VTEX
Third Quarter 2023
Conference Call Transcript



Introduction and Disclaimer
Investor Relations

Hello everyone, and welcome to the VTEX earnings conference call for the quarter ended September 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 third quarter 2023 earnings press release available on our investor relations website.

Now, let me turn the call over to Geraldo.



Overview
Geraldo Thomaz Jr.

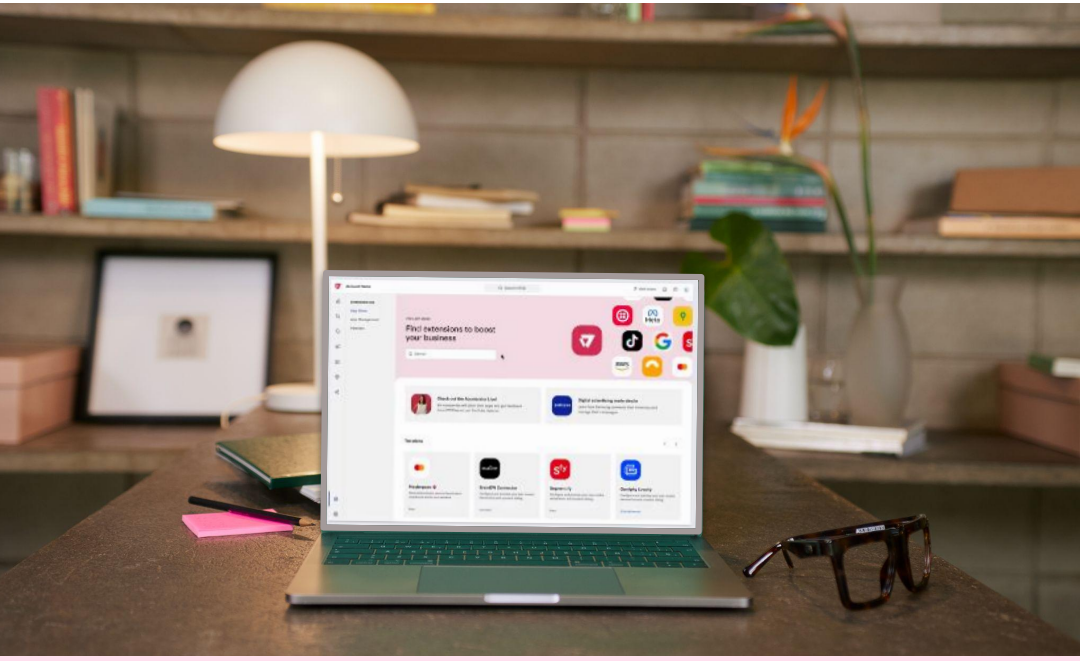
Thank you Julia.

Welcome everyone, and thanks for joining our third quarter 2023 earnings conference call.

I am pleased to announce that VTEX delivered another quarter of strong results. We achieved a 35% YoY growth in GMV, driven by the resilience of the SSS from our existing customers and the successful go-lives of new stores. On the latter, despite the ongoing uncertainty in the macroeconomic environment, we are pleased to continue to see a stabilization in the ramp-up periods and implementation times, which, as mentioned before, also contribute to our robust performance.

Turning briefly to our financial results, as Ricardo will delve into it later, I'd like to highlight two points. First, we've surpassed our revenue projections, reaching US$50.6 million this quarter and a 31% growth YoY. Second, we've achieved our breakeven target, from a non-GAAP operating income and free cash flow basis, one quarter before our expectation. This is a clear testament to our focus on growth and the power and scalability of our team. Efficiency is ingrained in our DNA, amplifying our results and bringing us closer to becoming the backbone of commerce.

Additionally, we delivered a 36% YoY gross profit growth and held expenses steady while accelerating our growth under an uncertain macro, demonstrating our business model's resiliency and operational leverage.

