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VMEO.OQ - Q1 2022 Vimeo Inc Earnings Call

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PRESENTATION

Operator

Goodmorning and thank you for joining Vimeo's Q1 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 Vimeo's 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 may differ materially from the views expressed today. We have also provided information regarding certain key metrics and 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 reconciliation on comparable GAAP measures can be found in our earnings release and demo filings with the SEC as well as the supplement information posted in the Investor Relations section on our website. With that, I'll turn over to Vimeo's CEO, Mark.

Mark Kornfilt - *Vimeo, Inc. - President & Chief Product Officer*

Goodmorning, everyone, and thank you for attending our Q1 earnings call. I'll start with some key updates. First, congratulations to our CEO, Anjali for welcoming a baby boy to the world 3 weeks ago. Everyone is happy and healthy and we're excited for Anjali's return to Vim. In the meantime, she stayed fundamentally with the business and involved in its major decisions. I'm most incredibly excited to welcome our new CFO, Gillian Munson. Some of you may know her from her prior lives as CFO of Deno and Iowa Health and of her time at Allen & Co and Union Square Ventures. Gillian brings decades of final experience to Vimeo, and she's already making a significant impact in our first few weeks.

Welcome, Gillian. Turning to Q1 results. We're pleased with our results and progress made. Revenues grew 21% and group gross profit grew 27% year-over-year. We ended the quarter with $291 million in cash and no debt, positioning us to be on offense in a volatile market.

We also made important investments in the quarter in both product and sales initiatives to fuel our future growth ambitions. Predicting the post-COVID normalization hasn't been easy. Our top-of-funnel traffic has returned to pre-pandemic levels. And because of the volatility, we're not providing full year revenue guidance this quarter.

But today, Vimeo is a very different company from what it was in 2019. Our visitors convert to paid subscribers and more than double the rate from pre-pandemic. They're adopting our new products and they're paying us more for them.

Our revenue has more than doubled since 2019, and we've delivered 15 percentage points of gross margin expansion. We grew our market by serving larger businesses with our sales-assisted business now representing over 30% of total revenue, up from 16% pre-pandemic on the back of a growth of 75% and 90% in 2021 and 2020, respectively. And these customers retain better, they pay us significantly more over time, and they're more profitable.

We're now winning 6- and 7-figure deals with some of the largest companies in the world for products that didn't exist 3 years ago. In summary, with the changes we initiated in the business since 2017, all accelerated by the pandemic tailwinds, we were able to acquire and retain millions of users at a low cost and these represent an expansion opportunity for years to come.

With this base, we leave the pandemic a stronger company with the scale, learnings, product and team it would have otherwise taken years to assemble. As we continue to lean into these strengths with the investments we're making across go-to-market and product, we expect our consolidated bookings to reaccelerate across both sales-assisted and self-serve by the second half of this year with revenue trailing behind this booking reacceleration.

We also expect our ARPU to continue to grow as a result of our expansion within large businesses and our new monetization efforts, and we plan to exit the year significantly closer to breakeven EBITDA, which we believe is prudent in the current environment. Delivering on these goals would have us exit 2022 on a clear trajectory to achieve our long-term growth and profitability targets, which we very much view as intact. The signals that we see in the business not only show how much we and the market have evolved in the last 3 years, but they also continue to give me, Anjali and the team's strong conviction in our strategy and in the enormous market opportunity to transform the way people work with video.

Moving on to updates on our key priorities for the year. In 2022, our plan has been to achieve excellence in targeting and serving larger customers, which while relatively new for us, has been the fastest-growing part of our business. If we continue to grow at our current pace with larger customers, they likely become the most meaningful part of our business over the next years. I'm happy to say that Eric Cox, our new Chief Revenue Officer, has been making a real impact on the organization since he joined us full time in December. Eric has been busy upgrading our go-to-market processes and structure to help us go faster here. Specifically, we deployed 3 major changes to our sales organization this quarter.

We specialize our sales team for the first time by size of company, enabling our teams to develop deeper expertise in the areas that matter the most to each kind of customer. For example, hiring and training sellers who understand the more sophisticated needs larger organizations have around information security.

