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VMEO.OQ - Q3 2021 Vimeo Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 04, 2021 / 12:30PM GMT

OVERVIEW:

VMEO reported 3Q21 results with 33% revenue growth YoverY. Co. expects 4Q21 revenues to grow at or slightly above 25%.

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PRESENTATION

Operator

Good morning, and thank you for joining Vimeo's Q3 Earnings Event. We're excited to be here in front of you.

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 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 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 filings with the SEC as well as in supplemental information posted at 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. I'm happy to report strong results for the third quarter, highlighted by 33% year-over-year revenue growth and continued velocity in expanding our enterprise video suite. We're growing day by day alongside our opportunity set and global user reach and paying customers who find increasing value in our product and in the ways, we're resourcing the company to serve them.

We now have over 1,100 Vimeos pursuing our mission of professional quality video for all. That mission is more relevant now than ever. Employees and teams are increasingly using our platform to work, to learn and to communicate. And as workforces get more distributed and demographics evolve, it's clear that we're at the very beginning of how video will be adopted beyond traditional video conferencing because why wouldn't every organization want to be video first in the future? Why wouldn't every employee want to create and share content easily. We're building software

that will lower the barriers of time, cost and complexity so that one day, the over 1 billion knowledge workers in the world can bring professional quality video into their work.

I said last quarter that the path to success won't be a straight line. We're still a young company, making bold changes to our product, how we sell to and how we sell. We started the year with an ambitious road map, and we're delivering on our pace of innovation. Our pace of sales on the other hand, has been harder to nail as we move through COVID and go after new markets and use cases. As a result, we think our path to 30% revenue growth will be further out.

But Vimeo's right to win is not just intact. We think it's more validated today than it was a few months ago. We are seeing businesses unlock the power of video. Customers are upgrading from our free and self-serve user base and our all-in-one solution is increasingly differentiated against market alternatives.

Here's what gives us confidence. First, we are swiftly expanding our enterprise product suite, and we're getting traction. Historically, we've sold single product to large companies, the ability to live stream events like town halls and product launches. This year, we have expanded our solution to serve the multiple use cases and departments. We launched Video Library this summer. And this week, we launched Vimeo Events, a new way for marketers to easily deliver stunning virtual events and webinars.

What we're seeing with these launches is that our all-in-one strategy is resonating with customers. We're seeing a significant increase both year-on-year and quarter-over-quarter in the percentage of our enterprise customers who use 2 or more products within our suite. And our pipeline remains healthy. In fact, pipeline for companies with more than 1,000 employees, is up over 150% on year. So now we're winning deals that we couldn't have a year ago, including with companies like Whirlpool, Bayer and Moody's, who are both replacing existing vendors with Vimeo and adopting multiple products in our suite.

Video Library is a great example. We've onboarded more than 500 enterprise customers to the product since launch, and we're seeing that over 50% of these customers have already expanded the number of admin and contributor seats in their accounts. That's exactly what we want to see more people using our product more often. We're also seeing that Video Library customers are more willing to sign multiyear deals and are starting at larger deal sizes. For example, we signed our largest Vimeo Enterprise deal ever in September, a multiyear contract with a Fortune 500 retailer, who is paying us over 6 figures a year to power both their live events and their Video Library. We replaced a competitor to win this deal based on our strengths in quality, reliability and UX.

Then this week, we launched Vimeo Events. Vimeo Events introduces webinar functionality for B2B marketers, things like event registration and management, viewer-level tracking, marketing software integrations. That opens incremental TAM up for us as we haven't served B2B marketers historically. I think the most exciting part of Vimeo Events is that it includes a do-it-yourself live production studio that's designed for any employee to run virtual events without the need for a dedicated production team. Meaning, anyone from an intern to the CEO can stand up a sleekly produced event from their browser using drag-and-drop functionality and preset scenes and graphics. This helps expand our TAM even further because now every employee can be an events pro.

