VTEX
Fourth Quarter 2021
Conference Call Transcript

VTEX

The Enterprise
Digital Commerce
Platform

Introduction and Disclaimer - Investor Relations

Hello everyone, and welcome to the VTEX earnings conference call for the quarter ended December 31st, 2021. I am Julia Vater Fernández, Investor Relations Director for VTEX. Our senior executives presenting today are Geraldo Thomaz Jr., founder and co-CEO 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 fourth 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 for our 2021-Q4 earnings results.

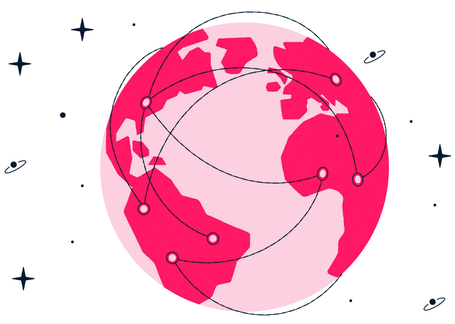
2021 was a very special year for VTEX. We:

- Went public;
- Added more large enterprise customers than ever before;
- Launched conversational commerce support, social and live commerce;
- Partnered with outstanding companies such as AWS, Facebook, Stripe, Mercado Libre and many new system integrators; and
- Continued consistently executing our geographical expansion plans, among many other things.

I'm proud to announce that in 2021 we made significant progress across the globe, which increases our confidence, today more than ever, on the potential of our global expansion.

Now, let me move to the progress we've made during the last quarter of 2021. We continued seeing strong momentum in new contract signatures, resulting in a quarter-over-quarter increase in our backlog of new online stores under implementation, in addition to the strong performance of stores coming out of implementation and going live. More importantly, we increased the amount of large enterprise customers contracts signed that are now under implementation. This demonstrates the brand power VTEX gained over this year, giving us confidence in the future growth of the company and visibility of future performance.

In the fourth quarter of 2021, we had more than 40% additional go-lives than last year in the same quarter, with customers now operating with us in Latam, US, and Europe. We continue seeing a huge opportunity ahead of us. We still see half of our new customers joining VTEX as greenfield ecommerce operations. Ecommerce penetration still has a long road ahead, especially in Latin America. Some new customers that went live this quarter that didn't have online presence in the region before were: Elefant in Eastern Europe and H&M and Mango in five countries in Latin America. We also added customers that migrated from in-house solutions or other competitive platforms including Cencosud in three countries in Latin America, Whirlpool in Western Europe and CAE in the US.



Speed-to-market continues to be a key differentiator and one of our competitive advantages against born-on-premise softwares. This is crucial as it enables our customers to initiate their digital commerce transformation faster, remaining relevant for their customers and improving their time-to-revenue. For example, this quarter H&M in Chile went live in less than 4 months.

We are proud of our customers' journeys. In 2021, we were trusted by more than 2,400 customers with over 3,200 stores across 38 countries. In our history as a company, we have built successful long term relationships with our customers, expressed by an increasing number of stores per customer and of countries where they operate with us. In 2021, when analyzing our top 100 customers, we reached 4.8 stores per customer, with operations across 34 countries, up from 2020's 3.7 stores per customer in 26 countries. In Q4 some of our existing customers that expanded their operations with us by opening new online stores in new countries were: AB InBev in the US; Motorola in Guatemala; Pandora in Colombia; Asics in Mexico; Victoria Secret in Uruguay; and Tommy Hilfiger in Guatemala and Peru.

Our existing customers continued growing at a healthy pace, on top of the impressive growth they experienced in 2020. In 2021, our SSS were up 12% on a FX Neutral basis, after 2020's SSS growth of 90%. Both SSS growth were impacted by COVID. 2020's numbers were positively impacted, as our customers could only sell their products online during a significant portion of the year. While 2021's numbers were impacted by the reopening of physical channels, which enabled omnichannel strategies, in many cases supported by VTEX, that partly offloaded some of the online sales of the prior year. With that said, it is important to note that in 2019 our SSS has exceeded 25% on a FX Neutral basis.