In Q1, this allowed us to navigate the complex needs and the requirements across multiple corporate divisions at a Fortune 50 media company to displace internal tools and become their video platform solution for more than 150,000 employees. We created a customer success function, now more than 20 employees strong to help our customers decrease their time to value once they sign a contract to expand adoption and usage of our product and ultimately increase their lifetime value on Vimeo. For example, Hilton began as a customer with Vimeo back in 2019, using our solution strictly for hosting live events. Through customer success efforts in Q1, we were able to expand with Hilton to now serve as their internal employee communications platform across the company, winning their confidence in our solution based on reliability and quality.

We focused our go-to-market execution on 3 use cases: marketing; HR and internal communications; and content monetization. These are the 3 use cases we've historically seen the most traction with and the target buyers and consideration process for each are different. So we aligned our marketing and sales motions to connect the power of our platform to the specific needs of each. Many of these tactics are simply best practices in the SaaS industry, but new to Vimeo, and we're seeing early success here and investing.

At the end of Q1, our go-to-market team is over 60% larger than a year ago. We know this kind of go-to-market evolution doesn't happen overnight. So we're closely monitoring key metrics and adjusting our processes and investments as we go. We expect to see clear results paying off as we work our way throughout the year.

Our second priority this year is enhancing our monetization model with new pricing and packaging, specifically moving from storage-based to seat-based pricing that we believe is easier to understand is better aligned with customer success and helps expand the adoption of our products within organizations. In our early tests in Q1, we're seeing an uplift of 10% to 50% in average order values across customer sizes on the new pricing model for sales-assisted deals we've closed without any degradation in win rates or sales cycle. We will expand this test in Q2 to enable the new pricing model for all our sellers on all new sales-assisted customers.

For self-serve, we're still preparing for the full rollout of the new pricing and packaging. Self-serve is more complex, given both the volume and the variety of in-product purchase paths and customer types on our platform. A change of this size and scale needs to be done extremely thoughtfully. So our strategy and the pace at which we will roll out these changes will be governed by a measure twice and cut once philosophy. We're planning to start testing with new customers in specific geographies at the beginning of Q3 and then roll out the change to all new customers globally throughout the remainder of the year. As we gather adoption and retention signals, we're going to consider how we onboard our existing customers into our new model in 2023.

Our third priority is to continue to broaden our product suite. Product excellence is the center of all we do at Vimeo. And one of the reasons we consistently win new business is the simplicity and ease of use of our products. Multiproduct adoption continues to grow steadily for our existing Vimeo enterprise customers with more than 50% of our customers using 2 or more of our products. In the next quarter, we're going to start testing a completely reimagined live experience internally codenamed venues, which we believe has the potential to redefine this category by making live events more interactive, more social and more engaging, ultimately helping businesses drive a higher return on every event.

In March, we soft-launched a product called Vimeo Interactive, and we're going to launch it publicly in May. The product enables businesses to make any video instantly interactive by adding shoppable touch points and customizable call-to-actions directly in the Vimeo player. As with all our products, you don't need to be a pro to use it or configure it. Anyone in the organization can set up an interactive video without installing any software.

I like Vimeo Interactive. First, because it's proving out to be a great validation of our M&A capabilities. We've hit our internal targets for the first half of the year in the first month after our soft launch, and this product is a result of the WIREWAX acquisition that we did in Q4 of last year. But also, and more importantly, because in many ways, it's a great example of how early we still are in video. This medium that was designed for lean back entertainment content is now used by organizations to drive purchases on their e-commerce store to train their employees in more engaging ways and to support their customers.

Each of these use case is really a lean-forward consumption experience, where instead of being in front of a TV screen, the viewer is on their desktop computer or on their mobile phone. And the video experience needs to be more engaging to integrate seamlessly in the user journey, whether that's part of an e-commerce funnel, internal onboarding or if it's used on a customer support website. We're in the early innings of what our product can do for businesses, and we're excited to continue to push the boundaries here.

Turning back to team and execution. I'm pleased to announce that we've hired a new CMO who spent over 30 years in marketing with deep expertise in B2B, enterprise SaaS and brand marketing. We'll be sharing more details on that appointment in the next few weeks. We've now added 4 C-suite executives in the last 6 months, each of whom has operated at scale, understands SaaS inside out and has deep functional expertise. Underlying these changes is a commitment that we've made to ourselves to enhance our execution to set up Vimeo for the next phase of growth, not only with our executive team, but throughout our people, our processes and our systems.

