VTEX
First Quarter 2024
Conference Call Transcript



Introduction and Disclaimer
Investor Relations

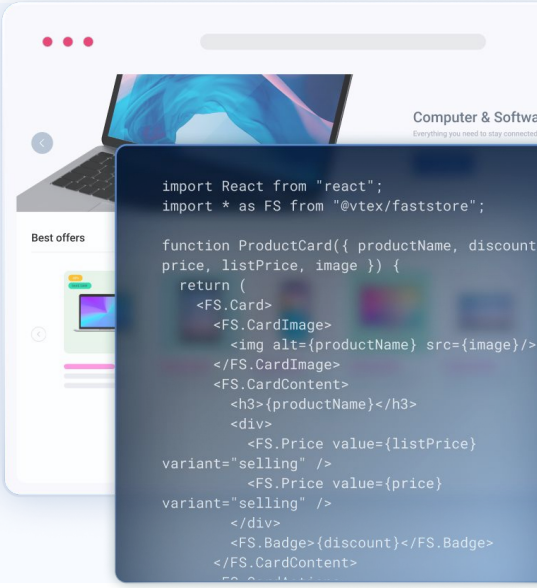
Hello everyone, and welcome to the VTEX earnings conference call for the quarter ended March 31st, 2024. I am Julia Vater Fernández, Investor Relations Director for VTEX. Our senior executives presenting today are Geraldo Thomaz Jr., founder and co-CEO, and Ricardo Camatta Sodre, Chief Financial Officer. 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 first quarter 2024 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.

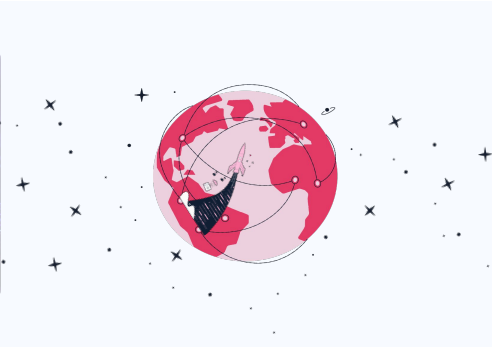
Welcome everyone, and thanks for joining our first quarter 2024 earnings conference call.

As we step into 2024, despite macroeconomic uncertainties, our GMV continues to outperform the market, growing 22% YoY. Slightly above that, our revenue grew 25% YoY in the first quarter of 2024. We remain encouraged by new contract signatures and the operational leverage of our business model, resulting in significant operating margin expansion.

In today's retail landscape, seamless integration of software solutions, content creators, and suppliers within an efficient architecture is imperative for low maintenance costs and rapid revenue generation. Commerce has evolved into an ecosystem-driven play, and VTEX is at the forefront of connectivity. With an extensive network comprising over 1,000 system integrators and independent software vendors, and over 6,000 VTEX IO extensions by third parties, we deliver comprehensive solutions with remarkable speed and efficiency. Our ecosystem extends beyond that; our customers can easily become marketplaces or connect to external marketplaces. Sales reps also play a crucial role in the consumer journey, and we're investing in connecting them across all channels. Additionally, this year, we're strengthening connections through data, leveraging AI to extract valuable insights. We envision VTEX as the source of truth for sales attribution data, which is vital for developing AI models in ecommerce.

At VTEX, we are delivering significant YoY operating margin increases while also launching products that reshape commerce for IT and business teams, driving sustainable growth with compelling ROI. Introducing new revenue streams paves the way for our long-term expansion while enhancing operational efficiency and margins. We're excited about VTEX's future, focusing on growth, margin optimization, and customer success. Positive feedback from customers and industry experts reaffirms our position as the global leader in connected commerce. We're leveraging these strengths to drive significant sales momentum. Our recent expansion into Germany underscores our commitment to global growth, while sustained sales momentum in Brazil highlights our long-term growth potential.





