

# VTEX

## Second Quarter 2021

### Conference Call Transcript

# Introduction and disclaimer - Investor Relations

Hello everyone, and welcome to the VTEX earnings conference call for the quarter ended June 30th, 2021. I am Julia Vater Fernández, Investor Relations Director for VTEX. Our senior managers presenting today are Geraldo Thomaz Jr., co-CEO and co-founder, and Ricardo Camatta Sodre, Finance Executive Officer. Additionally, Mariano Gomide de Faria, co-CEO and co-founder, and Andre Spolidoro, Chief Financial Officer, will be available during today's Q&A session.

I remind you that management may make forward-looking statements relating to such matters as continued growth prospects for the company, industry trends and product and technology initiatives. These statements are based on currently available information and our current assumptions, expectations and projections about future events. While we believe that our assumptions, expectations and projections are reasonable in view of the currently available information, you are cautioned not to place undue reliance on these forward-looking statements.

Certain risks and uncertainties are described under “Risk Factors” and “Cautionary Statement Regarding Forward-Looking Statements” sections of VTEX’s registration statement on Form F-1/A and other VTEX’s filings with the U.S. Securities and Exchange Commission which are available on our investor relations website.

Finally, I would like to remind you that during the course of this conference call we may discuss some non-GAAP measures. A reconciliation of those measures to the nearest comparable GAAP measures can be found in our second quarter 2021 earnings press release available on our investor relations website.

Now, let me turn the call over to Geraldo.



## Overview - Geraldo Thomaz Jr.

Thanks Julia.

Welcome, everyone, and thanks for joining us today for our 2021-Q2 earnings results, our first earnings call ever.

Before jumping into our quarterly performance I would like to address two topics.

First, I want to thank:

- all VTEXers for their hard work and commitment which enabled us to complete our initial public offering,
- our customers, who trust us every day to deliver their mission-critical commerce infrastructure,
- our ecosystem of partners, who build new solutions every day, adding value to our customers and to the VTEX platform, and
- to both our long time and our new investors and partners that share our vision.

This was an important milestone for VTEX, but it is just the beginning of what we believe will be a transformational journey ahead of us.

Second, as it's the first time I am doing this and some of you may not know us that well, I would like to take this opportunity to give you a quick overview on what we do, why we do it and where we are going.

Last year, society was disrupted by a pandemic that challenged us on a personal and professional level. COVID-19 impacted everyone's life in so many ways, and one thing that the pandemic demonstrated is that the way of doing business needed to change to accommodate transacting online as well as in person. The digital economy is here to stay and all players need to develop a strong and integrated online presence in order to capture the new possibilities technology enables.

Consumers now expect brands to make shopping experiences as convenient and seamless as possible, from product discovery to purchasing, across all channels. As such, retailers need a scalable and flexible platform that lets them test multiple strategies to better serve consumers. Brands need to be relevant to consumers, and for that they must leverage technology and industry-expert partners so they can focus on their brand differentiation. Our customers are the protagonists of their digital transformation. We are here to accelerate them.

VTEX is where commerce happens. Our platform is designed to be the operating system for the commerce ecosystem, enabling enterprise brands and retailers to orchestrate their complex network of consumers, business partners, suppliers, and fulfillment providers. We are building the global digital commerce infrastructure for enterprises to be relevant for the modern, convenience-driven consumer. We were born as software as a service for enterprises. Our solution is designed to deliver both speed to market and customization, something quite unique in the market.





We enable enterprise brands and retailers to have quick time to revenue thanks to our extensive out-of-the-box capabilities that combine distributed order management solutions with traditional core commerce, native marketplace capabilities and a developer-first, serverless extensibility layer. This allows our customers to start fast, leveraging our homogeneous, multi-tenant platform, while also freeing their talent to focus on their business needs instead of infrastructure. Our customers leverage our composable development platform to quickly test new ways to reach consumers, both by building out their own features or by scalably tapping into the knowledge of our ecosystem of digital commerce experts — all a click away, through our App Store. We believe this approach is core to our value proposition and tough to replicate.

