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VMEQ.OQ - Q4 2021 Vimeo Inc Earnings Call

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OVERVIEW:

Co. reported 4Q21 revenue of \$106m and adjusted EBITDA loss of \$7.6m. Expects 2022 revenue growth to be 15-18%.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good morning, and thank you for joining Vimeo's Q4 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 a substitute for or in isolation from GAAP measures.

Additional information regarding Vimeo's financial performance, including reconciliations with comparable GAAP measures, can be found in our earnings release and Vimeo 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, and welcome. Last night, I published a letter to our shareholders with 3 main takeaways. First, my team and I are here to change how the world uses video. We've had our missteps, but we also see mounting validation of our strategy. Increasingly, Vimeo is powering video for work, and we're entering the year with more focus, clarity and rigor. Second, we expect our revenue growth in 2022 to slow versus last year by more than we'd like. We continue to digest the COVID hangover with our smaller customers, both in specific verticals like faith and fitness as well as in use cases like live streaming.

We're also making needed changes to the business as we shift our go to market, expand our product breadth and enhance our monetization model. These factors, along with lapping a strong first half of 2021, make it hard to maintain the exceptional growth rates from this time last year. We do expect to reaccelerate our revenue growth in the second half of 2022.

Third, underlying our overall growth rate is an exciting mix shift towards serving larger companies, a shift that we view as ultimately higher-value stickier dollars. We set our North Star internally on serving companies with greater than 100 employees. These are the customers we see as having the most urgent need for our solution with the budget to invest in best-in-class video capabilities, and who we can grow with most as our product suite expands. We've shared some of the reasons we believe this in our shareholder letter and going forward, we'll look to share more with you as we make traction with these companies.

And before we dive into the business, I've got a few team updates to share. First, I've invited our President and Chief Product Officer, Mark Kornfilt, to join today. You may not be able to tell with this table, but I am 7 months pregnant, and will be stepping away for maternity leave in April. We plan for Mark to serve as interim CEO during that time and to represent Vimeo during our Q1 earnings. For those who don't know him, Mark is a 15-year veteran in B2B video, having founded and run several businesses. Among them, he served as CEO of Livestream, which Vimeo acquired in 2017. Mark has spent the last 4 years as my partner in architecting our strategy and transition. So Vimeo is in great hands.

Second, we recently added two new leaders to our exec team. Our first Chief Revenue Officer, Eric Cox; and our first Chief People Officer, Crystal Boysen. Eric spent nearly 2 decades at Adobe, where he oversaw various go-to-market, e-commerce and revenue functions for some of their largest businesses. His priorities at Vimeo include delivering our revenue targets across all channels, enhancing our monetization model and optimizing our website experience. Crystal comes from Canva, where she led their people team as they scaled from several hundred to over 2,000 employees globally. In a world where everyone is talking about the great resignation and the war for talent, Crystal's job is to cultivate people-first culture at Vimeo and ensure we've got world-class talent.

Third, as we announced yesterday in our press release, our CFO, Narayan, will be leaving us to explore other career opportunities. We've kicked off a search for his successor, and Narayan will continue to serve as CFO through June as needed to ensure a seamless transition. After that, he'll continue to be available as an adviser to us through the end of the year. I'm sad to see Narayan go, but I'm also excited to see what he does next. Narayan, on behalf of the Board and every Vimeon on the team, we wish you incredible success. Thank you for everything that you have done to get us to this point and everything that you continue to do. It's been a privilege.

Narayan P. Menon - Vimeo, Inc. - CFO

Thank you, Anjali. I really appreciate that. I just want to say that it has been a real honor to take Vimeo through these last few years. I have the utmost faith in this team and our strategy and strongly believe in the huge opportunity ahead for the company. I will always be cheering for you, Anjali and for Vimeo.

Anjali Sud - Vimeo, Inc. - CEO & Director

All right. On to the business. Last quarter, we talked about 3 key priorities: go-to-market, product breadth and monetization. I want to give you more color on what we're specifically doing here.

First, we have a winning product that businesses are willing to pay for. We see this reflected in increase in conversion rates and a growing number of business domains and business domain users on Vimeo. For our flagship Vimeo enterprise offering, we see this in a high NPS score and in highly engaged teams. So we've got the product and now we need to take our go-to-market to the next level. We'll do this through investments in sales, marketing and customer success, many of which are net new for us. For example, we're not just growing our sales team capacity, we're specializing our sales force by customer size to better align with different buying behavior. What we've seen is that smaller companies tend to buy very differently than larger ones. So our sellers need different skill sets and training, and for the largest companies, they need to be paired with a sales engineer to navigate the buying process with a more technically driven approach. We've entered 2022 with the specialization in place, and we'll be honing it under the stewardship of our new CRO.