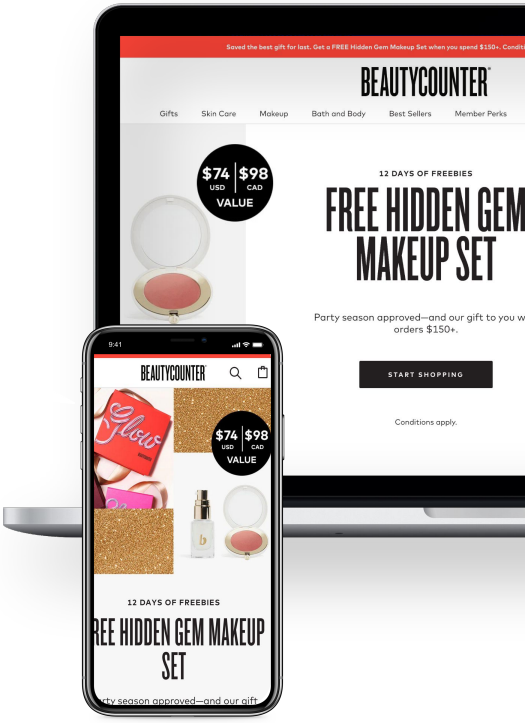


Now, let's go into some operational updates. In Q3, we added several new customers that migrated from other platforms, including Naldo in Argentina; Aiwa, Preçolandia and PicPay B2B in Brazil; Ren-Wil in Canada; ICB Food in Chile; CoopiDrogas, Gabrica, Eurosuper and Mattelsa in Colombia; Vianney and Farma Piel in Mexico; and Beautycounter and Pierce Manufacturing B2B in the US.

In addition to attracting new customers, we also focused on strengthening our relationships with existing customers, actively supporting their growth initiatives. During the third 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: Calvin Klein who added a new store in Ecuador, now operating in nine countries in Latin America; Farmacity who added its Simplicity brand in Argentina, now operating with three stores in Argentina and one in Uruguay; Reebok who added a store in Panama, now operating in six countries in Latin America; and Whirlpool who added its Kitchenaid brand in Austria, Denmark, Finland, France, the UK, and Italy, now operating in Latin America, EMEA, and APAC.

We are excited to provide an update on one of the new customer wins we shared during our Investor Day.

Beautycounter, a Carlyle portfolio company, successfully migrated from its legacy platform to VTEX. This migration enabled the consolidation of all their channels into a unified commerce experience. VTEX, globally recognized as the #1 unified commerce provider by Gartner, has demonstrated its ability to launch large and complex projects in the US. This accomplishment represents a significant milestone in our global expansion journey and we are committed to our partnership with Beautycounter.



Furthermore, in addition to the new customer acquisitions and existing customers expanding their operations with us, two significant events this quarter underscore our progress in solidifying our positioning as the global enterprise digital commerce platform where forward-thinking CEOs and CIOs smarten up their investments: the success of VTEX Connect Latam in Mexico and our inclusion in the 2023 Gartner Magic Quadrant™ for Digital Commerce.

We saw remarkable growth at our second VTEX Connect Latam in Mexico, expanding from over 3,000 to over 7,000 participants. The impressive success of VTEX Connect in Mexico demonstrates our opportunity to continue expanding in Latam, especially in Mexico. The event featured 60+ global ecommerce experts and success stories from VTEX customers like Arcor, Dior, Levi's, Reebok, and Samsung. We also introduced AI-driven improvements focused on customer experience and operational efficiency, such as AI in Live Shopping, which automates product recognition during live streams, eliminating the need for a production team; AI for the Intelligent Search to personalize customer experiences and boost conversion rates; and AI in Pick and Pack, which enhances fulfillment efficiency, adapting to demand fluctuations for precise resource allocation.

On the industry experts recognition front, VTEX was named a Visionary in the 2023 Gartner Magic Quadrant™ for Digital Commerce for its Ability to Execute and Completeness of Vision. VTEX has also ranked second for the following Use Cases: B2C Digital Commerce; B2C and B2B Digital Commerce on the Same Platform; and Complex Business Models.

Additionally, VTEX was one of the top-rated digital commerce platforms by Gartner Peer Insights over the last twelve months. We are both humbled and excited about the recognition, underscoring our commitment to helping enterprises achieve agility and cost-effectiveness by choosing the best components for their business.



