

Wix.com Ltd.

| Nasdaq: WIX |

INVESTMENT RESEARCH REPORT

*"In The Land Near TROI,
A Trojan Unicorn"*

RECOMMENDATION: *Strong Sell*

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- Founded by Ben Axler, a former investment banker with 16 years experience on Wall Street
- Ranked the #1 Short-Seller in the world by [Sumzero](#) after a comprehensive study of 12,000 analyst recommendations dating back to 2008 (March 2016)
- Ranked the #13 Most Influential FinTweeter on Twitter according to [Sentieo analysis](#) (Dec 2016)

Spruce Point's Track Record of Identifying Over-Hyped Technology Companies

			
Report Date	2/23/12	12/13/16	5/12/12
Company Promotion	"Leading provider of social commerce solutions delivered as a SaaS platform capable of 15% and 30%+ sales and EPS growth"	"Leading provider of HR/Payroll solutions as a SaaS solution capable of sustaining 20%+ sales growth and margin expansion"	"Revolutionary metal alloy company"
Our Criticism	Nonsensical business model, meaningless "cohort" analysis, and PowerReviews deal that would fail expectations. With extreme overvaluation at 9x sales, we saw a long-term valuation of \$4 - \$6/sh on 1.5x-2.5x sales.	Promotional management that is increasingly putting its personal outside business interests ahead of ULTI's, aggressive accounting masking margin pressure from commoditization of its technology, lack of independence of auditor, move towards acquisitions to bolster growth, overvaluation	Highly promoted penny stock with tangential connection to Apple. With a market cap that exceeds \$125 million, and a convoluted capital structure, investors would revalue the business to pennies.
Spruce Point Successful Outcome	Sudden CEO resignation , DOJ files antitrust lawsuit and failure to consummate the PowerReviews acquisition. Current share price at \$4 or -75% since publication date. The shares have hit our target price.	ULTI recently missed Q4'16 earnings , the first in many years. More evidence of margin degradation emerged. Recent proxy shows two directors (including the audit committee chair) are not standing for re-election. The Company admitted the CEO's cohabitation with the Chief People Officer	LQMT's shares have languished and its share count has ballooned from 248m to 886m. From 2013-2016 total sales have amounted to just \$2.2m, while operating losses have exceeded -\$34m



Executive Summary

Quick Highlights Driving Our “Strong Sell” Opinion And 50% - 60% Downside Target:

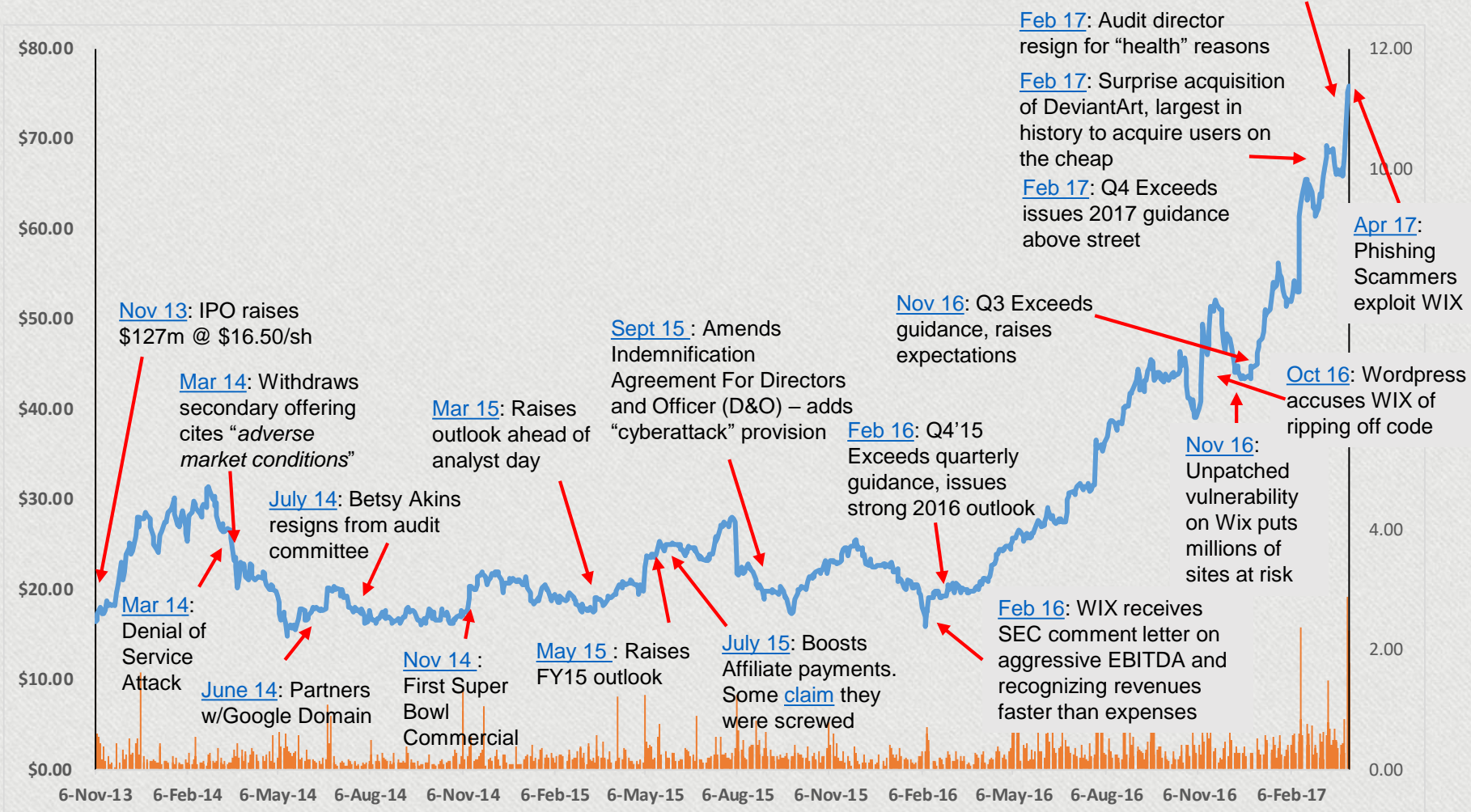
WIX.com (Nasdaq: WIX or “the Company”) is an Israeli based technology service provider offering a free website solution that depends on upselling customers on additional features. With WIX’s share price up approximately 300% in the last twelve months, we believe investors are overlooking many issues that could cause a substantial price correction:

- **While WIX was an early mover in the freemium website creation model, it is now becoming more competitive** with new players and its “growth at all cost” strategy through expensive advertising is appearing to plateau. Its customer acquisition costs are rising rapidly as its size creates a barrier for additional growth. As a result, we believe its recent deal to acquire DeviantArt represents a potential strategy shift to grow through acquisitions, and introduces new risks to its business model that investors should carefully consider. We think WIX’s business is set to slow, and investors should look carefully to see that its revenue growth in 2017 will outpace cash collections growth
- **WIX’s “unicorn” model appears too good to be true and there are emerging cracks beginning to appear in its financial statements** including subtle revenue and tax restatements, and anomalies in its cost structure. WIX portrays itself as a well oiled machine with world record gross margins at 85% and that it will have spent ~\$30m on capex from 2010 – 2017 to accumulate >100m registered users, engineer a negative churn business that produces \$400m of revenues, \$1.4 billion of collections, and is worthy of a \$4bn market cap. Based on our analysis, these results merit scrutiny (e.g. try finding another negative churn business or capex efficient model). The SEC recently issued comment letters to WIX questioning its aggressive Adj. EBITDA presentation and its pace of revenue recognition and expense deferral. After two EBITDA revisions already, investors should be suspicious, but we believe more revisions may come. WIX is dropping subtle hints in its 20-F that because it is no longer an “emerging growth company” under Section 404 of Sarbanes Oxley, it will face stricter financial control.
- **WIX insiders have incentives to heavily promote its shares and left clues to suggest it intends to dilute with 2-3 million new shares** We estimate its two founders are sitting on \$225m of option gains needing to be monetized. Options under the 2013 plan start becoming fully vested in 2017. Early venture backers (Benchmark, Insight, Bessemer) have exited and only one initial backer remains. None of WIX’s top shareholders are Israeli funds. WIX has lured in retail investors and US funds through repeated Cramer Mad Money episodes. Now that WIX is claiming it has reached a cash flow positive inflection point, and has ample cash on the balance sheet, we find evidence of pending dilution
- **Investors should be highly concerned by WIX’s audit situation:** Two of WIX’s audit committee members have already resigned since coming public (both were non-Israeli based members). The Company’s two local Israeli auditors have a spotty track record of early identification of accounting issues, and both have been cited by the PCAOB for audit deficiencies. WIX’s annual audit fees of just \$500k are miniscule in relation to other SaaS and marketing service technology companies
- **Background of WIX’s CFO Littered With Associations To Questionable Companies:** WIX’s CFO has worked at three US listed public companies: Alvarion, Veraz Networks and ECI Telecom. Alvarion and ECI Telecom faced fraud allegations, and Veraz was sanctioned by the SEC for FCPA violations. Alvarion and Veraz (later merged with Dialogic) drifted to insolvency and delisting
- **Valuation Concerns Becoming Evident:** WIX’s valuation is stretched (avg. analyst price target is \$72), and they don’t correctly account for its significant dilutive share count. At 9.5x and 178x 2017E Sales and Adj EBITDA, WIX is priced for perfection. Investors ascribe a value of \$1,600 per paying sub. vs. \$400-\$500 for peers. With average annual revenue per sub at ~\$137/year, the current valuation represents ~12yrs. of subscriber sales. WIX could lose 20% just on the share count correction, yet we see total downside risk to \$36 - \$42/sh (50% - 60%)



WIX's Meteoric Stock Increase Deserves Significant Investor Scrutiny

WIX received an SEC comment letter a year ago in Feb 2016. Since then, its share price has exploded under curious circumstances and with more evidence of accounting irregularities and risk of material misstatement.



Capital Structure and Valuation

The Street incorrectly values WIX by not carefully evaluating the dilutive impact of options (which are deeply in-the-money). Other analysts fail to value WIX on its restated Adj. EBITDA, which removes the change in deferred revenues to comply with the SEC's new guidance on Non-GAAP presentation.

\$ in millions, except per share values

Stock Price	\$71.00	Street Valuation	2016A	2017E	2018E
Fully Diluted Shares	57.5	EV / Sales	13.6x	9.4x	7.3x
Market Capitalization	\$4,082.5	EV / Collections	11.5x	8.5x	6.7x
Other Debt	\$0.0	EV / Adj. EBITDA	92.7x	61.7x	41.5x
Total Debt Outstanding	\$0.0	Price / Adj. EPS	NM	229.0x	74.7x
Less: Short-Term Deposit	\$78.2	EV / Free Cash Flow	109.2x	61.7x	31.8x
Less: Cash and Equivalents (1)	\$57.1	EV / Premium Sub.	\$1,601	--	--
Total Enterprise Value	\$3,947.2	Spruce Point Adjusted (2)			
		EV / Adj. EBITDA	598.2x	178.3x	97.5x

1) Pro forma for \$36m DeviantArt acquisition

2) Excludes changes in deferred revenue

Needham – 3/2/17

Market Data

Price (03/01/2017)	\$62.75
52-Week Range	\$66.90 - \$19.02
Shares Outstanding	42.46
Market Cap (MM)	\$2,664.3
Avg. Daily Volume	407,401.0

JPM – 2/23/17

Company Data

Price (\$)	63.25
Date Of Price	23 Feb 17
52-week Range (\$)	66.90-18.51
Market Cap (\$ mn)	2,537.37
Fiscal Year End	Dec
Shares O/S (mn)	40
Price Target (\$)	67.00
Price Target End Date	31-Dec-17

Cantor – 4/11/17

Market Cap (\$Mil)	\$3,421
Avg. Daily Trading Volume (3 mo.) :	587,519
Enterprise Value (\$Mil) :	3,607
52 Wk. Range	\$79.30 - \$20.70
Shares Out (Mil) :	44.8

Are Investors Prepared For Significant Dilution Coming....?

Read the fine print. For the first time WIX is giving fully diluted share count guidance and it's not pretty. Buyer beware! The Company has forecasted a ~37% increase in diluted share count.

