

VTEX

First Quarter 2023

Conference Call Transcript



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, 2023. 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 first quarter 2023 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 2023 earnings conference call.

The year's first quarter has been promising, as we have experienced robust growth and successful implementation of strategies in all regions. This has further reinforced our leading position in the digital landscape of Latin America and enhanced our presence globally. It gives me great pleasure to share with you the strides we have made in establishing VTEX as one of the leading worldwide digital commerce platforms.

Despite the persistent challenges presented by the macroeconomic environment, we achieved a strong performance in the first quarter, with GMV growing by 22% YoY, a reflection of the resilient performance of our customers. The performance of our customers during this period allowed us to surpass our revenue projections while at the same time, we delivered QoQ subscription gross margin improvement.

In 1Q23, we added several new customers who previously did not have an online store presence in the countries they started operating with us. These include Prezunic, Todo Dia and Rede D'Or in Brazil, Intime in Chile, and Only Muebles in Colombia. We've also added customers that migrated from other platforms. These include companies that went live in Q1, such as Banco Provincia in Argentina, Whitebird in Canada, Easy in Colombia, Farmaenlace in Ecuador, Canali in Italy, Sonepar in Peru, Floria in Romania, and CornerUp in the US.

Going back to the 1Q23, in addition to attracting new customers, we also focused on strengthening our relationships with existing customers by supporting their expansion efforts. During the first 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 a store in Ecuador, currently operating in 6 countries in Latin America; CAE, who added two of its brands B2C stores in Canada operating with us both B2B and B2C in North America; Mazda who added Netherlands, currently operation in 6 countries in Europe; H&M, who added a store in Ecuador, currently operating in 5 countries in Latin America; Motorola who added a store in Singapore, currently operating in 20 countries across the globe; and Samsung is now present in 4 countries both B2B and B2C across the globe.

The decision of these brands to expand their operations with us is a testament to the strength of our platform, its relevant value proposition, and the trust we have built with our customers. We are excited to continue supporting them as they expand their reach into new geographies and leverage the assets of their physical stores.

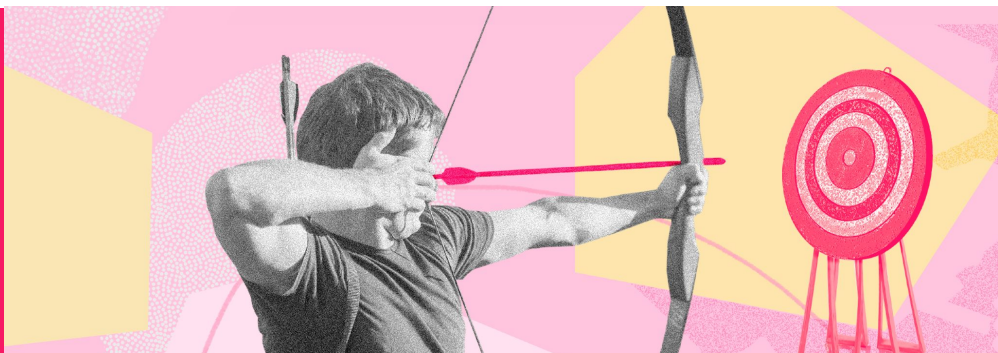


I would like to draw attention to a significant event in the 1Q23, the NRF Retail's Big Show, which brings together the most influential players in the retail industry to set trends and discuss the future of retail. The event was held in New York City and attracted over 6,000 retailers and 2,500 unique brands from over 90 countries. During the event, we positioned VTEX as a challenger brand focusing on profitable growth for our customers, highlighting our out-of-the-box capabilities and raising awareness among participants. Also, during the event, we announced the release of our proprietary whitepaper "Three Investments to Drive Ecommerce Growth" by VTEX's Analyst in Residence, Jordan Jewell, which I would like to invite you all to take a look at it, available at VTEX's homepage.

In 1Q23, we are excited to announce our partnership with Kount, an Equifax company, one of the most well-known credit bureaus globally. This partnership will allow us to offer our customers a world-class anti-fraud solution, further enhancing the security and reliability of our platform. This partnership will also be monetized through a profit-sharing approach with minimum monthly fees.

Finally, we are pleased to formally announce that we have initiated the monetization process of our ISV's partner ecosystem. To this end, we have successfully concluded agreements with key players such as Inswitch, an omnichannel 360 Fintech-as-a-Service, that will help our customers to implement digital financial services quickly and efficiently.

