

VTEX  
Fourth Quarter 2023  
Conference Call Transcript

# Introduction and Disclaimer

## Investor Relations

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

Now, let me turn the call over to Geraldo.



# Overview

## Geraldo Thomaz Jr.

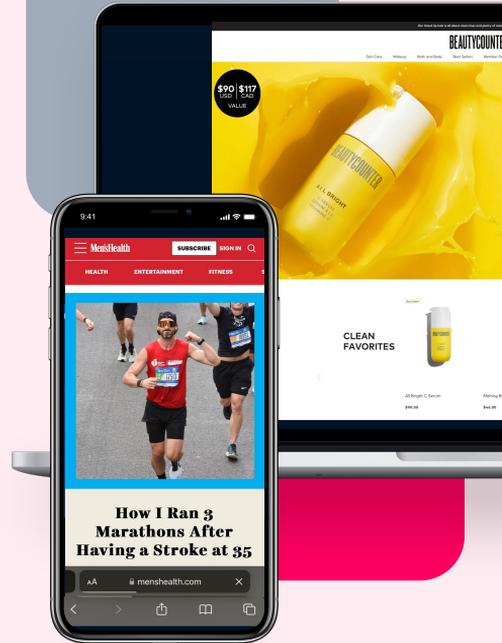
Thank you Julia.

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

In reflecting on our performance throughout the year, it's evident that despite navigating a persistently uncertain macroeconomic landscape, we have consistently surpassed expectations quarter after quarter. The fourth quarter of 2023 was no exception, with GMV and revenues growing 38% and 34% YoY in USD, respectively. Our performance is a testament to the resilience of our sticky enterprise customer base, which FX neutral SSS and NRR reached 15% and 107% respectively in 2023, and the successful onboarding of new customers onto our platform. Beyond our robust top-line performance, our business model also came to the forefront, as demonstrated by our operational leverage that Ricardo will cover later on.

In our history, we've built strong, long-lasting enterprise customer relationships. As evidence, we increased the number of customers with annual recurring revenue above US\$250k to 126, up from 94 last year, and these customers increased their online store count to 692 from 557. Additionally, we increased our global presence to 43 countries, from 38 countries last year. Our continuous progress in the top-tier customer base not only highlights our commitment to enterprise customers but also our product-market fit around the globe.

This year we have achieved significant commercial milestones. Some of the net new customers that went live on our platform were: Beautycounter, Comerup, Hearst, Kayser Roth and Pierce Manufacturing in the US, Renwil in Canada, and Auchan, Hunter Douglas and ProBeauty in Europe. We also have expanded with existing customers such as Colgate, Motorola, Unilever, and Whirlpool to many countries around the globe.



# Overview

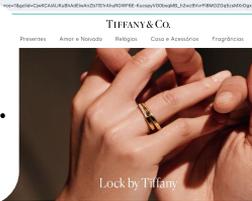
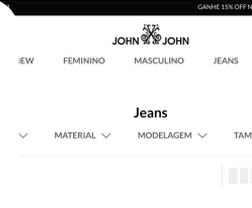
## Geraldo Thomaz Jr.

With this segway, let me go to the newly added customers during the 4Q23, including:

- **Biscoite, John John, Obabox, Osklen, and Tiffany** in Brazil;
- **Megatiendas and BSoul** in Colombia;
- **Macondo** in Italy;
- **7-eleven, Chapur and Voit** in Mexico;
- **Hunter Douglas** in the Netherlands;
- **Yape Market** in Peru; and
- **Hearst and ShopHero** 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 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:

- **Carrefour**, who added a new store in Brazil, Atacadão, now operating seven stores in Latin America;
- **Colgate**, who added a new store in the US, PCA Skin, now operating in Brazil and the US, both with B2C and B2B models;
- **Motorola**, who added a new store in Ecuador, now operating in 20 countries across North America, Latin America, and EMEA;
- **Oshkosh Corporation**, who added a new store in the US, Oshkosh Airport Products, together with Pierce Manufacturing they are now operating with two B2B stores in the US; and
- **Probeauty**, who added a new store in Romania, Eternal, now operating both B2C and B2B stores in Romania.



