

Wix.com First Quarter 2019 Results Conference Call
May 16, 2019

Operator

Good day. My name is Paul, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Wix.com 2019 First Quarter Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. To ask a question, you may press star (*), then one (1) on a touchtone phone. To withdraw your question, please press star (*), then two (2). Please note this event is being recorded.

I would now like to turn the conference over to Ms. Maggie O'Donnell, Director of Investor Relations. Please go ahead.

Maggie O'Donnell

Good morning, everyone, and welcome to Wix's first quarter of 2019 earnings call. Joining me today to discuss our results are Avishai Abrahami, CEO and Co-Founder; Nir Zohar, President and COO; and Lior Shemesh, CFO.

During this call we may make forward-looking statements and these statements are based on current expectations and assumptions. Please consider the risk factors included in our press release and most recent Form 20-F that could cause our actual results to differ materially from these forward-looking statements. We do not undertake any obligation to update these forward-looking statements. In addition, we will comment on non-GAAP financial results. You can find all reconciliations between our GAAP and non-GAAP results in our press release, presentation slides, and shareholder update, as well as our Interactive Analyst Center on the Investor Relations section of our website, investors.wix.com.

Now, I will hand it over to Avishai Abrahami, who is going to say a couple of quick words about the quarter. Avishai?

Avishai Abrahami

Hi. Good morning. We had a fantastic start to the year. Both collection and revenues exceeded our previous guidance. This result shows a strong start to 2019, and we are raising our full-year collection and revenue guidance to reflect our continued excitement for the year.

As CEO, I always think about where we are and what worked for us in the past and, most importantly, where we are going. We have over 150 million users, over 4 million subscriptions, and nearly \$800 million of cash on our balance sheet. We are quickly approaching \$1 billion in annual collections. And, now I'm spending my time thinking about how to build Wix into a company with \$10 billion of annual collections. Our strategy is to focus on products. We are really good at building and releasing new products with very strong marketing support. Innovations such as our Editor, Wix ADI, and vertical applications have made Wix the best platform for do-it-yourself websites in the world. We are evolving into new markets and attracting new type of customers with products like Wix Logo Maker, Wix Payments, Wix Answers, Ascend, and Corvid. This evolution of products and marketing provide us with multiple layers of growth for many years to come.

And, today I want to share with you another layer of growth that we have uncovered. We told you in February that we increased our investment in customer solutions. This investment allowed us to

gather data comparing problem-solving support to a new personalized customer service approach. What we discovered was outstanding. Our analysis showed that the conversion of users who engage with our personalized support was multiple times higher than regular conversion on Wix. This is so compelling that we have decided to invest an additional \$15 million in 2019 to build the infrastructure and increase our customer solution organization globally. We believe this is a huge opportunity that will provide additional year-over-year growth of at least 5% in collections in 2020, which is an estimated 3x return on this investment, and I believe it can yield even better returns for years to come. To be clear, our focus will continue to be innovation and development of amazing products, but we now hope to have amazing personalized support alongside it.

We will share more about this opportunity in our material and in the Q&A. Thank you for joining us today. Maggie?

Maggie O'Donnell

Thanks, Avishai. Everyone, please limit yourself to one question so that everyone gets a chance to ask a question. Can we have the first question please?

QUESTIONS AND ANSWERS

Operator

And, our first question today comes from Ron Josey with JMP Securities. Please go ahead.

Ron Josey

Great. Thanks for taking the question. Avishai, I just wanted to touch on your – or ask questions around the customer solutions investment. You talked about the incremental \$15 million. Can you just talk about exactly what you saw in the quarter? You talked about higher conversion, but maybe talk to us about how – what changed in your interaction and what changed in the data that allowed you to see that higher conversion? Because I think you've always had customer service in the States before and what determined – what led to that determination to spend the additional \$15 million? And, then bigger picture, as you invest more in customer service in addition to the investments you talked about coming out of – going into 2019, it's different than typical product investment. So, wondering, Lior, if this impacts maybe your longer-term free cash flow margins or no, given the expected return you talked about? So, customer service, why now? And margin profile. Thank you.