The skills and tactics that got us from $50 million to $400 million in revenue are not the same thing that will get us to a multibillion-dollar company. We haven't and will not hesitate to make the changes and upgrades necessary to step up our game on operational excellence, and I'm confident that we will see the fruits of that labor over the next few quarters.

Before I hand it over to Gillian, I do want to comment on recent geopolitical events. The invasion of Ukraine is devastating. It had -- it hit very close to home as we have about 80 employees in the Ukraine, some of whom I've been working with for over 10 years. We're in all at the extraordinary spirit of our team in the impacted regions and all of the people of Ukraine. We've suspended our support for new customers in Russia and announced updated content guidelines to be more explicit in what we defined as mis-information and propaganda on our platform. The vast majority of our employees in Ukraine are in safe locations and currently remain productive. Although we cannot stress enough that the safety of our employees and their families is paramount and a key priority for our company.

With that, welcome to your first earnings call with Vimeo. Gillian?

Gillian Munson - *Vimeo, Inc. - CFO*

Thanks, Mark. I'm delighted to be at Vimeo and thrilled to be on my first Vimeo earnings video. Some reasons that I came to Vimeo are worth noting today now that I'm a month in. I want to be part of building a profitable, multi-billion-dollar revenue company that will lead this industry. After a month with the company, I can see a lot of evidence, this opportunity is very real. I'm excited to join this team. And I believe that my experience and approach can truly help our management team define and drive a disciplined growth strategy, and I believe my approach to thinking and discussing financials will both simplify and demystify the video -- Vimeo financials internally and externally. I hope to have the opportunity to meet with many of you over the coming quarters.

Let me start by trying to simplify our business for you. For Vimeo, there are 4 main economic drivers of revenue growth: top-of-the-funnel momentum; conversion of that funnel into paying customers or average price; and retention. As I think about Vimeo and work to describe it to our investors, I will try to talk to these drivers often to help give you color on both what we are seeing and what we are working towards. While I will try to address each individually here, our revenue growth is in reality the result of combination of these factors together. I will discuss them one by one now. Top-of-the-funnel for us is both leads coming into our sales-assisted pipeline and visitors coming to Vimeo's landing pages and converting into self-serve customers. In sales assisted, we are executing a go-to-market evolution given the opportunity we see ahead. We expect to drive continued growth in the funnel of customers and our sales-assisted approach in 2022 and beyond, especially as we move through the sales team enhancements that Mark just mentioned.

In self-serve, the pandemic accelerated the top-of-our-funnel growth. And that is now in the process of normalizing back to pre-pandemic levels. On conversion, Vimeo has experienced strong and steady conversion improvements through the pandemic, and this continues to be an area of focus especially in a more challenging self-serve top-of-funnel environment. In sales-assisted, conversion rates from pipeline remain healthy, but with room for improvement in our view.

In self-serve, our conversion rate has more than doubled since 2019, enabling us to be efficient with traffic and providing strong core economics. Price for us is really about ARPU. Vimeo's overall ARPU has been trending up over time as we have continued to grow the percentage of our revenue from sales-assisted and therefore, higher priced products. And we have held pricing on a per product basis stable. Additionally, we believe we have an opportunity to add to ARPU growth with a smarter approach to pricing and packaging rolled out in a measured way, as Mark mentioned, when we talk through priorities.

Finally, retention. Retention fuels the largest piece of our revenue at Vimeo and gives us the recurring revenue aspect of our business. In sales-assisted, our retention rates continue to show steady, healthy trends. In self-serve, retention rates are down slightly year-over-year, largely as a result of a planned mix shift to free trials and mobile, which have lower year-1 retention. Retention rates for customers in year 2 and beyond continue to exhibit good stability at this point, and we are pleased with the net effect, particularly as we get more year-2 data from our largest pandemic cohorts. This matters because we believe we are holding on to a significant portion of our pandemic gains and have inherent stability from which we can drive future growth.

Now turning to the Q1 and our outlook. Through the lens of these 4 building blocks, here's how Q1 came together. Top-of-the-funnel weakness, particularly on self-serve, made itself more apparent through Q1, negatively impacting bookings growth. We had continued conversion strength in self-serve with some offset in sales-assisted as we executed our sales transition.

