BigCommerce Third Quarter 2023 Earnings Call: prepared remarks

November 8, 2023

Tyler Duncan; Senior Director, Finance

Good morning, and welcome to BigCommerce's third quarter 2023 earnings call. We will be discussing the results announced in our press release issued before today's market open. With me are BigCommerce's CEO and chairman, Brent Bellm; and CFO, Daniel Lentz. Today's call will contain certain forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements include statements concerning financial and business trends, our expected future business and financial performance and financial condition and our guidance for the fourth quarter of 2023 and the full-year 2023. These statements can be identified by words such as expect, anticipate, intend, plan, believe, seek, committed, will or similar words. These statements reflect our views as of today only and should not be relied upon as representing our views at any subsequent date, and we do not undertake any duty to update these statements. Forward-looking statements, by their nature, address matters that are subject to risks and uncertainties that could cause actual results to differ materially from expectations.

For a discussion of the material risks and other important factors that could affect our actual results, please refer to the risks and other disclosures contained in our filings with the Securities and Exchange Commission. During the call, we will also discuss certain non-GAAP financial measures, which are not prepared in accordance with generally accepted accounting principles. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures, as well as how we define these metrics and other metrics is included in our earnings press release, which has been furnished to the SEC and is also available on our website at investors.bigcommerce.com. With that, let me turn the call over to Brent.

Brent Bellm; CEO and Chairman of the Board

Thanks Tyler, and thanks everyone for joining us.

I'll start today by discussing our quarterly performance and the progress we have made against our 2023 financial plan. I will speak to our business momentum and provide an updated view on the macroeconomic environment, and I'll conclude by discussing our continued move up market and the associated improvements to our go to market approach. Daniel will later provide details on our financial performance and spending efficiencies related to the restructuring we announced earlier this morning. Finally, he will end our prepared remarks with an updated view on 2023 financial guidance and provide a first look at our expected financial plans for 2024.

In Q3, total revenue was just over $78 million, up 8% year-over-year. Our Q3 non-GAAP operating loss was just over $1 million, which was well ahead of our quarterly guidance and reflects the significant progress we have achieved in operating efficiency over the last several quarters. We came within a photo finish of hitting adjusted EBITDA breakeven a quarter earlier than expected, finishing Q3 at negative $102 thousand. This reflects a nearly 14.5 percentage point margin improvement in only one year against the backdrop of a tough macroeconomic climate for tech and software. We are committed to driving profitable growth for our shareholders, and I believe we are well positioned to move our business up market with a more efficient organization.

We concluded Q3 with an annual revenue run rate, or ARR, of approximately $332 million, up 9% year-over-year. That represents a sequential growth in ARR of just over $1 million. Enterprise account ARR was approximately $241 million, up 11% year-over-year. As of the end of Q3, Enterprise accounts represent 72% of our total company ARR. Accounts using exclusively our retail plans, which we refer to as "non-enterprise accounts," finished with ARR of approximately $92 million, up 3% year-over-year.

Q3 reflected both the progress we have made as a business and some of the challenges that we continue to face in this macro environment. Overall revenue growth and non-enterprise ARR growth were in line with our expectations, and we were pleased to nearly reach our adjusted EBITDA breakeven goal one quarter early. Enterprise ARR growth fell a little short of our expectations. We continue to see longer sales cycle times and a tougher sales climate across software, while certain significant new customers elected to move launches post-holiday into Q1 2024. I will speak both to these macro dynamics and actions we are taking to improve go to market and financial performance later in my remarks.

Our customers are at the heart of everything we do. We work extremely hard to deliver an industry-leading platform that powers growth for the world's most sophisticated and complex brands and retailers. Last week, we were honored with IDC's 2023 SaaS Customer Satisfaction Award for Digital Commerce. This recognizes the high customer satisfaction that our product and service achieve. Gartner also named BigCommerce as a Challenger in the 2023 Gartner Magic Quadrant for Digital Commerce Platforms for the fourth consecutive year.

In September, we launched our new B2B Edition Invoice Portal for large B2B suppliers, manufacturers, distributors and wholesalers to modernize the invoice payment process. The B2B Edition Invoice Portal provides an enterprise-grade, out-of-the-box invoice payment experience. The new Invoice Portal serves as a vital B2B Edition component of a comprehensive suite of functionality that enhances the online selling experience for B2B businesses.

