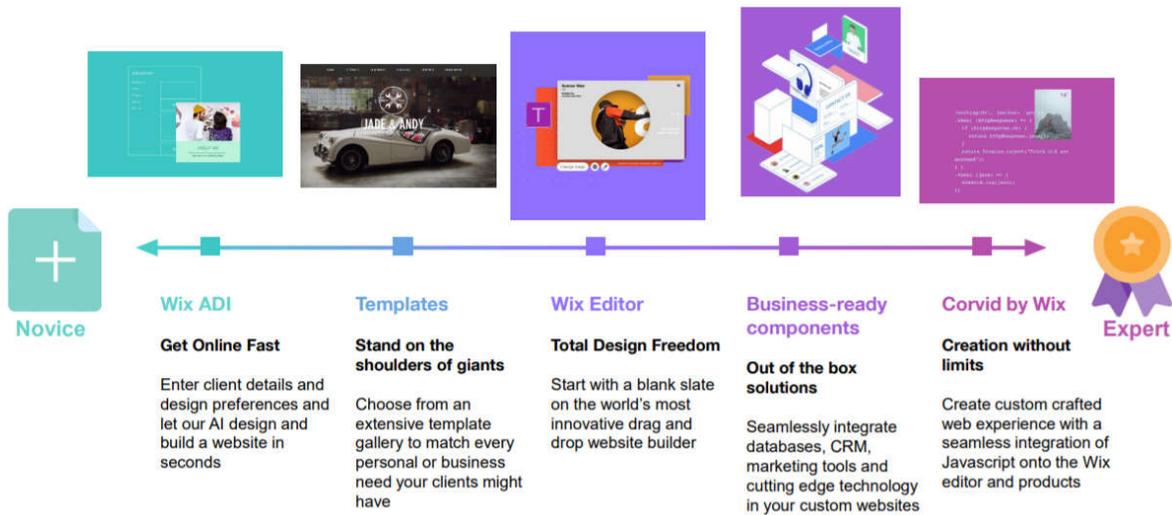
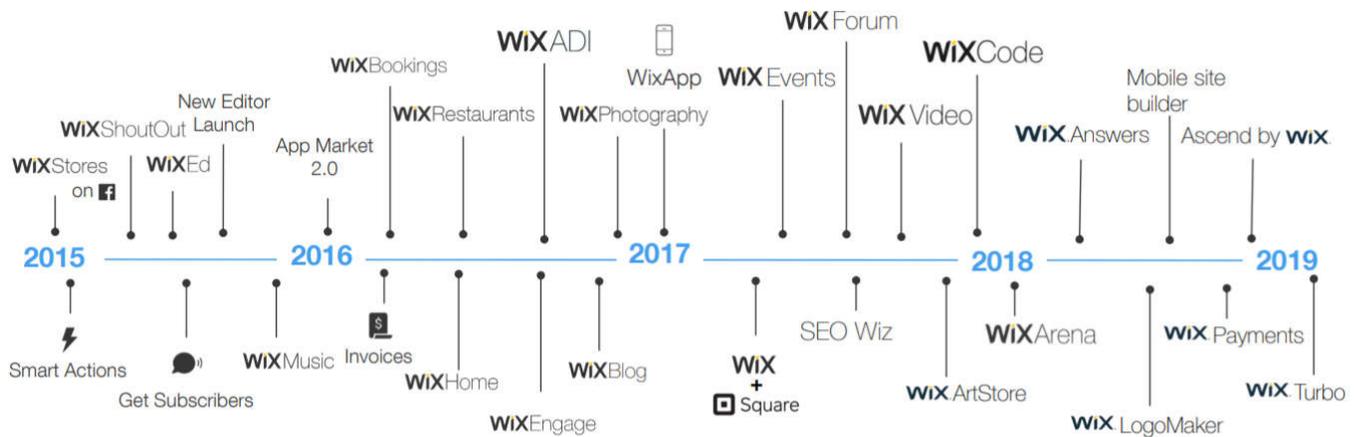


**WIX** – Wix.com is the fastest growing website builder in the world and falls perfectly within my “Be your own boss” long term theme/trend. The number of people starting their own businesses in this “Side-gig/hustle economy” is growing and the 9-5 job is no longer the goal. The average person now wants to leverage their brand and create a website or online storefront.



