VTEX
Third 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 September 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 third 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 third quarter 2022 earnings conference call.

Last quarter we shared three key focuses for the company: continue helping our customers outperform the market; keep improving our gross margin; and optimize our expenses to gain operational efficiencies. And, most importantly, all of that while we continue to deliver our high growth plans. With that as our north, let's deep dive on our operational performance this quarter.

We are excited to announce that our business continues to deliver robust growth, solidifying our position as a regional leader while also building momentum outside of Latin America. A clear demonstration of our robust growth is that in Q3 our GMV growth accelerated to 29% YoY both in USD and FX neutral. Given our blue-chip enterprise customer base, VTEX customers continue to outperform the market consistently, a long term historical trend that we have been highlighting with more emphasis for the last three quarters.

Not only did the GMV and topline come stronger than expected, but also both our costs and expenses came below as a result of a leaner and more agile organizational structure.

Our non-GAAP subscription gross margin increased by 560 bps YoY. The margin expansion trend that started in the second half of last year is a reflection of gradual code optimization, migration to more efficient servers operating systems and processors, optimization of non-core cloud providers, as well as operational leverage in our personnel support costs. Although there could be some gross margin volatility as we migrate non-core cloud providers, there is still a long road ahead on gross margin improvement and we are excited about what's to come in the medium and long term. We plan to continue optimizing our cost base, while at the same time pushing our service levels up to provide the best solution for our customers.

I'm extremely proud of what our team has accomplished on the expenses side. As anticipated in our previous earnings call, we delivered significant operational leverage. Our team's efforts enabled us to continue growing our topline at a robust pace, which is our main objective as a high growth company, while still finding incremental opportunities to operate our business with a leaner and more agile structure.

Now, moving to our commercial updates, in the third 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: Giassi B2B in Brazil, and Asics in Peru. Additionally, new customers that migrated from other platforms that went live this quarter were: Levis in Argentina, Vivara and Farma Delivery in Brazil, Belcorp in Colombia and Chile, Chedraui in Mexico, Claro in Peru, The Foschini Group in South Africa, and WH Candy in the US.



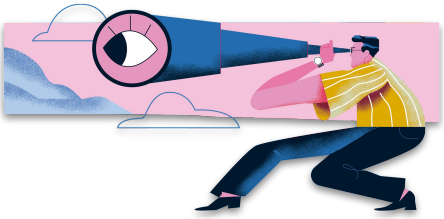
On top of that, we continued building entrenched, sticky relationships with our existing customers. Some premier brands and retailers that expanded their operations with us by opening new online stores in new countries during the third quarter were: H&M, adding a store in Uruguay, currently operating in 5 countries in Latin America; Motorola, adding a store in Saudi Nation, currently operating in 19 countries across the world with more than 20 stores; and Whirlpool, adding a store in Germany, currently operating in 16 countries across the world with more than 30 stores.

In the third quarter, VTEX was named a Visionary in the 2022 Gartner® Magic Quadrant™ for Digital Commerce report. This industry recognition follows the results we shared in the first quarter of this year, with customer recognition in the 2022 Gartner® Peer Insights™ 'Voice of the Customer': Digital Commerce report where VTEX was named a Strong Performer.

Additionally, in July of this year, Paradigm B2B released its yearly Combine reports, in which it evaluates ecommerce providers across key areas of interest for the B2B technology buyer. In 2022, VTEX was awarded medals in each one of the 12 categories that Paradigm assesses in the Midmarket Edition with gold medals for exceptional performance or capabilities in Marketplaces, Promotion Management, and Customer Service & Support. VTEX was the only vendor awarded a gold medal for Marketplace capabilities and scored silver medals, awarded to vendors with superior capabilities, in Site Search, Ability to Execute, Total Cost of Ownership, and Vision & Strategy.

