

VTEX

Third Quarter 2021 Conference Call Transcript



The Enterprise
Digital Commerce
Platform

Introduction and Disclaimer - Investor Relations



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

I would like to 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 third quarter 2021 earnings press release available on our investor relations website.

Now, let me turn the call over to Geraldo.



Overview - Geraldo Thomaz Jr.

Thank you Julia.

Welcome everyone, and thanks for joining us today in our 2021-Q3 earnings results.

I'm excited and proud to announce our progress in making VTEX the platform designed to be the Operating System for the commerce ecosystem. Strong execution enabled us to move closer towards our desired future.

This quarter we had outstanding new contract signatures, we increased our backlog of new online stores under implementation, and we expanded our relationship with existing customers. We also continued launching product developments and signing important partnerships that position ourselves towards creating the future proof platform of choice for enterprise brands and retailers. Finally, we also over delivered the guidance we provided to the market.

We'll cover all of these points, and more, throughout today's call. So I invite you to stay with us for the next hour to hear more about our progress and the principles guiding our strategic actions. Exciting times are here to come.

Last year we witnessed the surge in ecommerce as the consumer behaviour shifted towards preferred and convenient online shopping and that trend is here to stay. As a consequence, our business is showing strong momentum, both in top line growth, as well as with new contract signatures.

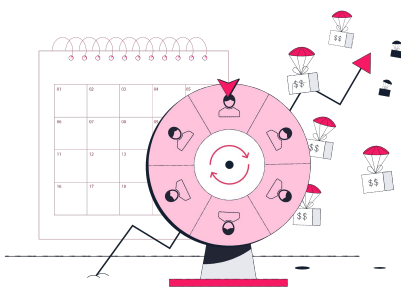
And this is just the tip of the iceberg, ecommerce in Latin America is still an untapped opportunity. According to the eMarketer 2021 report, Latin America is the fastest growing region in the world, with almost 10 percentage points higher growth than the worldwide average. We are living in a new era, a revolution, and we are here to accelerate it.

We continued attracting premier brands to our platform across the globe. Some new customers that went live this quarter that didn't have online presence in the region before were: Ronald McDonald's Institute in Brazil, Whirlpool in Guatemala and Mexico, and Elo in Brazil. We also added customers that migrated from other competitive platforms including Reserva in Brazil, Dior in Argentina and Miniconf in Italy. Given our focus on zero friction onboarding, and our customers' need for digital commerce transformation to remain ahead of the curve, it's important to point out that speed-to-market continues to be a key differentiator and priority for VTEX. For example, Reserva's implementation, a leading fashion retailer in Brazil with more than 110 stores and presence in more than 1,500 retailers across Brazil, went live in only 4 months.

We continue to see strong sales momentum in new stores' contract signatures. As a result, YoY we have doubled our backlog of new online stores in implementation, which gives us confidence in the future growth of the company. One highlight win this quarter was Mazda Motor. They chose VTEX to power its commercial digital transformation across 22 countries in Europe. Winning Mazda Europe's vote of confidence is a tremendous honour for all of us at VTEX and another proof that our commerce and marketplace capabilities are a match for the greatest enterprises in the market. As we strive to increase our presence across markets, these global brands enable us to further validate our platform strategy, build success cases, and strengthen our position in new countries.

This strong momentum with new customers is also validated by external market experts. This quarter VTEX was recognized as Visionary in the Gartner Magic Quadrant for Digital Commerce 2021 report, and in the B2C Digital Commerce use case, as well as for B2C and B2B Digital Commerce on Same Platform & Composable Commerce use cases in the 2021 Gartner Critical Capabilities for Digital Commerce. Additionally, VTEX was awarded 7 medals overall with gold medals for Ability to Execute and Sales & Channel Enablement by Andy Hoar, a former Forrester analyst and B2B Commerce luminary.