# Overview

## Geraldo Thomaz Jr.

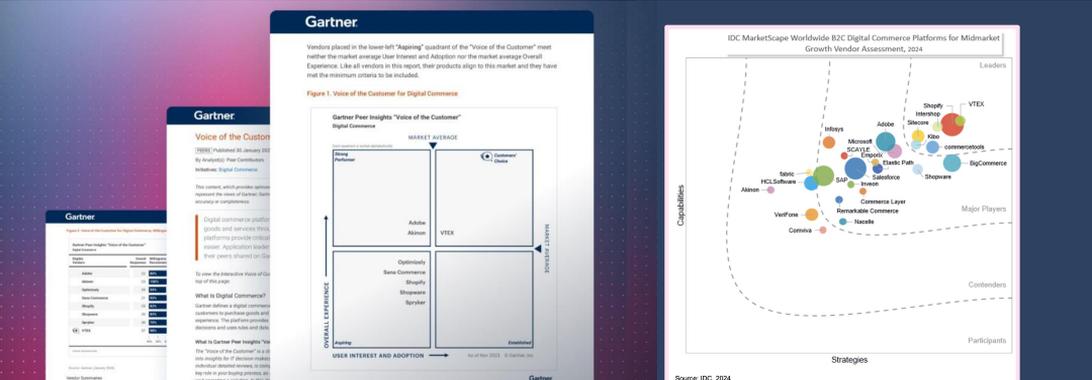
In 2023, VTEX achieved remarkable milestones in the digital commerce realm. We started the year being recognized as "Established" in Gartner®'s Peer Insights Voice of the Customer: Digital Commerce. In the second quarter, IDC's acknowledged us as a Major Player and we achieved medals in all 24 categories of the 2023 Paradigm B2B Combine, being the exclusive vendor to secure a gold medal for marketplace product capability. In the third quarter, we were named a Visionary in Gartner®'s Magic Quadrant for Digital Commerce, and became the only vendor ranked in the top 5 for all use cases in the 2023 Gartner® Critical Capabilities for Digital Commerce Report. In the fourth quarter, we were recognized as a 'Leader' in IDC's Marketscape: Worldwide Midmarket Growth B2B Digital Commerce Applications 2023-2024 Vendor Assessment.

VTEX was also recognized by the ecosystem. We were honored as the Global Industry Partner of the Year in Retail and Consumer Packaged Goods at the 2023 AWS Partner Awards and as the Best Interface Developer Portal at the Dev Portal Awards 2023. This underscores our commitment to reshaping commerce through innovation and collaboration.

We are happy to share that 2024 started strong. In January, VTEX was the exclusive vendor recognized as a Customers' Choice in the 2024 Gartner® Voice of the Customer for Digital Commerce. According to the report, 98% of VTEX customers expressed their willingness to recommend the ecommerce platform to their peers. This month, we were recognized as the top leader in the IDC MarketScape Worldwide B2C Digital Commerce Platforms for Midmarket Growth Vendor Assessment study. Rated the highest out of 25 vendors, we stood out for our comprehensive solutions and strategic focus on B2C excellence.

We are proud about all the recognitions we got through 2023, and it fuels our dedication to pioneering solutions that empower businesses for lasting success.

Continuing our commitment to fostering our ecosystem and offering our customers the most comprehensive solutions, we're thrilled to announce that in the fourth quarter, we've launched a strategic partnership with Dynamic Yield, a Mastercard company and a leading pioneer in personalizing



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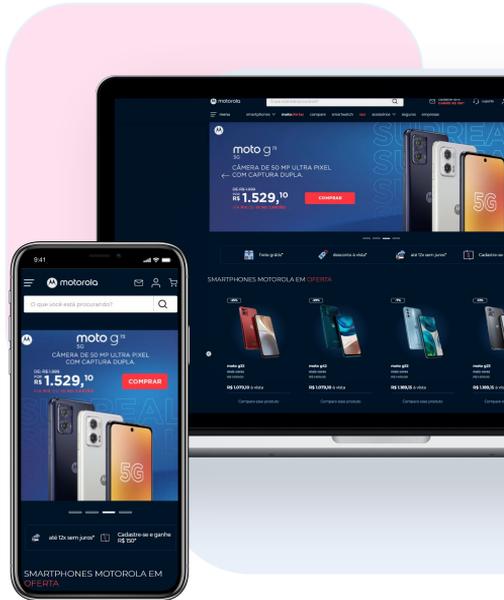
## Geraldo Thomaz Jr.

