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Jan 10, 2020

Wix.com Ltd.(WIX)

$140.08 (As of 01/09/20)

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

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/15/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: F | Growth: A | Momentum: C	

Summary

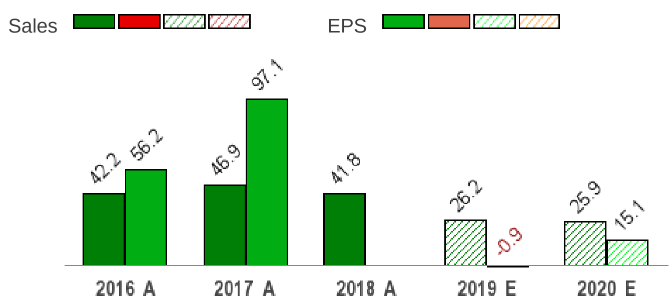
Wix.com is a cloud-based web development platform. Solid conversion and retention rates in its user cohorts drove collection growth, are expected to favor the top line. Robust increase in ARPS, net premium subscriptions and registered users remain tailwinds. Further, Wix continues to launch a number of user-friendly applications to meet the requirements of a dynamic retail environment, consequently adding to its user base, which is a positive. Massive growth in e-commerce spending also bodes well for Wix. Moreover, the company's sound liquidity and cash flow position remain noteworthy. Notably, shares of Wix have outperformed the industry in the past one year. However, increasing investments on product development, infrastructure and platform are anticipated to weigh on Wix's bottom-line.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$155.75 - $98.06**
20 Day Average Volume (sh)	**517,842**
Market Cap	**$7.0 B**
YTD Price Change	**14.5%**
Beta	**1.41**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Computers - IT Services**
Zacks Industry Rank	**Bottom 21% (201 out of 254)**
Last EPS Surprise	**46.4%**
Last Sales Surprise	**-0.5%**
EPS F1 Est- 4 week change	**0.2%**
Expected Report Date	**02/19/2020**
Earnings ESP	**0.0%**
P/E TTM	**116.7**
P/E F1	**114.8**
PEG F1	**4.4**
P/S TTM	**9.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	219 E	234 E	247 E	258 E	959 E
2019	174 A	185 A	197 A	205 E	762 E
2018	138 A	146 A	156 A	164 A	604 A

EPS Estimates

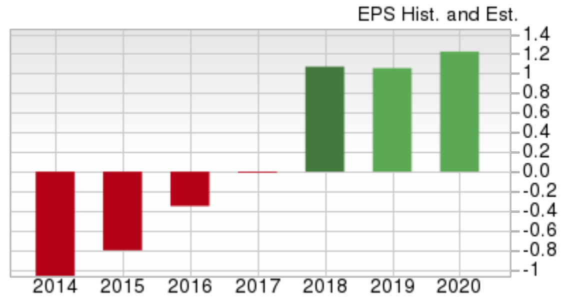
	Q1	Q2	Q3	Q4	Annual*
2020	-$0.02 E	$0.35 E	$0.39 E	$0.44 E	$1.22 E
2019	$0.03 A	$0.34 A	$0.41 A	$0.27 E	$1.06 E
2018	-$0.05 A	$0.29 A	$0.39 A	$0.42 A	$1.07 A

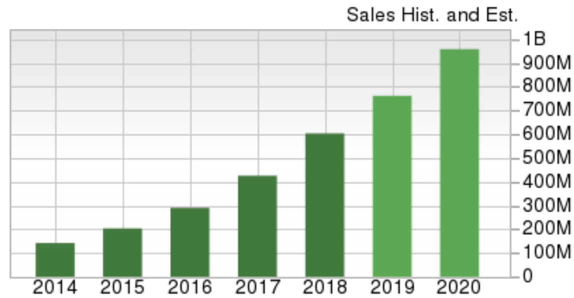
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

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 2018, revenues increased 42% over 2017 to $603.7 million. The company offers solutions through a freemium and subscription model. A majority of increase in the revenues was driven by 24% growth in the number of premium subscriptions.

Registered users as of Sep 30, 2019 came in at 160 million, up 17% year over year. The company added a total of 132,000 net premium subscriptions in third-quarter 2019, which came in at 4.4 million as of Sep 30, 2019 (up 15% year over year).

In 2018, the company generated 52% of revenues from North America, 27% from Europe, 8% from Latin America and the remaining 13% from Asia and Others.

Reasons To Buy:

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.

- 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 — excluding automobiles, gasoline stations and restaurants — is predicted to grow in the range of 3.8-4.4% in 2019, amounting to $3.82-$3.84 trillion. The estimates for global retail e-commerce sales by market research firm eMarketer (excluding travel, restaurant and event ticket sales) to grow 15.1% year over year to reach $605.3 billion in 2019, accounting for 10.9% of total retail spending worldwide. This will further increase to $893.4 trillion by 2022, which will make up 14.8% of total retail spending. We believe that the massive 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 2018. The company's registered users increased to 160 million as on Sep 30, 2019, up 17% year over year. The company added a total of 114,000 net premium subscriptions in the last reported quarter, which came in at 4.4 million as of Sep 30, 2019 (up 15% year over year). 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 2019.

