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VMEO.OQ - Q2 2022 Vimeo Inc Earnings Call

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PRESENTATION

Operator

Good morning, and thank you for joining Vimeo's Q2 Earnings Event. We're excited to be here in front of you.

Before we begin, a few comments. First, the session will be recorded and available on the Vimeo Investor Relations site later today. Second, we will discuss Vimeo's outlook and future performance. These forward-looking statements typically may be preceded by words such as we expect, we believe, we anticipate or similar such statements. These forward-looking views are subject to risks and uncertainties, and our actual results could differ materially from the views expressed today.

We have also provided information regarding certain key metrics and our non-GAAP financial measures, including certain forward-looking measures. These should be considered in addition to and not as a substitute for or in isolation from GAAP measures. Additional information regarding Vimeo's financial performance, including reconciliations with comparable GAAP measures can be found in our earnings release and Vimeo's filings with the SEC as well as in supplemental information posted on the Investor Relations section of our website.

With that, I'll turn it over to our CEO, Anjali.

Anjali Sud - *Vimeo, Inc. - CEO & Director*

Good morning, everyone, and thank you for joining our Q2 Earnings Event. During the second quarter, we delivered year-over-year revenue growth of 16%, gross profit growth of 20%, and we made good progress on our near-term path to profitability, cutting our adjusted EBITDA loss sequentially by almost half.

Stepping back, Vimeo is now a few years into an exciting transition into a software company that serves businesses, both big and small. And this transition is working. A few years ago, we were purely a self-serve hosting business, constrained by selling gigabytes of video storage to individuals. Today, our video platform is serving the needs of some of the largest companies and teams in the world.

We've turned our self-serve roots into an engaged user base of employees who are using Vimeo daily. And we've built a sales force on top that's starting to gain real traction. We can see our market opportunity expanding in front of us, as our newest products, from Video Library to Vimeo Events to Vimeo Interactive, get to product-market fit quickly.

There are 3 things I want to hit with you today. First, on growth. We continue to see lower demand than we expected, primarily in our self-serve business, which we attribute to both post-COVID normalization and macroeconomic conditions. Bookings is our leading indicator of revenue growth. And given the environment, we're going to start talking about this metric more to give you transparency into what we expect.

In Q2, our sales assisted bookings grew double digits, but our overall bookings were flat year-over-year, dragged down by a decline in self-serve. Bookings typically precedes revenue by roughly 3 quarters for Vimeo, so we're prepared to see our revenue growth continue to decelerate in 2022.

We believe we will exit 2022 sales-assisted bookings growing healthy and accelerating, but an acceleration in self-serve continues to be hard to forecast. So while we work to return to growth in self-serve, we'll rely on the strength of our sales-assisted to propel our overall revenue growth in 2023, which we expect to accelerate in the second half.

Second, on profitability. We're proactively responding to our environment and our outlook. We've made swift changes to the business. This includes reducing our operating expenses across the board to get to profitability faster and to invest from there based on validated results. We believe we can deliver near-breakeven adjusted EBITDA by Q4 of this year, and we're positioning the company to be profitable in 2023 across a range of revenue outcomes. We've also added several new executives with deep experience and proven track records to improve our execution across product, sales and marketing.

Third, on the long term. Our growth path remains clear to us. Our sales-assisted revenue grew 45% year-over-year in Q2, and those bookings grew nearly 20%, even as we worked through a reorientation of our sales force and despite macro concerns. Within sales-assisted, our flagship Vimeo Enterprise product is scaling. Those bookings are growing the fastest, 2x faster than our total sales-assisted bookings. And we see leading indicators of further scale. Retention and ARPU of Vimeo Enterprise customers is rising year-over-year, and the number of seats using those accounts is growing in the triple digits. These are strong indicators of both the value we're delivering today and of our ability to drive product-led growth in the future.

So let me give you some color on self-serve, which is a fundamental advantage for Vimeo despite the current headwinds. Self-serve was roughly 65% of revenue in Q2, up 4% year-over-year. And what self-serve gives us is enviable scale in our industry, both financially and in our product and brand. It's already our largest and most efficient source of enterprise leads today, with over 80% of our new sales-assisted customers coming from self-serve in the quarter. So we're very much focused on resuming growth here and are taking the following clear actions.

We're reallocating our marketing spend and campaigns to more explicitly target key buyers at large organizations instead of the consumers and SMBs we were historically optimized for. We're making key changes to our website and customer experience to better convert those buyers. This involves wholesale changes to our landing pages, site navigation and marketing content.

We're building a far more collaborative product for self-serve users to enable them to more easily create and share content with colleagues, get feedback faster and save time. And we're rolling out a new monetization model designed to simplify the purchasing process and upsell customers naturally through seat expansion. These are big changes, and with them, we believe that self-serve can unlock an incredibly efficient and scalable sales funnel for Vimeo that can fuel our growth for years to come and that can fund our sales-assisted growth in the future.

