VTEX
Fourth 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 December 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, Chief Financial Officer. Additionally, Mariano Gomide de Faria, founder and co-CEO, and Andre Spolidoro, Chief Strategy 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, 2022 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 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 fourth quarter 2022 earnings conference call.

2022 was a year filled with uncertainty and volatility for the industry. Still, despite the challenges, our customers' performance and business model demonstrated resilience and the ability to navigate the ever-changing environment smoothly. In 2022 ecommerce in Latin America grew single digit, while our GMV growth reached 31%, exceeding the market performance by more than 20pp. VTEX's customers SSS increased to 17% on an FXN basis, indicating that, in addition to the new customer adds, existing customers performed above the curve and contributed significantly to our outperformance versus the overall market.

As we move forward, our focus for 2023 is clear. We aim to consistently drive growth above market performance, improve our gross margin, and optimize expenses to gain operational efficiencies as we scale. Our goal is to provide a reliable solution for our customers, so they can solely focus on expanding their business while, at the same time, we continue to strengthen our comprehensive range of assisted sales products to enable our customers to grow their GMV.

Our global expansion journey is evolving, with solid steps made in the US and Europe. We also announced customers going to other countries such as India and South Africa this year. We expect to continue to deliver consistent and tangible results, aiming to become the global backbone of commerce.

Reflecting on the performance of the last quarter of 2022, we are delighted to report that our business has seen resilient growth. Although GMV and revenue were below our expectations, we have solidified our position as a regional leader and expanded our reach beyond Latin America. Specifically, in Q4, our GMV increased by 34% YoY in USD and 29% on an FX-neutral basis, reaching almost the US$4 billion mark in a quarter. That's more than our GMV for the entire year of 2019.

It is worth noting that the retail industry faced challenges during Q4 of 2022, due to lower-than-expected sales volumes around Black Friday and the holiday season. Despite being impacted by this trend, our business maintained strong performance, with Q4 SSS improving QoQ. This demonstrates our business's strength, resilience, and ability to navigate challenging macroeconomic environments.

Throughout our company's history, we have established solid and long-term relationships with our customers, as evidenced by the growing number of stores and countries per customer. In 2022, we were honored to have the trust of over 2,600 customers with a total of 3,400 stores across 38 countries. Our top 100 customers in 2022 averaged 5.9 stores per customer, with operations in 34 countries, an improvement from 4.8 stores per customer in 2021. In the fourth quarter, we kept making significant commercial progress. We are proud to have attracted and onboarded several premier brands and retailers.

In 4Q22, we added several new customers who previously did not have an online store presence in the countries they started operating with us. These include Reebok in Argentina, Brazil, Chile, Colombia and Peru, Superpão and Bretas in Brazil, Inpost Fresh in Poland, and Old Navy in Mexico. We've also added customers that migrated from other platforms. These include companies that went live in Q4, such as Oba Hortifruti in Brazil, Garmin in Colombia, Auchan in Romania, and Danone Font Vella in Spain. These brands are well-established in their respective markets, and we are excited to have them on board as they will help us expand our reach and strengthen our position in these regions.

In addition to attracting new customers, we also focused on strengthening our relationships with existing customers by supporting their expansion efforts. During the fourth quarter, several premier brands and retailers chose to expand their operations with us by opening new online stores and further integrating with us. These include: Belcorp, who added stores in Mexico and Peru, currently operating in 4 countries in Latin America; Electrolux, who added a store in Brazil, currently operating in 6 countries in Latin America; Samsung, who added B2B in Brazil, currently operating both B2C and B2B with us; and Carrefour, who integrated more than 150 physical stores into their omnichannel operations in Brazil.

These brands' decision to expand their operations with us is a testament to our platform's strength, relevant value proposition, and the trust we provide to our customers. We are excited to continue supporting them in reaching consumers in new geographies and leveraging their physical stores' asset base.

I would like to briefly mention a significant event this quarter: the Black Friday month, November. VTEX achieved a GMV of US$1.75 billion, an increase of 33% in USD compared to November 2021 and 27% on an FX Neutral basis. We were particularly proud of two accomplishments during the holiday season: the dependability of our network, which provided scalability, reliability, and security while giving our customers peace of mind with 100% uptime during Black Friday and Cyber Monday week; and the growth in volumes in countries such as Mexico and the United States, both of which joined the top five countries with the highest YoY GMV dollar increases among all VTEX countries, demonstrating international expansion tangible results.

2022 was a year where we were excited to announce many outstanding partnerships, such as the one with Adyen, AWS, EBANX, Facebook, Instagram, Mercado Libre, Mercado Pago, PayPal, Stripe and TikTok. In Q4 we added deals with Clear Sale, and Nuvei, among others.