Before moving to our product developments and enhancements, I want to do a quick comment over a relevant special date we had this quarter: Black Friday. VTEX enabled 1.4 million consumer orders globally, which represents a 25% year-over-year increase in the number of orders compared to November 2020, demonstrating the long-term trend of consumers shopping online more frequently and the increasing penetration of digital commerce. And the two things we were most proud of this holiday season were the reliability of our network, which allowed us to reach 100% availability during the Black Friday week, and the increase in volumes in countries such as Mexico and Italy, each joining the top five countries with the most GMV dollar increases of all VTEX countries, demonstrating how our efforts to grow those regions are tangible in volume and top line acceleration.

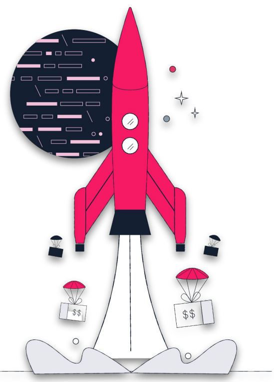
Now, moving to our product, I'm excited to update you on the many inroads we made this quarter. I would also like to introduce a new principle that will guide our developments: commerce on auto-pilot and co-pilot, which basically means that we'll develop products and features to help our platform to execute our customer's strategy autonomously and to recommend the best actions for them to grow with no or limited human interaction. Building is an always evolving process. We are encouraged to disrupt, together with our customers, the mainsteams concepts of retail and ecommerce. We are always seeking to provide a future proof solution that's way ahead of today's needs.

So now, going into our four product development pillars. In zero friction onboarding and collaboration, we continued making progress with our new front-end framework called FastStore, which is already adopted by live large enterprise customers, such as Carrefour in Brazil, and we have many more in the pipeline, such as Decathlon, Avon, and Grupo Exito. We have already successfully mentored SIs that are now implementing this new module for VTEX IO that was built from scratch with storefront performance in mind without compromising flexibility or development productivity.

We continued adding sellers to our seller onboarding solution that are actively using our new seller portal. We have companies such as Doto, MontenBaik, Elefant, GM Heritage and Samsung that have already adopted the solution.

As we are building the infrastructure to enable brands to be relevant in such a convenience-driven environment, we are always seeking to enhance the consumer's journey and offer omnichannel solutions that integrate all sales and fulfillment channels. Shoppers can now navigate in our customers' website and check for the local availability of each product, relying on faster delivery SLA if the product is available in a nearby physical store or franchisee. We already have Carrefour, Emporio da Cerveja and C&A among others benefiting from this new capability.

We also continued making strides related to our inStore's endless aisle approach. Now physical store's sales associates can use filters such as price range, department, and brand, among other configurable filters, when searching for products on inStore VTEX Intelligent Search. This results in a more dynamic and precise process, speeding up sales, allowing them to quickly find the desired product.



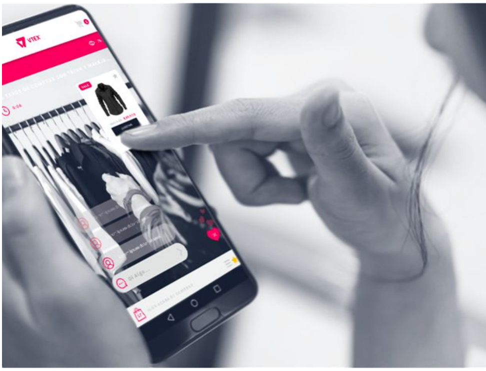
Regarding becoming the single control panel for every order, we made three major launches: live shopping, conversational commerce and social commerce.

In such a highly connected world, customers are becoming increasingly impatient and demanding when it comes to the shipping and support experience. The ecommerce revolution in retail might have been just the beginning of a complete change in the way we shop, and it's crucial to be prepared for this next wave.