Avishai Abrahami

Of course. So, maybe I'll start with the why now. And, I think the answer to that is last quarter, we told you that we were going to increase our customer support which allowed us to run a few experiments. This was one of them. And, for this experiment, we've seen that the data was just fantastic, and we've seen much higher conversion, much better utilization of products, and better customer satisfaction overall.

So, we feel very confident about the data and that's why we decided to do it now. In terms of – as we add more products, there are more possibilities of what you as a customer can do on Wix, right? But, more product means also that you have to spend more time researching and understanding all the different possibilities and how to work to get it. And, then helping our customers understand everything they can do, we've seen increased conversion, of course, increased ARPU, and increased satisfaction. So, that would be the philosophy behind it, and we hope to continue doing that going forward. In terms of cash flow, you want to answer that, Lior?

Lior Shemesh

Yes. So, looking at the 2018 profitability, we are at about 15% of free cash flow out of collection. Last quarter, we reported about – incremental investments of about \$15 million, the same growth for this quarter. So, that leads us to the same 15% profitability also for 2019 post those investments. I think that it's a good opportunity also to talk about the overall model of Wix and obviously about the long term. The way that we actually think about it is basically to take the 4% of leverage that we had between the years and invest it back on our business. I think that we had an amazing track record of doing so and delivering high growth and also a great ROI.

Now, looking forward, I think that we always look at the combination between our profitability between free cash flow to growth. And every time that we can manage and we have an opportunity to invest in growth and to deliver more cash in the future, we obviously should do so. We are a hypergrowth company and we would like to stay as a hypergrowth company. So, I think that it's important to look at the combination and not just about the free cash flow. But, the good news is that we are very confident that with those investments we will be able to generate better ROI in the future, and we feel very excited about it.

Ron Josey

Thank you.

Maggie O'Donnell

Great. Thanks, Ron. Can we have the next question please?

Operator

And, our next question comes from Ygal Arounian with Wedbush Securities. Please go ahead.

Ygal Arounian

Hi, guys. Thanks so much for taking my question. So, maybe first, I'll just ask on ARPS, it was flat quarter-over-quarter. And, you noted in the investor letter that increased pricing and adoption of products haven't really led to an impact on revenue yet. Can you just explain the dynamics of that and why we're seeing that? And, when we could expect to see that?

Lior Shemesh

Hi, Ygal. This is Lior. So, yes, sure. I think that there's two ways to look at the average revenue per subscription. One way is obviously to calculate it through the revenue and this is one of the graphs that we show that, as you mentioned, it's flat because it takes time until it's actually kicking into our revenue. And, this is what what we wanted to do -- and we also provided it last quarter, we also provided this quarter – is the average collection per new user coming, for example, in the U.S., where then you can actually have a pure understanding of how much people are paying right now and talking about the new code. And, as you can see, it is up about 25%. Actually, it continued to increase from last quarter. And, obviously, that will kick in also into the revenue, but it will take some more time. So, overall, we see the increase in ARPU and it is according to our expectations, even a bit higher than what we've expected last quarter.

Ygal Arounian

Great, thanks. And, maybe just one quick follow-up on Ron's question on investment. So, I clearly understand the business is growing and it makes sense to invest into it, but this is the second quarter in a row of incremental investment. Maybe caught some investors by surprise. And, think about –

how we should think about the cash flow and investment profile and all that? Can you just help investors frame how you think about incremental investments, and how we should be thinking about it going forward? Thanks so much.

