



Q3'23 Earnings Transcript

Interactive Earnings Video - November 6, 202

Gillian Munson - Q3'23 Interactive Highlights Video

Hi, I'm Gillian Munson, Vimeo's CFO. This quarter we are doing a short intro video for our earnings report.

To start, you can access our Shareholder Letter on investor.vimeo.com or by clicking [\[here\]](#), for financial information and commentary on our results and outlook. Adam Gross, our interim CEO and I are hosting a live Q&A which you can watch [here](#), today, Monday, November 6th at 5pm ET, after which you'll be able to access a replay [here](#) once it becomes available.

And while I have your attention, customer success is at the center of all we do at Vimeo. I hope you will click [this popout](#) to see this customer spotlight for fintech company Wise, who uses Vimeo for employee comms for their 5,000 plus distributed workforce. It's a great example of why customers love our product.

Please visit Vimeo's IR site at investors.vimeo.com for additional information and disclosures. Thanks for joining!

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EDITED TRANSCRIPT

VMEO.OQ - Q3 2023 Vimeo Inc Earnings Call

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CORPORATE PARTICIPANTS

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Gillian Munson *Vimeo, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

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

David Marshall Lustberg *Jefferies LLC, Research Division - Equity Associate*

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

William John Kerr *TD Cowen, Research Division - Research Associate*

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

PRESENTATION

Operator

Hello, and thank you for joining Vimeo's Q3 2023 Earnings Live Q&A. Before we begin, a few comments. First, this 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 other 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've 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 shareholder letter 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 CFO, Gillian.

Gillian Munson - Vimeo, Inc. - CFO

Hello, and thank you for joining Vimeo's Q3 '23 earnings Q&A session. I am Gillian Munson, CFO Vimeo, and I'm happy to be joined by Adam Gross, our Interim CEO. You can find our Q3 23 shareholder letter on our Investor Relations website, which has further details and financial information about the quarter as well as additional commentary on the results and our outlook.

Before we jump into Q&A, a few points on how we are thinking about this quarter. We believe our team delivered a solid Q3 result that shows what Vimeo's model can do, in particular, showing that our model can deliver healthy operating leverage, thanks to our disciplined focus on cost. A couple of key points. We were able to grow bookings. Total bookings were up 4% year-over-year, driven by a reduction in the rate of decline in self-serving add-ons, strong growth in Vimeo Enterprise and a shift in timing of a large OTT renewal from Q4 into Q3 in our other category. Taking other out of the math, we grew bookings 5%, a nice acceleration from Q2. We also continue to sign premier clients to our platform, including Oxford University, Tory Burch and Alarm.com. Cost discipline helped us deliver adjusted EBITDA of \$13 million in the quarter.

Finally, we ended the quarter with cash of \$291 million and generated \$17 million of free cash flow. Putting 2023 in perspective, entering the year, we had 3 financial goals: delivering revenue declines in the mid-single digits; posting adjusted EBITDA of \$5 million to \$10 million; and returning to bookings growth in the second half. I'm happy to say that we believe we have line of sight to achieving or beating 2 of those goals. And while we aren't all the way there on the third, we are making solid progress. Specifically, I'm happy to relay that we continue to believe that our revenue outlook is appropriate, and we have raised our EBITDA outlook to \$27 million to \$30 million.

As for getting back to sustained bookings growth in the second half of the year, Q3, solid results aside, we now believe that our path there will be nonlinear. In Q4, we now expect bookings to decline in the mid-single digits percentage-wise. About half of the shift from Q3 to Q4 is expected to be driven by lumpiness in our other category. The rest will come from 2 factors. First, while self-serve and add-ons showed improvement in Q3, we expect we will need more time still to return it for good.

Moreover, as we look at our strategy, we are making overt changes to be more product than paid marketing driven, which may cause near-term headwinds on new bookings, but should be long-term healthier for our business. And in Vimeo Enterprise, despite strong growth prospects, the rate of growth is slowing, in part due to some operational issues we saw in Q3 that resulted in pipeline softness. We are moving the business in the right direction despite a delay in delivering sustained growth and continue to believe that Vimeo will deliver growth overall, first, driven by bookings.

Importantly, Vimeo has the financial staying power, thanks to a strong cash generation in 2023 and its enviable balance sheet to invest appropriately to turn our business to a growth posture. With that, we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

Our first question will come from Youssef Squali at Truist.

