VTEX
Third Quarter 2024
Conference Call Transcript



Introduction and Disclaimer
Investor Relations

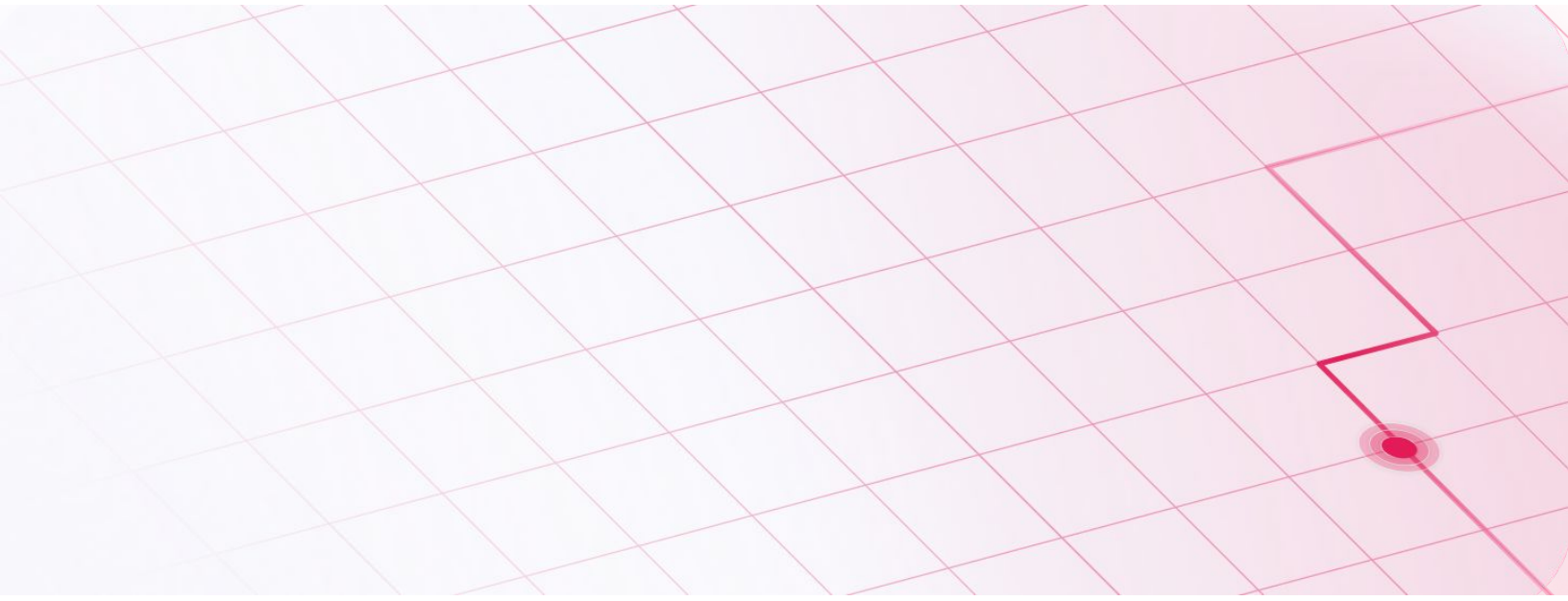
Hello everyone, and welcome to the VTEX earnings conference call for the quarter ended September 30th, 2024. I am Julia Vater Fernández, VP of Investor Relations for VTEX. Our senior executives presenting today are Geraldo Thomaz Jr., founder and co-CEO, and Ricardo Camatta Sodre, Chief Financial Officer. 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.

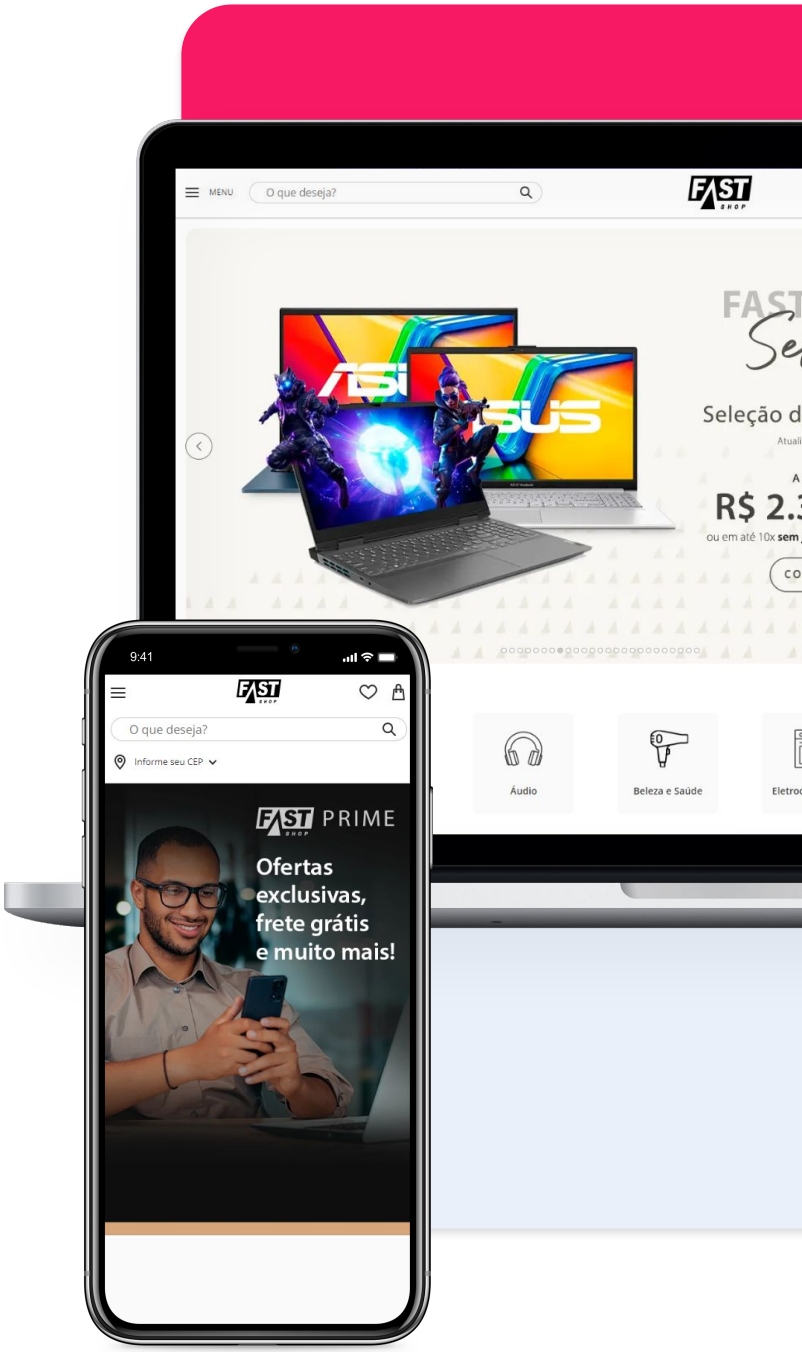
Thank you Julia.