Lior Shemesh

Sure. So, I think that for every new investment that we are doing, obviously, we are doing many, many tests to try to understand how much we should invest and what is the ROI. By the way, very similar when you do an M&A. Usually, Wix – if you look at the history, back on the history, the entire growth was driven through investments in our own products, in our own technology, rather than M&A. There are other companies that, for example, increase the top line and the growth through M&A, which I believe that it's even much, much more risky. So, this is the way that we evaluate the investment. We try to understand exactly what is the opportunity, what is ROI that we can get, and we mentioned that it's about 3x, based on our understanding and analysis.

It doesn't change the long-term model, but what it's going to do is actually going to accelerate growth in the coming few years, where we are going to see a positive ROI out of this investment. So, the way to look at it is basically to conduct tests, to look at the ROI, to try to assume exactly where we are, and then to obviously to have a record. And, I think that we have a very good history to show that.

Maggie O'Donnell

Great. Thanks, Ygal. Can we have the next question please?

Operator

And, our next question comes from Deepak Mathivanan with Barclays. Please go ahead.

Deepak Mathivanan

Hi, guys. Thanks for taking the questions. The first one, the 180,000 net adds was better than what we had expected. And, it sounds like the conversion trends are improving continuously. Is your expectation for full year still in the ballpark of 550,000? And then, a quick one on the incremental investments driving 5% of the collections. Is that something that you plan to achieve with the current \$500 per month package? What else do we need to do here? I mean, is this an effort aimed at moving further or how should we think about the operational efforts involved beyond just the financial investments? Thank you.

Nir Zohar

Hi, Deepak. It's Nir. I'll start off, I think, with your first part around the 180K. So, I think indeed that was ahead of the expectations and, obviously, we were very happy about it. You have to remember that traditionally Q1 is a very strong quarter seasonally and it was so also this year, which is, in large part, what we've seen around the growth in the additional subscriptions. It also ties up very directly to our beats in collections in this quarter. In terms of the full-year expectations, Lior, do you want to comment on that?

Lior Shemesh

Yes, sure. So, last quarter, we told you guys about the evolution of our model, which is where we eliminated the Connect Domain package. And, we are not just looking about net premium additions. We're actually looking at the combination of ARPU, of retention, of many other things, but primarily what we want to do is to optimize the cohort value, the lifetime value of the cohort. And, this is

something that right now is the most important for us and this is part of the evolution and also connected to the new products and so on. So, the KPI of just about net premium additions is not the most important one, and this is why we don't guide for it. We gave it last quarter just in order to demonstrate the performance or the evolution of our model. So, in the past, we've made a lot of tests to pricing. I believe that in the future we will continue to do many, many pricing tests. By the way, as we speak, there are a few tests that's running over our pricing to try to determine what is the best value of our cohort. So, if we do more changes, obviously, it will impact the net premium additions in the future. So, this is something that we need to take into account.

Yes, and with regard to the second question about the investment. So, Deepak, the 5% is totally, totally attributed to the new investment. It's nothing to do with the enterprise or with any other opportunity. Obviously, if that happened, so it can be another upside to the model. But it's just taking into account based on our initial analysis, the return over the investments of the \$15 million in our support organization.

Maggie O'Donnell

Great. Thanks, Deepak. Can we have the next question please?

Operator

And, our next question comes from Lloyd Walmsley with Deutsche Bank. Please go ahead.

Seth Gilbert

Thanks for the question. This is Seth on for Lloyd. I'm just wondering if you could talk about how the tests of customer solutions have gone in terms of upsales versus retention. Are you finding the team able to drive more than – are you finding the team able to drive more attach of additional products? And, then also ARPS has increased nicely in the U.S., and you gave the stat of 25% year-over-year. Can you help us better understand the key drivers of the increase and how it stacks up to 25%? How would you rank order price increases, vertical applications, Ascend, and maybe any other new products? Thank you.

Avishai Abrahami

So, I believe the question was about what do we see from the personalized support. Do we see more customers, upsales, or do we see a better conversion? And, the answer for that is, as we wrote, it's better conversion. We do see that customers are using more products, but I think the big emphasis is on better conversion. We are also seeing much higher customer satisfaction. So, all three of those together for us are – it's a very strong signal that this is a much better approach and this is why we are so – we're feeling so secure in our decision to follow that and do the additional investment.