Next, an update on sales-assisted, which was roughly 35% of revenue in Q2 and grew 45% year-over-year. We continue to see exciting progress here with the largest companies in the world using video and Vimeo more. These companies are live-streaming town halls and then recording those sessions and turning them into searchable Q&A in their video libraries. They're training their employees and teaching their customers how to use their products. And they're embracing interactive video to market and sell better.

These goals aren't new, we just enable companies to give their employees and customers far more engaging experiences through video. And as workforces get more distributed, video will keep moving from a nice-to-have to an absolute necessity, regardless of the economic landscape.

For Vimeo, this translates into faster adoption of our product suite which we expanded with Vimeo Events in November and Vimeo Interactive in June. With these launches, the percentage of sales-assisted customers who use 2 or more products in our suite continues to grow.

Our sales force transition is also moving along nicely. Of our sales force, roughly 74% are fully ramped with the remaining 26% expected to ramp in Q4. We've invested in specialization and in new motions, like customer success, all of which are showing promising signs.

In Q2, we saw the fastest bookings growth from larger customers in our APAC and EMEA regions. And our new monetization model is rolling out nicely with new and renewing sales-assisted customers now buying per seat plans. We're also continuing to win new customers across industries and verticals, and we're getting better at expanding how existing customers use Vimeo. A good example is this Fortune 50 company. A person on this company's video production team started using us to livestream events years ago as a self-serve customer. That production team steadily expanded their use of Vimeo over time and moved to a sales-assisted contract to stream all town halls for one of their business divisions.

This year, they expanded to a company-wide contract, driven by adoption of our video library product and our new per seat monetization model. Now we're in active conversations to expand adoption further to their marketing teams through our newer products, like Vimeo Events and Interactive. There is nothing about this deal, this company or their needs that isn't replicable and extendable to the many other Fortune 500 companies already in our self-serve user base.

This is what we're focused on right now, bringing the pieces together of our product and go-to-market to make this example happen at scale. Finally, we continue to make important structural changes at Vimeo to set us up for the future. In the last 6 months, we welcomed 5 new executives who each bring exceptional experience to the table. Gillian is here today in her first full quarter as our CFO, and you've heard me speak about Eric and Crystal in the past. In Q2, we welcomed Lynn as our new Chief Marketing Officer and Ashraf as our new Chief Product Officer.

Lynn has over 30 years of experience across B2C and B2B marketing at companies like Microsoft, Starbucks and Getty Images. She's seen multiple companies scale in enterprise software, including taking Tableau from a similar place that Vimeo is today, to significant scale. Ashraf is a proven product leader with expertise ranging from enterprise video at Brightcove and AWS to having run massive consumer experiences like Facebook Watch, Meta to having led business units at Amazon.

A strong executive team is even more essential in challenging times, and I'm thrilled to be attracting this caliber of talent and to have this group of leaders in place for Vimeo's next phase. While we continue to invest in critical areas of the business, we're also rightsizing our operating expenses to reflect our current outlook. We've made adjustments across the board, including a 6% reduction in workforce in July, and an ongoing reduction and reallocation of our marketing spend. We expect to continue hiring and investing in both product and go to market, but we will require more from these investments in the near term. Specifically, the performance indicators we will look forward to unlock additional investment are reaccelerating our bookings growth, continuing to grow ARPU and ensuring we approach breakeven adjusted EBITDA in Q4.

In summary, we know what we need to do and believe we have the tools to prove our growth path over the next few quarters. We will continue to respond with speed and agility to a challenging environment while taking a long-term view towards capturing an enormous market opportunity. And while the current environment brings headwinds, we will also enjoy the tailwinds associated with the inevitable increase of video at work. We think we're uniquely positioned and organized to come out of this period as a stronger company with an industry-leading product, a seasoned team and a clear path to becoming both a fast-growing and profitable business.

With that, I will pass it over to Gillian to walk through the financials.

Gillian Munson - Vimeo, Inc. - CFO

Thanks, Anjali. I've had the opportunity to be CFO at Vimeo for a full quarter now, and I really want to step back and explain what I'm excited about in terms of our opportunity from a strategic and a financial perspective. On strategy, the tailwinds for video at work are undeniable, and I'm already using the tools in my day-to-day work. And longer term, you should expect us to use more Vimeo tools for our own IR program as well.

On the financial side, we have an enviable financial profile with high margin, recurring revenue, cash on hand and embedded profitability that we are choosing to invest for growth today, but have the flexibility to moderate based on how our results unfold. Given the size of our opportunity, we aren't growing as fast today as we believe we will in the future, and we are fortunate to be able to continue to invest in this environment to generate real shareholder value with low risk of significant cash burn.