2017 Non-GAAP Financial Outlook

	2016A	2017E	Q1'17E
GAAP Revenue	\$290	\$409-411	\$89-90
% Y/Y	43%	41-42%	45-46%
Collections	\$342	\$452-458	\$107-109
% Y/Y	42%	32-34%	41-44%
Gross Margin (% collections)	87%	~87%	
S&M (% collections)	44%	40-41%	~46%
OpEx (% collections)	76%	70-71%	
Depreciation (% collections)	1%	~1%	
Adjusted EBITDA	\$43	\$79-80 ¹	
% Collections	12%	17%	
Less: CapEx	\$4	~\$6-7	
Less: Acq. Related Costs	\$3	~\$2	
Free Cash Flow	\$36	\$71-72	
% Collections	11%	16%	
SBC Expense	\$28	~\$39-40	
Basic Shares O/S	44mn	48-49mn	
Fully Diluted Shares O/S		57-58mn	
(In \$ millions)			

Post-IPO Diluted Shares Growth For EPS Calculations

Fiscal Year Ended	Shares for Diluted EPS	% Growth
2014	37.8	--
2015	39.4	4.2%
2016	42.0	6.7%
2017E (1)	57.5	36.8%

1) At the midpoint of guidance

Source: WIX
[Shareholder Update](#)

Dilution Coming.... (Cont'd)

Something isn't adding up to Spruce Point when evaluating WIX's substantial diluted share count estimate for 2017 of 57 – 58 million shares, or a +37% increase.

We attempted to bridge the gap by considering WIX's outstanding options and Restricted Stock Units. We estimate that WIX may issue 2.3 to 3.3 million shares this year to dilute investors. With its stock price up approx. 60% YTD and trading at all time high multiples, investors should not be surprised. WIX is guiding to \$63-\$65m of Free Cash Flow in 2017, and has \$171m of cash and equivalents, so it should not need to raise additional capital, absent plans for a large acquisition. (6)

Figures in millions

FY Ended Shares Out. 12/31/16	Options Outstand- ing at \$9.76 Avg Strike Price 12/31/16	Options Granted FY2017 (1)(4)	Less: shares Repurchased Due To Treasury Stock Method @ \$61.50 (2)	Unvested Restricted Stock Units (RSUs) 12/31/16 (2)	RSUs Granted FY2017 (1) (4)	Estimated FY Diluted Share Count	Diluted Shares Estimated By WIX (5)	Unaccounted Shares Estimated For Issuance
44.3	+8.37	+1.36	(1.33)	+1.37	+0.65	=54.7	57 – 58	2.3 – 3.3

1. 2017E stock compensation expense estimated by WIX at \$39-\$40m, an increase of \$11.5m over 2016. 2016 stock compensation expense of \$28m was a \$9.3m increase over 2015. We estimate the number of options and RSUs granted consistent with prior year practices
2. Share price of \$61.50 as of Feb 15, 2017 when guidance was offered in the Shareholder Update report
3. Simplified analysis does not take into account tax consequences or assume repurchase of shares which would only decrease outstanding amounts
4. WIX says "As of February 28, 2017, 2,669,134 shares remained available for future grant under our share incentive plans." (source: 20F p.76). This figure puts a maximum on the amount of options and RSUs to be issued
5. Per WIX [Shareholder Update](#)
6. Free cash flow guidance post DeviantArt [acquisition](#). Last guidance estimated just ~\$2m of acquisition related costs (down from \$3m in 2016), so we can rule out a large acquisition to explain the share count differential

Warning: WIX Not Targeting Free Cash Flow

Supporting our view that WIX's cash flow may not be sustainable, and it may need to dilute shareholders, we observe that its recent investor presentation could not offer long-term cash flow guidance. This is at odds with WIX promotion of itself a SaaS company with world class gross margins, negative churn, limited capex requirements, and highly predictable cohort visibility.

Target Model Revisited

% of Collections, Non-GAAP

Hard to Value WIX With
No Free Cash Flow
Forecasting Ability

	2013	2014	2015	2016	2017 Guidance		Target Model
Gross Margin	83%	84%	85%	87%		Achieved Target →	~86-88%
R&D	27%	30%	28%	26%			~18-20%
S&M	53%	56%	48%	44%	40-41%	Scale and Efficiencies →	~30%
G&A	6%	7%	6%	6%		Achieved Target →	~6-7%
Total Opex	86%	92%	82%	76%	70-71%		~54-57%
Free Cash Flow	1%	NM	6%	11%	~16%		Why No Target?

Easy To Justify A Quick 20% Downside In Price

Sells-side analysts such as Needham has a \$73 price target (March 2, 2017)

“Our price target of \$73 is based on a 5.8x 2018E EV/Sales multiple, in-line with other top performing SaaS companies, which we believe is appropriate given its faster revenue growth rate.”

- WIX is currently trading at approximately 7.3x EV/2018E Sales based on the actual fully diluted share count of 57.5m for this year according to WIX
- At \$57/share and \$135m of net cash and equivalents, WIX's EV would currently be \$3.1 billion
- Needham estimates \$535m of 2018 sales
- This equates to a 5.8x 2018E EV/Sales multiple in-line with peers according to Needham
- At \$57/share, that's approximately 20% downside from the current price
- This analysis assumes nothing else other than diluted shares directly from management, and a fair multiple directly from its sell-side broker
- Where are we wrong?



Fundamental Strains

WIX's Problem: Commoditization of Services and Increasingly Competitive Landscape

There are limited barriers to entry in WIX's business and many new competitors have entered offering a similar proposition of a free website, with the hope of upselling registered users. Adobe is a formidable competitor that is moving into WIX's space catering to small businesses looking to build an online ecommerce presence. Adobe is also now building an Artificial Intelligence (AI) tool to automate web design. This should worry WIX which recently released a similar ADI feature last year

[Traibl](#)

Takes Aim
At WIX >>>>

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Eventually you're going to need branding pros. Save time + choose TRAIBL now.

Highlights: Increased Customer Loyalty, Larger Average Transactions, Shorter Customer Cycles...

Need A Free Or Cheap Website Builder >> Try One of Dozens

Squarespace	Adobe Business Catalyst	Moonfruit	Viviticms
Weebly	DoddleKit	000webhost	eHost
WebsiteBuilder.com	ImcCreator	Neocities	uCoz
Wordpress	Zoho	eMySpot	iPage
Site123	SimpleSite	Yola	1and1
Odo	Jimdo	WebStarts	Webs
New AI Design Sites >>>	B12	TheGrid	Firedrop

WIX's Problem: New Entrants Seizing Market Share Faster

WIX has a deep pool of competitors including newer ones that have recently seized more market share faster than WIX has been able to achieve since 2013. WIX has spent almost \$500m in sales and marketing and has just 0.7% market share of content management systems. The bulls would say this data shows WIX is growing market share, but we say it is fractional share gains and others have achieved more share faster.

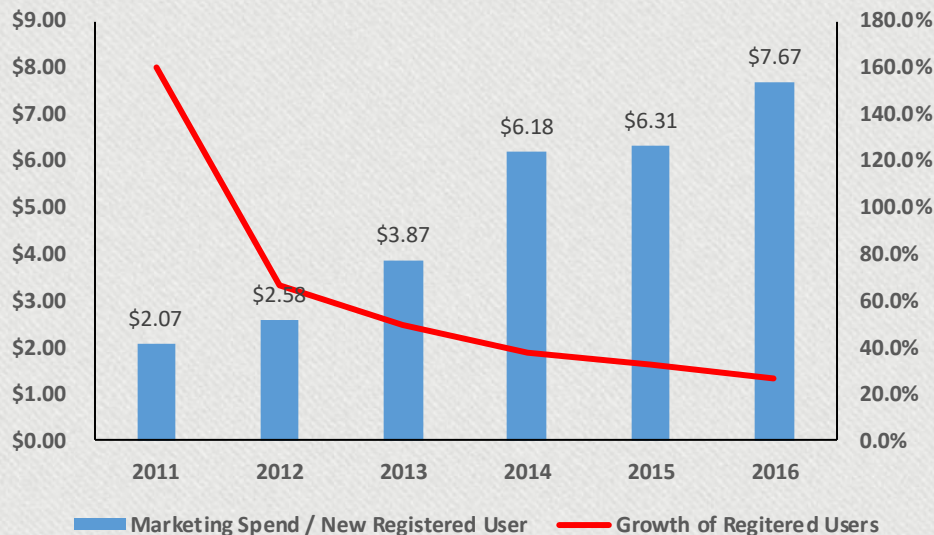
Company	2010	2011	2012	2013	2014	2015	2016	2017	Current
WordPress	51.0%	55.3%	54.3%	54.8%	59.8%	60.7%	58.8%	58.5%	58.9%
Joomla	12.0%	10.9%	9.5%	8.7%	9.3%	8.6%	7.5%	7.2%	7.0%
Drupal	7.1%	6.1%	6.5%	7.2%	5.5%	5.1%	4.9%	4.8%	4.7%
Magento	--	--	--	--	2.7%	2.8%	2.9%	2.7%	2.5%
Blogger	--	2.7%	3.0%	3.5%	3.3%	2.9%	2.7%	2.4%	2.3%
Shopify	--	--	--	--	0.3%	0.7%	1.0%	1.3%	1.5%
TYPO3	4.2%	2.6%	2.0%	2.1%	1.6%	1.6%	1.5%	1.4%	1.4%
Bitrix	--	0.8%	0.9%	1.0%	1.0%	1.1%	1.3%	1.4%	1.4%
PrestaShop	--	--	--	0.9%	1.1%	1.2%	1.3%	1.3%	1.3%
Squarespace	--	0.2%	0.2%	0.1%	0.3%	0.5%	0.8%	1.1%	1.2%
Adobe Dreamweaver	--	--	--	--	--	--	1.4%	1.2%	1.1%
OpenCart	--	--	--	--	0.9%	1.0%	0.9%	0.9%	0.9%
Frontpage	--	--	--	--	1.0%	0.8%	0.8%	1.0%	0.8%
Wix	--	--	--	<0.1%	0.2%	0.3%	0.4%	0.6%	0.7%
DataLife Engine	--	1.9%	1.6%	1.5%	1.2%	0.9%	0.7%	0.7%	0.7%

WIX's Problem: Acquisition Costs Exploding, Growth Rate Slowing, Discounts Rising

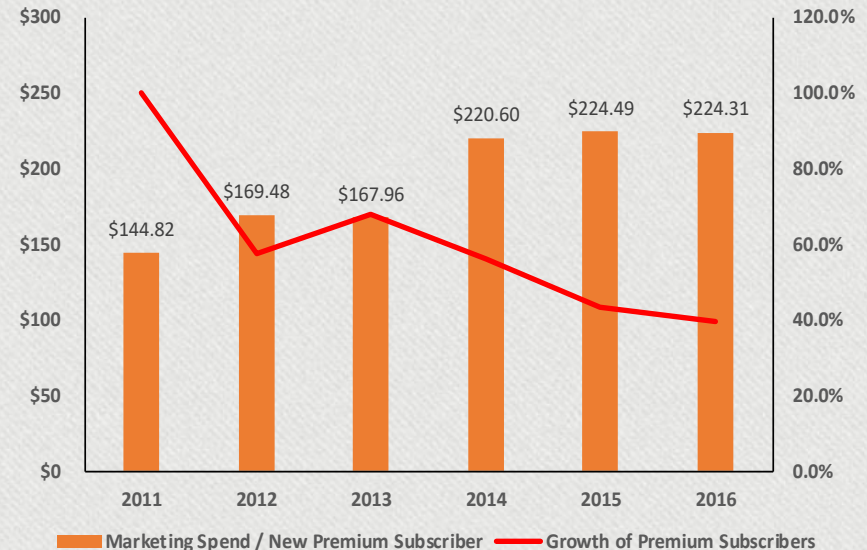
WIX's business model of "Spend at any cost to acquire users" is showing signs of hitting a wall. The cost to acquire an incremental user is exploding. WIX defines its own unique concept: Time Return on Investment (TROI), or dollars collected from new subs in period to dollars spent on marketing costs. It needs new users to drive premium subscribers. Both New Registered Users and New Premium Subscriber growth rates are slowing as its size gets larger.

Declining Average Revenue Per User (ARPU): In addition to escalating user acquisition cost, WIX's ARPU has been stagnant from 2014 at \$140 to \$136 in 2015 and \$137 in 2016. Management's explanation is that it has been selling more annual subscriptions at a discounted price – **20% off** according to the CEO on the [Q3'15 conference call](#). However, now on its [website](#) under the questions "What are the benefits of purchasing a Yearly Savings Plan" it is advertising "**savings up to 45%**"

Cost To Acquire Users Is Exploding...Growth Slowing



Needs More Users To Feed Premium Subscribers



WIX Affiliate Program

WIX does not discuss much about its “Affiliate” program other than a one sentence disclosure in its 20-F Annual Report. Using the Wayback Machine, we find that the Company has boosted its payout by 25% since 2015, which further supports our belief that WIX’s customer acquisition costs are rising.


Is WIX Screwing Its Affiliates To Reduce Expenses And Boost Cash Flow?

