VTEX
First Quarter 2022
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 March 31st, 2022. 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, Mariano Gomide de Faria, founder and co-CEO and 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 "Forward-Looking Statements" sections of VTEX's Form 20-F for the year ended December 31st, 2021 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 first quarter 2022 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 our first quarter 2022 earnings conference call.

We've started the year with a strong 1st quarter. Our business delivered solid growth, with good execution across all regions, solidifying our position as the leader in the digital landscape in Latin America and strengthening our global footprint. I'm excited to update you on our progress in making VTEX the backbone of global commerce.

In the first quarter, GMV had a robust performance, as a consequence of healthier consumer sentiment in Latin America, as well as initial recovery of some verticals, such as electronics, that were affected by inventory shortages in the second half of last year. Meanwhile, verticals such as apparel and accessories, beauty and health and groceries continued its high growth performance, all above 50% YoY growth in USD. As a consequence, GMV growth accelerated to 33.3% in USD, resulting in 18.6 percentage points increase vs. our fourth quarter GMV growth. Another highlight here is that Mexico's performance outpaced the region this quarter, showing strong indications of traction.

We continue attracting premier brands and retailers. This quarter we more than doubled, in dollar amount, the go-live of new stores in the VTEX platform, demonstrating that we are bringing into production the attractive backlog we mentioned during the second half of last year. Some new customers that went live this quarter that didn't have online store presence in the respective countries before were: Boston Medical Group in Mexico, Xiaomi in Peru, Under Armour in Uruguay, EcoWater in Canada, and Colgate in Brazil. We also added customers that migrated from other competitive platforms including Briggs & Stratton in the US, Angeloni in Brazil, Moulinex and Arcor in Argentina, and Easy in Chile. Furthermore, during the quarter we had a healthy sales momentum in new stores' contract signatures, which give us confidence in the sustainability of our business model.

On top of strong momentum in new customers, we continue to build entrenched, sticky relationships with our existing customers. Some premier brands and retailers that expanded their operations with us by opening new online stores in new countries during the first quarter were:

- AB InBev added Mexico, additionally to the other 8 countries in Latin America.
- H&M added Colombia, now totaling 4 countries in Latin America;
- Oster, who was previously operating in 6 countries in Latin America, now added Argentina;
- Walmart in Central America, expanding their operations from 5 to 7 countries in the region; and
- Whirlpool added France, India, Poland and Singapore, currently operating with us across 15 countries across the globe.

Additionally, in March of this year Gartner published its Gartner Peer Insights 'Voice of the Customer': Digital Commerce report review, where VTEX was named a "Strong Performer". One of the things we are most proud of in the report is that as of January 2022, 96% of VTEX customer reviewers are willing to recommend VTEX to others, the highest scores amongst our peers. We believe this is a huge validation of our product and technology, purely based on customer feedback, and gives us the confidence to continue pushing forward towards our desirable future.

We know 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 Paypal, EBANX, TikTok, as well as expanded our partnership with Mercado Libre.

Our partnership with Paypal aims to strengthen our internationalization strategy and bring VTEX customers closer to excellent technological solutions for local and cross-border trade in the 38 markets where we operate. In line with our payments strategy, this partnership will contribute to the further monetization of our ecosystem.

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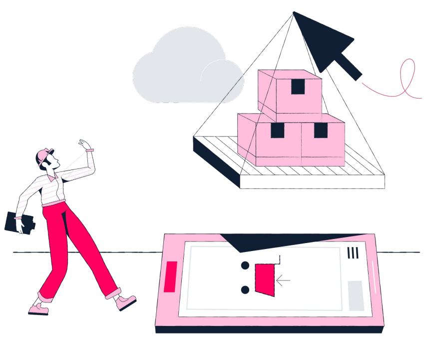


Subsequent to the first quarter of 2022, we've launched the partnerships with EBANX and TikTok.