Not only do we see this strong momentum in new customers and external validation, but we are also obsessed with getting entrenched, sticky relationships with these premier brands and retailers. Some current customers that expanded their operations with us by opening new online stores in new countries during the third quarter were: Tommy Hilfiger in Peru; Levi's in Argentina; BMW in Chile; Xiaomi in Mexico; and Victoria's Secret in Costa Rica. Additionally, our marketplace solution continues to gain traction, in Q3 it has been adopted by AB Inbev, Cobasi, Elephant, Decathlon, and many others.



We know that we cannot do all this alone. We believe in the multiplying force of collaboration. One of our key competitive advantages is our ecosystem, and that's why we will continue to nurture and expand our partners. Since our last earnings release, we have launched strategic partnerships with AWS, Facebook, Stripe, Mercado Libre and McFadyen.

We expect that the AWS partnership will enable us in the long term to expand our global digital commerce presence. Our customers, especially CPG ones, will now be able to leverage machine learning services and order management capabilities with logistics and distribution operations to create their end-to-end DTC solution.

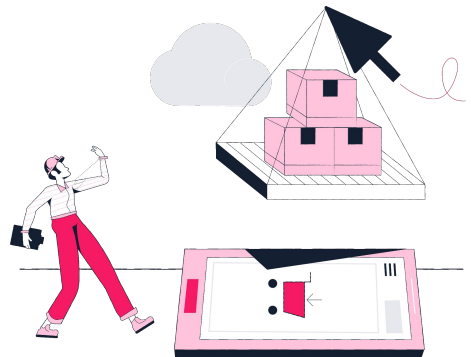
The new global integration with Facebook aims to ensure better conversion rates in ecommerce by leveraging online campaigns with data intelligence and improving sales conversion natively on the platform. Furthermore, we hope this is the beginning of a long term partnership with Facebook.

We launched a partnership with Stripe to help our customers to offer all their consumers preferred payment methods. The integration will work in all countries where both companies operate in North America, Europe, Latin America and Asia, supporting payments processing in more than 135 different currencies.

The certified integration with Mercado Libre in Brazil is a significant milestone in our journey to become the center of a vast network that natively connects every part of the global digital commerce ecosystem. We aim to roll out the certification across the rest of Latin America soon.

Our strategic partnership with McFadyen, a leading marketplace strategy and implementation agency, in Brazil and in the US excites us not only by the technical and architectural expertise that McFadyen Digital brings to our customers, but also by the depth and breadth of business planning their strategy practice can offer.

Before wrapping up I'd like now to revisit our four product strategic priorities: zero friction onboarding; zero friction collaboration; single control panel for every order; and the development platform of choice for digital commerce. We don't innovate in a vacuum, those are the principles that guide our developments.



On zero friction onboarding we've launched self-service onboarding. Our goal is to reduce our customers' time to revenue by giving them the tools to connect to the sellers portal faster and with a user friendly experience.

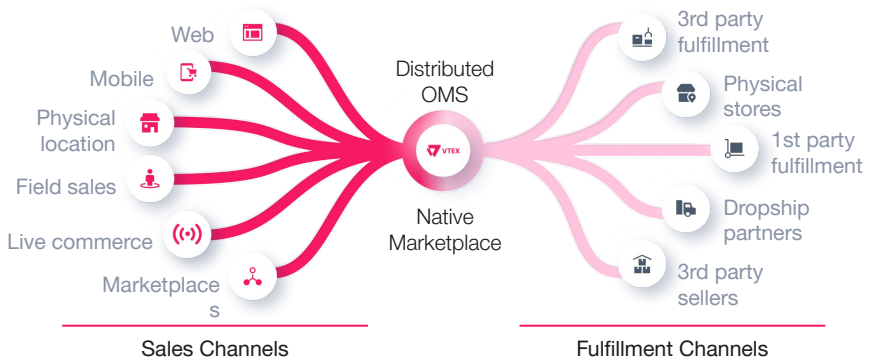
And of course, we'll keep integrating with more channels, and enhancing the existing connection we have as the one I already highlighted with the MercadoLibre certified integration.

