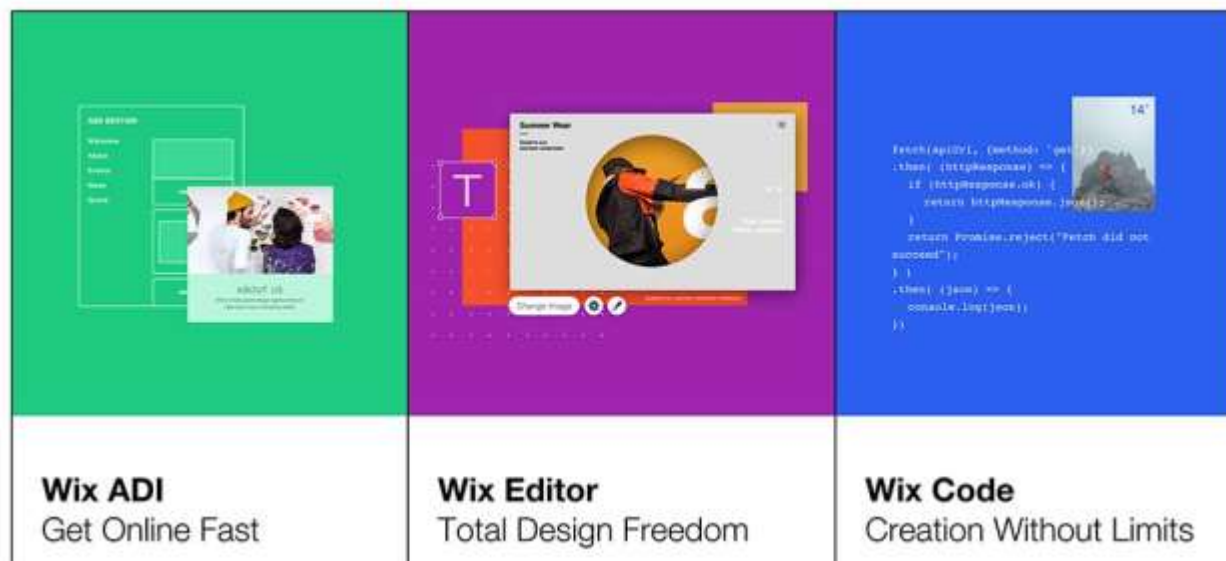


Wix.com (WIX): An Intricate Ecosystem Built Through Web Development and Improvement.

A fast growing website developer that gives that is looking to expand its value proposition to become the ultimate website servicer and developer

WIX: CUTTING OUT THE MIDDLE MAN DEVELOPER



(Source:Wix.com)

Wix.com is a subscription based site developer that allows users to build their own website without needing to know HTML or CSS.

In the era of do it yourself, Wix is extremely popular for the small and medium size business owners who want to create a full-fledged website that has all the bells and whistle needed to achieve its online presence.

While they were not the first ones to market a website developing service, they definitely seem to have one of the best brands. They currently have 154 million registered users and 4.3 million premium subscribers. Each segment grew 17%-18% year over year so there still seems to be more room to grow.

Yet according to a 2019 Visual Objects survey, around 40% of small businesses don't have a website.