Continuing our commitment to fostering our ecosystem and offering our customers the most comprehensive solutions, we're thrilled to announce two partnerships that have materialized this quarter.

First, we're partnering with Cielo, a leading name in payment solutions in Brazil. Their expertise in accrediting establishments for card payments and PIX will expand our payment offerings, ensuring our customers access robust solutions in the Brazilian market.

Additionally, we've joined forces with PayU, extending our reach across Latin America. This partnership covers Brazil and all LATAM countries, offering a comprehensive payment ecosystem with diverse options, including credit cards and alternative methods like PSE in Colombia.

Our mission is to create a seamless payment experience for our customers in the region. These partnerships showcase our dedication to delivering top-tier solutions and enhancing the customer experience.

Now, before leaving the stage to Ricardo, I would like to share a couple of success cases from our customers that demonstrate the tangible impact and potential of our platform. At the core of our organization, our customers are in the spotlight, and their success will always remain our focus.

The Foschini Group, a leading South African retailer with a diverse portfolio of 26 brands, successfully transformed its ecommerce landscape by partnering with VTEX. They launched the innovative "Bash" marketplace, consolidating 18 brands into one while retaining the flexibility for each brand to customize its marketplace. Since the platform's launch, there has been a remarkable 73% increase in multi-brand orders, showcasing the effectiveness of the marketplace and a surge in app sales, accounting for over 35% of total online sales within just two months. Its conversion rate surpassed both mobile



web and desktop by over 200% and 80%, respectively. Furthermore, TFG achieved a remarkable 33% improvement in page load speed, contributing to an enhanced user experience.

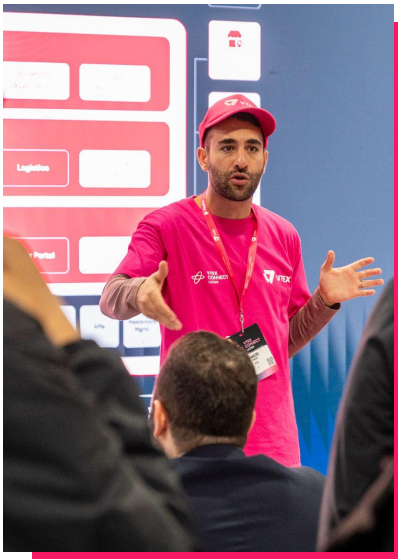
Sorte Online, a leading Brazilian lottery intermediation platform, chose the VTEX headless solution to meet their unique business needs. This decision aimed to enhance their go-to-market strategy, focusing on flexibility, experimentation, and improved availability. After migrating to VTEX, Sorte Online saw significant conversion rate improvements across multiple channels, thanks to reduced latency and VTEX's scalability, enabling seamless management of high traffic without downtime.

A US aftermarket vendor partnered with VTEX to enhance their B2B online experience, improve customer interactions, and optimize product tracking. By seamlessly integrating VTEX with their ERP system, they achieved efficient data exchanges and utilized a unified B2B commerce platform, enhancing both sales operations and buying experiences. VTEX's data redundancy and an extensive product catalog allow customized dealer experiences without extensive development. This adaptability, combined with VTEX's platform flexibility, underscores the transformative power of modern digital commerce in delivering seamless and enhanced customer experiences.

Naldo, an Argentine retail brand specialized in appliances, electronics, and beauty products with a presence in 14 states and over 70 physical stores, chose the VTEX platform to manage its extensive range of SKUs in its marketplace efficiently. Naldo has implemented payment and promotion features and logistics integrations with third parties, enhancing their ability to seize sales opportunities and improve their customer experience.

Farma Conde, a major Brazilian pharmacy chain with numerous physical stores, partnered with VTEX to implement omnichannel capabilities. They've integrated over 160 of their stores with VTEX, harnessing regionalization, intelligent search, and third-party solutions from the VTEX ecosystem, like Mercado Pago and Google Analytics for enhanced consumer experiences and business performance monitoring.

