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Q3 2022 Vimeo Inc Earnings Call

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William John Kerr *Cowen and Company, LLC, Research Division - Research Associate*

PRESENTATION

Operator

Good morning, and thank you for joining Vimeo's Q3 earnings live Q&A. We're excited to be here in front of you. Before we begin, a few comments.

First, Vimeo's Q3 shareholder video will be available on the Vimeo Investor Relations site. 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 in this video.

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*

Hi, folks, and welcome to our Q3 earnings Q&A. We are trying something new this quarter. Last night, we published an interactive shareholder video. It's our version of the new shareholder letter using Vimeo's product. Gillian and I were able to record our updates from our respective locations, me from the Vimeo HQ in New York and Gillian from her [Barnet] office in Vermont. We then stitched the video together and added our new interactive features, so you can engage with the content however you want. We hope you enjoy the experience. We are experimenting. So take the poll at the end to give us your vote on if you like it.

First, we are seeing exciting momentum in Vimeo Enterprise, including growing net revenue retention to over 100%. Second, we are executing a strategic evolution in our self-serve offering to better serve higher-value business users. While self-serve is dragging our growth in the near term, we believe it will be a valuable and profitable grower in the long term. And third, our visibility is improving along with our execution. This quarter, we ramped up our new management team and generated positive adjusted EBITDA and positive free cash flow.

That's it. With that, let's jump into some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Bill Kerr at Cowen.

William John Kerr *Cowen and Company, LLC, Research Division - Research Associate*

I've got 2, if I can. So we think that reacceleration is really important for the Vimeo story. Can you just talk to us about how you're thinking about the reacceleration of top line as we move into and through 2023?

Anjali Sud Vimeo, Inc. - CEO & Director

Yes, sure. And you're absolutely right. I think for us, as a company, reacceleration is a real critical priority for us in 2023. As we shared in the video, we do feel confident in our ability to accelerate bookings in the near term in sales-assisted that's primarily driven through the momentum in Vimeo Enterprise. And there, we see both the execution that we're experiencing this quarter, improved sales efficiency, but also the great leading indicators. So strong pipeline, strong AOV, increasing NRR, number of seats being used within accounts growing. All signs kind of moving in the right direction pretty consistently, that makes us feel great about that.

Self-serve is harder to predict for sure. But ultimately, for self-serve, we think it's a matter of when, not if. We see outside of macro trends, which are weighing on our top-of-funnel demand and traffic, that even if traffic doesn't improve, we think we have enough low-hanging fruit in areas like increasing conversion, increasing our AOV and increasing retention. That's in areas like product and marketing. We have 2 new leaders in place that are executing there. And so really, at the end of the day, it's sort of near-term headwinds, but that we believe the tailwinds over the long term for video will really overpass over time.

William John Kerr Cowen and Company, LLC, Research Division - Research Associate

Okay. Great. And you mentioned it briefly, but my other question was just on product pipeline and how you're viewing that going into '23 as well. And what sort of the balance might be between enterprise and the self-serve, what the mix might look like and how you're feeling about product velocity.

Anjali Sud Vimeo, Inc. - CEO & Director

Yes. Well, hopefully, you got a chance to check out our interactive shareholder video. But what you will see from that is that we are committed to maintaining product leadership and innovation in this space, and we will look to continue to do that in 2023. You will see a lot of focus on products that enable teams, departments and employees at the largest companies in the world to be able to use video.

But I will also say, if you look at our road map and how we're thinking about it, we have launched a lot of new products in the last year. In Vimeo Enterprise, in particular, we launched Video Library, we launched Interactive, we launched Vimeo Events. And so you'll also see us look to just really improve and optimize the products that we have, unify the user experience so it's easier to adopt and discover the products that we have and then get people to really engage and be successful on those products. So there will be some net new innovation coming from us in a couple of critical areas that we think are differentiators in the long term. But I think the majority of our road map is really going to be about taking the power of Vimeo that already exists and making it easier for people to discover it.

And I'll just say, anecdotally, when we released this interactive video, like the number of people who have been pinging us saying, "We had no idea that you did this and that this kind of thing was within Vimeo's suite," I think is just indicative of the clear opportunity we have to actually get our user experience on the product to actually be our marketing. And so you'll see, I think, a lot of our road map oriented around that as well.