- [That's the claim](#) by an anonymous poster who provides reasonably good detail of current WIX employees cited in the post that can be independently verified to be working at WIX. The timing of the change coincides with the payment change noted below:
- *“One day, in middle of last year (2015), I received an email from Wix telling me that they will be changing their affiliate terms so they will be stopping any payment related to previous agreements by August 2015.”*


Pre- June 2015

[Apply Now](#)


What You'll Get As An Affiliate




Earn up to \$80 per sale




Unlimited Referrals




90-Day Cookie Duration



Beautiful Banners in Multiple Languages




Wide Selection of Landing Pages




Unlimited time for purchase

July 2015 to Current


What You'll Get as an Affiliate




Earn up to \$80 per sale




Unlimited Referrals




90-Day Cookie Duration



Beautiful Banners in Multiple Languages



Wide Selection of Landing Pages

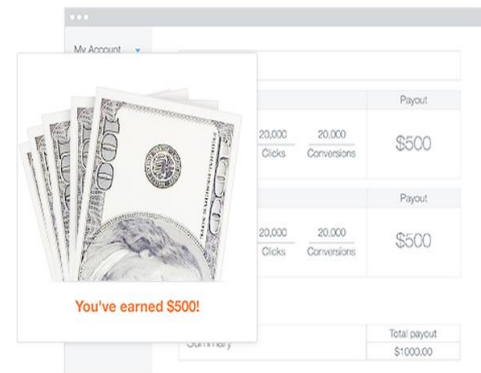


Unlimited time for purchase

\$100+ for Every Convert

Make money fast. Our competitive payouts of \$100 per sale are among the highest in the industry, and we have a variety of reliable payment options for you to choose from.

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You've earned \$500!

My Account		
20,000 Clicks	20,000 Conversions	Payout: \$500
20,000 Clicks	20,000 Conversions	Payout: \$500
Total payout		\$1,000.00



WIX Problem: Complaints Rising....

According to WIX, support and call center employees fell by 7 people in 2016, while registered users and paying subscribers increased by 20 million and 697 thousand. This is a recipe for disaster. WIX's CEO credits user satisfaction to its recent success, but the recent explosion of customer complaints suggests otherwise....

CEO Abrahami ([11/14/15](#)): "I just want to add to what Nir said. It's not just about increasing the value of the cohorts in the lifetime value, **it's just about user satisfaction.**" and "And I think that the overall effect of having more and more segments being addressed by us is going to create a major change in the overall conversion and of course, **user satisfaction because they get a better product**, we can do a lot more on Wix."

CAUSE > Decline in Support Personnel

Department	As of December 31,		
	2014	2015	2016
General and administration	57	75	110
Marketing	163	183	228
Research and development	462	609	778
Support and call center	216	252	245
Total	898	1,119	1,361

Source: WIX 2016 [20-F](#), p. 91

EFFECT > Explosion in Customer Complaints

[Horrendous Service](#) (4/6/17): "Their customer service is the bottom of the barrel and they purposefully make it difficult for you to contact them if you have a billing or technical issue."

[BBB Product/Service Complaint](#) (4/6/17): "The problem is they don't have customer service at all You have to type in your question and they keep sending you to there same standard answers If you call to request a ticket mind you for a call back, that doesn't happen either How can you have a website if you can't get online ordering to function I paid them in full \$239.00 on February 23, and it's now April 4, and still don't have a working website I want them to fix the problem or I want my domain name and a full refund"

[Short of a Scam Really](#) (3/28/17): "terrible customer support - links that circle back, no real support and a fake phone number that sends you back to the same link... crazy... call back service is shut down until further notice, no way to submit support ticket.... are they going under, or just scamming people"

[Terrible customer service](#) (3/15/17) "I was not able to get my site up, so I requested a call back from customer service. I wait TWO hours for the call. This is after my first call to WIX when I was on hold for 45 minutes before I hung up."

WIX's Solution: Promote An Acquisition

WIX announced the acquisition of DeviantArt on Feb 23, 2017. WIX acquired 40m DeviantArt website members at an enterprise value of \$39m or approximately \$1.0 / member. Although net of member overlap this figure is likely higher, but likely substantially lower than the \$7.67 / user current acquisition cost. At ~\$55/year per member, and \$9.6m of annual sales, we estimate it had 174k paying members or just 0.4% of total registered members. (1) With such low penetration and willingness to spend, WIX will be challenged to mine its member base.

NEW YORK, February 23, 2017 – Wix.com Ltd. (Nasdaq: WIX) has announced that it has acquired DeviantArt, one of the world's largest online communities dedicated to artists, art enthusiasts and designers. The acquisition represents inherent opportunities in key growth areas for Wix including product development, brand recognition and increased traffic potential. Wix will provide DeviantArt users easy access to powerful tools specifically designed to help emerging artists create and showcase their creativity online and build their brands. At the same time, Wix creatives and designers will have access to DeviantArt's thriving community of tens of millions of visual artists. DeviantArt is consistently one of the most visited websites worldwide and has grown organically for over a decade with virtually no investment in marketing or advertising. **Currently, the community boasts over 325 million individual pieces of original art and more than 40 million registered members.**

About the Acquisition

Through this transaction, Wix has acquired 100 percent of DeviantArt's capital stock in exchange for approximately \$36 million in cash, including approximately \$3 million of assumed liabilities. As of December 31, 2016, Wix had \$172 million in cash on its balance sheet. The transaction closed on February 22, 2017, and will be recorded in Wix's first quarter 2017 financial statements.

About the Acquisition

- As a result of this transaction, Wix is making the following adjustments to its previous outlook for the full year 2017:
- Increasing its revenue outlook by approximately \$8 million to \$417 - \$419 million
- Increasing its collections outlook by approximately \$9 million to \$461 - \$467 million
- **Investments in the platform are expected to decrease FY17 free cash flow outlook by approximately \$8 million to \$63 - \$64 million.** This estimate reflects further investment in R&D and marketing, integration costs, employee retention bonus payments and other transaction related expenses

Big Incentive To Pump Up Results In 2017

“Options granted under the 2013 plan will generally vest over four years commencing on the date of grant such that 25% vest on the first anniversary of the date of grant and an additional 6.25% vest at the end of each subsequent three-month period thereafter for 36 months”

Options and RSUs in millions from 2013 Incentive Plan

Fiscal Year Ended	Options Granted	Strike Price	RSUs Granted	Options Outstanding	RSUs Outstanding	Shares Issued From Options Exercised	Dilution %
2013	0.69	\$22.40	1.04	0.69	0.12	1.13	3.1%
2014	1.41	\$19.82	0.15	1.54	0.04	0.93	2.5%
2015	0.78	\$20.12	0.00	2.98	0.73	1.85	4.8%
2016	1.19	NA	0.12	3.53	1.37	4.02	10.0%

	Founder Abrahami		Founder Kaplan	
Option Plan	Options	Strike	Options	Strike
2007	816,510	\$0.33	680,424	\$0.33
2007	612,384	\$0.003	510,318	\$0.003
2013	240,000	\$19.82	75,000	\$19.82
2013	240,000	\$21.03	75,000	\$21.03
2013	240,000	\$51.45	75,000	\$51.45
Total	2,148,894	\$10.43	1,415,742	\$5.05

Assuming a \$71 share price, the intrinsic value of these 3.5m share options are \$225m and will need to be monetized

Increasing Dependency on Stock Price Inflation....

Spruce Point has seen many risk factors over the years, but none as pointed as WIX's recent disclosure about how dependent it is to levitate its stock price.....

"Many of our employees may expect to receive significant proceeds from sales of our equity in the public markets after their equity compensation has fully vested. A drop in share price due to market fluctuations may reduce their motivation to continue to work for us. If we are not able to effectively retain employees, our ability to achieve our strategic objectives will be adversely impacted, and our business will be harmed."

Additionally, liquidity available to our historic employee security holders because of our rising share price could lead to disparities of wealth among our employees, which could adversely impact relations among employees and our culture in general. Any failure to preserve our culture could also negatively affect our ability to retain current and recruit new personnel, continue to perform at current levels or execute on our business strategy."



Signs of a Financial Model Too Good To Be True And Cracks Emerging

Registered “User” Warning

WIX promotes registered users, and defines it in such a way as to make it almost meaningless to evaluate its business. All that’s needed is a unique email address and nothing more. There’s no requirement that a registered user do a single thing such as maintain active use of the account over any specified period. In fact, WIX has even said it has no way of even assessing the level of engagement of a registered user. This is baffling given WIX’s substantial R&D expenditures from 2010-2016 and it launched a nifty “artificial intelligence” tool for website design, but hasn’t solved the puzzle of tracking users.

The number of our registered users may be higher than the number of actual users, and we have no means of assessing the level of engagement of a particular user following registration.

We use the definition “user” to mean the number of unique email addresses registered on Wix.com. The number of users as we define it may be higher than the actual number of users because some users have multiple registrations and others may have registered under different or fictitious names. In addition, we have no means of assessing the level of engagement of a particular user following registration. The length of time that users take following registration to design and publish a website varies significantly from hours to years. Some users may never publish a website, but have not cancelled their registration. Even if it were measurable, we do not consider the level of engagement of our registered users to be material to our business. Rather, we consider the rate at which users from a particular period generate premium subscriptions to be material to our business. For example, in the fourth quarter of 2014, 36% of our premium subscriptions were purchased by users that registered with us in the same quarter and the remaining 64% were from users who registered in earlier quarters. Nevertheless, if the number of our registered users is materially inconsistent with the number of our actual users, our user base, which we believe is important to the growth of our premium subscriptions, may be overstated. If that is the case, our business may not grow as fast as we expect, and our financial results and business prospects may be harmed.

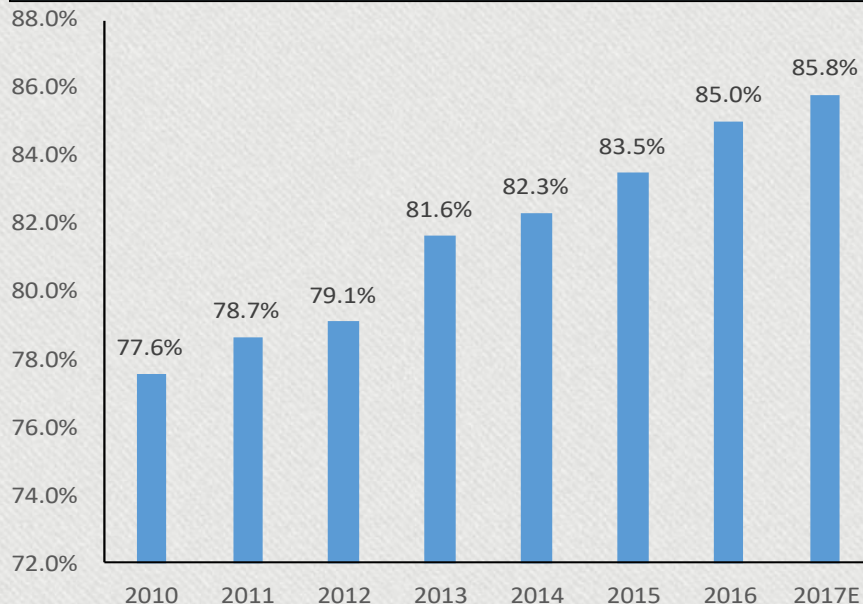
World Class Gross Margin: Too Good To Be True?

Ripley's Believe It Or Not?

WIX's gross margin rivals world class cloud company Adobe and more established cloud technology companies. However, WIX provides very little disclosure about drivers of its cost of revenues.

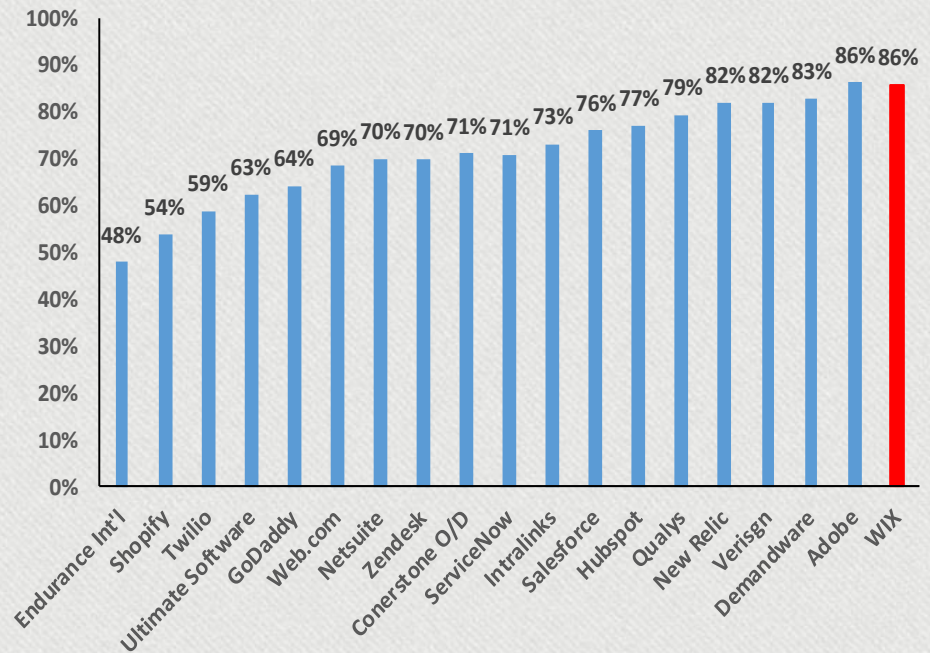
WIX's Cost of Revenues Description Is Terse: "Cost of revenues consists primarily of costs directly associated with the provision of services, namely, bandwidth and hosting costs for our platform, customer support software solutions and related call center costs along with domain name registration costs. Cost of revenues also consists of personnel and the related overhead costs, including share-based compensation." Source: [20-F](#), p.58

WIX's Adj. Gross Margins Always Improve



Source: WIX Financials

Highest Gross Margins In The World....



