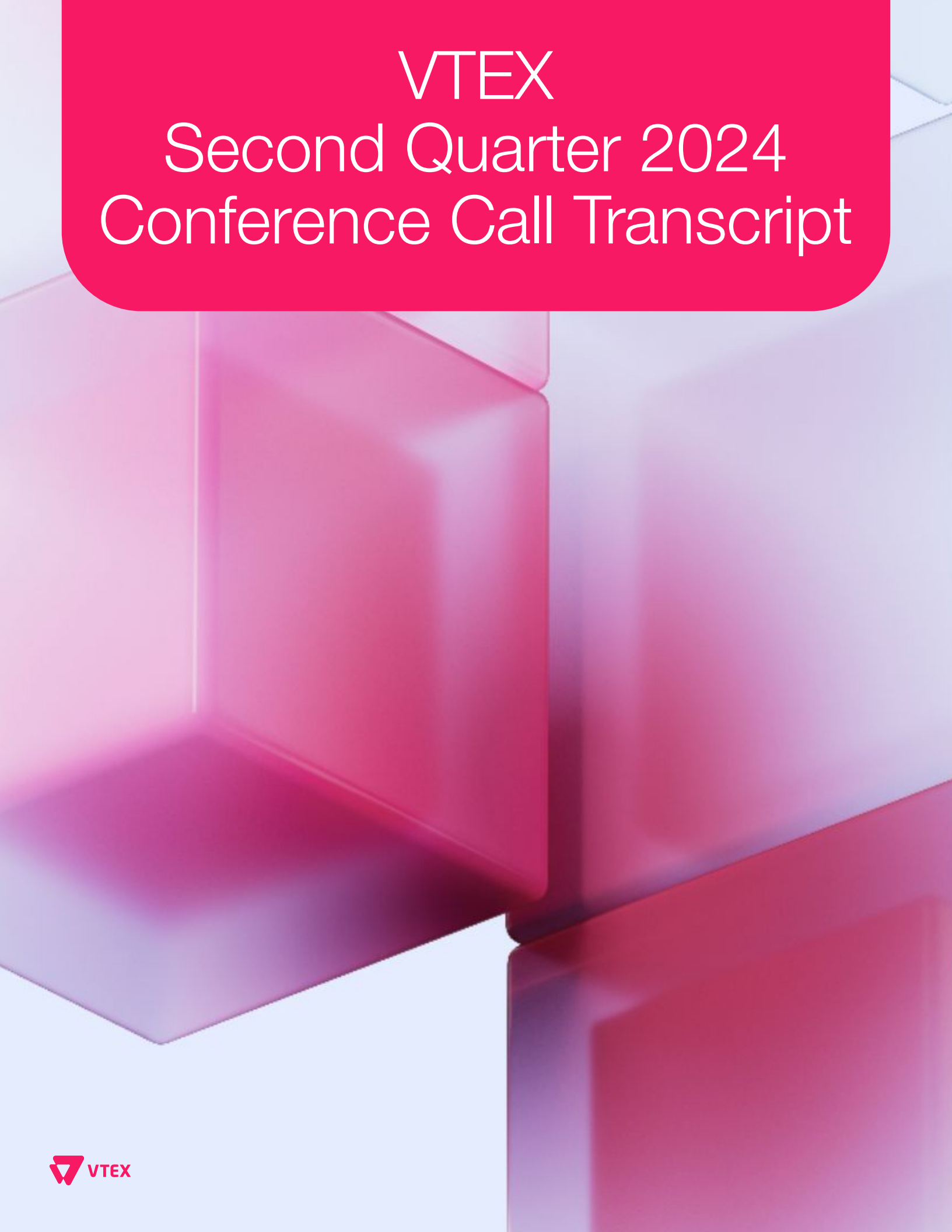
VTEX
Second Quarter 2024
Conference Call Transcript



Introduction and Disclaimer
Investor Relations

Hello everyone, and welcome to the VTEX earnings conference call for the quarter ended June 30th, 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 second 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 thank you for joining our second quarter 2024 earnings conference call.

VTEX's positioning is stronger than ever, with a clear alignment between our value proposition and the needs of global enterprises. This is evidenced by our existing customers consistently outperforming the market and our sustained sales momentum. This allowed us to deliver another robust quarter and gives us confidence in our future growth prospects.

As a result, our GMV grew by **19%** and revenues increased by **22%**, both in FX neutral, boosted by new contract signatures, cross-selling add-ons, and solid net revenue retention performance. Additionally, our ongoing subscription and service costs optimization has resulted in **FX neutral YoY gross profit growth of 34%**.

We've made significant strides in developing a more efficient and resilient structure aimed at maximizing growth and capturing demand. Our team continues to enhance cloud efficiency while maintaining performance. As our ecosystem matures globally, our need to invest in services for new customers decreases, leading to a significant increase in gross margin QoQ, even after the strong results from Q1.

Our **steadfast commitment to profitable growth** has yielded significant YoY non-GAAP operating margin expansion in the last eight quarters, starting with 26p.p. gain in 3Q22, peaking at 42p.p. in 2Q23 and reaching approximately 15p.p. over the last three quarters. Following our remarkable journey, we still see room for operational leverage gains, although at a more moderate pace.

