

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

VME0.OQ - Q2 2021 Vimeo Inc Earnings Call

EVENT DATE/TIME: AUGUST 06, 2021 / 12:30PM GMT

CORPORATE PARTICIPANTS

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

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

Yaoxian Chew

CONFERENCE CALL PARTICIPANTS

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

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

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

Daniel Salmon *BMO Capital Markets Equity Research - Analyst*

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

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

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

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

PRESENTATION

Unidentified Company Representative

Good morning, and thank you for joining Vimeo's Q2 earnings event. We're excited to be here in front of you. Before we begin, a few comments. First, 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's filings with the SEC as well as in supplemental information posted on the Investor Relations section of our website. With that, I'll turn it over to our CEO, Anjali.

Anjali Sud - Vimeo, Inc. - CEO & Director

Good morning, everyone. We've just reported our first quarter as an independent company. I want to welcome all our new shareholders, thank our over 230 million users globally and give a virtual high five to the now 950 Vimeo employees who served these users with passion and care.

18 months into COVID-19, the demand for business video continues at an elevated level. Employees no longer differentiate between consuming content at work or at home. And as a result, organizations are increasingly planning for a future that is video-first, no matter where they're located. We've long believed that any business with a website, social media account, online store or distributed team will use professional quality video the same way they use e-mail, chat, image or text today.

So why aren't they? Because professional quality video is still too hard, too expensive, clunky, time-intensive and intimidating. We solve this with an all-in-one software solution that makes it easy for every employee to be a content creator and for every business to be video first. This vision is being validated daily by our customers.

Two months ago, we listed on NASDAQ. It was a special moment for Vimeo and for our team. Celebrating this milestone together, seeing our software being used by NASDAQ to broadcast the event as a long-time customer. It was awesome. Then we woke up the next morning and we got right back to work, because nothing has fundamentally changed for us as a public company. This is just 1 step on our journey to enable professional quality video for all.

As we look forward, our market is large and underpenetrated. Organizations of every size are looking to leverage video in their digital transformations as we speak. And our focus is clear. We're investing to achieve 2 things in 2021: expand Vimeo within the enterprise, and radically simplify video for SMBs.

We're also growing up as a company. This quarter, we welcomed the largest group of new Vimeos in our 16-year history. We're still new to the enterprise space, and we're maturing our operations, hiring world-class talent and intentionally designing our functions for scale. Most critically, we're aligning all our efforts to drive product-led growth. Everything from our internal data tracking to our product road map is being oriented to activate business users in our free base and organically inspire them to become paying customers.

We're also improving how we market and sell into the enterprise. We're on track to more than double our sales headcount this year. And as part of that expansion, we're investing in key supporting functions, like product marketing, sales enablement and customer success. Finally, with our scale, balance sheet and now, as a public company, we can make bets in ways others can't. We're planting multiple seeds across the company to accelerate existing opportunities and to find new growth vectors. We won't be right all the time, but we'll double down where we have validation and structural advantages. We're an early leader in this market, and we'll continue to lean into it with both the strength of our convictions and our assets.

So let me give you my highlights from the quarter, where we made real progress across the board. First, our self-serve business continues to benefit from a healthy free funnel and a natural upsell into our paid plans. We believe the key to fueling that funnel is to make content creation frictionless. So more businesses make more videos.

Our most recent launch here was Vimeo Record, a free screen recording tool that saw usage increase over 80% quarter-over-quarter. Screen recordings now account for nearly 10% of total uploads to Vimeo. We also continue to invest in partnerships. We recently announced new partnerships and native integrations with Asana and TikTok and have expanded our existing partnerships with Facebook, Shopify and GoDaddy. We expect to launch more native integrations this year that bring the power of Vimeo directly to other platforms. This not only allows us to diversify user acquisition, but it also gives Vimeo users more choice, more reach and more utility across the Internet.

In our enterprise business, we made significant strides in expanding our product breadth to serve more video use cases across an organization. This quarter, we launched Video Library, a centralized hub for employees to share and access knowledge across teams. All videos are automatically transcribed, searchable and can be organized by department or team with enterprise-level permissioning and security. Our goal is for Video Library to eventually become the system of record for all video in the enterprise, from executive comms and internal collaboration to marketing, training and development.

And we're leaning into our creative and filmmaker roots to make the UX intuitive and to provide employees with a high-quality cinematic viewing experience on par with what they get at home. We've onboarded more than 250 enterprise customers to Video Library since June. We see the value proposition resonating with those customers, with companies expanding both the number of employees and departments using the product. Metrics like the number of team invites and number of seats are all trending up, with tens of thousands of employees accessing the product to date.