Sergio K., a premium men's fashion brand in Brazil with 11 physical stores and 200 points of sale, chose VTEX's composable architecture for their digital commerce platform. They implemented features like the wishlist using VTEX IO to enhance the customer experience. Sergio K. also leverages VTEX Shipping Network for efficient deliveries and integrates with Google Analytics for user-friendly sales data visualization. These integrated solutions significantly improved performance, resulting in a 7x increase in order conversion rates, a 25% boost in Average Order Value, and a 60% reduction in shipping costs.



A global clothing and accessories retailer operating in 39 countries through 11 online stores and 10 marketplaces, recently adopted an innovative approach. They integrated VTEX's headless CMS with an app that directly retrieves content and seamlessly integrates into the store framework using native components. This implementation empowers them to customize and oversee webpage content effortlessly. As they can easily define structures and reposition sections, they've improved their performance by reducing errors and safeguarding against content loss.

Pague Menos, a leading player in pharmaceutical retail, swiftly integrated Extrafarma into their digital ecosystem using VTEX IO Store Framework. In just 29 days, this strategic integration led to remarkable results: a substantial increase in sales, a 200% boost in conversion rates, significant audience growth, and reduced operational costs, enhancing the financial efficiency of the Pague Menos Group while uniting both stores seamlessly.

This quarter, we achieved significant success with our Live Shopping solution. Notably, PatBo, in collaboration with VTEX, hosted a Live Shopping event during New York Fashion Week, becoming the sole Brazilian brand to do so. The results were outstanding, with PatBo experiencing a remarkable 300% sales increase, a 125% boost in orders, and a remarkable 79% rise in average order value. This event underscores the growing prominence and effectiveness of Live Shopping as a dynamic sales channel.

Additionally, at VTEX Connect Latam, Live Shopping took center stage hosting seven 40-minute events, from customers such as KitchenAid, which experienced a remarkable 152% sales spike in their event. In Argentina, Style Store did an event at the most relevant night TV show, attracting over 75K viewers and achieving a 700% sales boost compared to the previous month.

To conclude this section, I would like to express my gratitude to our 1,276 VTEX employees 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 Q3 2023 financial results with you.

In the nine months of 2023, our performance was consistently strong, surpassing expectations and resulting in positive free cash flow one quarter ahead of schedule. Our Q3 GMV grew by 35% in USD and 28% on an FX-neutral basis, with Q3 revenue reaching US$50.6 million, a 31% YoY growth in USD and 25% on an FX-neutral basis. Our existing customers remained resilient, and new customers exceeded our expectations with faster-than-expected go-lives.

In Q3 2023, our subscription revenue hit US$47.5 million, marking a solid 30% YoY growth in USD, while services revenue climbed from US$2.2 million to US$3.1 million, largely due to new project implementations.

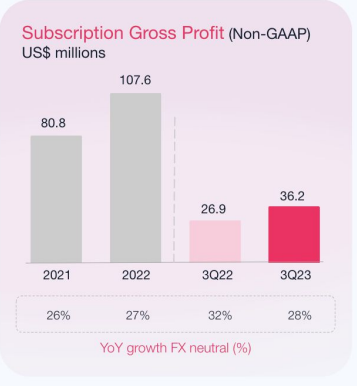
In Q3 2023, our subscription gross margin continued to increase. Non-GAAP subscription gross profit rose to US$36.2 million from US$26.9 million in Q3 2022, a 35% increase YoY, with the margin at 76.2% compared to 75.3% last quarter and 73.8% in Q3 2022. The 247 bps YoY margin increase reflects our commitment towards efficiency and customer success. The margin increase resulted mainly from optimizing our hosting costs and architecture. We're excited about this progress and remain dedicated to delivering further margin improvements in the future.

Now, our overall Non-GAAP gross profit rose to US$35.8 million from US$26.3 million in Q3 2022, a 36% increase YoY, with the margin at 70.7% compared to 68.0% in Q3 2022. This achievement was driven by hosting improvements, that I just mentioned, and an improvement in our service gross margin in the quarter, as we start dialing back on the hyper-care mode for key new customers in the US and Europe.

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







In Q3 2023, our non-GAAP total operating expenses stood at US$34.1 million, remaining steady compared to our previous quarter. Therefore, our expenses as a percentage of our revenues significantly improved from 83% in Q3 2022 and 71% last quarter to 67% in Q3 2023, demonstrating our commitment towards efficient expense management while also accelerating our business under uncertain macro conditions.