On the marketing side, we're increasing investments in SEO to scale organic traffic as well as adding in-product triggers to encourage teams to share content and add their colleagues. We're also investing in data and automation so that our sales force can quickly call the most qualified leads based on who they are and how they use our products. Finally, we're investing in a new customer success team, a team that's going to be goaled

on product adoption metrics, things like customer time to value, seat utilization, monthly active engagement and account growth. This gives us a dedicated motion to drive early and ongoing success with our customers in a way we didn't have before.

Second, our product expansion strategy is working. We added two new products to our Vimeo Enterprise offering last year, Video Library and Vimeo Events. Both are doing what we designed them to do, helping us win business, expand existing relationships and diversify beyond live streaming. Within a few short months of introducing these products, we're seeing nearly half of our Vimeo Enterprise customers now using us as a multi-product solution.

We're also getting better at selling to big customers. For example, we closed our largest Vimeo Enterprise deal ever in Q4 with a marquee Fortune 10 retailer. This was a 3-year 7-figure contract and a key proof point of where the market is going. This customer will be using Vimeo to train associates, post the videos on their website and centralize all their video content securely. It's worth noting that we displaced a competitor here because of our quality, ease of use and platform breadth. What's most exciting for me is that Video Library was such a critical part of this deal and will be used to centralize video content for this company across millions of their employees worldwide. Remember that we just launched the beta version of Video Library last summer. So to go from that to a 7-figure deal with a huge company in just 6 months is pretty great validation that we're on the right track.

So we're doubling down on our all-in-one strategy by continuing to improve Video Library and Vimeo Events based on customer feedback and by expanding our product breadth further into areas like enterprise-grade video creation and interactive and shop-able video.

Third, we have low-hanging fruit to improve monetization. We've talked about our sizable opportunity to convert the majority of Fortune 500 companies currently in our user base who are either paying us nothing or a few hundred dollars a month today. When we have successfully upgraded these companies, we see 250x increase in ARPU, but right now, this kind of upgrade isn't happening at the scale and velocity it could. We believe the way to unlock this is to fundamentally shift our monetization strategy from a legacy storage-based model to a seat-based approach.

I'm pleased to share that this transition is on track. We've begun to roll out per seat monetization as planned. We used this new monetization model in Q4 to win some of our largest deals and customers have been receptive, given that we're aligning with industry standards, and ultimately, their own success. But we've got plenty of testing to do before we declare our victory here, and we continue to view this as a multi-quarter journey with long-term returns. Ultimately, we want to reduce the barriers to adopt video at work so that more employees are using more of Vimeo more often. This is our priority over a fast rollout.

So overall, our focus remains the same for 2022: improve our go-to market, expand our product breadth and enhance our monetization model. Today, we've given you more details around how we're attacking each of these, and we're building the right team and muscles to do it. Plenty of good hard work to do. Potential for Vimeo doesn't rest on this year alone. Every company team and employee in the world is just starting to use video for work and our success rests on our consistent ability to build best video software to serve them.

So I'll hand it to Mark to share more about our product strategy.

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

Thanks, Anjali. As you've seen and heard, we kept a good pace of product innovation and improvements as we scaled in 2021. I think this speaks volume about the maturity of our platform, the talent of our team and our focus on driving business impact with our product roadmap. In 2022, we're focused on 3 key product pillars: the first one is unlocking knowledge at work; the second one is defining the next generation of live events, the third one is serving the largest companies in the world. Let me tell you a little bit more about each of them.

Our first pillar is about helping every employee share ideas and knowledge effectively with video. Why? Because today, most large companies are generating thousands of hours of video content every year and much of this valuable information is getting lost in shared drive, e-mails or on people's computers. Last year, we launched our Video Library product to help companies like Bayer and Nike manage and disseminate all of that information. So it's searchable, it's permanent, it's secure and it's far more usable. We'll keep iterating on this product, but our next step is to help every employee create video daily.

Historically, within large organizations, as you know, only a couple of people were able to create videos either through internal AV departments or external agencies. We believe that with the right tools and with the support of AI, we can enable everyone inside the organization to easily record, edit and stream videos. But in order to truly unlock knowledge, we also need to surface all of the information inside of videos and make it more discoverable. Think about this earnings call. You're watching this live video, which we're going to post on our website as a recording once we're done. This information that I'm giving you right now is going to sit at minute 15 of the video for someone to discover by chance if they ever get to minute 15. That's just not good enough. So we're working to evolve our player and tools to help every viewer easily find, digest and get the most out of the dense content inside of videos.

Our second pillar is about defining the next generation of live experiences. We've seen early traction on Vimeo Events, as you've heard, and we're building on that momentum day. But we expect the future of life to look very different from what it looks like today, less passive and more like what you would experience if you were attending an event in-person surrounded by colleagues or friends. We're working on making live experiences on Vimeo richer, more interactive, more collaborative and more social. And we're working on simplifying live streaming even more so that you or any other employee in your organization can create these experiences, whether it's to market a product, to do a town hall with your employees or to educate your customers.