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

Congrats on a good quarter. So I guess the 2 questions I have. One is around the OpEx, you showed some really impressive improvement actually in gross margins to about 80%. Can you maybe speak to the drivers there and sustainability into Q4 saving with the OpEx? And then on the bookings trends, I think you saw a little bit, particularly, we did self-serve and add-ons. Now that you're pushing the inflection back to positive for later, I mean, can you provide a little more color on what's going on there? And how later is later? Are we expecting first half next year, second half of next year? Any kind of color would be helpful.

Gillian Munson - Vimeo, Inc. - CFO

Okay. I'm going to try to remember all of those because that was like 4 questions, but I'll get there. So in terms of profitability, we had a great quarter on profitability, EBITDA of \$13 million. I think our analysis would be that we may have swung a little bit too far towards profit in the quarter. So I wouldn't want you to keep yourself at that kind of a margin moving forward. So let me break it to the parts you asked about. In terms of gross margin, on a non-GAAP basis, that was about 80% in the quarter. That is really thanks to the work our team does in terms of hosting costs and other costs that go into the cost of goods sold in the quarter.

And also we benefited from some healthy revenue in the quarter as well. So when I look at that number, I think 79%, 80% is probably a good range for that. I don't think that we see a ton of upside over where we were this quarter. It was a pretty good result there. On operating expenses, as you know, we've been bringing down costs through the course of the year. It was down about 11% in the quarter. It's about 5% on headcount and the rest coming from non-comp costs. I think we will continue to show discipline on cost and our guidance reflects that as well for Q4.

But we do want to make some investments against growth and probably we were a little bit too close on cost this quarter. So I wouldn't expect us to hold it to this EBITDA margin level as we move forward in order to make the proper trade-offs there. I think on cost, Vimeo showed the kind of operating leverage this model can deliver. And now Adam and I are working very hard to make sure we have the right balance of investment to growth over time.

As it relates to the self-serve business, we are making good progress there. The rate of bookings declined better in the quarter, are making progress. We're particularly in seeing good results in terms of our top of the funnel traffic. We have brought our AOV up fairly meaningfully over the course of last year. Conversion is still not where we want it on new, and we need to do some more work there. So it's going to take us a little bit more time to get that sustainably to growth. And as you know from the map, self-serve getting back to growth really helps us get to growth overall for Vimeo. And so we're working on that.

In addition, and we talked about this in the letter, and it's an important point to think about. We, with Adam's leadership, are really focused more on product-led growth than paid marketing led growth. And as we make that transition, that might cause a little bit of incremental headwind in new bookings. But we think long term will be super healthy for the business. In terms of picking a date certain for when we'll get back to growth, we're right in the middle of 2024 strategic planning. So I don't think it's appropriate to pick a date there. But we'll come back with guidance on the Q4 call. Did I get them all? I think I got them all.

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

Yes. You did great job.

Operator

Our next question will come from Tom Champion at Piper Sandler.

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

Adam, I'd love to hear from you and just talk about your impressions, kind of here in the early going. I mean you're familiar with the business, but now you're running it on an operating basis day-to-day. What are your current thoughts? And the letter refers to kind of doing more with less or a simplification process that is sensible in the abstract. But just maybe you could contextualize for us what you're seeing and what you'd like to do.

Adam Gross - *Vimeo, Inc. - Interim CEO & Director*

Yes. Thanks for the question. I appreciate that. So I am, I think, just about to start or just about to hit my second month anniversary here, as I mentioned in the letter. And it's been really exciting to get a closer seat at the table, transitioning from the Board to Interim CEO. Some of my reflections are Vimeo has an enormous number of just really interesting assets. I mentioned this in the letter, but since I've taken this role and I started talking to people and our customers and people in the community, I'm yet to meet somebody who doesn't have -- who doesn't know what Vimeo is, who doesn't know who we are and more likely than not doesn't have a positive story or experience to tell about us.

When you look at assets like that, when you look at how much traffic we have on to our various properties, measuring in the tens of millions amount and you look at fundamentally the category we're in and how important video is and how strategic it is increasingly to enterprises, those are all really amazing assets. I think what we're talking about when we talk about focus and simplicity is how can we really bring all of those assets that we have together more effectively. So that 1 plus 1 equals 3 and a little bit more of an impactful way.