Lior, you want to take the second question, which is ARPS versus average collection per sub?

Lior Shemesh

Yes, of course. So, with regard to the 25% that we've seen in the last couple of quarters, so most of it is actually coming from the evolution of our model, the way that we described it last quarter, eliminating the Connect Domain packages and changing the pricing. So, obviously, that is the result that we expected to have. I think that it was also a bit better than what we expected initially last quarter. We also have some contribution of what we see for more people buying those business packages like, for example, all kinds of online and e-commerce and other verticals and it's going so well. And, it's also part of the evolution of our customers, where their business evolve and getting

better and better and they, obviously, are buying more and more services like G Suite, for example. I believe that this trend will continue also in the future, and this is something that is very exciting for us.

Maggie O'Donnell

Great. Thank you, Seth. And I apologize again. Can we have the next question please?

Operator

And, our next question comes from Brent Thill with Jefferies. Please go ahead.

Brent Thill

Thanks. Good growth in the U.S., but I'm just curious – there are some questions around Asia and Latin America showing some pretty big slowdowns. Is anything going on there other than macro that you're seeing?

Avishai Abrahami

I think that – obviously, you know, Brazil, with the election, which was very tense. And, Asia, a lot of different events. Had some, but I think a lot of it is behind us. The other part of it is that you have to remember we always launch our products first in English and then translate them and move them to other locations. So, I think that also contributed for that. But, as you can see that – I think that the products already proven themselves in the U.S., which is the harder territory. So, I'm feeling very confident about that the rest of the world will catch up. Again, assuming that the macro will get better.

Brent Thill

Thank you.

Maggie O'Donnell

Great. Thanks, Brent. Can we have the next question please?

Operator

And, our next question comes from Jason Helfstein with Oppenheimer. Please go ahead.

Jason Helfstein

Just first question on your initiatives around getting into agencies, can you give us an update on how that's going? I think the impact financially would be more next year, but if you can give us some kind of progress there? And, then secondly, just a follow-up on the questions around the pricing increase. How are you thinking about churn in your guidance for the rest of the year relative to the pricing increase as you're kind of modeling you have for collections? Thanks.

Avishai Abrahami

So, in terms of the agencies, as you know, we started that last year. We've been growing that in the first quarter. We're seeing really good results there. We have a few tens of thousands of agencies that we work with now on different levels. And, we can definitely see that working closely with them improves our understanding of them, improves their understanding of what they can do with Wix, with Corvid, and, of course, drive better results financially and in terms of growth. So, we are very happy with the initiative. And, agencies for us are always the best kind of customers because they are not just building one website, they're building many.

Lior, you want to take the second question?

Lior Shemesh

Yes. So, obviously, Jason, before we made those price changes, we had so many tests to try to understand exactly what is the impact of retention and so on. And, so there is no change. Actually, when I provide the guidance for this quarter, there is no change in terms of the metrics of the churn. And, it is really the same as last quarter and the quarter before. So, I didn't change anything with regard to my model.

Maggie O'Donnell

Great. Thanks, Jason. Can we have the next question please?

Operator

And, our next question comes from Nat Schindler with Bank of America Merrill Lynch. Please go ahead.

Nat Schindler

Hi, guys. A couple of quick questions. One, help me frame that 3x return on the \$15 million in spend in 2020. This is customer solutions, so this is largely people. So, I assume then, in 2020, that \$15 million is at least an incremental \$20 million next year if you're doing it for four quarters as you hire those people. So, are you talking 3 times \$15 million? So, so you think incremental collections of \$45 million because of the \$15 million spend this year, but that would also be at a margin – a much lower gross margin incrementally, because you would have at least \$20 million in customer solution spend next year? Also, why does this customer solution not have a more immediate effect? Why do we see the return more in 2020 than in 2019 on collections as you hire these people on? And then, a second question, just you've rebranded Wix Code. Can you give us any follow-up on Wix Corvid business model?