Last but not least, we're scaling our tech, our integrations, our architecture and our security so that we can power mission-critical work for the largest companies in the world. Up until 2 years ago, Vimeo was really a single-user product designed for individuals. Last year, we targeted the ability to bring teams larger than 1,000 employees on Vimeo. It was an ambitious goal that required rearchitecting our platform to add support for larger libraries of content, granular roles and permissions and team collaboration tools, and we succeeded. We now have over 30 Vimeo Enterprise accounts with more than 10,000 seats, and we're now moving to support hundreds of thousands and even millions of seats on a single account. Vimeo has always been known for our superior quality and reliability, and we're building and we're investing to make sure we build on the leading edge here as we scale in the enterprise.

To close off, I want to leave you with this thought. People often ask me, how will I know if our strategy succeeded in 5 years. I believe that the answer to that is that we become the de facto solution for anyone looking for the best way to communicate an idea because video connects people in ways no other medium can. It's authentic and emotional. It's rich and engaging and it's immediate. I've spent the last 15 years of my career democratizing video because I believe in its power. What I've seen happen over the last 18 months has been incredibly validating, but that's nothing compared to what I believe will happen in this market in the next 10 years. There's so much yet to be built, and we're going to continue to pave the way for the industry.

With that, I'll pass it over to Narayan to walk you through the financials.

Narayan P. Menon - Vimeo, Inc. - CFO

Thank you, Mark. Q4 was a solid quarter. Quarterly revenue reached \$106 million and was up 27% year-over-year with healthy growth across both self-serve and sales-assisted. We added approximately 33,000 paying subscribers and ended the quarter with nearly 1.7 million total subscribers, up 11% year-over-year. Our ARPU in Q4 was \$251, an increase of 13% compared to Q4 of last year. We do expect ARPU to fluctuate a bit in the short term as we evolve our monetization model and lap the COVID dynamics, but we expect overall ARPU to keep growing as we both increase the sales-assisted ARPU and that business increases in mix over time.

On the sales-assisted side, we now have more than 7,000 paying customers, and our sales-assisted revenue grew more than 50% this quarter. We are especially pleased to note that the sales-assisted now represents more than 30% of the revenue in the quarter, up from mid-20s a year ago. sales-assisted NRR dipped below 100% this quarter with lower expansion, though logo retention picked up slightly. As we have talked about in the past, NRR is a lagging indicator, and we expect it to start increasing again in the second half once we lap the COVID comps and as our revenue growth rate reaccelerates. The average also masks real traction in our Vimeo Enterprise offering, where the NRR increased quarter-over-quarter as we leverage our new products to drive stickier use cases and expansion.

The remainder of my comments will refer to non-GAAP measures. Moving on to expenses and profitability. Our gross margins held steady quarter-over-quarter at 75% in Q4. We continue to be pleased with our progress here. R&D expenses for the quarter was up 62% year-over-year as

we continued to successfully add world-class product and engineering talent to the team and rapidly expand our product suite. Our sales and marketing spend for the quarter was up 45% year-over-year as we more than doubled our sales team headcount to fuel our sales-assisted revenue growth and set ourselves up for a successful 2022. Finally, adjusted EBITDA loss for the quarter was \$7.6 million. This included onetime M&A and legal expenses of about \$4 million.

Before we turn to our forward-looking outlook, I want to outline some changes on how we will talk about the business going forward. As Anjali alluded to, we increasingly see our customers' needs, purchase behavior and willingness to pay differ significantly by company size. We think this is an important lens through which to operate our business so much so that we have organized our team internally and focused our '22 strategy around the North Star of serving companies with more than 100 employees. Specifically, we see the COVID consumption hangover disproportionately impacting companies with less than 100 employees.

We saw these customers grow most aggressively during the pandemic, and while we believe the SMB market is still large and underpenetrated, normalized growth patterns will take a few quarters to work through. For companies with more than 100 employees, we see a sizable near-term opportunity reflected in the demand within our existing user base, sales pipeline, customer conversations and logos won. These are the customers who we believe we can grow with the most and who our expanding product suite serves best. So as we proceed in 2022, we will increasingly talk about the business through the lens of company size. Initially with sales-assisted customers and across our entire business over time. We are also aligning our incremental capital allocation decisions through this lens, whether it be investment in our sales force, marketing spend or R&D resources.