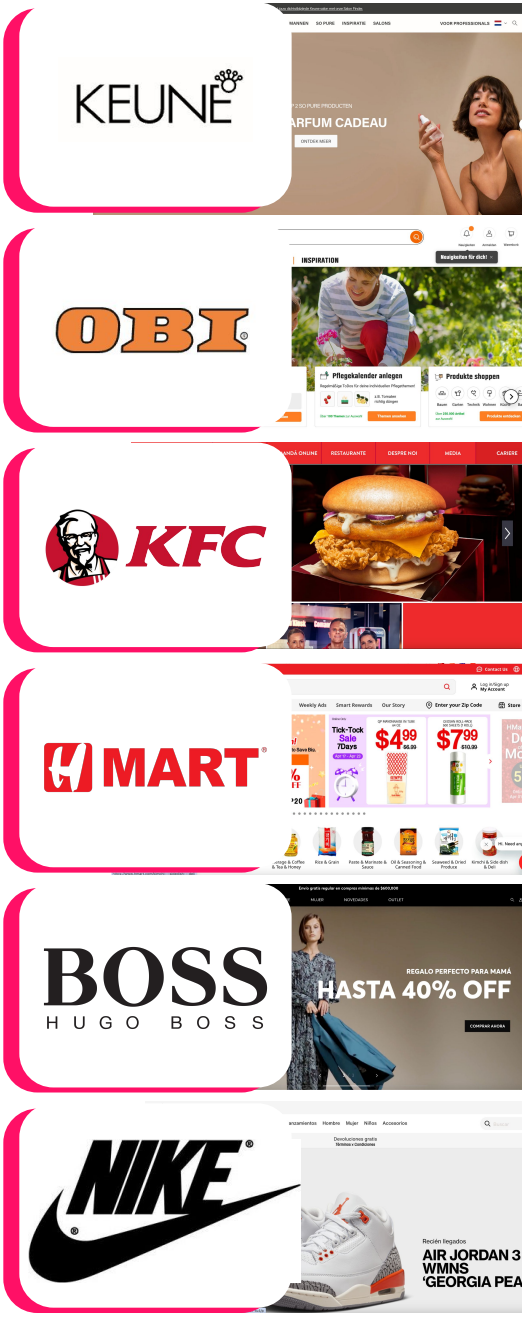
Overview
Geraldo Thomaz Jr.

In the first quarter of 2024, we celebrated successful go-lives of new customers, including:

- **Keune Haircosmetics Manufacturing** in Belgium, the Netherlands, and France;
- **Arado**, **Cruzeiro do Sul** and **PetYard** in Brazil;
- **Tres Montes** in Chile;
- **OBI** in Germany;
- **PagineGialle Shop** in Italy,
- **KFC** in Romania, and
- **HMart** in the US.

Furthermore, we have strengthened our relationship with existing customers, such as:

- **Grupo Soma**, who added a new store in Chile, expanding its presence to more than 10 stores across Latin America and the US;
- **Hinode Group**, who added a B2B store in Brazil, now operating both B2B and B2C models across two countries in Latam;
- **Hugo Boss**, who added new stores in Colombia and Peru, increasing its footprint to four stores across Latin America; and
- **Nike**, who added a new store in Colombia, extending its reach to three countries in Latin America.



VTEX

Overview
Geraldo Thomaz Jr.

This year, VTEX achieved a significant milestone in its journey of growth and innovation by successfully launching the OBI operation in Germany. This move marks a pivotal moment in our commitment to the European market.

Talking about milestones, I would like to draw attention to a significant event in the 1Q24 that happened right after NRF. VTEX Connect Live NYC made a resounding debut as the first U.S.-based event of its kind, drawing over 1,000 influential in-person attendees eager to immerse themselves in the latest trends and strategies shaping digital commerce. The event was a hub of inspiration and networking opportunities for commerce leaders seeking to navigate the evolving retail landscape. In addition to featuring the renowned entrepreneur and basketball Hall of Famer, Magic Johnson, our event included a panel discussion with Hearst. They shared insights into their decision to partner with VTEX, highlighting how this choice enabled them to significantly decrease their total cost of ownership, transitioning from a TCO of high single-digit of their GMV to low single-digit with VTEX. The event highlighted the significance of equipping retailers and brands with the essential tools in today's high-interest rate environment. As global interest rates remain high, businesses must optimize organic sales channels and enhance margins. The event demonstrated that VTEX strikes the balance between flexibility and low-maintenance commerce technology, enabling its customers to stay ahead in the dynamic world of retail.