Gillian Munson Vimeo, Inc. - CFO

And I think it's important to remember that we've talked before a lot about the idea that sales-assisted versus self-serve is a go-to-market metric. It's really about how we sell the product. The product is actually the same, all the way from an individual user up to a large corporation. So what you saw Anjali and I do last week in terms of even taping those videos and getting them together, we could do from our desktop, you could do from your desktop, anyone could. And that's a really key piece of the strategy.

That said, the way we report the numbers today is the construct we're using as the way we're running the business. And we absolutely think sales-assisted is where the majority of the growth is going to come from and that it will start to be a bigger and bigger piece, ultimately, the largest piece of our business over time.

Operator

Our next question comes from Tom Champion at Piper Sandler.

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

Maybe just to get the guidance one more time. It sounds like you're confident that the bookings growth rate will exit '22 at better than a 3% decline that you saw in the third quarter. And given the challenges forecasting self-serve, is what you're saying that based on the signals you're seeing out of sales-assisted, the strength out of sales-assisted that you can achieve, that improvement based on a range of scenarios in self-serve?

Gillian Munson Vimeo, Inc. - CFO

Yes, I think that's the right way to think about it. As we mentioned in the video, we assume in our planning that the top-of-the-funnel challenges we have in self-serve remain for a while, and that's -- for planning purposes, we're trying to make sure we stay conservative about that. In terms of sales-assisted, we see strong strength and a lot of leading indicators going into this fourth quarter that that business has momentum. So if you take a look at the pipeline rebounding in the quarter, the momentum in Vimeo Enterprise in terms of seat growth, the bookings -- even the bookings we saw in the quarter amongst products, and in particular, our sales productivity, where we really feel like the sales force is ramped and really now in the place of optimizing, it makes us have a lot of enthusiasm about sales assistance.

So for sure, the shift in bookings trend would be driven by sales-assisted. That's where we have the most confidence. Self-serve certainly is harder to forecast, but we think the blend will get us where we'd like to be in terms of reaccelerating bookings.

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

Okay. If I could just ask one more. Anjali, maybe for you, the letter talked about this trend of free business domains within self-serve, and it seems like that's up very strongly since 2019. Can you elaborate on that? What is this? Walk us through why this is important.

Anjali Sud Vimeo, Inc. - CEO & Director

Sure, Tom. Well, I think, obviously, the question in self-service, it's a large funnel. And ultimately, what we see is that it's really not about the quantity of potential users but the quality right? And so when we think about our strategy, and Gillian, as she said, we don't think about self-serve and sales-assisted, those are just ways we sell, one is through a website, one is through a sales force. We believe the tailwinds in video are such that any employee and team and any company of any size, regardless of their budget, they're going to want to use video in the future. And some are always going to want to start for free or try before they buy or purchase directly and immediately through a website instead of speaking to a human being and having an account manager and an invoice and a contract, and we think that's great.

And so some of those users, we will look to serve purely on self-serve and we'll do it profitably. And some of them, we will upsell and upgrade into sales-assisted, but it really is all one kind of market that we're going after. And so the reason I like to highlight free business domain users is those are employees, teams and people at different companies. And if you look at that group, what we see is that they are our highest-quality users. They convert higher. They have a higher AOV. They are stickier. They are more profitable. Historically, we haven't been as focused and targeted in how to market and drive traffic that is optimized for those types of users, nor has our website been as optimized to convert and engage and delight those types of users.

And so what you're really going to see in our marketing and product efforts on self-serve is we will always look to be a platform for anybody, but more of a concerted effort now that we really understand like this is the user that we must serve above all and speak to, how can we both attract more of them and convert more of them into our products. And the good news is the growth trend there through the pandemic is strong. And so that's, I think, ultimately, what gives us a ton of confidence that over the long term, self-serve will be a grower and a profitable grower. We just don't see a world in the future where people aren't going to want to buy their software self-serve, do-it-yourself as well as through a human being.

Operator

Our next question comes from Brian Fitzgerald at Wells Fargo.

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

The interactive shareholder letter was great. We thought it was really engaging and informative. So I appreciate that. We wanted to ask about the NRR at 104%. A few questions there. Can you give us an idea of where that's been in recent quarters? And you talked through some of the factors in terms of logo retention, dollar retention, seat growth in multiproduct adoption. Could you give us a sense of the dynamics for those drivers and where you see NRR over the next few quarters?

