

Wix.com Ltd.

WIX

Analyst: Kyle Ritchie
Sector: Information Technology

BUY

Price Target: \$28.03

Key Statistics as of 10/10/15

Market Price:	\$20.24
Industry:	Information Technology
Market Cap:	\$768.40m
52-Week Range:	\$16.00 - \$28.63
Beta:	N/A

Thesis Points:

- Increasing Users/Subscription (Revenue)
- Product Differentiation
- Financials

Company Description:

Wix.com is a cloud-based web development company that provides business, organizations, professionals and individuals with the platform to create HTML5 web sites and mobile sites. The company offers a variety of web tools and application platforms to its users in order to accommodate to their specific needs. Wix is built on a “freemium” business model and earns its revenues through premium upgrades. These upgrades include the purchases of premium packages, the removal of Wix ads, the addition of e-commerce capabilities, extra data storage/bandwidth and much more.



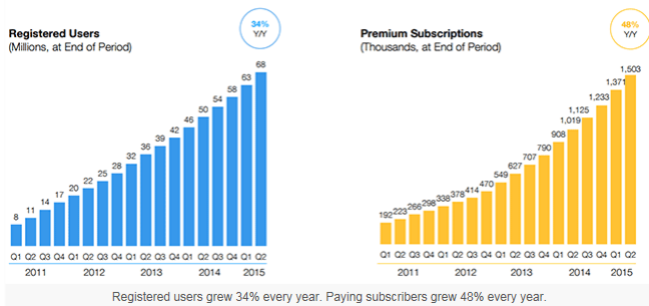
Thesis

Wix.com Inc. is a leading provider of web developing platforms to individuals, professionals and businesses. The company continues to improve its platform and the number of registered users which recently amounted to a 57.8% increase in revenue over the last year. Coupled with their ability to consistently attract new users, the company has been expanding their geographical presence through strategically chosen channels.

Increasing Users and Subscriptions

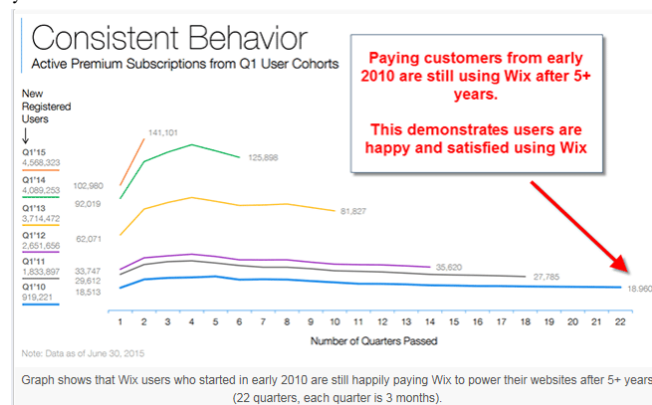
Wix.com was founded in 2006 by Avishai Abrahami, Nadav Abrahami, and Giora Kaplan. On November 5, 2013 the company had its initial public offering on Nasdaq raising about \$127 million. Since its IPO the company has been investing heavily in advertising and marketing along with research and development to expand its network. In the past twelve months, Wix's selling, general and administrative expenses accounted for 71.2% of its annual revenue while research and development accounted for 35.1% of its annual revenue. As you can see from the chart below, Wix has grown at a really fast pace over the years proving its ability to sustain growth. The key element of this company that allows them to consistently grow is their ability to

Users and Subscriptions



continuously improve their website builder. Wix's competitive advantage is the quality of the product that it offers. Wix's registered users do not have nor need the ability to write code to understand the application builder. The builder utilizes a simple drag and drop tool application for its users to add multiple features to their websites. The platform also includes multiple help tools that have received very satisfying reviews over the years. Wix's customer satisfaction is another key indicator of this company's level of success and sustainable future growth. The chart below illustrates the number of new

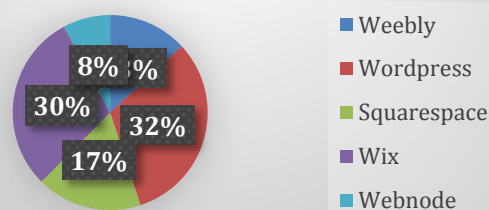
users along with the number of paying customers each year since 2010.