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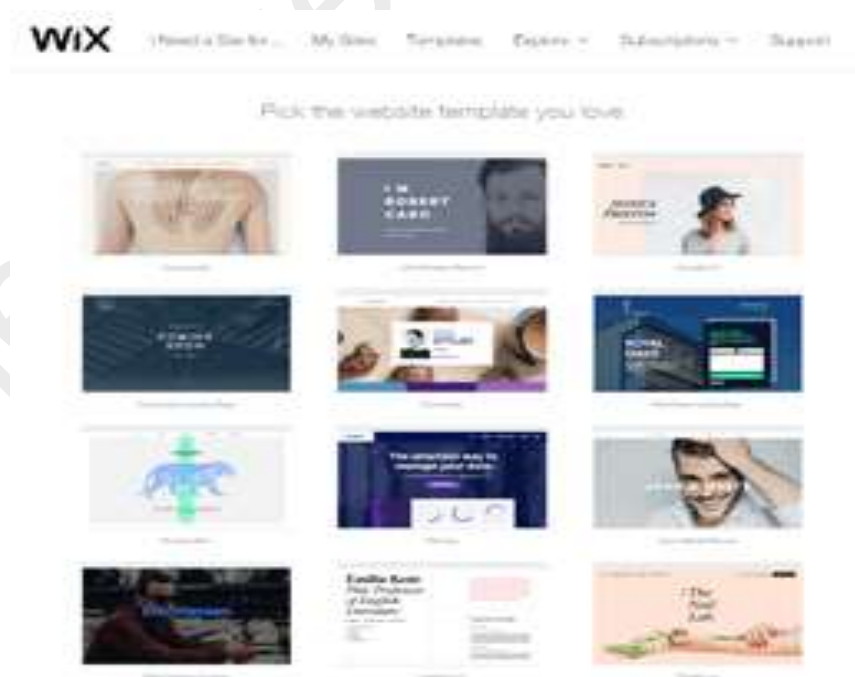
So even though acquiring all these users is great, Wix still has a much more if the market left to take

Initially before my research, Wix's brand to me was exactly like what I think everyone thinks it is. Wix essentially cut out the middle man developer by provided the necessary software and features needed to make a live website. After more digging into their business, I came away very impressed at how this company was not only able to scale their business but also optimize it for their customers and at the same time, charge for immense customization.

WIX: SITE DEVELOPER WITH A FEW ORE PERKS

For the past decade, the need to build a site has exploded, as more and more customers move to online shopping, rather than come to a store in person. A business not having a site can be an instant killer as far as effectively getting your brand and products to consumers directly.

Whether your site is one where goods will be sold on or a site that is more informational, Wix has templates that any user can choose from that best suits the look and feel, as well as the sections needed to achieve the customer's vision



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(Source: WePC.com)

For instance, if a customer's site is an ecommerce site, then Wix can create a template that has user creation page, the marketplace page, and the checkout page all already imbedded into the template. This is effective as it gives new users an easy path to success rather than have them think of everything that an ecommerce site would need to have in order to be successful. It's a huge time saver and as someone who has actually made a site on Wix, it was extremely useful in saving time.

After selecting the right template, I could get straight to designing the words, colors and picture layouts to fit my vision.

In addition to the template structure, WIX has also added AI to help customers create their website in the fastest amount of time.

Users will be asked a couple of questions regarding the goals and framework of the site and the AI can piece together a workable website off the bat. It's pretty creative and I was really impressed with a feature like this. I could see this being a big hit with customers who aren't tech savvy or would feel overwhelmed with all the page options. This makes it clear and easy to get to the point that customers really want a hand in, design.

For the most part, it's a really easy transition and one that should be straight forward for all types of users to operate in and make active adjustments fast.

However, there is another aspect of the product that I love even more than the design model. As users get more comfortable with their site, Wix has created a market place of applications strictly for the WIX website, that range from having more analytical power to more design and search engine optimization packages.

A basic website could be exactly what you're looking for, but if you want to grow and optimize the website to its fullest capacity, then WIX applications are just for you.

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(Source:Wix.com)

Just like any app store, there are entire collections of apps ranging from free to premium that can help any part of a business.

When going through their app market though, there are a couple of things that I wanted to note.

While there is a wide selection of free applications, a lot of them might as well be half applications as they give you the bare minimum of what is acceptable but they almost always have a premium upgrade option available. The upgrade includes a host of options and new features.