We've been testing Vimeo Events in beta with customers like Medtronic, Zendesk and HubSpot and believe we have all the ingredients to serve them in ways others can't. So more broadly, Vimeo Events allows us to deepen our presence in marketing departments where we can unlock more share of wallet. And of course, this new functionality comes with the rest of our all-in-one solution, so that every event can be automatically recorded, transcribed and organized in a company's video library and can be edited and shared internally or with the world.

We expect to maintain our pace of innovation this quarter and in 2022. And I'm confident in our team's ability to deliver as they have done throughout this year. Our road map is designed to increase employee, team and customer engagement and to bring Vimeo closer to business workflows and there's much more to come.

Now we're adopting our pace of sales to match our pace of innovation. We can now sell multiple products and reach different decision-makers in the enterprise. We aren't best-in-class yet, but we're moving fast to refine the way we segment customers and that we're specializing our sales

force to go after different segments with more focus. In Q4, we'll also be welcoming more seasoned SaaS veterans to our leadership team to help us get to best-in-class faster.

As we do this, we continue to see our consumer scale and freemium funnel fuel our enterprise business. In Q3, our free and self-serve users once again drove over 70% of new enterprise customers. This is an incredibly strategic asset for us, and the trends here look healthy and growing. Our leading indicators include the growth of team accounts and the number of corporate domain registrations, both of which are up more than 50% year-on-year.

We're now evolving our pricing and packaging to better monetize this funnel. Over the next few quarters, we're moving from a storage-based to a per-seat pricing model. That will better align willingness to pay with the success of our customers.

Now it's worth calling out the magnitude of this change for Vimeo, shifting how we price is a foundational change, and it may be a volatile period as we test our way into success. But this, in my mind, is the final missing piece in Vimeo's B2B transformation, one that can unlock conversion, retention and expansion levers that weren't available to us before. It's an essential part of our long-term success, and we are fully committed to executing it. I'm excited to see the fruits of this labor in the coming years.

And finally, we're continuing to invest in BizDev partnerships to fuel that funnel. We recently announced an integration of our Vimeo Record tool with Sigma as well as a partnership with Apple and Dolby. As we continue to scale and deepen existing partnerships, we're doing that with LinkedIn, TikTok, Shopify and Facebook. Every partnership we strike helps us diversify our user acquisition and gives our users more utility across the Internet, which means more reasons to stay with Vimeo.

So in summary, this company has an exciting future. More and more customers are coming to us with the vision for company-wide usage of video. And our product is helping them get there. Most importantly, the things that we expect will drive a long-term value remain robust. Our tailwinds are accelerating. We're delivering valuable products in an all-in-one solution, and we're fundamentally improving how we price market and sell in an effort to build the most scalable flywheel in the market.

With that, I'll pass it over to Narayan to walk through our financial results and what to expect ahead.

Narayan P. Menon - Vimeo, Inc. - CFO

Thank you, Anjali, and thanks again, everyone, for joining our call today. Q3 results were strong across the board. For the first time in Vimeo's history, quarterly revenue crossed the \$100 million mark and was up 33% year-over-year, with healthy growth across both self-serve and enterprise segments. We added roughly 33,000 paying subscribers and ended the quarter with more than 1.6 million total subscribers, up 14% year-over-year.

Our ARPU in Q3 was \$242, an increase of 15% compared to Q3 of last year. While ARPU may fluctuate in the short term as we test new pricing and packaging, we expect both our enterprise and overall ARPU to increase over the long term as we land and expand in large organizations.

On the enterprise side, we now have over 6,000 paying customers, and our enterprise revenue grew more than 60% this quarter. We are especially pleased to note that enterprise now represents almost 30% of revenue this quarter, up from the low 20s a year ago. Our enterprise net revenue retention remains healthy with our sixth consecutive quarter of NRR above 100%. The remainder of my comments will refer to non-GAAP measures.

Moving to expenses and profitability. Our gross margin expanded to 75% in Q3, a sequential improvement of roughly 160 basis points. Once again, infrastructure optimization, economies of scale and operating leverage were the 3 main drivers of improvement. We are very pleased with our progress here. Gross margin improvement is central to the healthy unit economics that we enjoy and help enable the pace and structure of our growth investments.