Product Differentiation

When comparing Wix to its competitors it is clear that they will soon be the leading platform for website designing. Unlike Wix, its competitors are all privately held companies. These companies include Webnode, Wordpress, Weebly, and Squarespace. Wordpress, a company that was founded three years prior to Wix, has an estimated total of 73,000,000 registered users. Wix currently has an estimated total of 68,000,000 registered users with an average of 45,000 new users joining every day. This figure demonstrates the substantial growth rate for Wix in comparison to its primary competitor. The chart below demonstrates the distribution of registered users in the aforementioned companies. The reason Wix's number of users and subscriptions

of Registered Users per Web-Builder



continues to increase is due to the popularity of the product it offers. As previously mentioned, Wix utilizes a "freemium" business model. The company offers free products and services to attract its customers before offering the premium upgrades. The free products that Wix offers include; Wix Editor, Wix Mobile, and Wix SEO Tool. Wix editor is the core foundation for Wix which is the basic web developer. Wix editor supports

twelve languages and allows users to maximize a digital presence with its new HTML5 technology. The editor also provides firewall protection to prevent internet hacks and malware. Wix Mobile allows users to create mobile sites for their existing Wix websites. The company recently launched a new Sonic Mobile technology which drastically speeds up the load time of a user's mobile site. The company currently has 9.3 million mobile sites published. CEO Avishai reported that the company's next big step is helping its small business customers who have created mobile sites register on Apple's store. There is a substantial amount of potential revenue that can be generated for Wix through the App Store. The Wix SEO Tool dramatically helps its users gain recognition on the web. The SEO Tool is the attachment of a description or set of key words that best relates to a customer's site in order to be found more easily through Internet search engines. The premium subscriptions is the primary source of how Wix generates its revenue while also creating tremendous value for its customers. These premiums include, Connect Your Domain, Google Analytics, Ads Free, Add Favicon, and VIP Services. Connect Your Domain allows its users to connect their own domain name to their website, meaning the Wix domain name will not show up. Google Analytics is a data collector which is an application provided for its users that tracks the number of people that visit their site, the geographic location of their visitors, and the length of time the visitors were on the website. This feature helps small businesses collect and utilize data for their own marketing purposes. Ads Free is the removal of Wix advertisements. Add Favicon allows users to change the Icon that appears next to the user's page address and bookmark to enhance the professional degree for its users. VIP Services provides timely support from Wix's specialists along with feedback and recommendations via the professional site review service. The constant improvement of Wix Editor along with the innovative features that are offered is what separates Wix from its competitors.

Financials

After thoroughly analyzing the financial figures of Wix.com Inc. it is clear that this company is undervalued.

This company relies heavily on its revenue growth which will only continue to increase as the company's network expands. In the second quarter of 2015 the company reported an additional 5 million users which was the largest addition per quarter in the company's history. In the same quarter, Wix also added 132,000 subscriptions which was a 48% increase in the respective quarter last year. Six earnings reports ago the CFO stated, "Our target was to be profitable in 2016." In the second quarter of 2015, Wix generated \$3.5 million in positive EBITDA and \$3.4 million in Free Cash Flow illustrating how they have already achieved this goal. The company's total debt to total equity is .1 proving its credibility and solvency. In 2015, Wix's ROIC is 10.4% and its WACC is 7.95% demonstrating that the company is creating value. In my analysis I have adjusted the risk premium from 5.5% to 6.2% based on the various geographical segments that produced revenue. On an annual basis, 50% of revenue comes from the US, 27% from Europe, 12% from Asia, and 11% from Latin America.