customer experiences. We are jointly developing a VTEX native innovative app that seamlessly integrates with Dynamic Yield's cutting-edge customer experience optimization platform. In an ever-evolving landscape, we seek to empower our customers to leverage Dynamic Yield's AI-driven tools in order to optimize engagement, lifetime value, and revenue generation. Together, we aim to empower brands to easily build tailored experiences that resonate with each individual consumer, ultimately revolutionizing the standards of customer engagement and commerce success.

Before leaving the stage to Ricardo, I would like to share some customer success cases demonstrating our platform's tangible impact and potential. Our customers are in the spotlight at the core of our organization, and their success will always remain our focus.

**Electrolux**, the leading brand in innovative home appliances, addressed the challenge of the absence of physical stores by deploying a nomad store with a 'phygital' experience at the 2023 Home Fair, a crucial event in the Colombian consumer calendar. This adaptable store, set up at specific events like the Home Fair, featured kiosks and a sales team equipped with a VTEX subaccount, offering a customized catalog and inventory for each occasion. Using the Sales App, representatives seamlessly presented products, facilitating sales during their walk through the fair, while attendees also had the option to purchase products through self-service kiosk screens. The innovative approach resulted in a 73% sales increase compared to 2022, with the pickup point contributing 30% of total sales and a remarkable 84% growth in units. This success demonstrates Electrolux's ability to sell without physical stores, emphasizing the effectiveness of the 'phygital' strategy and the integration of Sales App for an enhanced customer experience.

**Motorola**, the global telecommunications leader, faced a significant challenge with its multiple commerce platforms, leading to high maintenance costs and impediments to launching new stores. By migrating to VTEX, Motorola benefited from the platform's adaptability, which was instrumental in streamlining operations and accelerating the establishment of new stores globally. Motorola was able to test third-party applications, optimizing architectures by country and reducing total cost of ownership. As a consequence, Motorola experienced a remarkable 20% annual growth in the company's ecommerce business.



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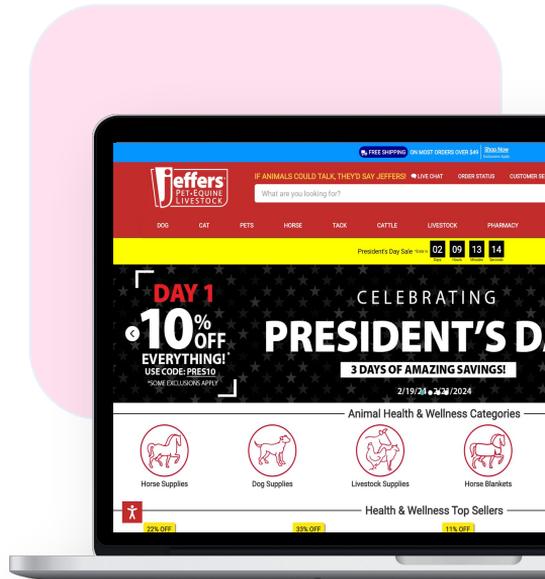
**Jeffers Pet**, the leading US animal health and supply company, expanded its operations through VTEX, now managing one physical store and two websites. They launched their second website, Lambert Vet Supply, boasting over 4,000 SKUs. Leveraging VTEX's adaptability, they tailored the site for detailed pet registrations, seamlessly integrated with master data for streamlined checkout processes. Moreover, VTEX allowed customization to support Lambert's subscription strategy, offering varying time spans from two weeks to six months, alongside a tailored vaccine delivery approach, enhancing the consumer experience. The unified web platform across multiple sites proved beneficial, reflected in Lambert Vet's exceptional results—a staggering 208% sales surge within three weeks of its launch.