VTEX Live Shopping App is now available for our customers. Our native live stream app helps brands and retailers using VTEX Commerce Platform to create one-to-many or one-to-one immersive live shopping experiences that increase engagement and conversion rates, unlocking new growth opportunities by simplifying how to start, plan, manage and track performance of live shopping events. With Live Shopping our customers have the possibility to broadcast live and sell at the same time either from store, warehouse, or the place of their preference. Product details are explained to a deeper level and the shopping experience is amplified, helping consumers in their decision making. Early adopters of VTEX Live Shopping indicated an increase of about 5 times the average online store session time, and, most importantly, an increase of more than 30% in purchase conversion during live events.

We are consistently increasing the support for our customers who want to introduce sales capabilities to their conversational touch points. Several customers at VTEX already combine the worlds of commerce and conversational platforms. We are onboarding customers from different segments, such as grocery and drug stores, to enable them to sell through WhatsApp and other conversational interfaces, a significant emerging channel that will complement physical stores, browsers, mobile apps, marketplaces and other sales channels. We also launched VTEX Tracking notifications via WhatsApp, in addition to SMS and email notifications, increasing reviews response rate.

We also launched social commerce capabilities, enabling sales associates in the physical store of our clients to share products with customers via QR codes. This allows physical store customers to access a link to a shopping cart with products so they can complete the purchase, even if size or color is not available in the physical store.



On our mission of becoming the developer platform of choice for commerce, we continued attracting developers to our low-code platform, gaining momentum in the community and scaling our capabilities. Monthly active developers accessing the VTEX development portal increased to more than 20 thousand in Q4 from more than 14 thousand in Q3. Additionally, we are excited to announce that this quarter US developers accessing our portal have more than doubled quarter-over-quarter.

Finally, regarding providing ecommerce on auto-pilot and co-pilot, we launched our new admin dashboard, with near-real-time data with the most relevant commerce information. Also, with our new VTEX Log performance panel, customers can have a graphical presentation and description of each carrier's performance with algorithms suggesting which one is more efficient for each particular delivery. Our clients can track carriers' performance calculation results and leverage all the detailed information we have on each carrier for specific routes.

Last, but not least, I would like to thank our more than 1,700 VTEXers that had made VTEX into the top-10 public software companies to work at, according to Glassdoor. In the last 18 months, we tripled our investments, increasing significantly our headcount from around 600 in 2019. So for us, being able to maintain our core DNA at scale, while evolving into becoming a better, stronger, and high-performing company, is an honor and a commitment we make every day to all our VTEXers.

We have been able to build a robust team in every area, G&A, R&D and S&M, and now it's time to let this team mature, reach efficiencies and show the world what we are capable of. In 2022, we expect to grow our team at a more measured pace. By reaping the benefits of the investments made in 2021, we will grow at a strong pace in 2022 while at the same time delivering significant operating margin expansion.

Now before I'll turn the call to Ricardo, I would like to announce that we will be hosting the VTEX Day, the biggest ecommerce event in Latin America and the 3rd globally, on April 12 and 13 in Sao Paulo. I would like to invite you to come experience the VTEX culture and see the power of our ecosystem in this magnificent event. In 2019, the last year we could do this in person, we had more than 20 thousand attendees, more than 160 amazing speakers. We are confident we will have another amazing event this year. Being mindful of social distancing and health safety, the event will be limited in terms of attendees, so book your place quickly and stay tuned. We will be more than happy to have you all with us!

Ricardo, I'll leave you to 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 fourth quarter of 2021.

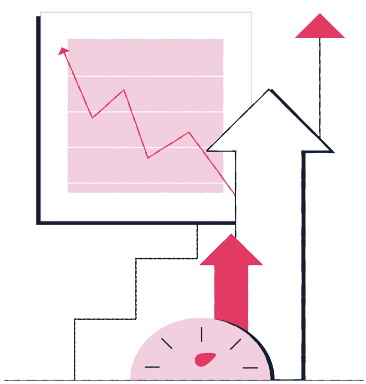
This quarter our revenue increased to US$37.1 million, a year-over-year increase of 30% on an FX neutral basis, surpassing the implied 27% YoY FXN growth rate we guided last quarter, and demonstrating that we are indeed entering into the growth rate normalization trend we were expecting towards 2022. This allowed us to reach a revenue of US$125.8 million for the full year 2021, representing also a 30% growth on an FX neutral basis, on top of our record revenue growth of 95% on an FX neutral basis last year. Our robust performance in such a tough comps environment gives us confidence in our future growth projections going forward.

