VTEX
Second Quarter 2023
Conference Call Transcript

Introduction and Disclaimer
Investor Relations

Hello everyone, and welcome to the VTEX earnings conference call for the quarter ended June 30th, 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 second 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 second quarter 2023 earnings conference call.

In the past few months, we have witnessed significant milestones and exciting events that have propelled us forward. From the successful celebration of VTEX DAY, our commercial event that gathered over 20,000 attendees per day and where we announced the launch of five new products with excellent customer reception, to our first-time-ever Investor Day on the second anniversary of our IPO. For those who didn't have the chance to connect to our Investor Day, I highly recommend you take a look at the audio recording available on our investor relations website. As we embark on this earnings call, I am thrilled to provide an update on our performance during the second quarter.

I am pleased to announce that our company has demonstrated remarkable resilience and achieved a strong performance in the second quarter. Our GMV experienced a significant 23.4% YoY growth. This growth is a testament of VTEX's strong value proposition that continues to attract new customers to our platform. Moreover, despite the challenging macroeconomic scenario, our existing customers continue to outperform the market, with SSS remaining in the teens range, although slightly below historical levels.

Additionally, not only have we exceeded our revenue projections, reaching almost US$48 million this quarter, but we have also successfully maintained leverage across all our cost and expense centers. Despite the demanding environment, our team's unwavering dedication and strategic decision-making have allowed us to thrive and deliver exceptional results. Thanks to it, every quarter, we feel closer to our goal of becoming the backbone of connected commerce, the platform that powers unified commerce experiences for businesses around the globe.

Now, let's delve into specifics. In Q2, we added several new customers that migrated from other platforms, including Springer Carrier and Privalia in Brazil; Riviera Bike and ProBeauty in Romania; Supermercados Internacionales HEB in Mexico; New Zealand Wine Cellars in New Zealand; and Kayser Roth in the US.

In addition to attracting new customers, we also focused on strengthening our relationships with existing customers by supporting their expansion efforts. During the second 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 Panamá, currently operating in Latin America in countries such as Mexico, Colombia and Chile, among others; Tommy Hilfiger, who added a store in Costa Rica, currently operating in Latin America, in countries such as Brazil, Mexico, and Colombia, among others; and Whirlpool, who added stores in Mexico, Spain and Sweden, now operating in Latin America, EMEA and APAC, in countries such as Brazil, Italy, India, and Singapore, among others.

The decision of these brands to expand their operations with us serves as a testament to the strength of our platform and its compelling value proposition, which has fostered trust and loyalty among our customers. We take immense pride in being the partner of choice for their ambitious growth plans. We are thrilled to offer unwavering support, leveraging the assets of their physical stores to maximize their potential. Upselling the right features and products is at the forefront of our strategy, empowering our customers to accelerate their growth and enhance operational efficiency. Our commitment lies in helping them surpass the overall market expectations, and we are dedicated to accompanying them on their profitable growth journey every step of the way.

We are proud to share that VTEX was awarded medals in all 24 categories of the 2023 Paradigm B2B Combine: Enterprise and Midmarket Editions. We received gold medals in Customer Service and Support; Integrations, Operations and Infrastructure; Marketplaces and Promotions Management. A standing point is that we were the sole vendor to achieve a gold medal for the marketplace product capability in both reports, solidifying our position as a top choice for enterprise B2B companies.

On top of all the Investor's Day customer cases, let me share some incremental success stories that demonstrate the capabilities of our platform and the remarkable outcomes they have achieved.