Now there are 3 key messages stemming from our Q2 financials and our outlook that we want to make clear. First, we continue to move through short-term post-pandemic and economic headwinds that are particularly impacting us on self-serve. Sales-assisted is healthy, thanks to momentum in Vimeo Enterprise, though we continue to work through a reorientation of our sales force and pressure on our more volume-driven OTT product.

Second, we remain committed to achieving near-breakeven adjusted EBITDA by the end of 2022, and have proactively taken steps to meet this goal. In Q2, we already reduced our quarterly loss by approximately 40% sequentially and expect sequential improvement to continue.

Third, we are setting Vimeo up to be a healthier company as we move through this post-pandemic period. In fact, we believe we are setting ourselves up to deliver profitability against a number of potential revenue outcomes in 2023.

Now on to the quarter. Q2 revenue reached \$111 million and was up 16% year-over-year with growth across both self-serve and sales-assisted customers. Sales-assisted revenue grew 45% year-over-year while self-serve growth was 4%. Our aim is to get to a place where we have stabilized self-serve, putting it in a position to grow, while the faster-growth part of our business, sales-assisted, begins to approach being the majority of our revenue, which combined, should provide us an overall tailwind to our growth rates.

Now zeroing in on bookings. Revenue growth will be dictated by our bookings growth, typically with a 3-quarter lag. And in Q2, bookings were flat year-over-year with sales-assisted growing near 20% and self-serve down. There are 4 drivers of our bookings at Vimeo: top of the funnel demand, conversion of that demand into customers and sales, average value derived from each customer and customer retention.

As for top of the funnel demand. In self-serve, traffic continues to decline in the double digits year-over-year and was down roughly 30% in Q2, a rate of decline at which we have plateaued near term. In sales-assisted, we continue to move through this post-pandemic period and our sales team transformation. In Q2, our overall pipeline was down year-over-year. However, the decline was in our more volume-driven and post-pandemic exposed products like OTT, whereas the Vimeo Enterprise pipeline was up in the double digits.

On to conversion. In self-serve, our conversion rate has more than doubled since 2019, as measured by customer bookings over traffic and was flat in Q2 versus a year ago. In sales-assisted, conversion rates from pipeline were up slightly quarter-over-quarter though we still see room for improvement as the adjustments we have made to the sales team mature.

Our overall ARPU is rising, thanks to the continued mix shift towards sales-assisted customers. ARPU was \$264 overall, an increase of 10% year-over-year. Self-serve was essentially flat and sales-assisted was down largely due to mix. Within sales-assisted, Vimeo Enterprise had raising ARPU but products like OTT had a lower ARPU year-over-year.

Recently, we rolled out a new monetization model for customers across most sales-assisted revenue and saw early signs of success, bringing price up to better reflect the value we believe we deliver and create natural expansion from there based on seat usage. For self-serve, we began to roll out early tests of our per seat model in select regions, but it's too early to make any conclusions from the data as we are 3 weeks into a limited pilot.

Finally, retention. As context, renewals are approximately 70% of our bookings. In our self-serve funnel, Q2 retention rates were down year-over-year, largely due to COVID cohorts, where our shift to mobile and free trials is more evident. In sales assisted, our bookings and logo retention rates were up year-over-year.

Moving on to subscribers. As you likely saw in our monthly metrics, we grew paying subscribers to 1.7 million in June, up 3% year-over-year. Subs fell slightly versus Q1 due to a reduction in Magisto subscribers. Excluding Magisto, subscribers grew 7% year-over-year. We now have more than 9,000 paying sales-assisted customers, which grew nicely year-over-year. Given its magnitude, self-serve had the same growth rates as Vimeo overall.

Now the remainder of my comments will refer to non-GAAP measures. Our gross margin improved approximately 300 basis points year-over-year and 50 basis points quarter-over-quarter to 76% in Q2, enabling us to deliver gross profit growth of 20% year-over-year. We began to moderate our rate of operating expense growth in Q2 with expense growth of 22% year-over-year versus a 46% growth rate in Q1, and we finished Q2 with operating expenses down slightly sequentially.

R&D expense for the quarter was up 36% year-over-year due to the run rate cost of growing our team over the last 2 years. Sales and marketing spend for the quarter was up just 5% year-over-year due to a strategic investment in sales headcount and infrastructure, offset by reduced paid marketing spend. G&A rose 48% year-over-year, reflecting growth in our team and related compensation, and an increased provision for credit losses of \$3.7 million. As relayed last quarter, we are working through some unintended payment slowdowns due to a shift to a new billing system.

Finally, adjusted EBITDA loss for the quarter was \$6.4 million, a solid sequential drop in loss from Q1, thanks to delivering higher gross profit dollars quarter-over-quarter while slightly dropping operating expenses.