In the fourth quarter we've seen some verticals gaining relevance such as beauty & health, grocery, and apparel & accessories which grew 42.3%, 36.6% and 33.8% respectively on a year-over-year FX neutral basis. Some verticals, such as electronics and home appliances, on the other hand were impacted by supply chain challenges and macro-economic trends and presented more modest performances. That shows that VTEX has a resilient business model. Our software works well for many different industries, allowing us to perform well even while some verticals are impacted by macro events.

Our revenue from existing stores increased to US$87.3 million in 2021, representing a net revenue retention of 105.1% on an FX neutral basis. Our 2020 NRR of 171.9% was positively impacted by physical stores temporarily closing. In contrast, our 2021 NRR was impacted by physical stores reopening. On a 2-year compounded average, our 2020-2021 NRR was 134.4%, still above our historical average NRR rates between 110% and 115%.

On top of our existing stores growth, we continued attracting new stores, adding US$19.4 million in revenue to our base, which represented 23% of our 2020 VTEX Platform revenue, demonstrating the strong momentum we are having in new contract signatures. Number of customers with revenue above US$250k per year reached 76, from 58 in 2020, representing a year-over-year increase of 31%.

Our geographical expansion continues to broaden, with revenues outside of Brazil already representing 47% of our total revenues. In a 2-year CAGR, Latin America excluding Brazil grew 84%, while Rest of the World grew at almost triple digits, at 96%. When analyzing our FX neutral year-over-year growth in 2021, Brazil grew 24%, Latin America excluding Brazil, our region most impacted by physical stores reopening given our customer base there, increase by 28%, and Rest of the World grew 98%, positively impacted by the Workarea acquisition but also driven by solid organic growth.



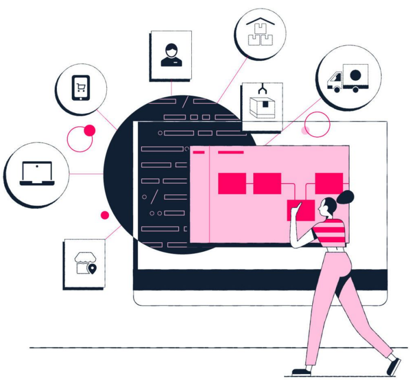
Now, moving down our P&L.

Non-GAAP subscription gross profit was US$24.1 million in the fourth quarter of 2021, compared to US$17.9 million in the fourth quarter of 2020, representing a year-over-year increase of 35.0% in USD and 38.2% on an FX neutral basis. Non-GAAP subscription gross margin was 69.9% in the fourth quarter of 2021, compared to 64.6% in the same quarter of 2020. Non-GAAP subscription gross margin year-over-year 530 bps improvement reflects operational hosting cost efficiencies. We believe we will continue improving subscription gross margin in 2022 and onwards, even if specific quarters could potentially show some volatility while we introduce new product features and migrate non-core software providers potentially incurring additional short term cost in order to enjoy long term higher efficiency.

We decided to significantly increase our investments 18 months ago to capture the strong ecommerce acceleration market opportunity. As a result, our Non-GAAP Loss from Operations was US$10.9 million during the fourth quarter of 2021, compared to Non-GAAP income from operations of US$0.1 million in the fourth quarter of 2020, primarily due to incremental personnel-related investments. The Non-GAAP Loss from operations margin this quarter already improved versus Q3, a result of Q4 seasonality as well as operational leverage after a more moderate quarter-over-quarter expense increase.