R&D expenses was \$22.8 million for the quarter, which was up 50% year-over-year. R&D expenses increased in part due to the hiring efforts that have helped increase our resources available to drive product innovation and new feature rollouts. We plan to continue recruiting top engineering talent to appropriately staff for the R&D organization for future product development.

Our sales and marketing spend for the quarter was \$36.6 million, an increase of 44% compared to Q3 of last year. We remain generally on pace to double the headcount of our sales team by the end of this year. We expect to continue investing in sales and marketing efforts in order to continue driving sustainable customer growth, both domestically and abroad.

Adjusted EBITDA was positive \$0.8 million, slightly better than what we had estimated due to stronger gross margins, a slightly more measured pace of hiring from summer seasonality.

Now turning to Q4. We anticipate challenges in some areas and momentum in others. Let me break that down for you. On the momentum side, our increased product breadth is helping unlock new TAM with new customers and unlock spend that wasn't previously addressable. As Anjali said, customers who have Video Library as part of their Vimeo Enterprise solution generally are starting at higher contract values and are more willing to sign multiyear deals. Vimeo Events, which we announced earlier this week, also provides us with more ammunition to win deals, particularly against competitors with narrower focus.

We also saw customer retention hold steady across the business. And we saw enterprise logo retention pick up sequentially this quarter. And as you can tell by the logos, we have shared the nature of customer and the type of deployments we are winning are also evolving very positively.

Finally, our unit economics remain healthy, and our hiring plans have not changed, and we will continue to look for opportunities to invest and gain the market share.

On the challenges side, tough comps are still our reality. The unprecedented dynamic of 2020 combined with the maturity of our offering makes forecasting with precision hard. We saw softness in our OTT products, especially in end market verticals of fitness and faith. These 2 verticals are materially elevated demand and urgency during the pandemic and the reopenings have muted new business demand more than we expected, especially for smaller customers. We are still early in our enterprise journey. And while every new launch opens up more opportunities to sell that also takes time to test and optimize. Having multiple levers of growth is a first-class problem, and we are focused on steadily unlocking them.

These dynamics have made it challenging to forecast the last few quarters with precision. So we are updating our view on Q4. We now expect Q4 revenue growth to be at or slightly above 25%. In terms of the year-over-year percentage comparisons, keep in mind, we are lapping very strong growth in the fourth quarter of 2020 of 54%. So on a 2-year stack basis, Q4 is expected to grow at 79%, and acceleration from 77% in Q3.

We'll continue to maintain our investment intensity in order to be appropriately prepared for our future growth and scale. For Q4, we expect adjusted EBITDA to be slightly negative. For the full year of 2021, we expect to post healthy positive free cash flow, similar to last year, but we don't expect to be adjusted EBITDA positive for the year.

As we look forward to '22, we are in the midst of strategic planning, so it would be premature to provide specificity at this point. We do expect revenue growth to be muted in the first half of '22 as we lap the strong growth, we delivered in the first half of '21. And we expect the growth rate to pick back up in the second half of the year. As Anjali said, 30% growth for '22 is unlikely. However, we believe that we will get to the 30% growth rate in the medium term once we fully lap the COVID comms and realize the benefits of our investments and product expansion -- product expansion, pricing and sales acceleration.

Now turning it back to Anjali now.

Anjali Sud - Vimeo, Inc. - CEO & Director

Thanks, Narayan. Before we go to Q&A, I do want to reiterate the main takeaways from us today. First, we are uniquely positioned to empower businesses to adopt professional quality video. And that TAM is large and growing. Every employee can use video at work, and every business can be video first. Second, great stuff is happening beneath the surface, product expansion, customer validation, the right leading indicators. While our path to 30% growth is delayed, we believe we are laying the right foundation to win in the long term. So we're not leading off our pace of investment to achieve our vision. And internally, we are as ambitious as ever.

All right. Let's jump into Q&A. Yao Chew, our Head of Investor Relations, will be moderating. So Yao, let's open it up for the first question, please.