Conclusion

I am recommending a buy on Wix.com Inc. because of its increasing revenue, sustainable growth and management's long-term outlook. Wix offers a platform that has been utilized by individuals, professionals and businesses across the globe. The company attracts its customers with a free website builder and then provides multiple premium options for its customers to improve their own business operations. There is a major opportunity for this company given the technological trend. Helping small businesses expand by having a digital presence is the ultimate value of the product that Wix has to offer. Profitability for this company should start to increase as management's strategic investments begin to pay off in the future. I am confident Wix's share price will increase in the upcoming months.

CENTER FOR GLOBAL FINANCIAL STUDIES
Wix.com Ltd. **wix** **Analyst Kyle Ritchie** **Current Price \$20.00** **Intrinsic Value \$25.60** **Target Value \$28.03** **Dividend 0%** **1-y Return: 40.66%** **BULLISH**

General Info		Peers	Market Cap.	Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Sector	Information Technology	Shopify Inc.	\$3,041.67	Abrshami, Avishai	Co-Founder, Chairman and Chief Exec	\$0	\$0	\$341,000
Industry	Internet Software and Services	Care.com, Inc.	\$175.02	Zohar, Nir	President and Chief Operating Officer	\$0	\$0	\$320,000
Last Guidance	August 5, 2015			Kaplan, Giora	Co-Founder, Chief Technology Office	\$0	\$0	\$329,000
Next earnings date	NM			Shemesh, Menashe	Chief Financial Officer	\$0	\$0	\$296,000
		Amazon.com, Inc.	\$253,470.76	Shai, Omer	Chief Marketing Officer	\$0	\$0	\$299,000
		Bridgeline Digital, Inc.	\$5.68	Abrshami, Nadav	Co-Founder and Vice President of Cll	\$0	\$0	\$0
		VeriSign, Inc.	\$8,459.77					
		Web.com Group, Inc.	\$1,168.64					
		Synacor, Inc.	\$40.98					
		Brightcove Inc.	\$175.94					
Market Data		Current Capital Structure		Past Earnings Surprises				
Enterprise value	\$701.63	Total debt/Common Equity (LTM)	0.10	Revenue		EBITDA	Norm. EPS	Standard Error of "Surprise"
Market Capitalization	\$793.89	Cost of Borrowing (LTM)	0.00%	Last Quarter	-0.04%	114.72%	NM	57.38%
Daily volume	0.24	Estimated Cost of new Borrowing	2.53%	Last Quarter-1	-0.45%	NM	NM	NM
Shares outstanding	39.69	Altman's Z	1.53	Last Quarter -2	4.47%	NM	NM	NM
Diluted shares outstanding	38.50	Estimated Debt Rating	AAA	Last Quarter -3	5.19%	NM	NM	NM
% shares held by institution	41.25%	Current levered Beta	0.92	Last Quarter -4	6.56%	NM	NM	NM
% shares held by insiders	2.16%	LTM WACC	8.00%	Standard error	1.4%	NM	NM	18.63%
Short interest	2.33%			Standard Error of Revenues prediction	1.4%			
Days to cover short interest	3.13			Imputed Standard Error of Op. Cost pr	NM			
52 week high	\$28.22			Imputed Standard Error of Op. Cost pr	NM			
52-week low	\$16.00							
5y Beta	0.00							
6-month volatility	46.52%							