Gillian Munson Vimeo, Inc. - CFO

So I'll cover the numbers. We're really glad you liked the video. We really had a lot of fun making it, and I think our team is really loving it. And I love that we're getting reached out on LinkedIn for people who want to do it, too. So I tease if I can do it, you can too to any of my peers out there.

In terms of the NRR, it was below 100% for the last couple of quarters. And so popping up above 100% is a big deal in our minds in terms of really living up to the promise that we really want the product to have in terms of landing and then expanding amongst customers. And so we're really excited about that.

I'll give it over to Anjali to give you a little more detail in terms of how she sees use cases at customers and the expansion we're seeing.

Anjali Sud Vimeo, Inc. - CEO & Director

Yes, sure. So I think as it relates to the different parts of NRR, what you're really seeing, Brian, is just very steady materializing of the seeds that we've been planting. So I'll go through a couple. First, when you look at logo retention, certainly, we've invested a lot in improving our product and in particular, if you recall, shifting away from just Livestream as a use case to stickier use cases. So livestreaming tends to be the least sticky use case.

And when we first launched Vimeo Enterprise and during the height of the pandemic, most customers were using us to livestream things like town halls. We then moved to more of a multiproduct strategy, and we launched capabilities like Video Library that are much stickier or at least should be. And so what we're seeing is that we're seeing that start to show up in logo retention.

And then the other piece is we launched per seat pricing model that we rolled out to all our new sales-assisted customer this year. There, it's enabling people to realize value or our customers to realize value and to pay based on expanding their seat usage. We think that is both better for their satisfaction and retention but also for expansion. And I think we've shared that we're seeing seat usage on accounts grow in the triple digits year-over-year for the second quarter. So that's a great leading indicator, both of that logo retention and your bookings retention. And so it's really, I think, the combination of those 2 things that's starting to work.

The last thing I'll say is we did reorient our sales force at the beginning of the year to get better and more specialized in how we sell to larger companies. And we did that by sort of looking at, okay, let's have a group of our sales force really only look at what we call corporate accounts. Those are companies with greater than 1,000 employees. Those are kind of the largest customers. And I shared in the video that bookings for corporate accounts grew 65% year-on-year this quarter. That's really a sign that we are starting to really learn, we're finding out better at how we sell to those customers. They do buy differently. It's a different selling motion. Still we have a good amount of room to go to become great, but we're starting to see that improvement in our sales force take shape.

So all of those are contributors. And the great thing is that I think all will continue to pay dividends as we progress and we have room to improve in all of them as well.

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

Got it. And the follow-up question I had was just around the drivers of the EBITDA outperformance. It doesn't appear that you've materially changed the implied outlook for Q4. Were there any timing effects in Q3, investments being shifted between Q3 and Q4 that we should note?

Gillian Munson *Vimeo, Inc.* - CFO

Yes. No, I mean we think it's reasonable to expect that the guidance is the right guidance for the year. We're really happy to have been able to put up 2 quarters essentially in a row where that's staying stable. In terms of the third quarter itself and one of the things I always like to describe about our business is we have this great business model. It has strong profitability, and we have a really solid cash balance, and we really care about that. We want to be a profitable business. And so the dynamic of bookings, and bookings being a leading indicator of revenue, gives us a good sense of what our cost structure needs to be in any given quarter.

So in Q3, there are 2 real factors that I think are important to think about in terms of how the EBITDA shifted up. One is that we saw that the bookings -- the rate of bookings growth was declining. And so we reacted by doing a small riff early in the quarter. And so there was some savings on the compensation side. And in addition, the team executed well on recovering from some billing system issue we had earlier in the year that we've discussed a little bit with you all. And that was able to have us reduce the amount of bad debt expense we had to take in the quarter. That was a very nice swing for us in Q2 to Q3. And so we feel really good about where we sit.

Q4, we've talked about near EBITDA breakeven. That is in line with what we've talked about before, and we're really executing to that and really proud of the team for their strong results.

Operator

That was our final question in queue. We appreciate you for joining us this morning. I'll turn it back over to Anjali, for closing statements.

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

Great. I will wrap by saying that we are energized to close the year strong and start 2023 off with more focus and momentum. We think we have a product that is changing how the world uses video, and we look forward to translating that product into a great business, one that creates enduring shareholder value.

So thank you all for the time. And if you haven't already, check out the video. I hope you choose picking me and watching me instead of Gillian or just watch both of us because it's really entertaining.

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