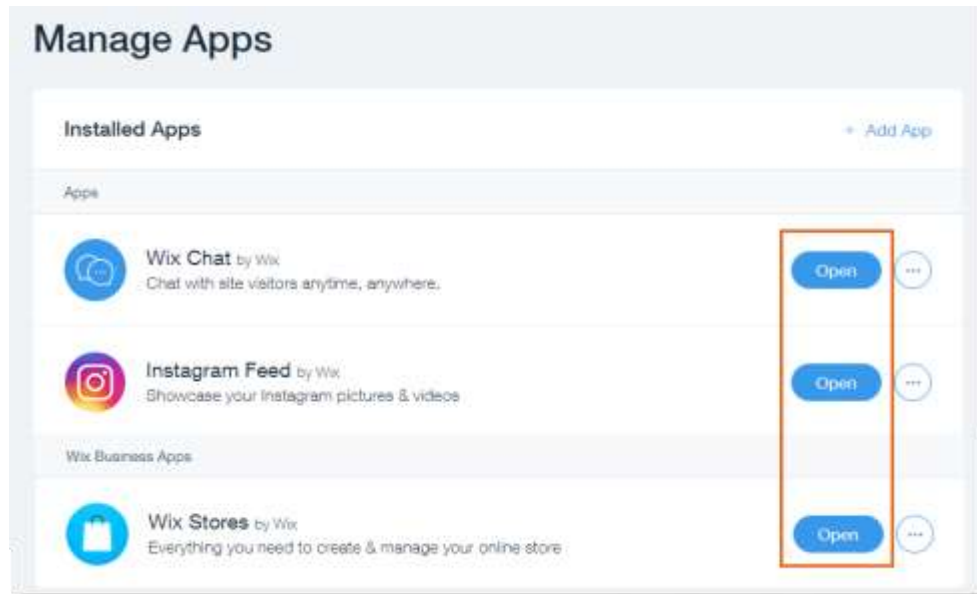
In my opinion, the key to having a market place thrive and ultimately become a core sticking solution for the customer's core product. There has to be a good amount of decent free content. If the free content is half baked, then I feel like the stickiness of the core service itself may be affected by this conclusion.

I could see many scenarios where customers get tired of having to constantly pay for more and more applications to optimize every little part of their business, but who knows. Customers could be that receptive, as the average amount of money spent on a site is around \$12,000.

If the Wix applications aren't something you want to get familiar with, Wix has also taken a step forward by partnering with companies like Google, Facebook, and many others to give customers more freedom by including familiar, well known technology.

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(Source: Wix.com)

WIX PAYMENTS: THE NEXT STAGE OF GROWTH

While Wix is already growing at double digit rates in their website development subscriptions, there is actually another portion of their business that is relatively new but could be a huge cash generator if executed right in the next couple of quarters.

The payments business is a great business to be in due to its high margins and relatively high pricing power ability.

The unique aspect about Wix is that I believe they have an enormous amount of pricing power potential. I personally believe that the increase of the single person business owner will continue to expand and websites generation as a result will be expand as every person who is creating content will need one.

So much so that I think even employers will appreciate if a candidate has a website developed about any specific topic of interest. Either way, the need to monetize on those sites will naturally increase with the gradual increase in users.

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According to the last earnings report, management stated that of the vast users that need some form of payment traction, the majority of the businesses choose WIX payments to be the facilitator.



(Source: Wix.com)

Keep in mind, the payment service is relatively new and isn't available to every customer. As the service gets smoothened out and is available to every customer, I'm willing to bet that initial registering users will likely choose to Wix payments to be their first line of payment system.

I also think payments could be receptive to free paying users who don't need much application power and are only willing to spend on necessities but that's a minor, long-long shot trend.

WIX'S AGENCY STRATEGY

As I said before, my initial thought when first thinking of WIX is a do it yourself type of business that eliminates the middle man. Well it turns out WIX also wants to work with the middle man.

For the customers who don't want to take the time to build out their website or figure out everything little thing it the site needs in order to be a great site, WIX has decided to focus attention on partnering with marketing and site developing agencies. The goal is to create a hybrid marketplace hub for customers to find skilled teams to help advise or entirely build out their website using Wix's platform.

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(Source:Wix.com)

To put it simply, I think it's a great strategy for a couple of reasons.

First, it adds legitimacy to the overall product brand. If professionals are willing to be trained to know all of WIX's capabilities, then surely there must be some real value that can be unlocked if you know what buttons to push.