Additionally, as mentioned, we started 2024 with strong momentum with industry analyst firms recognizing VTEX as a top performer. In January, we were recognized as the Customers' Choice in Gartner®'s Voice of the Customer for Digital Commerce. By February, we also earned the top spot in the IDC MarketScape Worldwide B2C Digital Commerce Platforms for Midmarket Growth Vendor Assessment study. With this strong start, 2024 is shaping to be an even more remarkable year for VTEX.

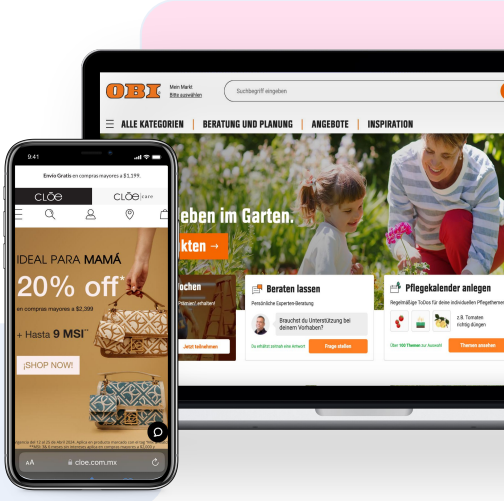


Overview
Geraldo Thomaz Jr.

Now, let's focus on what matters most: our customers. Here are just a few customer success stories that exemplify our platform's capabilities and the remarkable outcomes they've achieved.

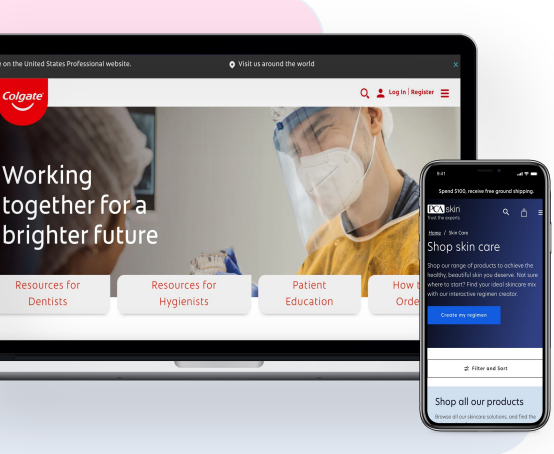
OBI, one of our new live customers this quarter, is a titan in Europe's home improvements sector, with more than 640 stores scattered across ten European countries, with headquarters in Germany. By migrating away from their previous legacy platform and choosing VTEX over others, OBI can now leverage the VTEX composable and complete commerce platform, marketplace capabilities, and unparalleled automation processes. OBI seamlessly integrated to its ecommerce operations 349 Germany-located physical stores, and third-party sellers into a unified transactional platform, expanding product offerings and providing customers with a seamless shopping experience across various delivery and pick-up options. With integrated physical stores nationwide, customers can now pick up online orders within just two hours, showcasing the platform's efficiency and effectiveness in meeting consumer needs. Since migrating to VTEX, OBI has experienced significant enhancements in consumer and developer experience, including unified franchise management, smooth ramp-up of platform traffic, improved frontend metrics, and increased agility in development processes. This collaboration not only enhances OBI's current operations but also opens doors to a world of future possibilities. It's a testament to VTEX's unwavering commitment to driving profitable growth and fostering innovation for enterprise brands globally.

Cloe, the most relevant leather goods brand in Mexico, partnered with VTEX to lead through omnichannel strategies and its international expansion. VTEX's composable platform helped them reduce implementation costs and streamline processes. Among its standout features, Personal Shopper emerged as a game-changer, offering customized shopping experiences. With VTEX's innovative solutions, Cloe achieved remarkable results: a 14% increase in digital sales by the end of 2023. Standout features like Personal Shopper reduced returns and improved decision-making, while enhancing checkout performance, and diverse payment methods boosted offline sales. Cloe's ecommerce success, evidenced by a 60.5% conversion rate increase and 12.5% growth in average order value, underscores the impactful collaboration between VTEX and Cloe. Future plans include adding the cross-border functionality for expansion into new markets and personalized experiences through Live Shopping, demonstrating Cloe's commitment to continual growth and innovation.