Our costs optimization initiatives and disciplined approach to expenses are reflected in our numbers, positioning us well to reach the target model shared at our Investor Day. That said, let me now provide more insights into our operations, leaving Ricardo to cover the financials later.



Overview
Geraldo Thomaz Jr.

In the second quarter of 2024, we celebrated the successful go-live of **new customers**, such as:

- **Chooze** in Australia;
- **Armani**, **Colormaq**, **Drogal** and **PneuBarato** in Brazil;
- **The Line Group** in Chile;
- **Addi** marketplace in Colombia;
- **Grupo Nazan** and **Librerías Gandhi** in Mexico;
- **Ageas Seguros** in Portugal; and
- **MyEyeDr** in the US.

Additionally, we've continued our expansion with **existing customers**, adding more brands or new regions, such as:

- **Essity**, who added four brands in Colombia, now operating with 11 brands across five countries in Latam;
- **Hearst**, who added Cosmopolitan, now operating with three stores in the US;
- **Multilaser** in Brazil, who added a new brand, DJI, now operating with three stores in the country;
- **Motorola**, who added a store in Sweden, now operating across APAC, Canada, EMEA, Latam, and the US;
- **Nike**, who added a store in Uruguay, now operating in four countries across Latam; and
- **Victoria's Secret**, who added a store in El Salvador, now operating in 12 countries across Latam.



VTEX

Overview
Geraldo Thomaz Jr.

The second quarter is always special for us because of VTEX DAY, an event that holds a unique place in our hearts. It allows participants to grasp the size of our ecosystem and gain deeper insight into our value proposition and new products. It also enables us to cross-sell features and attract new customers. While this time I will not delve into VTEX DAY, I am excited to share a new milestone. Following the success of our inaugural US event in the first quarter, we have now celebrated our first European event. **VTEX Connect Europe**, held in Barcelona, attracted over 3,000 registrants from more than 50 countries, featured over 60 sponsors, and delivered more than 10 hours of content led by over 30 of Europe's most renowned ecommerce leaders. Panels included representatives from OBI, Mars, RedCloud, Starbucks, and Reckitt, among others. We are encouraged by the results of this event and our growth potential in the region.

Another encouraging factor enhancing our global positioning is the recognition from industry analyst firms. 2024 has already been a remarkable year, with VTEX being consistently recognized for its product, strategy, and vision. This quarter, I am proud to announce that **VTEX has been named a Leader** for the first time in the IDC MarketScape: Worldwide Headless Digital Commerce Applications for Midmarket Growth 2024 Vendor Assessment. We were acknowledged for providing comprehensive, unified commerce solutions, including B2B, B2C, B2X, omnichannel, experiential commerce, and marketplaces; our native marketplace and OMS capabilities; developer-friendly tools and support; and a robust serverless development platform for rapid, scalable, and flexible ecommerce solutions. Combined with the recognitions received in the first quarter, we can now say VTEX is a Leader in B2B, B2C and Headless Digital Commerce according to IDC. We are encouraged by these recognitions, which boost our confidence in our global expansion journey and affirm that we are on the right path.





Overview
Geraldo Thomaz Jr.



In a world where the value of building connections is exponential, **we are committed to evolving and strengthening our network of partners and channels**, ensuring we stay ahead of our customers' dynamic needs and unlock new go-to-market strategies for them. With this in mind, in the first half of the year, we've expanded our partnership with TikTok, which has grown from Brazil to the rest of LATAM, and this quarter, we are thrilled to launch a partnership with Pinterest, further expanding our customer's social commerce opportunities. Through this collaboration, our global customers can seamlessly integrate their product catalogs, create Pins, and execute high-performance shopping campaigns on Pinterest, reaching over 500 million monthly active users. This partnership advances our mission to empower global enterprise brands to deliver seamless shopping experiences and engage with consumers seeking inspiration and a positive online shopping environment. We are thrilled to see customers, such as Whirlpool, Blaisten, and Easy, already leveraging Pinterest catalogs to enhance their customer journey from inspiration to action.