Now on to our outlook for the year. For Q1 '22, we expect revenue growth of 17% to 19% with gross margins around 74% and adjusted EBITDA loss between \$10 million and \$12 million. For full year '22, we expect revenue growth to be in the 15% to 18% range with gross margins about 75% and adjusted EBITDA loss between \$25 million and \$30 million for the year. We expect 2022 to be another positive free cash flow year. We expect our 15% to 18% revenue growth outlook for '22 to be driven by sales-assisted revenue growth of well over 30%. And within sales-assisted, revenue from companies with more than 100 employees expected to grow at a significantly higher level. This is a natural evolution of our revenue mix to stickier, higher-value customers.

Our expected growth rate for '22 is impacted by 3 things: first, the headwinds facing the smaller SMB customers as discussed earlier; second, the anticipated variability of two key initiatives, enhancing our monetization model and updating our sales and marketing motion to become best-in-class. The ramp and success of these initiatives could have a significant impact on our growth trajectory for the second half of the year. And finally, as we refocus our resources this year, we will actively deprecating the consumer-facing portion of our Magisto business, which we had acquired in 2019. We estimate the underlying growth ex-Magisto to be about 3% higher.

On expenses, our investment priorities for '22 have not changed. If unit economics dictate leaning into investments to drive growth, we will continue to do so. On gross margins, we will continue our infrastructure optimization efforts to drive cost savings, but we also plan to reinvest those savings strategically in areas that drive future differentiation in video quality and video insights at scale. So we don't expect gross margins to grow materially in 2022.

On R&D investments, we intend to continue hiring to drive strategic product expansion and our pace of innovation. We have the benefit of a global presence with distributed R&D centers of excellence across the world and the subsequent ability to attract talent from wherever it may be. Our major area of investment in '22 is in our go-to-market teams from building a more specialized sales force to expanding our sales support structure, including sales enablement, sales engineering and customer success teams. Much of these investments are staged and contingent on evidence of traction and success, though it will take some time for some -- the full impact of this to materialize. Given these investments, we expect adjusted EBITDA to be negative in Q1 and for the full year. We do expect to post positive free cash flow for the year similar to 2021.

With that, 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

(Operator Instructions)

Our first question comes from Brent Thill at Jefferies.

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

If we can just start with what's changed in the last 90 days for the new outlook? Investors have continued to hear a lower outlook from you almost every quarter since you spun out. So many are asking, is there something going on in the market? Is it something competitive? Is your own execution? If you can touch on that -- if you could also touch on what's embedded in the guide. Have you taken a slightly more conservative view given the downward trajectory and guide?

Anjali Sud - Vimeo, Inc. - CEO & Director

Thanks, Brent. So this is our first time providing a full year outlook. And what you're really seeing is, I think, a continuation of the key themes that we started to preview last quarter, not seeing anything that changes our view on the markets, market opportunity, Vimeo's ability to win over the long term, competition. It's really the 3 factors that Narayan just talked about.

And really, what we're seeing is a tale of two cities. We've got strength and momentum on one hand with larger companies, and we talked about that sales listed revenue growth being well over 30%. And then among larger companies being much faster growth still, and that's being countered by some real pressure on the smaller customers. Some of that we saw in the summer kind of caught us by surprise. We had it baked it into our original view when we were going public, and that's certainly continuing and is more pronounced than we had expected.

The other two key factors are initiatives that we are embarking on, enhancing our monetization model, optimizing our sales motion. These are all absolutely the right things to do. We want to be thoughtful about them. Hard to predict with precision exactly how they'll materialize throughout the year, but we do believe there'll be reaccelerators of our growth. And then the other change is that in an effort to focus we set the North Star this year on serving companies greater than 100 employees. We have decided to deprecate the consumer-facing portion of our Magisto and the implication that, that has.

But underlying all of this, I think the key message from us is that being an exciting mix shift, and there's a lot of things that are working. And ultimately, the validation that we have today in our ability to both serve large customers, the demand from those customers and how that will over time move through our overall revenue growth and be a big driver for us in the future really hasn't changed.

Narayan P. Menon - Vimeo, Inc. - CFO

Yes. And specifically on the forecast, Brent, the macro assumption that goes -- that's going into forecast is, the working in will continue to normalize. People will be back to in-person events and activities, and we are not expecting any further acceleration of the business from Omicron or any other event like that. In terms of business trends, we are assuming consistent trends that what we saw in Q4 and the early part of this year to continue for the rest of the year. The purchasing behaviors of SMBs and large enterprises still remain essentially consistent with what we are seeing right now. So that's -- those are the macro assumptions that is going into the forecast.

In terms of the estimate in itself, the 15% to 18% that we gave, as Anjali mentioned, we are comfortable with that range based on the factors that we just talked about. This is the best view of the business as we see right now. Obviously, there are things that we can -- we have more control of and things that we have less control of. The SMB headwinds that we talked about, that's not something we have a lot of control of, but the initiatives that we talked about, the monetization and the investment in improving our go-to-market activities, those have -- we have more control of those and the success and ramp of those initiatives will have a significant impact in the growth rate in the second half of the year.

