VTEX
Second 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 June 30th, 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 second 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 second quarter 2022 earnings conference call.

We are excited to announce that, once again this quarter, our GMV outperformed the overall ecommerce market. That was driven by two key factors. First, our existing customers GMV growth outpaced the market, demonstrating the resiliency of our enterprise-focused customer base. Second, new customers joined our platform, demonstrating their trust in the VTEX software to add value even under volatile macroeconomic conditions. As a testament to that, in Q2 our GMV grew YoY 27.6% in USD while global and Latin America ecommerce growth was flattish to single-digit growth at most.

We continue seeing VTEX consolidating its leadership position in Latin America. During the quarter we delivered solid results in special events, such as Hot Sales in Mexico and tax-free day in Colombia, giving us confidence in the ramp up of Mexico and the consolidation of more mature markets such as Colombia. Additionally we continued making solid steps forward on our international expansion, something that was noticed by industry experts, which I'll address later on.

Over the past couple years, we were in a high-investment cycle. An important phase for VTEX that allowed us to roughly triple our headcount and create a menu of future growth opportunities. Now, as part of the plan, it is only natural for us to prioritize the opportunities created and leverage our current structure to continue delivering strong growth. With this, VTEX is doubling down on the most promising growth opportunities in our menu.

This prioritization of growth opportunities and setting of our optimal structure came with a hard decision that included a layoff of 193 employees. We deeply appreciate and thank the hard work and commitment of those employees who were impacted by the layoff.We are happy to inform you that approximately 50% of them have already found new opportunities, and we will continue helping to reallocate the remaining former VTEXers.

Pursuing strong growth in a sustainable manner is not something new to us. VTEX was born in Latin America. We practically self-funded our growth until US$100m in ARR in 2020. We welcome, we are actually excited about, demonstrating how we at VTEX can deliver strong and consistent top line growth, while being disciplined with our investments.

We are confident in the future growth of the company and we feel the power of having all VTEXers aligned in pursuing the enormous opportunity that we have in front of us. The underlying long-term trends from the sector continue to be attractive. In the shorter term, some of our key priorities for the remainder of the year will be to: continue helping our customers outperform the market; keep improving our gross margin; and optimize our expenses to gain operational efficiencies.

On helping our customers outperform the market, we'll continue innovating to provide the infrastructure our customers need to accelerate their operations and stay relevant to consumers through multiple sales and fulfillment channels. A great demonstration of how that translates into value-add to our customer is that in the second quarter of 2022, as already mentioned, our customer's GMV outperformed the Latin America ecommerce market.

On gross margin, I'm extremely proud that we've been able to increase our non-GAAP subscription gross margin by 370 bps on a YoY basis. This margin expansion was mostly driven by technology improvements, such as the migration of some of our cloud environments to more efficient processors, operating systems and frameworks, among other initiatives. We also improved our services gross margin, which contributed to an overall non-GAAP gross margin improvement of 510 bps on a YoY basis. We expect to continue showing improvements in this line going forward, while also providing best in class service levels to our customers.

On expenses, we will show significant operational leverage in the second half of the year, without jeopardizing our growth in the short, medium or long term. As I mentioned before, we calibrated our organizational structure in order to deliver our adjusted priorities, which resulted in an one-off layoff expense in Q2, on top of the already anticipated additional Q2 expenses related to VTEX Day, an event that is key for positioning our company among prospects, partners and existing customers. In Q3, we expect to have a clean P&L that will start to clearly demonstrate the trajectory of our operating income.

Now, moving to our commercial updates, in the second quarter we continued attracting premier brands and retailers. Some new customers that went live this quarter that didn't have online store presence in the respective countries before were: Elo, SumUp and ZeBrands in Brazil, Groupe Seb Andeans in Colombia, and BRF in Chile. Additionally, new customers that migrated from other platforms that went live this quarter were: Pernambucanas and Hering in Brazil, Garbarino in Argentina, Grainger and Citric in Mexico, Yamaha in Colombia, Momentum Textiles in the US and Invitadisima in Spain.

On top of that, we continued building 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 second quarter were:

- AB InBev added the Dominican Republic, in addition to 9 other countries in Latin America; and
- Sugo added Mexico, in addition to 4 other countries in Latin America.