Secondly, and I think this is most important, having professionals be knowledgeable about the product also means they are knowledgeable about the market place and its various applications.

I could see a scenario where a customer wants to really drive up traffic to their site and so they go to one of the partnered agencies for help. From there, they can do basic buildout improvements, but I believe the improvements that customers are really looking for are found within the market place.

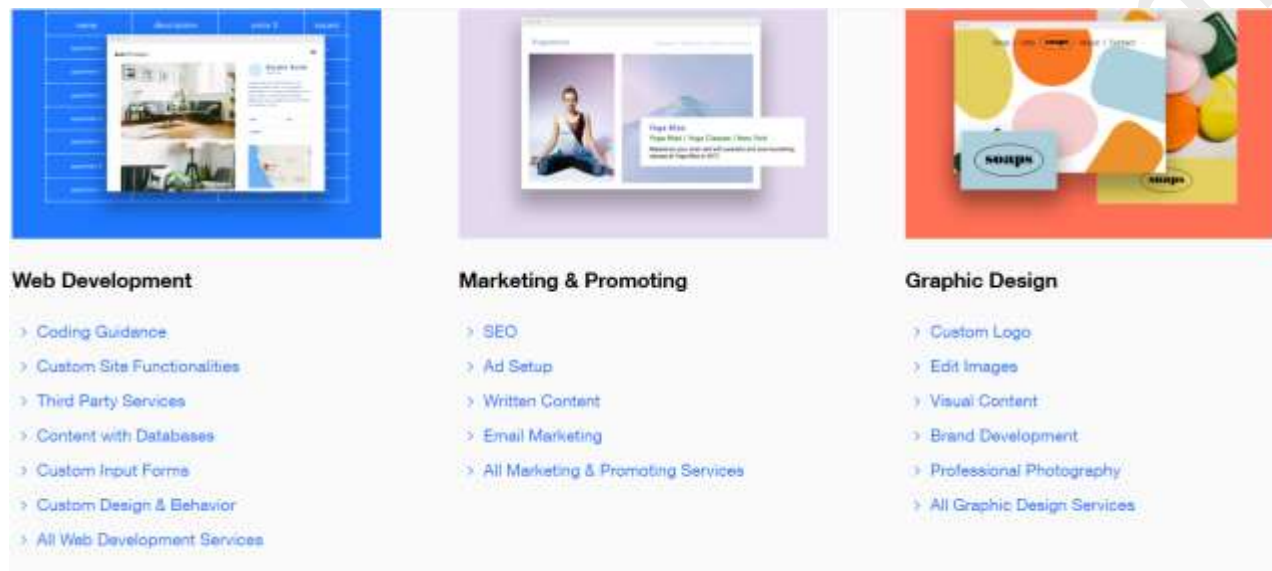
Applications for Search Engine Optimization and Analytics are a few things that I could see being recommended off the bat. Recommendations coming from professionals does more than just increase the average dollars spent per user but it also gives real legitimacy to the overall ecosystem of applications that WIX is running and currently developing.

The depth displayed for each agency is also pretty interesting. You can see the projects the agencies have worked. You can also read customer reviews and opinions of the agency.

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I could definitely see the benefit of working with WIX from an agency standpoint. It opens up an organized market that facilitates customers to the agencies primary skills. Every option is categorized for the customer's specific problems so that they can find the right help for their areas of need.



(Source:Wix.com)

After scouring through all of the agencies that can help you with any specific problem, I think WIX adds a level of stickiness that is stickier than the likes of Godaddy or Squarespace.

EVEN FOR A GROWTH COMPANY, WIX HAS A TON OF SOLID REVENUE STREAMS

The features I mentioned above are essentially all monetized and make up the core revenue streams of Wix. When looking at those streams individually, the company starts to look even more attractive from a growth perspective.

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The main bulk of the money is generated through subscriptions. Subscription packages differ by size of the user, whether is an individual looking to create a site or a fortune 500 company. Options for the larger companies consist of packages ranging from 500 dollars a month to as low as 23 dollars a month.