Although we do not foresee a significant contribution to revenue in the immediate future, these partnerships and other initiatives establish a strong groundwork for monetizing our ecosystem and the long-term revenue growth for VTEX.



Let me now share with you some success stories of our customers that demonstrate the capabilities of our platform and the remarkable outcomes they have achieved.

I'm thrilled to share Samsung's recent success in creating a data observability operation using VTEX IO. This project has allowed Samsung to improve its operational efficiency by more intelligently centralizing and integrating information from multiple channels. The project was initiated just two weeks before Black Friday 2022 and has since produced remarkable results for its digital commerce operation in Brazil. Relying on VTEX IO backend services and APIs, Samsung implemented various solutions, including pixel app templates, order feed and order hook, custom control dashboards, and an alert mechanism via Telegram. The result was a more proactive operation, informed decision-making, and an enhanced customer experience with better delivery quality and faster response times. Six months after implementation, Samsung saw a decrease in response time from four hours to forty minutes. With this success, Samsung continues developing innovative launch strategies and automation to improve inventory tracking and predict purchase flow, ensuring peace of mind for themselves, their partners, and end customers. Overall, this project has been a game-changer for Samsung and set a new operational excellence standard.

Claro, a leading telecommunications company in Latin America, chose VTEX's composable architecture as their digital commerce platform in Peru to simplify their current architecture and achieve a fast time-to-market. With our out-of-the-box features, Claro solved their business requirements, including marketplaces.

Divvino, one of Brazil's largest online wine platforms, selected VTEX to improve its front-end capabilities and ensure a frictionless migration for its subscribers. As a result, Divvino now has an internal marketplace and has increased its revenue channels by selling new products, such as wine accessories.

A high aesthetic wear brand operating in Saudi Arabia and the United Arab Emirates, chose VTEX for our headless implementation capabilities and flexibility to culture-specific product requirements. With our platform, they now have a catalog that enables multi-language product translations and the Checkout.com payment tool, which provides a better customer experience for their users.

Vital Mayorista, a large wholesale supermarket brand in Argentina, customized their checkout with different payment options with VTEX. Furthermore, the customer incorporated a shopping cart rule feature during the checkout process, enabling the implementation of purchasing rules for approving, canceling, or modifying online orders. This has assisted their consumers in adhering to the requirements necessary for completing the purchase, leading to an increase in conversion rates. With this key improvement, Vital has increased their orders by more than 140%.

Banco Provincia, a publicly listed bank in Argentina, selected VTEX as their technology partner due to our ability to handle complex architecture requirements, including adding sellers and implementing multiple internal and external integrations. VTEX's previous experience with similar customers, such as Banco Inter, made us a suitable choice for Banco Provincia. With VTEX's help, Banco Provincia successfully launched its platform, becoming a highly successful marketplace in Argentina, with a daily record of more than 10,000 orders. Although their journey is ongoing, Banco Provincia plans to double the number of sellers on their portal and expand their product catalog in various industries with VTEX's assistance. Their continued drive to enhance the platform will enable their growth and success.

Oba Hortifruti, a grocery chain with more than 70 stores and 2 distribution centers in Brazil, chose VTEX's omnichannel strategy to leverage sales opportunities. With our features, such as shipping from store and pick up in store, Oba improved their logistics and customized their website's user experience.

Jeffers Pet, an online pet retailer in the USA that operates in B2C and B2B models, chose VTEX to strengthen its customer experience and increase sales using our Live Shopping feature. Our customer has experienced a significant increase in their conversion rates during live events, doubling their average sales volume during these sessions.

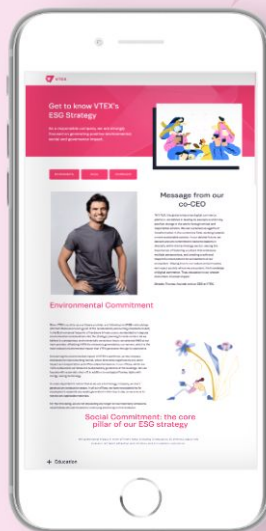
I also want to share an update on the Cia. Hering case, a major Brazilian fashion group with over 800 physical stores. Recapping, they replatformed to VTEX in only three months, focusing the process on growth and website performance. The replatforming process provided our customer with a fully customizable storefront, faster user experience, improved checkout experience, and first-party apps and multiple channel integrations. As a result, the company saw already a 30% increase in their average order value and a 40% decrease in their abandoned carts.