We are grateful and humbled about the recognition from our multinational customers expanding their relationship with us by opening new stores as well as from market experts such as Gartner and Paradigm. This gives us the confidence and strength to continue pushing further with our strategic plans. We stay committed to continue executing with excellence and precision our vision. But, as we always say, we know we cannot do all this alone. We are certain that the multiplying force of collaboration from the ecosystem we've built around VTEX will continue to enable us to unlock even greater outcomes, so we'll continue to consistently nurture and expand those relationships.

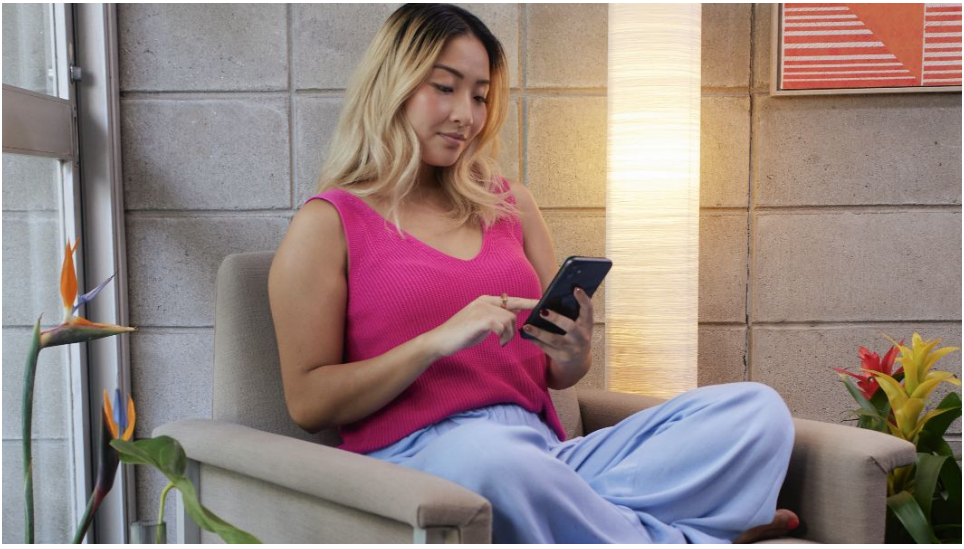
Aligned with our payments partnership strategy and the further monetization of our ecosystem, we are excited to announce that we launched a partnership with Checkout.com, a global Payment Service Provider and leading fintech in EMEA able to deal with the most relevant international and local payment methods, as well as digital wallets. They are a resourceful solution, especially in new markets for VTEX, like North America, Europe, Middle East, and Asia. Checkout.com's partnership agreement will enable international and local payment methods, nurturing a vast and solid ecosystem of partners and solutions and promoting better conversion for our enterprise customers.



Additionally, a couple of quarters ago we launched the news of our partnership with AWS. We are now happy to share that more than supporting VTEX, AWS is actively enabling our global expansion. As we become one of their preferred global partners, we are excited to announce that Belcorp is one customer, among others, that went live with us in the third quarter thanks to this partnership. We are extremely excited about this positive momentum and VTEX is really looking forward to continuing unlocking the potential of this partnership, as AWS is also committing themselves to invest along with us in our global expansion, especially in Europe. Great things are yet to come!

Before wrapping up I'd like to share with you some customer success stories, as their success speaks volumes more than any other data point. We don't innovate in a vacuum, and for us seeing how our four guiding pillars are helping our customers achieve their goals is more than fulfilling. Now, let me go straight to it!

The Foschini Group, one of the biggest fashion retailers in South Africa, with more than 4,000 stores, 29 brands and operations in 26 counties, is now operating with VTEX gradually rolling out their brands, which are expected to increase over time. With our solution, they will be able to centralize their 29 brands into a main marketplace, customizing the login process for their end users providing a frictionless consumer experience, while at the same time helping them to have a single source of truth for their multi brand sales process. We are more than pleased to welcome them to the VTEX family, we are confident that we are going to do amazing things together!