Our retention results were healthy and ARPU continued to grow year-over-year. Q1 revenue reached $108 million and was up 21% year-over-year with healthy growth across both self-serve and sales-assisted customers. Sales-assisted revenue continued to grow faster than self-serve at greater than 50% growth year-over-year, while self-serve growth was 14% year-over-year, excluding the impact from Magisto, which you will recall is in the process of being deprecated.

The upside, as compared to our guidance, was due to slightly better-than-expected performance on the sales-assisted front. We think giving color on self-serve versus sales-assisted makes sense today, but I would like to remind everyone that the lines between them will likely blur over time, given more than -- given that 80% of our sales-assisted customers come from within our self-serve base. We grew paying subscribers to 1.69 million, up 6% year-over-year. Our ARPU in Q1 was $260, an increase of 12% compared to Q1 of last year. We now have more than 8,000 paying sales-assisted customers. The remainder of my comments will refer to non-GAAP measures.

Moving to expense and profitability. Our gross margin improved approximately 330 basis points year-over-year or roughly 40 basis points Q-over-Q at 75% in Q1. R&D expense for the quarter was up 50% year-over-year as we strategically added product and engineering talent to the team. The rise in cost includes compensation adjustments we have made to invest in our existing employees given the tight labor market. We plan to grow into this upsized team scale as we continue to grow the business.

Our sales and marketing spend for the quarter was up 33% year-over-year, also reflecting a strategic 2022 investment in our future as we continue to build out both direct sales headcount and infrastructure, which we believe we can scale over time.

G&A rose 73% year-over-year, largely reflecting growth in our team and related compensation. One note, we did increase our provision for credit losses, roughly $3 million due to near-term uncertainty around a new billing system implementation, which we expect to work through over the coming months.

Finally, adjusted EBITDA loss for the quarter was $10 million. We ended the quarter with a healthy $291 million in cash on our balance sheet. Cash was down versus Q4 due to our EBITDA losses, the timing of bonus payments and some use of working capital as we adopted the new billing system.

Now on to our outlook for the year. As I am digging into this business and as you may have surmised from Mark's comments, there are factors driving our business that we are very confident in, such as the size of and our ability to capture our sales-assisted opportunity. Our conversion progress, our retention and the ARPU increases we are enjoying as we grow sales-assisted as a percentage of our business. In fact, there are clear opportunities to drive each of our factors over time.

The top-of-the-funnel for our self-serve business is harder to forecast as the environment normalizes post-pandemic. Given volatility on traffic trends through the year, I'm going to give a more specific Q2 outlook today and talk to the rest of the year in more general terms. We'll continue to give you monthly metrics, and you can expect an update on 2022 from us at the next earnings call. For the second quarter earnings 2022, we expect revenue growth of 12% to 14%, with gross margin of 75% and adjusted EBITDA loss of between $11 million and $13 million.

Today, we are not providing revenue guidance for 2022, given my short tenure and the volatile environment we're in. However, as we sit here today, we currently expect bookings growth to reaccelerate in the second half, led by sales-assisted. Based on the math of how our revenue works, a reacceleration of bookings will drive a reacceleration of our revenue growth after some lag. We remain in an investment posture in 2022 and have organized ourselves structurally to accelerate growth. But we are committed to disciplined growth, and we'll adjust our operating expense growth rates to appropriate levels relative to our revenue.

Specifically, we do not expect to exceed the full year adjusted EBITDA loss we guided to last quarter of between $25 million and $30 million. I plan to help the team look at all of our investments with an eye to how they impact our drivers and ensure they are appropriately aligned. Moreover, it is important to mention that to the extent we do not see the revenue materialize as we would -- as we expect, we will address the resulting imbalance of expenses accordingly and bring down expenses as a percentage of revenue to drive sustainable growth. Longer term, the Vimeo story continues to be about growth. What we have here at Vimeo is a strong growth sales-assisted business that we believe only gets better as we lean into its strengths. And we have a self-serve business with strong fundamental tailwinds that was a major pandemic beneficiary and is adjusting now to a more normalized environment.

Together, we believe these businesses will deliver an attractive revenue growth profile once we work through this normalization period. We believe we can deliver growth in a disciplined manner, and I'm already getting to work to help achieve these goals.

Again, I want to thank the Vimeo team and Mark for welcoming me. This is my kind of opportunity, and I'm very excited to continue to dive in with you all.

With that, I'll open up for your questions. Over to you, Yao.