Avishai Abrahami

So, let's start with the first question. So, you're asking if the 3x return on \$15 million means 3x revenues of \$15 million, right? So, that's \$45 million. The answer is yes. Will it have lower profitability, right, on those? You have to remember that, since all of those customers already we've paid for marketing for, so you have to deduct marketing from it, right, because we don't pay for marketing. So, I think it's pretty much going to end up being similar return on a TROI or return on investment on those gross margins. So, it's probably going to be very, very similar, if not a bit higher. In terms of why does it take time to train people in order to be able to do that, because we have to train people. And, we didn't build the product – humans were built by somebody else, and it's all about training. And, I think that takes time. Hiring and training and infrastructure – there's a lot of infrastructure we need to prepare for that. So, I think these are the things that – to answer your questions.

In terms of the update on Corvid, so we decided – of course, with Wix Code, we decided to change the name, because we feel that the Wix website uilder is addressing one kind of customers with a very specific value offering and this is a new value offering, addressing different kind of customers. We wanted to way to speak about both of them separately.

In terms of what are the differences, we released a lot of functionality last quarter, things like gradual releases of versions. You can actually have the same application running in two different or three different versions. You can have telemetry and app monitoring connecting to Google or to other

places, external data sources, collaboration, the ability to work with your local IDE, with your local code editor and then work as a team on a project. So, there are a lot of really exciting stuff. We announced all of it, of course, with the Google partnership last quarter. In terms of the price model, I'm not going to discuss all of it now. I'm just going to say, we are now very much leaning to doing it based on functionality more than based on the usage. And, this is something that we're already testing with the potential and asking customers. So, the concept is that if you have different functionality, you have different pricing, not necessarily how much you use.

Maggie O'Donnell

Great. Thanks, Nat. Can we have the next question please?

Operator

And, our next question comes from Matt Pfau with William Blair. Please go ahead.

Matthew Pfau

Hi, guys. Thanks for taking my question. Just wanted to ask on the Payments solution and get an update there. Maybe you can just talk to us about how that product's trending versus your initial expectations? And then, in terms of what you're seeing from new customers creating online stores, what has the uptake been like for the Payments product versus other payment options that they have? Thanks.

Nir Zohar

Hi, sure. So, in terms of some Wix Payments, we actually have rolled it out in most of Europe, in the U.S., in Brazil and, obviously, we have plans to continue that global expansion throughout Q2 and Q3. We're still getting mostly – as we're evolving the product itself, we're still getting mostly the new users to adopt it. We haven't gone back into the existing user base yet and migrated people. I think we're seeing very high adoption of Wix Payments to those users. So, out of those users who are now building new services that required Payment on Wix, the majority clearly will take Wix Payments over anything else. So, we see that as very, very encouraging.

Maggie O'Donnell

Thanks very much, Matt. Can we have next question please?

Operator

And, our next question comes from Nick Jones with Citi. Please go ahead.

Nicholas Jones

Hi. Thanks for taking the question. Just to touch back on the agency initiative, how should we think about net adds or new subs that originate from agencies? Is that a big contribution today and can that down the road accelerate net adds?

Lior Shemesh

Hi, Nick. This is Lior. So, we are extremely excited about the progress with agencies. We actually are working right now with tens of thousands of agencies. The progress was amazing in terms of how we engaged with them and how we are working with them. Look, I believe that if – obviously, everything goes according to the plan and we are able to increase the number of the agencies and so on, obviously, it will have a big impact on net subscription additions. But, as I mentioned before, this is not right now part of the guidance that we provide. But, to answer your question, of course, any agency generates more premiums than the regular customers and this is exactly the potential

that we have within these new product initiatives.

Nicholas Jones

Great. Thanks, Nick. Can we have the next question please?