For the rest of the year, we're building out many more enterprise features from webinar capabilities to new event experiences to deeper analytics to serve the world's largest companies. Our road map is designed to increase employee, team and customer engagement and to bring Vimeo closer to existing and emerging business workflows. We're relentlessly pushing our pace of innovation and working closely with our customers as we build. We also continue to benefit from a self-propelling funnel. Our free and self-serve users drove nearly 70% of new enterprise customers in the quarter. And we're still very early in developing repeatable motions for identifying and converting such customers, so plenty of untapped potential.

My favorite example from this quarter is The Economist. I've been an avid reader for years, so it was great to see their events team start using us for a few one-off events last year as a self-serve customer. This quarter, they upgraded to Vimeo Enterprise to leverage both Video Library and to host speaker panels and marquee events such as their Sustainability Week and Innovation series for tens of thousands of viewers. They chose us for our reliability, intuitive tools and cinematic viewing experience. For us, that is table stakes. We have so much more innovation ahead in our road map to delight them.

I keep saying that we think of our market in decades, not years. A few weeks ago, we held our annual Vimeo Jam, a hackathon, where our engineers are free to build whatever inspires them for 3 days. We had hundreds of people around the world coding, working on concepts that reimaged everything from how to edit a video the same way you would a Word doc to automatically improving video quality using machine learning algorithms. It was a great reminder for me that we are just scratching the surface of how video will be used in business and at work.

To borrow a mantra from our former parent company, IAC, we believe in patience on vision, impatience on execution. That means we will build value for our users with discipline, rigor and urgency but always with a long-term view. I'll now pass it over to Narayan to walk you through the financial results for the quarter.

Narayan P. Menon - Vimeo, Inc. - CFO

Thank you, Anjali. Thank you all for joining our call today. We understand how overwhelming each earnings season can become, and we truly appreciate your time. In Q2, we delivered strong results across the board. Total revenue was \$96 million, up 43% year-over-year and 7% sequentially, with healthy growth across both customer segments. We added about 40,000 paying subscribers and ended the quarter with more than 1.6 million total subscribers, up 17% year-over-year.

Our ARPU hit another all-time high of \$240, an increase of 18% compared to Q2 of last year. Both self-serve and enterprise ARPU continued to show healthy year-on-year increases, and total ARPU was further aided by the increasing mix of enterprise revenue. Specifically on the enterprise side, we now have over 5,200 paying customers, and our enterprise revenue grew more than 80% this quarter. Our enterprise net revenue retention remains healthy with its fifth straight quarter about 100%.

The remainder of my comments will refer to non-GAAP measures. Moving to expenses and profitability, our gross margin expanded to 73.3% in Q2, a sequential improvement of more than 100 basis points. Once again, infrastructure optimization, economies of scale and operating leverage were the 3 main drivers of improvement. We continue to make steady progress towards our stated medium-term gross margin target of 75%.

R&D was \$21.3 million for the quarter, which was up 37% year-over-year. We'll continue to invest here to both broaden and deepen our product suite and maintain our position as the innovator in professional-quality video. We are also accelerating recruiting to ensure our R&D organization is appropriately resourced going forward. Our sales and marketing spend for the quarter was \$38.7 million, an increase of 47% compared to Q2 of last year. We have been adding both sales capacity and digital marketing spend in a disciplined manner to drive sustainable customer growth both domestically and abroad. There was also an increased onetime brand spend related to our spin.

Adjusted EBITDA was negative \$3.8 million as we continued to invest in growth. As we have stated before, we expect our revenue growth rate to decelerate in the second half of the year as we lap tough comps of 2020. To be more specific, we expect revenue growth in the low 30s range in Q3 and dipping slightly below 30% in Q4. Nothing has fundamentally changed in our view of the market and growth opportunity ahead of us, and as you can see from our hiring and continued investment intensity, we are appropriately resourcing the company for growth and for scale. In the near term, we see higher potential variability due to a few specific factors, none of which we see as fundamentally impacting our ability to drive sustainable revenue growth in the future.

First, companies and consumers are rightsizing their consumption patterns as it relates to bandwidth and storage needs after a significant spike in purchases last year. Additionally, live streaming frequency and demand are changing as quarantines and stay-at-home orders wane. Both of these remain significantly about prepandemic levels, but their exact impact on revenue is harder to predict in the near term. That said, we continue to see a lot of run rate to improve pricing and packaging and expand use cases to better grow and scale with our customers' needs.