**Flamingo**, a retailer with over 40 stores across Colombia, partnered with VTEX to expand their online store payment options. By integrating their widely used private label credit card, Me Fia, Flamingo was able to reach a wider audience. Through the VTEX platform, Me Fia was seamlessly integrated as a native payment option, ensuring scalability and adaptability for Flamingo and all willing VTEX customers who want to use this payment method. For Flamingo, this new native payment method now represents more than 60% of digital sales, significantly improving its user experience, accelerating its sales, and solidifying its position in the digital market.

**The largest tool company in the world**, recognized the immense potential of implementing a self-service platform for its B2B operations through VTEX. The implementation allowed them to expedite its users' ordering experience across three major business units by eliminating cumbersome offline processes. The project generated time and effort-savings in the ordering process, while at the same time reducing costs and increasing efficiency. By migrating to VTEX, they merged their traditional ecommerce site with the B2B site, creating a unified and connected commerce experience, and providing a user-friendly B2C or D2C buying journey across both operations.

To conclude this section, I would like to express my gratitude to our 1,277 VTEX employees dedicated to making VTEX the backbone for connected commerce 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, it's a pleasure to be here updating you on our financial performance for the fourth quarter of 2023.

In the last quarter of the year, our GMV reached US\$5.4bn, representing a YoY increase of 38% in USD and 30% in FX neutral. With this, we concluded the full year 2023 reaching US\$16.5bn in GMV, representing a growth of 30% and 25% in USD and FX neutral, respectively. Our SSS in 2023 reached 15% in FX neutral, on top of the 17% from 2022. Despite the SSS slight decrease versus 2022, the upsell of new features to existing stores and contract inflation adjustment contributed to an NRR increase to 107% in FX neutral in 2023, compared 105% last year. Also, the contribution to GMV from new stores added throughout the year, especially for customers paying us more than US\$250k per year, and helped us reach a solid GMV performance in the year.

Our revenue reached US\$60.7 million in the 4Q23, a YoY increase of 34% in USD and 25% in FX neutral. This helped us achieve US\$201.5 million revenue for the full year 2023, showing a 28% growth in USD and 24% on a FX neutral basis. Most of the overperformance versus guidance was driven by better than expected FX neutral performance during October and November, as well as the appreciation of the basket of Latin American currencies versus the US Dollar.

Subscription revenue reached US\$58.2 million in the fourth quarter of 2023, from US\$42.7 million in the same quarter last year, a YoY increase of 36% in USD and 27% in FX neutral. For the full year, subscription revenue reached US\$190.3 million, up from US\$148.5 million in 2022.

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

**GMV**  
US\$ billions



**Revenue**  
US\$ millions



**Subscription Gross Profit (Non-GAAP)**  
US\$ millions



Double clicking on our 2023 subscription revenue, existing stores revenue increased to US\$146.0 million. Our net revenue retention reached 107% in FX neutral. As mentioned, despite a challenging retail market and slightly lower SSS versus 2022, our upsell efforts of Sales App, Pick and Pack, Extensions Hub and the inflation adjustment of customer contracts resulted in an increase in our net revenue retention.

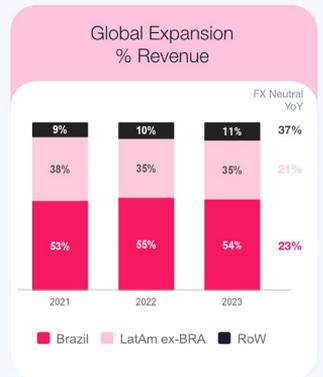
On top of our existing stores' growth, we continued attracting new stores, adding US\$27.7 million in revenue to our base, representing approximately 20% of our 2022 VTEX Platform revenue. This year's outcome indicate a stabilization to modest improvement in our sales cycle compared to the elongation observed in 2022. As anticipated, we saw a slight improvement in our sales efficiency compared to the previous year, a testament to the strategic high-efficiency measures implemented in mid 2022 and followed through 2023. Consequently,

our LTV/CAC ratio continues to stand strong, exceeding the 6x mark.