Operator

And, our next question comes from Jonathan Kees with Summit Insights Group. Please go ahead.

Jonathan Kees

Great. Thanks for taking my question, and I'll follow instructions here and limit myself to one question. I want to ask about the gross margins. You've talked about the hit from customer solutions is what brought it down for Q1 and you guided for Q2 as well as for fiscal year 2019. I guess the overall trends have kind of been going down. I realize some of that has been the shift from the agency model and the G Suite. And, now you're rolling out Payments, which is I guess – you're recognizing it differently. I guess is there going to be more of this kind of volatility of gross margins beyond this year? Is it something we should just be more cognizant about or just more aware that this stuff will kind of happen and gross margins will kind of deviate here and there? Thanks.

Lior Shemesh

Yes. So, let me provide some understanding about the model and the way that we actually see that because, obviously, we are not trying to optimize the gross margin as a number. I think that what we are trying to optimize is that the overall cash that we can generate now and in the future. The gross margin has an impact due to the first recognizing the G Suite on a gross basis. That was one; it happened last year. But also, this year was impacted by the Payments that we spoke about and also right now about increasing the support organization and it has about 2%, 2 points impact over this year.

To your question, I believe that it might happen in the future that we have more services, for example, like the Payments. If the Payments are going to be more significant in the future, it's going to have an impact on gross margin as well. I believe that when it's going to be significant, we will divide the numbers or the gross margin into two separate layers. The first one is from subscription, the other one from the other services. So, I think that it will provide more understanding. So, once it becomes significant, obviously, we will do that. But, again, the purpose is you might have a lower gross margin, but a better profitability, because it doesn't involve with R&D and sales and marketing. So, the purpose is obviously to optimize the free cash flow.

Maggie O'Donnell

Thanks, Jonathan. Can we have the next question please?

Operator

And, our next question comes from Zachary Schwartzman with RBC Capital. Please go ahead.

Zachary Schwartzman

Great. Thanks for taking my question. In the shareholder letter, you provided an update on Corvid, which now has 880,000 users and 180,000 of those highly engaged. Can you remind us how you calculate highly engaged users? And, I guess, the more important question here is on the packaging you're testing for pricing that included Corvid. Can you talk about some of those that are in the field and the early traction or feedback you are receiving? What are those price points and ranges? Thank you.

Avishai Abrahami

So, the way we – because Corvid and the traditional Wix website builder have very different functionality, it's very easy for us to see who is actually using that. And, so finding the users in Corvid who are using just the site builder, it's very easy. The other side is that, when we see somebody who continues to develop things with Corvid and because – in Corvid, you can actually sit for three or four months and program something, right. You actually write code.

It doesn't necessarily mean that they have building more than one website, which would normally be the case if somebody is so engaged on Wix Website Builder. So, that's what why disclosed the number as we do it now. But the majority or pretty much all of the people that we're seeing that are highly engaged are people that are spending many hours working on Corvid every month, writing code, creating databases, really using the full functionality. And, I would say that the vast majority of them are professional developers to some level or have at least the professional developer skillset.

In terms of pricing, so we're not going to disclose the price list yet, because we're still working on the final details of that, but we already are working with customers. We are working with a variety of different customers from large enterprises to startups and to people that actually build website that are very advanced. The price list is based, as I said before, mostly on functionality and not on usage. I know there was some question about it in the previous quarters.

And, so we are very excited. We really see that this product is taking off. It's way ahead of what we hoped for it to be at this stage. So, we are very happy about the results of Corvid.

Maggie O'Donnell

Thanks, Zach. Can we have the next question please?

Operator

And, our next question comes from Mark Zgutowicz with Rosenblatt Securities. Please go ahead.