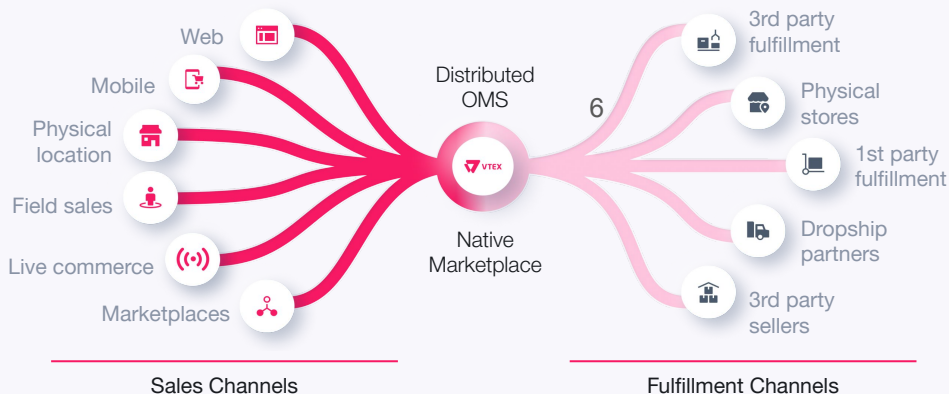
Our ambition is to help our customers to stay ahead of the curve and go beyond what commerce looks like today. In order to become the one stop shop for the convenience-driven consumer, we allow brands to easily set up commerce relationships to sell products from third-party sellers, expanding their assortment without having to manage all the incremental inventory themselves. This collaborative commerce concept enables them to receive orders from various sales channels while seamlessly tapping into inventory across multiple fulfillment channels. In summary, beyond building out their own ecommerce strategy, we also provide them with the native tools not only to list their products in marketplaces - but also to become a marketplace themselves.

The age of the standalone software has ended. In this new era, fully-integrated software is as valuable as the network it powers. We envision VTEX being at the center of a vast network that natively connects every part of the global digital commerce ecosystem, as the single control panel to manage all aspects of brands and retailers' sales life cycle, resulting in what we believe to be a future-proof platform that makes collaboration scalable.

We are not building a platform for what our customers asked for. We are building a platform for what they need, today and in the future. We enable enterprise brands and retailers to develop a full omnichannel strategy with a global scope. We will continue to execute our strategy to pursue that opportunity, with a clear vision to become the backbone for global commerce by focusing on these four foundations:

- Zero friction customer onboarding;
- Zero friction collaboration both internally (among tech teams and customers) as well as externally (among marketplaces, sellers, fulfillment operations, etc);
- Single control panel for every order; and
- The development platform of choice for digital commerce.

We are committed to these foundations and believe that they will generate a virtuous cycle that can accelerate the global digital commerce ecosystem and create a powerful network effect around VTEX.



Having said that, let me talk about our second quarter performance.

Our robust performance, despite the gradual reopening of physical retail, showcases the size of the opportunity of digitalization in the emerging markets. As anticipated in the Q2 flash numbers in our F-1, our GMV reached US\$2.4BN, representing a 25% year-over-year growth on an FX neutral basis. This represents a sequential growth deceleration as we are lapping the pandemic transformational effect on the retail model, which particularly in the second quarter of 2020 migrated to online only due to lockdown implemented in most countries where we have operations.

When analysing the universe of our customers with more than US\$25 thousand Annual Recurring Revenue, they grew at a faster pace than the overall company GMV growth. Also, if we deep dive on those customers, the ones without relevant physical store operations increased their GMV year-over-year by 50% on an FX Neutral basis, while customers with relevant physical store operations increased their GMV by 20% on an FX Neutral basis, as ecommerce is currently not the only sales channel available for these customers today.

We benefit from having a massive addressable market, expected to continue growing at a double digits CAGR for years by industry experts. With a market of over \$4 trillion dollars in size in 2020, we have a lot of runway to continue expanding. According to eMarketer, Latin America is expected to be 6 years behind the global ecommerce penetration curve. We believe we know the opportunity ahead of us as we have observed similar market dynamics in developed economies. This is just the beginning of what we consider will be a remarkable journey for VTEX and moreover, for the region.