Overview
Geraldo Thomaz Jr.

Colgate's partnership with VTEX is the embodiment of innovation in digital commerce. Recognizing a gap in the customer experience between dental professionals and their customers, Colgate got to work by building a unique B2B2C marketplace ecommerce model. With a network of consultants covering diverse regions, scalability of this digital transformation was vital. Colgate sought a platform accommodating complex B2B requirements, including a specialized login system for certified dentists and seamless integration with partners. Leveraging VTEX's native capabilities, Colgate developed a pioneering marketplace for dentists, offering integrated distributor products and fostering sales growth without logistical expenses, streamlining implementation and reducing costs. Strategic enhancements, like cashback promotions and a loyalty program, further augment its sales. Colgate started its operations with VTEX in Brazil, and in 4Q23, it added two B2B sites in the US, PCA Skin and Colgate Professional, further leveraging our fully composable and marketplace-enabled architecture.



Dimak, a grocery distributor in Chile catering to over 24,000 customers across eight regions, partnered with VTEX to revolutionize their B2B operations. Embracing VTEX's innovative solutions, Dimak embarked on a digital journey to tap into strategic growth opportunities by expanding its sales channels. With the launch of a B2B website, Dimak established a 24/7 online store, ensuring seamless access to their products for customers round the clock. Utilizing B2B Suite as the cornerstone of their architecture, Dimak implemented a closed website model, offering product prices exclusively upon customer login while leveraging essential tools such as checkout, catalog, and OMS. With VTEX's guidance, Dimak streamlined its pricing strategy, condensing its price list from 600 to 60 tiers based on location and customer segment. Since the platform's launch within a swift 4-month implementation period, Dimak witnessed remarkable growth, experiencing a 10x increase in GMV and orders, doubling their conversion rate, and achieving a 4 percentage points boost in profitability compared to traditional channels alone.

Hearst, the leading global, diversified media, information, and services company, chose VTEX for its extensive native capabilities, adaptable multi-site architecture, and VTEX IO development platform, enabling the integration of custom features. Leveraging VTEX, Hearst established a marketplace supporting multi-vendor business models, thereby seamlessly enhancing the customer experience across its publications and shoppable interfaces, facilitating the easy purchase of featured products. With VTEX's out-of-the-box features and flexible APIs, Hearst swiftly launched its platform and iteratively leveraged new business models in the digital economy. Furthermore, Hearst serves as the flagship customer piloting VTEX Data Pipeline and VTEX Fast Checkout, currently undergoing A/B testing on their Men's Health website, as the primary checkout experience.

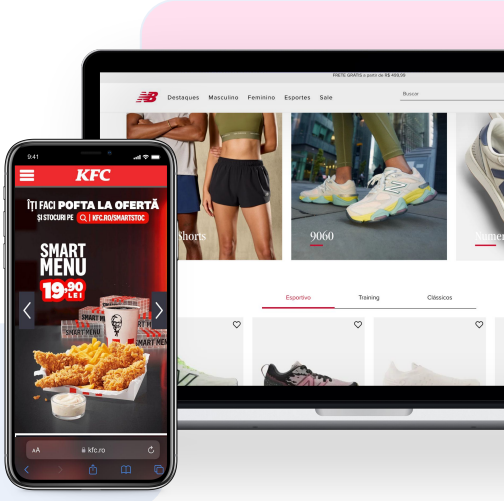
Overview
Geraldo Thomaz Jr.

Interfood, a leading Brazilian beverage importing company with a global presence of over 100 locations, has been a satisfied VTEX B2C customer since 2020. Recently, they chose VTEX also to power their B2B operations, unlocking a new realm of opportunities. Leveraging VTEX's B2B Suite tool, Interfood seamlessly integrated APIs to create microservices, streamlining customer registrations and credit control processes for enhanced organizational management. Additionally, with VTEX IO Apps, the VTEX team tailored tax requirements to match Interfood's needs precisely, exemplifying VTEX's dedication to meeting and exceeding customer expectations.