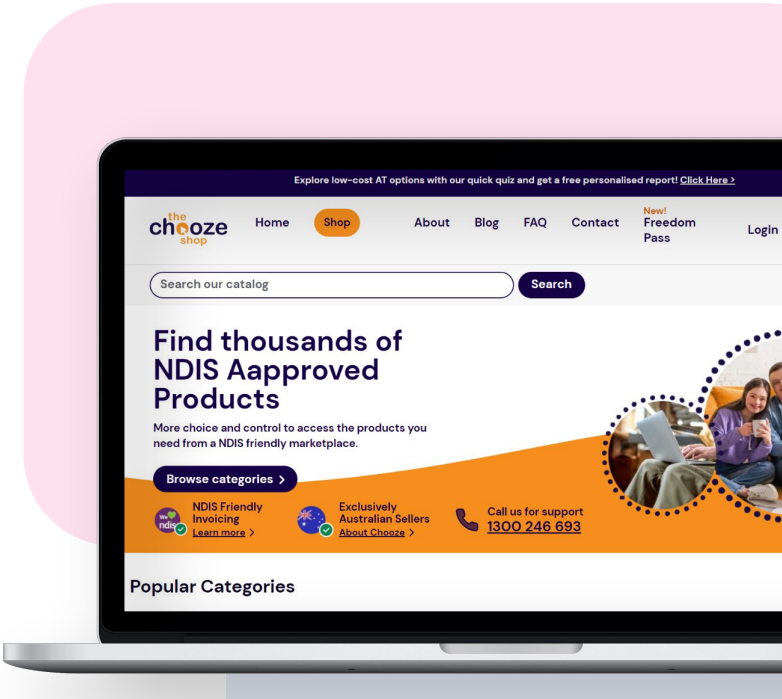
Security remains a priority as we grow our network and widen our geographical footprint. In a world where data is as valuable as gold, security will only grow in importance, especially as governments enforce regulations and set mandatory security standards for providers. That said, we proudly announce that VTEX has achieved the ISO 27001 certification, which provides an international standard framework and guidelines for establishing, implementing, and managing an information security management system. This certification represents another step in our security journey and highly reaffirms our commitment to supporting and providing peace of mind to our customers.

Overview
Geraldo Thomaz Jr.

Before moving to the financial section, I would like to share some customer cases with you to illustrate more tangibly why enterprises worldwide are choosing VTEX and how we are partnering with them to streamline their operations.

Addi, a Buy Now, Pay Later payment method provider in Colombia, decided to expand its business, becoming a marketplace with the VTEX platform. This strategic move aimed to connect its existing merchants, most of whom were VTEX customers, and enable them to use Addi's payment method via a mobile app. The new platform has over 1 million consumers and is built using our robust marketplace architecture, with both VTEX and non-VTEX sellers integrated through the Seller Portal. The project was also developed using our authentication protocol integrated with a third-party identity provider, VTEX IO Store Framework, and analytics integration with Amplitude. Additionally, the Addi Payment Connector is certified through the Payment Provider Protocol. The implementation, completed in less than four months, delivered impressive results in its first three months of operations, enhancing Addi's market presence and driving significant growth.

Chooze, an Australian NDIS-approved disability equipment and supplies distributor dedicated to supporting individuals with disabilities and aging Australians, has launched its marketplace partnering with VTEX. Chooze is leveraging VTEX out-of-the-box features such as marketplace, seller portal, OMS, and VTEX IO to facilitate its digital business expansion. With a growing network of 134 sellers and a catalog of over 18,000 products, the marketplace architecture empowers customers with seamless product comparisons and the ability to purchase from multiple local sellers simultaneously. By leveraging the VTEX IO IPaaS solution, Chooze successfully implemented customized and NDIS-friendly invoicing for purchases from multiple shops, including all necessary data for claiming, simplifying the claiming process and reducing the likelihood of delays or rejections. Additionally, a feature to include membership and subscription services for key products is under implementation. Chooze aims to set a new benchmark in disability and aged care shopping, focusing on expanding its product range and diversity on the platform to attract more customers and boost revenue. We are excited to partner with Chooze on their journey to becoming leaders in the sector, helping them to leverage their expertise by providing a seamless, transparent, and accessible shopping experience for their customers.

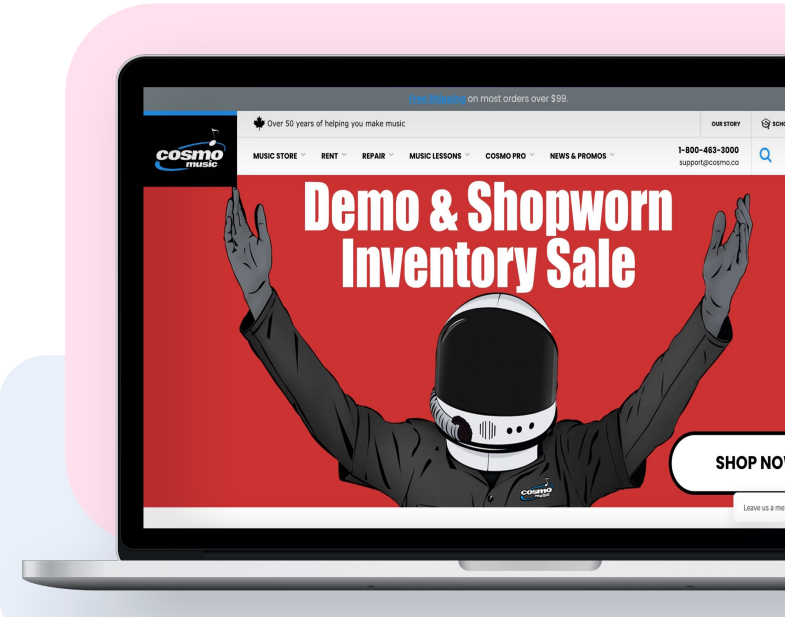


Overview
Geraldo Thomaz Jr.

