

Wix.com Ltd.(WIX)

\$268.59 (As of 08/11/20)

Price Target (6-12 Months): **\$230.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 08/11/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: B

Summary

Wix.com reported wider than anticipated loss in second quarter. Rising investments in product development, infrastructure and platform, to counter stiff competition from Shopify and BigCommerce and expand presence in the e-commerce domain, is limiting margin expansion. Moreover, focus on small-and-medium sized (SMB) businesses, which are more susceptible to macro-economic headwinds amid coronavirus crisis led slowdown, is hurting the bottom line. Lack of foothold in international markets, with plenty of growth prospects, is a headwind. However, growing user and premium subscription base amid strong growth in online selling activity on account of coronavirus crisis-induced Internet demand, bodes well for top line. Solid uptick in Wix by Ascend is a positive. Notably, shares of the company have outperformed the industry on a year-to-date basis.

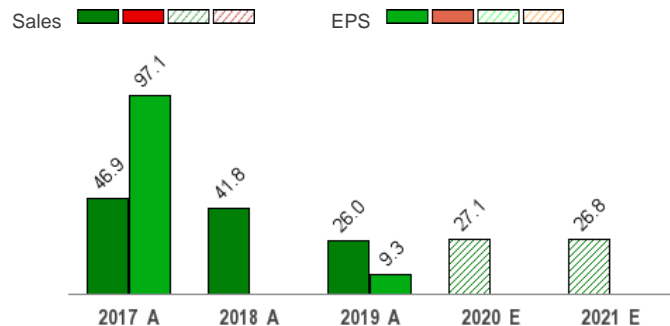
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$319.34 - \$76.81
20 Day Average Volume (sh)	893,994
Market Cap	\$13.4 B
YTD Price Change	119.5%
Beta	1.86
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computers - IT Services
Zacks Industry Rank	Bottom 32% (171 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-213.0%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	-93.9%
Expected Report Date	11/12/2020
Earnings ESP	-5,557.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	282 E	299 E	313 E	329 E	1,226 E
2020	216 A	236 A	250 E	264 E	967 E
2019	174 A	185 A	197 A	205 A	761 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.10 E	\$0.27 E	\$0.30 E	\$0.33 E	\$0.89 E
2020	-\$0.01 A	-\$0.26 A	\$-0.00 E	\$0.06 E	-\$0.04 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.

P/E TTM	506.8
P/E F1	NA
PEG F1	NA
P/S TTM	15.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

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.

In 2019, the company reported revenues of \$761.1 million. Growth in the number of registered users and premium subscriptions are key revenue drivers.

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.

Registered users as of Jun 30, 2020 were 182 million, up 18% year over year. Wix added 9.3 million registered users during second quarter.

Wix added a total of 346K net premium subscriptions in second quarter, up 17% year over year, to reach 5 million as of Jun 30, 2020.

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 81.7% and 18.3% to total second-quarter revenues of \$236.1 million.

The company also started providing Annualized Recurring Revenue (ARR) as the primary KPI for growth of its Creative Subscriptions segment. As of Jun 30, 2020, Creative Subscriptions ARR was \$790.9 million, up 22% year over year.



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 \$501.7 million as of Jun 30, 2020. Despite the improving top line, mounting losses does not 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 65.38X. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is higher than the average level of 33.67X and is line with the high end of the valuation range in this period. 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.

Risks

- 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 marketplace.
 - 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. Wix added 9.3 million registered users during the second quarter of 2020. The company's registered users increased to 182 million as of Jun 30, 2020, up 18% year over year. Wix added a total of 346K net premium subscriptions in the second quarter, up 17% year over year, to reach 5 million as of Jun 30, 2020. Wix continues to launch several 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.
 - Management execution has been good in recent times. The solid net-cash balance of \$629 million as of Jun 30, 2020, up from \$572 million as of Mar 31, 2020, provides the flexibility required to pursue any growth strategy, whether by way of acquisitions or otherwise. Notably, total debt to total capital of 64.4%, is lower than the year-ago figure of 66.9%. Cash flow from operations came in at \$50 million during the second quarter compared with \$35.1 million in the previous quarter. Free cash flow was \$46.7 million compared with \$40 million in the prior quarter. The increasing cash flow trend reflects that the company is making investments in the right direction.
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Last Earnings Report

Wix.com Q2 Earnings Lag Estimates, Revenues Top

Wix.com Ltd. reported second-quarter 2020 non-GAAP loss of 26 cents per share, wider than the Zacks Consensus Estimate of a loss of 23 cents. Notably, the company had reported earnings of 34 cents in the year-ago quarter.