QUESTIONS AND ANSWERS

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

(Operator Instructions) Our first question comes from Tom Champion at Piper.

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

Great. And Gillian, it's great to see you. I'm sure it's been an exciting and eventful couple of weeks at Vimeo. I think it's probably important to discuss that outlook here at the top, I mean, particularly the full year revenue outlook, which was previously 15% to 18%. Maybe you could just help us think through a range of revenue outcomes as we update our models here. What -- what's kind of a sensible way to think about that? And maybe you could just provide a little bit more detail on the macro environment and maybe what you're seeing there and the tactical guidance you're instilling at the company on a day-to-day basis, understanding that it's very early days for you. Any comments on that would be really helpful.

Gillian Munson - *Vimeo, Inc. - CFO*

Yes, starting a public company CFO job with 4 weeks to go to an earnings call is a unique experience. But it's been a lot of fun to get to know the Vimeo team. So as we sit here today, we believe that we can deliver double-digit revenue growth in 2022. But we are seeing uncertainty on the top-of-the-funnel in the self-serve business. And as we think about how that impacts bookings, it's hard to figure out exactly which month that will turn, and so it's hard to then give you revenue because revenue trails bookings.

But let me tell you a little bit about what we're assuming within all of that so that it gives you a little more color on the business. First thing I'd say is that what we really know well about the business is that our sales-assisted business has a really strong growth profile. We're investing to accelerate its growth, and we continue to see a great outlook for that business. Secondly, we believe that if you look at the other drivers in terms of revenue, in terms of retention and conversion and ARPU, all of those are going in the direction we want. So really, what we're watching is those bookings and particularly as they relate to the traffic on the top end of the self-serve funnel. It's just at this point, the curve is hard to give you a real color on, given the environment. And so that's why we're not giving the full year revenue guidance.

The company is absolutely positioned to grow. That is our main focus, and we want to position ourselves to grow in a disciplined manner, and that's why we're committed also to making the EBITDA target that we've announced last quarter of $25 million to $30 million.

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

Next question, Youssef Squali from Truist.

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

And Gillian, congrats. So maybe let's double-click on the self-serve issues. I think you guys talked about [top-of-the-funnel] normalizing. I'm assuming some of that is purely driven by macro, I was wondering if there's anything else other than macro that you can call out. Maybe you can also talk about some of the new self-serve products that you mentioned in your prepared remarks. How quickly do you think we can basically see them starting to translate into revenues to reaccelerate growth?

Mark Kornfilt - *Vimeo, Inc. - President & Chief Product Officer*

Yes. So let me address those points. So first taking a step back on the traffic. We believe that's actually traffic that it's coming from the environment. But if we look at the funnel lower than traffic, we see different things on sales-assisted and self-serve. And I know you've asked about self-serve, let me address sales-assisted just for a minute.

On sales-assisted, we are now closing larger deals with larger customers than we've ever done. That business is now north of 30% of our revenue and it's a healthier revenue mix. These customers stay with us for longer. They pay us more over time. They're more profitable. And the reason I'm bringing up this point is because they're also adopting the new products that we are launching. And we're seeing multiproduct adoption. We've talked about be north of 50% now for these sales-assisted customers.

And so as we think about our product suite and broadening the number of products that we offer, we think about that both across self-serve and sales-assisted. On self-serve, what we are seeing is, like we said, double the conversion rate in our funnel. We're seeing our new customers paying us more for the new products that we offer, and so we

see traction from the products that we launched over the last couple of quarters. In terms of the new products that we're launching this year, we're expecting that impact to happen over the next couple of quarters.

But we're not relying on that for the bookings reacceleration in the second half of the year. We have a number of initiatives across go-to-market. You've heard about all the enhancements we've done at the beginning of the year to set ourselves up to succeed there for the rest of the year. You've heard about some of the pricing and packaging changes that we have in the works. And then we have obviously the product improvements as well. So we believe we can impact conversion, we can impact ARPU, we can impact -- we can continue to impact retention rates throughout the year and get to bookings reacceleration in the second half with these levers.

Gillian Munson - *Vimeo, Inc. - CFO*

Yes. And one thing I would just add to that is we have tried to be pragmatic about how much we expect out of the self-serve business. So when we look at that reacceleration of bookings, more than half of it will come from the sales-assisted business. And we're trying to take a more conservative look at the self-serve business.