Cosmo Music, a leader in musical instrument rentals in Canada, recently completed the migration of their rental business from a highly customized legacy platform to VTEX. This strategic move was driven by the need to enhance operational efficiency, streamline the checkout process, and provide greater control over rental contracts. The migration to VTEX has ensured a seamless and uninterrupted customer journey, maintaining service consistency. Following the migration, Cosmo Rentals has achieved a stable number of rental orders YoY, an outstanding outcome during the transition period. The migration included implementing advanced features such as a seamless one-page checkout, enhanced rental management capabilities, and intuitive interfaces for managing business rules and customer journeys. These improvements have enabled Cosmo Music to better serve its diverse customer base, including students, parents, educators, and organizations while laying a solid foundation for future growth and adaptability. Additionally, and aligned with our firm commitment to our customers, Cosmo Rentals has highlighted that VTEX's Professional Services team has been an unparalleled partner throughout the process, thoroughly understanding their business, meticulously mapping out complex business rules and various customer journeys, and ensuring the project was managed to guarantee its success.

Dior, the renowned French luxury fashion and beauty brand, has an exceptional success story in Chile and serves as a compelling testament to the transformative power of VTEX's omnichannel capabilities. By partnering with VTEX, Dior experienced a more than 100% YoY orders spike in the first half of 2024, directly attributed to the seamless integration of their physical and online channels. Leveraging VTEX's expertise and adaptable solutions, Dior effectively navigated the complexities of digital transformation and successfully expanded to Argentina, with plans to broaden their reach to new markets across Latin America. The collaboration with VTEX empowered Dior to deliver a unified shopping experience, ensuring consistency and excellence across all touchpoints, whether online or offline.

Doto, a marketplace for electronic devices, has expanded its reach through its integration with the VTEX platform and ecosystem in Mexico, enhancing usability and user experience. Doto can now effectively measure and improve its conversion rates by leveraging key VTEX components, such as A/B Testing and workspaces. Its innovative Double Buy Box, offering "Save Time" and "Save Money" delivery options, has increased user interaction and loyalty, resulting in a 19% boost in product conversions. With VTEX IO, Doto can manage its infrastructure natively, focusing on user experience, leading to a 27% increase in site visibility and a 26% rise in visits from returning users. Additionally, Doto benefits from VTEX's omnichannel strategy, adopting the VTEX Sales App and, more recently, VTEX Intelligent Search. These advancements have established Doto as a leader in ecommerce, ensuring a balance between logistical efficiency and customer satisfaction.

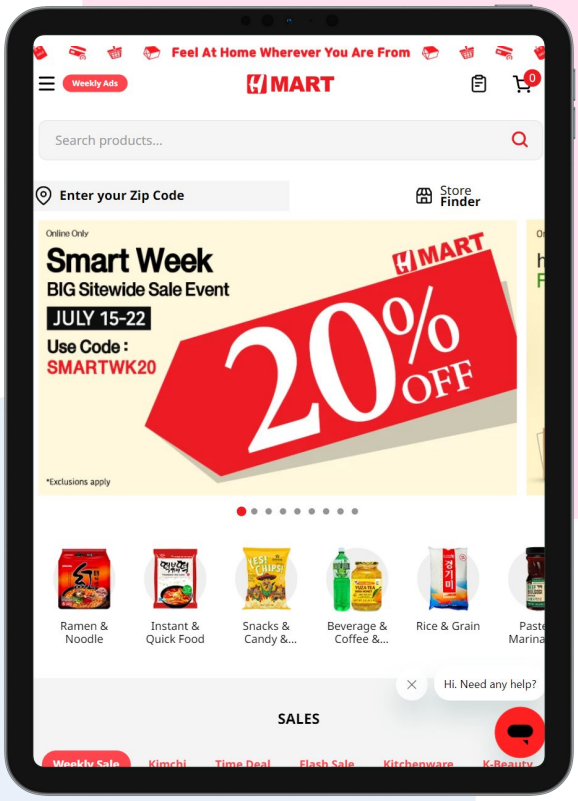


Overview
Geraldo Thomaz Jr.

Ageas Seguros, the largest insurance provider in Belgium and a leader in 14 other countries, has launched a new health and wellness marketplace in Portugal under their Médis brand, partnering with VTEX. They chose us for our unique native marketplace capabilities and robust front-end features, including the Store Framework and optimized checkout flow. These were crucial for integrating multiple payment protocols, including its own payment methods and various gift card options. Additionally, by using the VTEX Seller Portal, Ageas Seguros Portugal can now efficiently onboard sellers, ensuring a quick and straightforward process. We are excited about this partnership and eager to help them create an innovative healthcare ecosystem.