We entered into a partnership agreement with ClearSale, a company specialized in digital anti-fraud solutions in Brazil and with global expansion ambitions. ClearSales' plugin gives our customers the peace of mind and trust to maintain high approval rates and avoid false positives. According to ClearSales, it increases average customers' approval rates by more than 10%.

With Nuvei we entered into a global partnership that will provide greater flexibility and customization for retailers as VTEX expands deeper into Latin America and new markets across Asia Pacific, North America and Europe. This new partnership is already available for VTEX's customers around the globe, retailers and brands benefit from Nuvei's advanced acceptance rate optimization capabilities, seamless onboarding, and a fully customized approach to accelerate their revenues.

Shifting to our customer success stories, I am eager to share with you some examples that demonstrate the capabilities of our platform and how our customers have achieved exceptional results.

A leading global kitchen and laundry appliances company, through its global account, has continued to expand its partnership with VTEX. Our global contract signed by VTEX US branch was a crucial factor in successfully launching their high-end home appliance brand operations in Europe. Our customer is now utilizing a composable approach in EMEA, with VTEX's new customized checkout solution, which allows customers to have more flexibility in their checkout page by leveraging VTEX's APIs with all store framework components. Their high-end home appliance brand fully adopted the headless approach in the front-end of its new ecommerce website for Ireland. With that, they can now select the tools they need to create a tailored user experience and quickly build content-rich shopping experiences without starting from scratch.

Motorola leveraged its global contract to launch its online store in India. The localization provided by VTEX in that region was crucial for their successful implementation, particularly due to the local regulatory compliance framework. On top of that, the easy integration of third parties helped Motorola to enable multiple 3PLs (third-party logistics). Motorola has also highlighted that the VTEX Customer Success team was extremely helpful in addressing all technical challenges without needing third-party vendors. They went live with a new homepage layout, including different banners and sections that were extremely easy to customize for their non-technical team. As a result, Motorola has benefited from a fast checkout process and an intuitive website navigation, which has increased its conversion rate.

We continue to attract new customers in Europe, including Auchan, one of the world's largest retailers, with a relevant presence across Europe, who went live with VTEX in Q4 to relaunch its online operations by introducing new features to enhance the customer experience in Romania. The new platform is more user-friendly and offers new integrated functionalities that can be accessed from any device, including fresh product delivery, along with new delivery and pickup locations. VTEX is also helping Auchan with website page loading speed and mobile adaptability. There are still more features for customers and user-generated content improvements to come. Auchan aims to provide a first class online shopping experience that complements what consumers already find in their physical stores by leveraging our solution.

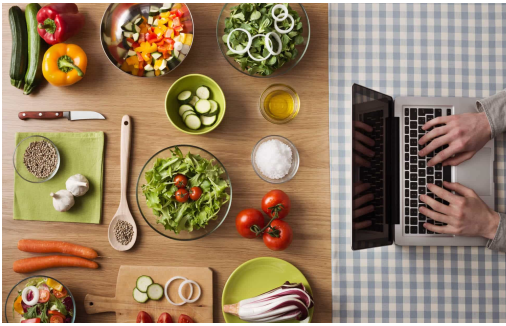
The grocery industry is undergoing a digital transformation, with ecommerce operations being the fastest-growing sub-sector, according to a report by Statista. VTEX, through its FastStore platform, has established itself as the go-to partner for retailers offering these types of services. It does this by leveraging its omnichannel capabilities and time-saving features for speed and flexibility, increasing efficiency, and boosting sales by integrating brick-and-mortar inventory and onboarding third-party sellers for a wider product selection with no added operational costs. Additionally, VTEX distributed order management system allows retailers and brands to handle complex fulfillment scenarios, leveraging multiple commerce channels to offer various delivery options while streamlining operations. This enables grocery ecommerce channels to provide fast in-store or curbside pick-up by assembling orders from multiple inventory sources such as the pick-up location, distribution center, or other brick-and-mortar stores, resulting in optimal fulfillment.

For example, Cencosud, a large conglomerate with a range of products from groceries to home improvement, trusts VTEX to run their 14 brands' operations. The company has been operating with us since 2016. With VTEX's new speed delivery filter capability, they increased their conversion rates, accelerating sales, and customer satisfaction levels. VTEX's highly customized solution is helping them to sort different categories and sections, improving their search tools, and modules to show the best promotions and delivery time for their customers.