We ended the quarter with a healthy \$268 million in cash on our balance sheet. Cash was down versus Q1 due to our EBITDA loss, timing of accounts payable movements and increasing AR from both the growth in sales-assisted revenue which has longer payment terms and the billing systems transition I mentioned.

I'll now discuss our outlook for the third quarter and the full year 2022. On the Q1 call, we said that we thought full year 2022 revenue growth would be in the double digits that we would be able to approach adjusted EBITDA breakeven by Q4, that 2022 adjusted EBITDA would be \$25 million to \$30 million loss and then our bookings would accelerate in Q4.

For Q3, we expect to exceed 5% revenue growth and post an adjusted EBITDA loss of \$3 million to \$5 million. For 2022, we expect to hit near double-digit revenue growth and are improving our adjusted EBITDA loss outlook to \$20 million to \$25 million. Additionally, we continue to believe we can be near EBITDA breakeven, even in Q4.

As Anjali previewed, we believe we'll exit 2022 with sales-assisted bookings growth accelerating. However, an acceleration in self-serve continues to be difficult to forecast. We expect the strength of sales-assisted to propel our overall revenue growth in 2023. Our bookings trends would indicate that we should expect total Vimeo growth to bottom out early in the year and accelerate in the second half.

As Anjali mentioned, we've begun to adjust our cost structure to reflect our outlook. We are assuming flat gross margin through the rest of the year at 76%. On operating expenses, we have made a small reduction in workforce in mid-July and have embarked on reducing non-comp expenses, like marketing and real estate to aid in achieving our EBITDA target. This has been a tough but healthy process for the company, and we are grateful for the maturity and resiliency of our team.

From a financial perspective, we are not where we want to be today. However, I do want to be clear that we believe Vimeo is differentiated in large part because of its solid financial profile. At our Q2 run rate, Vimeo's margin gives us over \$330 million of gross profit on an annualized basis. This is a tremendous asset because it proves -- provides us the unique opportunity to elect to invest to pursue our growth strategy and drive shareholder value with no risk of significant unsustainable cash burn. We are confident about Vimeo and its opportunity to create significant shareholder value through profitable growth as we move through this current environment.

With that, I'll open it up for questions. Over to you, Ankit.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Brent Thill at Jefferies. Brent?

Anjali Sud - Vimeo, Inc. - CEO & Director

I think we lost Brent.

Operator

I think so. Next, maybe we'll shift over to Cory Carpenter from JPMorgan.

Cory Alan Carpenter - *JPMorgan Chase & Co, Research Division - Analyst*

Hope you could just talk a bit more about the macro environment and how that's impacting your business? Could you just parse how that's impacting it versus kind of the COVID hangover, if you will?

And then secondly, on international, about 50% of your business. Could you talk about the trends you're seeing in international markets? I think you called them out as actually some of your faster-growing markets right now. But how are trends there different versus what you're seeing in the U.S.?

Gillian Munson - *Vimeo, Inc. - CFO*

So let me take the financial side of that first. On international, actually, international grew slightly faster than the U.S. in the quarter. And I'm going to just jump forward to a question I'm sure you'll want to know, which is, is there an FX impact on Vimeo?

About 30% of our revenue is exposed to currency. Our sales-assisted business is denominated in U.S. dollars. And so we think FX had about a 1% impact in the quarter, and we have planned for some FX headwinds going into the rest of the year. And I am totally forgetting your second question. Macro environment. Sorry.

I think it's a little hard to parse macro from COVID. I think what we're really seeing is that the self-serve business had a huge run-up during the pandemic, and we're just getting to the other side of that. So in our view, those 2 are kind of combined in terms of getting the self-serve business to the right place.

One of the things we talk about internally is we can't force people to come back from their vacations and use video tools. But we do think, overall, there is growth in that business and once we get to the other side of this sort of rebalancing, if you will, that, that business will be back in a growth position.

On sales-assisted. The OTT product and some of our more high-volume products do have macro headwinds and post-pandemic headwinds, they did very, very well during the pandemic. And what we're really focused on is what's going on in our Vimeo Enterprise business. Their bookings are growing twice overall sales-assisted bookings. Hard to note they would even go faster if the macro environment wasn't there, but they feel really solid to us, really healthy. And we're really excited about the fact that, that's a great indicator that our strategy is working.

Anjali Sud - *Vimeo, Inc. - CEO & Director*

Yes. I mean, the only thing I would add, Cory, I think on international is, the need for video is global. We continue to see opportunities. Our conversion rates aren't as high outside the U.S. as they are in the U.S. So there is room for us to get better there. And as we mentioned, on sales-assisted, we are seeing faster bookings growth in regions like APAC and EMEA. So I think plenty of opportunity there.

And more broadly, the thing that's exciting is our product is global too. We're able to serve customers and get product-market fit in different regions on both self-serve and sales-assisted without having massive incremental investments that we need to make to our product. So very much still, I think, a huge untapped opportunity for us.