- 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. Per eMarketer, M-commerce sales grew 32.7% in 2018. The research firm expects 2019 holiday season retail spending to grow 3.7% to $1.035 trillion. Overall eMarketer projects M-commerce sales to grow 29.9% to reach $270.4 billion in 2019 from $208.1 billion in 2018. We believe that this rapid growth will present significant opportunities for Wix in the long term.

- Wix has a strong balance sheet with ample liquidity position. Cash and cash equivalents and short-term deposits were $587.3 million as of Sep 30, 2019 which translates to around 71.7% of the total assets. Moreover, the company generated $36.1 million of cash flow from operational activities in the third quarter of 2019. Free cash flow came in at $29.2 million. The liquidity and cash flow reflects that the company is making investments in the right direction. Moreover, since it carries no long-term debt, the cash is available for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

Reasons To Sell:

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.

- 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 SMB segment which is 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 that increasing investments on product development, Corvid by Wix and HTML5-based products and solutions will make it difficult for the company to sustain profitability. Moreover, it expects the hiring rate to increase in 2019, which will further increase research & development (R&D) expense. We also note that Wix has been incurring losses in each fiscal year since its inception and has an accumulated deficit of $383.2 million as of Sep 30, 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 32X. This level compares unfavorably with what the industry witnessed in the last year. Consequently, the valuation looks slightly stretched from P/B perspective.

Last Earnings Report

Wix.com Tops Q3 Earnings Estimates, Updates '19 View

Quarter Ending	09/2019
Report Date	Nov 14, 2019
Sales Surprise	-0.48%
EPS Surprise	46.43%
Quarterly EPS	0.41
Annual EPS (TTM)	1.20

Wix.com Ltd. reported third-quarter 2019 non-GAAP earnings of 41 cents per share beating the Zacks Consensus Estimate by 46.43%. Notably, the bottom line also improved 5.1% on a year-over-year basis.

Total revenues surged 26% year over year to $196.8 million. The top line lagged the Zacks Consensus Estimate by 0.48%. Nonetheless, figure came within management's guided range of $196 million to $198 million.

The year-over-year increase in the top line can primarily be attributed to robust product offering and higher sales of complementary products. Further, growing user and premium subscription base were other positives.

Key Metrics in Q3

Collections during the reported quarter came in at $205.9 million, up 26% year over year, attributable to expansion of new products, enhancement of existing products and improvement in pricing strategies. Management had projected collections in the range of $204-$206 million. Unfavorable foreign exchange movement limited growth. On a constant currency basis, collections would have been $207 million, up 27% year over year.

The company witnessed better-than-expected conversion and retention in user cohorts. The company added a total of 114,000 net premium subscriptions in the reported quarter, which came in at 4.4 million as of Sep 30, 2019 (up 15% year over year).

Wix added 5.5 million registered users during the reported quarter. Registered users as of Sep 30, 2019 came in at 160 million, up 17% year over year.

During the reported quarter, average revenue per subscription (ARPS) improved 8% year over year to $175. The surge can primarily be attributed to solid adoption of higher priced subscription packages.

Notably, Average Collections per Subscription (ACPS) of the latest annual subscriptions in the US improved 39% on a year-over-year basis and came in at $247 in the third quarter.

Operating Results

Non-GAAP gross profit advanced 17.2% from the year-ago quarter to $145.2 million. Nonetheless, non-GAAP gross margin contracted 600 bps to 74%, primarily owing to increasing investments in Wix Payments and Customer Solutions organization.

Non-GAAP Research and development expenses of $49.5 million, increased 28.2% year over year. Non-GAAP Selling and marketing expenses came in at $70.3 million, up almost 19% year over year. Non-GAAP General and administrative expenses surged 34.7% on a year-over-year basis to $13.2 million.

The company reported non-GAAP operating income of $12.3 million, down 24.6% year over year. As percentage of revenues non-GAAP operating margin contracted 420 bps to 6.3%.

Balance Sheet & Cash Flow

As on Sep 30, 2019, Wix had cash and cash equivalents of $283.2 million, compared with $351.5 million in the previous quarter. The company ended the quarter with $354.6 million in long-term debt compared with $349.3 million in the previous quarter.

Cash flow from operations came in at $36.1 million during the third quarter compared with $37.2 million reported in the previous quarter. Free cash flow was $29.2 million, compared with $30.8 million reported in the prior quarter.

Guidance

For the fourth quarter, the company anticipates revenues in the range of $204-$206 million, suggesting growth of 24-25% from the year-ago quarter. The guidance takes impact of foreign exchange rates into account. Collections are projected to be in the range of $222-$225 million, indicating an improvement of 26-28% from the year-ago reported figure.

The company updated fiscal 2019 guidance. Management now anticipates revenues in the range of $761-$763 million, compared with prior guided range of $761-$765 million. This indicates an improvement of 26% from the year-ago reported figure.

Collections are projected to be in the range of $828-$831 million, suggesting growth of 26% from the prior-year quarter, compared with previous predicted range of $825-$831 million. On a constant currency basis, Collections are projected to be in the range of $830-$833 million.