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

Any chance you could help us quantify kind of the drop in top of the funnel kind of traffic? Is it 10%? Is it 20%? Is it more -- just again, I get a sense of how softer it is relative to what it was during the pandemic?

Gillian Munson - *Vimeo, Inc. - CFO*

So we're not going to give specific numbers, but I think what Mark said in his comments was that it's back to 2019 level, so pre-pandemic levels is the way I would think about it. So we certainly had a large boost during the pandemic, and we're back kind of where we were before.

Mark Kornfilt - *Vimeo, Inc. - President & Chief Product Officer*

And I would just add that it's difficult to compare given the improvements we've made over time in our conversion rates, in our ARPU. And so you can't really do a like-for-like on traffic volume.

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

Next question from Brent Thill at Jefferies.

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

Gillian, maybe if you can share your guidance philosophy as a CFO? Your predecessor mentioned he guided to what you see versus other CFOs maybe taking a more conservative view on the pipeline and what they're seeing and what they're telling us. So can you just give us your perspective on the philosophy and how you guide?

Mark Kornfilt - *Vimeo, Inc. - President & Chief Product Officer*

I'll let you answer the question in just a minute. Just to start off, I want to be clear that on this guidance question, we've also -- Gillian has been here for a little more than 3 weeks. And we did ask her, we gave her the mandate to take a fresh look at this business to form her own perspective. And so part of what you're seeing here is giving her the time to do just that. So I'll let you answer the question, but it's definitely part of the mandate that we've given. Gillian?

Gillian Munson - *Vimeo, Inc. - CFO*

Yes. It's a good question. I really tried to, as a CFO, to be transparent and try to lay out what we're trying to get done. I think that I will tend to try to make sure we have the room to operate. I don't tend to want to price us for perfection, if you will. In other words, I will always try to find a way to make sure that we can adjust if things happen in the business. We would like to be giving more precise guidance. I think the reason we've decided not to give 2020 guidance is precisely the lack of visibility we have at the top of that funnel and trying to be transparent about what we're seeing. And then in terms of the business itself, we really are positioning the business for growth. That's what we're investing against. And my focus outside earnings is to move on to really helping everyone in the team make sure that the investments we're making are going to pay off in the way we expect, so that we can reaccelerate those bookings.

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

And quick follow-up. When you look at -- I understand that the pipe of new customers, but when you look at the churn rate of existing, are you seeing a higher churn among the existing across multiple sectors? Or how would you describe what that...

Gillian Munson - *Vimeo, Inc. - CFO*

So I talked about the 4 drivers of our revenue growth. I'm going to try to -- as we talk to you all in our current quarter, just keep coming back to this because they really do help frame the business. In terms of retention, in the sales-assisted business, we are seeing excellent retention, and it's very, very stable. In the self-serve business, retention is down a little bit year-over-year. It's largely year-1 cohorts where we have a higher mix of mobile and free users in the mix.

If you look at year 2 and beyond, the retention is very, very stable. So we're feeling very good about where we are from a retention basis. That said, every one of these drivers is a really important strategic area for the company, and we have always had people working on each of them, including retention. Retention drives the majority of our revenue and so we really always want to be on top of that as well.

Mark Kornfilt - *Vimeo, Inc. - President & Chief Product Officer*

And the year 1 is the mix of mobile and free trials that we've increased over the last year.

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

Next question from Brian Fitzgerald at Wells Fargo.

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

Gillian, welcome. A couple of questions from us. We want to ask about the gross versus net subscriber additions, the dynamics there in the quarter. Maybe if you could unpack the impact from the Magisto depreciation? And then a follow-on, if you look back to '19 [280,000] net subscriber additions, obviously, most on the self-serve side. So I'm just wondering if you could give us some context based on similar top-of-funnel activity, what the range of outcomes might be on subscriber additions this year?

Gillian Munson - *Vimeo, Inc. - CFO*

Sure. As it relates to subs, ex Magisto, they're up roughly 1% versus last quarter. So -- and then obviously, up year-over-year. I think it's around 11% year-over-year versus the 6% for the overall.

In terms of subs and new subs, we're not going to comment on specific numbers. But I think, again, I'll go back to those drivers, which are my mental model to think about this. And so what we've talked about is that we have doubled the conversion from that pre-pandemic period. So on lower traffic, we are able to much more efficiently get new subscribers into Vimeo.