On zero friction collaboration we built the new seller's portal that enables partners of our customers, franchisers or SMB's to more easily sell into their marketplaces, making collaboration between the online store, the franchiser or the physical stores seamless. We want to become the one stop solution. This approach will treat the physical store as an independent seller, with a seller panel to create and manage inventory and capacity of delivery. We are building tools for the physical stores to streamline the fulfillment process. We are very excited with these initiatives as we have success stories that showcase the benefits as it's the case of C&A, which tripled their online sales because of this, adding incremental inventory and lower SLA which resulted in a major boost of their conversion rate.

On the single control panel for every order front, we enhanced our in-store solution with an endless aisle approach that enables physical stores to sell products from other stores as well as from the ecommerce store. We've improved messaging between the different channels, tuned search filters and added social selling. We've also launched a new dashboard that tracks additional key performance indicators of our customers', such as their cart-to-checkout and payment conversion rates.

We also enhanced our OMS's order progress flow system, reducing refresh time to seconds without external event dependencies, such as manual authorization, cancellation windows and anti-fraud. This fits grocery, food & beverage and pet shop companies' needs, among others, as it enables them to have faster communication between channels, avoid out of stock scenarios and deliver faster to their consumer's doorstep.

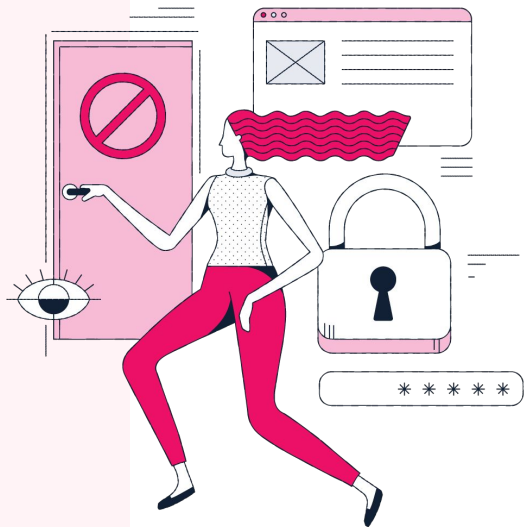
On the development platform of choice for digital commerce, I already covered all the strategic partnerships, which are a fundamental enabler for attracting more developers to our platforms as their preferred distribution channel. So, to complement that, let me just share a couple internal KPIs we follow on this topic. The monthly active developers accessing the VTEX development portal increased from more than 9.5 thousand in Q2 to more than 14 thousand in Q3. Additionally, we are excited to announce that this quarter US developers were the second largest country accessing our platform, having grown more than 4x vs. last quarter.



We are also focusing on building security, privacy and compliance frameworks as features of our platform for our customers and developers to leverage on. Our ambition is to convert security, privacy and compliance into differentiating factors for VTEX. This topic is a major requirement especially in the European market, but it will soon be a worldwide requirement, and we plan to be in the forefront of it.

Last, but not least, I would like to thank all 1.624 VTEXers that had worked and continue working insatiably to fulfill our mission, as well as our customers, partners and investors.

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



Financial Update - Ricardo Camatta Sodre

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

This quarter our revenue increased to US\$31.9 million, a year-over-year increase of 15.2% in USD and 12.3% on an FX neutral basis, and above our guidance of US\$31 million to US\$31.5 million. This increase was on top of our record same quarter last year revenue growth of 140% on an FX neutral basis as COVID-19 impact led to a further acceleration of ecommerce and reinforced the importance of having an holistic omnichannel strategy. Although some verticals were impacted by supply chain challenges or lower consumer confidence, which tend to be short-term impacts, revenue associated with new stores, which tend to bring long-term results, more than compensated that impact and allowed us to over-deliver our guidance.

Total revenue two-year CAGR for the third quarter of 2021 was 64.0% on an FX neutral basis, a 330bps sequential acceleration compared to the prior quarter. This demonstrates the sustainability and robustness of our revenue growth. It also demonstrates how diversified across verticals we are, given that VTEX's software works well for many different industries, allowing us to perform well even while some verticals are impacted by macro-economic events.

July was our toughest comp, and, as anticipated, the comps gradually eased throughout the quarter. We exited the quarter with September's YoY FX neutral growth in the 20% range, demonstrating that the gradual normalization trend we were expecting entering towards the end of the year already started.