Mark Zgutowicz

Hi. Thank you. Not to beat a dead horse on gross margin, but maybe just to be specific here, what's a sustainable gross margin in '20 and beyond? And then, as you talk about TROI and sort of the leverage there to, I guess, continue to drive TROI higher, what type of operating leverage do you need to see in light of the, I guess, de-levers that you're seeing on the gross margin line to continue to drive TROI higher? And, maybe specifically on sales and marketing, you're obviously making incremental investments on the sales and marketing line. I'm just curious how that may continue into '20 and beyond? Thank you.

Lior Shemesh

Okay. So, I will start with the gross margin. As I mentioned before, I look at two separate revenue lines. The first one is subscriptions and all the different packages that we are filling. And definitely, there, the gross margin is more than 85%. It's actually, looking at it long term, is about 87%. That said, you have also a separate, what they call the business line, for example, for all kinds of services with lower gross margin, like Payments. Like, you know what we've just invested with the support organization and other third-party services. And, I think that over there the gross margin might be different and it's hard for me to tell you exactly where it's going to be, but I assume that it's going to be more than 50%. Obviously, it's going to be less than the 85% for the regular subscription. So, it will be interesting to see in the future the combination between the two revenue streams. By the

way, very similar, for example, for other companies that separate those two separate lines of revenue.

With regard to the marketing, so I believe that the current model of the TROI of seven-to-nine months will continue. I think that this is something that demonstrates a very good leverage for our operating expense. If you can see how it's dropping by a few points on a year-over-year basis, and it's going very well for us. So, I believe that this is something that will continue into the future and we'll see more and more leverage coming from the sales and marketing.

Maggie O'Donnell

Thank you, Mark. Can we have the next question please?

Operator

And, our next question comes from Naved Khan with SunTrust. Please go ahead. Mr. Khan, your line is open.

Naved Khan

Yes. Can you hear me?

Lior Shemesh

Yes. We can hear you.

Naved Khan

Thank you. So, I'm just trying to reconcile the tens of thousands of agencies and developers for Corvid with the 180,000 highly engaged users. So, is the tens of thousands base that's using Corvid kind of the one that you think is more likely to monetize and maybe they're starting to use Corvid kind of with the understanding that at some point they will be paying for it? How should we reconcile the two different metrics in the 180,000 and the tens of thousands? And then, I had a follow-up after that.

Avishai Abrahami

So, we don't actually – I think the tens of thousands agencies using Wix, okay, are not necessarily the one who are using Corvid, right? We have a lot of people using Corvid, and I think the vast majority of them are not in the agencies that we described before. They would be more professional developers. We do have agencies that are using Corvid, right? And, I'm actually not sure how much of that is Corvid and how much is not in terms of groups, right? So, in terms of pricing, I think that we're probably not going to go back and change pricing on people that use Corvid. But, most of the functionality that we will be charging for is new, right? And, it's coming from needs that we get from people using Corvid today. So, we understand what is critical, what is more important for bigger projects, and how we should charge for it. So, most of it is new, and we're not going to go back and change pricing on people in the past.

Naved Khan

Understood. And, then my follow-up question was just around the margins, and I think Lior's commentary around how with the customer solutions investment, it's more of a conversions benefit and you don't have to acquire those customers, so that incremental margin might actually be better. How should we put that in context of your long-term margin outlook? Is that incrementally better now on the contribution margin level?

Lior Shemesh

Yes. I wouldn't change the long-term margin in term of the free cash flow or the EBITDA of what we introduced. I think that growing long term, the way that we actually envision that is always look at the combination between growth to profitability. So, I believe that when we get, and hopefully it's not going to be soon, to the steady-state phase, so I believe that the free cash flow is going to be higher than 30% out of revenue. So, there is no change to the model. But, obviously, because of all those new initiatives, the collection, the number itself as revenue is going to be much higher. So, then it will increase the overall cash that we are generating in the near future and also the long term.

Maggie O'Donnell

Great. Thanks, Naved. Can we have the next question please?

Operator

And, our next question comes from Sterling Auty with J.P. Morgan. Please go ahead.