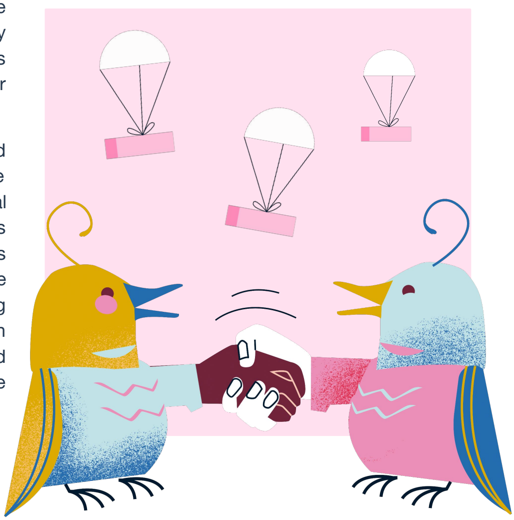
As mentioned last quarter, while the average number of months our new customers are taking to implement the VTEX Platform continues to be above the historical average, we see no structural changes in the demand for the VTEX software. Therefore, we continue to be encouraged by the long term opportunity we have ahead of us.

On that note, in May of this year VTEX was named a Contender in The Forrester Wave™: B2C Commerce Solutions, Q2 2022. The Forrester report stated that VTEX "…has recently begun to succeed in its mission to gain a foothold in markets outside Latin America," and that, "VTEX is strong in digital products and subscriptions". We are proud of this recognition and we'll continue to work hard on our international expansion, as we see a strong fit from our product and sales traction is increasing according to plan in these new geographies.

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.

Aligned with our payments partnership strategy shared last quarter, we are excited to announce that we launched a partnership with Adyen, the global payments platform of choice for many of the world's leading companies. We are confident that this partnership brings a powerful value proposition to the ecosystem. Both companies are committed to enabling enterprise brands and retailers to start having an omnichannel operation that drives business growth and provides a consistent customer experience in offline and online channels.

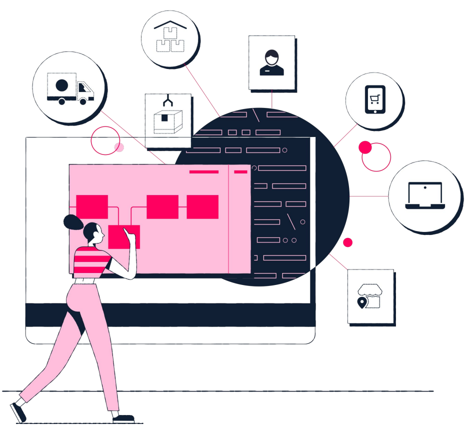
We are also focused on generating partnerships with independent software vendors, or ISVs, to boost innovation and keep expanding the offerings and customization layers available in our platform. VTEX Acceleration Program seeks innovative ecommerce-related solutions that can meet the needs of our customers. The project is focused on fostering the global ecommerce ecosystem by integrating third-party apps with VTEX App Store. In the second quarter of 2022, we included a few new partners in this program. One of them was MailUp, who launched an app called Biso in Brazil that helps customers have detailed control and analytics of their ecommerce operations. Another one was WoowUp, who adds the CRM capability to our ecosystem, which enabled us to already win customers.



Before wrapping up I'd like now to revisit our four product strategic priorities, focusing our innovation update section on success cases from our customers.

Pernambucanas, a retailer which sells clothing and home appliances technology with two Business Units and more than 400 stores in 200 cities in Brazil, chose VTEX for its headless approach. They wanted to implement continuous customizations on their website and mobile app while avoiding any limitations. Additionally, they wanted a solution that enabled them to keep a consistent experience between channels, providing a true omnichannel experience. The internal team from Pernambucanas, with the support of the VTEX team, was able to implement this complex case in only 5 months, achieving our client's goal to reformulate their online experience in an impressive timeline.

Last quarter we mentioned that we were going to have our first Live Shopping event in the US. Now, looking back at the results, our customer experienced an 8 times increase in conversion rate from viewers during the event, which led them to consider leveraging Live Shopping not only for product launches, but also for sales events, social media campaigns, and product demonstrations. Live streaming is a global trend and we are encouraged to see our solution continuing to penetrate our customer base. In fact, this quarter we had 231 Live Shopping events, which represents a QoQ increase of almost 80%.