Operator

Next, maybe we'll circle back to Brent Thill at Jefferies. Brent?

Brent John Thill - *Jefferies LLC, Research Division - Equity Analyst*

Relative to the things that you can control, obviously, revenue is one that is a little harder in this environment. Can you just talk to the things that are in your full control? And where are you taking harder action to ensure that you're setting yourself up for this new environment?

Anjali Sud - *Vimeo, Inc. - CEO & Director*

I'll start by just saying I think it's a timely question, Brent, because we were -- I was just sharing us with the Vimeo team. There's definitely things we can't control, like the economy and like exactly where post-pandemic demand will settle and bringing people away from vacations back to their laptops.

But we do control the fundamentals of the business, our product, our marketing, our selling and how we operate. And you'll definitely see, and I think we've embarked on this about a year ago, we're making a lot of changes internally to be more focused, more disciplined, more accountable. We've established an executive talent bench that I think is pretty incredible in their experience and have seen these types of environments before and are sort of in that appropriate wartime mentality that I think we need.

And so you will also see, just operationally, what we're doing, we're getting a lot more focused and going to use this time to just get stronger and more disciplined.

I'll let Gillian talk about the investment side.

Gillian Munson - *Vimeo, Inc. - CFO*

Sure. If I look at the business, I really -- at the top of the business, I really think about those 4 drivers of bookings and really focus us on those. So you've got top of the funnel, that's where our new marketing orientation, a lot of the work we're doing on marketing is going to really help us on top of the funnel.

Conversion is both product and marketing, meaning let's make sure the leads we're getting are really qualified and let's make sure the product can convert them really well. In terms of ARPU, as you know, we have a big effort underway on pricing and packaging, and that is a really important project for the business. And retention is like letting water come out the bottom of a bucket. And we really are focused on the product group on engaging customers, continuing to have them use Vimeo to create and distribute really engaging video very simply.

So I think at the top, those are the 4 areas. And when I think about the different efforts of things we can control or to fight a headwind, it's those areas where we are focused at a high level. Then in terms of the expenses, you -- we already took an action on headcount. We have been getting much more efficient on our marketing spend. And I think we're set up pretty well now.

So on our current outlook, we can get near EBITDA breakeven in Q4. And we really believe where we're set up will give us the opportunity to be profitable at a variety of revenue growth rates next year. And so while we will continue to look at expenses always, we think we're in a good spot now.

What I'm really impressed is that the company has the ability to move pretty fast. So to the extent we see an outlook that changes, we will of course respond to that.

Operator

Next, we'll go to Brian Fitzgerald from Wells Fargo. Brian?

Brian Nicholas Fitzgerald - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

We want to ask about the library products. It seems like it's more applicable to large customers, 10-person yoga studios are going to use it, Amazon -- Hilton will. Some of these new additions, Estee Lauder, L.A., Splunk, Carvana, ServiceNow, these are big -- University of Pennsylvania, these are big organizations. Are they using more product from the get-off? From the start? Are they using Library? Is there upsell potentials? Is the path shortening on upsell quicker? Is it easing?

Anjali Sud - *Vimeo, Inc. - CEO & Director*

Yes. The answer to all of those is yes. But I'll give you more than that. So on Video Library, as a recap, the way we think of that product is, it's a foundational layer. We want every Vimeo Enterprise customer to have access to Video Library so that they start using it. And then the goal is to get seat expansion and adoption, more and more video is being contributed to the library and more and more users engaging to either add videos or watch videos.

And what I would say is we look at is our attach rate. So we look at our attach rate of when we have a Vimeo Enterprise customer, how much they're utilizing Video Library. We look at multiproduct use, how much they're using multiple products. And then we look at how many seats those accounts have and how those seats are growing. And all of those metrics look really strong.

So on Vimeo Enterprise, I think Gillian shared, we're seeing our bookings grow 2x faster than total sales-assisted bookings. Within that, we see ARPU growing in the double digits. We see retention, both logo and bookings retention increasing. And that more important indicator is number of seats in these accounts is up triple digits year-over-year. That's a leading indicator of usage.

Now on your question about your pricing and how we're using that to upsell. We've just moved, as we said, to this per seat monetization model, which is now active with our new and renewing Vimeo Enterprise customers. And so that leading indicator of more seats being used is now, we have the right monetization model to have that drive actual contract expansion for Vimeo.

And then the last metric is on multiproduct use. We shared last quarter that the percentage was over 50% using multiproducts. That continues to increase as well and especially as we continue to expand our product suite with products like Vimeo Interactive. So in general, I think we see good validation. Video Library is our foundation for expansion in a company. And we're starting to see the right indicators, and it's showing up in the sort of output of the growth in that business.