WIX makes that possible, being incredibly easy to use with no prior design/coding experience, you can create a website in under 3 mins using WIX ADI which uses AI to build a website for you based on various inputs. There is an option for all user types, with more advanced java/html programming enabled through Corvid. The Oak River website was created using Wix Editor.



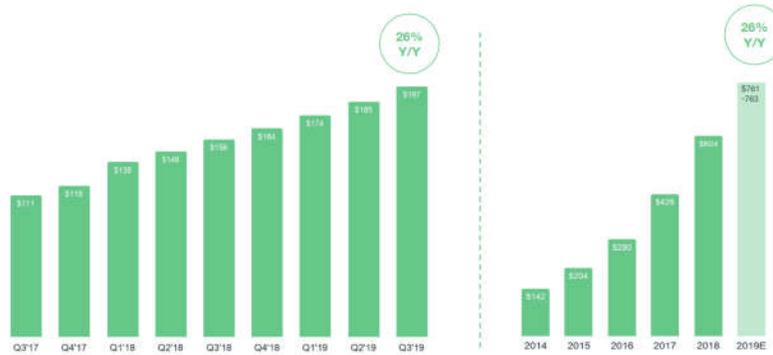
Growing customer needs requires evolving solutions. WIX remains a leader in web-development by reinvesting a sector high ~25%+ of their sales into research and development. The result is a strong track record of enhancements, an important portfolio of IP/intangible assets, and a current pipeline of developments and new features. We all know about Shopify, but WIX has also become one of the preferred options for e-commerce and is one of the internet’s largest online stores. Musicians can sell their music, Photo/Videographers can sell their videos and subscriptions, Restaurants provide menus and take reservations, Doctors or Yoga Instructors book appointments and sell tickets to their classes. There is something for everyone, including large multi-national corporations too.

Competition is fierce though between squarespace, godaddy, mailchimp, etc. The market is fragmented and WIX has created a platform that could hold a significant share of a large and growing market if it continues to scale at the current rate.

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WIX’s user growth has been impressive with ~160mm registered accounts, still growing 17% year over year. Premium user growth has also been incredible, outpacing overall user growth **but slowing recently**. Still, 15% Y/Y is impressive, and the large untapped opportunity still exists to convert more free users to premium. Previously mentioned Shopify has significantly fewer premium users but focuses purely on the transactions/e-commerce which should have better long-term margins. WIX will be the obvious beneficiary of more websites becoming “more than just website”, and converting into stores, though again, competition is fierce. WIX Payments has been a success and can hopefully help drive this growth.



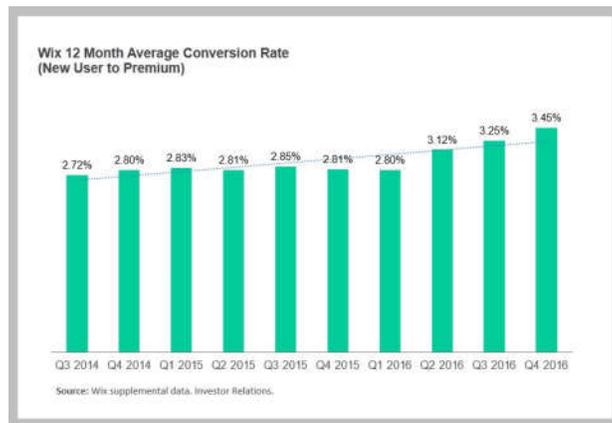
WIX has a ~\$7B market cap (~\$8.2B fully diluted), trades at ~7x sales and 85x EPS. EPS should not be the metric used to value the company at this stage of growth. Earnings are suppressed by high R&D and other upfront investments/expenses as the business scales. The top line is growing fast, and the business is expected to generate over one billion in revenue for the first time in revenue in 2020. Revenue grew 26% in 2019 and growth has compounded at an annual rate of ~50% over the last 5 years. The business has been FCF positive since 2015 (grew 23% Y/Y) and was profitable on a non-GAAP basis for the first time in 2018. Debt is low, cash is increasing. They remain in a flexible position to make small bolt-on acquisitions, having completed 6 since 2014 with the largest deal being ~\$35mm.