Welcome everyone, and thank you for joining our Q3 2024 earnings conference call.

We are proud to report that our product innovation and expanded platform capabilities continue to be key drivers of growth, further strengthening our competitive moat. Through our complete and composable approach, we are deepening relationships with existing customers while also attracting high-profile brands and retailers, driving both top-line growth and profitability.

VTEX made strong strides toward profitable growth. During a period of macro uncertainty, we continued delivering strong subscription revenue growth while also optimizing our cost basis, resulting in a gross profit growth of **28% in FX neutral** this quarter. Significant progress is also noticeable on a Rule of 40 basis, with VTEX achieving **32%** this quarter, up from **28%** in the same period last year. We may be slightly more than a handful of quarters away from reaching the **40% target** presented on our Investor Day last year. Finally, as macro uncertainty may begin to clear, we have streamlined VTEX to fully capitalize on the attractive market opportunities ahead.

We are proud to serve some of the world's most influential brands and retailers, fostering trusted relationships and supporting their success, which ultimately pushes us toward our vision to become the backbone for connected commerce. On top of our existing customer's robust performance, adding new customers further strengthens our growth engine. New contract signatures have remained robust. This quarter, we are excited to highlight **the successful go-live of Fast Shop in Brazil**, one of the big accounts we were implementing throughout the year. This solid sales momentum in our most mature market, compounded by the progress in the US and Europe, and newer products such as our B2B offering and VTEX Ad Network, gives us confidence in our long-term profitable growth potential.



Overview
Geraldo Thomaz Jr.

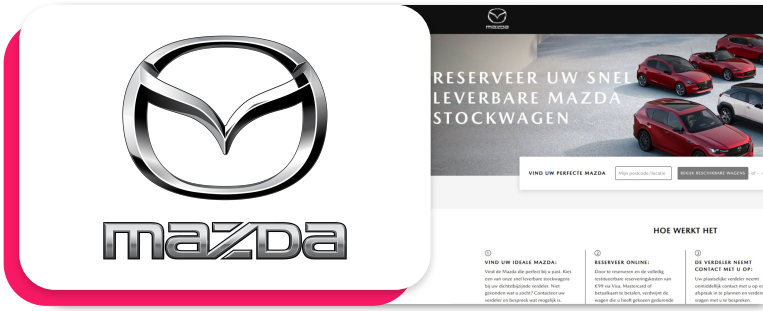
On Q3 2024, beyond **Fast Shop's go-live in Brazil**, we've expanded our customer base with **new wins**, including:

- **Beko** in Austria;
- **Bemol**, **Champion Relógios**, **Ferramentas Negrão, FQM Consumo**, **GrêmioMania**, and **Jorge Bischoff** in Brazil;
- **Comfama** and **Rimax** in Colombia;
- **Cálidda** and **Farmacia Universal** in Peru; and
- **US Electrical Services** in the US.

Our **existing customers** are also deepening their partnership with VTEX:

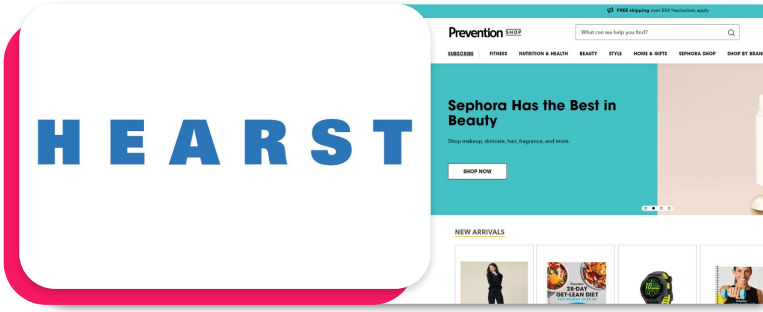
- **Colgate** launched a new store in Switzerland, expanding its footprint across Switzerland, Brazil, and the US;
- **Hearst** added two new stores, Harper's Bazaar and Prevention, bringing their store count to five across the US;
- **Keune Haircosmetics** launched a new store in the UK, now serving the UK, Belgium, France, and the Netherlands;
- **Mazda** expanded into Belgium, now operating in three countries across Europe; and
- **Samsung** added two new stores in Uruguay, now operating in three countries in Latin America.