To conclude the operational update, I would like to inform you that our ESG framework has been made available on our IR website, highlighting all the initiatives VTEX has implemented and supported in this regard. At VTEX, we believe in leading by example and driving positive change in the world through ethical and responsible actions. We see ourselves as agents of transformation in the commerce field, working towards a more sustainable society. In our desired future, we declare and are committed to become leaders in diversity within the technology sector, valuing the importance of fostering a culture that embraces multiple perspectives and creating a safe and respectful environment for all members of our ecosystem.

I now would like to express my gratitude to our 1,339 VTEX employees who are dedicated to making our declared future a reality, as well as to our customers, partners, and investors.

Before I'll turn the call to Ricardo, I'm happy to inform you all that we'll be hosting the VTEX Day, the largest ecommerce event in Latin America and third globally, on June 5th and 6th in Sao Paulo. I'm excited to invite you to come and experience the VTEX culture and witness the strength of our ecosystem at this magnificent event. Additionally, on June 6th, we'll be holding a Q&A session for investors, where Mariano and I will answer audience questions and exchange ideas. If you are interested in participating on this session, contact Julia and she will provide all the details. We would be delighted to have you join us!

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, I am pleased to share VTEX's Q1 2023 financial results with you.

Despite the challenging macroeconomic environment, our company's top-line performance remained robust. As highlighted by Geraldo, our Q1 GMV achieved 22% YoY growth in USD and 21% growth on an FX-neutral basis. Our Q1 revenue exceeded expectations and surpassed the upper end of our guidance, reaching US\$42.3 million and reflecting a YoY increase of 22% in USD and 22% on an FX-neutral basis. This outcome clearly demonstrates the resilience of our blue-chip customer base, and we are reassured to observe that we are continuing to assist our customers in outperforming the market.

Double-clicking on our topline, our subscription revenue reached US\$39.8 million in the first quarter of 2023, from US\$32.6 million in the same quarter last year, a YoY increase of 22% in USD and 22% on an FX neutral. Our services revenue reached US\$2.5 million in the first quarter of 2023, from US\$2.1 million in the same quarter last year, a YoY increase of 21% in USD and 28% on an FX neutral.

Even with seasonality being a headwind this quarter, our subscription gross margin was slightly better than last quarter's. Our non-GAAP subscription gross profit was US\$29.4 million, compared to US\$22.7 million in the first quarter of 2022. Non-GAAP subscription gross margin was 73.9% in the first quarter of 2023, compared to 73.5% last quarter and 69.6% in the same quarter of 2022. The 430 bps YoY margin expansion shows the commitment of our team to keep improving our margins. This margin improvement was driven mainly 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 of what we have achieved in this front and excited about what is to come.

We delivered a YoY improvement of 190bps on our overall gross margin in Q1. We are working on a few implementations in the US and Europe, where we have proactively invested in our services offering to ensure successful go-lives. By design, this impacted our services gross margin and, therefore, our overall gross margin experienced a slight decline QoQ. While this commercial decision may have a small impact on our gross margin in the short term, it will position us better in newer regions in the medium to long term, enabling us to implement new customers smoothly and successfully.

Our non-GAAP total operating expenses reached US\$31.9 million in the first quarter of 2023 from US\$29.1 million in the prior quarter and US\$35.9 million in the same period last year. The YoY improvement reflects the organizational restructuring we made over the past couple of quarters.

As a result of the better than expected margin improvements, with the top line coming at a robust pace, our non-GAAP operating income improved from a negative 39.5% margin in the same quarter last year to a negative 9.7% margin in the 1Q23. This represents 30 p.p. improvement YoY.

As of the three months ended March 31, 2023, VTEX had a negative US\$5.0 million free cash flow, compared to positive US\$2.5 million in the prior quarter and negative US\$16.1 million free cash flow in the first quarter of 2022.



Before I move to the outlook for the 2Q and FY2023, I would like to update you on the share repurchase program approved in August of last year. As of March 31, 2023, the remaining balance under this authorization was nearly US\$12 million. We've purchased 4.6 million shares at an average price of \$3.91 dollars per share. We expect to continue executing our plan based on the evaluation of market conditions and applicable legal requirements.

Looking ahead, while macroeconomic conditions remain uncertain, we are pleased with the resiliency of our results. We are confident in our ability to navigate these uncertainties and remain committed to supporting our customers through every step of their journey.