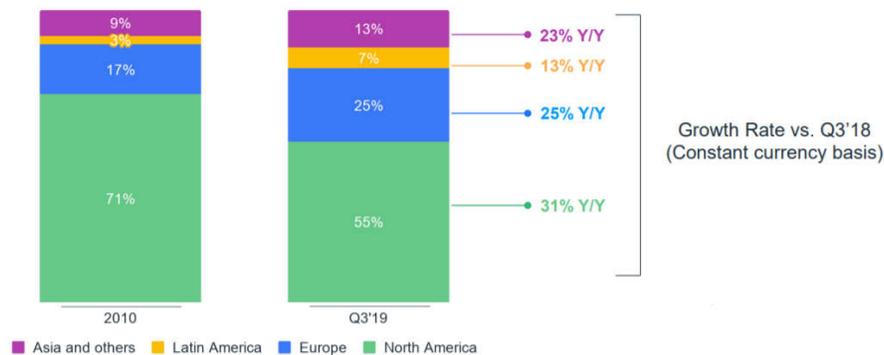
Looking at the EPS/Revenue estimate history, Wall Street got ahead of themselves on estimates for profitability which have come down significantly (50%) over the last 3 years. Estimates for revenue have been flat. Ultimately, higher revenue and EPS estimates will move the stock higher in the long term. We want to hear management excited about the future and see these estimates start to move up.



ARPU (Average Revenue Per User) has been steadily rising. Some of this increase is driven by price increases (lack of higher churn demonstrates pricing power) but it is largely driven by WIX simply giving customers more things to spend money on. There are infinite opportunities for incremental dollars (think in-app purchases) when it comes to domains, email inboxes, copyrights, etc.

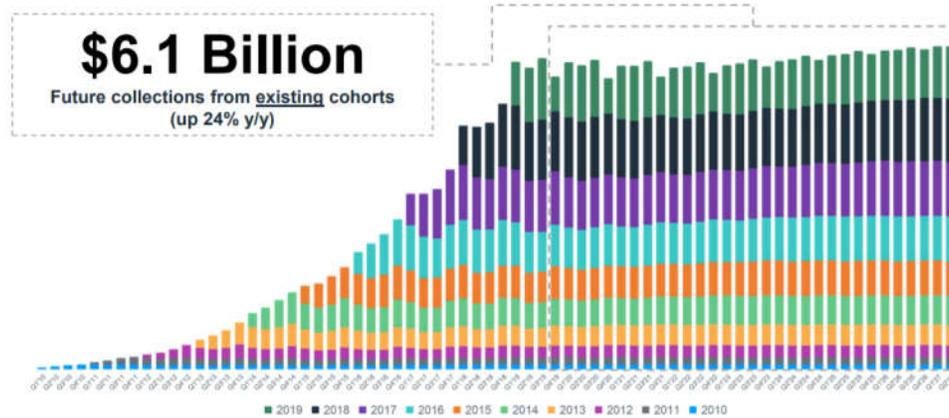


Gross margins are stable at ~82% over the last 5 years and EBITDA margins are improving. The company has a long-term target of 85% gross margins and 30%+ EBITDA margins. To see further margin expansion, we want to see improved conversion rates from new user to premium. It would imply that WIX continues to build a better mousetrap where they bring in customers, allow them to learn the system and a build a website... but then need to purchase the additional tools needed to manage their website or business. This in turn, drives ARPU. I couldn't find more recent information that 2016, but recent management comments imply that the trend is still strong.



Management continues to take logical steps to scale the business. They remain focused on the US where they are getting the best conversion rates:

*"We see higher conversion rates, we see higher prices or higher propensity to pay in the U.S. versus other markets. Consequently, that's caused us over the past couple of years to invest more in the U.S. I don't want to call out a lot of specific markets obviously for competitive reasons, but certainly, other English-speaking markets are strong and we continue to invest in those. We spoke about Japan earlier as a market that we view as strategic and also one with a lot of opportunity to grow. And I think you'll see us over the coming quarters and years start to do more of what we're seeing in Japan, start to do more of that in other markets as well" - CEO*



A partnership with WIX has the potential to be lifelong. Once you invest the time to create and build something like a website, the annual maintenance cost becomes nominal... you spend 500 hours building a website and writing 500 blog posts over a few years... A recession hits... You aren't just shutting down your website. It becomes like paying your utility bill. Stores and businesses come and go. Brands remains. The business is Sticky. You invest the time to learn the platform, your business becomes reliant on WIX to operate, it's a headache to switch. Hello HIGH SWITCHING COSTS. Leveraging past data on user retention and spend habits, WIX has high visibility into future revenue from existing users.