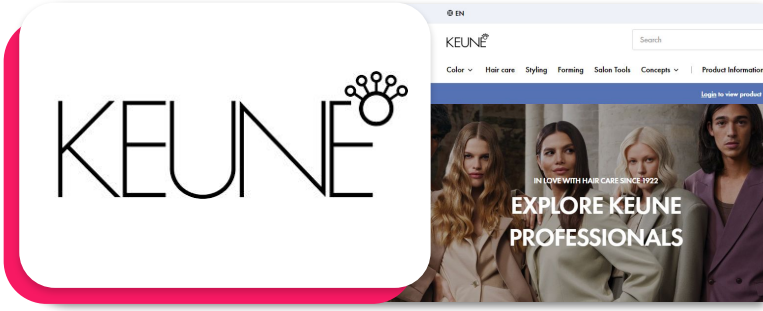












VTEX

Overview
Geraldo Thomaz Jr.

We are grateful for the trust of our customers, whom we look forward to serving with excellence. Their decision to entrust VTEX reflects the value of our product, and the deep relationships we forge as we collaboratively shape the future of ecommerce.

And talking about collaboratively shaping the future of commerce, this year we hosted several key events to strengthen our brand presence across various geographies, including the US, Brazil, and Barcelona. This quarter was the turn of a high-potential market for us, Mexico. **VTEX Connect Latam 2024**, which has become a flagship event for digital commerce in the region with over 10,000 registered participants in Mexico City. The event featured prominent players such as Amazon, Decathlon, Grupo Coppel, HEB, L'Oréal, Mondelez, TikTok, and many others, with Apple co-founder Steve Wozniak headlining as the keynote speaker. Like our other events this year, **VTEX Connect Latam was instrumental in boosting brand awareness, and recognition, driving lead generation and potential future conversion in our sales funnel**.





Overview
Geraldo Thomaz Jr.



This quarter, we have also launched the **VTEX Vision Fall** edition, an initiative designed to align our product roadmap with customer needs and showcase the robustness of our platform to prospects. Reinforcing our position as the leading composable and complete commerce platform, let's highlight some key announcements.

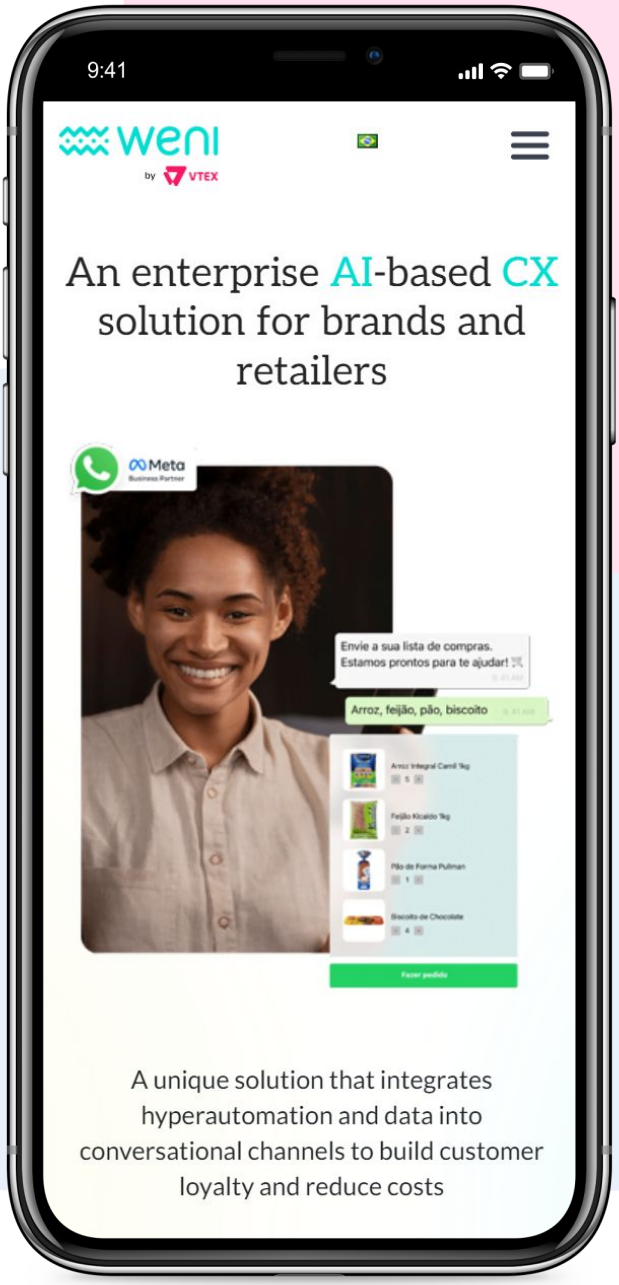
On the retail media side, in this edition, we expanded the **VTEX Ad Network** media kit portfolio with new ad formats. Sponsored products now appear in search auto-complete suggestions and product galleries, boosting visibility and customer engagement with a seamless experience. We've also simplified the process for advertisers to measure and visualize campaign performance, offering deeper insights and facilitating data driven decisions. Advertisers can now easily export campaign data, search terms, and product insights, providing comprehensive reports with just a few clicks. Additionally, we announced upcoming features, such as ads with product recommendations powered by Synerize and sponsored banners, targeting shoppers at the discovery phase. The **VTEX Ad Network** already counts with leading publishers such as Fast Shop, Drogaria Pacheco São Paulo, and Zona Sul, among others.