H Mart, the largest Asian supermarket chain in the US, migrated to VTEX, launching two new online stores after a seven-month transition from their legacy platform. By migrating, H Mart sought to consolidate their previously separate systems for perishable and nonperishable items with its fresh goods systems, creating a unified commerce experience. Now, consumers are able to order from all product categories in the same cart, while also leveraging store inventory to provide real time availability information and facilitate efficient delivery strategies. In the second quarter, H Mart initiated the integration process for its physical grocery stores, beginning with their California locations. H Mart's ecommerce capabilities have already witnessed significant enhancements, incorporating features such as VTEX's Pick and Pack app for seamless in-store order picking, and precise product visibility control based on customer location through franchise account and trade policies functionality. On top of that, the architecture also integrates with H Mart's ERP for category inventory and pricing, tax automation, and payment processing. With over 90 locations across the US, this strategic move positions H Mart to deliver a superior omnichannel shopping experience both online and offline. We are excited to accompany H Mart on their digital transformation and their path to strengthening its market share in the US.

Librerías Gandhi, a leading bookstore chain in Mexico with 49 physical stores and a central distribution center, partnered with VTEX to enhance their omnichannel capabilities. They aimed to integrate their extensive inventory of 4.5 million SKUs, including physical and digital products, across all sales channels. This integration enabled sales and inventory management from each store and incorporated in-store pickup. Leveraging VTEX architecture, Gandhi could offer same-day delivery in Mexico City, prioritizing distribution and delivery from their central distribution center, and extended their sales reach through marketplace integrations with Walmart Mexico and Mercado Libre. Additionally, we are developing the sales integration with Palacio de Hierro, Mexico's premier luxury department store, and building the capabilities to manage international deliveries from their central distribution center.

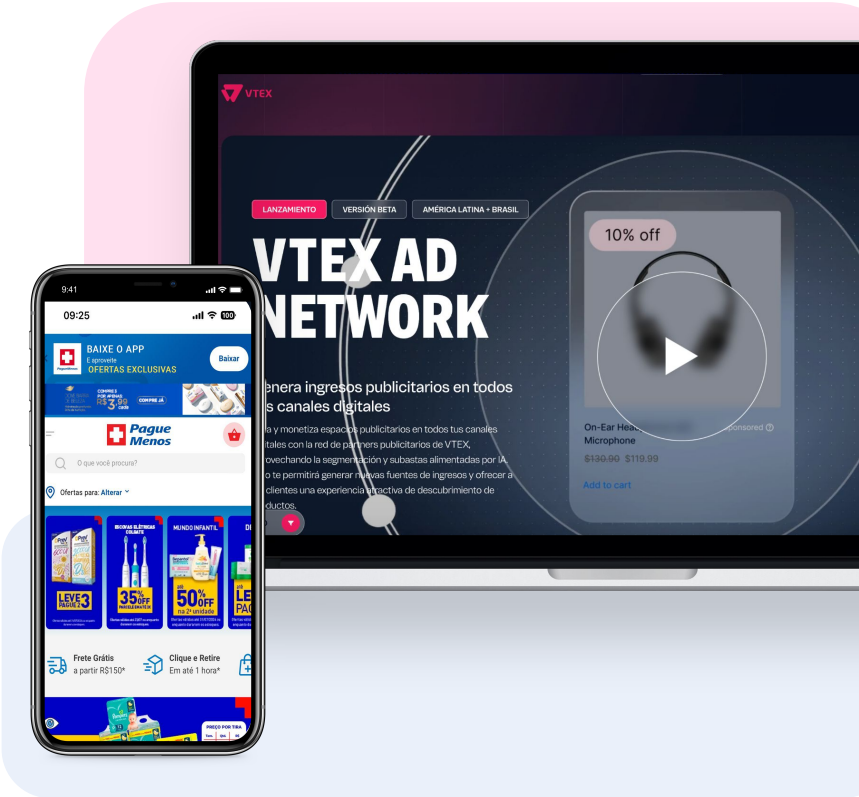


Overview
Geraldo Thomaz Jr.

Last but not least, **Pague Menos**, a leading pharmacy retail chain in Brazil, recognized the pivotal role of Retail Media as the next frontier in advertising. By using VTEX Ads Network, Pague Menos efficiently manages its advertising space, seamlessly aligning advertiser promotions with consumer behavior to drive sales, all without the burden of managing numerous separate advertiser relationships. This integration expanded their reach, opened new sales channels, and delivered immediate increases in sales and revenue, while, on the other hand, it boosted advertisers' performance metrics and ROAS. With VTEX Ads Network's scalable and performance-driven approach, Pague Menos is poised to capitalize on emerging trends and drive further growth in the future.

To finalize this section, I'd like to express my gratitude to our **1,339** dedicated VTEX employees, whose commitment, passion, and execution do not go unnoticed. I also want to thank our customers, partners, and investors who support us on this journey and help shape our story. We have a clear vision and a challenging yet rewarding purpose: to become the backbone of connected commerce. Let’s make it happen!

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 Q2 2024 financial results.