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

Got it. And then, Mark, maybe one quick follow-up. You mentioned the -- you mentioned multiproduct at 50% now. Any granularity in terms of type of client vertical or size to call out in terms of in moving to multiproduct?

Mark Kornfilt - *Vimeo, Inc. - President & Chief Product Officer*

No. It's not specific to any vertical or size of customer. I'll give you just more color in terms of what they tend to be doing. Really about 18 months ago, most of our Vimeo enterprise customers were coming to us for live streaming, and it was either live streaming of town halls or live streaming of broadcasting live streams of public events. And over the last 18 months, with the products that we've launched, we're seeing cross usage of things like our video library products. So our customers coming in and starting to use us as that system of record for the organization and broadening the use of the product within the employee base. So instead of just a one-way broadcast of an event to the employee base or to customers they'll bring in their employees to upload their own video content, maybe record their screen and upload that content, maybe create a short-term video as well, maybe use our Vimeo events product to do webinars and capture leads. So that's really the expansion that we've gone through over the last 18 months.

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

Next question from William Care at Cowen. Please unmute yourself.

William Care

I'll take it. And Gillian, welcome. I guess it sounds like the potential reacceleration as we round through the back half of the year and into next year would be led by sales-assisted segment. How is sales force efficiency kind of in that channel currently? And do you expect the sales force efficiency gains for that segment to improve?

And secondarily, just any color on the sales headcount right now? And is it going to grow further kind of this year?

Mark Kornfilt - *Vimeo, Inc. - President & Chief Product Officer*

Yes. We won't talk about the specifics of efficiency and headcount. What I can tell you is that we have put in motion quite a lot of enhancements over the beginning of the year. And we are looking at the key metrics across our sales force, whether that's win rate, whether that's sales cycle, whether that's efficiency for that matter. And we're going to be adjusting and we'll adjust both our investments and we'll adjust the way we operate as we see the success of these changes pan out. We definitely -- this is definitely a large area of investment for us because you're right, that's the piece that is leading our bookings growth.

Gillian Munson - *Vimeo, Inc. - CFO*

And just to sort of bring it back to the numbers, as I mentioned in my prepared remarks, we expect the percentage of revenue from some of our key strategic investments to go down over time, and you pair that with our EBITDA guidance to get much closer to breakeven by the end of the year. Essentially, the team had a very significant build this quarter. And so we are certainly less efficient right now than we expect to be as we move through the rest of the year.

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

Next question from Dan Salmon at BMO.

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

So I've got a bit of a two-part question. I think, Mark, I want to go back to some of your comments in the prepared remarks where I believe you reiterated the company's long-term targets, which were previously for revenue growth around 30%. And if I remember correctly, the components being around 15% subscriber growth, 15% ARPU growth. I just want to confirm, do you -- are those -- is that for the longer-term outlook still intact?

And then second, just a similar question on gross margin, 75% this quarter, drilling your guidance of 75% next quarter, that's the long-term target as well. Is that one expected to remain consistent also?

Mark Kornfilt - *Vimeo, Inc. - President & Chief Product Officer*

Yes. So one, yes, we expect that to be entirely intact. Just taking a step back from the 30%. I understand that is important. But taking a step back from that. The reality is what we believe is every business in the world needs to adopt video. It's not an elective anymore because people want to communicate more effectively internally. They want to grow their business. We believe video is the most powerful way to do that. And so over the coming years, every business in the world is a candidate for our product.

So it's an enormous market, and we are very uniquely positioned. Nothing of that has changed. And I would say the way we measure our success is not in the last couple of quarters, but really how we are able to execute against that strategy of bringing video to every business in the world. I think some of what we talked about earlier today illustrates our progress. We're -- actually, we feel good about that progress with our ability to penetrate these larger companies, with our newer products, with our ability to expand our market, with the adoption of our products and our improvements in our -- in the conversion rates. So a huge market, we haven't -- we don't see any change in that thesis. We continue to have strong conviction in that strategy. And yes, ultimately, that leads to 30% or north of 30% growth business.