Coming specifically on Q1, as you have seen in the last 2 quarters, we have established that we have good visibility a quarter out, and so we can expect the same level of confidence in Q1 estimates that we have -- our outlook that we have given. Rest of the quarters, we will continue to update you as the year moves along.

Yaoxian Chew - Vimeo, Inc. - VP of IR

Next question from Cory Carpenter at JPMorgan.

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

I had two. Just hoping if we could start out with more on the transition of per-seat pricing. Maybe where you are in the rollout? Where your early learnings have been next steps? And then secondly, if you could just talk a bit more about where you're seeing these headwinds specifically in the SMB business? And does this change your priorities or strategy at all for that business?

Anjali Sud - Vimeo, Inc. - CEO & Director

Thanks, Cory. So on the per seat monetization update. As I said, we're feeling good. We're on track. As a reminder, it's a staged rollout. We're starting with our sales-assisted customers and really beta testing the new model with new sales-assisted customers. And reception has been positive thus far. I think a couple of reasons. One, most of the decision makers and buyers in these large organizations are already used to buying software on a per seat basis, makes total sense to them and is sort of embedded in the way that they think about software already.

And then, of course, the way we've architected this. We're giving a lot of value upfront and then also aligning our expansion and monetization with their success. And so I think it's been positive. I shared that for some of our largest customers, including that 7-figure deal, the largest Vimeo Enterprise customer that we've had, that was using that new model. And then when I look at some of the conversations our sales team is actively having now, we're seeing examples where you have a Fortune 1000 company that wants to have several thousand employees contributing content to a Video Library. Well, in our old model, that would have been a \$35,000 deal. But now with the sort of approach of here's all the things that you can do very easily and then we'll charge per seat with those thousands of employees, that becomes a 6-figure deal. And so I think that's sort of the early proof points that we're feeling good about. We have to roll this out, obviously, to all of our new enterprise and sales-assisted customers and then look at how we'll roll it out to existing customers.

And then on the self-serve side, we're going to be doing a bunch of growth experiments and testing. There's a bunch of variables there to really work through. And so that's one where, as we've said, that's going to be a longer kind of multi-quarter journey. And hopefully, we'll look to realize benefits as soon as possible, but not at the expense of doing it right and doing it thoughtfully.

And then on the SMB side, where we're seeing headwinds. We talked about -- last year, we talked about faith and fitness verticals. We also talked about live streaming as a use case where we saw a big spike up in demand. It's coming down. Again, worth noting, demand is still 3x higher than it was pre-pandemic, but for sure, we're just continuing to digest that as we move through the year.

And I think ultimately, our view is the SMB market is still one that we think is large. There are 300 million small businesses out there. We think any business that has a website or a social media account or an online store can and should and will use video. It's why you're seeing us invest in partnerships. We're seeing great traction with social media platforms, Facebook, TikTok. You're going to hear more from us in the future around deepening those relationships, particularly with TikTok. So still a lot of potential and excitement around that market.

I've also said that from a priority perspective, we have to focus. And on the execution side, we're doing a lot to improve our focus and our discipline. That's from bringing in the right leaders who have done this before and can help us be successful. But also, we've got to say here's -- of the North Star and this year, we have said, it's larger companies, specifically companies greater than 100 employees.

The good news is, if you think about most of our investments, if we're able to build great products to help employees at large companies use video, we do believe that will provide similar value to small businesses. And the reason for that is our special sauces, enterprise-grade quality and capabilities with an Intuit consumer UX, right? So we're already building tools that any employee, who is not an expert, can use and we think that, that will translate to the SMB market. So punch line, nothing's changed around the market opportunity. We're pumped about SMBs, too, but we have to pick the areas we must win at this year, and we are taking a more focused approach.

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

Next question from Justin Patterson at KeyBanc.

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

Great. Anjali, congratulations to you and your family. That's exciting news. Two, if I can. The first one is just around investment, given your learnings around the post-pandemic demand, how is your view on LTV to CAC change? And how do you think about the right level for organic investment in the business? That's number one.

And then number two, in the letter you did highlight some nice progress on upselling customers with the all-in-one solution, getting multiple products per customer, where are you in that journey today? And what's the right motion to continue that momentum?

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

Yes, I'll take the LTV question first, and then Anjali, you can cover the other part. Justin, on the LTV to CAC, we still have very healthy economics on customer acquisition metrics. We are, as we have talked about many times, we are very focused on unit economics. We have improved our gross margin almost 10 percentage points in the last 4 quarters, our LTV to CAC stays very healthy. That's the reason why we are continuing to invest in expanding both our sales and marketing reach -- to reach new customers, especially customers who are north of 100 -- with more than 100 employees. So very comfortable with our LTV to CAC levels, and we'll continue to invest as we see huge untapped market that we can expand into.