There are about 4 plans total and each differ in the amount of additional features they include such as google analytics or how many video hours you can put on the site.

In my opinion, the customer that WIX should be going after is the small business owner so for that, we will take a closer look at those plans.

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VIP First Priority Support	Pro Complete Online Branding	Unlimited Entrepreneurs & Freelancers	Combo For Personal Use
\$ 39 /month	\$ 22 /month	\$ 17 /month	\$ 13 /month
UNLIMITED Bandwidth	UNLIMITED Bandwidth	UNLIMITED Bandwidth	2GB Bandwidth
20GB Storage	20GB Storage	10GB Storage	3GB Storage
Connect Your Domain	Connect Your Domain	Connect Your Domain	Connect Your Domain
Remove Wix Ads	Remove Wix Ads	Remove Wix Ads	Remove Wix Ads
2 Video Hours	2 Video Hours	1 Video Hour	30 Video Minutes
Free Domain for 1 Year	Free Domain for 1 Year	Free Domain for 1 Year	Free Domain for 1 Year
\$300 Ad Vouchers	\$300 Ad Vouchers	\$300 Ad Vouchers	
Site Booster App - \$60 Value	Site Booster App - \$60 Value	Site Booster App - \$60 Value	
Visitor Analytics App - \$60 Value	Visitor Analytics App - \$60 Value	Visitor Analytics App - \$60 Value	

(Source:Wix.com)

Plans are fairly cheap initially and leave a lot more room for the customer to add additional applications to their site right from the start.

However, there are costs that are not inputted in that initial subscription cost. They mainly have to do with getting and registering a domain.

So while their business has a stable subscription model for their web design, they also make it mandatory to get a domain and register it to even go live on your site. This creates another steady revenue stream that is collected once initially as the domain name is purchased and then every years as the domain has to get renewed annually.

WIX previously had an option to go live without needing to formally register a domain but that option is long gone. For the site to be live, the customer has to purchase and register the domain, no exceptions.

WHY NOW COULD BE THE RIGHT TIME TO INVEST

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Wix has been killing it over the past year and is currently up over 26% YTD.

Though over the past quarter, there has been a pretty deep rotation out of growth stocks and into more value, dividend based equities. As a result, Wix has seen its share price go from \$155.75 to \$114 in 2 months.



(Source: stockrover.com)

In that time, there has been nothing regarding the company that can justify such an enormous drop in value.

The stock could have been seen as expensive at \$150ish but I am here to tell you that the company offers a pretty solid growth stock that across the board, it has parts of its business that are safe and consistent and other parts that are still growing at hyper speed.

For those reasons, I believe that once growth oriented start to regain popular favor amongst investors, Wix will be up there as one of the best performing growth stocks.

I currently believe that within the next year, WIX could be trading between \$150 and \$160

Current Valuation and Debt

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When it comes to determining the valuation of a company like WIX, it can get pretty challenging. As with all growth companies, the stock should trade at a premium valuation in relation to the growth the company is projected to have in the next couple of years.

Currently, WIX is trading at a P/E of 97, which is pretty high even for a growth stock. The good thing is that 97 is actually on the lower end of its 5 year P/E range, which stretches from 74 – 797.

WIX currently has great margins, which are sitting at above 77%. Normally I would be really excited to have this high of margins but this is actually their lowest gross margin percentage in 5 years. I wouldn't be too worried though as their expansion in technology and sales has really ramped up and so while those factors may have a negative effect on the gross margins short term, they can produce margin expansion in the long run. I will say that due to the nature of the business, I wouldn't expect their margins to be dampened for long. If I see two more quarters without gross margins yielding above 80%, then I will start to get worried. For now, I expect one more quarter of roughing it out and then I expect the investments to yield their returns in the latter half of next year.

The debt of the company I would describe as being something that could hinder the stock in the long run with investors but it's not scary now. For now with rates being so low, taking on debt is not seen as a bad sign and nor should it be.