Also, along this line, we are encouraged to announce that we continued having attractive unit economics during Q4, despite the higher investments we conducted in new geographies. Our LTV to CAC is still above 6 times cash on cash. During 2021, we planted the seeds across new geographies and product features. Now it's time to see which ones will be most accretive to VTEX and focus our efforts on those to leverage our future growth.

As of the three months ended December 31, 2021, VTEX had a negative $21.3 million free cash flow, primarily driven by our Non-GAAP Loss from Operations and one-off working capital impacts. Here, it's important to note that, until the end of 2020, VTEX grew without relevant capital injection, self-funded by its powerful business model. Although in the last 3 years we had relevant private investment rounds, most of those rounds were secondary. Out of them, we only received $66.3 million dollars of primary funding. We consider it is important to note that by the end of 2020 we had $75.5 million dollars in cash and marketable securities in the balance sheet. We ended the year with almost US$300 million in cash, so we are more than well-positioned to deliver strong results, with no additional foreseeable funding needs for our organic growth plans.



Before moving to our 2022 outlook, 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. You'll find this reference in slide 28 of our fourth quarter Earnings Presentation.

VTEX existing stores' revenue, excluding our SMB Platform, represented approximately 80% of total revenues. This P&L has an attractive 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 SSS growth of our existing stores, our variable revenue as a percentage of our total revenue, and our annual revenue churn.

Our new stores' revenue, also excluding our SMB Platform, represented approximately 20% of total revenues. This P&L has a negative operating margin, but 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, comparing our P&L breakdown for 2020 and 2021, there are a couple comments I'll like to make. We are exiting the year at a subscription gross margin of 70%, so even higher than the overall gross margin from 2020. On the other hand, in the new stores' P&L, the 35% gross margin in 2021 is simply a result of a higher mix of new stores in the overall base and the additional services these new stores require to go live.

When analyzing the expenses, it is important to note that we estimate that in 2021 25% of our expenses were related to our global expansion outside of Latin America - more precisely, 35% of our S&M, 15% of our R&D, and 10% of our G&A expenses. Therefore, the increase in S&M in the new stores' P&L is mostly explained by our global expansion, the increase in R&D is explained by our global expansion and our investments in new products and capabilities that may drive additional future growth, and the increase in G&A is mostly explained by our investments to become a public company which is already reducing as a percentage of revenue over the last four quarters.

Now moving to our outlook, we expect to continue seeing strong new stores' growth as our encouraging backlog undergoes implementation. In Q1 our existing stores will face tougher comps than the ones in Q4, as many countries in Latam were experiencing a second wave of COVID during 1Q21. Nevertheless, we expect our revenue growth to continue at a strong pace. With that said, we are targeting revenue in the US$33.0 million to US$33.5 million range for the first quarter of 2022, implying a 30% YoY FXN growth rate in the middle of the range.

For the full year 2022, we expect FX neutral revenue growth of 29% to 31%, implying a range of US$158 million to US$162 million as of fourth quarter end of period FX rates.

Wrapping up today's call, we want to reinforce that VTEX, as the leading digital commerce platform in Latin America, the fastest-growing region for ecommerce in the world, and yet overwhelmingly underpenetrated, is better positioned than ever to continue delivering strong results. On top of that, we are also only scratching the surface of our global opportunity.

We have an exciting road ahead of us, and we are encouraged to conquer this journey with our employees, customers, partners and investors by our side. Thanks everyone for joining this conference call. We look forward to keeping you updated on our progress next quarter.

With that, let's open it up for questions now.

Closing Remarks- Geraldo Thomaz Jr.

I want to take this opportunity to thank you for being here today with us. We closed 2021 showing solid steps towards our desirable future, and we are excited for what's to come.

We'll continue to focus on executing with excellence, and making VTEX the platform of choice for enterprise brands and retailers, not only in Latin America, but worldwide.

We invite you to join us in our journey of disrupting commerce. Looking forward to keeping you updated on our progress next quarter. Stay safe.

Thank you!

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