Operator

Next, we'll go to Justin Patterson from KeyBanc. Justin? Please unmute your line and show your video.

Justin Tyler Patterson - *KeyBanc Capital Markets Inc., Research Division - Director of Internet and Media Equity Research & Lead Senior Analyst*

Great. I was hoping you could elaborate a little bit more on just the state of the sales-assisted effort, how enterprise sales force productivity is going, and perhaps talk on the product pipeline ahead?

Anjali Sud - *Vimeo, Inc. - CEO & Director*

You want to take sales and I'll take product?

Gillian Munson - Vimeo, Inc. - CFO

So really quick on the sales team. We are about 74% ramped on the sales team, which is great, and the remainder should be ramped into the fourth quarter. So productivity is not where we'd want it today, given that ramp time, but we have aims to get that up fast. And as we look at 2023, we believe our sales team can have productivity that rivals any good SaaS company. So we're excited about that.

And as we've talked about in this call a bunch, the trends we're seeing in Vimeo Enterprise really give us confidence that the strategy is the right strategy, and that there's a lot of demand for these kinds of products in enterprises.

And then I'll pass it over to Anjali.

Anjali Sud - Vimeo, Inc. - CEO & Director

Yes. And just one other thing on the sales. So we've done so this reorientation of our sales force, where we now sell based on company size. And I think we shared in Q2 that we had fastest booking growth among larger companies. So good signal there that the intended effects of that change are starting to work. For sure, we still have plenty to work through.

Our new Chief Revenue Officer, Eric is -- has made some pretty big changes throughout the entire sales team. And that's not just how we organize, it's setting up functions like customer success, it's getting -- bringing a much more data-driven model to how we track and optimize our selling. We also have a ton of room to improve how we enable and train our sales force, the collateral that we use to actually market. So -- and that's what our new CMO is really focused on too.

So I would say good, slow, steady progress, for sure marching in the right direction. We are not best-in-class yet, and we do have some real work to do to get there. But I think those are all what I would say, are sort of levers for us to offset some of the headwinds we're seeing more broadly.

You asked about product pipeline. And so on that, just as a reminder, our product opportunity is to power video for work. And what we do better than anybody else is that we help anyone easily create and distribute pro-level video regardless of their budget or expertise. And there's 3 product pillars we set out at the beginning of the year.

The first is to help employees and teams share knowledge and collaborate at work. Second is to define -- redefine the next generation of live experiences. And the third is to flawlessly support the largest companies in the world with their mission-critical video needs. All 3 are well on track.

So for knowledge-sharing, we launched Vimeo Interactive. Companies are using interactivity to train and engage their employees. We're going to be launching new collaboration features for teams to share information and get feedback. And we're also investing in AI, machine learning and transcription to take all of a company's existing video content, the millions of hours of meeting recordings, and make them much more searchable, structured, discoverable and infinitely more usable.

On live experiences, we're going to keep building upon the foundation of Vimeo Events. And you'll see us really look to scale that product within larger marketing teams. And you'll see us launch things like more integrations with CRM software.

And then the last on flawlessly supporting large companies, a lot of investment in security and reliability. We want to be able to not just serve tens of thousands or hundreds of thousands, but even 1 million employees on a single account, and we're making good progress there.

So I would say, generally, on the product side, continuing to ship on time, continuing to see that we can reach product-market fit quickly, and very much staying the course on our 3 pillars.

Operator

Next, we'll go to Youssef Squali from Truist. Youssef?

Youssef Houssaini Squali - *Truist Securities, Inc., Research Division - MD & Senior Analyst*

So I want to go back to the self-serve issue. Maybe Anjali, explain to us why do you think one is maybe not structural or maybe a result of competitive dynamics? Two, among the 3 or 4 different things that you said you have basically ahead of you to execute on, which ones do you think are low-hanging fruit versus ones that may take much longer, like new monetization product, et cetera? And just really the most important question, how long do you think it will take before getting back -- that segment back to growth?

Anjali Sud - *Vimeo, Inc. - CEO & Director*

Yes. So on self-serve, just as a reminder, traffic is really -- and we shared traffic down 30% year-over-year. That's really what's hurting us the most. Conversion, retention, ARPU, all those other things, we feel good about. And that's the thing that, frankly, we didn't anticipate and took us by surprise as we entered the year.

And when we look at traffic and we look at the softness that we're seeing, it does to us look like it's mirroring Google search trends of what we're seeing from others on the self-serve side. We're not seeing any indication that we're losing share to another competitor. And we're looking at a variety of signals, like demand and search trends to ascertain that.