How do you now love this customer acquisition strategy!? Granted I hope this is automated, but it is an interesting approach and customers appreciate the engagement. WIX has reaffirmed commitment to efficient marketing which is hopefully reflected in near term profitability.

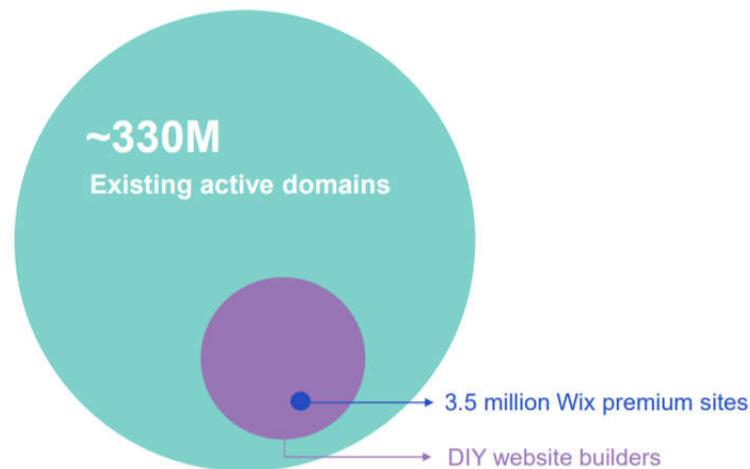
I also love the transparency and the level of information provided to investors... check out: <https://wixir.wixanswers.com/en/> I have never seen anything like this before on a company's investor relations page.

Video on growth model / margins - <https://wixir.wixanswers.com/en/article/long-term-model>

Video on What differentiates WIX? - <https://wixir.wixanswers.com/en/article/what-differentiates-wix>

Video on Defining TROI (how they measure marketing investment) - <https://wixir.wixanswers.com/en/article/defining-troi>

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The opportunity is massive. I am never a huge fan of the huge TAM numbers people throw around (or charts like the above) but I do believe WIX is well positioned ahead of competition and approaching scale in a growing market desperate for easy to use and inexpensive solutions.

### Recently added to BOFAML US 1 Top Pick List

Next earnings is Friday, February 14<sup>th</sup>.

Fiscal Year Ending Dec '19

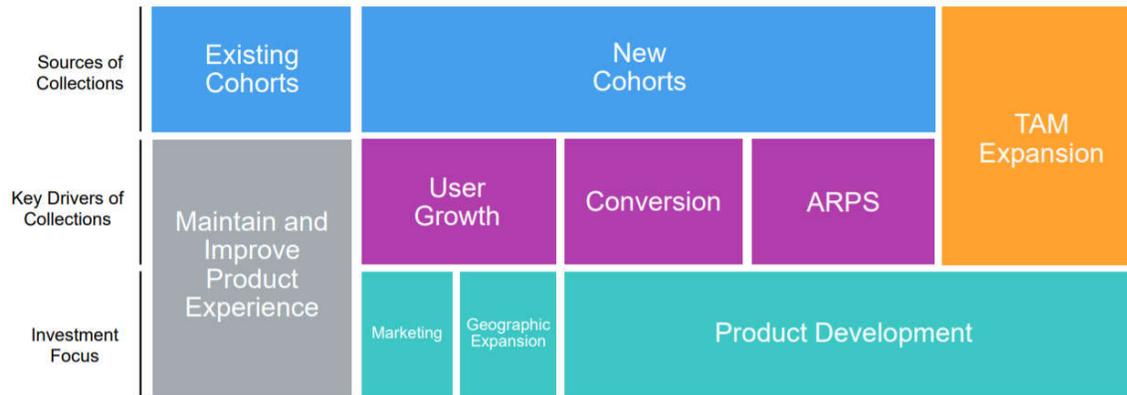
EPS Consensus <u>1.01</u>	Sales Consensus <u>762.17</u>	Sales Guidance <u>761.0 - 763.0</u>
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Last earnings Highlights:

- FX negative impact
- Revenue/Profitability slightly disappoints
- Subscription growth strong
- **Analyst Commentary:**
  - **JMP Securities** analyst Ronald Josey
    - Views the Q3 report as solid with results more or less in line with expectations but ahead when adjusting for **FX**
    - Acknowledges the concerns around gross margins contracting as newer add-on products like Payments are adopted but also believe these products can lead to a stickier subscriber base, higher LTVs and greater gross profit dollars overall
    - Believes subscriber net adds can accelerate in 2020, as newer products and distribution partners launch, potentially leading to upside to 2020 projections
    - Target is \$170 - based on 8x 2021E EV/revenue; maintains Outperform rating
  - **JPMorgan** analyst Sterling Auty - lowers target
    - Highlights net adds significantly beating estimates but notes that **FX** weighed on results
    - Notes that the upmarket shift is settling as net premium subscription adds come in well ahead of expectations
    - Highlights further transparency on Corvid
    - Target to \$149 from \$152 - based on 103% discount rate and a terminal multiple based on EV/FCFF of 12x; maintains Neutral rating
  - **RBC Capital Markets** analyst Zachary Schwartzman - lowers target
    - Views the report as mixed, as revenue and collections were below Street due to **FX** and a change in mix
    - Highlights premium subscriptions and ACPS and collections growth
    - Continues to view WIX as one of the best fundamental assets in Mid/Small Cap coverage galaxy, citing sustainable and high levels of product innovation and pricing power
    - Target to \$161 from \$166 - based on 8.5x P/S '21 revenue estimate and 48x P/FCF on '21 FCF estimate; maintains Outperform rating
  - **Barclays** analyst Deepak Mathivanan - lowers target
    - Views Q3 report as in-line but notes that gross margin de-levered more than expected and profitability was slightly below estimate
    - Are encouraged by signs of progress on key long-term initiatives, including payments in Q3
    - Headed in FY20, remains bullish on WIX's competitive position in the website builder space and opportunity to sustain strong top-line growth over the next few years
    - Target to \$145 from \$150 - based on; maintains Overweight rating

Check out RBC's comment... "one of the best fundamental assets in Mid/Small cap coverage galaxy, citing sustainable and high levels of product innovation and pricing power." A man after my heart.

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To conclude, management has a clear growth path and so far they have executed. It is no wonder they have smart money such as Baillie Gifford holding 5% of the share outstanding. WIX also represents a sizeable portion of Jack Dorsey's (TWTR/SQ) personal portfolio, if that means anything to you.

- Product excellence
- Powerful business model
- Growth and free cash flow
- Exciting growth opportunities

	Dec '15	Dec '16	Dec '17	Dec '18	Dec '19E	Dec '20E	Dec '21E
Price/Earnings (x)	-	-	-	84.4	121.5	114.7	67.4
PEG Ratio (x)	-	-	-	4.2	6.0	5.7	3.3
Price/Book Value (x)	-	-	-	32.7	32.9	32.3	23.8
Price/Tangible Book Value (x)	-	-	-	79.2	339.9	140.4	55.5
Price/Cash Flow (x)	42.0	47.4	36.3	45.0	49.6	44.4	35.5
Price/Free Cash Flow (x)	73.4	61.9	46.0	51.3	59.1	54.1	40.7
Price/Sales (x)	4.5	6.5	6.1	7.2	8.2	7.5	6.1
Enterprise Value/Sales (x)	3.8	5.9	5.6	6.6	7.7	7.1	5.8
Enterprise Value/EBITDA (x)	53.1	39.9	35.2	35.9	51.2	41.7	27.1
Enterprise Value/EBIT (x)	-	-	262.3	84.2	154.9	107.7	57.7
Enterprise Value/FCF (x)	54.6	47.0	33.8	39.1	46.1	42.0	31.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales/Share (x)	5.1	6.8	9.4	12.5	14.9	18.7	22.8
Return on Assets (ROA) (%)	-34.5	-21.9	-17.0	-4.4	-7.5	-5.4	-1.8
Return on Equity (ROE) (%)	-	-	-	38.8	27.1	28.2	35.4