In Q3 2023, we achieved positive non-GAAP operating income a quarter earlier than expected. Our Q3 2023 non-GAAP operating margin reached a positive 3.4%, compared to a negative 15.5% margin on the same quarter last year. The significant 19 percentage points YoY increase was exclusively driven by revenue growth and gross margin improvements, as non-GAAP total operating expenses actually slightly increased YoY. Furthermore, we saw a solid 6.1 percentage points improvement in our non-GAAP operating income margin on a QoQ basis. These trends underscore our commitment to profitable growth, subscription cost efficiencies, and stable expenses aligned with market demand and sales efficiency, demonstrating our dedication to strengthening financial performance while sustaining high revenue growth.

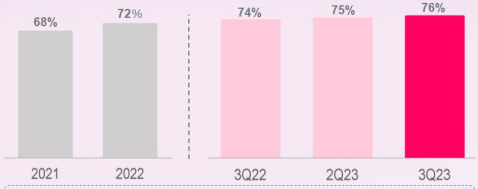
We are delighted to announce that for the three months ending on September 30, 2023, VTEX achieved a positive free cash flow of US$2.7 million. This is a significant improvement from the negative free cash flow of US$3.3 million reported in the previous quarter and the corresponding quarter of the previous year. Our positive Non-GAAP operating income and improvements in our payables and collections efforts primarily drove this free cash flow result.

Before I move to the outlook for Q3 and FY2023, I would like to update you on our share repurchase program. As of September 30, 2023, the remaining balance under our current authorization was nearly US$10.1 million. We've purchased 1.9 million shares at an average price of US$5.53 dollars per share. Considering the previous plan that concluded on August 8, 2023, the total repurchased shares amounted to 9.0 million shares, with an average price of US$4.16 per share and a total cost of US$37.9 million.

Subscription gross margin continues expanding
VTEX is growing fast with an optimized and agile organizational structure

Non-GAAP subscription gross profit[1]

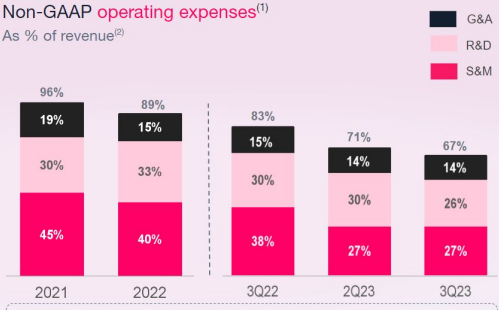
As % of subscription revenue



Non-GAAP subscription gross profit ($mm)

Non-GAAP operating expenses[1]

As % of revenue[2]



Non-GAAP operating expenses ($mm)

As we look to the future, we're thrilled about VTEX's remarkable adaptability and resilience. Regardless of market conditions and their inherent volatility, VTEX has consistently surpassed market expectations while delivering strong long-term performance metrics.

For the fourth quarter of 2023, we are currently targeting revenue in the US$55.0 million to US$57.0 million range, implying a YoY growth of 22% 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 22% to 23% on an FX-neutral YoY basis, implying a range of US$196 million to US$198 million based on October average FX rate and assuming a devaluation of Argentina's currency aligned with market futures rates.

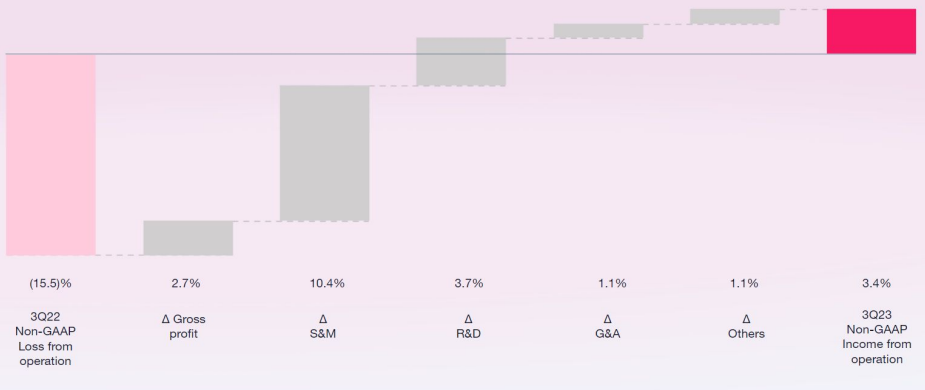
As we continue executing our profitable growth plans, we anticipate YoY improvements in the non-GAAP operating income margin for the 4Q23.