And then in terms of the levers on self-serve, it's sort of the same thing. If -- I think traffic is never easy, it's never easy to move. In our case, we do have some low-hanging fruit there, which is we know that we have historically not been very good in our marketing, at targeting our highest-value customers. These are the decision-makers at large companies: marketers, HR, comms professionals, they don't think of Vimeo. They don't know we're an enterprise software business, that we're not in their RFP process. And if you search for enterprise video today, we don't show up in the rankings. We're not on Forrester and Gartner. It's really basic B2B marketing tactics that we just didn't have in our DNA. And so you're going to see us, especially with our new CMO, really shift how we market to drive traffic.

The other part of traffic is it doesn't just come from marketing. It comes from the product. So what we see is that we have inherently an opportunity to drive viral discovery through our product every time a video is shared. And a great example is, like somebody records their screen to send a demo to another colleague at work. That gets shared with 10 other employees. That's a form of marketing and traffic for us.

And we've yet to unlock that, but we have a pretty clear road map of how to do it. And we also have a couple of signals of smaller start-ups in the space who have proven this motion, so we know it's doable. And so I think those are some of the reasons why we have confidence that we can move on traffic.

On the other parts, Youssef, I would say -- those I would say are all very clearly right in front of us. So on conversion, our website still has opportunity to really speak to the B2B customer. We're making a bunch of changes there to our landing pages, our navigation, et cetera. We think there's clear low-hanging fruit to optimize. In fact, it's actually really hard still today to get to the place in the product on the website where you can speak to a salesperson. So there is some really sort of clear opportunities there.

On ARPU, that new monetization model is key. It is now being tested out there and technically is working as we would hope. So we feel like we will get a good signal on that in the coming months. It will certainly be a multi-quarter journey to roll it out fully, but we should have validation and confidence that it's working in short order.

And then on retention, as Gillian mentioned, a lot of the efforts on our product side are designed to improve retention. And I think what's exciting there is our whole strategy of moving to per seat and team expansion, one of the most correlated sort of things that we see, the thing that's most correlated to retention, is adding seats and team members, right? Because once you've done that, you inherently, your account is more sticky. And

so we actually also think that by just doing the things we want to do with the per seat model and with our team and collaboration capabilities, we have a very clear path to improve retention as well.

So those are all, I think, the opportunities. How long before we get back to growth? I think that's a tough one to predict. I wish I could. But what I can tell you is I think it's a matter of when, not if. And I think we will have, very steadily as we progress through Q3 and certainly in Q4, very good line of sight and validation in the levers that we have.

Youssef Houssaini Squali - *Truist Securities, Inc., Research Division - MD & Senior Analyst*

Do you think this is like a multi-year process or multi-quarter process? Just to get an idea.

Anjali Sud - *Vimeo, Inc. - CEO & Director*

I hope it's shorter than both of those things. But I certainly don't think it should be multiyear. But again, I think the thing that we've learned is that we have not been great at predicting exactly where post-pandemic demand will settle. And we've certainly not predicted some of the macro conditions. So I think it would be premature for us to say we have certainty there. But I do think what we will share, and I don't think it's multi-years, I think it's multi-quarters, is that the levers that we control, that we will use them to move the business.

Gillian Munson - *Vimeo, Inc. - CFO*

And then I'll just add one thing to that. When we look at 2023 and we -- there's 2 things to consider. One, statistically, our bookings growth translates to revenue growth in about 3 quarters. So we do have to work through some deceleration before we reaccelerate. We -- currently, our line of sight would say that we reaccelerate in the second half of 2023.

And 2023, from a growth perspective, is largely going to be driven on the sales-assisted side. And so I think that's really our focus in terms of where that growth comes from. And as I said in my prepared remarks, we're setting the business up to be successful and profitable at a variety of revenue growth rates because we don't want to be dependent on a fast turnaround and self-serve if it's hard to predict right now.

Operator

Great. Next, we'll go to Bill Kerr from Cowen.

Bill Kerr

I just had one on cash -- on free cash flow. So based on your full year and 3Q guidance, it looks like you're working towards roughly breakeven EBITDA in 4Q. But could you just walk us through how you're thinking about free cash flow and as we move through the back half of the year and into 2023 and maybe beyond, that would be super helpful?

Gillian Munson - *Vimeo, Inc. - CFO*

Absolutely. Our business model is a huge asset for Vimeo. The embedded profitability we have really sets us up well to both be able to invest and have very little risk of significant unsustainable cash burn. So as I look at the cash, just from a working capital perspective, the EBITDA losses will be coming down in the second half.

In terms of the use of cash from things like AP and AR; on the AP side, our AP had some just timing issues in Q2 in terms of when big payments went out. I think that will swing back and be a generator of some cash as we go through the second half.

On AR, I've described the billing transition we made that has extended some of our DSOs in sales-assisted. I think we are at or close to the end of that process in terms of peaking, and that should go positive for us from a cash perspective.