Gillian referenced that with regards to our self-serve strategy. How can we take advantage of the brand? How can we take advantage of the traffic we have? How can we take advantage of a product that we've invested an enormous amount in really making it simple and delightful to use so that we're better able to attract customers, get them engaged in the product, leveraging organic mechanisms, have them engaged as free users and then over time convert them into paying customers? I think that's an example of a strategy that we can take advantage of that will let us align our efforts better and ultimately yield more effective and customer acquisition and ultimately more growth.

Operator

Our next question comes from Brian Fitzgerald at Wells Fargo.

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

I want to know what the product simplification efforts. Have you seen any early signs of improved conversion that has given you confidence that we can reduce the emphasis on paid marketing and then maybe scale the top of funnel? And then related, wondering how you're thinking about continuing to feed that type of funnel. Is the plan to lean back into paid marketing at some point in the future? And any preliminary thoughts on how that would kind of phase in.

Gillian Munson - *Vimeo, Inc. - CFO*

Yes. Let me take the numbers side of that first, Brian, and then I'll have Adam talk about sort of the strategic side. So from a paid marketing perspective, we've been bringing down paid marketing over the course of 2023. And have, in Q3, delivered better bookings than we had -- we've been reducing the rate of decline there. It's a careful balance. It's early days on really doubling down on the product versus paid strategy at the company. So a little bit early to see full results there.

But I think what you're seeing is the team has been doing a lot of work all year long to build features and functions to make it -- as we've talked a lot about, make it easier to get to the features that are the best at Vimeo, make it easier to onboard with Vimeo. And I think our belief is that as we start to see better and better usage, that's going to bring us that product-led growth as opposed to the paid marketing growth. And we feel very optimistic that, that's doable. Super early days into really doubling down on that.

I think it's a while before we would say, okay, let's now turn back on the paid marketing. I think our real focus is making, we have a lot of folks who touch the Vimeo product. I think it's like 50 million viewers even -- see the product and millions of people that use the core product every month. And there's a lot of opportunity in that for us to sell subscriptions to those folks. So I think we still have time till you get to a place where you'd say, okay, let's now reassess the paid marketing strategy. For right now, I think we're really focused on product more than paid. It doesn't mean we don't spend money on paid. We do. So I would be remiss if I said that we're not spending on pay, but I think we are really trying to shift that orientation because we think it's healthier for the business over time. Adam, do you want to add anything?

Adam Gross - *Vimeo, Inc. - Interim CEO & Director*

Yes. As you mentioned, it's still pretty early in the journey on thinking about the strategy and this alignment. But one thing I would keep an eye on is all the things that we are doing in the product, as Gillian mentioned. Last week, we announced our new video marketing solution. Inside of that is an entirely new editing experience. Another product innovation we've had in the past 30 days alone is a new AI-powered teleprompter, which follows you as you speak to kind of prompt and scroll the words accordingly. I encourage you to check it out. It's really cool.

And I think it's those kinds of investments, that kind of innovation that's going to be really key to unlocking the opportunity that we have in enterprise video. So really excited about what we've shipped and excited about the pipeline of the new capabilities we've got coming.

Operator

Our next question comes from David Lustberg at Jefferies. David?

David Marshall Lustberg - *Jefferies LLC, Research Division - Equity Associate*

I have two, maybe just to start and then a follow-up. In the letter, you said you saw some Vimeo Enterprise headwinds in Q3. I think you said mostly around SMB side due to execution issues that you guys are addressing. Maybe if you could just start by walking through what some of those execution issues were, it would be helpful.

Gillian Munson - *Vimeo, Inc. - CFO*

Sure. So in Vimeo Enterprise, during Q3, we started to see some headwinds in our pipeline. It was across the board but a little heavier in SMB than in other categories. We think this is largely execution. And really, the execution is in how we take leads into the system and make them into real opportunities. So it's a lot of items around focusing on leads, responding to leads, how quickly we're getting to them, things like that. All of this we are addressing. .

That said, as we've looked at the data and we think about SMB being a place of a little bit more weakness than other, we suspect there's probably a little bit of macro in there as well. But in our view, our destiny is ours to fix. And we actually think that for the most part, this is about us executing better in that category as opposed to it's all macro and that's our issue. So we'll work on that. We're out there working on it now and hope to turn that around.