A number of exciting new enterprise customers launched in Q3. Notable examples include **Coldwater Creek**, a leading U.S. women's apparel retailer, which launched a new ecommerce site with a modernized tech stack and elevated brand look. Iconic UK luxury fashion retailer **Harvey Nichols** launched a new headless storefront with BigCommerce. Harvey Nichols's digital transformation improves customer experience, loyalty program integration, and inventory visibility for shipping and in-store pickup. **Asahi Beverages**, a leading Australian beverage company, launched two new websites on BigCommerce. **Club Connect** uses our B2B Edition product to allow sports clubs to register and purchase beverages and earn credit to be redeemed against future purchases or withdrawn as cash. **Drinks Cart** is a platform for company staff, friends and family to purchase Asahi Beverages products at a reduced price or by redeeming points. Leading UK-based fashion and apparel brand **White Stuff** launched a new composable site leveraging BigCommerce partners Vue Storefront, Amplience and Adyen. We also added several new customers to the Feedonomics roster, including **The Dom**, **Vista Outdoors**, **LG**, **Skullcandy** and **Build-A-Bear**.

This sample of recent customer wins, product announcements, and industry recognition reflect the strength and differentiation of our Open SaaS strategy. We aim to deliver our brand promise of "Enterprise Ecommerce, Simplified." Our agency and tech partner ecosystem widely agrees that unlike BigCommerce, competing *enterprise* platforms aren't simple, and competing *simple* platforms aren't enterprise. BigCommerce combines true enterprise functionality and flexibility with unprecedented simplicity. We are differentiated in five key ecommerce imperatives in which we believe BigCommerce possesses industry-leading capabilities.

Engage, the first imperative, describes how we enable customers to create compelling, brand-enhancing digital experiences for their consumers. As a leader in both composable commerce and no- and low-code, fully hosted commerce, we offer the unique capability to create great user experiences leveraging both build models in the same, multi-storefront account. In Q3 across all Enterprise stores using our hosted Stencil platform, checkout, and flagship payment processors, our customers' sitewide conversion rate averaged 2.69%, which is 34% higher than the Q3 internet average according to IRP Commerce. Simply put, BigCommerce enterprise customers create and design beautiful sites that, on average, significantly outperform their competition.

Attract, the second imperative, describes how our subsidiary Feedonomics enables customers to attract incremental site traffic and sales through the world's leading advertising and marketplace channels. On average, Feedonomics customers report a 10-20% increase in traffic, conversion, and sales from the channels used, including search, social, display, affiliate, and more than 180 marketplaces. No other enterprise platform has a comparable offering to substantially improve topline sales and marketing return-on-ad-spend.

Convert, the third imperative, demonstrates our ability to convert shoppers. In Q3, sitewide checkout conversion for enterprise customers using our native checkout and flagship payment processors averaged 61.4%. That 61% checkout conversion is substantially better than claims made by one of our largest competitors. We deliver higher checkout conversion due to an optimized one-page experience, choice of best-in-market payment providers, optimal integrations, and unmatched customization capabilities for a SaaS platform. For B2B conversion, our B2B buyer portal and recently-released invoice portal further extend the capabilities that are widely being rated among the best in B2B ecommerce by IDC, Forrester, Paradigm, and G2.

Expand, the fourth imperative, focuses on our multi-storefront capabilities. We make it easier than ever to grow from one to many storefronts as companies add new branded sites, geographies, and/or segments, like B2B plus B2C. Taken to an extreme, our commerce-as-a-service offering even allows customers and partners to serve dozens or hundreds of different stores.

Finally, Operate, our fifth imperative, describes the performance, cost, and efficiency advantages of operating on BigCommerce. In a recent Total Economic Impact report, Forrester Research quantified an average 90% reduction in development costs and 30% reduction in catalog and merchandising management costs relative to legacy enterprise platforms. With best-in-class reported uptime, scalability, and security certifications, we simplify the task of achieving world-class performance at low total cost of ownership.

To advance our leading capabilities in site design and user experience, we recently completed the acquisition of Makeswift, the world's most powerful visual editor for Next.js websites. Makeswift will become an optional component of composable BigCommerce builds early next year, and thereafter, a part of our natively hosted visual editing toolkit. This is a strategic acquisition for our business that enables us to more fully deliver our promise: "Enterprise Ecommerce, Simplified."