Date	Net Income	Sales	EBITDA	Total Debt	Debt Per Share	Debt / Equity	Interest Coverage	Quick Ratio	Current Ratio
10/1/2019	-59	680	-34	407	\$8.10	2.4	-9.9	1.9	1.9
10/1/2018	-38	559	-26	334	\$6.89	2.5	-13.6	2.2	2.2
9/29/2017	-51	356	-38	1	\$0.03	1.6	-21.1	0.8	0.8
9/30/2016	-52	263	-44	5	\$0.12	-	-104.8	0.9	0.9
10/1/2015	-55	188	-47	5	\$0.13	-	-19.2	0.9	0.9
10/1/2014	-52	125	-50	5	\$0.13	0.2	-468.4	1.3	1.3

(Source: stockrover.com)

With WIX, they just started to acquire debt in 2017 and have since been raising it in order to fuel their expansion. They bought two companies that year and have since been a company with a fair amount of debt.

The good thing however is that their Cash – Debt and their Sales – Debt continue to be at decent levels and not to the point where you feel like they are getting reckless. For now, I'm in a wait and see mode to see how management deals with this rising debt.

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Growth and Estimates

The growth projections for Wix have been the key accelerator for this stocks performance over the last 2 years. Even as the company has gone from losing earnings to finally making positive earnings, the growth projections are still very good.

Current Year (12/2019)	Next Year (12/2020)
764.53M	962.89M
11	11
767.06M	989.29M
762.26M	938.00M
603.70M	764.53M
26.64%	25.95%

(Sales Est.)

Current Year (12/2019)	Next Year (12/2020)
0.96	1.39
8	11
1.02	1.26
1.15	1.73
0.83	0.86
1.07	0.96
-10.28%	45.41%

(Earnings Est.)

The revenue growth for Wix is expected to be top notch. At the same time, the company has finally turned the corner to make a profit.

The glaring pimple with the data would be the decline in earnings by 10% for 2019. Normally, I would take this a very negative sign, but the important thing to note is the degree to which they are expected to bounce back the following year.

In 2020, the earnings are expected to grow 45% the following year. Anything above 25% for a bounce back year means the company may have had an uptick in costs but its only short term. It's also a rule of mine that in a scenario where the earnings drop and then bounce back, the revenue needs to not dip or show signs of decline.

In the case of WIX, not only does the revenue stay strong but the growth projections for this year and next remain above 20%, which is exactly what you want to see from a high growth company.

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Wix has great forward guidance but the recent pullback in the stock may be caused by the decrease in earnings estimates for the year. Still, it will be important to see if management delivers on the quarterly estimates in order to achieve that year end 2020 goal of \$1.39 per share.

Cash flow and Investments

In my opinion, cash flow generation for a growth tech company is just as important as the sales growth. In regards to Wix having multiple low cost revenue streams, it's really important for the cash flow to affirm the ideas that being an online business with relatively low costs, there should be good to great cash flow generation. If not, then that's definitely a red flag.

Date	Cap Ex	Operating Cash Flow	Cap Ex as a % of Sales	Free Cash	ROIC	Return on Assets
10/1/2019	18	136	2.70%	17.30%	-11.30%	-5.90%
10/1/2018	16	105	2.90%	15.90%	-157.30%	-4.70%
9/29/2017	6	66	1.70%	16.90%	-2441.90%	-17.90%
9/30/2016	5	30	1.90%	9.70%	1663.20%	-27.40%
10/1/2015	7	12	3.90%	2.70%	-822.60%	-39.50%
10/1/2014	6	1	4.90%	-4.40%	-166.30%	-44.90%

(Source:stockrover.com)

Looking over the cash flow numbers, our assumptions are proven right.

While the capex did go up in 2017, the cash the increase in capex was able to generate was great. The only bad part about that was that the debt increased around the same time as well but at least it seems like it wasn't a bad investment.

Total Capex remains small, which is a small red flag. The interesting thing is that if they are able to generate so much cash on such little capex, then why take out all this debt?