VTEX is leading ecommerce enablement in Latin America, and we are well positioned to capture the massive opportunity. Our world-class product and locally developed ecosystems are enabling us to continue attracting more brands to our platform. Not only are we gaining market share, we are also creating the market, as roughly half of our new customer additions are greenfield opportunities. VTEX is a material driving force in enabling ecommerce in Latin America. Some brands that launched with us this quarter that didn't have online presence in the region before were:

- Walmart in Central America, including Costa Rica and four other countries in the region.
- Asics in Brazil.
- Picpay in Brazil.

During the quarter, we also added customers that migrated from other platforms including Diners Club in Peru, Carrefour in Argentina and Killstore in Chile.

We've also been able to build entrenched, sticky relationships with premier brands and retailers as we never stop innovating and enhancing our value proposition. We understand that being ahead of the curve is not an option, it is a must. A customer that showcases this is Whirlpool, who started operating with us in Brazil with 1 online store, and now has more than 5 stores in Brazil, to serve the many brands that they have in their portfolio, including Brastemp, Consul, KitchenAid, and so on. In addition we are expanding our relationship with Whirlpool outside of Brazil. We now have online stores in over 5 countries in Latin America and 4 online stores in Europe including, two in Italy, and one each in Russia and France.

We continue to see momentum in growing our customer base, largely driven by the compounding effect of our ecosystem, with over 1,000 integrated solutions, 200 SIs, 100 marketplaces and 80 payment solutions. This ecosystem ultimately helps our customers to evolve and drive incremental sales volumes. But we are just in the beginning. We continue to increase our efforts in order to scale VTEX global growth in a fast and efficient way both in current and new geographies. We aim to support the growth of our customers around the world by delivering a world-class platform and by expanding our regional capabilities.

Given our strong brand awareness and market position in Brazil, we are focusing most of our energy and capital to expand to other countries within Latin America, which we believe will bring most of our growth in the short to medium term. Additionally, the ecosystem that we have around VTEX is one of our most relevant moats and the ecosystem needs to be built locally, country by country. We have built it in Brazil, and we are now building country by country in Latin America.

We believe our platform is competitive globally. Industry experts, including IDC and Gartner, also validate this view. Over time, we expect to build an ecosystem around our platform to compete successfully and sustainably all around the world. This will take time, as we have a long sales cycle and we are currently focusing on Latin America, but we are planting the seeds already for our operations across the United States and Europe.

We intend to expand our capabilities by increasing our investments in our core platform. Our main goal is to enable our customers to be one step ahead of the evolving needs of their consumers, powered by cutting-edge technologies and capabilities, plus a strong and extensive network of partners and peers that they will leverage.

For this purpose, at the beginning of each quarter, VTEXers commit to milestones to go beyond the delivery of new functionalities, with a customer centric approach, focusing on systems' success and quality. We all commit to the same goal: bringing brands and consumers closer. During the second quarter of 2021 we've been able to launch several functionalities in order to build, together with our customers, the commerce of tomorrow.

VTEX launched enhancements to the core commerce capabilities by further differentiate its value proposition. VTEX Intelligent Search now can leverage VTEX OMS and inventory intelligence to regionalize search results, adapting to our customers' local operations and increasing conversion. VTEX OMS also launched a new feature allowing customers to manage their capacity for scheduled deliveries, aiming to improve the precision of promised SLAs to consumers and the percentages of SLAs kept on scheduled deliveries.



VTEX launched selected features to improve local differentiation in some strategic markets. In Brazil, new payment parameters were added to native integrations to our customers to comply with new marketplace regulation. In Argentina, checkout geolocation precision was enhanced to improve conversion. In the US, OMS reports added local tax business rules.

The new VTEX Admin with a new consistent user interface and a new sales dashboard is being rolled out and was launched to all US customers. Furthermore, VTEX continues to evolve its product in a way that removes usability friction for enterprise users and enhanced user experiences to manage inventory, create promotions, and for marketplace operators to evaluate and catalog new offers from sellers.