We are currently targeting revenue in the US\$45.0 million to US\$45.8 million range for the second quarter of 2023, implying a YoY growth of 19% on an FX neutral basis in the middle of the range.

For the full year 2023, considering the current performance of the company, we are increasing the bottom of the range, now targeting the full year to end between 16% and 19% on an FX neutral YoY base, implying a range of US\$185 million to US\$190 million based on year to date average FX rates.

In conclusion, we remain committed to our customer's digital transformation journey and supporting them with the appropriate set of tools and products. Despite the uncertain times we are currently facing, our customer base continues to show its resilience. We are grateful for our customers' unwavering trust in the VTEX Platform, which is evident through our consistently low annual revenue churn. This has resulted in a robust business model for VTEX that will continue to generate growth in a sustainable and ambitious manner.

As we continue executing on our strategy for profitable growth, we anticipate a substantial YoY expansion in our non-GAAP operating income margins in the second quarter of 2023, followed by incremental improvements in the second half of the year. Our commitment to delivering value for our customers, partners, and shareholders has never been stronger, and we are excited about the opportunities ahead.

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

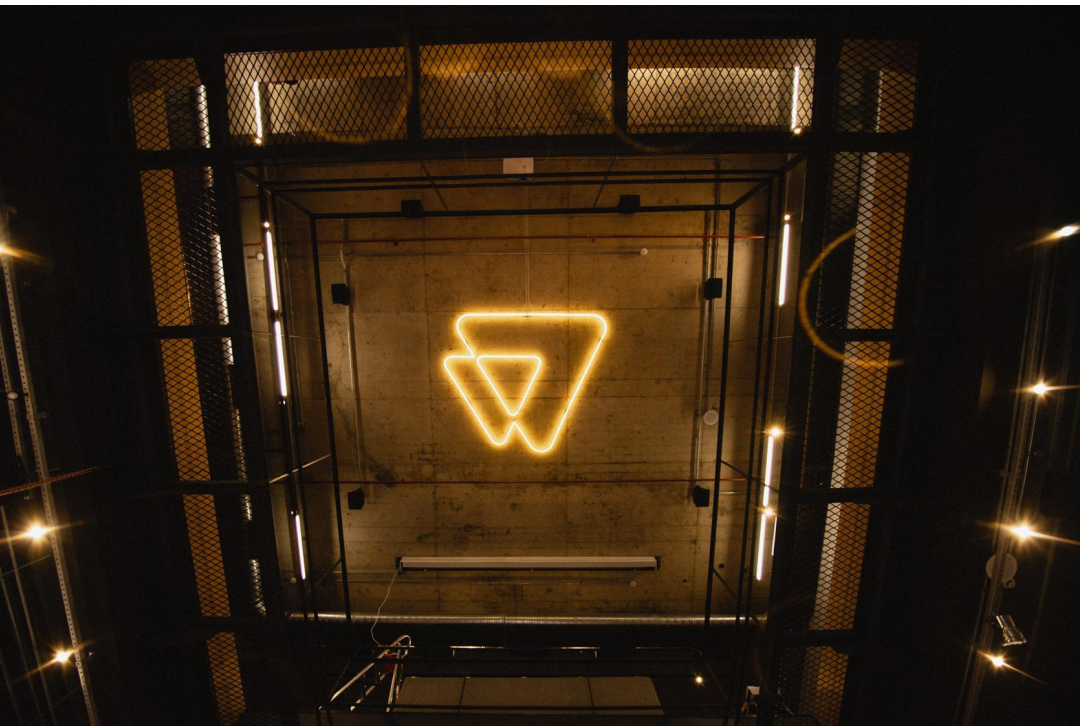


Closing Remarks- Geraldo Thomaz Jr.

To conclude the earnings call, I would like to thank everyone who joined us today for our first quarter 2023 earnings conference call. We are thrilled to share our successes from the past quarter, which include robust growth and successful implementation of strategies in all regions, further reinforcing our leading position in the digital landscape of Latin America and enhancing our presence globally.

We have experienced an increase in GMV by 22% YoY, which reflects our customers' resilient performance, even in challenging times. We have also expanded our customer base, adding several new customers and strengthening our relationships with existing ones. I'm looking forward to keeping you updated on new customer adds across the year; great things are about to come!

We continue to be excited about our path of being the backbone for connected commerce. Thank you again for your continued support, and we look forward to your participation in our future updates. You may now disconnect.



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