Average Assumption		General Assumptions		Items' Forecast Assumptions			Other Assumptions	
All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years		Money market rate (as of today)	0.19%	Base year (LTM)		Convergence period (Sub-industry adjustment per year)		Tobin's Q
		Risk-Free rate (long term estimate)	2.88%	Operating Cash/Rev.	53.58%	6.39%	-4.7%	Excess cash reinvestment
		Annual increase (decrease) in interest rates	0.1%	NW/Rev.	-4.23%	4.07%	0.8%	Money market rate
		Marginal Tax Rate	31.0%	NPPE/Rev.	5.23%	18.62%	1.3%	Other claims on the firm's assets
		Country Risk Premium	6.2%	Dpr/NPPE	41.44%	35.51%	-0.6%	
				MOPAT MARGIN	14.47%	18.05%	0.4%	Capitalization
Forecast Year	Revenue Growth Forecast	Revenue (\$) Forecast	Op. Exp./Rev.	121.09%	72.24%	-4.3%	100% of all rent expenses are capitalized and amortized 'straightline' over 10 years	50% of all R&D expenses are capitalized and amortized 'straightline' over 10 years
LTM		\$172.17	SBC/Rev.	8.94%	3.30%	-0.6%	E&P expenses are not capitalized	50% of all SG&A expenses are capitalized and amortized 'straightline' over 10 years
FY2015	17.7%	\$204.70	Rent Exp./Rev.	2.96%	3.71%	0.1%		
FY2016	33.7%	\$276.43	R&D/Rev.	35.08%	11.20%	-2.4%	Valuation Focus	
FY2017	26.0%	\$351.76	E&D/Rev.	0.00%	0.00%	0.0%	DCF Valuation	100%
FY2018	26.0%	\$447.68	SG&A/Rev.	71.24%	34.42%	-3.7%	Relative valuation	0%
FY2019	21.3%	\$548.46	ROC	6%	13.88%	0.75%	Distress Valuation	0%
FY2020	12.1%	\$621.25	EV/Rev.	4.81x	2.57x	-0.22x		
FY2021	7.6%	\$674.99	EV/EBITDA	102.98x	3.81x	-3.32x	Monte Carlo Simulation Assumptions	
FY2022	5.3%	\$717.79	Debt/Equity	10%	45%	3.5%	Revenue Growth deviation	Normal (0.01%, 1%)
FY2023	4.1%	\$755.00	Unlevered beta	0.87	1.22	0.04	Operating expense deviation	Normal (0%, 1%)
FY2024	3.6%	\$783.79	Cost of Borrowing	4%	6%	0.3%	Continuing Period growth	Triangular (5.335%, 6.2%, 5.665%)
Continuing Period	3.0%	\$821.62	Dividends/REV	0%	7%	0.7%	Country risk premium	Triangular (2.91%, 3%, 3.09%)
							Intrinsic value of (€)	\$0.09
							1-year target price of (€)	\$0.10

Forecast Year		ROC	WACC	Total Capital	Enterprise Value	Claims on Assets and Dilution	Shares Outstanding	Price per Share	Monte Carlo Simulation Results
LTM	6.4%	8.0%	\$429.08	\$1,211.64	\$23.14	39.69	\$25.31		
FY2015	10.3%	8.0%	\$484.65	\$1,291.92	\$25.55	39.69	\$27.33		
FY2016	12.9%	8.1%	\$618.06	\$1,486.00	\$31.70	39.69	\$30.95		
FY2017	13.5%	8.2%	\$746.46	\$1,652.89	\$37.07	39.69	\$34.26		
FY2018	14.9%	8.3%	\$893.30	\$1,853.88	\$43.18	39.69	\$37.85		
FY2019	15.8%	8.5%	\$1,039.61	\$2,013.31	\$46.33	39.69	\$39.88		
FY2020	16.1%	8.6%	\$1,107.20	\$2,103.93	\$47.64	39.69	\$40.99		
FY2021	17.1%	8.8%	\$1,126.52	\$2,116.44	\$46.51	39.69	\$40.76		
FY2022	18.6%	9.0%	\$1,139.03	\$2,129.31	\$43.86	39.69	\$40.75		
FY2023	20.0%	9.2%	\$1,163.90	\$2,121.91	\$0.00	39.69	\$40.75		
FY2024	21.2%	9.4%	\$1,185.34	\$2,103.45	\$0.00	39.69	\$41.32		
Continuing Period	19.3%	9.4%	\$1,068.50						

The 3σ(t)-adjusted intrinsic value is \$25.55; the 3σ(t)-adjusted target price is \$28.13; and the analysts' median target price is \$30.7

Sensitivity Analysis
 Revenue growth variations account for 95.9% of total variance
 Risk premium's variations account for 2.5% of total variance
 Operating expenses' variations account for 1.4% of total variance
 Continuing period growth variations account for 0.2% of total variance