The pace of execution VTEX has sustained, mainly attributable to our hyper focus on fostering our culture of integrity, authenticity, commitment and responsibility. We are now 1,486 VTEXers, 88% more than in the same quarter last year. Our leading position in the Latin American market allows us to attract and retain the best talents in our market. As we grow we'll benefit from continuously evolving our culture, a very important competitive advantage of ours. Diversity is key to our success. Having different perspectives enables us to change the status-quo to reach out of the box solutions that we would never have thought of.



Recapping before I leave the floor to Ricardo:

Now I'll turn the call to Ricardo, so he can cover our financial progress report for the quarter.

The expectations of the 21st century consumer are higher everyday, and this is raising the bar for brands and retailers. Consumers want to interact seamlessly through multiple channels, find everything they want in a single place and receive products in record time.

We know there is a transformative future ahead where retailers will need to incrementally shift more volume to their online channels, brand manufacturers will want to go direct-to-consumer, and both brands and retailers may benefit from setting up their own marketplaces to serve consumers in one single place. VTEX will empower them to build their digital transformation with speed to market and flexibility for customization, without extra-burden.

We envision VTEX being the operating system that will empower brands and retailers to stay relevant to the convenience-driven consumer, consolidating our leadership position in Latin America through strong execution and focus. This is just the beginning, we are here to accelerate it!



# Financial Update - Ricardo Camatta Sodre

Thank you, Geraldo. Hello everyone, it's a pleasure to be here updating you on our financial performance for the second quarter of 2021

Before moving to the quarterly update, I would like to take a couple of minutes to refresh you all on our revenue model as well as recap our recent performance.

Our revenue model is very simple – we charge our customers a mix of fixed fee and variable take rate for full access to our digital commerce platform. The variable take rate component represents approximately 2/3 of our revenue and is charged as a percentage of our customers' GMV. So, as our customers grow their GMV, we grow our revenue with them. This model creates strong alignment between us and our customers.

It is important to note that we don't sell modules. Our customers pay to receive broad access to the VTEX platform, in an "all-you-can-eat" model. We upsell by helping our customers through their digital evolution - for instance, from a plain vanilla ecommerce website, to an omni-channel operation, to setting up their own marketplace. We upsell by helping our customers increase their GMV, clearly aligning our incentives with our customers.

To finalize on our revenue model, we have a tiered pricing model and the fixed vs. variable fee is mostly a risk allocation decision made by our customers. If they feel confident in the GMV they will generate, they can choose to pay a higher fixed fee and lower take-rate. If they are earlier in their digital journey, they can take less risk by paying a lower fixed fee and higher take-rate. Naturally, as our current customers grow and gain confidence in their digital strategy, they tend to take more risk by paying a higher fixed fee and a lower take-rate. As our customers grow, they are up tiered, meaning that they pay a slightly lower take rate yet still a higher total dollar amount to VTEX.

Now, quickly recapping our performance in 2020 and in the beginning of 2021. 2020 was an outstanding year for VTEX. We helped fuel and benefitted from the ecommerce acceleration, growing with our existing customers' GMV, a key driver of our net revenue retention. We also added new online stores for these same customers, added new customers to our base and continued our geographical expansion, all key drivers for our medium and long term growth.

The first quarter of 2021 was also a highlight of our historical performance, with GMV growing at triple digits and revenue at high double digits. During the first three months of the year, we continued to experience the benefits of the incremental ecommerce penetration in the countries where we operate. In Q2, we are now starting to lap the increase in digital commerce penetration, resulting in a tougher comp this quarter.

With that intro, let's now dive into the second quarter of 2021 numbers.

Revenue increased to US\$30.9 million, a year-over-year increase of 22.1% in USD and 18.2% on an FX neutral basis. Subscription revenues represented 96% of total revenue and grew 20.0% year-over-year on an FX neutral basis. We continue to see strong sales momentum by our sales & marketing team and go-live of new online stores, increasing our new stores contribution as a percentage of total revenues to 16.2% in the second quarter of 2021 from 12.2% for the second quarter of 2020.