As mentioned by Geraldo, we continued expanding our geographical reach, with revenues outside Brazil accounting for 46% of our total revenues. In 2023, Brazil, Latin America excluding Brazil and the Rest of the World grew 23%, 21%, and 37% on a YoY FX neutral basis, respectively.

## We are driven by a scalable and global future

With an attractive unit economics: LTV/CAC<sup>(1)</sup> above 6x



Now, moving down our P&L, it's important to notice that all the figures I'll present are on a non-GAAP basis. You can find the reconciliation of those measures to the nearest comparable GAAP measures in our fourth quarter 2023 earnings press release available on our investor relations website.

In the fourth quarter of 2023, our subscription gross profit saw a significant increase, reaching US\$45.8 million, representing a margin of 78.6% compared to 73.5% in the same quarter of last year. The 510 bps margin expansion underscores our team's dedication to consistently find efficiencies in our code, providers, and other hosting aspects. Looking forward, we expect to deliver less significant YoY subscription gross margin improvements.

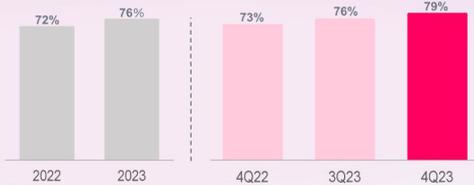
As a result, we have achieved a 74% gross margin, representing a YoY expansion of 562 basis points. This expansion, on top of our subscription gross margin results, is further amplified by additional improvements in our services gross margin.

In the fourth quarter of 2023, our total operating expenses decreased QoQ to US\$33.4 million, demonstrating the expense discipline we have maintained over the past few quarters.

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

### Non-GAAP subscription gross profit<sup>(1)</sup>

As % of subscription revenue



\$108

\$145

\$31

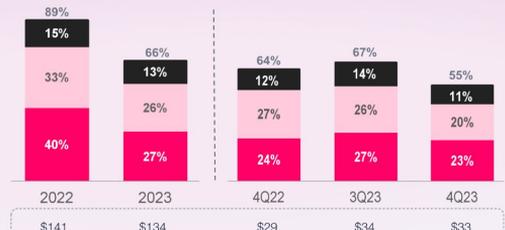
\$36

\$46

Non-GAAP subscription gross profit (\$mm)

### Non-GAAP operating expenses<sup>(1)</sup>

As % of revenue<sup>(2)</sup>



\$141

\$134

\$29

\$34

\$33

Non-GAAP operating expenses (\$mm)

About a year ago, we committed to achieving our sustainable break-even point on an operating income and free cash flow basis by 4Q23. Surpassing our initial projections, we've accomplished this milestone a quarter earlier than anticipated. In 3Q23, we reached a positive 3.4% operating margin and a positive free cash flow of US\$2.7 million. Now, in 4Q23, we achieved a notable 19% positive operating margin and a positive free cash flow of US\$9.5 million. Looking at the full year, we reached a positive 3.8% operating margin and free cash flow of US\$3.8 million. This demonstrates our dedication to sustainable growth, positioning us ahead of our targeted financial milestones.

Our 4Q23 performance showcased the operational leverage inherent in our business model, setting a solid foundation for the future and supporting the target model we shared at the Investor Day. For instance, our subscription gross margin reached 79%, slightly below the 80% target model, and our

overall gross margin stood at a solid 74%, closely in line with the 75% target model. Expenses in S&M, R&D, and G&A were 23%, 20%, and 11%, respectively, closely in line with 20-25% for both S&M and R&D, and 10% for G&A from our target model. As a consequence, our EBIT margin reached 19%, also quite close to the 20% from the target model. Moreover, given our 25% FXN revenue growth, this translated into a Rule of 40 of 44%, which is over our 40%+ indication from the target model. Now it's important to mention that our Q4 results are strongly supported by seasonality. Although this performance demonstrates our operational leverage and a clear path to sustainable growth, we are still a few years away from reaching our target model on a yearly basis.