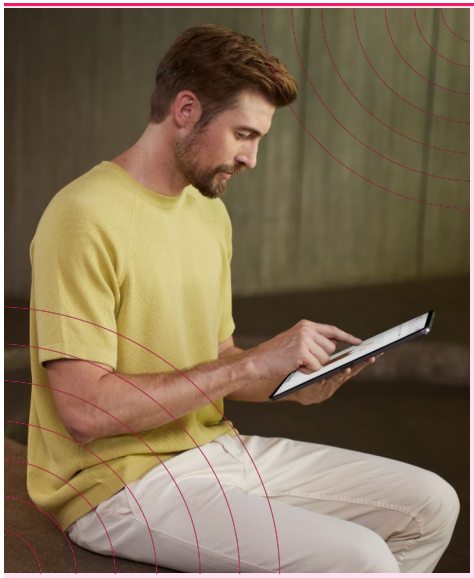


Erik's Bike Shop, one of the largest bike's shops in the US, with more than 30 physical stores across the country, chose VTEX to deliver a superior shopping experience to their online customers. VTEX worked hand in hand with Erik's Bike Shop to do a complete revamp of their homepage, and as a result our customer benefited from not only higher stickiness on their website, which was reflected in lower bouncing rated and higher number of pages viewed per visitor, but also with a double digits improvement in their conversion rates, session duration and number of pages viewed per user. Finally, their average order value almost doubled!

Hering, the leading textile and retail clothing company in Latin America, with more than 800 stores, chose VTEX headless approach to provide their end users with the best purchasing experience across all channels: proprietary stores, franchisees, multibrand third-party stores, ecommerce, as well as additional sales channels such as Facebook and Google Shopping. With us, Hering benefited from consistent improvements in all their website performance metrics, such as page speed times, conversion rates, average ticket size, bounce rates, cart abandonment rate, among others.

Motorola US, a pioneer in the mobile phone industry, optimized with VTEX their product detail page experience, keeping the look and feel while gaining efficiencies on their page loading time. We are happy to share that together we've been able to achieve an overall page loading time improvement of 45% and 54% for desktop and mobile respectively, reaching an average time of 1 to 2 seconds. Motorola now has active online stores in 19 countries operating with VTEX and continues expanding to new geographies, this year they expanded to EMEA and Asia Pacific, leveraging our marketplace architecture.

Blurring the lines between physical and digital commerce, we continue to see customers implementing our endless aisle product. This quarter we had companies such as Samsung and Zee.dog adopting this new wave that enables their physical stores to sell products from other stores, franchisees or their ecommerce operation to enhance conversion in their physical stores.



Social commerce continues to show a strong fit for enterprises to meet and sell to consumers, both on their preferred social media channels, or at a discovery stage of the product in live shopping events. Belcorp, a multi-level marketing beauty and personal care company, present in 13 countries with 3 commercial brands, is already a heavy user of this feature, which was one of the many reasons they decided to come to VTEX. We believe that offering this product can become an interesting engine of growth for VTEX adoption, as we position ourselves as innovation front runners across the globe.

This quarter we also had an important milestone, we hosted our first event in Mexico, VTEX Connect Latam. The event took place in Mexico City on September 7th, gathering more than 3 thousand in-person attendees, and with the participation of 56 speakers from 11 countries. We are proud to have hosted the largest ecommerce event in the country, which we believe marks a watershed moment for VTEX positioning in the country and in the region!

Wrapping up the operational update section, I would like to thank our 1,405 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 third quarter of 2022.

As highlighted by Geraldo, our Q3 GMV performance accelerated to 29% growth YoY both in USD and FX neutral. This is a clear demonstration of the resiliency of our blue-chip customer base and that we continue to help our customers to outperform the market. Breaking our GMV performance down in more details, in Q3 our existing customer's same store sales went up to the high teens, demonstrating a robust performance in a market that's currently delivering a flattish to single-digit growth rate. Also, it's important to note that some countries such as Mexico, the US and Europe grew at a stronger pace than the company's average, while more mature regions such as Brazil are still growing at a robust pace, just slightly below the overall company average. We expect these "new regions" to continue to compound and contribute to VTEX's high growth performance.