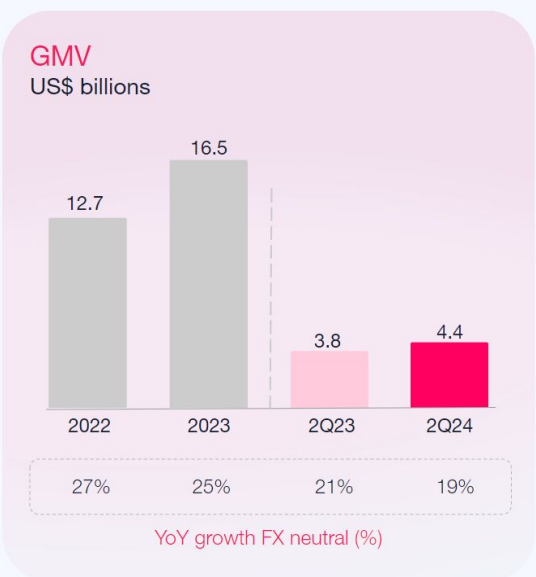
As Geraldo highlighted, our Q2 GMV reached US$**4.4 billion**, marking a YoY growth of **15.6% in USD** and **19.4% in FX neutral**. Revenue stood at US$**56.5 million**, representing a YoY increase of **18.1% in USD** and **21.9% on an FX neutral basis**.

The overperformance versus our guidance was primarily driven by stronger revenue performance from existing customers, positive outcomes from retailers' promotional events, cross-selling from add-ons, and a robust contract signature momentum. We are encouraged by our prospects and aim to build more reference cases demonstrating VTEX's value proposition.

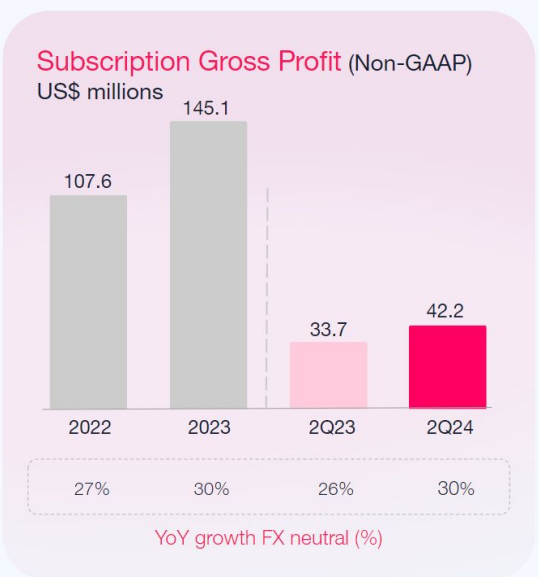
As Geraldo briefly mentioned, our profitable growth strategy is making strides. Two years ago, in Q2 2022, informed by the macro scenario and the opportunities ahead, we started optimizing our organizational structure. The very next quarter, Q3 2022, we were already delivering a YoY improvement of 26p.p. in our non-GAAP operating income margin. Just a year later, by Q2 2023, we further accelerated our operating margin expansion, reaching a peak of 42p.p. As we lapped these initial adjustments, the YoY margin gain has been more moderated, still remaining at around 15p.p. over the last three quarters. Most importantly, throughout this period of eight quarters our FX neutral YoY revenue growth has remained between 20% and 25%, demonstrating sustainable, and now profitable, growth.

We reiterate our commitment to profitable growth. We are making steady progress towards reaching back the Rule of 40, our guiding financial principle. We will continuously evaluate our revenue growth and investment levels, adjusting to the level of demand, sales conversion rates, and return on investments, to build the highest possible long-term value.

Going back to our Q2 P&L. Our subscription revenue reached **US$54.0 million** this quarter, up from **US$44.8 million** in the second quarter of 2023, representing a YoY increase of **20.6% in USD** and **24.7% in FX neutral**, while our services revenue totaled **US$2.6 million**.







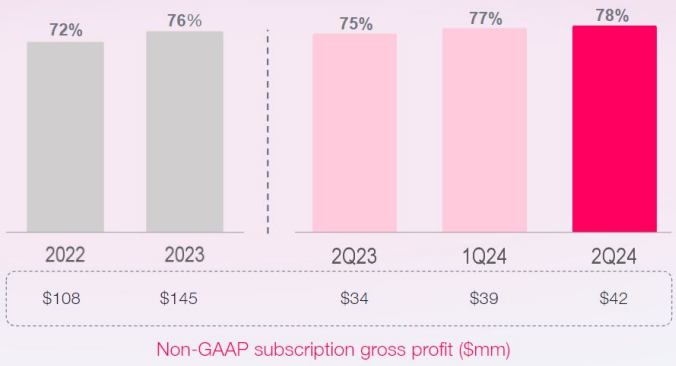
Financial Update
Ricardo Camatta Sodre

Over the past two years, our commitment to driving efficiencies has led to notable improvements in our subscription gross margin. Initially, we focused on foundational steps, such as monitoring cloud investments and establishing a culture of efficiency, to reduce costs and enhance resilience. These efforts, which included migrating microservices to more efficient solutions, set the stage for advanced measures that could generate further improvements. For example, we are enhancing API consumption data's precision, allowing for better allocation of infrastructure costs and identifying efficiency gains. Additionally, we are refining our approach to measure API consumption by latency, enabling a more accurate assessment of resource intensity and equitable cost-sharing. These initiatives empower us and our customers to make informed, efficiency-driven decisions that support our financial goals and enhance our competitive advantage. As a result, our non-GAAP subscription gross margin has reached **78.1%**, a **285 bps YoY** improvement compared to the **75.3%** margin in the same quarter last year.