Source: SEC filings

A Closer Look At Cost of Revenue....

By analyzing the drivers of annual cost of revenue increases carefully, we have some cautionary observations:

1. Why did WIX's bandwidth and hosting costs growth rate decline in 2015 and surge in 2016?
2. Why are the 400 servers disclosed by WIX now falling, after having increased steadily by 100 each year and rapid user growth?
3. Why did domain registration cost increase not keep pace in 2016, and why have incremental registration cost margins increased over time? Has WIX been deferring costs early to boost margins? [GoDaddy](#) and [Tucows](#) report 71% and 76% cost margins. Why is WIX lower? (1)
4. Why did WIX stop disclosing headcount related to cost of revenues in 2016?
5. When measuring incremental bandwidth and hosting costs per added register user costs are going up. Is this diseconomies of scale? (2)

\$ in mm	2011	2012	2013	2014	2015	2016
Payroll	\$1.7	\$1.4	\$2.7	\$3.9	\$2.6	\$1.7
Overhead	\$0.9	\$0.6	\$0.5	\$1.4	\$1.4	\$1.2
Bandwidth + Hosting	\$0.5	\$1.0	\$1.5	\$2.8	\$1.5	\$4.2
Domain Registry	\$0.0	\$0.9	\$1.7	\$2.7	\$3.4	\$3.2
Cost of Revenue Increase	\$3.1	\$3.9	\$6.1	\$10.8	\$8.9	\$10.3
Personnel Headcount	73	114	152	216	252	Stopped Disclosing
Domain Sales	--	\$2.2	\$5.6	\$11.3	\$14.2	\$20.3
% of sales	--	5%	7%	8%	7%	7%
YoY Growth	--	N/A	158%	101%	26%	43%
Domain Cost	--	\$0.9	\$2.6	\$5.3	\$8.7	\$11.9
Domain Sales	--	\$2.2	\$5.6	\$11.3	\$14.2	\$20.3
Cost Margin %	----	41%	46%	47%	61%	59%
Registered Users	16.9	28.2	42.1	57.9	76.9	97.4
% YoY Growth	160%	66%	49%	38%	33%	27%
\$ cost per added user (3)	\$0.05	\$0.09	\$0.11	\$0.18	\$0.08	\$0.20
Servers	--	200	300	400	500	400

1) Recall, the [SEC comment letter](#) referenced cost deferrals with the company [claiming](#) that "95% or more of our expenses have historically been incurred when billed or within 30 days thereof"

2) WIX has claimed gross margins increase due leveraging third party providers to effectively manage its hosting costs and scale benefits ([source](#))

3) Defined as annual increase in bandwidth and hosting costs divided by annual increase in registered users

Capital Investment: Too Good To Be True?

WIX is possibly the most capital efficient business in the history of technology, or simply a business model that is way too good to be true? From 2010-2017E WIX will have spent just \$30m in capex to create a business with >100m registered users, \$1.2bn and \$1.4bn of cumulative collections and revenues, respectively. We've looked at gross capital investment per employee of WIX vs. selected peers.

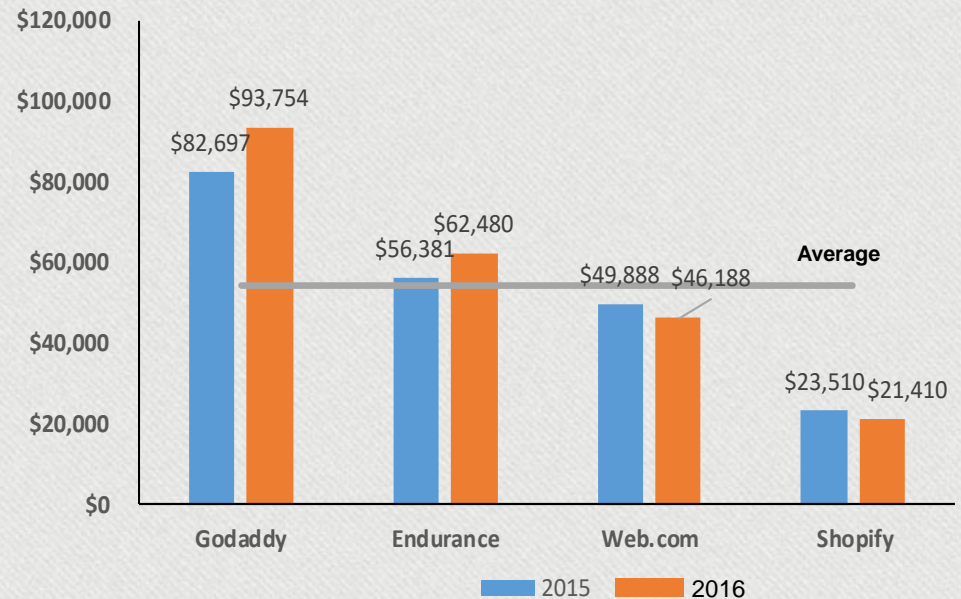
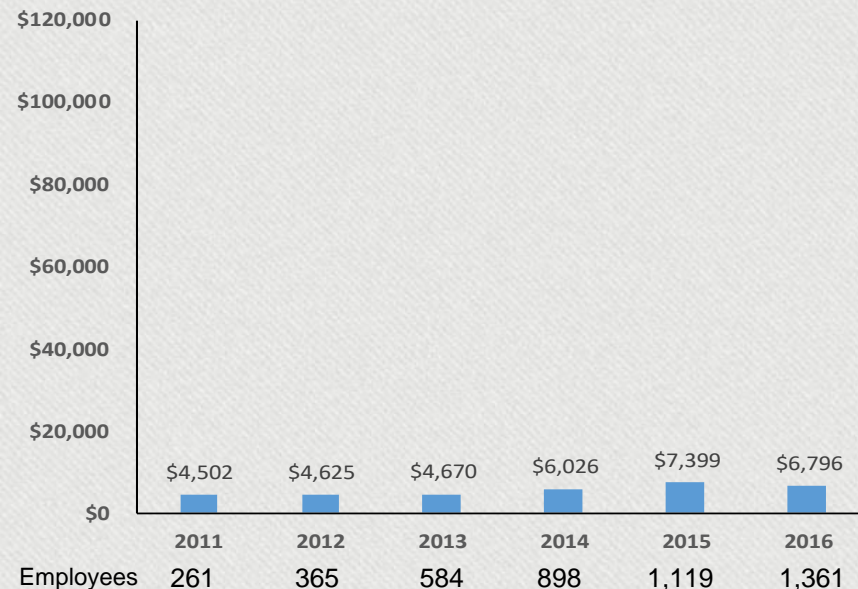
We find on average peers have invested \$55,000 per employee.

At the moment, WIX is running at approximately \$7,000 per employee.

This begs the question: Why haven't other businesses figured out and copied WIX's success and rushed to come public to get WIX's valuation?

WIX's Miniscule Investment in Gross PP&E / Employee

Peer Analysis Suggest \$55k of Gross PP&E / Employee



Note: Gross PP&E includes hardware, software, office equipment but excludes leasehold improvements, land and buildings. Calculation averages annual employees



Zero (Now: Negative) Customer Churn: Too Good To Be True?

WIX has historically claimed zero churn, and now says it has negative churn, an extremely rare situation among SaaS companies; in fact, we are hard pressed to find any other public companies making this claim. Be cautioned that WIX does not back any of its claims with churn calculations in its SEC filings, so it is very much a “trust us” story. WIX tracks churn (as illustrated by the job posting below). Financial reporting practices are supposed to give investors a view of the business through the eyes of management. What is management seeing that investors are not?

Q. Sterling Auty: Yes, thanks. Hi, guys. In terms of – one of the comments that you made is that you're starting to see also an improvement in retention. Is there any additional color you can give in terms of – obviously, we have the Slide 9 to give us a visual. But is there any more color you can give us in terms of where in the cohorts you're seeing that improved retention? Any feedback that you're getting from the customer base as to what's driving that improved retention?

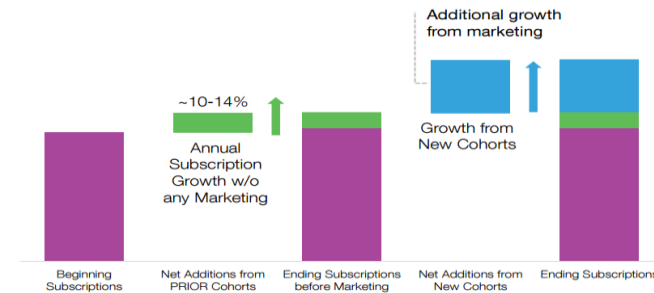
A. CEO Abrahami We believe that the main – well, maybe we start with the easiest part, which is – the driver is a better product. If we get a guy between us and our competitor, it makes it that even if you want to change your Web site, you always go back to Wix. And so, that's what we're seeing. We've disclosed the flow of the cohorts. So you can actually deduct the actual changes in terms of numbers. But overall, it's always our actual churn is pretty much zero, all right? So we don't lose customers. And if you look at the oldest cohort, you can actually see that it started with one number and actually it's exactly the same number now after six years. And so we continue to see that. And we'll update when we have more details.

Q. Tim Klasell: Yes. Sort of jumping back on the new Editor, I know that's helping to drive conversion up. But how about on retention? Have you noticed any change on retention with users of the new Editor?

A. COO Zohar: Well, yes. So first of all, yes. The new Editor, which is a lot of the new functionality there and help a lot more people complete Web sites that they're very proud of. And when they do that, of course, they're less likely to churn. I just want to address the fact, again, our actual churn, historically, is practically zero. We do see some small sign that it actually might go above that, meaning we're going to get negative churn. But we'll have to wait and see more about that and we'll update you guys as you know.

Source: Q1'2016 [Earnings Conf. Call](#) (5/1/16)

Negative Churn: Growth Without Marketing



**Spruce Point
Warning
Not Backed
By Hard
Data;
No Scale**

WIX.com

11

WIX [Investor Presentation](#), March 2017

Business/Data Analyst

The Wix BA Guild - a data-driven team of 40 business and data analysts, as well as data scientists - is looking for a new Business/Data Analyst.

Responsibilities

- Analyze and optimize products and activities, take part in design and implementation, and be a key part of strategic product decisions
- Build and maintain reports, dashboards and metrics, in addition to monitoring the integrity and validity of the data reported
- See beyond numbers and help to inform, influence, support and execute our business decisions
- Conduct customer analysis – churn**, behavior, segmentation, trends, customer value and more
- Work with large amounts of data and build tools to streamline the process
- Work as part of a company-wide department that supports Product Managers, Marketing, Finance & Management

[WIX Job](#), March 2017

Clues For How Bad WIX's Churn Really Is

According to JP Morgan research, a firm that has a “Neutral” rating and a below market price target of \$67/share, the biggest risk to WIX’s rating is its monthly churn of ~2% and ~4% for users and subscriptions. Annualizing these figures suggest 24% and 48% churn, respectively. Also, WIX has historically given Q1’2010 cohort data in each of its 20-F reports. It says it continues to generate new premium subscriptions, and also reports the active premium subscribers from this cohort. Based on our analysis, the percentage of active to total new subscribers continues to fall. Buyer beware!

Clue #1: JP Morgan Research


Risks to Rating and Price Target

- Monthly churn for users is ~2%, but for subscriptions is ~4%. Monthly churn in premium users is about ~2%, or double that of the industry leader GoDaddy at ~1%. We believe Wix’s rate is higher because of the larger portion of micro SMB customers, many of which are sole proprietors and can have a higher failure rate, in our opinion. In addition, users can frequently have more than one premium subscription. For example, a designer of wedding planning websites may keep 2-5 monthly premium subscriptions simultaneously. When the weddings are complete, that particular subscription churns off, and when a new client arrives, a new subscription is created. This velocity in premium subscriptions contributes to the higher level of subscription churn at 4%.