This quarter our revenue increased to US$38.8 million, a YoY increase of 22% both in USD and FX neutral. Subscription revenue reached US$36.5 million in the third quarter of 2022, from US$29.6 million in the same quarter last year, a YoY increase of 23% both in USD and FX neutral. This quarter, subscription revenue accounted for 94% of total revenue versus 93% in the same quarter last year.

Non-GAAP subscription gross profit was US$26.9 million, compared to US$20.2 million in the third quarter of 2021. Non-GAAP subscription gross margin was 73.8% in the third quarter of 2022, compared to 72.5% last quarter and 68.2% in the same quarter of 2021. The 560 bps YoY margin expansion shows the commitment of our team to keep improving our margins. This margin improvement was mostly driven by the migration of non-core services to more efficient hosting providers, and the optimization and operational leverage of our support costs. We are more than proud about what we achieved in this front, and excited about what's to come.

We've also continued improving our non-GAAP services gross margin, resulting in an even higher non-GAAP gross margin expansion, 670 bps YoY to be precise.

Our non-GAAP total operating expenses decreased to US$32.4 million in the third quarter of 2022 from US$43.3 million in the prior quarter and US$32.8 million in the same period last year. This is a reflection of the organizational restructuring we made last quarter, plus additional areas of leverage our teams were able to find.

As a result of the better than expected margin improvements, with the top line coming at a strong and robust pace, our non-GAAP operating income improved from a negative 41.6% margin in the same quarter last year to a negative 15.5% margin in the 3Q22. This represents a 26.1 p.p. improvement YoY.

As of the three months ended September 30, 2022, VTEX had a negative US$3.3 million free cash flow, compared to negative US$12.7 million in the prior quarter and negative US$10.7 million free cash flow in the third quarter of 2021.



Now, before I move to the outlook for the 4Q and FY2022, I would like to update you on the share repurchase program we approved in August of this year. As of September 30, 2022, the remaining balance available for share repurchases under this authorization is almost US$25 million. We've purchased slightly less than 1.3 million shares at an average price of $4.00 dollars per share. We expect to continue executing our plan based on the evaluation of market conditions and applicable legal requirements.

Moving on to our business outlook, macroeconomic conditions remain uncertain. We continue to see the elongation of our sales cycle in the average time our new customers are taking to implement the VTEX Platform. More recently, we are also seeing a slower GMV ramp-up for new customers. Finally, during Q4 we will have for the first time the combination of the FIFA's World Cup with the holiday shopping season, bringing additional uncertainty to the current macro scenario.

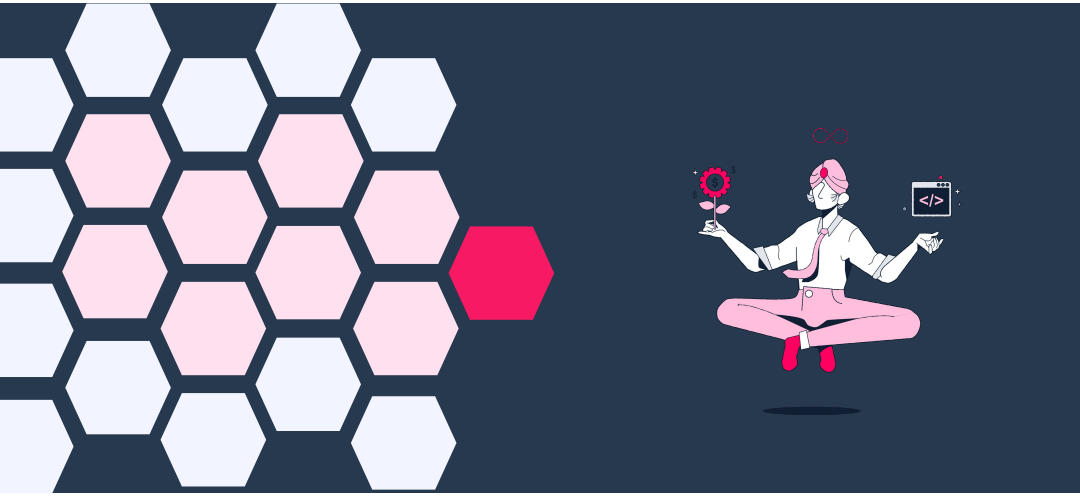
Against this challenging backdrop, we are currently targeting revenue in the US$46.0 million to US$48.0 million range for the fourth quarter of 2022, implying a YoY growth of 27% in USD and 24% on an FX neutral basis in the middle of the range.