On top of that, our overall non-GAAP gross margin this quarter also improved significantly, reaching **74.0%**, a **597 bps** improvement from the **68.0%** margin in the second quarter of 2023. Our efforts to build an ecosystem of system integrators and partners globally are enabling us to scale more efficiently. Our ecosystem has allowed our new customers in the US and Europe to rely less on direct services from VTEX, which in many cases were sold at a loss to onboard our initial larger customers in these regions. Consequently, our non-GAAP gross profit had a YoY increase of **28.4% in USD** and **33.6% in FX neutral** in the second quarter of 2024.

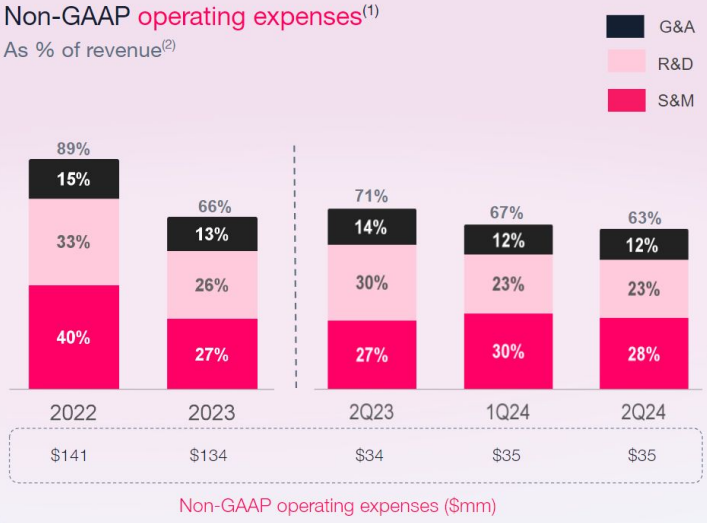
Our non-GAAP total operating expenses reached **US$35.4 million** in the second quarter of 2024, up from **US$35.1 million** in the prior quarter and **US$34.1 million** in the same period last year. Although a net positive one-off of almost US$1 million reduced our expenses this quarter, total expenses have remained relatively stable throughout 2023 and the first half of 2024, reflecting our ongoing operational leverage.

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)

Financial Update
Ricardo Camatta Sodre

As a result, our non-GAAP operating income improved from a **negative 3.2%** margin in the same quarter last year to a **positive 11.3%** margin this quarter. With expenses increasing only slightly YoY, the significant **15p.p.** margin improvement is primarily driven by revenue growth with operational leverage and sustainable gross margin improvements.

Before going to our guidance for the next quarter and the full year 2024, let me highlight that for the fourth consecutive quarter, VTEX generated cash. As of the three months ended June 30, 2024, we had a **positive US$3.2 million** free cash flow, on top of a **positive US$1.9 million** million on Q1 2024, and up from a **negative US$3.3 million** free cash flow in the second quarter of last year.



Financial Update
Ricardo Camatta Sodre

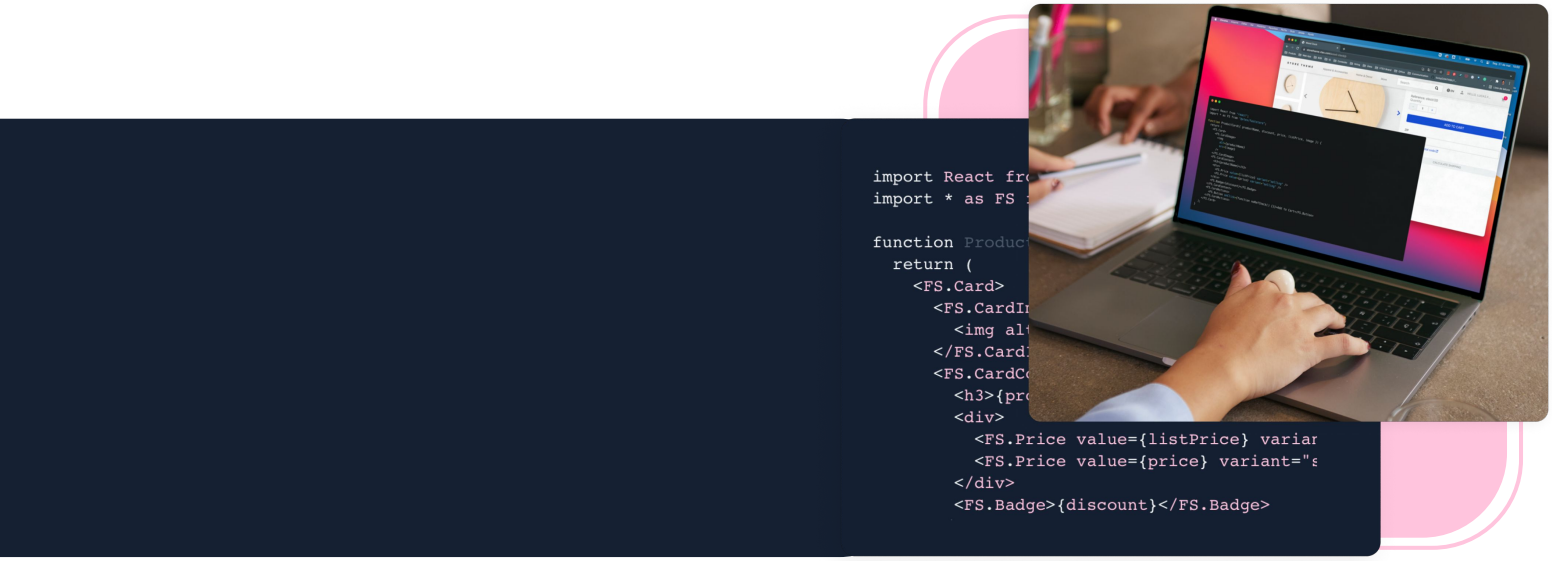
Looking ahead, despite the uncertain macroeconomic conditions, we remain encouraged by our sales momentum and operational leverage.