Second, as we rapidly expand our product breadth, we are selling larger deployments to different decision-makers within the enterprise. This requires us to adopt our sales motion and will likely lead to longer sales cycles. Ultimately, this should also lead to larger deal sizes and better retention. So we view this as a natural and positive evolution in our business, though one that may cause volatility in the near term. Despite some unknowns, our platform breadth here works to our advantage.

With our broad product portfolio, diverse set of customers and multiple funnels, we believe we have many levers for growth to capitalize on the opportunities ahead of us in video. We have laid out how we think about investing to penetrate the market. And as we said before, do not expect the full year of 2021 to be adjusted EBITDA positive. However, we expect to have another healthy cash flow positive year in 2021, similar to last year.

In summary, Q2 was a very strong quarter that represents continued validation of our market opportunity and our execution. We are confident in our ability to build a winning product and business in video software, and we'll continue to release our monthly results as part of our commitment to investor transparency so you will be able to see and track our progress in real time.

Now we will move to Q&A. Yao, 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

(Operator Instructions) I'm going to open up the first question to Youssef Squali from Truist.

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

Two questions, one for Anjali and one for Narayan. Anjali, so you've now been an independent public company for 60 days or so. I think you spoke a little bit about this in your prepared remarks. What were the 1 or 2 things that, I guess, surprised you to most either on the upside or on the downside during this time? And how are you tackling them?

And then maybe, Narayan, July's growth decelerated year-on-year on relatively easier comps to the mid-30s. It just seems like you're kind of getting to that 30% long-term growth a bit faster than what we had thought. You just spoke to getting to sub-30% growth in Q4. What gives you the confidence, and how do you reaccelerate growth next year to maintain that 30% plus growth for the next 5?

Anjali Sud - Vimeo, Inc. - CEO & Director

Thanks, Youssef. To your first question, yes, we're about 2 months in as a public company. And there have been a couple of things that I think have been better than expected and definitely things that we're learning. On the positive side, I think I said at the last earnings call that our biggest risk was execution and specifically product because we have a very ambitious road map, and we're launching a bunch of new features to expand, particularly in the enterprise.

And I can tell you 2 months in, as a public company, I feel really, really good about our execution and traction there. We shift to Video Library. We're seeing the right early signals that are exciting about what role that can play in our portfolio. And we do have a very healthy, steady sort of slate of new launches coming up, all of which are on track. So, for me, that is the most critical thing that we really needed to nail this year, and I think we're in a great position.

I'd also say, if I look back at the quarter, we're seeing more opportunities to invest. We've accelerated our hiring. We're bringing in world-class talent, and we did end up spending more money in the quarter than we expected, which we think is a good thing because it just means there's more opportunity for us to grow and use our assets to really take advantage of the market.

And then the third, I talked about partnerships a lot. Certainly, we're seeing good traction there. This quarter, we launched our first native integration with enterprise collaboration software with Asana. And that, I think, was a really positive signal. When I look at the pipeline and the interest from a lot of enterprise software companies to partner with us, I think that bodes very well for us in terms of building competitive differentiation in the long term.

Things that I think have been sort of a surprise, I wouldn't say a surprise, but for sure, and as I said in my prepared remarks, we are having to mature a lot of our functions. We're growing up as a company. As we've scaled our sales team and launched all these new products, there are whole areas like customer success, product marketing, planning and enablement that we do have to kind of really, really invest in ways we hadn't before, and we're on track to do that.

And then the biggest thing is an obvious one, which is -- and you can say it in theory, but until you feel it in practice it's just what it feels like. When you're public, you have to keep the focus on the long term. And that can be hard. It can be hard in this market. And I would say that's something we're doing, I think, a good job of keeping ourselves internally very focused on ultimately what matters. We're early in this market, and we are leading in the market. But I think that's always harder in practice than in theory.

Narayan P. Menon - Vimeo, Inc. - CFO

Yes. I'll add a couple of notes. From my vantage point, Youssef, as we look at the Q2 results, strong financial results across the board, strong revenue growth, gross margin continues to accelerate, good growth on deferred revenue, all of that looks very positive, and we are very happy about it.

One of the things coming into this year that -- one of the unknowns for us was how would the customers who joined us last year, how would they behave when they come up for renewal? One of the good things that we are seeing is that if you adjust for the product mix and everything on the self-serve side, retention remains very solid. On the enterprise side, logo retention remains solid, flat to slightly up.

So we're very happy about it. Obviously, we are not declaring victory yet, and it is something that we are very focused on, making sure that they find the value and continue to stay with us, but good signal so far. The other thing that I would say is that we were able to scale and build the infrastructure to be a public company. We will be publishing our 10-Q tomorrow. So all of that, we were very happy with the progress we have made over the last few months.