KFC, a quick service restaurant giant, selected VTEX in Romania to power their B2C operations. Seamlessly aligning with VTEX's out-of-the-box functionalities, KFC swiftly launched their website and mobile app, for both IOS and Android, all from a single code base. I am proud to say that the VTEX team was able to adeptly tailor ordering and payment methods to meet KFC's specific requirements and be ready to launch the project in only four months.

Mezzo, a leading Brazilian dermo-cosmetics chain spanning nine states, partnered with VTEX to develop their B2C and B2B platforms. They swiftly launched two stores, Mezzo Cosmetics and Mezzo Professionals, leveraging seamless connectivity with physical stores and a unified data source for streamlined operations. Each franchisee account serves as a white-label seller, representing individual physical stores and ensuring optimal inventory management across territories. Remarkably, the project was completed within a mere three months.

New Balance, the global brand catering to sneaker enthusiasts, migrated to VTEX and doubled their website conversion rates in Brazil. With their previous ecommerce platform, New Balance struggled to deliver innovative experiences, limited to basic sales journeys due to high development costs and resource allocation constraints. VTEX's composable platform, plug-and-play functionalities, and extensive partner ecosystem caught New Balance's attention. Once manual and labor-intensive, integration of pricing catalogs and XML automation became seamless with VTEX's API integrations, empowering their teams to manage promotions and discounts autonomously. The migration to VTEX facilitated rapid results for New Balance's ecommerce, which led to a significant increase in product page visits, doubled conversions, and revenue growth within a month post-migration.



Overview
Geraldo Thomaz Jr.

Before handing over the call to Ricardo, I want to revisit some exciting announcements from VTEX DAY. This year's event boasted over 20,000 attendees, highlighting the impressive reach of the VTEX ecosystem.

Some of the announcements included FastStore, empowering brands with agile front-end solutions for tailored store experiences, now available for both B2B and B2C use cases. VTEX Ad Network, revolutionizing digital advertising through AI-driven targeting and auctions. VTEX Data Pipeline, offering specialized APIs for seamless data retrieval and sharing. VTEX Shield, safeguarding against security threats and preserving revenue and trust. Along with AI-powered features across the Search Engine, Live Shopping and Pick and Pack operations, optimizing user experiences and boosting conversion rates, and marketplace enhancements for streamlined operations and accelerated time-to-revenue.

These represent just a handful of the thrilling advancements we've revealed on our innovation and growth journey here at VTEX. We're reshaping the commerce landscape with pioneering products specifically designed for enterprise customers and their IT and business teams. Our solutions empower IT teams with cutting-edge functionalities, while our intuitive interface empowers business teams to implement strategies seamlessly. Ultimately, our products are geared towards optimizing end-user retention and attraction, boosting conversion rates, helping our customers optimize their commerce platforms, and amplifying their ROI. Moreover, these products will open up new revenue streams for VTEX. While their short-term impact may not be significant, they could play a role in our long-term growth trajectory.

I'd like to take a moment to express my gratitude to our 1,334 dedicated VTEX employees, whose unwavering dedication and commitment propel us forward as the backbone for connected commerce. I'd also like to thank our valued customers, partners, and investors.

I will now hand the call over to Ricardo.



Financial Update
Ricardo Camatta Sodre

Thank you, Geraldo. Hi everyone, I am pleased to share VTEX's Q1 2024 financial results.

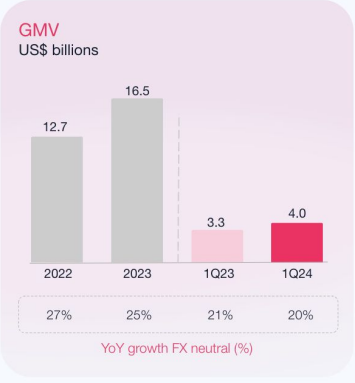
As emphasized by Geraldo, our Q1 GMV hit US$4.0 billion, marking a YoY growth of 22% in USD and 20% in FXN. This led to a YoY revenue growth of 25% in USD and 21% on an FX-neutral basis, reaching US$52.6 million.