However, total revenues rose 27% year over year (up 28% at constant currency or cc) to \$236.1 million and surpassed the Zacks Consensus Estimate by 1.4%.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	1.35%
EPS Surprise	-213.04%
Quarterly EPS	-0.26
Annual EPS (TTM)	0.53

Quarter in Detail

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

Creative Subscriptions revenues (80.6% of revenues) improved 21% year over year to \$190.2 million, driven by increase in Creative Subscriptions Annualized Recurring Revenue (ARR), which is the primary KPI for growth of its segment. As of Jun 30, 2020, Creative Subscriptions ARR was \$790.9 million, up 22% year over year.

Business Solutions (19.4% of revenues) surged 62% to \$45.9 million, driven by robust adoption of G-Suite and Ascend applications and Wix Payments, and momentum in GMV processed through Wix Payments.

Region wise, North America, Europe, Asia and others and Latin America accounted for 57%, 25%, 13% and 5% of second-quarter revenues, respectively. Moreover, revenues from North America, Europe, Asia and others and Latin America increased 35%, 26%, 21% and 3% year over year, respectively.

Key Metrics in Q2

Collections came in at \$265.9 million, up 33% year over year. Collections in North America and Europe increased 39% and 37%, respectively, on a cc basis.

Creative Subscriptions (81.9% of collections) increased 28% year over year to \$217.7 million. Business Solutions (18.1% of collections) climbed 66% to \$48.2 million.

The company witnessed better-than-expected conversion and retention in user cohorts. Wix added a total of 346K net premium subscriptions in the reported quarter, up 17% year over year, to reach 5 million as of Jun 30, 2020.

Wix added 9.3 million registered users during the reported quarter. Registered users as of Jun 30, 2020 were 182 million, up 18% year over year.

Operating Results

Non-GAAP gross margin contracted 500 basis points (bps) to 71%, owing to increasing investments in Customer Care domain.

Creative Subscriptions gross margin contracted 100 bps on a year-over-year basis to 81%, due to the investment in expansion of Customer Care organization. Business Solutions gross margin contracted 800 bps to 32% in the reported quarter, owing to uptick in Wix Payments adoption, a product that carries a lower overall gross margin, and expansion of Customer Care organization.

Research and development expenses as a percentage of collections contracted 300 bps year over year to 21%. Selling and marketing expenses as a percentage of revenues expanded from 33% in the year-ago quarter to 43%.

Wix reported non-GAAP operating loss of \$17 million, against operating income of \$14.2 million in the year-ago quarter.

Balance Sheet & Cash Flow

As of Jun 30, 2020, Wix had \$1 billion in cash, compared with \$937 million as of Mar 31, 2020. As of Jun 30, 2020, long-term debt was reported at \$371 million, compared with \$365 million as of Mar 31, 2020.

Cash flow from operations came in at \$50 million during the second quarter compared with \$35.1 million in the previous quarter. Free cash flow was \$46.7 million compared with \$40 million in the prior quarter.

Guidance

For third-quarter 2020, Collections are projected in the range of \$270-\$275 million, indicating an improvement of 31-34% from the year-ago reported figure.

Moreover, revenues are expected between \$247 million and \$250 million, indicating growth of 26-27% from the prior-year reported figure.

Notably, the company anticipates free cash flow in the range of \$14-\$15 million, indicating a decline of 42-49% from the prior-year quarter.

However, the company has refrained from providing guidance for 2020, citing coronavirus crisis-induced uncertainty and drastic changes in consumer preferences.

Recent News

On Aug 11, Wix announced the pricing of \$500 million aggregate principal amount of 0% Convertible Senior Notes slated to mature in 2025 (the "Notes") in a private offering (the "Offering") to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). The sale of the Notes is slated to conclude on Aug 13, 2020, conditional on customary closing terms.

On Jul 14, Wix announced the opening of its latest office location in Denver, CO slated in the fall of 2020. The company intends to aid users boost website creation and expand Customer Care team with an aim to capitalize on the enormous growth in the past year and expand US footprint.

On Jul 7, Wix announced general availability of Editor X to provide web agencies and web designers with a website creation platform integrated with advanced website layout and design capabilities.

On Jun 30, Wix rolled out extended eCommerce solution to aid merchants in boosting business with customizable storefronts and carts and enable them to offer products across multiple channel with easy dropshipping and integrated payment processing capabilities.

Valuation

Wix.com shares are up 119.5% in the year-to-date period, and 79.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 17.7% and 19.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 21.1% and 34%, respectively.

The S&P 500 index is up 4.2% in the year-to-date period and 14.9% in the past year.