We've also introduced new data models for catalog, promotion, and external marketplace data to the **VTEX Data Pipeline**. The product is now compatible with any preferred data warehouse, BI tools, and CRM systems, making it easier than ever to deliver VTEX commerce data where it's needed most. These new models offer a unified view of commerce operations, allowing businesses to optimize their strategies seamlessly.

These are just a few of the exciting updates in the **VTEX Vision Fall** edition. I encourage everyone to visit our website at vision.vtex.com, for the complete list of releases, enhancements, and product innovations.

Overview
Geraldo Thomaz Jr.

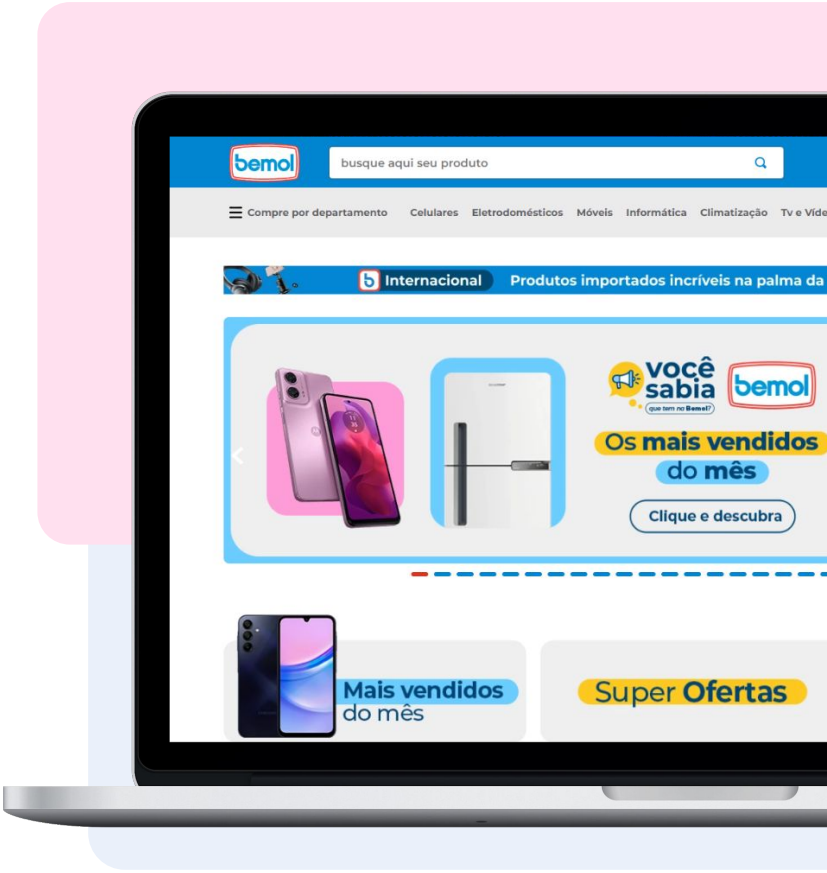
In Q3 2024 we also expanded our platform's post-purchase capabilities with the acquisition of Weni, a leader in AI-powered customer service solutions. Although a small financial investment, this strategic acquisition significantly enhances VTEX's ability to offer a **comprehensive, end-to-end customer experience** platform tailored to the personalized needs of today's consumers. VTEX customers will now benefit from AI-driven, intuitive customer support options that boost efficiency and drive sustainable business success through a more connected and seamless commerce journey. **Weni's AI capabilities allow us to deliver more than software.** Through AI, we will deliver measurable business outcomes of increased customer engagement and satisfaction while optimizing outdated and inefficient call center operations. Finally, this acquisition aligns perfectly with **our vision to be the backbone for connected commerce**, shaping the future of digital commerce by empowering brands and retailers to deliver personalized, omnichannel experiences at every touchpoint.



Overview
Geraldo Thomaz Jr.

Now, turning to the heart of our company, our customers, I'd like to share some success stories.

Bemol, one of Brazil's largest retailers with 39 stores, 48 pharmacies, and 5 distribution centers, successfully migrated its entire operation to VTEX, including its B2C franchise model and headless app, seeking a scalable, efficient platform to unify operations, streamline sales, and introduce innovative financial solutions like Bemol Store Credit, Bemol Vale Bonus, Crédito Bemol, and Bemol PIX. During the phased rollout, the website already experienced a 12% boost in conversion rates and a 33% increase in average revenue per session. After fully migrating all traffic to VTEX, organic traffic rose by 8%, supported by a 56% faster loading performance in mobile devices with limited processing power and internet connectivity. These advancements not only improved the user experience but also reinforced Bemol's expansion across Brazil. With VTEX, Bemol is now positioned for further growth, capitalizing on scalable architecture and strong financial integrations to provide a superior omnichannel experience.