Along these lines, Carrefour, a leading French multinational corporation specializing in retail, selected VTEX in 2020 to operate in Brazil, their second largest market worldwide, among other Latin American countries. Carrefour has a strong presence in Brazil, with 817 stores, including 241 hypermarkets and 41 supermarkets offering both grocery and non-grocery products. The company selected us to significantly improve its performance in order management, marketplace, and omnichannel services. This migration was made possible due to the scalability offered by VTEX, which allowed for seamless control of the vast number of SKUs in their catalog and the sheer volume of clients in their database. More recently in 4Q22, Carrefour integrated their physical stores with our OMS capabilities, including the ability to orchestrate multiple omnichannel strategies, personalized search based on previous purchases, click & collect options, improved home delivery services, and an integrated POS system, among others. These enhancements will leverage Carrefour's physical stores' asset base and undoubtedly lead to an improved customer experience and increased operational efficiency for Carrefour.

Our Live Shopping feature, a native live streaming application that enables brands and retailers to utilize the VTEX Commerce Platform to create engaging, one-to-many, or one-to-one live shopping experiences, is boosting engagement and conversion rates, attracting more customers to our base. This feature is opening up new growth opportunities for our customers by streamlining the process of starting, planning, managing, and monitoring the performance of live shopping events. This quarter, we had 302 events, a 21% increase quarter-over-quarter, and there were 912 events in 2022.

To conclude the operational update, I would like to express my gratitude to our 1,347 VTEX employees who are dedicated to making our declared future a reality, as well as to our customers, partners, and investors. I will now hand the call over to Ricardo to discuss our financial performance 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 2022.

As highlighted by Geraldo, our Q4 GMV performance reached 34% YoY in USD and 29% in FX neutral.

This quarter our revenue increased to US$45.5 million, a YoY increase of 23% in USD and 20% in FX neutral. Subscription revenue reached US$42.7 million in the fourth quarter of 2022, from US$34.5 million in the same quarter last year, a YoY increase of 24% in USD and 20% in FX neutral. This helped us achieve a revenue of $157.6 million for 2022, showing a 25% growth in USD and 22% on a FX neutral basis. Although below our expectations, given weak market performance during Black Friday week and the cancellation of the tax free day in Colombia, our relative performance versus the overall ecommerce market gives us confidence in our future growth projections.

Our revenue from existing stores increased to US$113.8 million in 2022, representing a net revenue retention of 105% on an FX neutral basis. When analyzing the number on an annual basis, we see a stable NRR compared to last year. Although still volatile, given macro uncertainty, the exit NRR pace for this year was higher than the annual average. This indicates that the NRR is returning to its historical rate of around 110%, driven by SSS approaching historical levels after many quarters of being impacted by tough Covid comps and physical stores reopening.

On top of our existing stores' growth, we continued attracting new stores, adding US$21.3 million in revenue to our base, representing 20% of our 2021 VTEX Platform revenue. Our sales efficiency, measured as new store revenues from the current year divided by the non-GAAP S&M expenses from the prior year, decreased this year, as we anticipated last year it would. Although that resulted in lower unit economics, our LTV/CAC remained healthy and still over 6x. The decrease is due to the fact that we invested during 2021 a higher portion in regions where our sales efficiency is lower, such as the US and Europe, accounting for 35% of S&M expenses. Additionally, and not part of our initial expectations, during 2022 we also experienced the elongations in our customers' implementation and ramp-up times, which also impacted this metric, pushing revenues further out, as mentioned in previous quarters. With that said, towards the end of 2022, we have already made meaningful adjustments in our S&M expenses to improve our sales efficiency ratio.

Among new customers, we are excited to announce that we continue to gain traction in the high-end of the market. Number of customers with revenue above US$250k per year reached 94, from 76 in 2021, and their number of stores reached 557, from 424 in 2021, representing a YoY increase of 24% and 31%, respectively. We have consistently demonstrated improvement in this metric, which we believe is the strongest validation of the suitability of our product for even the most demanding customers within this segment.

We continued expanding our geographical reach, with revenues outside Brazil accounting for 45% of our total revenues. In a 3-year FXN CAGR, Latin America (excluding Brazil) grew 57%, while the Rest of the World grew at 78%. Regarding our FX neutral YoY growth in 2022, Brazil grew 24%, Latin America (excluding Brazil) grew 14%, and Rest of the World grew 47%. The growth in Latin America ex-Brazil this year was influenced by a larger share of customers with relevant physical stores that were fully operational in 2022, which generated a re-balancing between their online and offline operations. Additionally, although Argentina saw lower growth rates given its macro situation, countries like Mexico are experiencing significant growth and gaining a larger share in the mix. Latin America holds immense potential. 2022 growth rates do not fully reflect it, especially as Mexico continues to gain momentum and 2023 starts to have cleaner YoY comps.