Matt Parron

Hi. This is Matt Parron on for Sterling. Thanks for taking the question. So, two questions, actually. So, this \$15 million investment, could you, I guess, give a bit more color in terms of how much of that's going into sales and marketing and R&D? And, then in addition, on the new items front, what areas are you guys going to be focused going forwards and what's a timeline that you guys think they'll be launched? Thanks.

Lior Shemesh

So, this is Lior. I'll start with the first question. The entire \$15 million is part of the cost of goods sold. So, it has a direct impact on gross margin, as we mentioned before, going down by 2 points. Not R&D or sales and marketing. Everything is support. With regard to the next question about products and timings of new products.

Nir Zohar

Yes. So, Matt, obviously, we have a lot of things that are in planning and in different stages of execution, but we never announce the product timeline before we actually announce the product. But, as always, I think you guys have – there are things to expect and you will see more coming from us throughout the year.

Maggie O'Donnell

Great. Thank you. Can we have the next question please?

Operator

And, our next question comes from Mark Grant with Goldman Sachs. Please go ahead.

Mark Grant

Thanks for taking the question. And, I appreciate all the color around Corvid as well. I just wanted to touch on some of the comments you made earlier. When you look at the pricing model potentially being based on functionality, can you talk a little bit about the common use cases that you're seeing in terms of what kinds of businesses require the functionality from Corvid for their sites or the types of Web applications that are most commonly being built on the platform?

Avishai Abrahami

Absolutely. So, I think that we're seeing that it's mostly divided into, I would say, roughly two big

different categories. One is internal applications and websites and the other one is external. External would be something like wix.com, right? People from the outside or the internet can actually come and use it, and then we see a lot of intranet projects being built on Corvid as well. One example of such functionality is including it in your domain, right? So, if you're an enterprise that nobody outside of your enterprise can even access the website, that's not just password protected, it's actually network protected. So, that's a one example of functionality.

In terms of what we're seeing that – if you go one level deeper, we're seeing a lot of portals being built, search portals for functionality. So, for example, renting a yacht. It is the demo that we did with Google. We demoed our customer's website on the Google Next Event. So, that was – and that really uses Corvid. Why? Because they have this website that can find you a yacht. They can talk to many different suppliers. They do it over APIs. You can do all the transaction there. You can go to your account, follow the instructions to exchange things. It's really the full-blown capabilities of development of a project that is unique. Internal in organizations, we see a lot of things that are mostly about the corporate procedures and education inside the corporates, and we see a lot of those. So, things like managing classes, attendances, what people consume, what they didn't, and some other things of that nature.

Mark Grant

Thank you. And, then if I could just follow-up on that, when you look at those internal use cases, who are your customers displacing with Corvid? Is this a greenfield opportunity for you or are there incumbents there that you're actually ripping and replacing?

Operator

And, the last question will come from Tim Klasell with Northland Securities. Please go ahead.

Tim Klasell

Hi, guys. Thanks for squeezing me in. Just one question. Around the customer support agents, obviously this will help in the vertical market applications you've rolled out. Will these customer support agents carry a commission and what products do you expect to see the biggest benefit from these agents helping with the process? Thank you.

Avishai Abrahami

So, first of all, about commission, no. We don't intend to have them get commission. It's not the sales position. And support, I think a lot of companies, GoDaddy, for example, will have sales agents on the phone. This is a completely different operation. We do, however, expect products that have thus more functionality to be the biggest benefiter from that. So, things like Ascend or the Booking systems. I think those will be the main benefiter from that. I probably expect e-commerce to also benefit from that to some level. I know that when I want to set up e-commerce on Wix, I always find that there is so much interesting stuff for me to learn and to do.

Tim Klasell

Great. Thank you. Very helpful.

CONCLUSION

Maggie O'Donnell

Thanks so much. Thanks everybody for joining today. I apologize again about the interruptions. Have a great day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time and have a great day.