## 4Q23 non-GAAP performance

Aligned with the Investor Day target model, setting the foundation for the future

	4Q23	Target Model
Subscription Gross Margin	79%	~80%
Gross Margin	74%	~75%
S&M as % of revenues	(23)%	~(20)-(25)%
R&D as % of revenues	(20)%	~(20)-(25)%
G&A as % of revenues	(11)%	~(10)%
Operating Margin	19%	~20%+
Rule of 40	44%	~40%+

All figures disclosed on a Non-GAAP basis. Rule of 40 calculated by adding our Non-GAAP Operating Margin to our FX Neutral YoY Revenue Growth.



Before moving to our Q1 and full-year 2024 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 approximately 80% of our revenue, while our new stores' revenue, also excluding our SMB Platform, represented approximately 20%.

Our existing customer's gross margin reached 77% this year, approximately 400 bps higher than last year. The gross margin profile for our new stores remained stable at 45% despite the pressure on service margins generated by the hyper-care mode for specific global expansion customers.

The operating margin from existing stores increased from low 20s in 2022 to mid 30s in 2023, while the

operating margin losses from new stores improved by 74 percentage points.

2023 notably served as the initial clean year following our organizational restructuring and efficient growth plan initiated in May 2022. We believe it's fair to assume that, while we anticipate ongoing margin expansion given our operational leverage, we have already attained a normalized operational level for the demand that we are perceiving from the market.

On the share repurchase program we approved in August of 2023, as of December 31, 2023, no remaining balance is available for share repurchases under this authorization. We've purchased 1.9 million shares at an average price of US\$5.41 per share. Considering repurchases since August of 2022, total shares repurchased reached 10.7 million, with an average price of US\$4.48 per share and a total cost of US\$48.0 million.

## Directional P&L breakdown by **existing vs. new stores**

High margin **existing stores'** P&L, growing at VTEX's net revenue retention  
Investment in **new stores'** P&L, while impacting margin in short-term, yields returns aligned with our LTV/CAC  
Our **global expansion** outside of Latam has an estimated impact of ~30% of our total expenses

% of revenue, non-GAAP	2023A <small>(VTEX platform + SMB + others + services)</small>	2023 Existing stores <small>(~80% of VTEX rev., excl. SMB)</small>	2023 New stores <small>(~20% of VTEX rev., excl. SMB)</small>
	Gross margin <sup>(1)</sup>	70%	~77%
Sales & Marketing	(27)%	~(3)%	~(121)%
Research & Development	(26)%	~(25)%	~(25)%
General & Administrative	(13)%	~(13)%	~(13)%
Operating margin	4%	~35%	~(115)%

As we move forward with our business outlook, it is important to note that the macroeconomic conditions remain uncertain. Even though we have witnessed a stabilization and slight improvement in the sales cycles, they haven't yet turned back to its normal duration. 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 operational leverage.

Considering the macro conditions, we are currently targeting revenue in the US\$52.5 million to US\$53.5 million range for the first quarter 2024, implying a YoY growth of 22% on an FX neutral basis in the middle of the range.

Also, given the persistent macroeconomic uncertainty, for the full year 2024 we are targeting a FX neutral YoY revenue growth of 18% to 22%, implying a range of US\$234 million to US\$243 million based on January's average FX rate, with free cash flow and non-GAAP operating income margins reaching mid-to-high single digits.

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

Thank you.



# Closing Remarks

## Geraldo Thomaz Jr.

Looking ahead to 2024, our dedication to driving innovation remains stronger than ever. VTEX remains steadfast in supporting our customers' strategic commerce investments, fostering growth, and boosting profitability. We are thrilled to serve as the backbone for connected commerce, dedicated to empowering our customers in achieving their growth ambitions.

Latin America's internet penetration continues to offer a promising growth opportunity. We'll be focused on strengthening our regional leadership and expanding our presence in the US and Europe, unlocking further growth for VTEX.

We're thrilled by the progress we've made in our global expansion this year, but this journey is far from over. We are truly optimistic about the promising opportunities ahead. This year marks just the beginning of what we envision as a transformative journey for VTEX.

Thank you for being part of this ongoing journey with us.

We look forward to keeping you updated at our next earnings call.

Have a wonderful week.



# Thank you!

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