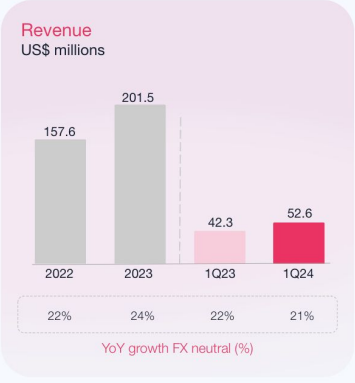
Although macroeconomic conditions impacted the SSS of existing customers, the first quarter of 2024 witnessed relevant momentum in signatures of new annual contract value. That, coupled with significant gross margin improvements and a disciplined operational expenses approach, results in significant operational leverage and an encouraging sign for VTEX's profitable growth trajectory.

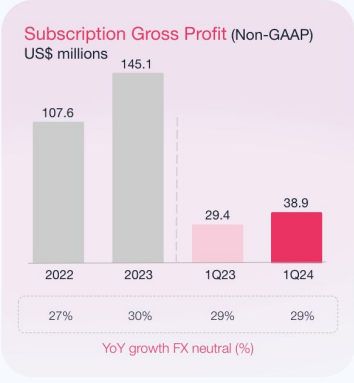
Double-clicking on our topline, our subscription revenue reached US$50.4 million this quarter, up from US$39.8 million in the first quarter of 2023, representing a YoY increase of 27% in USD and 23% in FX neutral, while our services revenue totaled US$2.3 million.

Now, moving down the P&L, we have exciting updates. We are pleased to announce the positive operational leverage achieved, even with the inherently weaker seasonality observed in all first quarters. This performance instills confidence in our sustainable profitability prospects.

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







Financial Update
Ricardo Camatta Sodre

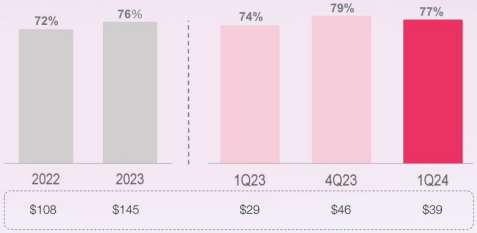
Our non-GAAP subscription gross margin reached 77.2%, a 328 bps YoY improvement compared to the 73.9% margin in the same quarter last year. This margin expansion underscores our team's dedication to enhancing profitability and highlights our ongoing efforts to migrate non-core services to more efficient hosting providers and optimize support costs for operational leverage. While we've made substantial progress, there are still further opportunities for marginal improvements going forward.

Consequently, our non-GAAP gross margin reached 72.4%, representing a 641 bps improvement YoY compared to 65.9% in the first quarter of 2023. Notably, our gross profit increased 37% YoY in the first quarter of 2024, reaching US$38.1 million.

Our non-GAAP total operating expenses reached US$35.1 million in the first quarter of 2024 from US$33.4 million in the prior quarter and US$31.9 million in the same period last year. We remain steadfast in our commitment to controlling expenses and optimizing investment returns. Our expenses have remained notably stable throughout 2023 and the first quarter of 2024, reflecting our ongoing efficiency enhancements. R&D and G&A expenses remained relatively stable QoQ, while the increase in S&M is mostly explained by special events such as NRF, and the previously mentioned VTEX Connect NYC.

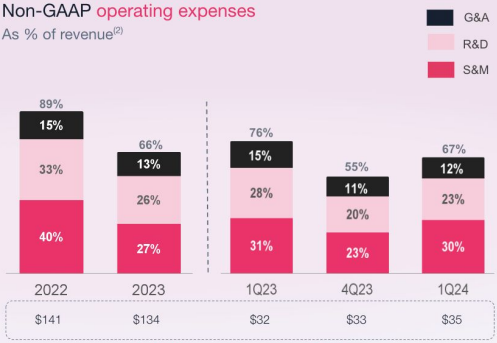
Subscription gross margin continues expanding
VTEX is growing fast with an optimized and agile organizational structure

Non-GAAP subscription gross profit
As % of subscription revenue



Non-GAAP subscription gross profit ($mm)

Non-GAAP operating expenses
As % of revenue[2]



Non-GAAP operating expenses ($mm)

Financial Update
Ricardo Camatta Sodre

As a result, our non-GAAP operating income improved from a negative 9.7% margin in the same quarter last year to a positive 5.7% margin in 1Q24. Given that expenses increased only slightly YoY, this significant 15 p.p. margin improvement is driven by our revenue growth with operational leverage and by gross margin improvements. This reinforces our dedication to managing our business efficiently, fostering growth responsibly and sustainably, and aiming towards reaching the rule of 40.