Source: JP Morgan research, Feb 15, 2017

Clue #2: Q1’2010 Cohort

Period	Total New Premium Subs	Active Premium Subs	Active To New Sub %
Q1’2010	20,488	18,513	90%
FYE 2010 – 2013 No Data Disclosed			
FYE 2014	75,975	19,329	25%
FYE 2015	82,663	18,807	23%
FYE 2016	89,387	18,413	21%



Source: WIX SEC filings

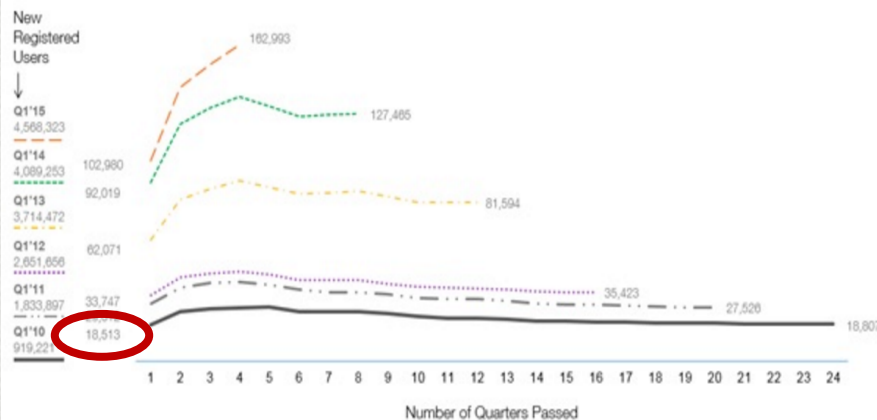
Cohort Analysis – Signs of Restatement

WIX hypes the fact that its cohorts are able to generate residual revenues. Spruce Point has warned about over-dependence on these types of analyses. To illustrate, BazaarVoice (Nasdaq: BV) hyped its cohort analysis at IPO. (1) We recommended a short position in BV, and its share price has subsequently declined by 75%. (2) As it relates to WIX, we observe that it recently made a slight restatement of active premium subscribers from its initial cohort lower. Buyer beware

Recent investor enthusiasm has been around the uptake of new cohorts, but it remains to be seen if they can stick in the face of less customer service and support personnel, and evidence suggesting increasing complaints. If history is any guide, WIX will experience a decline in subscriptions from these cohorts over time. We also believe current cohorts are at risk of churn due to higher discount incentives offered upfront, which would increase the cost for the subscriber to continue

Recent Cohort slide

Active Premium Subscriptions from Q1 User Cohorts

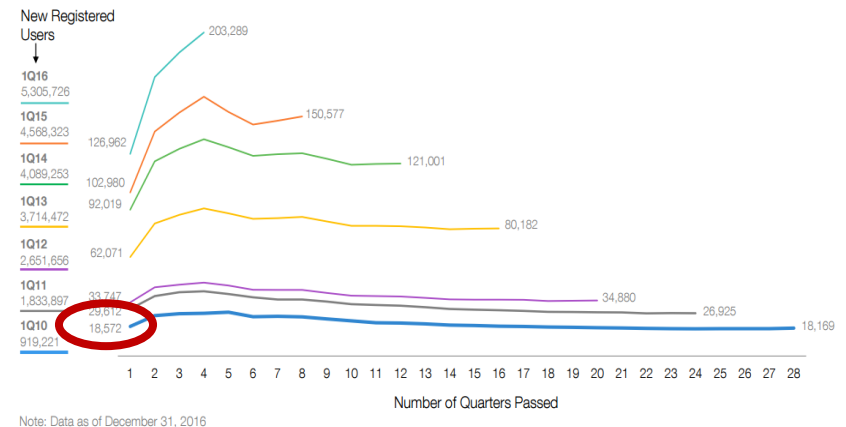


Source: WIX 2016 [20-F](#) Annual Report, filed April 2016

Warning: Recent Initial Cohort Was Re-Stated

Consistent Behavior

Active Premium Subscriptions from Q1 User Cohorts



Source: WIX [Investor Presentation](#)

- 1) BV [IPO prospectus](#)
- 2) Spruce Point [BV report](#)

Collection Issues Signal Slowdown: Why Are Revenue And Collections Growth Diverging?

Investors are cautioned to observe the recent divergence of sales growth vs. collections growth forecasted in 2017. When asked, the CFO's explanation seems murky and difficult to validate. He claims collections accelerated with no explanation why. We've analyzed the annual growth rates for both variables, and find that they historically track each other within a couple percent. We also checked his assertion that collections growth was accelerated in 2H16, yet we don't find evidence that collections growth outpaced sales. Our takeaway: WIX's business is slowing

- **JPM Analyst Auty Q4'16 Conf Call (2/12/17):** "Looking at the guidance for 2017, can you walk us through why the collections growth and the revenue growth are - have diverged to this extent?"
- **CFO Shemesh:** "With regard to the revenue, as we know that the revenue takes time until catch up with collection, usually 6 to 12 months obviously because of revenue. The second half of 2016 we accelerated the growth in term of collection, so we actually saw a much better growth more than 40% during the second half of 2016. So I think that when you look at revenue, it basically represents the growth of collection that we've seen in the previous year. So obviously if on 2016 the overall collection growth was 42% so you should explain the revenue to catch up with that. And to represent the same growth that we've seen in collection over the previous year. So that basically kind of explained to you why the growth in revenue actually accelerated and it's more than the growth of collection that we guided for 2017."

\$ mm	2011	2012	2013	2014	Q3'15	Q4'15	2015	Q3'16	Q4'16	2016	2017E	2017E Update
Revenues	\$24.6	\$43.7	\$80.5	\$141.8	\$53.6	\$56.8	\$203.5	\$75.6	\$84.2	\$290.1	\$409 - \$411	\$417 - \$419
Change in Deferred Revenue	\$5.0	\$8.8	\$18.2	\$29.4	\$8.0	\$10.0	\$38.2	\$11.7	\$13.5	\$52.0	\$43 - \$47	\$44 - \$48
Collections	\$29.6	\$52.5	\$98.7	\$171.3	\$61.6	\$66.9	\$241.7	\$87.3	\$97.7	\$342.1	\$452 - \$458	\$461 - \$467
YoY Sales Growth	--	77.5%	84.2%	76.3%	--	--	43.5%	41.1%	48.1%	42.5%	41.0% - 41.7%	43.7% - 44.4%
YoY Collections Growth	--	77.0%	88.0%	73.6%	--	--	41.1%	41.7%	46.0%	41.5%	32.1% - 33.9%	34.8% - 36.5%
Sales - Collections	--	0.5%	-3.8%	2.7%	--	--	2.4%	-0.6%	2.1%	1.0%	8.8% - 7.8%	9.0% - 7.9%



Highly Suspicious Guidance

Spruce Point finds it hard to believe that: 1) WIX does not provide guidance of registered users or premium subscribers (a critical driver of its financial model), 2) WIX's financial guidance is so narrow and precise to be within just a few million dollars, and 3) that WIX's guidance is becoming less transparent.

\$ in mm	FY15 Call 2/10/16	Q1'16 5/4/16	Q2'16 7/27/16	Q3'16 11/10/16	FY16 Actual 2/5/17	2017E and update	
Collections	\$314 - \$320	\$320 - \$324	\$327 - \$330	\$337 - \$338	\$342.1	\$461-\$467	
Collections (FX/Neutral)	\$320 - \$326	\$324 - \$328	Stopped Disclosing	Stopped Disclosing	Stopped Disclosing	Stopped Disclosing	
Revenue	\$270 - \$274	\$274 - \$277	\$278 - \$280	\$287 - \$288	\$290.1	\$417 - \$419	
Adj EBITDA	\$27 - \$30	\$30 - \$32	\$34 - \$36	\$38.5 - \$39.5	\$42.6	\$79-\$80 Will Stop Disclosing	
R&D (1)	\$101.0 - \$102.5	--	--	--	\$105.4	Stopped Disclosing	
Capex	\$6 - \$7					\$4.4	\$6 - \$7
Stock Comp	\$24 - \$25	<div>Our concerns about WIX's capex are <u>heightened by the fact that this is the only item that it underestimated</u>. Also, the 2017 capex is identical to the 2016 despite 40%+ growth forecasts</div>				\$28.0	\$39 - \$40
Free Cash Flow	--					\$36.2	\$63 - \$64
Diluted Shares	--					--	57 – 58 +31%

Our concerns about WIX's capex are heightened by the fact that this is the only item that it underestimated. Also, the 2017 capex is identical to the 2016 despite 40%+ growth forecasts

(1) WIX guided to a 30-32% increase over 2015

Warning: Little Long-Term Deferred Revenue

WIX's deferred revenue accounts merit scrutiny. The Company reports almost no long-term deferred revenue. This is surprising given the nature of its business, and recent new Risk Factor disclosure that it has multi-year contracts with customers. WIX also sells longer term domain registrations. Compare WIX's deferred revenue composition vs. peers below and you'll understand our concern


A decrease in annual subscriptions or renewal rates of our existing premium subscriptions could adversely impact our collections and revenues, result in delayed or lower than forecasted profitability, and harm our ability to forecast our business.

The rate at which premium subscriptions are purchased and the rate at which premium subscriptions are renewed, significantly impact the overall number of premium subscriptions and, as a result, our collections and our revenues. **As of December 31, 2016, one-year, two-year and three-year subscription packages constituted approximately 83% of all premium subscriptions.** (Source: [2016](#) p. 7 vs. [2015](#) p. 8)

WIX's Scant Long-Term Deferred Revenue...	December 31,	
	2015	2016
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Trade payables	\$ 12,280	\$ 20,709
Employees and payroll accruals	15,210	20,230
Deferred revenues	100,561	146,987
Accrued expenses and other current liabilities	20,016	18,847
<u>Total</u> current liabilities	<u>148,067</u>	<u>206,773</u>
LONG-TERM LIABILITIES:		
Long-term deferred revenues	4,206	9,746
Long-term deferred tax liabilities	890	634
Other long term liabilities	75	-
<u>Total</u> long-term liabilities	<u>5,171</u>	<u>10,380</u>
TOTAL LIABILITIES	<u>153,238</u>	<u>217,153</u>

Company	Long Term Deferred (% of Total)	Short Term Deferred (% of Total)
Web.com	\$195.9 46%	230.2 54%
GoDaddy	\$1,043.5 34%	\$532.7 66%
Endurance Int'l	\$89.2 20%	\$355.2 80%
United Internet	\$260.7 13%	\$37.4 87%
WIX	\$9.7 6%	\$146.9 94%

Warning: First Sign of Revenue Restatements



Warning: WIX restated its App Market revenues lower recently. It's hard to trust management's claims that ARPU is rising from more App Market sales, when it cannot accurately calculate App Market sales!

CFO on [Q3'15 Earnings Call](#) (11/4/15): “Our average revenue per subscription is also up year-over-year, excluding the impact of currency and the mix shift to more annual plans that has taken place over the last year. **The increase in ARPU is being driven by increased sales of apps in our App Market**, vertical apps and other revenue sources such as domains and images.”


Recent 2016 Disclosure on App Market Revenue

*“We launched our App Market in the last quarter of 2012 and therefore generated negligible revenues from it in 2013 and 2014 and generated revenues **of \$2.8 million** and \$5.9 million **in 2015** and 2016, respectively.”*


Source: WIX 2016 [20-F](#), p.50

Prior 2015 Disclosure on App Market Revenue

*“We launched our App Market in the last quarter of 2012 and therefore generated negligible revenues from it in 2013 and 2014 and generated revenues of **\$3.8 million** **in 2015**”*



Source: WIX 2015 [20-F](#), p.51



Either WIX management doesn't know its business well, or is making up excuses to divert investor attention away from underlying weakness. Consider the statements below, when discussing the seasonality of the business – is Q2 or Q4 the slowest?