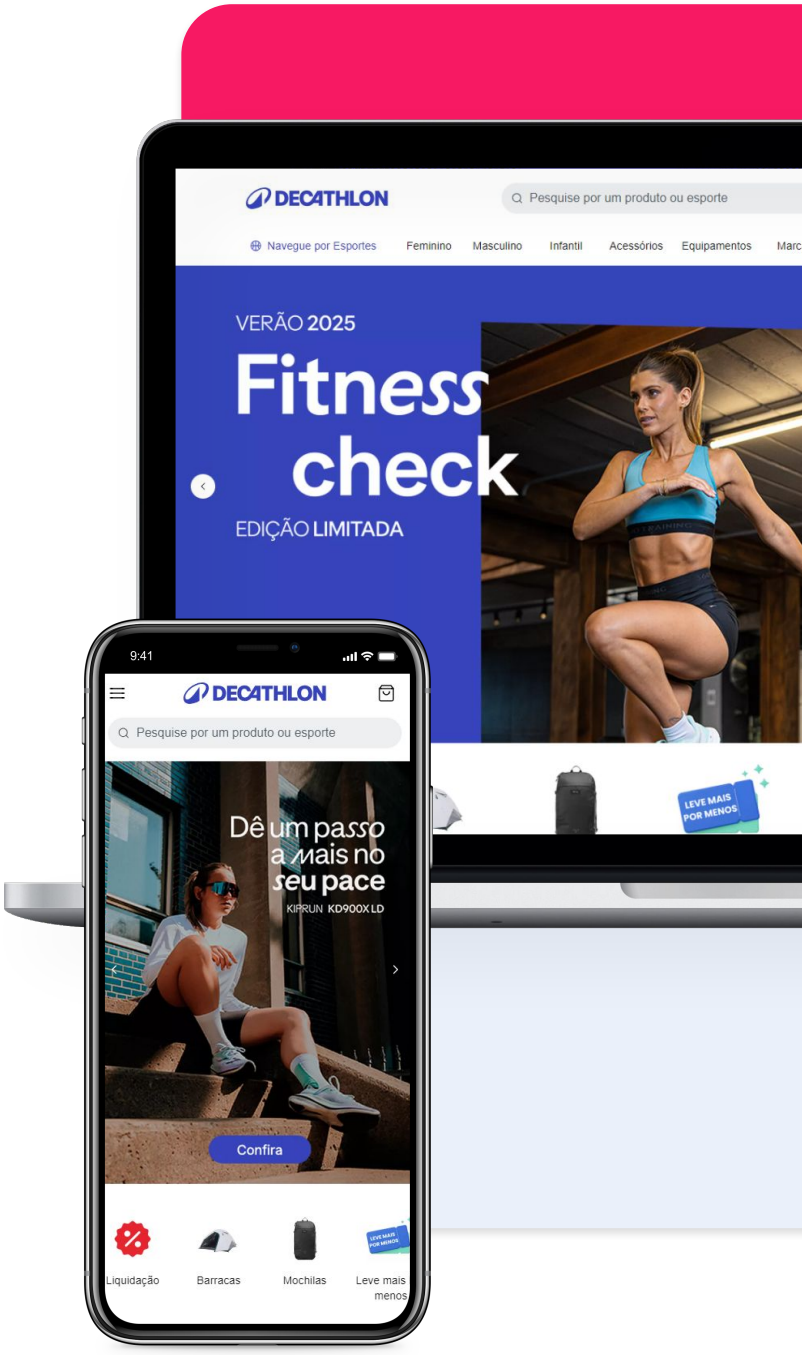


Colgate-Palmolive, the global leader in oral, skin and pet care, continues its expansion with VTEX. Following the successful B2B implementations of PCA Skin Professional and Colgate Oral Professional in the US, Colgate has now extended its digital strategy to international markets, recently launching Oral Professional in Switzerland, its first European B2B site on VTEX. Colgate's headless global architecture powered by VTEX enabled a seamless rollout, demonstrating the platform's adaptability and scalability across diverse markets and business models. We are thrilled to support Colgate's continued expansion in the US and Europe, underscoring their commitment to digital commerce innovation.

Overview
Geraldo Thomaz Jr.

Decathlon, a global leader in sporting goods retail with over 1,700 stores across 64 countries, leveraged VTEX's Sales App in Brazil to enhance its omnichannel strategy and create a seamless shopping experience across both physical and digital stores. By integrating their sales channels, Decathlon allows customers to purchase items not in local stock by accessing a unified inventory across all stores. The VTEX Sales App enabled personalized customer interactions, real-time stock visibility, and flexible checkout, ensuring a faster, more agile shopping experience. This innovation has helped Decathlon maintain its commitment to delivering high-quality, customer-centric service, driving operational efficiency and increasing conversion rates through a fully unified commerce platform.

Fast Shop, the leading Brazilian retailer with 36 years of history, 85 stores, and 15 distribution centers, selected VTEX to migrate from its legacy platform due to high costs and lack of flexibility. Fast Shop has now significantly lowered its total cost of ownership and gained access to our robust and deep ecosystem of third-party solutions, enhancing its customer experience and rapidly expanding into new channels like B2B. All operations, including physical stores, online storefronts, marketplace, and B2B, will now be integrated into a single unified platform. They've also developed a custom app for in-store sales teams, delivering personalized shopping experiences. This strategic shift strengthens Fast Shop's premium customer journey, offering a seamless omnichannel experience with exclusive services and a strong loyalty program, Fast Prime. We are thrilled to see immediate improvements in site performance and sales conversions and look forward to supporting them with agility and flexibility in all future developments.

