigCommerce which provide e-commerce software poses threat to Wix. Companies that develop cloud-based software and payments platform like Mindbody and BookingSuite also adds to its competitive woes. Moreover, the company focuses on the small-and-medium sized (SMB) businesses, which are more susceptible to macro-economic headwinds. Both factors present significant risk for its growth prospects.
- ▼ Lack of big-shot international customers is a headwind for Wix. The company doesn't have significant presence in the Asia-Pacific market, which is the fastest growing retail e-commerce market according to eMarketer. Since the developed markets of Europe, America and Canada are already saturated, most of the U.S. companies are looking toward the emerging ones. These new markets offer growth opportunity driven by a larger population and the presence of an affluent middle class. However, lack of foothold in these markets due to difficulties related with payment collections along with legal, economic, tax and political risks that are greater than more developed markets could likely impact Wix. These are the primary headwinds in our view.
- ▼ We believe, increasing investments in product development and heightened level of hiring during 2020 will further escalate expenses, thereby keeping margins under pressure. We also note that Wix has been incurring losses in each fiscal year since its inception and has an accumulated deficit of \$404.8 million as of Dec 31, 2019. Despite the improving top line, mounting losses doesn't bode well for investor confidence.
- ▼ Moreover, the company is trading at premium in terms of Price/Book (P/B). Wix.com currently has a trailing 12-month P/B ratio of 33.77X. This level compares unfavorably with what the industry witnessed in the last year. Consequently, the valuation looks slightly stretched from P/B perspective.

Increasing investments on product development, infrastructure and platform is a headwind. Further, lack of significant presence in the Asia-Pacific market and competition from peers remain concerns.

Last Earnings Report

Wix.com Q4 Earnings Beat Estimates, Revenues Rise Y/Y

Wix.com Ltd.'s fourth-quarter 2019 non-GAAP earnings of 42 cents per share beat the Zacks Consensus Estimate by 44.5% but declined 7.1% on a year-over-year basis.

Although total revenues rose 24.6% year over year to \$204.6 million, the same lagged the Zacks Consensus Estimate of \$206 million. However, the top line beat the lower end of management's guided range of \$204-\$206 million.

Region wise, North America, Europe, Asia and others and Latin America accounted for 55%, 26%, 13% and 6% of fourth-quarter revenues, respectively.

Moreover, revenues from North America, Europe, Asia and others and Latin America increased 31%, 21%, 18% and 11% year over year, respectively.

For increased transparency, beginning the fourth quarter, Wix reported revenues, collections and cost of revenues under two segments: Creative Subscriptions and Business Solutions.

Creative Subscriptions revenues (75.6% of revenues) increased 19.3% year over year to \$171.4 million. Business Solutions (14.7% of revenues) jumped 61.5% to \$33.2 million.

The company also started providing Annualized Recurring Revenue (ARR) as the primary KPI for growth of its Creative Subscriptions segment. As of Dec 31, 2019, ARR was \$707.2 million, up 21% year over year.

Key Metrics in Q4

Collections came in at \$226.7 million, up 28.8% year over year and better than Wix's projection of \$222-\$225 million.

Creative Subscriptions (84.2% of collections) increased 22.6% year over year to \$190.8 million. Business Solutions (14.7% of collections) soared 76% to \$35.9 million.

The company witnessed better-than-expected conversion and retention in user cohorts.

Wix added a total of 89K net premium subscriptions in the reported quarter, up 13% year over year, to reach 4.5 million as of Dec 31, 2019.

Wix added 5.8 million registered users during the reported quarter. Registered users as of Dec 31, 2019 were 165 million, up 16% year over year.

During the reported quarter, average revenue per subscription (ARPS) improved 6.5% year over year to \$179.

Moreover, Wix anticipates future collections (over next eight years) from all existing cohorts to be \$6.8 billion, up 33% year over year.

Operating Results

Non-GAAP gross profit increased 14.9% from the year-ago quarter to \$150.5 million. Nonetheless, non-GAAP gross margin contracted 800 basis points (bps) to 66.4%.

Creative Subscriptions gross margin shrank 320 bps on a year-over-year basis to 81.3%. Business Solutions gross margin declined from the year-ago figure of 47% to 33.7% in the reported quarter.

Research and development expenses of \$66.6 million increased 22.1% year over year.

Selling and marketing expenses came in at \$74.8 million, up 22.5% year over year.

General and administrative expenses surged 45.2% on a year-over-year basis to \$23.6 million.

Wix reported non-GAAP operating income of \$17.2 million, down 8.7% year over year.

Moreover, non-GAAP operating margin contracted 310 bps on a year-over-year basis to 7.6%.

Balance Sheet & Cash Flow

As of Dec 31, 2019, Wix had cash and cash equivalents of \$331.1 million compared with \$283.2 million as of Sep 30.

Cash flow from operations came in at \$41.2 million during the fourth quarter compared with \$336.1 million reported in the previous quarter.

Free cash flow was \$37.5 million compared with \$29.2 million reported in the prior quarter.

Guidance

For the first quarter of 2020, Collections are projected to be in the range of \$247-\$249 million, indicating an improvement of 23-24% from the year-ago reported figure.

Moreover, revenues are expected between \$215 million and \$217 million, indicating growth of 23-25% from the prior-year reported number.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	-0.38%
EPS Surprise	44.44%
Quarterly EPS	0.39
Annual EPS (TTM)	1.17

For 2020, Wix anticipates revenues in the range of \$946-\$956 million, suggesting an improvement of 24-26% from the year-earlier reported figure.

Collections are projected to be in the \$1.02-\$1.04 billion band, implying growth of 23-24% from the year-ago reported figure.