Free cash flow % of sales remains decent at 17.30%. Once again, if they are a hyper growth company, why aren't they using their cash? I usually like to see the free cash flow % of sales between 20% and 25% for any growth company and that's the bare minimum.

The ROIC is negative but it has been in a very sharp upward trend for the past 5 years. Don't know exactly what to make of it but I'm going to go ahead and assume that an uptrend in ROIC is just as important as positive ROIC. Same goes for the ROA.

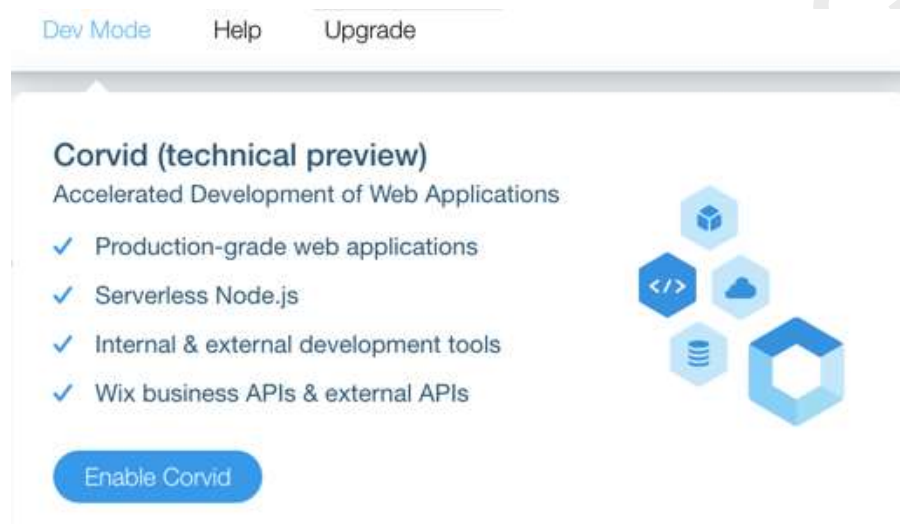
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Although management only took questions on the last earnings call, I was really happy with what I heard overall about their investment.

It seems like the plan is to invest in great technology and then leverage that into more expensive subscription packages and maybe even higher priced applications. Personally, I'm all for it if the technology can generate long-term value

Management made a big investment in Corvid, which seems to be the software that really sets Wix apart from its competitors. Corvid analyses user data can transform big data sets into visuals or increments for a website.



(Source: Wix.com)

It adds more serious layer in web development customization by allowing the utmost freedom in customization that I think will be especially popular among the bigger companies. It seemed to me like it's the type of technological investment that management thinks will really pay off in the long run.

In my opinion, a lot of their investments seem new, which is crazy considering they already have over 100 million registered users, but I don't think we have seen those investments fully matured yet, whether it's the investment in sales or software.

A good thing to note though is that their sales per employee is at an all-time high and has been consistently growing for the past 5 years, even as the employee base has expanded so that's a very good sign for Wix.

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Overall though, I'm not entirely impress with what they have done so far. I think that Wix is an interesting opportunity for someone to invest in an asset that seems to still be in the early stages of its cash and investment cycle.

THE VERDICT

Wix is an innovative company in a thriving industry that is thriving. The products and solutions in the website development industry are becoming more and more of a necessity for all types of businesses and even non businesses. The growth avenues that Wix has invested in seem to be very promising and the growth projections in the numbers show that. However, I still think there are some holes in regards to the debt and cash flow structure that leave me to question where this company should be fairly valued. It isn't the perfect investment in terms of what they have already provided but I still think their areas of growth are primed for explosion and have yet to be fairly calculated into the estimates. All in all, if you want a company with the best value proposition in the website development space, then take a look at what Wix is doing and I'm sure you will be impressed.

Specifics

Date: 10/2/19

Rating: Buy (Risk Level – Medium/High)

Current Price: \$114.08

6 Month Target: \$155

Buying Timeframe: Within the next 2 Quarters

Support and Breakout Price points:

Key Support at \$111

Breakout level above \$127

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