Recent News

On **Nov 12, 2019**, Wix 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.

On **Sep 4, 2019**, Wix.com and NTT Town Page Corporation announced a strategic alliance in Japan.

On **Aug 6, 2019**, Wix announced partnership with GMO Epsilon with an aim to roll out a payment option. Wix customers based in Japan will be able to enhance their online businesses and offer customers GMO-EP's payment solutions.

Valuation

Wix.com shares are down 2.6% in the past six-month period and up 39.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and stocks in the Zacks Computer & Technology sector are up 0.2% and 15% in the past six-month period. Over the past year, the Zacks sub-industry and the sector are up 25.4% and 34.8%, respectively.

The S&P 500 index is up 10.8% in the past six-month period and 28% in the past year.

The stock is currently trading at 7.25X forward 12-month sales, which compares to 5.14X for the Zacks sub-industry, 3.66X for the Zacks sector and 3.51X 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 5.72X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $150 price target reflects 7.76X 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	7.25	5.14	3.66	3.51
	5-Year High	8.70	10.29	3.66	3.51
	5-Year Low	2.27	4.34	2.3	2.54
	5-Year Median	5.72	7.46	3.01	3
EV/Sales TTM	Current	8.62	5.15	4.3	3.28
	5-Year High	11.00	8.12	4.3	3.3
	5-Year Low	2.53	4.16	2.56	2.16
	5-Year Median	6.96	5.94	3.44	2.8

As of 01/09/2020

Industry Analysis **Zacks Industry Rank:** Bottom 21% (201 out of 254)

Top Peers

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

Industry Comparison Industry: Computers - It Services

Industry Peers

	WIX Neutral	X Industry	S&P 500	GDDY Neutral	SHOP Neutral	SQ Neutral
VGM Score	C	-	-	B	F	B
Market Cap	6.98 B	3.35 B	23.94 B	12.12 B	49.62 B	29.19 B
# of Analysts	6	5	13	8	15	14
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	0.00%
Value Score	F	-	-	D	F	F
Cash/Price	0.12	0.06	0.04	0.08	0.06	0.04
EV/EBITDA	-683.20	11.99	13.97	33.77	-1,254.91	677.93
PEG Ratio	4.43	1.90	2.03	4.22	20.11	2.16
Price/Book (P/B)	35.14	5.17	3.33	17.89	17.60	23.32
Price/Cash Flow (P/CF)	14,927.54	15.72	13.73	35.75	NA	406.22
P/E (F1)	116.16	20.48	18.79	63.30	502.74	71.50
Price/Sales (P/S)	9.69	1.71	2.64	4.17	35.02	6.74
Earnings Yield	0.87%	3.03%	5.32%	1.58%	0.20%	1.40%
Debt/Equity	1.78	0.25	0.72	3.78	0.04	0.83
Cash Flow ($/share)	0.01	1.39	6.94	1.97	-0.34	0.17
Growth Score	A	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	NA%	16.94%	10.56%	103.74%	NA	NA
Proj. EPS Growth (F1/F0)	15.92%	9.60%	7.49%	41.34%	318.09%	22.13%
Curr. Cash Flow Growth	-101.19%	14.90%	14.83%	24.51%	125.72%	-2,039.38%
Hist. Cash Flow Growth (3-5 yrs)	15.05%	16.56%	9.00%	54.76%	NA	22.37%
Current Ratio	1.95	1.32	1.23	0.75	11.21	1.68
Debt/Capital	64.08%	37.45%	42.99%	79.06%	3.61%	45.31%
Net Margin	-9.80%	1.78%	11.08%	4.10%	-8.97%	-1.01%
Return on Equity	-24.02%	12.44%	17.16%	19.05%	-3.36%	5.72%
Sales/Assets	0.75	0.81	0.55	0.46	0.55	1.06
Proj. Sales Growth (F1/F0)	25.75%	8.61%	4.20%	11.02%	36.24%	22.33%
Momentum Score	C	-	-	C	D	B
Daily Price Chg	4.71%	1.16%	0.53%	1.09%	2.89%	0.49%
1 Week Price Chg	5.83%	0.35%	-0.30%	-0.16%	-0.91%	-1.25%
4 Week Price Chg	17.67%	4.93%	1.92%	4.04%	15.63%	3.14%
12 Week Price Chg	13.11%	14.52%	6.54%	9.02%	29.84%	7.15%
52 Week Price Chg	40.23%	14.10%	22.58%	10.04%	190.15%	2.77%
20 Day Average Volume	517,842	253,081	1,580,816	1,162,293	1,712,598	5,570,435
(F1) EPS Est 1 week change	0.18%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.18%	0.00%	0.00%	0.00%	0.00%	6.93%
(F1) EPS Est 12 week change	-3.18%	-0.70%	-0.50%	11.26%	-42.69%	-54.35%
(Q1) EPS Est Mthly Chg	-1.50%	0.00%	0.00%	0.00%	0.00%	13.46%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
VGM Score	C

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.

Disclosures

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