We hold strong confidence in VTEX's distinctive value proposition, centered on empowering our customers to achieve profitability and sustainable growth by reducing their total cost of ownership and simplifying their commerce infrastructure. Our commitment to incorporating physical stores as the centerpiece of the omnichannel experience positions us to provide the rapid growth and profitability our customers aspire to.

We'll continue to work towards building outstanding success cases with our customers, offering innovative solutions, and seizing opportunities to ensure long-lasting success for our dedicated employees, valued customers, innovative partners, and long-term investors. The future is filled with exciting prospects that we are eager to pursue.

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

Non-GAAP loss from operations YoY margin improved driven by efficiency gains & revenue growth



Closing Remarks
Geraldo Thomaz Jr.

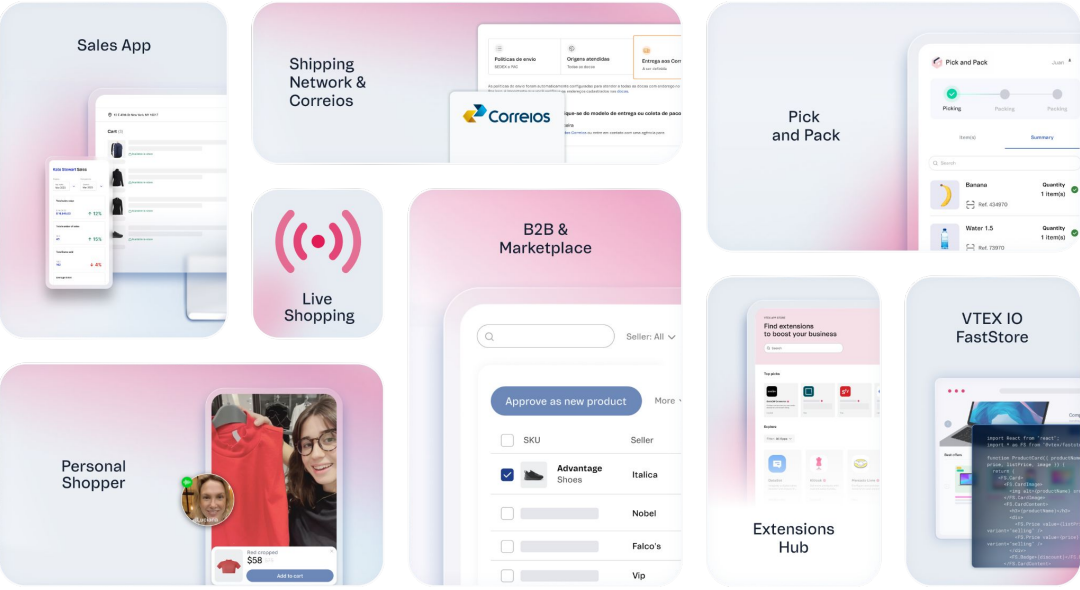
VTEX is entering an exciting phase, reaping the initial rewards of our global expansion investments.

We've shown consistent execution and financial results, reaching breakeven and generating cash a quarter ahead of schedule. Our solid quarter, marked by sustainable gross margin improvements and expense discipline, demonstrates the success of our business model even in uncertain macro conditions.

We serve a multitude of models and customer touchpoints, from B2C, B2B, B2B2C, to physical stores and marketplaces, including live shopping and conversational commerce, among others. VTEX is becoming the platform of choice for forward-thinking leaders, and this is just the beginning.

Thanks to our customers, partners, investors, and our dedicated team who make it all possible.

We look forward to keeping you updated at our next earnings call. Have a wonderful week!



Thank you!

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VTEX