Only Mention of Seasonality In WIX's Results Were Its Prospectus, Recent 20-F's Don't Elaborate Further:

"We believe there are slight seasonal impacts to our business during major holiday periods when we experience lower than average daily site traffic. However to date, seasonal impacts have not been clearly visible in our quarterly consolidated results of operations, which we believe may be due to the rapid growth of our business and our geographic breadth. In the future, seasonal trends may cause fluctuations in our quarterly results, including fluctuations in sequential collections. (Source: [F-1](#) filed 3/20/14, p. 63)

CFO Shemesh [Q2'15 Earnings Call](#) (8/2/15): *"So generally, if you remember, we spoke about this in the past. Q2 is customarily in terms of seasonality, a slower or even the slowest quarter of the year, which kind of makes sense as to why you'll see a better performance in terms of the contribution of the older cohorts into this specific quarter."*

COO Zohar [Q2'15 Earnings Call](#) (8/2/15): *"Our strong user and subscription growth continues. We are particularly happy with our results this quarter as Q2 is seasonally our lowest (sic: slowest) quarter."*

COO Zohar [Q4'15 Earnings Call](#) (2/10/16): *"The fourth quarter is historically our slowest quarter, so we typically run several seasonal promotions, which we did this year as well."*

CEO Abrahami [Q3'16 Earnings Call](#) (11/10/16): *"So, the fourth quarter usually we know that we have a lot of holiday. So, basically the fourth quarter is the weak one among all the other quarters because of vacations and holidays."*

Aggressive EBITDA Presentation

WIX already made an aggressive move to bolster EBITDA in 2014 by adding back deferred revenue changes...

	Three Months Ended December 31,		Year Ended December 31,	
	2013	2014	2013	2014
	(unaudited)	(unaudited)	(audited)	(unaudited)
Net loss	\$ (10,918)	\$ (15,076)	\$ (28,720)	\$ (56,566)
Adjustments:				
Financial expenses (income), net	\$ 502	\$ (538)	\$ 603	\$ (2,144)
Other expenses	(2)	9	18	14
Taxes on income	580	1,751	1,572	3,052
Depreciation	374	879	1,229	2,662
Amortization	-	119	-	153
Withdrawn secondary offering expenses	-	-	-	365
Acquisition related expenses	-	-	-	65
Share based compensation expenses	3,699	3,883	7,054	13,937
Total adjustments	\$ 5,153	\$ 6,103	\$ 10,476	\$ 18,104
Prior Adjusted EBITDA	\$ (5,765)	\$ (8,973)	\$ (18,244)	\$ (38,462)

	Three Months Ended December 31,		Year Ended December 31,	
	2013	2014	2013	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net Loss	\$ (10,918)	\$ (15,076)	\$ (28,720)	\$ (56,566)
Adjustments:				
Interest, bank charges & other financial expenses (income), net	204	245	(18)	262
Unrealized losses (gains) on hedging transactions	187	(227)	469	(2,124)
Other expenses	(2)	9	18	14
Taxes on income	580	1,751	1,572	3,052
Depreciation	374	879	1,229	2,662
Amortization	-	119	-	153
Withdrawn secondary offering expenses	-	-	-	365
Acquisition related expenses	-	-	-	65
Share based compensation expenses	3,699	3,883	7,054	13,937
Change in deferred revenue	5,649	7,720	18,200	29,414
Change in prepaid domain registration costs	(486)	(612)	(1,701)	(2,494)
Total adjustments	\$ 10,205	\$ 13,767	\$ 26,823	\$ 45,306
New Adjusted EBITDA	\$ (713)	\$ (1,309)	\$ (1,897)	\$ (11,260)

SEC Weighs In on WIX's Aggressive EBITDA Presentation And More...

WIX's Adjusted EBITDA has come under scrutiny from the SEC from a comment letter in Feb 2016 related to changes in deferred revenues. (1) The Company is now abandoning its EBITDA presentation practices according to a statement on its last earnings conference call a year later in Feb 2017. (2) However, notice that the SEC also called out accelerated revenue recognition while delaying expenses. When will WIX provide greater clarity and/or make changes?

SEC Comment: "In addition, your disclosures do not comply with Item 10(e)(i)(C) of Regulation S-K because you do not explain to investors how they should compensate for the mixed attributes of your measure. For example, revenues are accelerated to when billed, but other line items such as expenses are not."

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2016	2015	2016
	(unaudited)		(unaudited)	
Non GAAP operating loss	\$ (4,417)	\$ 3,879	\$ (29,266)	\$ (12,529)
Adjustments:				
Realized gains on hedging transactions	516	167	3,492	791
Depreciation	1,399	890	4,999	4,538
Change in deferred revenues	10,039	13,476	38,169	51,966
Change in prepaid domain registration costs	(512)	(535)	(2,673)	(2,178)
Total adjustments	\$ 11,442	\$ 13,998	\$ 43,987	\$ 55,117
Adjusted EBITDA	\$ 7,025	\$ 17,877	\$ 14,721	\$ 42,588

Source: WIX 2016 [Earnings Release](#)

- 1) [SEC Comment Letter](#): 2/16/16
- 2) [Earnings call](#), 2/15/17

More Signs of Financial Control Issues: Taxes

Small earnings revision from Press Release to Annual Report are another sign of financial control issues emerging.

Annual Report

	Year ended December 31,		
	2014	2015	2016
Revenues	\$ 141,841	\$ 203,518	\$ 290,103
Cost of revenues	26,108	34,970	45,287
Gross profit	115,733	168,548	244,816
Operating expenses:			
Research and development	57,832	77,647	105,368
Selling and marketing	97,742	120,010	156,512
General and administrative	15,803	19,526	26,968
Total operating expenses	171,377	217,183	288,848
Operating loss	(55,644)	(48,635)	(44,032)
Financial income, net	2,144	77	247
Other expenses	14	11	4
Loss before taxes on income	(53,514)	(48,569)	(43,789)
Taxes on income	3,052	2,765	3,107
Net loss	\$ (56,566)	\$ (51,334)	\$ (46,896)
Basic and diluted net loss per ordinary share	\$ (1.49)	\$ (1.30)	\$ (1.12)

Press Release

	Year Ended December 31,	
	2015	2016
	(unaudited)	
Revenue	\$ 203,518	\$ 290,103
Cost of revenue	34,970	45,287
Gross Profit	168,548	244,816
Operating expenses:		
Research and development	77,647	105,368
Selling and marketing	120,010	156,512
General and administrative	19,526	26,968
Total operating expenses	217,183	288,848
Operating loss	(48,635)	(44,032)
Financial income (expenses), net	77	246
Other income (expenses)	(11)	(4)
Loss before taxes on income	(48,569)	(43,790)
Taxes on income	2,765	3,367
Net loss	\$ (51,334)	\$ (47,157)
Basic and diluted net loss per share	\$ (1.30)	\$ (1.12)

WIX New Warning Buried In 20-F....

If you don't consider any of our concerns, at least pay close attention to WIX's recently filed 20-F, which sets the stage for a potential revenue restatement. WIX also references a "significant financing component" in revenues. Never having disclosed customer financing, what exactly is it referring to ?

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09 guidance on revenue from contracts with customers that will supersede the existing revenue recognition guidance and clarify the principles for recognizing revenue. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

1. The guidance determines a five-step model for recognizing revenue from contracts with customers:
2. Identifying the contract
3. Identifying performance obligations
4. Determining the transaction price
5. Allocating the transaction price to separate performance obligations
6. Recognizing revenue

Other major provisions include, among others, consideration of the time value of money in the transaction price and requiring estimates of variable consideration. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The effective date was deferred for one year to the interim and annual periods beginning on or after December 15, 2017. The Company has established an implementation team and has started analyzing the impact of the guidance. The Company is in the process of reviewing its current accounting policies and practices to identify potential differences that would result from applying the requirements of the guidance to its revenue contracts.

With the assessment in its progress, the Company identified the following areas that may be affected:

- i. Estimations of the transaction price due to variable consideration and significant financing component.
- ii. Assessment of when control of certain promised performance obligations, aside from the Company's premium subscriptions, are transferred to the customer.

WIX has not disclosed any customer financing. What is it referring to?

In addition, the Company is in the process of identifying appropriate changes to its business processes, systems and controls to support recognition and disclosure under the new guidance. The guidance permits the use of either a retrospective or cumulative effect transition method. We have not yet selected a transition method. We expect to select transition method once we finalized our analysis to the standard. The FASB has issued, and may issue in the future, interpretive guidance which may cause our evaluation to change. We believe we are following an appropriate timeline to allow for proper recognition, presentation and disclosure upon adoption effective the beginning of fiscal year 2018.

Read The Fine Print: Warning of Potential Material Weaknesses of Financial Controls

It always pays to read the fine print. WIX is clearly warning investors to not be surprised if a material weakness of financial controls emerges....

If we are unable to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), or if our internal control over financial reporting is not effective, investors may lose confidence in the accuracy and the completeness of our financial reports, the reliability of our financial statements may be questioned and our share price may suffer.

*The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. Pursuant to Section 404(a) of the Sarbanes-Oxley Act, beginning with our annual report for the fiscal year ended December 31, 2016, we are required to furnish a report by management on the effectiveness of our internal control over financial reporting. Accordingly, during the fiscal year ended December 31, 2016, our management commenced the process of evaluating the effectiveness of our internal control over financial reporting. **Additionally, pursuant to Section 404(b) of the Sarbanes-Oxley Act, beginning with our annual report for the fiscal year ended December 31, 2016, as we are no longer an emerging growth company and qualify as a large accelerated filer, we must include an auditor attestation on our internal control over financial reporting.***

*To maintain the effectiveness of our disclosure controls and procedures and our internal control over financial reporting, we expect that we will need to continue enhancing existing, and implement new, financial reporting and management systems, procedures and controls to manage our business effectively and support our growth in the future. The process of evaluating our internal control over financial reporting will continue to require an investment of substantial time and resources, including by our Chief Financial Officer and other members of our senior management. The determination and any remedial actions required could divert internal resources and take a significant amount of time and effort to complete and could result in us incurring additional costs that we did not anticipate, including the hiring of outside consultants. **Additionally, as part of management assessments of the effectiveness of our internal control over financial reporting, our management may conclude that our internal control over financial reporting is not effective due to our failure to cure any identified material weakness or otherwise, which would require us to employ remedial actions to implement effective controls. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner or to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion or issues an adverse opinion in its attestation as to the effectiveness of our internal control over financial reporting required by Section 404(b), investors may lose confidence in the accuracy and completeness of our financial reports and the trading price of our ordinary shares could be negatively affected. We could also become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.** Irrespective of compliance with Section 404, any failure of our internal controls could have a material adverse effect on our stated results of operations and harm our reputation. As a result, we may experience higher than anticipated operating expenses, as well as higher independent auditor fees during and after the implementation of these changes. If we are unable to implement any of the required changes to our internal control over financial reporting effectively or efficiently, it could adversely affect our operations, financial reporting and/or results of operations and could result in an adverse opinion on internal controls from our independent auditors. Further, if our internal control over financial reporting is not effective, the reliability of our financial statements may be questioned and our share price may suffer.*



Questions Marks Around Management, Governance and Audit Integrity

WIX's CFO Has Been Associated With Not 1, Not 2, But 3 Controversial Companies

Pay careful attention to WIX's CFO.

He held stints at Alvarion and Veraz Networks, which were both controversial companies that had their stock prices bleed to zero and had allegations of fraud and SEC inquiries. He also was a financial controller at ECI Telecom, which faced serious allegations of fraud.

Person (Role)	Work Experience	Notes
Lior Shemesh (CFO)	<ul style="list-style-type: none"> Prior to joining Wix in March 2013, worked at Alvarion Ltd (VP of Finance/CFO) 2008-2013 Prior to Alvarion, he was VP of Finance at Veraz Networks 2003-2008 (merged with Dialogic which was delisted from Nasdaq to the bulletin board and sold for pennies) Prior to Alvarion, Financial Controller of ECI Telecom 	<ul style="list-style-type: none"> Alvarion was public on Nasdaq and went into receivership and liquidation and eventually delisted Allegations of fraud from the former financial controller at Alvarion prior to Shemesh joining Veraz Networks charged by the SEC with FCPA violations in 2007-2008 period ECI Telecom faced a serious shareholder lawsuit claiming it hyped its technology and engaged in a reckless scheme with improper sales and revenue recognition policies in violation of GAAP. ECI reached a settlement without admitting guilt
Yaniv Even-Haim (VP of R&D)	<ul style="list-style-type: none"> From September 2001 for eight years Yaniv headed Converse's R&D Organization of Content Business 	<ul style="list-style-type: none"> SEC charges former Converse CEO, CFO and GC in stock option backdating scheme and material misstatement of results from between 1991 and at least 2002

WIX Auditor's Bear Scrutiny

WIX has both an internal and external auditor. WIX uses the same external auditor used by Caesarstone. We warned our readers early on about CSTE and its auditor's citations. In alignment with Spruce Point expectations, CSTE has started restating its results. Will WIX be any different?