On the other side, competing against COVID is really hard. The business trends have changed significantly. Everything is new. We are still trying to work through all of those things. Visibility is not great. As you can imagine, we are in the middle of a global pandemic. People are adjusting their consumer behavior. So it is really hard to see very far ahead as to how things would play out.

The last thing I would add is hiring has been a little difficult. We didn't anticipate, especially at the beginning of the year, how hard it might be. But as Anjali said, we have significantly invested in that. Last quarter, we brought in our largest contingent of new Vimeos into the organization. We are almost 1,000 employees now. So I think we have that under control. But again, this is another one we are very focused on, not declaring victory yet, but we want to keep working those things.

Those are the things from my vantage point. To the second question you had on revenue and revenue declines and guidance. Listen, we are all -- we all know that we are in the middle of this pandemic, with changing consumption patterns and businesses and consumers and employees, everybody adjusting to a post-COVID and, in some cases, to a re-COVID era. So it's very hard to predict with precision how revenue is going to look in the near term. I'll give you a couple of examples.

Live streaming demand spiked during COVID. Since then, it has come down. It is still significantly higher, step function higher than where it was pre-pandemic. But it is a headwind, and it puts some pressure on forecasting revenue in the near term. Another example, we -- with our enhanced product breadth now we have, Vimeo Library, Vimeo Record, in addition to the live streaming capabilities that we had before all of this. Now we are in conversations with large enterprises with multiple decision-makers, multiple departments. We believe it's a positive thing, but it does tend to lead sales cycles to be longer.

If you think about this, video purchases is not just a tactical decision anymore. It's a very strategic one for -- especially for enterprises who are looking to be video first. And now IT departments are involved. Procurement teams are involved. It's all a good thing. We are excited about it because it's very much in line with our vision that video is not going to be one single use case, but there are multiple use cases. Video will be ubiquitous within an enterprise and strategic. So it's all positive and will lead to larger AOVs and better retention, but it leads longer sales cycles.

So that's one thing that we are seeing. It puts a little pressure on revenue and pushes out revenue a little bit, but overall, a positive and maturation of the business in this cycle. So these are things that we are seeing in the business. But to -- if you step back and look at the larger picture, we are doing all the things that we should be doing. We are investing in product. We are shipping products. We are growing our sales teams. We are hiring aggressively. So if you ask me how I think about it, I am very happy with the investments that we are making, and we continue to push hard because we know that the market is large. It's still underpenetrated, and there is huge opportunities ahead of us, and we want to be investing into that.

As you know, these technology curves don't happen on a straight line. There is an S-curve, and we want to be investing to be ahead of that and be ready when that really pops. And in fact, we want to be -- to help make it pop. So that's our focus. That's where we are focused on. That's what we are doing.

Yaoxian Chew

We'll go on to our next question, John Blackledge from Cowen.

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

Two questions. First, could you expand on the competitive environment? Who do you see kind of trying to penetrate this large -- the large TAM, particularly on the enterprise side? And then on enterprise sales, could you discuss the headcount growth? How is it pacing versus expectations? And how are you expanding the sales headcount across geos?

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

Sure, John. So on competition, first, I'll start by sort of reminding everyone, as Narayan just said, that we are very early in the adoption by businesses of professional quality video, right? I mean the last year, every business is doing video conferencing. The video conferencing is just a tiny sliver of how video can be used. The vast majority of HR and sales teams are not using video for training. The vast majority of customer support teams are not using video to serve their users. And so we really think of this market, even competitively, as the winner will be the company and the product that can actually introduce more people and businesses to professional quality video and naturally get them to expand their usage over time. That is what we think will win in the market.

As we sit here today, no question, the market is getting more competitive. You do have bigger players in software, who are starting to add some of the capabilities that we have. But the truth is that video is hard. Professional quality video is harder. We've been at this for 16 years, and we have an incredible amount of institutional knowledge. We're far ahead of the market right now as it relates to quality, product breadth. We have the advantage of a global brand that is loved, not just tolerated. We have the advantage of scale and this freemium funnel. And ultimately, we have focus. We live and die by professional quality video. And that's very different from a larger platform that's going after many, many things.

I have great respect for some of the players in the space who are starting to enter this market. I think, ultimately, competition is good for all of us. It pushes us to build more value for users. But I think we're well positioned to be the leader with the depth and breadth in professional quality video, and you'll see us just continue to lean into our strengths there. And I'll also add, our roots in sort of the external side of video, I think, is a real advantage. I think what we expect as consumers from marketing content is going to translate internally into companies.