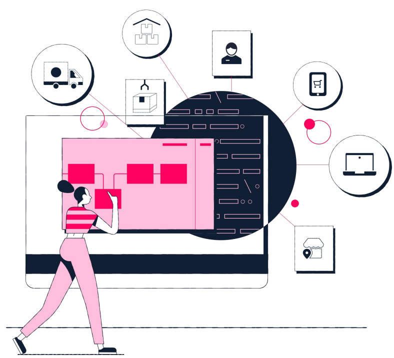
Our partnership with EBANX is also focused on cross-border payments collaboration in Latin America, aiming to broaden cross-border payments for Brazilian ecommerce companies in Latin America. Through this union, Brazilian companies will be able to enjoy more than 100 payment methods in 15 countries across Latin America. With this partnership, we reinforce one of the pillars of the VTEX platform, which is to offer our customers new ways to grow their business through a complete solution. Similarly to Paypal, the EBANX partnership will be monetized with a rebate on the payment volume that flows through our platform.

We also partnered with Tiktok for business in order to offer an app that is available in the VTEX app store for all customers that integrate directly to TikTok, improving our customer's asset sharing process with the social media giant. We expect this to also help our customers to get better ads results, as consumers will find more accurate products and avoid ads for sold-out or out-of-stock products. This app will help customers to use TikTok for business features on VTEX Admin directly. Initially it will be available for VTEX's customers in Brazil and in the coming months will be expanded to other countries in Latam, Europe, Asia and the US. We are happy to share that we have already early adopters that are anxious to test the app such as Carrefour, L'Oreal, Reserva, among many others.

Last, but not least, in addition to Brazil, we now have the certified integrations with Mercado Libre in Argentina, Chile, Colombia and Peru. This 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.

Before wrapping up I'd like now to revisit our four product strategic priorities. This time, I'm gonna focus our innovation update section on cases that our customers shared with the audience during VTEX Day. For context, VTEX Day is the largest digital commerce event in Latin America and the third largest in the world. Taking place in Sao Paulo, VTEX Day had over 25,000 attendees during its two days.

Starting with C&A, a multinational fashion retailer that, besides fashion items, also sells smartphones and accessories. Whenever a smartphone is out of stock in C&A's own warehouse, the VTEX platform enables a transparent connection to Samsung's inventory, which does the fulfillment and delivers it directly to the consumer. With this frictionless connection between the brands' inventory, C&A significantly improves its conversion rate and Samsung sells an additional smartphone, while both are also enhancing the end-customer experience. This is a clear demonstration of how C&A and Samsung are benefitting from our zero friction onboarding and collaboration product pillar.



Another interesting case is the one from Cobasi, one of the largest pet shops in Brazil, a pioneer in the megastore concept focused especially on the care of pets and home and garden with more than 150 stores. During VTEX Day, Cobasi shared the benefits they witnessed after adopting multiple VTEX solutions, including sellers portal, OMS, inStore, external and internal marketplace, shipping from store, live commerce, among others. That enables Cobasi to simplify processes and, more important, make sure that they offer a consistent experience to their customers across all channels. For instance, since they adopted our shipping from store feature, they reduced their delivery time to 2 hours on 60% of their deliveries and increased their omnichannel penetration to 70% of total orders. In line with our vision to become the single control panel for every order, Cobasi highlighted the relevancy of having one source of truth for centralizing the multiple channels they commercialize their products.

During VTEX Day, Whirlpool talked about the challenges of digitalizing as a huge brand manufacturer. Their digital transformation required structural changes, such as building an in-house technology team. Building this tech team enabled Whirlpool to build critical business solutions internally and on top of the VTEX platform. One of the outcomes of this partnership is the supply chain integration project, through which Whirlpool consolidates all product information in a single place with delivery time precision in all regions and distribution channels. This capability goes as far as enabling the manufacturer to sell a refrigerator currently located in a container in the middle of the sea. With this, Whirlpool achieved a positive impact on business indicators, such as an increase in consumer NPS by 15%.