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

Yes. On the multiproduct piece, I'll say something more broadly, but I think, Mark, you should walk through some of the details of how we're thinking about it. But definitely, this has been a key part of the strategy from day 1 is the belief that we want every employee using more video, more Vimeo more often and we believe that's the way to both open up the market because you want video to be used everywhere and it has to be frictionless and easy as well as it's a great driver for us.

And what you saw is that -- that's happening. We've got two new products in the last 6 months already driving much clearer adoption, and that's important for a couple of reasons: One, obviously, the more products you're using, we see that as a leading indicator of stickiness and retention; and two, we're diversifying away from live streaming, which was really our original wedge into organizations, which is sort of your lease sticky product. So I think very good signals there, and I think Mark can add more about what we are ultimately looking to do.

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

Yes. I'd just say, historically, we've really been selling this live streaming solution and that means that really our deployments within organizations were 1 or 2 people, marketers or video producers that were handling the live streaming and then a number of viewers. And when we started developing the Video Library strategy, the goal was really to penetrate multiple departments, multiple groups within the organization and that's what you're seeing happen. That's what you're seeing with this multiproduct adoption is that we are really able to penetrate and serve as this corporate Video Library solution enable upload of video content, creation of video content within multiple groups and departments.

So in terms of the go-to-market, I think that was the second part of your question. From a pricing and packaging perspective, we're really going to both bundle a number of functionality within each seat. So for example, our contributor seat will have the ability to upload, to create, to record content. It won't have live streaming. So we're not going to bundle everything into the same seats, but we are going to do bundling. We're also going to have SKUs, depending on the use case that the customer has.

And then I would say, in terms of really the strategy to expand with an organization, the biggest levers for us are in-product levers, really product-led growth levers where we have employees within organizations that are inviting their team members through various product actions to join the team and use the product.

I'll give you an example. Today, if you upload a video on Vimeo and you share it with a colleague, very often, you'll take the URL, send that URL by e-mail to your colleague and they'll just be able to watch the video content. We're implementing a very simple way where you can add a team member directly to the video so that they can come in and start commenting on the video and contributing directly and by that action they become a team member directly. And so that -- those are the kinds of viral loops that we'll use to really expand effectively within organizations.

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

Next question. Tom Champion from Piper Sandler.

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

Anjali, I'd like to learn a little bit more about the sales force given you're leaning into the enterprise. Maybe if you could talk about whether or not you were able to hit your sales force headcount goals in '21? And what that looks like for '22? Any process changes you're making next year? And Mark, I'd love to hear from you a little bit about what you're most excited about from a product development perspective. What do you think is the greatest enterprise video product need in kind of the post-pandemic world?

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

Great. Thanks, Tom. So on the sales force, yes, we set out last year to roughly double the size of our sales team. We did do that. And as we enter this year, we do expect to continue to grow our sales force and that's for a variety of reasons: one, we're seeing validation and traction, particularly among larger companies based on the signals I shared and some of the deals that we're doing; two, we just launched these new products, and we want to make sure we've got the people to go out and sell them. There's no question, we're not best-in-class yet on our go-to-market motion. I've talked about it before and some of that is just evolution and sort of DNA.

So there is a lot of good execution work happening right now to get to best-in-class. It's a key priority. Our new Chief Revenue Officer, Eric, that's one of the things he's really focused on. And there's a bunch of places where we're taking, I think, some good improvements. One is, as I mentioned, specializing our sales force so now you'll have folks who are really optimized and trained and goaled on different types of companies that have different purchase behaviors and buying patterns, getting a lot better at how we identify and qualify many of the companies in our base and feed them in a very automated way to our sales team to quickly convert them based on actions that they've taken.

And then one of the ones I'm most excited about is customer success. We didn't have a customer success motion several months ago. We've stood up that team now. We have a great leader there, and it's the first time that you're going to have a whole group of people whose job on very specific metrics is getting customers quickly onboarded, getting them to the fastest time to value, getting them to get utility from our products. And I see that as such an important thing because ultimately for that monetization strategy to work, we've got to be great at it. And again, every signal we see is that when we can get our products in the hands of employees and teams, companies are happy. And so I think you'll definitely see more work there. It's why one of the things we talked about is, we got to be thoughtful. It's going to take us a couple of quarters to get this right, but very committed and very focused to doing so. And I feel very confident in our ability to do it.