Makeswift will bring to ecommerce unprecedented, true enterprise multi-user visual design, publishing, and no-code editing. Built for Next.js, Makeswift gives developers the ability to construct and deploy custom React components that push the boundaries of dynamic shopper experience and make any component visually editable. It also makes advanced editing accessible to marketers and merchandisers without code, including animations and optimizations for every device type. The combination of Next.js, React, and Makeswift powers native Google Lighthouse scores of 99-100 out-of-the-box. Makeswift is fully composable, so it can integrate with leading content management systems to power site content, and it will remain available for purchase directly - including for customers on competing ecommerce platforms. With unprecedented visual editing, collaboration, publishing, and performance capabilities, BigCommerce with Makeswift is the future of no-code enterprise ecommerce visual design.

I am encouraged by the financial and strategic progress we have made in our business this year, despite macroeconomic headwinds. I'd now like to share a bit more detail on where those headwinds have been felt and why I have such confidence that we can return to stronger, accelerating growth rates. Broadly speaking, I would classify impacts to, first, online consumer spending, and second, business spending and investment.

We have seen continued tighter ecommerce order and GMV growth in 2023 than the pre-pandemic trendline. This has led to fewer orders- and GMV-based pricing upgrades compared to prior years, and it has impacted partner and services revenue growth more than originally anticipated going into the year. We have also seen the effect of a tight business spending environment. As we discussed on our Q2 call, we have experienced an uptick in existing customers seeking to reduce committed order volumes in exchange for lower pricing. In many cases, we have pursued the same approach ourselves at BigCommerce by renegotiating and reducing our software vendor opex costs. In most downgrades, we are successfully retaining customers while negotiating more favorable prepayment and price per order terms. Some smaller customers have chosen to delay or cancel projects as a result of macro conditions. Customers are spending more time vetting and evaluating platform investments, and these factors have contributed to enterprise ARR not ramping as quickly as we'd hoped during 2023.

I have confidence that this business can return to 20%+ revenue growth and reach a healthy and balanced profitable growth profile, as we drive better go to market execution and ecommerce settles into a new long-term growth trendline. My intent in providing this commentary is not to attribute performance solely to macro conditions. Ultimately, we are responsible for results - no matter the economic conditions. We have much to be proud of in 2023, particularly with respect to improvements in profitability and cash flow. But we have not achieved our full growth potential, and we are laser-focused on the improvements that can get us there.

Leading our go-to-market improvements is our recently-hired President, Steven Chung. The foundation for Steven's growth strategy is the success and satisfaction of existing customers. Their success earns the right to expand account relationships - yielding higher net revenue retention, cross sell and upsell, and industry evangelization.

Steven and team are focused on three proven growth strategies. First, "land and expand", where we grow over time the depth and breadth of our relationship with our successful midmarket and enterprise customers. Second, multi-product sales that leverage Feedonomics, Makeswift, partner product cross-sell, and new add-on products. Third, improved efficiency of our international expansion.

We have arguably been over-indexed historically on new customer acquisition driven by expenditures in digital marketing and sales. Over the last four years, approximately 60-70% of subscription ARR expansion has come from acquisition of new customers, with the remaining 30-40% coming from expansion of existing accounts. We would like to change this mix in favor of existing account expansion. Greater attention to the success and satisfaction of signed accounts will enable us to expand relationships to incorporate new brands, geographies, customer segments, and business models. This account growth model has the highest relevance to our enterprise customers and can deliver continued improvement in net revenue retention and profitability.

To be clear, this account expansion growth model does not lessen our commitment to our small business customers. We will continue to support our small business customers with an efficient, digital-first engagement model. We remain the industry’s best platform for fast growing and sophisticated small businesses that require more flexibility and product capabilities. These customers, in many cases, evolve into strong enterprise accounts as their businesses grow with BigCommerce.

Next, I’d like to turn it over to Daniel to discuss our financial results in more detail and conclude with our updated guidance for Q4 and 2023.

Daniel Lentz; Chief Financial Officer

Thanks, Brent. And thank you, everyone, for joining us today. During my prepared remarks, I will cover our Q3 results in detail, provide additional detail on our progress for the year - both where we are showing strengthening trends and where we need to improve, and provide updated guidance for the remainder of the year.

In Q3, total revenue was just above $78 million, up 8% year-over-year. Subscription revenue grew 10% year-over-year to approximately $59 million, while Partner and services revenue, or PSR, was up 1% year-over-year to just over $19 million. Revenue in all of the Americas was up 7%, while EMEA revenue grew 23% and APAC revenue was up 2% compared to prior year.