Along this line, Decathlon is also driving a unified commerce strategy and transforming the role of brick-and-mortar stores with VTEX inStore. During VTEX Day, Decathlon stated that the convergence across sales channels is the foundation for successful customer experiences. The sporting goods chain bet on the implementation of our endless aisle and fulfillment module in all its stores. With the endless aisle capability, the store sales rep has access to all ecommerce available inventory and even other stores, enabling the sales rep to place the order and not lose the opportunity with the customer. For companies with a large catalog such as Decathlon, which has over 15 thousand SKUs, the solution increases the chances of conversion by expanding the inventory and catalog assortment using both warehouses and physical stores. Leveraging VTEX capabilities, Decathlon shared that their endless aisle orders placed in-store currently represent 5% of total brick-and-mortar sales. Decathlon is now able to run the full customer journey in a single place, aligned with our single control panel for every order product pillar.

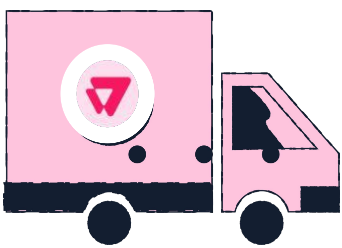
Additionally, during VTEX Day Samsung shared its live shopping adoption journey. As a highlight, they had a live shopping event in Mexico this quarter where they launched the new Galaxy S22 5G. In the event they sold more than US$1 million in GMV, engaging almost 12 thousand viewers, in only 54 minutes! This Samsung use case is another demonstration of our vision of VTEX becoming the single control panel for every order for our customers.

Looking at our Live Shopping app adoption throughout VTEX's customer base. During the first quarter of 2022, we had more than 130 Live Shopping events, with a positive trend MoM. We started the year with 24 events in January 2022 and ended the quarter with 61 events in March 2022. Along with Samsung, companies like Nestlé, Cencosud, Coca-Cola, Grupo Éxito, Fravega, among many others, have already adopted the solution. Additionally, and subsequent to the first quarter of 2022, on April 25th, we had our first Live Shopping event in the US with Motorola. We are now offering live shopping across 14 countries with over 150 active accounts.

Michael Kors shared their experience with the adoption of our new VTEX Shipping Network feature. The new functionality acts as a broker of shipping services, choosing the most efficient partner for each route and product delivery. Michael Kors not only shared their experience in terms of improvements in delivery times and SLAs, but also focused on the efficiencies they've been able to reach, with around 10% shipping cost savings, and traceability of the deliveries. This use case from Michael Kors is a demonstration of how we are delivering commerce on auto-pilot and co-pilot to our customers to help them succeed in their digital transformation.

Looking at our logistics market opportunity more broadly. According to industry sources, shipping costs represent around 10% of our customers' revenue. Early adopters of the VTEX Shipping Network are experiencing significant shipping cost savings, aligned with the Michael Kors case, leading to a low single digit percentage point increase in their digital commerce operating income.

On the development platform of choice for digital commerce, we are proud to announce that 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 24 thousand in the first quarter of 2022 from more than 20 thousand in the fourth quarter of 2021.



Wrapping up the operational update section, I would like to thank our 1,765 VTEXers that have 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, so he 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 first quarter of 2022.

This quarter our revenue increased to US$34.7 million, a YoY increase of 33.7% in USD and 29.7% on an FX neutral basis. Furthermore, this increase was on top of our same quarter last year revenue growth of 77.0% on an FX neutral basis.

This growth rate acceleration was driven by a significant increase in the same store sales of our existing customers and by new stores coming online.

Subscription revenue represented 94.0% of total revenue versus 95.1% in the same quarter last year. This is explained by the strong sales momentum we are having, and the implementation of our backlog leads to increases in our services revenue.

Subscription revenue increased to US$32.6 million in the first quarter of 2022, from US$24.7 million in the first quarter of 2021, a YoY increase of 32.1% in USD and 27.7% on an FX neutral basis.

Now, moving down our P&L.