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

So on the question about what I'm most excited about for enterprise product, it's difficult. You're asking me to pick a favorite now. So let me just first tell you a little bit about our product philosophy, maybe how we think about product strategy. We think about it as really a balance of three types of initiatives: the first type is really large bets to go after entirely new addressable markets that we're not playing in right now; the second type of initiative is new features, new products to compete better in the markets we are active in already; and the third type of initiative is really improving our offering to make our customers more successful, ultimately retain them better. And really, it's about balancing these three types of initiatives to have the biggest business impact.

Now back to your question, I think that I think it's really -- that first pillar that I talked about, about unlocking knowledge within organizations, the reality is, there's still too much friction today in organizations to share knowledge. And I'm confident with what we have in our roadmap that we will be able to truly unlock for every employee inside organizations to create video content daily, ultimately for the goal of sharing information more effectively. And not only that, unlocking really that content inside of these videos and make it more discoverable, more searchable and really help disseminate the information within organizations effectively. That's probably the area I'm most excited about, but it's hard to pick a favorite.

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

I wanted to ask a couple of follow-ups. First, around the enterprise sales cycles. Any update in terms of how that's lengthening as you extended the enterprise as you move into verticals? And then a related question, in the letter you talk about slower growth kind of, I missed this -- this mix shift to stickier enterprise dollars. I may have missed this. Can you give us an update on enterprise net revenue retention?

Anjali Sud - Vimeo, Inc. - CEO & Director

Sure. Thanks, Brian. I'll take the first one. On the sales cycles, there's a couple of things going on. If you remember, in the summer, we had experienced sort of this longer sales cycle than we had expected counter to seasonality. And good news is, that seems to have -- we seem to have come away from that and actually, sales cycles have sort of gotten back to the 4-week-ish average that we were seeing.

But of course, now that we're much more focused on larger companies, we do expect in a very natural and appropriate way the sales cycles for those larger companies to get longer, and we're very happy to take that trade-off to go from a 5-figure deal to a 7-figure deal. This is where I think specializing the sales force is helpful because we are going to be really carefully tracking. And what we want is obviously sales cycles to stay super short and tight for smaller customers and deployments, and we don't see any reason that, that wouldn't be the case.

And then as we move up market, we're talking probably sales cycles getting longer by days, maybe weeks, but certainly not months and going into kind of what you might think of as a traditional enterprise play. And part of that is because the demand and urgency for video is there from the largest companies in the world. We're seeing it. Our product is turnkey, and the way you can use it and understand it and have your team start to adopt it is turnkey. It's not high touch customized. And we know there's a lot more we can do to get our sales cycles to be tighter. Just learning how to navigate with procurement and IT and that whole process. Legal, we're still very early. So I think the combination and some of all of this is no issues on sales cycle. There will be natural lengthening that we are very comfortable with, and I think we'll see as a signal that we are also successfully moving up market over time.

Narayan P. Menon - Vimeo, Inc. - CFO

On the NRR question, I'll take that, Brian. So when we talk about digesting the COVID comps, we are not just talking about revenue growth rates, we are talking about a variety of things and that includes NRR. If you remember, at the peak of the pandemic, a lot of businesses overpurchased

assuming a higher level of demand. And what we are seeing is that those customers are staying with us. Our logo retention is actually ticking up quarter-over-quarter. And even in Vimeo Enterprise, our flagship offering, we are very pleased to see higher logo retention, but what we are seeing also is that they are not expanding as much as we would want them to. So new customer acquisition is going very well as you heard from Anjali about the large retailer, the logo retention is doing better, but the retention is lighter.

So how do we get over this? One, as we go past the COVID comps and as the revenues start reaccelerating, we do expect NRR to come up. And if you ask me, what gives me that confidence, I would say, a couple of things. One, the fact that large enterprises like the one we talked about implementing or buying Vimeo and deploying it to thousands of hundreds of thousands to millions of employees, that's a very sticky use case using Library.

The second thing I would say is, you saw Anjali talk about multiproduct adoption. We have gone up quite significantly in terms of our customers using more of Vimeo products. Those are really green shoots that tells us that NRR is going to continue to improve once we get over these -- the COVID comps and once we start reaccelerating the revenue. So we do expect NRR to get back up in the second half of the year. We are just going through this digestion process right now.

Anjali Sud - Vimeo, Inc. - CEO & Director

Yes. And I would just add, Brian, that the two leading indicators I'd really point you to, the chart we shared in the letter that shows the percentage of Vimeo Enterprise customers that are adopting multi-products, we think that's a great leading indicator for NRR. And then we shared in the past and continues to be true that our customers who do adopt a Video Library, we do see a much higher percentage of signing multiyear contracts. So a couple of very clear indicators that as we again diversify away from live streaming to stickier use cases, we'll see it. We'll see it in that metric over time.

Yaoxian Chew - Vimeo, Inc. - VP of IR

Next question from Max Spaeth at Cowen.