	Deloitte Brightman Almagor (Internal Auditor)	Kost Forer Gabbay & Kasierer (Member of E&Y Global) (External Auditor)
Role	To examine, among other things, our compliance with applicable law and orderly business procedures. The audit committee is required to oversee the activities and to assess the performance of the internal auditor as well as to review the internal auditor's work plan	Audited the consolidated financial statements included in this annual report on Form 20-F, and as part of its audit, has issued its audit report on the effectiveness of our internal control over financial reporting
Last PCAOB Inspection Report	April 28, 2016	April 30, 2015
Warning Citations	<u>"Certain deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, in accordance with the applicable financial reporting framework and its opinion about whether the issuer had maintained, in all material respects, effective internal control over financial reporting ("ICFR"). In other words, in this audit, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement and the issuer maintained effective ICFR."</u>	<u>"Certain of the deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion about whether the issuer had maintained, in all material respects, effective internal control over financial reporting ("ICFR"). In other words, in this audit, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the issuer maintained effective ICFR"</u>
Notable Failures	Lumenis Ltd (source / source) Comverse Tech. (source)	Ceasarstone (restatement starting) Comverse Tech (source) Alvarion (source) Tefron (source)

WIX's Alarmingly Low Audit Fees

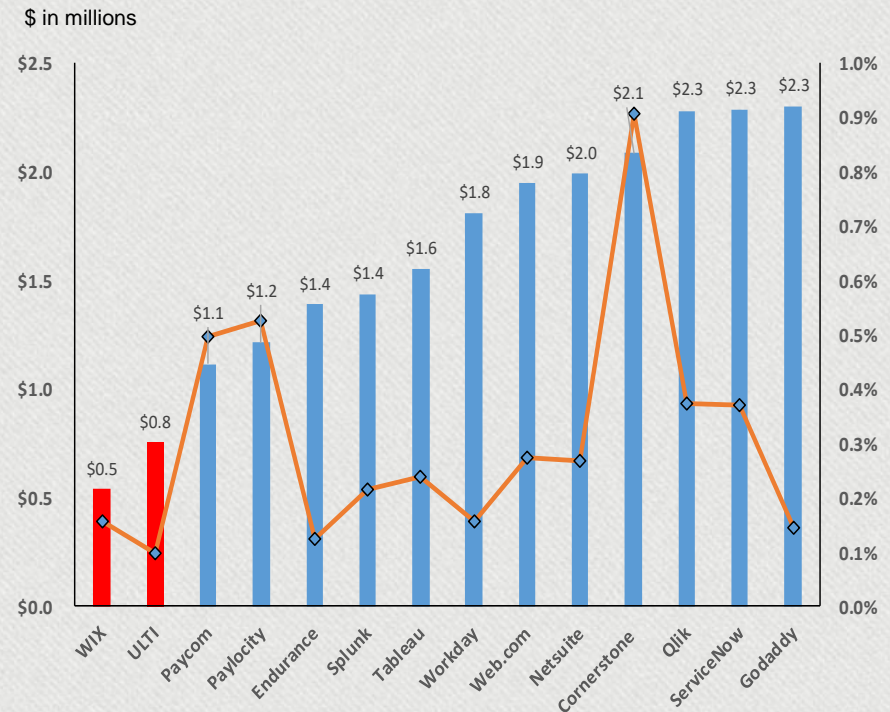
We warned you previously about Ultimate Software Group (ULTI).
WIX's audit fees on an absolute and relative (to sales) basis is alarmingly low.

WIX Audit Fees

	2015	2016
	<i>(in USD thousands)</i>	
Audit Fees	419	426
Audit-Related Fees	75	30
Tax Fees	45	74
Total	539	530

Source: WIX 2016 [20-F](#)

Audit Fees as % of Revenues



Source: Company SEC filings

Two Audit Committee Departures Already

Two resignations on the Audit Committee already, most recently Norbert Becker effective April 2017 and Betsy Atkins in July 2014. Both resignations were of non-Israeli based directors

Director	Note	Based in Israel Where WIX is located?
Betsy Atkins	<ul style="list-style-type: none"> Joined Board in October 2013 Member of the audit committee Resigned in July 2014 	No, US based
Norbert Becker	<ul style="list-style-type: none"> Member of audit and comp committees Recently resigned effective April 1, 2017 citing “personal health reasons” 	No, based in Luxembourg
Yuval Cohen	<ul style="list-style-type: none"> Board member since 2013 Replaced Becker on audit committee Also on Board of Kornit Digital (Nasd: KRNT) Replaced Becker on Audit Committee and had been on the audit committee prior 	Yes
Ron Gutler	<ul style="list-style-type: none"> Audit committee member Also Board Member of CyberArk (Nasd: CYBR) Former Chair of NICE Systems (Nasd: NICE) 	Yes
Erika Rottenberg	<ul style="list-style-type: none"> Audit committee member Board Member of Twilio (NYSE: TWLO) Former VP and GC of LinkedIn 	No, Based in San Francisco, California

Early WIX Backers And Insiders Are Unloading Shares...

Key venture partners (Bessemer, Benchmark and Insight) have completely exited. Insider ownership is now down from 39.4% to 19.6% (-20%). Do they know something we don't?
WIX is increasingly owned by US investors, and no major Israeli institutions

Name of Beneficial Owner	Number of Shares Beneficially Held	Percentage of Class
All executive officers and directors as a group (13 persons)	9,138,370	19.6%
<i>Principal Shareholders</i>		
Entities affiliated with Mangrove Capital Partners(10)	5,880,490	13.1%
T. Rowe Price Associates Inc. (11)	5,543,422	12.4%
Entities affiliated with Steadfast Capital Management (12)	3,824,000	8.5%
FMR LLC (13)	3,601,382	8.0%

Source: WIX [20-F](#) as of 3/28/17

Name of Beneficial Owner	Number of Shares Beneficially Held	Percentage of Class
All executive officers and directors as a group (13 persons)		
<i>Principal Shareholders</i>		
Entities affiliated with Mangrove Capital Partners(11)	8,280,010	20.5%
Entities affiliated with Bessemer Venture Partners(12)	3,858,006	9.6%
FMR LLC(13)	3,841,913	9.5%
T. Rowe Price Associates Inc. (14)	3,687,547	9.1%
Entities affiliated with Steadfast Capital Management (15)	2,575,926	6.4%

Source: WIX [20-F](#) as of 2/29/16

Name of Beneficial Owner	Number of Shares Beneficially Held	Percentage of Class
All executive officers and directors as a group (14 persons)	15,754,339	39.4%
<i>Principal Shareholders</i>		
Entities affiliated with Mangrove Capital Partners(14)	8,243,190	21.9%
Entities affiliated with Bessemer Venture Partners(15)	7,935,978	21.2%
Benchmark Capital Partners(16)	4,012,329	10.7%
Entities affiliate with Insight Venture Partners(17)	3,730,855	9.9%
T. Rowe Price Associates, Inc.(18)	1,994,900	5.3%

Source: WIX [20-F](#) as of 2/28/14



According to Form 144 filings, we estimate insiders have already unload \$42m of stock YTD

SEC
Mail Processing
Section
APR 06 2017
Washington DC

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 144
NOTICE OF PROPOSED SALE OF SECURITIES
PURSUANT TO RULE 144 UNDER THE SECURITIES ACT OF 1933

ATTENTION: Transmittal for filing 3 copies of this form concurrently with either placing an order with a broker to execute sale or placing a sale directly with a market maker.

(1) (b) NAME OF ISSUER (Please type or print) **WJX.com LTD.**

(2) (a) ADDRESS OF ISSUER STREET CITY STATE ZIP CODE
40 Narnal Tel Aviv St. Tel Aviv Israel 6701101

(3) (a) NAME OF PERSON FOR WHOM ACCOUNT THE SECURITIES ARE TO BE SOLD **Allan Bloch**

(4) RELATIONSHIP TO ISSUER **Director**

(5) ADDRESS STREET CITY STATE ZIP CODE
165 Clow Ln Princeton NJ 08540

(6) (b) NAME OF CLASS OF SECURITIES TO BE SOLD **Common**

(7) (a) Name of Issuer **WJX.com LTD.**

(8) (b) Name and Address of Each Broker/Through Whom the Securities are to be Offered or Each Market Maker who is Acquiring the Securities **Oppenheimer & Co. Inc. 65 Broad St New York, NY 10004**

(9) (a) Number of Shares or Other Units To Be Sold (See instr. 2(d)) **6500**

(10) (a) Aggregate Market Value (See instr. 2(d)) **\$345,000**

(11) (a) Number of Shares or Other Units Outstanding (See instr. 2(d)) **44,039**

(12) (a) Approximate Date of Sale (See instr. 2(f)) (MO, DAY, YR.) **3-31-17**

(13) (a) Name of Each Securities Exchange **Nasdaq**

INSTRUCTION: The person filing this notice should contact the issuer to obtain the I.R.S. Identification Number and the S.E.C. File Number.

(1) (a) Title of the Class of Securities To Be Sold	(2) (a) Name and Address of Each Broker/Through Whom the Securities are to be Offered or Each Market Maker who is Acquiring the Securities	(3) (a) SEC USE ONLY Broker-Dealer File Number	(4) (a) Number of Shares or Other Units To Be Sold (See instr. 2(d))	(5) (a) Aggregate Market Value (See instr. 2(d))	(6) (a) Number of Shares or Other Units Outstanding (See instr. 2(d))	(7) (a) Approximate Date of Sale (See instr. 2(f)) (MO, DAY, YR.)	(8) (a) Name of Each Securities Exchange (See instr. 2(g))
Common	Oppenheimer & Co. Inc. 65 Broad St New York, NY 10004		6500	\$345,000	44,039	3-31-17	Nasdaq

INSTRUCTIONS:

- (a) Name of Issuer
(b) Issuer's S.E.C. File Number
(c) Issuer's S.E.C. File number, if any
(d) Issuer's address, including zip code
(e) Issuer's telephone number, including area code
- (a) Name of person for whom account the securities are to be sold
(b) Such person's relationship to the issuer (e.g., officer, director, 10% stockholder, or member of immediate family of any of the foregoing)
(c) Such person's address, including zip code

- (a) Title of the class of securities to be sold
(b) Name and address of each broker through whom the securities are intended to be sold
(c) Number of shares or other units to be sold (if debt securities, give the aggregate face amount)
(d) Aggregate market value of the securities to be sold as of a specified date within 10 days prior to the filing of this notice
(e) Number of shares or other units of the class outstanding, or if debt securities the face amount thereof outstanding, as shown by the most recent report or statement published by the issuer
(f) Approximate date on which the securities are to be sold
(g) Name of each securities exchange, if any, on which the securities are intended to be sold

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1147 (08-07)

All Shares

Uploaded	Period	Name	Position	Shares	Est Price	Value
7-Apr-17	31-Mar-17	Allon Blech	Director	6,500	\$80.69	\$524,500
7-Apr-17	29-Mar-17	Omer Shai	CMO	27,000	\$66.30	\$1,790,100
7-Apr-17	29-Mar-17	Avishai Abrahami	CEO	50,000	\$66.30	\$3,315,000
28-Mar-17	20-Mar-17	Lior Shemesh	CFO	46,102	\$67.82	\$3,126,597
23-Mar-17	1-Mar-17	Giora Kaplan	CTO, Director	534	\$62.30	\$33,268
23-Mar-17	1-Mar-17	Nir Zohar	COO	477	\$62.30	\$29,717
23-Mar-17	1-Mar-17	Omer Shai	CMO	452	\$62.30	\$28,160
23-Mar-17	1-Mar-17	Yaniv Even Haim	Officer	300	\$62.30	\$18,690
23-Mar-17	1-Mar-17	Lior Shemesh	CFO	470	\$62.30	\$29,281
23-Mar-17	1-Mar-17	Avishai Abrahami	CEO	534	\$62.30	\$33,268
17-Mar-17	8-Mar-17	Aniv Even Haim	Officer	16,000	\$61.95	\$991,214
17-Mar-17	27-Feb-17	Mangrove II Investments Sarl	Shareholder/ Director	345,000	\$65.05	\$22,442,250
17-Mar-17	27-Feb-17	Mangrove Partners SCSp	Affiliate	5,000	\$65.00	\$325,000
27-Feb-17	15-Feb-17	Nir Zohar	COO	10,000	\$52.95	\$529,500
27-Feb-17	15-Feb-17	Yaniv Even Haim	Officer	21,875	\$52.95	\$1,158,281
7-Feb-17	25-Jan-17	Yaniv Even Haim	Officer	3,252	\$55.30	\$179,836
1-Feb-17	24-Jan-17	Nir Zohar	COO	10,000	\$53.75	\$537,500
31-Jan-17	23-Jan-17	Yaniv Even Haim	Officer	3,958	\$53.45	\$211,555
27-Jan-17	18-Jan-17	Allon Blech	Director	2,000	\$52.55	\$105,100
25-Jan-17	11-Jan-17	Omer Shai	CMO	10,305	\$48.50	\$499,793
19-Jan-17	10-Jan-17	Allon Blech	Director	2,000	\$48.35	\$96,700
19-Jan-17	6-Jan-17	Giora Kaplan	CTO, Director	119,424	\$47.00	\$5,612,928
10-Jan-17	3-Jan-17	Yuval Cohen	Director	30,000	\$44.55	\$1,336,500
Total:				711,183	\$60.40	\$42,954,738