And so when I look at it from just the core cash capability of the business and think about the fact that we have a very large portion of our revenue coming in 12-month contracts and you think about growing deferred over time, that puts us in a position of really being a cash generator over the longer haul. And so I feel really good about that because that lets us invest and be very stable as a business, which I think is really an exciting profile to have.

I will mention, just so as you think about cash. There's about \$15 million, give or take, of items outside of the working capital that I would expect to go through cash in the second half of the year. They are severance for the riff we just did and largely -- and then there's 2 earn-outs from some smaller acquisitions we did last year that I'll go through. And so I think all in, you'd probably have another \$15 or so million of cash that's outside that sort of working capital bucket.

But I think we're in a really great, enviable position, where we have a very strong cash balance and really not a significant use of cash that I think puts us in a really great strategic position to do what we want to do here.

Operator

Next, we'll go to Tom Champion from Piper Sandler. Tom?

Thomas Steven Champion - Piper Sandler & Co., Research Division - Director & Senior Research Analyst

Okay. Great. Gillian, maybe for you, given you're one quarter deep in the business at this point, I'm just curious your thoughts on the enterprise market opportunity and how you view it especially in the context of competition out there and Vimeo is placed competitively?

Gillian Munson - Vimeo, Inc. - CFO

Absolutely. So yes, last time I spoke to you all, I think I was 3 weeks on the job, so fairly unknowledgeable. But what I find really striking about Vimeo and our strategy is that this strategy of moving towards enterprises was set in place before the pandemic. And then Vimeo had this huge boost from the pandemic that really showed people why video at work is going to matter.

And so what is really interesting, and now being here for months sort of -- I guess it's 4 months now, is that that's actually really very much the case, and it's embedded in how the company is operating. So I'm really, really excited about that.

And when I look at those stats from Vimeo Enterprise in the quarter, they really give me confidence that we're headed in the right direction. Bookings growing at twice the overall SA bookings, retention going up, seat usage and seats going up in the triple digits, ARPU coming up. I think our Vimeo Enterprise ARPU is now over \$20,000. These are all really good signs that this is really the correct strategy.

Now we've got to work through some transition post-pandemic, largely in the sales -- self-serve business. But I feel very confident in the enterprise strategy the company is set out. And in fact, I actually have been using the tool. So I've been sending video messages out across the company and it's amazing how much engagement you get when someone looks in your eyes and you say, "Please hand-in your presentation for a quarterly business review on time." They come in faster when you do it in video, it's highly engaging.

In Investor Relations, I am excited to use Vimeo to do Investor Relations. Obviously, we're doing this call with Vimeo. But we have a lot of really creative ideas for using Vimeo in terms of how we communicate with you all in a much more interactive and engaging way. And you'll see us roll a lot of that out as we work into Q3.

Anjali Sud - Vimeo, Inc. - CEO & Director

And I would just want to add, because when you see a CFO get passionate of video tools, it speaks to your question about competition. And first, I'll say very tactically, we look at who we win to and who we lose to and why, and the differentiators are holding very strong. We win because we have a much more simple, intuitive, easy-to-use products that employees actually think is cool and want to use. That's a huge win. We win because of the breadth of our offering.

And increasingly, I think a lot of companies are taking a second look at their software budgets right now. And if you can centralize working with a bunch of different vendors into one offering, it makes a ton of sense. And we win because the tools are effective. They're high quality. They actually help -- those are all very much resonating. And when we lose, it's usually because there's a very specific enterprise capability that we don't have yet. It's not because there's another player out there that's doing it better.

And when I think about our future road map, I think the other thing that we have is we have vision and we have innovation, and we're not just sort of looking at, okay, somebody is asking for this, let's give them that. We're going to do things that are going to be new. We're imagining how video can be used in ways that I just don't see any other company that has the focus and the passion and the institutional knowledge on video that will be able to do.

And I'm -- I think the thing somebody had asked earlier about Vimeo Interactive and some of the examples of Estee Lauder and some of the examples, what I will tell you is when we do a good job, and we don't always, when we do a good job of showing what that product can do to our customers, what I'm seeing is people say, "Wow." And when you have a product that wows people and in a market that's big, like it's ours to penetrate. And so I think we really do feel very well positioned on the product side. I think it's the go-to-market side that we've really got up our game in.

Operator

Great. With that, I'm seeing no more questions in queue. I'm going to turn it back over to Anjali for closing comments.

Anjali Sud - Vimeo, Inc. - CEO & Director

Awesome. Well, thank you all. Listen, as Gillian said, we're not where we want to be on growth today. We certainly have some headwinds in the near term to move through. But we do believe the tailwinds of video at work are inevitable. We think we have the best product, and we intend to come out of this period with the best team and an incredibly exciting business, and having proven a growth path that shows that we can be fast-growing and profitable.

The team is all in, we are getting into fight mode, and I look forward to demonstrating that to you all in the future. So thank you.

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