QUESTIONS AND ANSWERS

Yaoxian Chew - *Vimeo, Inc. - VP of IR*

Thanks, Anjali. (Operator Instructions) Our first question comes from Brian Fitzgerald from Wells Fargo.

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

Anjali, I want to ask about the recent Events launch. There's already competition in the space, and I think you've noted that one of the large video conferencing players has entered relatively recently. Just wondering, if you could take us through where you think you're differentiated with your product? And then in terms of how you expect Events to impact the business? Do you think it's more of an upsell, cross-sell lever? Is it more of an on-ramp onto the platform? If you could drill down, that would be great.

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

Sure. Thanks, Brian. I'm pumped about Vimeo Events. And I'm excited for a couple of reasons. First, it allows us to expand our TAM. As I mentioned, B2B marketers is a group of marketers we haven't really served historically. And the ability with Vimeo Events and what it unlocks is the ability for us to allow B2B marketers to host webinars to have the right marketing integrations with Marketo and HubSpot and Mailchimp and Constant Contact. And we think that product in and of itself is quite differentiated, which I'll talk about in a second.

But then, of course, the other exciting thing is that this Vimeo Events is really part of our all-in-one solution. And ultimately, what that enables us to do is land more marketers, convert more of our free and self-serve users into enterprise as well as expand existing enterprise customers who may be using us in other ways.

And so I think you're going to see the way we're thinking about the product is that we'll be able to do that across the board. And it's worth noting that we do plan to monetize Vimeo Events as an add-on. And we'll have a very natural ability to expand our monetization from there based on the number of registrants and viewers of those webinars. So it opens up a lot of opportunity for us.

In terms of differentiation, no question, there's players in the market. I view that as a sign that the market is very interesting. But again, we're not approaching it as a point solution. If you think about what a marketer an event marketer wants to do, they're not just posting an event. They're planning it in advance, having a run of show. They have a lot of anxiety on the day of to make sure it is executed flawlessly and high quality. But then they want to take that event and they want to turn it into evergreen marketing content that they put on their website. They want to be able to archive and keep that content in their video library. So it's really the way we think of it is whereas others in the market are really addressing a point solution, we're really seeing it as part of our all-in-one offering.

And I'll just give you some specific examples to try and make that more tangible. So every event from Vimeo Events will be automatically transcribed, archived, organized in a video library that post event at content can be edited, embedded on your website. Other players in the market don't have the ability to have their players embedded on your website or embedded in e-mail. And so that's a huge part of the capabilities.

And then when it comes to the actual product event itself, we think we're delivering something that's going to make webinars beautiful. And most of us haven't experienced the sort of webinar the capability that we think is possible. And some of the ways we're doing that is we're allowing marketers to have an unparalleled experience that they can brand. So think of it as everything from the e-mail pre-event to the actual interface, the ability to have graphics and scene switching, all of that done really professionally, but also done in your browser and you don't have to have a production team to be able to do it yourself. And we think that's a real differentiator that again, others don't have.

We've also really thought about the viewer experience. Everything and Vimeo Events is browser-based. So you don't have to -- your viewers or your audience don't have to download software to be able to watch the events. And that removes a lot of friction particularly on mobile. So there's a couple of different areas I would say, if you just look at Vimeo Events alone that we think is differentiated. But then if you expand that to think about the all-in-one solution, we really see Vimeo Events as being very effective in the market.

And then I would just -- lastly, I would just say, we do have some good validation from beta customers and just the early traction that we're seeing to kind of back that up.

Narayan P. Menon - *Vimeo, Inc. - CFO*

I would just add one thing to that, Brian. If you remember in the Investor Day, we talked about the \$70 billion TAM that we have and how we will grow into it. We had also laid out a pad that we can go from a 25,000 ARPU to 45,000 ARPU. This is one of the ways that we would do it. This is really an upsell and expand within an enterprise where we can increase the ARPU from an enterprise from where we are today, to a much higher value in the future. Obviously, this will take time, but this is one of the unlocks that we have.

Yaoxian Chew - *Vimeo, Inc. - VP of IR*

Great. Our next question comes from Tom Champion of Piper.