Valuation and Price Target



Owning WIX Shares Currently Has An Unfavorable Risk / Reward

Analysts have a resounding “Buy” or “Overweight” recommendation on WIX and have an average price target of \$71.60 per share leaving little upside from the current price. WIX’s shares are already up almost 60% YTD, and were trading above the average analyst price target. This doesn’t appear to be a good entry point for owning WIX. Even Cantor Fitzgerald downgraded recently from Buy to Neutral (ironically also upping the price target from \$65 to \$80...hmm) (1)

Analyst	Recommendation	Price Target
Barclays	Overweight	\$80.00
Cantor Fitzgerald	Neutral 	\$80.00
Stephens	Overweight	\$77.00
Northland	Outperform	\$75.00
Raymond James	Market Perform 	\$--
Needham	Buy	\$73.00
JMP	Outperform	\$70.00
Oppenheimer	Outperform	\$70.00
JP Morgan	Neutral	\$67.00
Makor	Hold	\$65.00
RBC	Sector Perform	\$59.00
 Recent Downgrade	Average Price Target % Implied Downside (2)	\$71.60 (0%)

1) [Cantor downgrade](#)

2) Upside based on \$71 share price

Promoter View Vs. Reality

What The Stock Promoters Say

Needham (Buy \$73: March 2017):

- "We are encouraged by Wix's acquisition of DeviantArt (DA). We believe the acquisition provides Wix with exclusive access to DA's 40M registered users and 45M monthly unique visitors. With Wix's improving conversion rates, we believe these users could boost its premium subscribers, collections, and revenue."*

JPM Morgan (Neutral: \$70, March 2017)

- "No one was questioning whether things are good for Wix or not because it is clear things are going really well."*
- "While WordPress, the largest website building platform prior to Wix, tapped out at about 100M users, if we look at popular social media platforms such as Facebook we see user accounts approaching 1B or more. So perhaps the registered user population addressable market is somewhere in between the 100M WordPress users and a billion users for the most popular social media platform"*

Stephens (Buy: \$50, Aug 2016)

- "WIX's business model is "SaaS"-ier than ever. In our opinion, WIX has more of a SaaS business model and should be lumped in that peer group rather than its historical peer group. More than 80% of WIX's subscriptions are annual, which provides the same visibility and predictability of many SaaS companies"*

Spruce Point's View

- We estimate DeviantArt does \$9.6m of revenues. Paying ~\$55/yr per member, that equates to 174k of paying subscribers, which is just 0.4% of its registered users. Compare this with WIX's penetration ratio of 2.5% and it's easy to see that DeviantArt's customers are tougher to convert to paying
- Perhaps things should be questioned given the abrupt change in financial performance, extreme appreciation in share price, and our forensic research which indicates financial and accounting deviations and restatements
- We think it is becoming clear that WIX is also experiencing growth challenges at the 100M user level, and its strategy shift to acquire DeviantArt is a strong symptom of the problem
- Comparing WIX with a social media platform such as Facebook is a nice stretch by an analyst to justify continued buying of shares
- WIX's SaaS business is an outlier that deserves scrutiny. Its gross margins are much higher than peers, its capex significantly lower, and its absence of long-term deferred revenue in the face of more annual subscriptions should be considered a red flag. In total, WIX is a low quality SaaS business with many short-term customers, high churn, and low customer switching costs

The “Mad Money” Bull Case

Investors are encouraged to watch the interviews of WIX’s CEO on “Mad Money”
WIX appears focused on selling its story to retail investors.



CNBC [Mad Money](#): Nov 17, 2016



CNBC [Mad Money](#): May 19, 2015



CNBC [Mad Money](#): June 8, 2016

WIX Trading At An Unjustified Premium To Its Peers

WIX's overvaluation is easy to observe from its current relative valuation to peers. The Bulls would explain the valuation by saying that WIX's revenue and EPS growth rate vastly exceed its peers. Our rebuttal is that WIX is a lower quality SaaS company with high customer churn and many short duration customers. The most shocking valuation data point is that WIX trades at \$1,600 per subscriber. The average revenue per subscriber (ARPU) is \$137/year; this implies investors are paying >12yrs of revenues at current valuation. The peers trade at closer to \$500 per subscriber with higher ARPUs. The Street also fails to: 1) capture WIX's true diluted share count, and 2) use the new EBITDA (ex: change in deferred revenues)

\$ in millions except per share amounts

Company (Ticker)	Stock Price	% of	Enterprise Value	'17E-'18E		Price /		Enterprise Value				Paying Sub.	Avg. Yr.			
	4/17/2017	52-wk High		Revenue Growth	EPS Growth	Consensus	EPS	EBITDA		Sales			Sales Per Sub.	Price / Book	Debt / Capital	
United Internet (UTDI)	\$43.23	84%	\$10,558	5.4%	14.6%	16.8x	14.6x	10.5x	9.5x	2.3x	2.2x	\$622	\$248	7.0x	60%	
Godaddy (GDDY)	\$36.97	97%	\$7,191	14.9%	233.3%	123.2x	37.0x	13.1x	11.1x	3.3x	2.8x	\$479	\$130	9.4x	60%	
Endurance Int'l (EIGI)	\$6.80	61%	\$2,909	4.3%	NM	NM	NM	9.5x	8.3x	2.5x	2.4x	\$542	\$18	7.8x	94%	
Web.com (WEB)	\$17.30	77%	\$1,521	4.8%	29.5%	19.7x	15.2x	8.0x	7.3x	2.0x	1.9x	\$440	\$209	3.7x	74%	
				Max	14.9%	233.3%	123.2x	37.0x	13.1x	11.1x	3.3x	2.8x	\$622	\$248	9.4x	94%
				Average	7.3%	92.5%	53.2x	22.3x	10.3x	9.1x	2.5x	2.3x	\$521	\$151	7.0x	72%
				Min	4.3%	14.6%	19.7x	15.2x	8.0x	7.3x	2.0x	1.9x	\$440	\$18	3.7x	60%
WIX.com (WIX)	\$71.00	90%	\$2,847	28.8%	206.5%	229.0x	74.7x	44.5x	30.0x	6.8x	5.3x	\$1,155	\$137	NM	0%	
Spruce Pt. Adjusted	\$71.00	90%	\$3,947	28.8%	206.5%	229.0x	74.7x	178.3x	69.7x	9.4x	7.3x	\$1,601	\$137	NM	0%	

Source: Company financials, Wall St. estimates



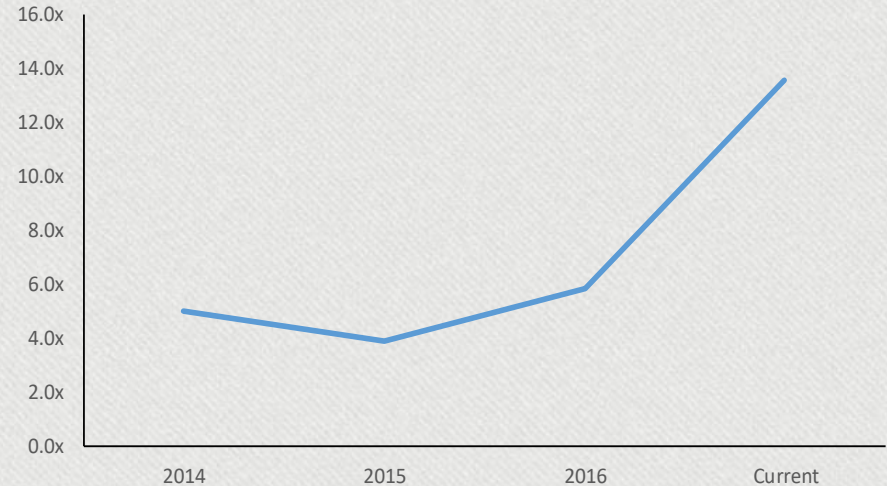


WIX's Valuation From A Historical Trading Perspective...

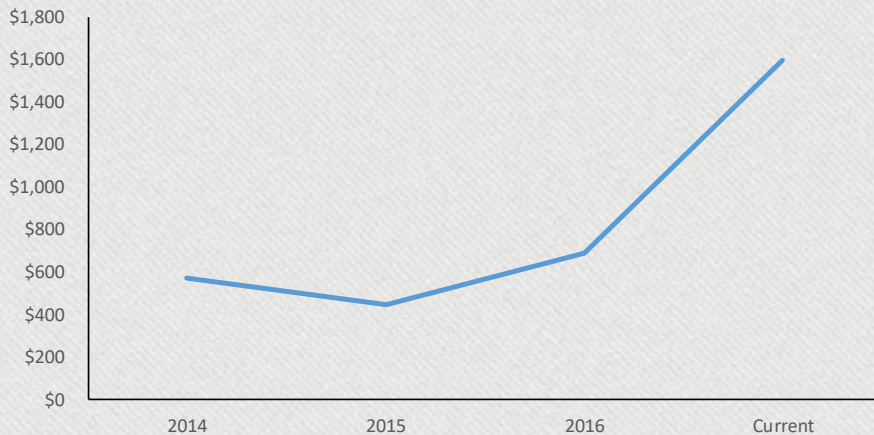
WIX's valuation is trading at peak levels despite worrying signs of:

1. Rising customer acquisition costs
2. Declining customer growth rates
3. Acquisition integration risks
4. Financial presentation discrepancies
5. Risk of material weaknesses in accounting
6. Shareholder rotation by early investors
7. Overhang of large potential share issuance

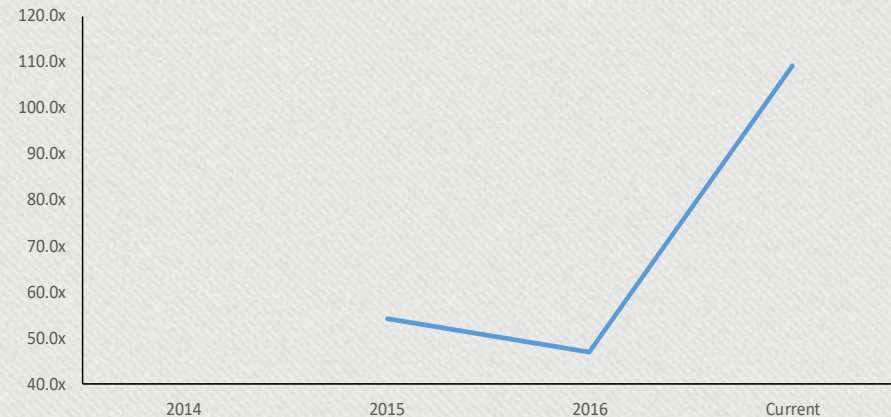
EV / Revenues



Enterprise Value / Paying Subscriber



EV / Free Cash Flow



Spruce Point Estimates 50% – 60% Downside

By all measures, WIX's share price is overvalued. Given the numerous signs of emerging accounting distortions, slowing collections growth, shift in strategy to acquisitions, and subtle warnings of dilution, it seems prudent for investors to take a step back to evaluate WIX's valuation. We think WIX's price could decline by 20% just on the revision on the share count, and 50% - 60% overall

Spruce Point Reference Prices Ranges

\$ in millions, except per share amounts

Valuation	Low Price	High Price	Assumptions
Sales Multiple <u>2017E Sales</u> Enterprise Value Plus: Cash (1) Less: Debt <u>Dil. Shares</u> Price Tgt. % Approx. Downside	4.0x <u>\$417</u> \$1,668 \$135 (\$0) <u>57</u> \$32/sh -55%	5.0x <u>\$419</u> \$2,095 \$135 (\$0) <u>58</u> \$38/sh -46%	Analysts expect WIX sales to grow at 2x the rate of GoDaddy and extrapolate that this means it should have 2x the sales multiple yet ignore the troubling signs of revenue restatement and divergence of collections vs. revenue growth
Multiple Per Paying Subscriber <u>2017E Paying Subscriber</u> Enterprise Value Plus: Cash (1) Less: Debt <u>Dil. Shares</u> Price Tgt. % Downside	\$500 <u>3.0</u> \$1,500 \$135 (\$0) <u>57</u> \$29/sh -60%	\$600 <u>3.0</u> \$1,800 \$135 (\$0) <u>58</u> \$33/sh -53%	Current valuation of \$1,600+ per paying sub that has an ARPU below industry, significant churn and little long-term deferred revenue makes little sense. Valuing WIX in line with peers is more appropriate

1) Assumes \$36m cash paid for DeviantArt