For the full year 2022, considering the incremental macroeconomic volatility, we reduce our FX neutral YoY revenue growth target to 23% to 24%, implying a range of US$158 million to US$160 million based on October average FX rates.

We are excited to continue contributing to our blue-chip customers' digital transformation journey, helping them to accelerate their sales with the right set of tools and products. Our customer base continues to demonstrate their resiliency, even through the uncertain times we are currently navigating. We are also honored by our customers' continued trust in the VTEX Platform, demonstrated by our stable annual revenue churn. This results in a resilient business model for VTEX that will continue to compound growth in a sustainable and ambitious way.

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

Thank you.

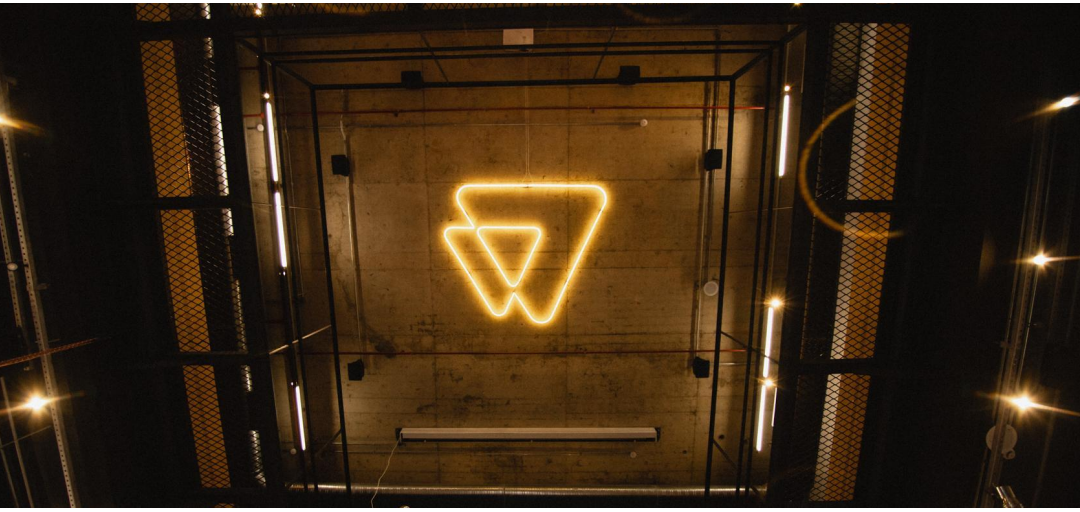


Closing Remarks- Geraldo Thomaz Jr.

The third quarter results have been achieved in a context of volatility and mixed macroeconomic performance globally. Under these circumstances and considering the consistent strong delivery of results from all VTEXers, it's clear to us the strong resilience of our business model and customer base. This gives us the conviction to continue to reliably execute our business plans. Also, it highlights the immense opportunity we have in front of us as ecommerce continues to penetrate the economies of Latin American countries and globally.

VTEX is demonstrating a clear path to become a relevant global player. We are still in the early stages of a long journey, and we are more convinced than ever in the value we are creating in this omnichannel era. VTEX has great potential in the years to come, we are excited to continue executing to deliver on our vision.

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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Contact

Julia Vater Fernández
Investor Relations Director
investors@vtex.com