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

I wanted to ask a question about enterprise revenue growth. It looks like it came in at around 60% year-over-year in the quarter, and our model would suggest very strong customer growth. And so maybe the slowdown sequentially coming from average spend. Just curious if you could kind of flesh out that trend and maybe the driver there. And if I could ask one more. I'd just be curious how usage of enterprise products has trended maybe in a return to office environment. Are you seeing anything different in terms of how your enterprise customers are engaging with video as we enter a different stage in the pandemic?

Narayan P. Menon - *Vimeo, Inc. - CFO*

Sure. For the first question, Tom, enterprise revenue grew 60%, and it is comping against very high growth rates of Q3 of last year. In terms of the average revenue per user, we are very -- making great progress there. The averages to obscure a little bit. Our strategy is to move customers from self-serve to enterprise. So in many instances, as a customer migrate from a lower-priced self-serve tier to an enterprise tier, they start at a lower point and then we expand them over a period of time and increase the ARPU.

So we are seeing great progress there. 70% of our enterprise customers this quarter came from self-serve migrations which is very positive, and we have a lot of opportunities to improve the product-led growth there. And on the revenue growth in itself, we saw triple-digit growth rates in EMEA and APAC, even though from a smaller base, but we are seeing great progress around the world on growth rates on enterprise.

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

Yes. And I'll just add on the usage of enterprise question. Certainly, you see less urgency, right, to purchase enterprise contracts than you saw at the height of the pandemic. And we've talked about that. But if you zoom out, video is an and, it's not an or. And we can see that because, one, our retention -- logo retention is really strong. Product usage is really strong. As I mentioned, we're seeing more customers actually adopt multiple products in our suite as we actually expand the product.

And then I shared that pipeline number, our pipeline of companies greater 1,000 employees, up 150% year-on-year. And so when we look at sort of across -- I mean, look, we track this by region, we look for the sort of any signal that would tell us in regions that have opened up faster that there's here that's going to fundamentally change our view on demand, and we don't see that.

So I think besides the short-term kind of tweaks and fluctuations and things like urgency, I would say, feel very, very confident that anyone who is unlocking video for the first time is very unlikely to stop using it.

Yaoxian Chew - *Vimeo, Inc. - VP of IR*

Our next question comes from use of Youssef Squali at Truist.

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

So maybe just a double clicking on that last question more, Anjali, your answer. Can you maybe just hone in a little bit or zoom -- on kind of the key issues that you mentioned around maybe the sales efforts. So clearly, you guys have been hiring pretty aggressively. I think even Narayan talked about maybe doubling the sales force by the end of the year. So it's not a sales force issue. Is it maybe an ARPU issue potentially as these enterprises are just not spending as much or is it a number of logos that you need to add just because the economy is reopening maybe there is not as much of a sense of urgency? So maybe just some qualitative color there would be helpful.

And then we get the 30% growth rate next year is it's got a too high bar, which I think The Street honestly already kind of anticipated. But as -- on the other side, is there a floor to your growth in 2022 that you'd want to kind of put out there?

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

Yes. I'll start on the sort of sales efforts. I'd say, I don't think we have an issue. I think we have opportunity. And ultimately, the key here is that 5 months ago, we launched Video Library, totally different sale, totally different buyer and decision-maker, much more exciting in terms of its stickiness and ability to be wall-to-wall. Then this week, we launched Vimeo Events, opens up a totally new way to sell. And so I think what you're seeing is just natural, you launch the product, you got to get product market fit, you have to then figure out the right pitch, the right sales motion, and then you have to figure out the right sales cycle. You have to figure out how to sell into different departments, go through procurement processes.

And as we move up market, obviously, what we also see is that it's a different kind of process and muscle to be able to sell at these large deal values. And I gave that example of the Fortune 500 retailer that is the biggest Vimeo Enterprise deal ever. We are seeing a pipeline that can allow us to do more and more of that. That's exactly what we want, but it certainly takes time. And so I don't see any issues. I see opportunities. I do think we are delayed in our ability to have that just translate on day one post launch to the numbers you all can see.