As Brent mentioned previously we came within a photo finish of adjusted EBITDA breakeven a quarter earlier than previously anticipated, finishing Q3 at negative $102 thousand, or negative 0.1% adjusted EBITDA margin. That represents a 313 basis point improvement to adjusted EBITDA margin quarter over quarter, and we have improved adjusted EBITDA margins 375 basis points on average over each of the past five consecutive quarters. We have also made significant progress on earnings and revenue quality over the last year. This is the third quarter in a row that we have seen notable improvement in deferred revenue. Deferred revenue increased $3.0 million sequentially compared to Q2 2023 and is up 85% compared to Q3 2022. We have also seen significant improvement in working capital. Prepayment levels are roughly 3x higher as a percentage of subscription ARR compared to Q3 2022, and provision for expected credit losses has realized a year over year improvement of $5.5 million vs Q3 2022, or an improvement of 302 bps as a percentage of account receivable over that time period. This progress is continued evidence of our commitment and focus to operating a profitable long term growth business and is evident in the underlying improvement to our operating cash flow as well.

I'll now review our non-GAAP KPIs. Our ARR grew to approximately $332 million, up 9% year-over-year. That represents a sequential growth in total ARR of just over $1 million. Enterprise account ARR was approximately $241 million, up 11% year-over-year. Subscription ARR was up $1 million, or 0.4% vs Q2 and up 10% year-over-year. At the end of Q3, we reported 5,951 enterprise accounts, up 391 accounts or 7% year-over-year. ARPA, or average revenue per account, for enterprise accounts was $40,431, up 4% year-over-year.

I'll now shift to the expense portion of the statement of operations. As a reminder, unless otherwise stated, all references to our expenses, operating results and per share amounts are on a non-GAAP basis.

Q3 total cost of revenue was $17.7 million, up approximately $265 thousand sequentially from Q2. Q3 total operating expenses were $61.5 million, also up approximately $178 thousand sequentially from Q2. Q3 gross margin was 77%, essentially flat versus the previous year, while gross profit was $60.3 million, up 8% year-over-year.

In Q3, sales and marketing expenses totaled $32.6 million, down approximately $92 thousand year-over-year. This represented 42% of revenue, down 339 basis points from a year ago. Research and development expenses were $17.6 million or 23% of revenue, down 386 basis points from a year ago and down slightly from Q2. General and administrative expenses were $11.3 million or 14% of revenue, down 710 basis points from a year ago.

In Q3, we reported an operating loss of $1.2 million, a negative 1.5% operating margin. This compares with an operating loss of $11.5 million or a negative 15.9% operating margin in the prior year and an operating loss of $3.4 million or a negative 4.5% operating margin in the prior quarter.

Again, adjusted EBITDA was negative $102 thousand, a negative 0.1% adjusted EBITDA margin, compared to negative $10.5 million and a negative 14.5% adjusted EBITDA margin in the prior year. Non-GAAP net income for Q3 was $686 thousand or positive $0.01 per share, compared to negative $11.2 million or negative $0.15 per share last year.

We ended Q3 with approximately $266 million in cash, cash equivalents, restricted cash, and marketable securities. For the three months ended September 30, 2023, operating cash flow was negative $31.4 million, compared to negative $50.8 million a year ago. We reported free cash flow of negative $32.5 million, which compares to negative $51.5 million in Q3 2022. Note that, excluding the approximately $33 million final payment for the Feedonomics acquisition, operating cash flow would have been positive in Q3. Results also included certain significant annual payments such as $4 million in insurance premiums including our D&O, cyber and EPL policies.

I'd now like to address the progress made against our 2023 financial plan, share additional details on our acquisition of Makeswift and our restructuring, and conclude with an updated view on guidance.

Once again, our 2023 plan has three primary goals. Let me elaborate on the progress and challenges we have seen thus far on each.

First, we are investing to win in the midmarket and enterprise markets, while also stabilizing the small business portion of our business. As I said last quarter, small business has been performing ahead of our expectations, and we remain confident that business will remain healthy and build many future enterprise accounts for us as well. We have not, however, seen the ramp in midmarket and enterprise that we wanted to see by this point in the year. Despite the headwinds Brent addressed in his remarks, sales pipelines remain healthy and win rates remain strong. We continue to make significant improvements to the quality of our results and are seeing encouraging improvements in DSO and deferred revenue. Additionally, we are taking decisive action to ensure our business wins up market while delivering the spending efficiency we require for success. We are confident these actions will improve both the pace of growth in this portion of the business and the return on investment of our go to market spending, even in a continued challenging macro climate.