David Marshall Lustberg - *Jefferies LLC, Research Division - Equity Associate*

That's helpful. And then maybe just as a follow-up. In the letter, I think, Adam, you talked about your cash position and how it provides a wide array of investment opportunities going forward. Maybe if you could just talk through what are some of those investment areas in the business that you might be thinking about leaning in harder to with that cash position.

Adam Gross - *Vimeo, Inc. - Interim CEO & Director*

Yes, sure. Thank you for the question. Happy to speak to that. Obviously, it's too early for us to say anything definitive about how we want to use that. But I think if you look even in the past 30 days at some of the things we've been talking about and releasing, it signals a lot of our strategy. Fundamentally, one of the things I'm really focused on is how do we become more strategic to our customers.

We know that companies of all sizes need help navigating the new world of enterprise video, whether that's in the marketing domain, whether that's in how companies use that if they're in the media business and increasingly also in knowledge sharing and collaboration. So as I mentioned, you saw investments that we've made in the editor. We've also made additional investments in our core player technology, which is probably the industry standard for Internet quality video playback.

And all of these -- we introduced new analytics capabilities to help our customers understand how video is being used. All of these are efforts that are designed to either attract and convert customers or to ultimately become more strategic to our customers. And we think there's just a lot of opportunity to do that across those different areas that I mentioned.

Gillian Munson - *Vimeo, Inc. - CFO*

And David, I might add for that. When we talk about investing, it's all a balance. So what we are committed to is being a profitably growing company. So I want to make sure we're not leading you the wrong direction on that. I think it's just more about the level. I think that what we're trying to say is in Q3, we might have swung a little bit too positive relative to the level of investment we want to make. So don't expect us to go into a loss position. That's not our strategy. We want to be a profitably growing business as well. .

Operator

Our next question will come from William Kerr at TD Cowen.

William John Kerr - TD Cowen, Research Division - Research Associate

So in the shareholder letter, you noted a number of large customer wins on the enterprise side. Could you just give us a bit more color on what categories are driving the most demand and maybe where you're seeing your customers pull back a little bit? And then I have one additional question.

Gillian Munson - Vimeo, Inc. - CFO

So just from a macro basis, the pullback was more by size as opposed to usage. So really, in terms of pipeline, I think we saw some -- our execution was a bit a bunch of the pullback. But then in SMB, we saw a little bit more than elsewhere, but kind of across the board. So it wasn't like one use versus another. And I think in terms of use cases, we continue to see many of the same ones that you've seen over time, marketing comps, communications, all those good things. So no real change in how people are using the product.

William John Kerr - TD Cowen, Research Division - Research Associate

Okay. Great. And then SBC was down again year-over-year this quarter, and you've done -- you guys have made a lot of progress on that side of things. And I was just wondering how you're thinking about limiting share dilution over time and if you think you're happy with the current levels of SBC and where you're thinking for the next several quarters.

Gillian Munson - Vimeo, Inc. - CFO

Yes. I didn't mention this in the beginning when we talked about cost, I really talked to the EBITDA. But the net income story at EMEA was also really strong. In addition to the interest income we're starting to earn on our cash balance, as it helped the bottom line, the stock-based comp has been really controlled. Now there are some ins and outs on that, right? As you know, we've had some folks depart the company over the course of last year. There's been a lot of change here.

And so I think in this quarter, we had a handful of folks who are sort of late last year, grants that backed out -- were backed out of the stock-based comp, which is just normal with the kind of change we are having. So that level for this quarter, which was just around \$7 million, probably is a little bit lower than we will land. My suspicion is will be closer to \$10 million -- \$9 million, \$10 million a quarter moving forward. But if you can think about it in sort of the longer form, a year ago, that number was \$19 million, and we were thinking we were going to be looking at \$20 million a quarter in stock-based comp.

And as that represents dilution, that's a pretty hefty number. The company and our comp committee have really joined forces to limit dilution this year. I think we've done a really nice job at it. And we will continue to be conservative in terms of giving stock out over the course of the future.

Operator

And with that, there are no further questions. I will hand the call back to Gillian.

Gillian Munson - Vimeo, Inc. - CFO

Thank you so much for joining our Q3 2023 live Q&A. We look forward to updating you again next quarter.

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