But that's my view. And I think the way to marry that with the sort of numbers that we've shared is that you also have a bit of a tale of 2 cities within the business where you have areas like OTT where that are more challenged because of tough comps, doesn't take away, though, from that momentum on Vimeo Enterprise.

Narayan P. Menon - *Vimeo, Inc. - CFO*

To put a little bit more specificity to what Anjali just said, really 2 parts. The first one is expansion and upsell. And on this one, we think of it as a delay. As Anjali just mentioned, we have introduced multiple new products. We are still refining our -- how we sell to new decision makers, new buyers within large enterprises. And we are continuing to do, we can make progress daily. We are behind by a couple of quarters, but it is more of a delay than anything else.

The other part is new bookings. Honestly, we were a little too optimistic of how second half would turn out based on the signals from the first half of this year. There was pronounced seasonality in Q3, which obscured some of the signals as well. The challenges that we have here is in the OTT faith and fitness verticals and the demand signals have been lighter here. We have made tweaks to our product, both on the OTT side as well as Vimeo premium side, and we are seeing some early signals. But if you step back and look at where the creator economy and live streaming markets are, is a large market, very underpenetrated, and we have a huge opportunity here.

Yaoxian Chew - Vimeo, Inc. - VP of IR

Great. The next question -- sorry, Youssef, did you?

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

No, I was just going to say in the last part of the question around...

Anjali Sud - Vimeo, Inc. - CEO & Director

Thank you for reminding us, Youssef.

Narayan P. Menon - Vimeo, Inc. - CFO

Yes. Listen, we are still in the middle of our planning process. We have product plans are being developed, go-to-market plans are being developed, financial plan will follow after that. So it will be premature for me to give you a more clear guidance here. But I can give you a broad structure of how to think about next year. If you think about where we are and how we are exiting 2024 -- 2021. The first half of '22, the growth rates will be muted because we will be competing against really high growth rates that we delivered in the first half of this year. We do expect the revenue growth rate to reaccelerate in the second half. But it's hard for me to predict what the shape of the curve or when that bottom point would be, but that's one way to think about it. As we have more clarity, we will share that with you in the next earnings call.

Yaoxian Chew - Vimeo, Inc. - VP of IR

Next question from Brent Thill from Jefferies.

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

Just as it relates to the guide down, I'm curious, everyone is asking if you had to split between enterprise and the SMB what would you weight those 2 factors? Is enterprise a bigger factor in this guide down? There are a number of questions from your investors around what's caused us especially after you just gave 30-plus percent guide?

Narayan P. Menon - Vimeo, Inc. - CFO

Yes. Specifically, on Q4, Brent, as we talked about, the 2 areas we saw challenges were one on the expansion and upsells and the second one on new business. On the expansion on upsells, it is more enterprise. And the -- on the new business it is split between self-serve, which is our premium SKU and the OTT business. In the grand scheme of things, we are talking about a couple of percentage points change here, right? It's not a massive change for Q4. But if you want to think about how to break that apart, that's the way I would think about it.

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

And a follow-up, just the margins have been -- gross margins have been really good. What's driving that uptick?

Narayan P. Menon - *Vimeo, Inc. - CFO*

Yes. Great question. Multiple things: One, enterprise revenue as a mix of total revenue continuing to increase and our gross margins are better on enterprise products. So that's one of the drivers. The second thing is our -- big kudos to our engineering procurement teams for driving the cost of hosting and delivery and network cost down. So that's one that's also contributing to it.

The third thing is economies of scale. As our size increases, we get better pricing from our -- from our partners, and that's also driving the gross margin. I wouldn't expect the level of gross margins to continue to increase at the scale. We added 5 percentage points in the last 4 quarters. I definitely wouldn't expect that for the future of 4 quarters.

Yaoxian Chew - *Vimeo, Inc. - VP of IR*

Great. Next question from Justin Patterson from KeyBanc.