Maxwell Christian Spaeth - Cowen and Company, LLC, Research Division - Research Associate

Just to -- maybe just a little on timing. How should we think about the pacing this year between the marketing and product investments, if at all? And then maybe how should we think about margins on kind of a longer-term basis? And then just kind of following up on the seat-based pricing, how many of your customers do you think are a good candidate for that model? Is the goal there to get all sales-assisted customers on that model? And then maybe just how should we think about the timing and -- for that transition?

Narayan P. Menon - Vimeo, Inc. - CFO

Let me take the first question about investments and our structure. Nothing has fundamentally changed about how we think about our business. We do expect to continue to lean in and invest where the unit economics so dictate. In terms of investments, as I talked about earlier, the biggest area of investment this year is going to be in our sales and marketing area. We believe that the market is still very underpenetrated, and we want to continue to invest to capture that market as quickly as possible. We will be investing in R&D as well. It is -- we are the market leaders on our technology, and we want to be and want to stay at the top of the technology chain. So we will be investing in both these areas. We would expect some leverage coming out of G&A, but this -- we see this as another investment year. The worst thing we can do is to take our foot off of the investment pedal. Was there another question around investments?

Maxwell Christian Spaeth - Cowen and Company, LLC, Research Division - Research Associate

Yes, I think you covered it. And then just -- yes, just the seat based pricing there.

Anjali Sud - Vimeo, Inc. - CEO & Director

Yes. I mean I think your question was really about how many of our users do we ultimately think will be right for this kind of model and how long is it going to take us to reach all of them. And we definitely think that the use of video, the utility of video is highly collaborative. And we kind of shared some of the metrics we're looking at in terms of the top of the funnel, the number of business domains, the number of users on each business domain. And there's quite a lot of companies within our user base that we think are of a size. We've defined it as greater than 100 employees, where it's really, really critical for them to have multiple team members in order to get value from our platform. And that, we think exists, not just on the sales-assisted side, but also on the self-serve side, and we see it. We have a bunch of free business domains and users and -- there too. So it's a sizable number. We think even within our existing base alone, there's enough potential customers for us to feed our growth for a long time, and so it really comes down to how quickly we can unlock that.

And the unlocks there, it's not just the monetization model, it is the product itself, and Mark talked about our products really being our marketing and how we can -- inherently, when you create a piece of content to share it within a company, you want to share it with other people. And so there's this opportunity for many other people to then touch the Vimeo product. And so we're building in these viral loops and in-product triggers to be able to naturally create that expansion. And so from where we sit, we think a very significant portion of employees and companies in the world are going to need and find value in this model. And we think that the best way for it to get those customers is actually going to be just through the product itself.

Yaoxian Chew - Vimeo, Inc. - VP of IR

Next question from Nick Cronin at Truist.

Nicholas Harrison Cronin - Truist Securities, Inc., Research Division - Research Analyst

This is Nick Cronin on for Youssef. Just one last one for me. Just thinking on the revised guidance and headwinds to growth. Again, I think you've talked about it, but how do we know it's not a product or market fit issue?

Anjali Sud - Vimeo, Inc. - CEO & Director

I'll give you my thoughts and let Mark jump into on this one because we see it in the way our product is being used by the customers that have been able to get access to it. And that sounds like an overly simplistic answer. It's not meant to be. I think we tried to lay out in the letter some of the things that we're seeing, but NPS score is strong. A lot of healthy, good, frequent, monthly active engagement from teams within the product. Logo retention, as we've shared, has been steady and ticked up in Vimeo Enterprise.

And then we're seeing it from the examples that were of the customers we're signing to have one of the largest companies in the world want to use Vimeo for millions of their employees just based on some of these new products we've launched in the last 6 months is, I think, a really great sign. And what's interesting is the more that we talk to these customers, they want to do even more with video. They're asking us for a lot of the things that are already kind of on our roadmap. So we just see very tight, I would say, sort of consistent validation between our hypotheses and the signals that we've seen and then what we actually hear from customers.

Yaoxian Chew - Vimeo, Inc. - VP of IR

With that, I'm seeing no further questions in queue. I'm going to turn it back to Anjali now for closing remarks.

Anjali Sud - Vimeo, Inc. - CEO & Director

All right. Thanks, Yao. I'll give you guys a few final takeaways from us today. Nothing has changed in our TAM or market opportunity. We think businesses are very early in their video adoption curve. We have a winning product. We're powering video for work, and we're bringing a new level of focus, rigor and discipline to how we execute this year so that we can capitalize on that position. Two, there's a tale of two cities going on in our business. It is weighing down our overall growth, but underneath the surface is an exciting mix shift that will play out over time. And we've got clear validation in our most strategic areas, product expansion, customer wins, the right leading indicators, and we'll work to share more of them with you as we progress on this journey. So I look forward to speaking with many of you soon, and thanks for joining us.

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