Briggs & Stratton, the world's largest producer of air-cooled petrol engines for outdoor power equipment chose VTEX in the US for their B2B project with 3 different Business Units supporting multi-language and multi-currency with one single account. They used to run their operations with two different platforms and decided to relaunched it with us in a single ecommerce platform, resulting in a more consistent user experience, improving maintainability of the platform, leveraging all our out-of-the-box ecommerce features, including for example our quick order app which provides a frictionless process to place orders.

Embargosalobestia, a home appliance retailer in Spain with 20 physical stores chose us to help them with our robust omnichannel capabilities in order to scale-up their sales and unify their multiple sales channels. The company has been experiencing a high-growth trajectory over the last 5 years, in fact, they were recently included on the list of the top 1,000 highest growth companies in Europe by the Financial Times. Their in-house developed website was facing difficulties scaling up given their growth in SKU's. The customer wanted to grow both their physical and online operations, generating synergies between them, a clear need for robust omnichannel capabilities. They were also focused on improving the overall performance and usability of their website. They are now leveraging VTEX, improving their checkout statistics, conversion rates and other key ecommerce performance metrics while also building a true omnichannel strategy by integrating their physical stores and other sales channels.

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 28,000 in the second quarter of 2022 from more than 24,000 in the first quarter of 2022.

Wrapping up the operational update section, I would like to thank our 1,560 VTEXers that are working 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 second quarter of 2022.

This quarter our revenue increased to US$38.7 million, a YoY increase of 25% in USD and 20% on an FX neutral basis.

Subscription revenue reached US$36.6 million in the second quarter of 2022, from US$29.7 million in the same quarter last year, a YoY increase of 24% in USD and 17% on an FX neutral basis. This quarter subscription revenue accounted for 95% of total revenue versus 96% in the same quarter last year, explained by the implementation of our backlog which leads to increases in our services revenue.

Non-GAAP subscription gross profit was US$26.6 million, compared to US$20.4 million in the second quarter of 2021. Non-GAAP subscription gross margin was 72.5% in the second quarter of 2022, compared to 68.8% in the same quarter of 2021. The 370 bps YoY margin expansion reflects operational hosting improvements, as we migrate non-core hosting services and optimize our code's cloud and computing usage.

On top of the non-GAAP subscription gross margin expansion, we also improved our services gross margin, which led to overall non-GAAP gross profit reaching US$25.7 million, representing an YoY increase of 36% and a margin improvement of 510 bps.

Our non-GAAP total operating expenses increased to US$43.3 million in the second quarter of 2022 from US$29.4 million in the same period last year. This resulted in our Non-GAAP loss from operations to be US$17.5 million during the second quarter of 2022, compared to US$10.4 million in the second quarter of 2021. The increase in expenses and loss from operations were primarily due to VTEX Day and one-off layoff expenses, both accounting for slightly more than US$5 million with VTEX Day representing the majority of this amount. Along this line, and reinforcing Geraldo's previous comments, we expect not only to continue delivering gross margin improvements, but also to see significant operational leverage in our expenses in the second half of 2022.

Leverage on the expenses side will come from our already well-invested structure as well as a result of the hard decision of laying off 193 employees, a decision we handled with transparency, respect and utmost responsibility. Our end-market and business model make us confident in our ability to demonstrate attractive capital allocation, achieving top line growth for the many years to come . Our non-GAAP operating income margin from existing stores has ranged between 35% and 15% in 2020 and 2021, respectively, giving us a clear path to continue executing our growth plan while also seeing our potential operating margin opportunity.

As of the three months ended June 30, 2022, VTEX had a negative US$12.7 million free cash flow, compared to US$14.7 million negative free cash flow in the second quarter of 2021. Since the beginning of 2022, we've been working diligently to optimize our working capital, which resulted in an improvement in cash flow despite the one-off expenses already mentioned. This improvement in working capital is a result of operational improvements in our collection of receivables as well as procurement optimization in our prepaid expenses and accounts payables.

Regarding our future outlook, we continue to see macroeconomic uncertainty, impacting our new stores' average time to implement the VTEX Platform as well as generating volatility in our existing customers' GMV performance. We had a solid performance in Q2, and for the second half of the year we will continue focusing on helping our customers outperform the market while also improving our gross and operating income margins.

In the third quarter of 2022, although we are entering into cleaner comps, macroeconomic conditions remain uncertain. Therefore, we are currently targeting revenue in the US$37.0 million to US$38.0 million range for the third quarter of 2022, implying a YoY growth of 18% in USD and 20% on an FX neutral basis in the middle of the range.