And if you think about some of the bigger players out there, you don't see marketers using the Zoom video player to put a product demo on their website. You don't see small businesses creating and publishing video ads for TikTok using any of these other alternatives. So I think we have a

real advantage and that we can build upon. It is absolutely on us to keep the pace of innovation. But as I said, I feel very good about our ability to do that.

Narayan P. Menon - Vimeo, Inc. - CFO

I'll take the next question on enterprise sales. John, I'm actually quite pleased with where we are on our international expansion. Let's start with EMEA. Our first EMEA office was in U.K. and the team there is doing a fantastic job. They are ahead of forecast and their plan. We have hired significantly. There's -- we have some great new logos coming from there, large deals. So very pleased with the progress there. Earlier this year, we started our second office in EMEA, in Ukraine. And if you recall, we have an R&D center in Ukraine, so this is a natural extension there. It's early days, but good strong signals, early signals there.

In APAC, last time we had talked about that we started an office in Sydney. We hired our sales leader there a few months ago. Now the team has grown. It's almost 10 sales reps, I think, there now. Early days, but -- revenues and bookings are still low, given that it's very early, but strong pipeline, which is very positive, and we are very happy and excited about APAC. We also started an office in Singapore to cover the Far East Asia. We have a couple of employees there. Again, very, very happy with the early signals there. We also are looking to hire a sales leader in India. There is a job req out there. If there are any great enterprise sales folks listening to this call, I would encourage you to apply. It's a great job, and Vimeo is a great place to work, so please do. So great progress in APAC.

We also hired our sales leader for LatAm earlier this, I think, last month. So we're making significant progress across the board. The LTV to CAC is staying strong. Productivity is good. It is better than what we had expected, better than what it was prepandemic. So significant progress on hiring early strong signals in the more mature markets. It is really translating into big logos and larger AOVs. So very, very happy with where we are today.

Anjali Sud - Vimeo, Inc. - CEO & Director

Yes. And I would just add, the need for video is global. We're certainly seeing that. We are still early on the international side. But in general, I think our enterprise sales team is also -- we're going more from generalized to specialized. We're learning more how to sell these larger deployments. We're only 2 months into Video Library figuring out how to do that right with the right sales motion. But it's a good -- we've got a smart, scrappy kind of team that's able to adapt. And this is a muscle we want to hone, right? Because we're going to keep launching new capabilities and features. We want to rapidly expand what we can sell. And I think we're well on track to both grow the team, also bring in great talent to build that muscle that enables us to add on new product offerings repeatedly and then have that directly improve our sales motion.

Yaoxian Chew

Our next question will come from Brent Thill at Jefferies.

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

Just following on the enterprise theme, there's a lot of questions around self-serve to enterprise. And maybe if you could just highlight what the mix is today, and, over time, kind of where you'd like to see that mix on the enterprise side?

And I guess just as a follow-up, I think there's some confusion around your visibility into the next couple of quarters. And maybe if you could just describe that visibility. If it is more self-serve, do you have the type of visibility that you'd like to have? And I guess, over time, that will change as you build out the enterprise team.

Anjali Sud - Vimeo, Inc. - CEO & Director

Brent, thank you for that. So on the sort of self-serve to enterprise side, we shared that nearly 70% of our new enterprise customers in Q2 came from our free and self-serve users. That's not a big change from what we've seen in the past. So continue to see that as the main funnel for the enterprise. That's great. We like that. But what's more important is that we still haven't sort of unlocked this product-led growth, the ability to have within the product naturally exposure to our enterprise offering and then moving people into enterprise without a salesperson being involved or without them actually raising their hand.

And so to me, where I would assess where we are today is clear signals that our free and self-serve base can actually feed our growth on enterprise for years to come. Good progress in laying the foundation to develop that product-led growth. That -- some of that comes from things like Vimeo Record, building out our team's capability, aligning our pricing and packaging, launching products like Video Library. These are all the sort of building blocks that we have laid out in order to get there, but we're still very early.

And so my hope would be that in the future, we will always have a massive funnel coming from our free and self-serve user base of employees, corporate domains, who are experiencing our product for free, using it more, adding team members and then eventually getting graduated to our enterprise offering. And I see no signal that, that won't be a major growth driver for us in the future.

Narayan P. Menon - Vimeo, Inc. - CFO

Great. On the visibility question, listen, I think self-serve, we have been at the self-serve business for a longer period of time. So there is definitely more data and more trends that we can lean on to understand the business better. Enterprise is a newer motion. If you remember, our Vimeo Enterprise was launched in the fall of 2019. So it's less than 2 years. So there is definitely more visibility on the self-serve side than on the enterprise side.