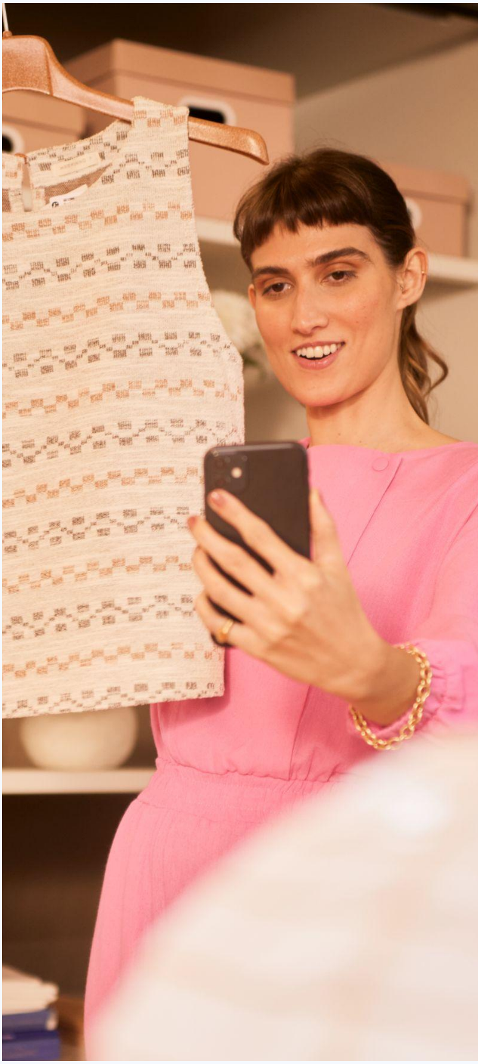
My Geisha, the renowned beauty brand with a presence in 13 countries and over 58 stores, partnered with VTEX in Romania to propel its online sales growth. By leveraging our marketplace solution, My Geisha diversified its sales channels and expanded its reach by offering complimentary beauty products. Furthermore, we worked closely with them to customize the front end of its site, resulting in a staggering seven-fold increase in online sales. This collaboration accelerated its ecommerce success and solidified its brand's position in the competitive beauty industry.

Midea, a prominent Chinese electrical appliances manufacturer with a vast global footprint comprising 200 subsidiaries and over 60 overseas branches, turned to VTEX for scalable solutions and improved business performance in Brazil. Midea successfully implemented critical features such as catalog management, pricing optimization, and promotional tools through our out-of-the-box solutions. The results were impressive, with Midea achieving a remarkable 10% increase in overall conversion rates, a 40% boost in organic revenue, an 8% rise in mobile conversion rates, and a significant 13% reduction in bounce rates after their migration to VTEX. This partnership exemplifies how VTEX empowers businesses to unlock its potential and thrive in targeted markets.

Kopenhagen, a leading premium chocolate brand under the CRM Group in Brazil, harnessed the power of VTEX's omnichannel architecture to enhance its sales during the Easter season. Leveraging our platform, the CRM Group achieved a remarkable 20% increase in sales by seamlessly integrating its physical stores and franchisees into its ecommerce operations. This integration allowed for expedited delivery options and boosted customer satisfaction. Additionally, Kopenhagen experienced a 50% surge in in-store pickups, a 55% growth in sales from loyal customers, and an influx of 2 million customer contacts via WhatsApp. VTEX's comprehensive solutions proved instrumental in driving Kopenhagen's growth and delivering an exceptional customer experience.

A global sportswear giant and a key player in the local market, selected VTEX in Latin America to enhance customer experience and safeguard against reseller attacks. Utilizing VTEX's customizable checkout process, they integrated anti-fraud protocols to thoroughly assess orders across both the web and user interface channels, pre- and post-order creation. This proactive approach empowered our customer to manage potential attacks more effectively, enhancing security and customer satisfaction. Through this collaboration, VTEX enabled them to protect its limited-edition SKUs and provide consumers an exceptional online shopping experience.

Williamson Balfour Motors, a BMW dealer in Chile, partnered with VTEX to successfully transition its automotive ecommerce to cater to customers' needs through digital channels. By implementing platforms for BMW, MINI, and BMW Motorrad, they provided a tailored online shopping experience. Overcoming automation challenges, BMW utilized VTEX's user-friendly and comprehensive tools, allowing various business areas to participate. Looking ahead, BMW plans to enhance its platform and offer customers an even more convenient experience, bringing the option of vehicle reservations closer to them. This transformation in the automotive industry enables customers to purchase cars from the comfort of their homes, thanks to advancements in digitalization and seamless communication with sales representatives.



Iguatemi 365, a luxury marketplace representing over 200 national and international brands from Brazil's renowned Iguatemi network of luxury malls, leveraged VTEX FastStore to optimize its website's performance. By implementing our solutions, Iguatemi 365 achieved impressive results in core performance metrics, including making the page much more stable with a remarkable 92% reduction in shifting content, ensuring smoother interactions with an 81% decrease in input delays, and making the overall loading experience faster with a 27% improvement in displaying the main content. These substantial improvements enhance user experience and solidify Iguatemi 365's position as a premier destination for luxury shopping in Brazil.

Metatools, a leading company in the DIY industry, partnered with VTEX in Germany, Italy, and Romania to launch the e-bricoshop.ro marketplace. With an estimated 50 major merchants and brands with a minimum of 100,000 SKUs listed expected in the first year, Metatools aims to promote Romanian companies and drive business growth. The marketplace will offer a wide range of products, including power tools, gardening equipment, cleaning supplies, and more. By partnering with VTEX, Metatools has built a user-friendly platform that allows for easy expansion and international

scalability. The e-bricoshop.ro marketplace aims to cater to DIY enthusiasts and professionals, connecting them with quality products and fostering a sense of community.