Gillian Munson - *Vimeo, Inc. - CFO*

Yes. And just sort of taking it to numbers and sort of framing that a little bit, we continue to see 30% as a doable number for the business. What we really have here is a sales-assisted business with healthy double-digit growth and strategic investment to continue to accelerate that opportunity. It just happens to be the smaller part of our business. And then our self-serve business, which is bigger is going through a post-COVID normalization period. We continue to think that will also be a growth business, just at a bit of a slower rate than the sales-assisted business. When you blend the 2 together and that sales-assisted business gets closer to 40%, 50% of the business, the rates of growth for the overall company come up meaningfully. And so 30% continued in our view to be the right target. There will be a question of what the timing is on that as we work our way through 2022. But we continue to be very focused on that goal. And that's the investment profile that we've put together for the business here in 2022 as well.

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

Great.

Gillian Munson - *Vimeo, Inc. - CFO*

You asked -- sorry, Yao.

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

Go ahead.

Gillian Munson - *Vimeo, Inc. - CFO*

You asked about gross margin, and I'm sorry, I didn't answer your question on gross margin. Gross margins come up a lot in the last year and was up sequentially -- will always look for opportunity in gross margin. But in terms of as we think about the business, we're modeling it essentially flat from here.

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

Next question from Cory Carpenter, JPMorgan.

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

I had two. First, is the macro environment impacting the business at all in the enterprise side, especially maybe bookings in Europe. We've heard mixed messages from other software companies around that in particular. And then secondly, how should we think about any operational risk associated with the situation going on Ukraine, perhaps most tied to the product road map?

Mark Kornfilt - *Vimeo, Inc. - President & Chief Product Officer*

Yes. So let me start with the first question. We're not seeing any particular pressure with our Europe sales-assisted business. As it relates to the specifics of the Ukraine and Russia markets. It's a very small percentage of our overall revenue, less than 1%. But no, on the sales-assisted side, we're not seeing anything specific to Europe. We are seeing, as it relates to the macro environment, obviously, that top of the funnel pressure that we've talked about.

In terms of the operational risk, so look, yes, we have about 80 people in Ukraine. They're exceptional talent, and we don't see any change in our long-term investments in Ukraine. We have flexibility, however, because over 50% of our R&D workforce is outside of the U.S. We have offices in India. We have offices in Israel, in the U.K.

And so we have flexibility to grow these locations should something more disastrous happen. But right now, our teams luckily, are all safe, their families are safe. That's what we're focused on.

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

Last question in queue comes from Justin Patterson at KeyBanc.

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

Welcome, Gillian, and I'm also glad to hear that Anjali and her family are doing well after the birth. So two, if I can. First, Gillian, you've been here for 3 weeks. Could you talk about what some of your top priorities to learn about the business are over the next 90, 100 days? And then just a follow-up to the revenue and bookings commentary. I appreciate there will be a lag between where bookings are and where revenue is given more of the business is shifting towards sales-assisted, how should we think about the delay that could exist from just the change between the 2 revenue streams?

Gillian Munson - *Vimeo, Inc. - CFO*

Sure. So it's been a whirlwind of a 3-week period to get to an earnings call. So what's great is my first priority was understand the business and try to learn the financials and understand what's moving the business around. And so there's a great forcing function having an earnings call to dive deep on the business. I still have a ton to learn and I really am looking forward to now having the time to spend much more time with all the teams on what they're doing and really tie the efforts of the business to those 4 key drivers of revenue because I believe if we can focus ourselves on each of those, and make sure we're aligning resources in the proper way with the overlay of growing sales-assisted more than self-serve, I think we can really produce some terrific results for the company. So that's really where I'm turning next, which is the more strategic dive, really work with teams, make sure the investments are at the right place and try to really be an enabler to growth for the business.

The second piece of what I'm working on is much more on the infrastructure side. We really continue to be in a growth investment profile. That's what we're headed for. And so I want to make sure our finance organization is set up to scale with that growth. I'd like to make sure that we can get that G&A spend as a percentage of revenue down over time as we move through the period. So those are the main things that I've been thinking about.

You had a second question on bookings versus revenue. In both businesses, you have longer-term contracts. So you do have some lag between the 2 in terms of revenue growth. And again, we really think more than half of the bookings acceleration is going to come from the sales-assisted side. So that will be the real driver to bring us up over time.

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

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

Mark Kornfilt - *Vimeo, Inc. - President & Chief Product Officer*

Thank you all for attending our Q1 earnings call, and we look forward to speaking with many of you soon. Thank you.