But I want to be very clear. The guidance that we just gave for Q3 and Q4, we are very comfortable with it. What I'm talking about is, on the edges, if you're talking 1 percentage or 2 of growth, that's the level of precision that we are talking about. We are not worried about too much variability in the Q3 and Q4 guidance that we gave a little while ago. Hopefully, that answers your question.

Yaoxian Chew

Great. We'll next go to Cory Carpenter from JPMorgan.

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

I had 2 questions. I think first, just as customers you acquired during the pandemic come up on their annual renewals have been in the past couple of months, could you talk about what you're seeing from this cohort in terms of retention and pricing as well? And then on the pricing side, you've previously talked about testing per seat pricing this year. Any update on how you're thinking about that?

Anjali Sud - Vimeo, Inc. - CEO & Director

Yes, sure. So I think, as Narayan mentioned, good, solid signals as it relates to retention of COVID cohorts. We track a bunch of different metrics here. We're looking at, obviously, usage and activity on a daily, weekly and monthly basis, our percentage of active users holding steady. That's been the case. We obviously can see now the retention and churn behavior of a lot of these cohorts very steady and in similar to what we've seen in the past. And then we have leading indicators, things like the percentage of our subscribers that opt out of auto renew. And all of those metrics look really solid.

So we feel really good about the sort of stability of the sub base. And then also on the enterprise side, logo retention, as Narayan mentioned, flat to slightly up. So all really good signals there. As it relates to pricing and packaging, I don't have anything new to share other than we continue to

believe that we can better align pricing and packaging with our customers' needs. Per seat pricing is absolutely one of the things we are testing and will continue to look at, and we're on track, I think, to sort of do what we set out to do at the beginning of the year, which is to better align that pricing and packaging in 2021.

It's not going to be a sort of overnight thing. It's not going to be a straight line. But for sure, we have a lot of legacy pricing right now based on our roots as a hosting platform and the biggest unlock to sort of better adjust that was product and getting the right product features out. And because we're on track for that, I feel very good about this lever. And I think it's going to be a big one over the next few years.

Yaoxian Chew

Great. Next question, Tom Champion from Piper.

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

EBITDA turned negative this quarter, but only modestly so. And I'm curious if you could just talk a little bit about your level of investment, and how you think about balancing profitability. And I guess the other question would be, why not lean in more heavily given the size of the long-term opportunity? Any thoughts on that would be really helpful.

Narayan P. Menon - Vimeo, Inc. - CFO

Yes. So EBITDA, yes, we have been saying that we will be EBITDA negative for the full year. So Q2, we are very happy that we were able to invest as much as we wanted to invest and get to a place where we can continue to grow our R&D team, continue to accelerate our sales expansion internationally. All of those things are strategic levers for us, and we will continue to lean in, and we will continue to grow the teams and improve our product portfolio. As Anjali talked about earlier, we are seeing significant traction from some of our newer products, Vimeo Library, for example.

So those are things that we will continue to lean in more. There is obviously the physics of investment also. You can't just throw a lot of money and assume everything would work. We have to do it methodically. We have to hire people, hiring takes time, especially as we talked about hiring and onboarding employees during a pandemic is not the easiest thing to do as we are learning. We are accelerating that. But all of these things take time. And at the same time, we don't want to be doing these things without a plan and without a strategy and just randomly doing things. We are doing it very strategically, very methodically and investing in the right things.

So you'll continue to see us investing in all the areas that we talked about. And our focus right now is to build the product and the company for the future. It is not to be profitable. As we talked multiple times, we see the market as very early, underpenetrated. And we have a significant opportunity to really help make that -- make the whole business and the market grow significantly over the next many years. So -- It's a long-term investment strategy, very methodical, very thoughtful, and we'll continue to see us invest.

Yaoxian Chew

Great. Our next question will come from Dan Salmon, BMO.

Daniel Salmon - BMO Capital Markets Equity Research - Analyst

Anjali, you spoke briefly about the new partnerships with TikTok and Asana and highlighted established ones with Facebook, Shopify, GoDaddy. Can you talk to us a little bit more about the role of these partnerships within your go-to-market strategy? Are they really SMB focused? Are others supporting the enterprise side as well? It sounds like that's more of the focus with Asana. So would love to hear just a little bit more about the evolution of the program.