In addition to the remarkable customer success cases, I am delighted to share with you that during our Investor Day, we had the privilege of hosting a panel with Hisham Faour, Principal of Transformation & Portfolio Operations at Carlyle Group, the controlling shareholder of Beauty Counter, our recently announced new customer in the US. We also had the pleasure to announce Casino in France and Hearst in the US as our new customers during our Investor Day. These esteemed brands have chosen VTEX as their trusted digital commerce platform. They are expected to go live progressively in the coming quarters. Their decision to partner with VTEX holds significant importance, and it is worth delving into the reasons behind their choice. By selecting VTEX, these forward-thinking companies recognize our platform's unparalleled value and robust capabilities, including its scalability, flexibility, and ability to seamlessly support their expansion into new markets. We are excited to accompany Beauty Counter, Casino and Hearst on their journey and we are confident that our partnership will yield exceptional results.

Our global expansion journey has been progressing, and these additions to our growing list of esteemed customers are a solid step in our journey. We take great pride in our efforts to provide cutting-edge solutions that empower businesses to embrace digital transformation, which industry leaders have also recognized. We believe that as we continue to onboard new customers such as Beauty Counter, Casino and Hearst, we will pave the way across the globe to achieve our mission to become the backbone for connected commerce.

I now would like to express my gratitude to our 1,305 VTEX employees who are dedicated to making our declared future a reality and 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

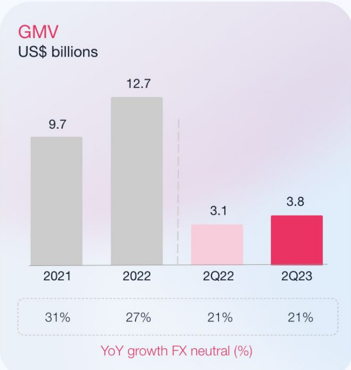
Thank you, Geraldo. Hi everyone, I am pleased to share VTEX's Q2 2023 financial results with you.

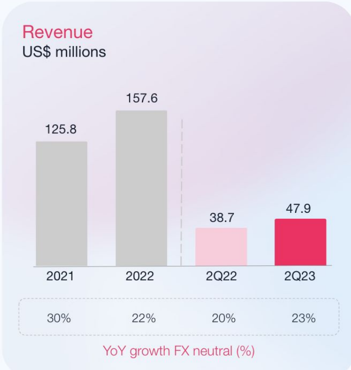
I'm excited to share that, once again, our company's top-line performance was robust. As highlighted by Geraldo, our Q2 GMV growth achieved 23.4% in USD and 21.2% on an FX neutral basis. Our Q2 revenue exceeded expectations, surpassing the upper end of our guidance, reaching US$47.9 million and reflecting a YoY increase of 23.7% in USD and 22.9% on an FX-neutral basis. This outcome demonstrates our ability to attract new customers to the VTEX platform and the resilience of our blue-chip customer base. We are reassured to observe that we are continuing to assist our customers in outperforming the market.

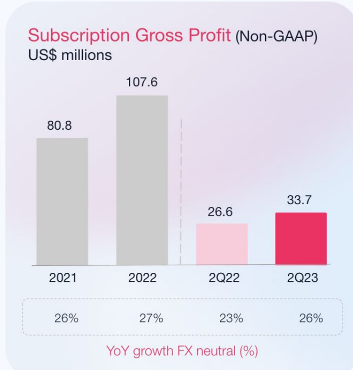
Double-clicking on our topline, our subscription revenue reached US$44.8 million in the second quarter of 2023, from US$36.6 million in the same quarter last year, a YoY increase of 22.2% in USD and 21.4% on an FX-neutral basis. Our services revenue reached US$3.1 million in the second quarter of 2023, from US$2.1 million in the same quarter last year, a significant YoY increase given the new projects that are under implementation.

Our subscription gross margin also improved versus previous quarters'. Our non-GAAP subscription gross profit was US$33.7 million, compared to US$26.6 million in the second quarter of 2022. Non-GAAP subscription gross margin was 75.3% in the second quarter of 2023, compared to 73.9% last quarter and 72.5% in the same quarter of 2022. The 280 bps YoY margin expansion shows the commitment of our team to keep improving our margins. This margin improvement was driven mainly by migrating non-core services to more efficient hosting providers and the optimization and operational leverage of our support costs. We are proud of what we have achieved on this front and excited about what is to come.