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

Great. Building on that gross margin comment, Narayan, would love to hear about just how we think about the degree of efficiencies you see going forward and how that could look in future quarters? Then perhaps a bigger picture back to the sales team. I know in the past, you had commented about some sales cycles being pushed out. What's the latest you've seen there? And I guess, as we get towards more longer-term contracts, what make sense to just talk about this more on a booking's basis, since I'm guessing you've got that deferred side building up nicely as the enterprise ramps up.

Narayan P. Menon - *Vimeo, Inc. - CFO*

Yes. Let me start with the sales cycles. Sales cycles were a little longer this Q3 compared to Q3 of last year. If you remember, Q3 of last year, the demand patterns were very different. The urgency was much higher than where it was today. Compared to last quarter, it had increased by a few days. We are still talking sales cycles of 4 to 5 weeks. So in the grand scheme of things, it is still much more efficient than a larger enterprise sales cycle that you would see.

There are 2 things that drove Q3 sales cycles up by a couple of days. The first one is seasonality. Last year, we didn't see a lot of seasonality. But this quarter, we did see pronounced seasonality, especially in EMEA. So that drove some of that increase. So if you compare against historic years, and Q3 is always -- the sales cycles are always a little longer in Q3. So adjusting for that, this is very much in line with what we would have expected.

Second thing, which is actually very exciting and promising is that we are seeing more and more large deals in our pipeline. Anjali talked about how the large deals customers with more than 1,000 employees, with a 150% increase in the number of deals in the pipeline. And as we pursue and land these large deals, we do expect sales cycles to get longer. That's a natural and positive evolution of our business model. A great example is the retailer that Anjali talked about. It's a large deal, a 6-figure deal, multiyear deal and the sales cycles were a little longer, but those are the kind of deals that we want, and it shows that our strategy is actually working.

And back to your gross margin question, sorry. We do expect gross margins to continue to improve but at a much lower pace than what we have seen in the last 4 quarters.

Yaoxian Chew - Vimeo, Inc. - VP of IR

Great. Next question, John Blackledge from Cowen.

John Ryan Blackledge - Cowen and Company, LLC, Research Division - Head of Internet Research, MD & Senior Research Analyst

Great. And sorry if this was already asked, just on the sales and marketing headcount, could you just discuss the number of heads that you've added thus far this year has kind of -- is that going to be -- is that a change from your initial expectations? And then kind of initial color on sales and marketing headcount ramp in 2022?

And then on the product side, with the recent launch of Library and Live Events, can you kind of frame how important these new services are for both customer acquisition and sub retention? And then should we expect any other big product launches before the end of the year?

Anjali Sud - Vimeo, Inc. - CEO & Director

I can take the first one on products, John. As I said in sort of the commentary, we do expect to maintain our pace of innovation through the end of this year and into 2022. And the reason is that we are so early in how professional quality video can be used that when we think about all the different things that we can build and that our customers are looking for. We've got a lot of innovation ahead and the team has, I think, delivered really well this year, and we're confident that we're going to continue to be able to deliver.

I think last earnings, I had said we were a little behind in R&D hiring. We actually are now hitting our targets for R&D hiring in this market. And so between being able to add the right resources and sort of the muscle that we have there, certainly, you should continue to see a good pace of innovation.

In terms of how to think about things like Video Library and Vimeo Events as big drivers of our ability to either land or expand it's interesting. What we're seeing is that each of this sort of solutions on both a stand-alone basis and then as part of the all-in-one solution, open up levers for both. I'll give you an example. When we launched Video Library, our thesis was that it would be a great retention and expansion lever that we were landing customers with live events and then that Video Library would be the sort of sticky thing with which we would expand. And that's very much what we're seeing. But we're also seeing that we're winning deals just for Video Library for the first time.

And so I think it's really just moving in multiple directions and our ability to both land and expand with each of these. And that's, I think, ultimately a good thing and speaks to the ubiquity of video and I think speaks to why a solution that you build has to be -- so sort of broad and ubiquitous in terms of its capabilities so that any employee, any team and any department can use it.