As we are starting to lap the pandemic effect this quarter, it is important to put the numbers in context by analyzing them on a two-year CAGR basis. From that perspective, our total revenue two-year CAGR for the second quarter of 2021 was 60.7% on an FX neutral basis, similar to the total revenue two-year CAGR for the first quarter of 2021 of 60.6% on an FX neutral basis. This demonstrates how healthy and sustainable our revenue growth has been.

Before moving down the P&L, I would like to remind the audience that, from a business perspective, we think about our P&L as a combination of two P&Ls: our existing stores' P&L and our new stores' P&L.

Our existing stores' P&L represents around 80-85% of VTEX revenue excluding SMBs, has a high operating margin and grows at our net revenue retention rate. We don't have any significant sales & marketing expenses to serve our existing stores. We only have support costs, which are already included in our subscription costs. This existing stores' P&L grows with our net revenue retention, which is mainly driven by the GMV growth of our existing stores, our variable revenue as a percentage of our total revenue, and our annual revenue churn.

Our new stores' P&L represents around 15-20% of VTEX revenue excluding SMBs, has a negative operating margin but it brings new stores to our base with attractive unit economics. Targeting new stores is the key focus of our sales & marketing team, so this P&L includes almost all those expenses. Now, given that our unit economics, measured by our LTV to CAC, has been above 6x in the last two years, we believe that deploying capital in this P&L is a sound investment. Considering that (i) we are playing in an under-penetrated Latin American market with only 6% penetration; (ii) we have attractive unit economics, above 6x LTV to CAC; and (iii) we develop sticky relationships with our customers, with only mid-single digit annual revenue churn; we plan to continue investing in adding new stores as long as financially accretive for the long-term growth of VTEX, even if that has some short term impacts to our margins.

With that said, let's continue and move down our P&L.

Subscription gross profit was US\$20.2 million, compared to US\$15.9 million in the first quarter of 2021. Subscription gross margin improved to 68.1% in the second quarter of 2021 from 64.7% in the first quarter of 2021. The quarter-over-quarter improvement reflects operational hosting cost efficiencies.

We continue to be encouraged by the digital commerce opportunity in Latin America. Penetration continues to increase, even with the gradual reopening of brick-and-mortar retail stores throughout the region. Digital transformation and digital commerce has become a c-level and board subject. Therefore, we have decided to accelerate our investments to capture this market opportunity. As a result, our non-GAAP loss from operations was US\$10.4 million during the second quarter of 2021, compared to a non-GAAP income from operations of US\$6.7 million in the same quarter of 2020.

As of the three months ended June 30, 2021, VTEX had a negative US\$14.7 million free cash flow, primarily driven by our non-GAAP loss from operations, which is mostly explained by the expansion of our workforce, especially our sales & marketing team.

Talking about our outlook, we expect to continue seeing strong new stores' growth. It is important to note that in Q3 our existing stores will face tougher comps, as lockdowns started in the region in mid-April last year, and brands took some time to shift their volumes to online channels. Although Q3 comps will be tougher than Q2, during the fourth quarter of 2020 brick-and-mortar stores started to gradually reopen, so comps should ease from Q4 onwards. With this in mind, we are targeting revenue in the US\$31.0 million to US\$31.5 million range for the third quarter of 2021, implying a similar two-year revenue CAGR compared to Q1 and Q2. For 2021, we are targeting US\$124 million to US\$126 million range. This outlook assumes that current period FX rates remain constant for the remainder of the year.

Wrapping up today's call we want to reinforce that it is clear to us that the world has changed. The ecommerce acceleration is here to stay. We are focused on speeding up our investment to capture this opportunity, and we are seeing strong momentum in contracts for new stores.

We believe there is an attractive opportunity in front of us, and we feel increasingly confident in our ability to capitalize on it.

Thanks everyone for joining this conference call.

We look forward to keeping you updated on our progress. With that, let's open it up for questions now.

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