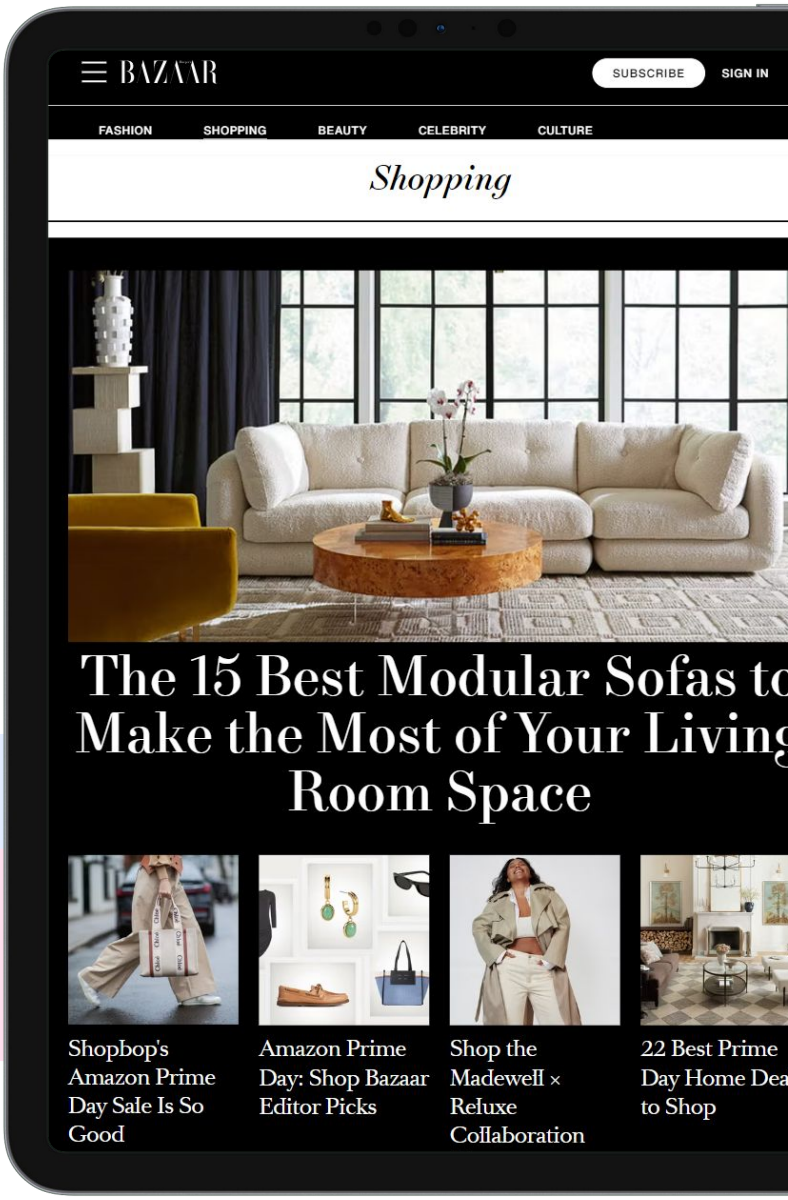


Overview
Geraldo Thomaz Jr.

Hearst, one of the largest global diversified information and media companies, has leveraged VTEX's extensive native capabilities, multi-site architecture, and VTEX IO developer cloud to successfully integrate with the prestige beauty retailer, Sephora, becoming part of Hearst's expanding digital marketplace. Now available across leading lifestyle publications like Women's Health, Cosmopolitan, Harper's Bazaar, Men's Health, and Prevention, Hearst's integration with Sephora marks a new era transforming the buying experience for consumer media businesses. Readers can now seamlessly purchase products that are mentioned or featured in published content from their favorite national magazine and websites, making every touchpoint a sales opportunity. Women's Health, a trusted publication contributing to the well-being of women everywhere, has expanded its reach by instantly enabling readers to become customers. Now, with just a click, over 8,500 products from Sephora's diverse assortment are available, offering customization and rewards through its popular Beauty Insider loyalty program. We are excited to accompany Hearst in this journey that marks a major advancement for the media industry, delivering a seamless experience with shoppable interfaces for effortless product discovery and purchase.

Closing this section, I would like to extend my sincere gratitude to the **1,409** VTEXers. It takes a collective effort, and together we are reshaping the future by establishing VTEX as the backbone for connected commerce. We have ambitious goals and united we will seize every opportunity.

I will now hand the call over to Ricardo.



Financial Update
Ricardo Camatta Sodre

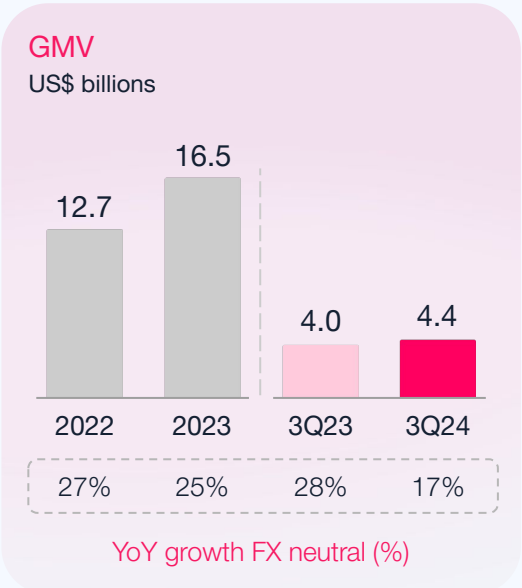
Thank you, Geraldo. Hi everyone, I am pleased to share VTEX's Q3 2024 financial results.

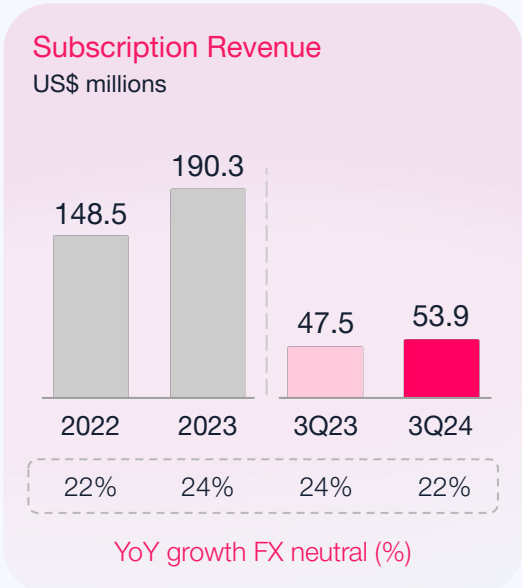
This quarter our GMV reached **US$4.4 billion**, marking a year-over-year growth of **10% in USD** and **17% in FX neutral**, with same-store sales remaining in the teens range. Our revenue stood at **US$56.0 million**, representing a year-over-year increase of **11% in USD** and **19% on an FX neutral basis**.