For the full year 2022, despite the incremental volatility, we maintain our FX neutral YoY revenue growth target of 24% to 27%, implying a range of US$158-162 million based on July average FX rates.

VTEX is well positioned to navigate the current environment. We have clear visibility of our path to breakeven. We are capitalized, with over US$250 million liquidity in the balance sheet. Considering our excess liquidity after funding our organic growth plans, we see three key areas as potentially interesting capital allocation opportunities. We could use part of this capital to pursue M&A opportunities, although the bid and ask gap between public and private markets may pose short-term challenges over the medium and long-term this could be an interesting capital deployment opportunity. We could also use part of this capital to accelerate our international expansion, although in the early and intermediate stages of international expansion capital should be deployed with caution over the medium and long-term, as we see clear evidence of commercial traction, this could be an interesting capital allocation. Finally, as approved by our Board of Directors, we now have shares repurchases as an additional tool for capital deployment, which could be useful in moments of market dislocations. We will always diligently evaluate these options and allocate capital in the best interest of long-term shareholders of the company, based on the evaluation of market conditions and applicable legal requirements.

Wrapping up today's call. We are clearly adding value to our customers by helping them outperform the market. We continue to have a strong backlog undergoing implementation. We have an expanding gross margin and expect to deliver operating income margin improvement in the second half of the year. 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 what makes VTEX unique: our blue-chip and resilient customer base; the quality of our platform's technology, product and features; and a strong and difficult to replicate ecosystem.

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

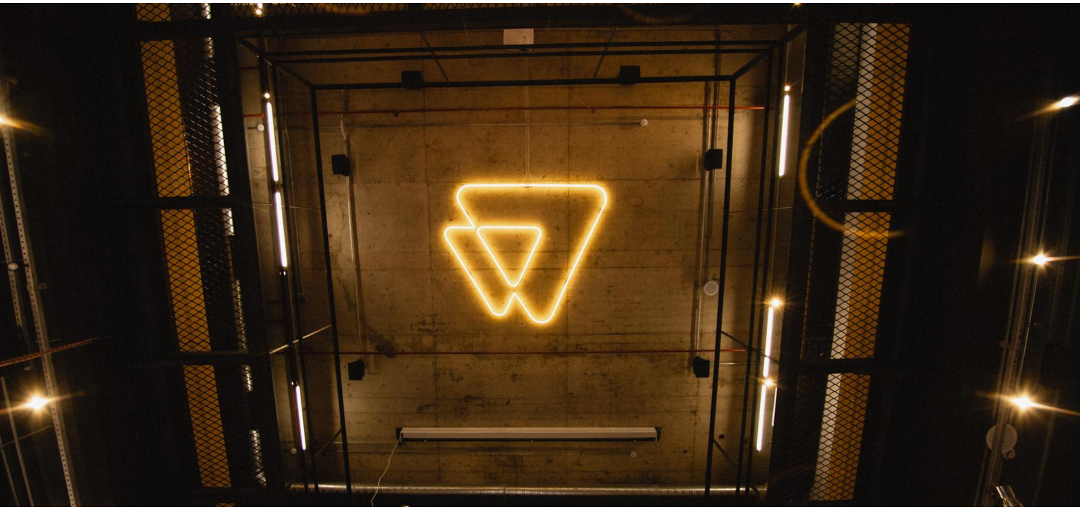
Closing Remarks- Geraldo Thomaz Jr.

We are encouraged about our results in the second quarter and excited about the results to come, as we are already seeing opportunities coming from the engineering, sales and product teams, with topline coming at a strong pace.

We can't control the macro, but we can for sure be bold in our actions in order to help our customers navigate this environment with the right set of tools to accelerate their businesses and thrive higher than the market growth. Our discipline in capital allocation will continue to translate into a high-growth company with an extraordinary commitment to its mission to become the backbone of commerce globally.

The opportunity we have ahead of us is huge. Ecommerce penetration in Latin America still has a long road ahead, while on top of that, our journey outside of the region is just starting. None of the fundamentals changed, enterprise brands and retailers need to partner with companies such as VTEX to build a proper omnichannel strategy in order to stay relevant. Stay tuned, the best is yet to come.

Thank you everyone for joining us today, I'm looking forward to updating you about our progress in our next earnings call.



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