Solid growth and SaaS metrics with an attractive business model: we grow by enabling our customers to grow







VTEX

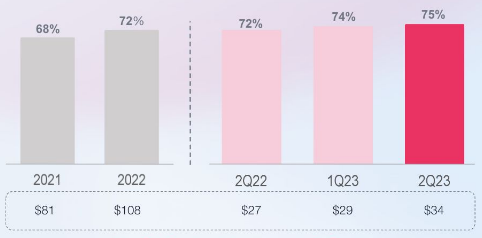
We delivered a YoY improvement of more than 120 bps on our overall gross margin in Q2. We continue working on a few implementations in the US and Europe, such as the ones mentioned priorly, Beauty Counter, Casino and Hearst, where we are proactively investing in our services offering to ensure successful go-lives. By design, this impacted our service's gross margin and, therefore, our overall gross margin. Even though this quarter we've delivered an improvement in services gross margin versus last quarter, we anticipate this commercial decision to still have some impact on our gross margin in the short term as 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$34.1 million in the second quarter of 2023 from US$31.9 million in the prior quarter and US$43.3 million in the same period last year. The YoY improvement reflects the organizational restructuring we made over the past year. The QoQ increase in expenses is mainly attributed to the foreign exchange appreciation of the Brazilian Real, as most of our payroll in R&D and G&A is based in Brazil. Other drivers that also impacted our expenses, to a smaller extent, were the annual salary increase in the R&D team, and a minor impact from the VTEX DAY event, whose efficiency improved significantly compared to the previous year.

Subscription gross margin continues to grow
Leaner and agile organizational structure to capture the ecommerce market opportunity

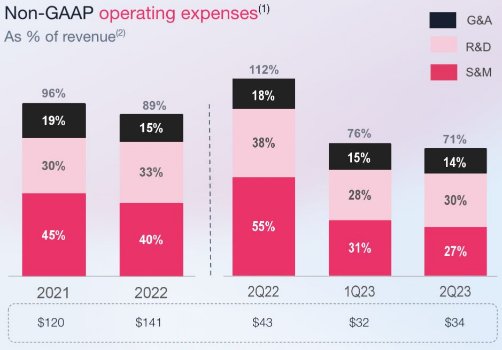
Non-GAAP subscription gross profit(1)

As % of subscription revenue



Non-GAAP operating expenses(1)

As % of revenue(2)



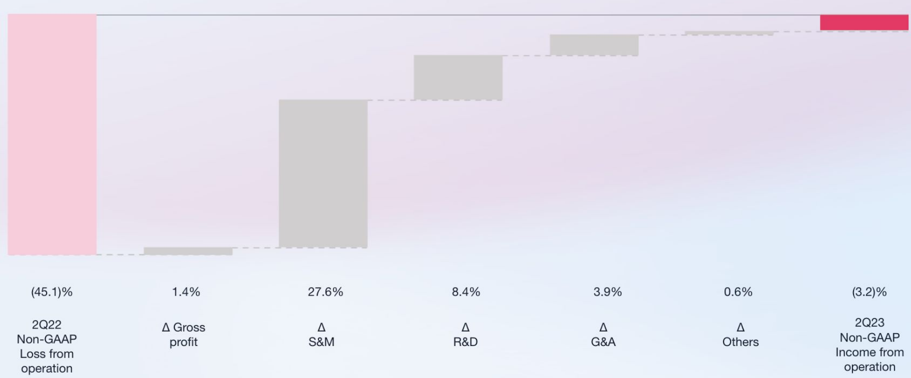
Thanks to our diligent expense management and strong revenue growth, our non-GAAP operating income showed significant improvement. In the second quarter of 2023, we achieved a negative 3.2% margin, a remarkable improvement from the negative 45.1% margin recorded in the same quarter last year. This represents an impressive YoY improvement of 42 percentage points. Furthermore, on a QoQ basis, we saw a 6.5 percentage point improvement in our non-GAAP operating income margin. These positive trends highlight our commitment to enhancing profitability and strengthening financial performance, while still delivering high revenue growth.

As of the three months ended June 30, 2023, VTEX had a negative US$3.3 million free cash flow, compared to negative US$5.0 million in the prior quarter and negative US$12.7 million free cash flow in the same quarter of the prior year. Also demonstrating operational efficiency from a cash flow perspective.