For the third consecutive quarter, and in a seasonally weak quarter, VTEX generated cash. As of the three months ended March 31, 2024, we had a positive US$1.9 million free cash flow, compared to a negative US$5.0 million free cash flow in the same quarter of the prior year.

Non-GAAP loss from operations YoY margin improved driven by revenue growth and gross margin improvements



Financial Update
Ricardo Camatta Sodre

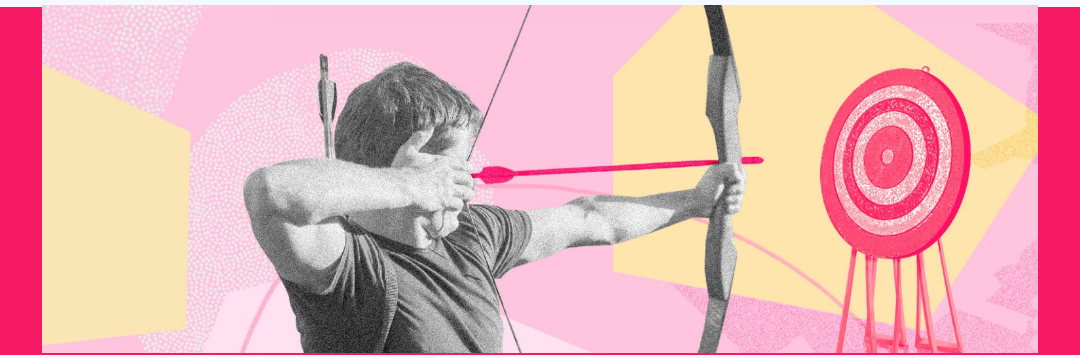
Looking ahead, despite the uncertain macroeconomic conditions, we remain encouraged by our sales momentum and operational leverage.

From a revenue perspective, we are currently targeting US$54.5 million to US$56.0 million range for the second quarter 2024, implying a YoY growth of 18% on an FX neutral basis in the middle of the range.

For the full year 2024, we continue executing our strategy for profitable growth. Recognizing heightened volatility in Argentina's macro situation, we are targeting FX neutral YoY revenue growth of 16% to 20%, implying a range of US$234 million to US$243 million based on April's average FX rate. Further demonstrating our operational leverage, we are targeting free cash flow and non-GAAP operating income margins of high single digits.

We are excited about the future of VTEX. Our business model has proven its robustness, and now, our journey revolves around achieving business growth, expanding margins, and generating cash. We anticipate supporting our customers while extending our value proposition to more brands and retailers to help them reach their financial and operational objectives in a high-interest rate environment worldwide. Our journey so far has been filled with rewarding moments, and we're encouraged about all that lies ahead to solidify our position as the global backbone for connected commerce.

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



Closing Remarks
Geraldo Thomaz Jr.

In conclusion, it's evident that in today's high-interest rate environment, retailers and brands urgently need effective tools to enhance margins and optimize organic sales channels. VTEX is fully committed to providing actionable strategies for B2B and B2C enterprises to maximize ROI and elevate their commerce platforms. By integrating cutting-edge innovations, we are ready to unveil fresh audiences and insights, empowering our customers to achieve even more impactful consumer engagement.

Our unwavering dedication to customer-centricity and innovation-driven solutions is not merely shaping the future of commerce; it's redefining it.

At VTEX, we stand stronger and more robustly positioned than ever before. We focus on growth and margins, underpinned by a remarkably strong business model.

We are excited about the results of the first quarter, our gross margin and operating margin expansion was remarkable and sets a strong foundation for our sustainable profitable growth. At VTEX, we stand stronger and more robustly positioned than ever before. We focus on growth and margins, underpinned by a remarkably strong business model.

This is our time, and we are ready to seize it.

Thank you everyone for being part of this exciting journey. We look forward to keeping you updated at our next earnings call. Have a wonderful week.



Thank you!

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VTEX