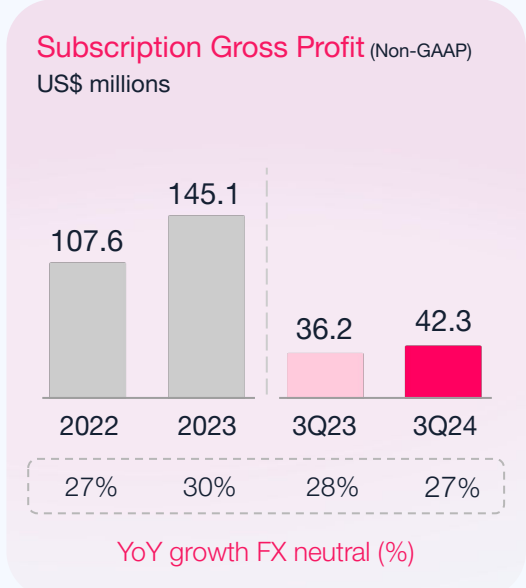
Subscription revenue reached **US$53.9 million**, representing an increase of **13% in USD** and **22% in FX neutral**, primarily driven by good momentum in new contract signatures, solid performance from existing customers, and cross-selling of add-on services.

Services revenue totaled **US$2.1 million**, a by-design reduction given that the evolution of 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.

Now, going to our costs and expenses. Our non-GAAP gross margin reached **75%**, up from **71%** in the same quarter last year. The approximately **410 basis points year-over-year** improvement was mainly driven by hosting cost efficiencies, resulting in our non-GAAP subscription gross margin increasing **230 basis points**, reaching **79%** in Q3 2024 from **76%** in the same quarter last year. While work remains to fully reach our Investor Day subscription gross margin target model goal, future improvements may be more marginal.



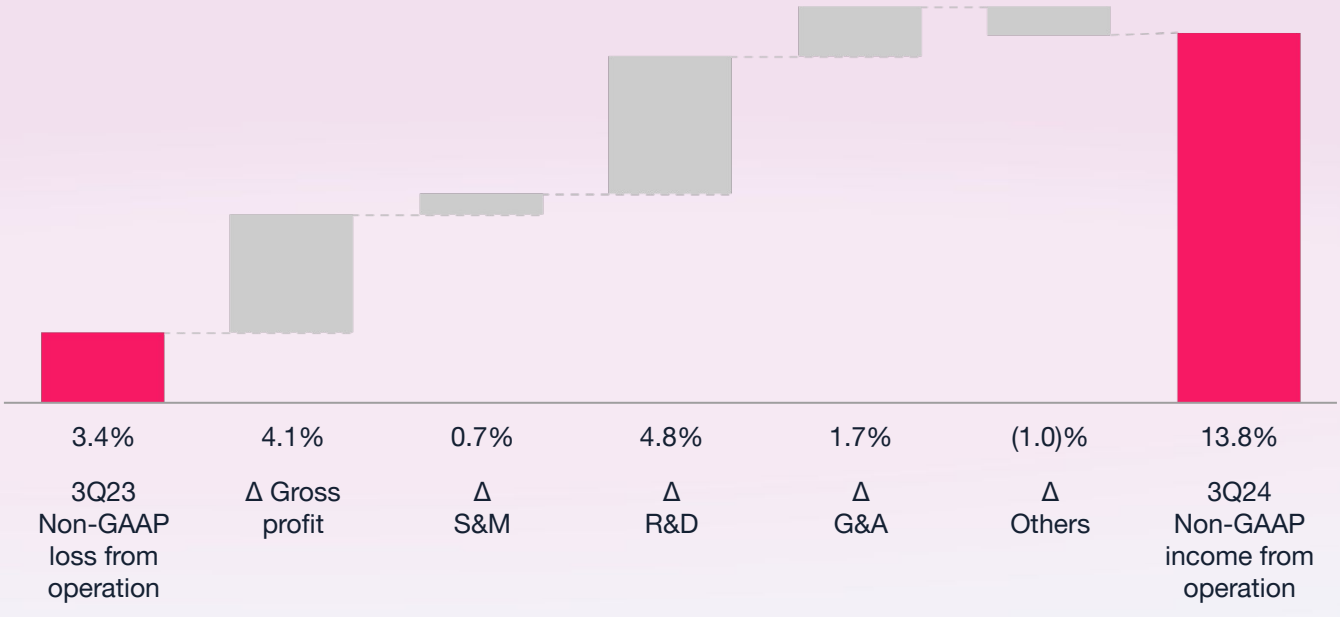




Financial Update
Ricardo Camatta Sodre

Moving down the P&L, this quarter we achieved a **positive 14%** non-GAAP operating income margin, marking a **10 percentage point** improvement year-over-year. Our non-GAAP total operating expenses were **US$34.2 million**, slightly up from **US$34.1 million** in the same quarter last year. As mentioned earlier, most of this margin expansion is driven by revenue growth, supported by a well-invested and efficient organizational structure, which will allow us to invest in R&D and S&M to fully capitalize on market opportunities as they emerge.

Combining our operating income result with disciplined working capital management resulted in our free cash flow in Q3 2024 reaching **US$7.7 million**, representing a **14%** margin and up from **5%** margin in the same quarter last year. We are well-positioned to continue delivering strong cash conversion and will remain focused on pursuing the most suitable, high-return opportunities for the long term. Notably, given our strong free cash flow, we managed to increase our cash and short-term investment position to **US$217 million** even after allocating capital in some inorganic opportunities.