The stock is currently trading at 11.89X forward 12-month sales, which compares to 5.72X for the Zacks sub-industry, 3.99X for the Zacks sector and 3.67X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.99X and as low as 2.27X, with a 5-year median of 6.11X. Our Underperform recommendation indicates that the stock will perform worse the market. Our \$230 price target reflects 10.18X 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	11.89	5.72	3.99	3.67
	5-Year High	13.99	10.11	4.01	3.67
	5-Year Low	2.27	3.91	2.32	2.53
	5-Year Median	6.11	6.98	3.14	3.05
EV/Sales TTM	Current	14.81	5.85	4.59	3.23
	5-Year High	17.21	8.02	4.59	3.46
	5-Year Low	2.53	3.6	2.58	2.14
	5-Year Median	7.36	5.74	3.65	2.86

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (171 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Shopify Inc. (SHOP)	Outperform	3
Baozun Inc. (BZUN)	Neutral	2
Dynatrace, Inc. (DT)	Neutral	3
eBay Inc. (EBAY)	Neutral	3
GoDaddy Inc. (GDDY)	Neutral	3
Inovalon Holdings, Inc. (INOV)	Neutral	3
Medallia, Inc. (MDLA)	Neutral	3
Yelp Inc. (YELP)	Neutral	4

Industry Comparison Industry: Computers - It Services				Industry Peers		
	WIX	X Industry	S&P 500	GDDY	SHOP	YELP
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	4
VGM Score	D	-	-	B	B	B
Market Cap	13.39 B	2.70 B	23.61 B	13.16 B	113.98 B	1.68 B
# of Analysts	8	5	14	7	25	7
Dividend Yield	0.00%	0.00%	1.69%	0.00%	0.00%	0.00%
Value Score	F	-	-	C	F	B
Cash/Price	0.05	0.06	0.07	0.07	0.03	0.33
EV/EBITDA	-305.76	10.02	13.32	34.71	-1,827.99	13.30
PEG Ratio	NA	2.34	2.95	2.85	45.37	NA
Price/Book (P/B)	65.38	5.73	3.22	NA	24.62	2.15
Price/Cash Flow (P/CF)	NA	12.81	12.79	38.45	NA	18.43
P/E (F1)	NA	29.52	22.02	69.77	1,474.50	NA
Price/Sales (P/S)	15.69	2.60	2.57	4.19	54.80	1.77
Earnings Yield	-0.01%	2.38%	4.29%	-3.96%	0.07%	-3.98%
Debt/Equity	1.81	0.24	0.77	-10.02	0.00	0.21
Cash Flow (\$/share)	-0.25	1.07	6.94	2.06	-0.60	1.27
Growth Score	B	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	NA%	17.84%	10.41%	99.26%	NA	110.12%
Proj. EPS Growth (F1/F0)	-102.99%	-3.34%	-6.51%	-481.35%	119.73%	-278.85%
Curr. Cash Flow Growth	-2,949.32%	15.98%	5.22%	4.21%	85.89%	8.96%
Hist. Cash Flow Growth (3-5 yrs)	11.92%	15.72%	8.55%	80.70%	NA	25.79%
Current Ratio	1.46	1.47	1.34	0.44	13.69	5.12
Debt/Capital	64.42%	32.71%	44.59%	83.97%	0.00%	17.40%
Net Margin	-15.92%	3.26%	10.13%	-15.72%	-3.25%	-1.29%
Return on Equity	-46.89%	9.12%	14.59%	50.04%	0.32%	-1.64%
Sales/Assets	0.75	0.76	0.51	0.51	0.55	0.89
Proj. Sales Growth (F1/F0)	27.04%	0.68%	-1.45%	10.08%	49.31%	-17.97%
Momentum Score	B	-	-	B	A	D
Daily Price Chg	-3.36%	-0.47%	-0.17%	1.78%	-3.34%	1.34%
1 Week Price Chg	0.39%	2.73%	2.30%	10.81%	2.84%	-12.25%
4 Week Price Chg	-4.01%	9.01%	6.41%	9.25%	-0.25%	1.17%
12 Week Price Chg	40.12%	20.04%	15.42%	6.12%	29.08%	11.88%
52 Week Price Chg	79.23%	14.22%	2.88%	23.40%	163.25%	-32.53%
20 Day Average Volume	893,994	492,531	2,007,486	1,615,987	2,592,452	1,278,605
(F1) EPS Est 1 week change	-95.29%	0.00%	0.00%	10.39%	0.00%	-20.78%
(F1) EPS Est 4 week change	-93.87%	0.00%	1.84%	10.39%	3.94%	-19.89%
(F1) EPS Est 12 week change	-144.83%	1.99%	2.40%	7.51%	4.87%	-19.89%
(Q1) EPS Est Mthly Chg	-130.69%	0.00%	0.72%	11.66%	1.88%	-92.58%

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	B
Momentum Score	B
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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