Moreover, the company anticipates free cash flow within \$155-\$162 million, hinting at 22-27% improvement from the prior-year reported number.

Recent News

On **Feb 5, 2020**, Wix rolled out Editor X, to provide web agencies and web designers with a website creation platform integrated with advanced website layout and design capabilities.

On **Nov 12, 2019**, Wix.com announced that Wix Fitness has been introduced globally. Wix Fitness has been rolled out to aid studio owners and fitness instructors to manage business websites and leverage Wix App.

Valuation

Wix.com shares are up 4.4% in the past six-month period and 31.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 2% and 11.8% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 10.3% and 19.8%, respectively.

The S&P 500 index is up 6.2% in the past six-month period and 14% in the past year.

The stock is currently trading at 7.08X forward 12-month sales, which compares to 4.89X for the Zacks sub-industry, 3.49X for the Zacks sector and 3.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 8.7X and as low as 2.27X, with a 5-year median of 5.88X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$150 price target reflects 7.55X forward 12-month sales.

The table below shows summary valuation data for WIX

Valuation Multiples - WIX					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	7.08	4.89	3.49	3.30
	5-Year High	8.7	10.11	3.58	3.43
	5-Year Low	2.27	4.26	2.3	2.54
	5-Year Median	5.88	7.35	3.05	3.01
EV/Sales TTM	Current	8.26	5.06	4.06	3.14
	5-Year High	11	8.12	4.19	3.42
	5-Year Low	2.53	4.12	2.53	2.10
	5-Year Median	7.15	5.92	3.48	2.8

As of 03/04/2020

Industry Analysis Zacks Industry Rank: Top 40% (101 out of 255)



Top Peers

eBay Inc. (EBAY)	Outperform
Inovalon Holdings, Inc. (INOV)	Outperform
ANGI Homeservices Inc. (ANGI)	Neutral
Etsy, Inc. (ETSY)	Neutral
GoDaddy Inc. (GDDY)	Neutral
Square, Inc. (SQ)	Neutral
Groupon, Inc. (GRPN)	Underperform
Shopify Inc. (SHOP)	Underperform

Industry Comparison Industry: Computers - It Services				Industry Peers		
	WIX Neutral	X Industry	S&P 500	GDDY Neutral	SHOP Underperform	SQ Neutral
VGM Score	D	-	-	B	D	C
Market Cap	7.02 B	2.81 B	22.29 B	11.99 B	59.08 B	34.06 B
# of Analysts	9	5	13	8	24	13
Dividend Yield	0.00%	0.00%	1.97%	0.00%	0.00%	0.00%
Value Score	F	-	-	D	F	F
Cash/Price	0.11	0.06	0.05	0.09	0.05	0.04
EV/EBITDA	-156.28	11.53	13.20	31.45	-941.21	70.61
PEG Ratio	4.64	2.04	1.94	NA	99.34	2.78
Price/Book (P/B)	33.77	5.48	3.05	15.28	19.59	19.86
Price/Cash Flow (P/CF)	NA	14.02	12.16	33.34	NA	211.67
P/E (F1)	121.72	20.60	17.58	62.30	2,483.54	85.72
Price/Sales (P/S)	9.22	1.48	2.45	4.01	37.44	7.23
Earnings Yield	0.82%	2.97%	5.69%	1.61%	0.04%	1.16%
Debt/Equity	1.73	0.26	0.70	3.29	0.00	0.61
Cash Flow (\$/share)	-0.25	1.22	7.01	2.06	-0.60	0.37
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	NA%	17.31%	10.85%	103.13%	NA	NA
Proj. EPS Growth (F1/F0)	-1.90%	7.65%	6.26%	34.15%	-31.25%	15.58%
Curr. Cash Flow Growth	-2,949.32%	12.63%	6.03%	4.21%	85.89%	130.71%
Hist. Cash Flow Growth (3-5 yrs)	11.92%	14.92%	8.52%	80.70%	NA	26.09%
Current Ratio	1.72	1.34	1.23	0.79	8.68	1.90
Debt/Capital	63.40%	33.63%	42.57%	76.67%	0.00%	37.92%
Net Margin	-11.35%	2.36%	11.69%	4.58%	-7.91%	7.97%
Return on Equity	-27.21%	12.20%	16.66%	20.61%	-2.69%	6.57%
Sales/Assets	0.75	0.81	0.54	0.47	0.55	1.07
Proj. Sales Growth (F1/F0)	25.26%	7.81%	3.94%	10.83%	37.35%	26.46%
Momentum Score	F	-	-	B	F	A
Daily Price Chg	4.13%	2.81%	3.75%	1.53%	7.40%	0.53%
1 Week Price Chg	-2.39%	-7.73%	-12.06%	-9.53%	-11.01%	-0.19%
4 Week Price Chg	-3.29%	-5.56%	-7.42%	-0.01%	7.71%	1.29%
12 Week Price Chg	17.70%	-0.34%	-4.61%	3.60%	37.30%	20.55%
52 Week Price Chg	31.67%	-18.87%	7.38%	-6.98%	173.38%	5.48%
20 Day Average Volume	905,468	491,168	2,456,671	1,512,770	2,904,416	10,427,544
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-2.29%	56.25%
(F1) EPS Est 4 week change	-15.25%	0.00%	-0.06%	-1.68%	-113.59%	83.82%
(F1) EPS Est 12 week change	-15.04%	0.00%	-0.41%	-1.01%	-116.01%	48.51%
(Q1) EPS Est Mthly Chg	-8.41%	0.00%	-0.27%	6.83%	-132.27%	111.67%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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