Financial Update
Ricardo Camatta Sodre

Looking ahead, we remain encouraged by our sales momentum and operational leverage. As macro uncertainty may begin to clear, we have streamlined VTEX to fully capitalize on current market opportunities.

We reaffirm our commitment to delivering profitable growth by continuously focusing on maximizing revenue and long-term value. We will continue to evaluate our investment levels in alignment with demand, sales conversion rates, and return on investment, with the Rule of 40 as our north star.

Moving on to guidance. From a revenue perspective, given tougher comps in Q4 that will ease up in Q1, we are **targeting** FX neutral YoY revenue growth of **14% to 17%** for the fourth quarter of 2024, implying a US$64.8 million to US$66.8 million range.

For the full year 2024, as we continue executing our profitable growth strategy, we are **targeting** FX neutral YoY revenue growth of **18.5% to 19.5%**, implying a range of US$230 million to US$232 million based on Q3's average FX rate. We are **raising** our non-GAAP operating income and free cash flow margins target to **low teens**.

In conclusion, VTEX holds significant growth potential, supported by our progress toward profitable growth. We're seeing strong sales momentum with new customers, geographical and brand expansion from existing customers, and improved operational efficiency, positioning us to seize future opportunities. We remain optimistic about Brazil's potential, the vast opportunities in Latin America, and the large and attractive markets in the US and Europe. We will continue pursuing disciplined growth, making firm steps toward our ambition to become the global backbone for connected commerce.

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



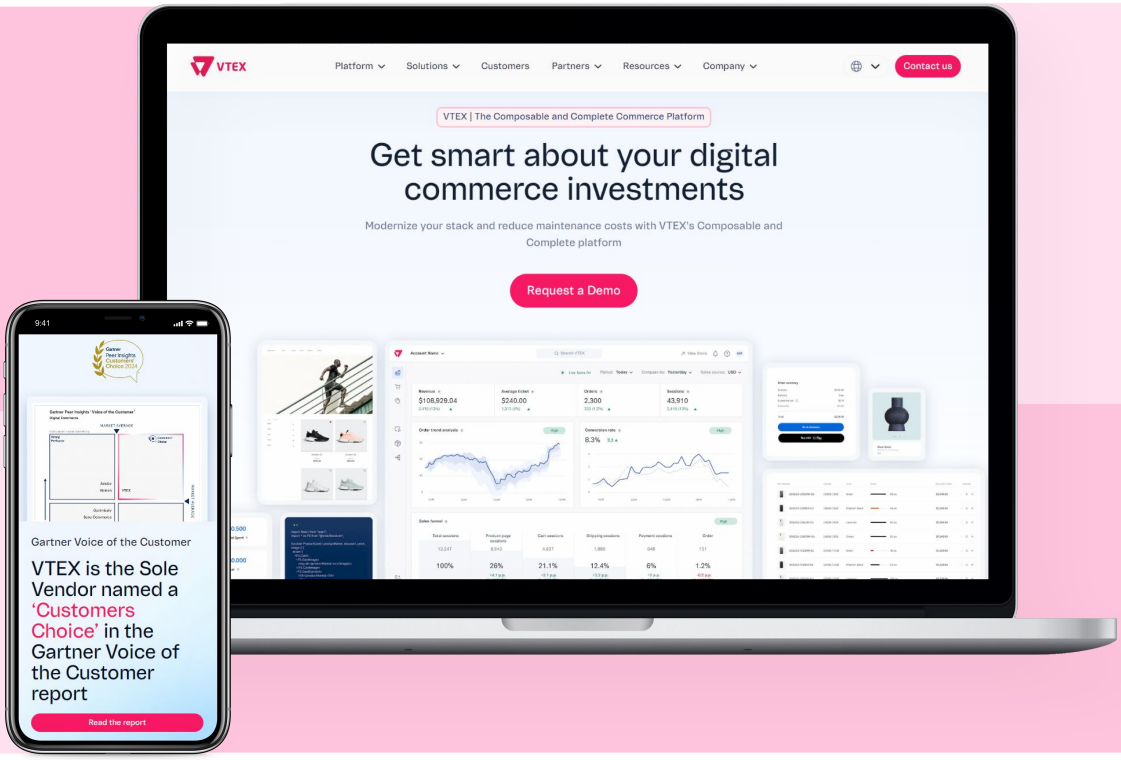
Closing Remarks
Geraldo Thomaz Jr.

In conclusion, I would like to reaffirm our commitment to delivering profitable growth and our objective of returning to the Rule of 40. This quarter's progress reflects the dedication of our team at VTEX. Once we set our goals, we work relentlessly to achieve them, no matter the scale of our ambitions.

With over 20 years of history, we can confidently say that VTEX grows stronger each year, and this year is no exception. We are honored to support some of the world's leading brands and retailers as we redefine commerce together, bridging the gap between physical and digital channels, and strengthening an industry with immense potential ahead. **Our purpose is to keep our customers ahead of the curve, adaptable and resilient in the face of constant change**.

With strong sales momentum and continued platform innovation, VTEX is well positioned for sustained growth and to solidify its role as a commerce leader on a global basis. We have a long invigorating journey ahead of us. We are here to seize it, as we remain fully committed to delivering value to our customers, investors, and stakeholders, and as we continue our journey to becoming the backbone for connected commerce.

Thank you everyone for being part of this journey. We look forward to keeping you updated at our next earnings call. You may disconnect now, have a wonderful week.



Thank you!

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VTEX