Subscription revenues represented 93.0% of total revenues. We continue to see strong sales momentum by our sales & marketing team and go-live of new online stores, which drove an increase in our services revenue. As Geraldo mentioned, year-over-year we doubled our backlog, in dollar amount, of new online stores in implementation.

Subscription revenue increased to US\$29.6 million in the third quarter of 2021, from US\$26.3 million in the third quarter of 2020, a year-over-year increase of 12.6% in USD and 9.7% on an FX neutral basis.

Now, moving down our P&L.



Non-GAAP Subscription gross profit was US\$20.2 million, compared to US\$20.4 million in the second quarter of 2021. Subscription gross margin was 68.2% in the third quarter of 2021, compared to 68.8% in the second quarter of 2021. The QoQ compression reflects incremental investments in cybersecurity, privacy and compliance mostly related to our global expansion and becoming a public company. We believe we can improve our subscription gross margin over the coming quarters and in the long-term.

We are encouraged by the digital commerce opportunity, especially in Latin America. We see an attractive opportunity for further penetration, even after the strong acceleration we all witnessed last year. Therefore, we have decided to accelerate our investments to capture this market opportunity and leverage our leadership position in the region. As a result, our Non-GAAP Loss from Operations was US\$13.3 million during the third quarter of 2021, compared to a non-GAAP Loss from Operations of US\$10.4 million in the second quarter of 2021.

We continue to see attractive unit economics from our investments to bring new online stores to our platform. Our LTV to CAC is still above 6 times cash on cash, even after we tripled our sales and marketing investments compared to the same quarter last year. We plan to remain focused on new online store additions, as we believe it is the right long-term decision for VTEX, even if that has some short term impacts to our margins.

As of the three months ended September 30, 2021, VTEX had a negative \$10.4 million free cash flow, primarily driven by our Non-GAAP Loss from Operations, which is mostly attributable to sales & marketing and research & development efforts related to our growth stage. In this regard, it's important to highlight that this company has grown historically mostly self-funded, with limited primary capital injection. As I already mentioned, we have a powerful business model. We are currently focused on increasing our leadership in Latin America and discovering other regions. And, given our attractive unit economics, we are more than happy to reinvest back in our business every incremental dollar and even burn cash in a disciplined fashion.

Now moving to our outlook, we expect to continue seeing strong new stores' growth as our encouraging backlog undergoes implementation. In Q4 our existing stores will face easier comps than Q3 comps. During Q4, we expect our revenue growth to continue accelerating. While supply chain challenges may impact commerce during Q4, we are excited to support our customers on a successful Black Friday, Cyber Monday and the holiday shopping season. We are working closely with our customers to understand how they are preparing, stocking inventory, and so on. With that said, we are targeting revenue in the US\$35.3 million to US\$37.3 million range for the fourth quarter of 2021, implying a 27% YoY FXN growth rate in the middle of the range. For 2021, although Latam currencies devalued 6.7% during Q3, we are confirming our guidance of US\$124 million to US\$126 million range. This outlook assumes that current 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 ecommerce momentum is here to stay, and that the current state is just the beginning of a promising long road ahead for the region. We are seeing good indicators from the investments we are doing in the region and across other geographies, which is reflected in the strong momentum we are seeing in new contract signatures as well as in the increase in our new store backlog under implementation.

We have a strong leadership position in Brazil, we continue to quickly strengthen our position in Latin America, and we are starting our global expansion. We feel encouraged by the opportunities we have in front of us. Thanks everyone for joining this conference call. We look forward to keeping you updated on our progress next quarter.

Let's open it up for questions now.

Closing Remarks- Geraldo Thomaz Jr.

I want to take this opportunity to thank you all again for joining our third quarter earnings conference call. These are our first steps as a public company, and we are humbled to share it with you. VTEX's ambitions were always sizable, but you enable us to dream even bigger, so thank you for that and for accompanying us in such an important moment.

We'll continue executing with the highest standards to disrupt commerce, to achieve our goals, and to always be the best partner for enterprises to do business in this new digital era.

Thank you!



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