Anjali Sud - Vimeo, Inc. - CEO & Director

Sure, Dan. We sort of planted the seeds for partnerships back last year, and our sort of goals were a couple. One, we wanted to diversify our user acquisition, right? We don't want to be relying on paid marketing and media costs to bring in users at the very top of our funnel because we know that this freemium model that we have is very valuable, so we want to continue to invest in it. And so one of the goals was we can actually open up the market by exposing more businesses, whether they're SMBs or employees at large organizations, expose them to the power of video and Vimeo on these other platforms where they are. And then develop an actual relationship with them that will lead to sort of a relationship with Vimeo. So that's sort of one big goal.

The other is that with every partnership and integration we do, we also increase the value of being a Vimeo user, right? We are now providing a Vimeo user more reach, more choice and more utility across the Internet. And so both of these goals, I think, are -- they're long-term strategic goals. We've set the right sort of stage. We've planted the right seeds and we're starting to see them bloom, but still very early. And so what you saw from us this quarter, I think, is indicative of what you'll see going forward.

So you'll see us focus on partnerships to help small businesses create content. That's really what we're doing with TikTok. We're partnering with them to help small businesses create video ads for TikTok, seeing really interesting results there where we're actually partnering with TikTok to see, "Okay, are these small businesses then able to drive higher clicks, higher engagement, higher sales when they actually use our tool?" That's all really great. You'll see us lean in more there.

And then the enterprise side, same strategy applies. In Asana's case, they are enabling, through Vimeo, screen recording, so that Asana users, directly within the Asana interface, can easily send video messages to collaborate. And, over time, after they've done that a certain amount with no friction and for free, then Asana actually pushes them within their product to become a Vimeo user. And again, that's an early one. You'll absolutely see us extend that model to other enterprise collaboration software partners.

By the way, the same thing is also happening on e-commerce. You'll see us look at the e-commerce vertical and how we can help. We have our Shopify partnership today that's been extremely successful. How can we actually help more sellers unlock the power of video on all of their product detail pages to help increase conversion? So I think of partnerships as pretty broad for us. And we've staffed our team and continue to grow that team to be able to go after each of these areas with focus and intensity.

And again, it's early. I'd say our sort of priority right now is getting embedded with these platforms, adding value to these users and then sort of demonstrating that we are able -- we have sort of a funnel back to Vimeo. That feels really strong. Exactly how that plays out in terms of monetization for Vimeo, I think, is more of a 2022 area of focus.

Daniel Salmon - BMO Capital Markets Equity Research - Analyst

One quick one for Narayan. You've already spoken at length about the challenges of near-term forecasting and things like that. But you're kind enough to continue doing the monthly reporting, like your former parent company. Just the July number, specifically, was that in line with your expectations internally?

Narayan P. Menon - Vimeo, Inc. - CFO

Yes, absolutely. It was very much in line with our expectations.

Yaoxian Chew

Great. Next question, Justin Patterson from KeyBanc.

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

Narayan, how should we think about the puts and takes around gross margin going forward? Does the change in storage and hosting needs by customers affect that? And then perhaps a high-level one for Anjali. As Narayan noted, Vimeo is a little over 2 years into its enterprise journey. Anjali, when you think of creating a best-in-class enterprise culture, what are the next steps to get there?

Narayan P. Menon - Vimeo, Inc. - CFO

Thanks, Justin. On gross margins, we're very happy with the progress we have made. If you look back 8 quarters ago, we were at about 60% gross margins. Now we are at 73.3%. So significant progress, and we are well on our way to our stated medium-term gross margin target of 75%. There are a few things at play here. Obviously, as I mentioned earlier in my prepared remarks, infrastructure optimization continues to be an area of focus for us. We have a dedicated team who are looking at making that better every day. Pricing impact -- price negotiations and volume discounts, all of that help us. And generally, broadly, operational leverage, as we continue to be a bigger player and the enterprise -- mix of enterprise also helps in making gross margins better.

But to be honest, our focus is not just on reducing the cost and getting to higher gross margins. We want to make sure that we provide a very high-quality professional quality video for our customers. We want them to have the best possible hosting experience. We want them to use all the capabilities and features and functionalities that we provide to the most optimal viewing experience.

So we want to make sure -- this isn't just about cost, is what I'm trying to say. We want to provide the best experience for our customers. So that's the puts and takes, if you want. We want to make sure we manage the gross margins appropriately, but at the same time, providing the best possible experience for our customers and give them the value they're looking for, and even provide them with even more than what they are looking for. That's our focus.

Anjali Sud - Vimeo, Inc. - CEO & Director

And then your question on the steps to creating a best-in-class enterprise culture. I think there's probably 2 aspects of that. First is everything needs to be aligned with our customers' success. And that, I think, has to happen at the product level, what we choose to build, how we go to market and how we align our pricing and packaging to map the needs of our customers and their own success with video. And then obviously, as we scale our sales team, how we interact daily with those customers.