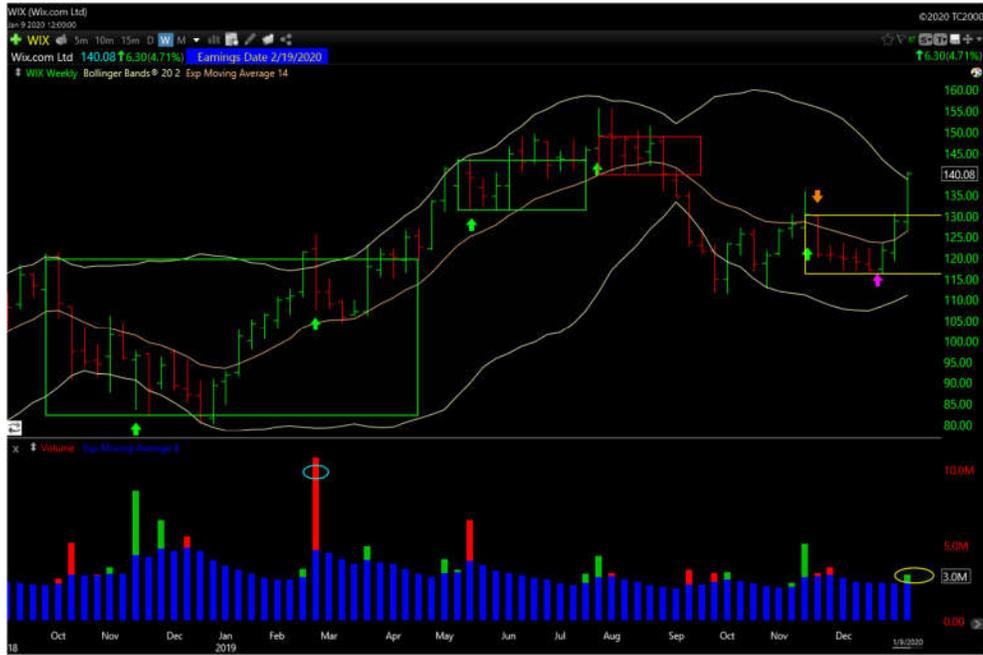
	Dec '15	Dec '16	Dec '17	Dec '18	Dec '19E	Dec '20E	Dec '21E	Dec '22E	Dec '23E	Dec '24E
EPS	-0.80	-0.35	-0.01	1.07	1.01	1.22	2.08	3.14	5.24	7.08
Growth (YoY%)	46.3	56.3	97.1	-	-5.9	21.5	70.3	50.7	66.7	35.1
EPS - GAAP	-1.30	-1.12	-1.24	-0.77	-1.59	-1.20	-0.50	0.89	2.72	4.53
EPS - Non GAAP	-0.80	-0.35	-0.01	1.07	1.01	1.22	2.08	3.14	5.24	7.08

As mentioned earlier, the stock is not cheap on an EPS basis. The ~7x sales is probably reasonable when compared to other software names (if not on the lower end, though not a pure SaaS play). There is about to be a swing to profitability, or so Wall Street thinks (remember their forward estimates from above... not a great track record). But if WIX can produce \$7+ of EPS in 2024, the stock is cheap (<20x '24). If WIX can surprise in the next few quarters and these estimates start to move even higher, the stock will respond accordingly and will likely get WIX on many new investors and traders' radar as it moves past ~\$10 billion market cap.

In terms of charts and price targets... as mentioned on my stream, WIX has doubled the last two times it tested and reclaimed the 50wma. I think that is optimistic considering the current valuation, but I also think the sub \$170 price targets are too conservative and that WIX will be back at ATH soon. I think \$200-210 in the next 12-18 months is well within reason. Would love to see continued strength in premium subscribers through February earnings with a guidance raise.

WIX looks to be flagging now after breaking out of recent resistance/box. If price firms up and buyers' step in, I am adding to my position. IF ~\$140 doesn't hold, I would be looking for 127-133 to hold.

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Source: StockCharts, FinViz, FactSet, WIX Investor Presentations, @ModifiedDarvasBox (StockTwits), Twitter

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