Now, moving down our P&L.

Non-GAAP subscription gross profit was US$31.4 million, compared to US$24.1 million in the fourth quarter of 2021. Non-GAAP subscription gross margin was 73.5% in the fourth quarter of 2022, compared to 69.9% in the same quarter of 2021. The 360 bps YoY margin expansion shows the commitment of our team to keep improving our margins. We've also continued improving our services non-GAAP gross margin, resulting in an even higher non-GAAP gross margin expansion, 514 bps YoY. Our performance has remained steady compared to last quarter's 73.8% non-GAAP subscription gross margin, declining only 30 bps. This is mainly due to us scaling our infrastructure to handle increased sales during Black Friday week and the "Dia sin IVA" event in Colombia, which did not materialize as expected. Despite this, we anticipate further improvements in 2023 as we continue to implement our migrations and code optimization plans.

Our non-GAAP total operating expenses decreased to US$29.1 million in the fourth quarter of 2022 from US$32.4 million in the prior quarter and US$36.5 million in the same period last year. The current results reflect the organizational restructuring we implemented in the second quarter of 2022, and further marginal optimizations found in the third and fourth quarters of 2022.

As a result of the better-than-expected gross margin improvements and controlled expenses, with the top line showing resilience, our non-GAAP operating income improved from a negative 29.3% margin in the same quarter last year to a positive 4.6% margin in the 4Q22. This represents a 33.9 p.p. improvement YoY. It's important to remember that the operational breakeven achieved in Q4 is not yet sustainable, as our industry experiences a positive seasonal trend during the fourth quarter, which has contributed to our current performance. With that in mind, we reaffirm that by the fourth quarter of 2023 we will be able to sustainably achieve positive non-GAAP operating income.

As of the three months ended December 31, 2022, VTEX had a positive US$2.5 million free cash flow, compared to a negative US$3.3 million free cash flow in the prior quarter and a negative US$21.3 million free cash flow in the fourth quarter of 2021. Our strong cash generation result this quarter was primarily driven by our strong operational P&L performance.

On the share repurchase program we approved in August of 2022, as of December 31, 2022, the remaining balance available for share repurchases under this authorization is almost US$17 million. We've purchased slightly less than 3.3 million shares at an average price of $3.90 dollars per share. We expect to continue executing our plan based on the evaluation of market conditions and applicable legal requirements.

Before moving to our Q1 and full year 2023 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 almost 85% of total revenues, while our new stores' revenue, also excluding our SMB Platform, represented approximately 15% of total revenues.

Comparing our P&L breakdown for 2022 and 2021, I'll like to make a couple of comments. This year our gross margin reached 67%, approximately 600 bps higher than the overall gross margin from 2021. It's noteworthy that both existing and new stores had significant improvements in their gross margin profiles, with existing stores showing 5 p.p. YoY improvement, and new stores reaching 10 p.p. YoY improvement in gross margin.

As previously discussed, we optimized our expenses in 2022, and even though we don't have yet a full-year clean P&L we can already see how operating margin for existing stores increased from 15% in 2021 to low 20's in 2022, as well as operational margin losses from new stores improved by 16 percentage points. As a result, we had an overall operational margin improvement of 11 percentage points YoY, with more to come this year, since we are exiting the year with our operational margin approaching a sustainable breakeven.

As we move forward with our business outlook, it is important to note that the macroeconomic conditions remain uncertain. Compared to historical averages, we continue to see an elongated sales cycle related to the increase in the average time to implement the VTEX platform and longer ramp-up times from new customers. Despite these challenges, which mostly impact our new stores' time to revenue, we remain confident in our ability to help our customers outperform the market and control our costs and expenses to deliver meaningful operational leverage.

Considering the uncertain macro conditions, we are currently targeting revenue in the US$41.0 million to US$41.5 million range for the first quarter of 2023, implying a YoY growth of 19% in USD and on an FX neutral basis in the middle of the range.

Also, given the persistent macroeconomic volatility, for the full year 2023 we target a FX neutral YoY revenue growth between 15% and 19%, implying a range of US$183 million to US$189 million based on February average FX rates.

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

Closing Remarks-
Geraldo Thomaz Jr.

In conclusion, while 2022 may have presented some challenges, we are optimistic about our ability to drive growth and overcome obstacles in 2023 despite the uncertain macroeconomic environment. We are committed to delivering exceptional service and support to our customers and expanding our operations in key regions. We look forward to the opportunities and progress that the new year will bring.

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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