From a revenue perspective, for the third quarter of 2024, we are **targeting** FX neutral YoY revenue growth of **18% to 20%**, implying a US$56.0 million to US$57.0 million range.

For the full year 2024, we will continue executing our profitable growth strategy. We are **increasing** our FX neutral YoY revenue growth target to **18% to 20%**, implying a range of US$231 million to US$235 million based on July's average FX rate. We are also **raising** our free cash flow and non-GAAP operating income margins target to a range of **high single digits to low teens**.

VTEX continues to operate from a position of strength, propelled by robust sales momentum. Our solid business model, coupled with the recognition from industry analysts, customers, and partners, underpins a prosperous growth opportunity. As we move forward, our focus remains on execution and delivering long-term value to our customers, partners, and investors. We look forward to continuing this journey together, maintaining a relentless commitment to operational excellence.

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



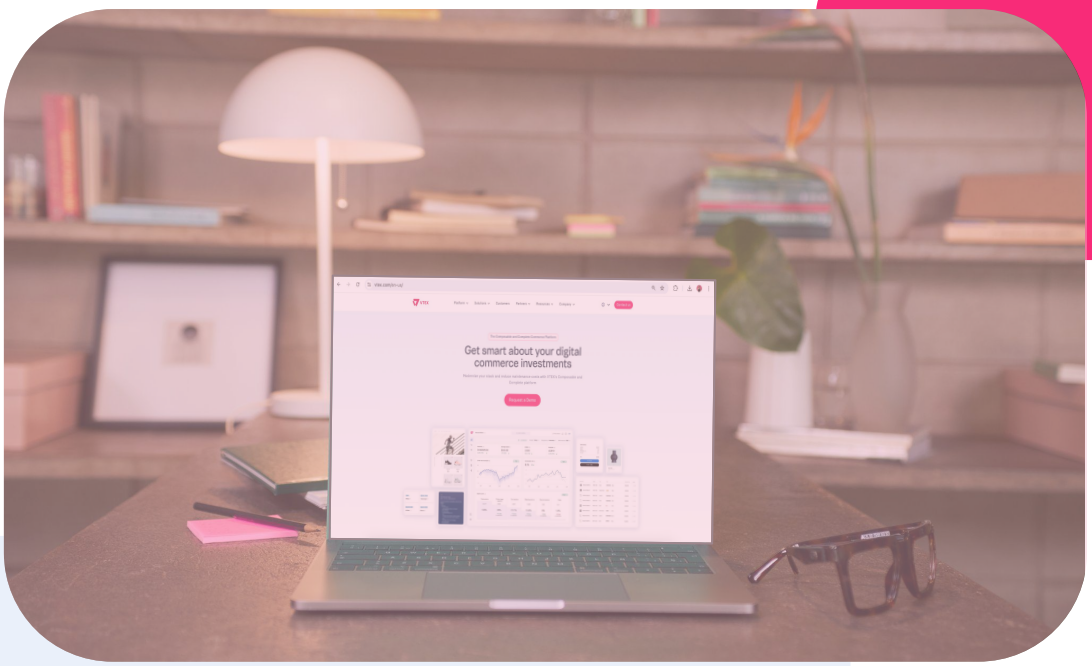
Closing Remarks
Geraldo Thomaz Jr.

The second quarter has proven to be a standout period for VTEX, which has been marked by robust performance and strategic milestones. Our existing customers have demonstrated resilience and success across diverse markets and seasonal peaks. This success underscores our platform's capability to handle high transaction volumes, effectively target diverse consumer segments, and help our customers consistently outperform the market.

We continue to experience a strong momentum in contract signatures, and our global ecosystem continues to mature, **generating positive externalities**.

As we continue to execute our **profitable growth strategy and deliver long-term value,** we are more confident than ever that we are well-positioned to achieve our vision of becoming the backbone of connected commerce.

We appreciate the support of our investors and partners on this journey and remain focused on executing with excellence to capitalize on the significant opportunities ahead.



Thank you!

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VTEX