Narayan P. Menon - Vimeo, Inc. - CFO

Yes. And specifically, on your question about sales headcount, our plan as we started the year was to double our sales headcount from where we were as we ended last year. We are roughly in line to do that. We will -- I think we should be in a good place to close out the year with where we thought it would be. For 2022, it's a little too early to say the exact numbers, but we are planning to invest in our sales and marketing. As we talked about, our international footprint is still very, very light. We continue to grow our -- we have plan to flags in multiple geographies, and we'll continue to invest in those geographies for '22. Exact numbers, TBD at this point.

Yaoxian Chew - Vimeo, Inc. - VP of IR

Next question from Dan Salmon from BMO.

Daniel Salmon - *BMO Capital Markets Equity Research - Analyst*

So I have 2 questions. First, can we just return to the comments about transitioning the pricing model from storage to proceed and just unpack that a little bit more the details of it and the time line for it?

And then second, help us out with your monthly reporting and now with the updated guidance. It looks like there's still a fair amount of volatility month-to-month, which sounds in line with what your comments are. What I'm hoping that you can shed some light on is in the short term, how much of that is expected from the changes in the pricing model versus maybe some of the points of softness that you mentioned like the OTT business or the fitness and faith were?

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

So on pricing, I would say, it's a pretty massive project for us. And what we've begun to do is sort of start to make some of those changes. But you'll see us roll that out over the next quarters. And we're going to have to test and kind of validate as we roll it out. But the fundamentals here are today on our self-serve base, we really price based on storage, you're going to see us now move to per seat. And that's coupled with a bunch of product changes and improvements where we are now offering more value for free users, things like our screen recording tool and then more team collaboration capabilities.

And so it's not just really pricing, it's really pricing, packaging, tiering and product, all happening together. And we will roll that out, I think, steadily, and we'll look for fast pads to validation, but we'll also be careful to do it well. As I said, this is a long-term growth lever for us, and we have to do that properly.

On the enterprise side, we are going to start beta testing the new pricing this quarter and then look to roll it out in the next few quarters as well. And there, really, what you're seeing is we're going from more of a platform fee type of model to having sort of different pricing and expansion levers based on the use case. And that's designed to be aligned with our customers' success.

So to give you an example of what I mean by that, if it's an external marketing use case like webinars, well, then the success of the customer is based on things like the number of viewers or registrants to that webinar. That's tied directly to their ROI. And so that's where we'll start -- we'll look to increase our pricing. But if it's an internal communication use case like you're using Video Library, there, you'll see us look to price based on things like admin and contributor seats.

And so really, what we're doing with the price changes, not only moving from storage to seat, but we're also really creating the right willingness to pay kind of mapping for each of the different use cases and departments that we offer. And we believe that over time, that is going to allow us to sort of monetize better than we have in the past. So we want to kind of take our time to get that right.

Narayan P. Menon - *Vimeo, Inc. - CFO*

And specifically, on the monthly metrics, Dan, we have heard the feedback from multiple investors whether this is helpful or not. We are evaluating that ourselves. We believe the quarterly cycle is the best way to think about Vimeo's business and revenue growth because that is the natural rhythm of things, how we operate as an enterprise SaaS company.

If you remember, we started publishing monthly metrics early -- mid last year in an attempt to give more visibility to the investors on how things were progressing in the middle of COVID. That situation has changed. We are actively looking at what should be the better way to communicate with all of you. We plan to continue the monthly metrics through this year, but we will review the plan for next year and share that with you when we are ready.

Yaoxian Chew - Vimeo, Inc. - VP of IR

Great. I'm seeing no further questions in queue. With that, I will -- I think we'll wrap it up. Thank you, everyone.

Anjali Sud - Vimeo, Inc. - CEO & Director

All right. Thank you.

Yaoxian Chew - Vimeo, Inc. - VP of IR

Thank you to everyone for your time today. On the investor outreach side, this quarter, we will be presenting at the Wells Fargo TMT Conference on November 30 and the BMO Growth in ESG Conference on December 7. Vimeo will also be hosting one-on-one meetings in December at the Barclays Conference. We look forward to speaking with many of you very soon and appreciate your continued support to Vimeo.

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