And I think we're doing the right things. We're building customer empathy within the organization at all levels. And we're trying to do that as we scale. And that's going to be really important. And then this is where things like the pricing work that we're doing, things like the new products that we're launching, all have to kind of ladder up to our customer's success. And I think the best enterprise companies do that and put that first.

The other one, I think, is I've talked about product-led growth, but we want our product to be our marketing. We want to take advantage of the fact that we have hundreds of millions of users on the platform for free, many, many of which are employees or decision-makers in large departments. And we want to take advantage of that and make sure that we have a very scalable and sort of low-touch flow to introduce them into our products.

And again, I think the best enterprise companies don't have to rely on going out and fishing in other ponds to generate demand and find their customers, and we have those ingredients. We have them in spades. And for us, it's really just about harnessing that power in a way that's scalable, and that's a really hard thing to build. No amount of money that you raise or engineers that you hire can get that kind of scale. And so, again, I think we have the ingredients there, but a lot of real execution work to do ahead to unlock it, and I think generally on track to do so.

Yaoxian Chew

Great. Next question comes from Brian Fitzgerald at Wells Fargo.

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

I wanted to follow up on Dan's questions on TikTok. You've had social integrations for a while, but this seems a bit different in that your position as creative tools specifically in relation to ads. So a lot of different places you can go in your product road map. But what opportunity is there around ad tools or even ad tech to become a more specific, integrated part of your mission? And then I've got 1 more follow-up.

Anjali Sud - Vimeo, Inc. - CEO & Director

Sure. On that question, ad tech specifically as a key part of our mission is not something we're focused on. The way we kind of think of it is every small business, there are over 300 million small businesses in the world, whether they're going to post on any social media, whether they're going to post organically to their own base or they want to do advertising, they want to use video. They don't want to just use image or text. They know video performs better. And so we're just trying to lower the barriers for them to create that content.

And I think, frankly, that goal, in and of itself, we're very early in and have a lot of room to go, right, to get all these hundreds of millions of businesses on all of these social platforms using video. And so we're squarely focused on that right now. So no near-term plan to start getting into sort of the more advanced part of ad tech.

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

Got it. And then the follow-up is just on Asana. We think of them as project management or work management. So we're curious about the intersection there and how customers are using it. It sounds like there's an element of asynchronous communication to how Vimeo and Asana work together, which sounds pretty compelling given the crowded kind of e-mail inboxes and Zoom fatigue a lot of people are experiencing. So I just want to know if you could unpack that a bit.

Anjali Sud - Vimeo, Inc. - CEO & Director

Yes, that's exactly right. So Vimeo Record is our free screen recording tool, and it's specifically designed to enable asynchronous internal communication and collaboration. So some of the use cases are product teams sharing product demos, creative teams sharing design walk-throughs. Really, to your point, why do you need a meeting for -- to walk through a presentation versus recording that presentation with the slides and your face and then sharing it out asynchronously, means you don't have to grapple with scheduling something with time zones, and that content then gets archived, put in your Video Library. It is easily accessible to any employee at any point. They can quickly search for the content that they want. We can help them pinpoint exactly where in the presentation somebody said, X, Y and Z.

And so that type of capability is exactly what we sought to be fueling with Vimeo Record. And so we've effectively natively integrated that capability into Asana. And so Asana's users are, in fact, doing exactly what you just said, which is sharing video messages to collaborate internally with their teams. And so the opportunity for us is obviously to then get a lot of these employees and teams who are Asana users to become Vimeo users and then obviously, to graduate them over time into the enterprise. And I think you'll see us do similar types of integrations in the future, again, leveraging that screen recording, asynchronous video collaboration tool.

Yaoxian Chew

All right. That wraps it up for questions in the queue. I'm going to now turn it back over to Anjali, who will leave us with some closing remarks.

Anjali Sud - Vimeo, Inc. - CEO & Director

Now thank you all for the questions and your time today. I just want to leave you with a few key takeaways from the quarter. First, we believe the trend to video is irreversible. Our market is large and underpenetrated, and our execution is on track. We're doing well in the enterprise with improved product breadth and go to market. And again, we're just scratching the surface of this opportunity.

Second, we're investing strategically and aggressively to deepen our competitive moats. The path to success will not be a straight line, but we are making the appropriate bets with a long-term view and a short path to validation.

Third, we are more energized than ever to unlock the power of video for every business, and we're excited to be on this journey with you. So thank you all again.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2021, Refinitiv. All Rights Reserved.