Second, we nearly hit our goal of positive adjusted EBITDA a full quarter early, finishing at negative $102 thousand in Q3 2023. Operating expenses are down 9% year-over-year. That reflects an improvement of 1,442 basis points of adjusted EBITDA margin in just one year, and we have averaged a sequential improvement of 375 basis points of operating margin over the last five quarters. As a result of the restructuring announced today, we also anticipate continued margin improvement in Q4 2023 and beyond, which I will discuss in further detail shortly.

Third, we are taking steps to drive healthy, consistent cash flow generation. As I have mentioned previously, we have focused on driving cash flow improvements through prioritizing advanced billing on new subscriptions, investing in our quote to cash systems and processes, maintaining tight discipline around accounts receivable and collections, and adjusting prices. I am very encouraged by our progress in this area, as I highlighted earlier in many of the ways the improvement in revenue and earnings quality is evident in our financial results.

As a part of our effort to drive improved results and evolve our go to market approach, today we announced a restructuring that affects approximately 7% of our global workforce. While headcount and non-headcount reductions impact all teams across the company, sales and marketing spending will see the largest impact as a result of the go to market improvement Brent discussed. Q3 2023 results include a one time charge of $5.5 million resulting from severance and other related charges. We also expect associated one time operating cash flow impacts of approximately $3.1 million in Q4 2023 and $2.1 million in FY 2024, respectively. This was an incredibly difficult decision for Brent and I to make, and this affects many outstanding teammates that have made significant contributions to our business. We are confident, however, that this action best positions BigCommerce for continued profitable growth heading into 2024, even in the prospect of continued macroeconomic challenges.

Finally, we acquired Makeswift, a visual no code builder for Next.js which makes any React component visually editable. We believe Makeswift will help propel BigCommerce forward competitively in site design and user experience. The purchase price of approximately $9 million in cash will be reflected in Q4 2023 cash flow results and will not have a material impact to financial results in Q4.

I’ll now share an updated view on our outlook and guidance for the fourth quarter and full year 2023.

For the fourth quarter, we expect total revenue in the range of $79.8 million to $83.8 million, implying a year-over-year growth rate of 10% to 16%. For the full year 2023, we expect total revenue between $305.0 million to $309.0 million, translating to a year-over-year growth rate of approximately 9% to 11%. For Q4, our non-GAAP operating income is expected to be between $1.1 million and $4.1 million. For the full year, we expect a non-GAAP operating loss between $6.9 million and $9.9 million. Note that at the midpoint, we are holding our full year revenue outlook in line with prior guidance, while also reflecting our positive momentum in an improved operating loss outlook for the full year.

I would like to conclude my remarks by briefly summarizing where we see the business in 2024 and how we are building our operating plans and budgets. We are basing our plans on the assumption that macroeconomic conditions remain a headwind in ecommerce. These conditions make it imperative to run lean from a spending perspective, so that we can capitalize on the opportunity this environment presents for our business.

We will continue to prioritize profitable revenue growth and improving cash flows. We will not chase marginally higher growth rates at an outsized cost to profit and cash. Our recent actions to reduce costs improve our profitability and cash flow at a faster rate, while we remain positioned for a jump forward in growth and profit as macroeconomic conditions return to long-term ecommerce trendlines.

While we are still in the early stages of building our 2024 plans, I would like to share some high level thoughts on financial expectations before we issue official guidance on our Q4 call in February. From a revenue growth perspective, we are building internal plans around growth rates in the high single digits to low double digits. As discussed, we expect to see a continued meaningful uplift in operating margins in Q4 2023 as reflected in our guidance range for the quarter. We expect that improvement to carry forward into Q1 2024 as well, with operating margins continuing to grow at a slightly more moderate pace sequentially throughout the rest of the year. We also expect to see operating cash flow results track ahead of underlying non-GAAP operating income results, apart from relatively small one-time items such as the Makeswift acquisition and modest investments in our go to market systems and data architecture.

I am confident in the long term growth prospects for this business. Without doubt, 2023 has been a challenging year, both for BigCommerce and the broader global economy. We have made significant progress improving the profitability and cash generation of this business, and I would like to give a sincere thank you for the tremendous hard work required of our entire BigCommerce team that was needed to deliver that. We have much to be proud of, yet we are far from reaching our potential. We can and will drive improved revenue growth in this business, and we will do so profitably for our shareholders.

With that, Brent and I are happy to take any of your questions. Operator?