Before I move to the outlook for Q3 and FY2023, I would like to update you on the share repurchase program approved in August last year. As of June 30, 2023, the remaining balance under this authorization was nearly US$3.5 million. We've purchased 6.7 million shares at an average price of $3.93 dollars per share.

Today, we are pleased to inform our investors that VTEX's Board of Directors has approved another 1-year share repurchase program for VTEX's Class A Common Shares, up to US$20.0 million. The decision on the timing and quantity of shares repurchased, if any, will be at the discretion of our management, taking into consideration market conditions and other relevant factors. This move reflects our confidence in the company's financial position and our commitment to delivering long-term value to our shareholders.

Non-GAAP income (loss) from operations bridge
YoY margin increase was mostly driven by VTEX revenue growth



Looking ahead, we are excited by VTEX's adaptability and ability to thrive. Despite the uncertain macro, VTEX has consistently outperformed the market while also delivering robust long-term performance metrics.

We are currently targeting revenue in the US$48.2 million to US$49.0 million range for the third 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 and the top of the range, now targeting the full year to end between 18% to 20% on an FX-neutral YoY basis, implying a range of US$191 million to US$195 million based on Q2 average FX rates.

As we continue executing on our strategy for profitable growth, we anticipate relevant YoY improvements in non-GAAP operating income margin in the second half of 2023.

We are confident in VTEX's unique value proposition, centered around enabling our customers to achieve profitability and sustainable growth by reducing total cost of ownership and simplifying their commerce architecture. We will continue to execute the integration of ecommerce with physical stores, delivering omnichannel excellence that enables us to deliver the rapid growth and profitability that our customers seek. We remain focused on adapting to market conditions, providing innovative solutions, and capitalizing on emerging opportunities to drive sustained success for our valued customers, partners, employees and investors. We are excited about the opportunities ahead.

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

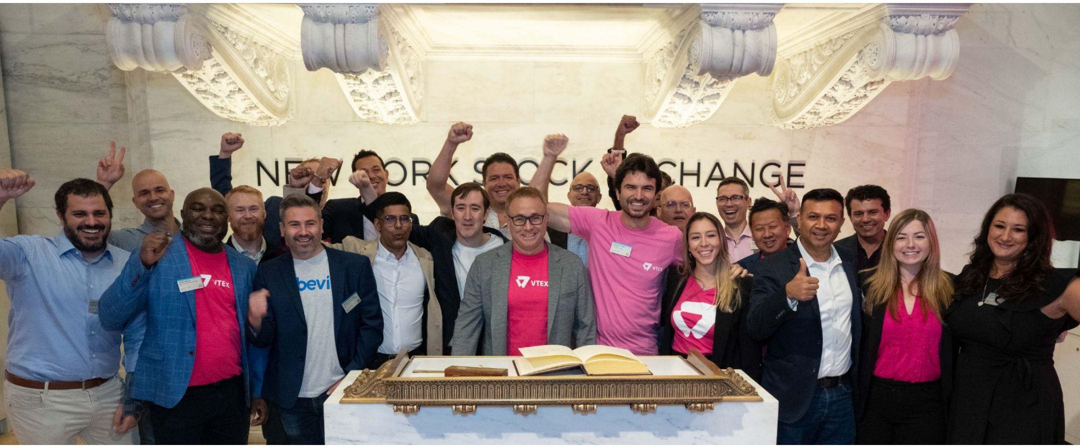
Closing Remarks
Geraldo Thomaz Jr.

The collective efforts of our dedicated team, loyal customers, and partners have propelled us to new heights in commerce transformation. Our customer base has consistently showcased remarkable resilience, serving as a testament to the strength and reliability of the VTEX Platform. The consistent low annual revenue churn we have experienced highlights the unwavering trust our customers place in us. This, in turn, has enabled us to foster a robust and sustainable business model, positioning us for continued growth.

The macroeconomic environment poses a huge challenge for enterprises and retailers to meet their operational and financial targets. This represents an opportunity for VTEX. Legacy players, dominants in the past, are now considered outdated providers that enterprises and retailers actively seek to migrate away. On the other hand, emerging headless players aren't the best option either as even though they offer great customization, it comes with complexity and high operating costs. We stand out by offering a composable and complete platform that combines the best of both worlds, with an offering that solves just about what enterprises and retailers are looking for.

Together, we are shaping remarkable customer experiences and solidifying our position as leaders in the commerce industry.

Thank you, everyone, for joining us today. We look forward to keeping you updated at our next earnings call. Have a wonderful week!



Thank you!

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