Non-GAAP subscription gross profit was US$22.7 million, compared to US$16.1 million in the first quarter of 2021. Non-GAAP subscription gross margin was 69.6% in the first quarter of 2022, compared to 65.1% in the same quarter of 2021. The 466 bps YoY improvement reflects operational hosting cost efficiencies, as we migrate non-core hosting services and improve our code's efficiency.

On top of the subscription gross margin expansion, we also increased our services gross margin, which led to overall gross profit reaching US$22.1 million, representing an YoY increase of 46.1% and a margin improvement of 563 bps.

Our Non-GAAP loss from operations was US$13.7 million during the first quarter of 2022, compared to US$8.0 million in the first quarter of 2021, primarily due to incremental personnel-related investments in sales and marketing, and research and development, as we have been investing to capture market share and benefit from the further penetration of ecommerce.

We continue to see attractive unit economics from our investments to bring new online stores to our platform. We also have some key areas of investment related to our product side, such as live shopping, conversational and social commerce, FastStore, VTEX shipping network, B2B, among others. We are going to continue to pursue these opportunities as we believe they are fundamental for our long term growth, while being committed to be disciplined on our allocation of resources.

As of the three months ended March 31, 2022, VTEX had a negative $16.1 million free cash flow, compared to US$21.3 million negative free cash flow in the fourth quarter of 2021. This improvement of almost 25% QoQ, on top of the sequential acceleration on a top-line perspective, is the reflection of our capability to deliver sustainable growth while moving towards a cash generative scenario, as we historically have. In addition, it is important to mention that we ended the quarter with more than US$270 million in net cash in our balance sheet.

On top of this strong cash position, we are committed to efficiency. We increased our headcount from 1,727 employees at the end of the fourth quarter 2021 to 1,765 employees by the end of the first quarter 2022, a moderate increase of 2.2% QoQ. Our non-GAAP total operating expenses increased from US$34.4 million to US$35.9 million, a slightly higher increase of 4.4% QoQ given some senior hires we onboarded in our team over the last couple of months. While VTEX Day will have some one-off impact on our expenses in Q2, we expect our Q3 and Q4 expenses to reflect an even lower QoQ increase than we delivered in Q1. Therefore, looking forward to the remainder of 2022, we continue to expect delivering significant operating margin expansion.

Regarding our future outlook, while we had a solid YoY performance in Q1, we continue to see significant macroeconomic uncertainty and volatility in our customers' GMV performance.

Additionally, it's important to note that the second quarter of 2022 has a harder YoY comp due to the second wave of COVID in Latin America, with cases increasing significantly from March to June of the last year. Therefore, we are currently targeting revenue in the US$37.5 million to US$38.5 million range for the second quarter of 2022, implying a YoY growth of 23% in USD and 20% on an FX neutral basis in the middle of the range.

For the full year 2022, given the macro conditions and recent volatility as previously mentioned, we expect a FX neutral YoY revenue growth of 24% to 27%, implying a range of US$160-164 million based on the first quarter average FX rates.

Wrapping up today's call, VTEX had a solid start of the year, with robust top line performance, margins expansion, strong backlog undergoing implementation, and of course many new exciting products and partnerships now available in our platform. All this together gives us confidence in our business today and in the long term opportunity we have ahead of us. We'll continue focusing on our differentiation, the quality of our platform's technology, product and features, as well as continuing developing the ecosystem around it, which will push us even further.

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

Closing Remarks- Geraldo Thomaz Jr.

Thank you for joining us once again, we are honored to be here with you sharing our progress.

We are witnessing an increasing momentum in VTEX attractiveness for enterprise brands worldwide. We are committed to continue maximizing growth, while being disciplined in how we deploy capital. We've set the foundation for sustainable growth over the years to come, while progressively improving margins over time.

We are now a stronger company than ever and we are confident in the long term opportunity for VTEX.

Looking forward to keeping you updated on our progress.

Good afternoon to everyone, you may now disconnect.

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