BigCommerce Second Quarter 2023 Earnings Call: prepared remarks

August 3, 2023

Tyler Duncan; Senior Director, Finance

Good afternoon, and welcome to BigCommerce's second quarter 2023 earnings call. We will be discussing the results announced in our press release issued after today's market close. 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 third 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 Q2 performance and progress at the halfway point of the year. I'll then share my perspective on our growth strategy and provide additional detail on recent leadership changes.

In Q2, total revenue was just over $75 million, up 11% year-over-year. Our Q2 non-GAAP operating loss was just over $3 million, which was ahead of our quarterly guidance and a strong indication of our confidence to reach breakeven on an adjusted EBITDA basis in Q4 of this year. Later, Daniel will share greater detail on our financial results and conclude the call with a discussion on updated guidance.

I want to highlight two milestones that our business achieved in the quarter. First, we reached profitability on an adjusted EBITDA basis in the month of June, and second we delivered positive free cash flow for the first time - driving just under $14 million of free cash flow for the second quarter ended June 30, 2023.

To be clear, these milestones are starting points only. We have a long way to go to reach our ambitious goals in terms of revenue growth, profitability, and cash flow. But it is worth noting that we have delivered nearly 1,600 basis points of improvement in non-GAAP operating margin compared to Q2 2022 and significant improvement in cash flow generation as well, in response to and against the backdrop of a difficult macroeconomic climate. I would like to thank our entire BigCommerce team for the hard work that was required to deliver that.

We concluded Q2 with an annual revenue run rate, or ARR, of approximately $331 million, up 12% year-over-year. That represents a sequential growth in ARR of just over $14 million. Enterprise account ARR was approximately $236 million, up 14% year-over-year. As of the end of Q2, Enterprise accounts represent 71% of our total company ARR. Accounts using exclusively our retail plans, which we refer to as "non-enterprise accounts," finished with ARR of approximately $95 million, up just under $7 million sequentially compared to Q1 2023 and up 6% year-over-year - delivering our first quarter of non-enterprise ARR growth since Q2 2022.

While total ARR results are close to our mid-year targets, the mix between enterprise and non-enterprise accounts has differed from our expectations. Going into the year, we expected non-enterprise accounts to contract by mid to high single digits. Improvements to cohort retention and pricing adjustments returned this portion of the business to growth in Q2, providing encouraging signs of momentum going into the back half of the year.

Merchants using our enterprise plans, which we refer to as "Enterprise accounts," come from two parts of the market: midmarket merchants and traditional large enterprise. We define midmarket as merchants doing $1-50 million per year in gross merchandise value (or GMV). This part of the market has a large and growing TAM and is underserved by many legacy ecommerce providers. Our share and momentum in this part of the market is strong, and we have seen strong results from the midmarket relative to our 2023 plans.

Large enterprise merchants—those with GMV of at least $50 million annually including those up to $1 billion or more—are experiencing significant increases in sales cycle durations compared to 2022. This segment of the industry tends to have lengthier sales cycles and more complicated business requirements. Here is where the effects of macroeconomic uncertainty are most noticeable and where a slower-than-expected increase in enterprise account ARR can be seen. Although it will take time to scale up our market penetration in this segment of the industry, we have excellent product market fit for merchants of this size and complexity. In response, we are increasing our investment in midmarket sales generation, where we observe fewer macroeconomic challenges and strong performance. Daniel will speak in more detail to these dynamics later in his remarks as well.

We have five primary growth levers in our business today.

First, we have a healthy and growing small business at nearly $100 million in ARR. We have taken numerous actions to improve efficiency and scalability in this portion of our business. We eliminated aggressive sales promotions, incented advanced payment, and increased prices with minimal impact thus far to retention. This has led to strong improvements in cohort health. Day 120 cohort retention rates on our retail plans are 80-85% higher on average than where we were at this time last year. In addition, we shifted sales and marketing resources towards enterprise account growth, improving profitability as we rely more on self-serve channels for the SMB portion of the business. We believe our retail plans offer market-leading features and functionality, and we believe we can grow this business over time profitably as a result of these changes.

Second, we have a strong and growing presence with midmarket merchants, and we have a tremendous runway to grow share in this underserved portion of the market. Our products provide the functionality large enterprise merchants expect without the cost and complexity of legacy ecommerce software. This allows midmarket merchants to enjoy the advantages of enterprise ecommerce software at a price point fit for the scale of their business. We believe our product is uniquely positioned to win and grow in this part of the market.

Third, we provide market-leading ecommerce and omnichannel solutions for both B2C and B2B merchants. Many B2B merchants are adjusting their buying processes to reflect the consumer shopping experiences their customers are used to, and our award-winning platform delivers outstanding value for merchants in both categories. B2B has traditionally been underserved by ecommerce platforms, and we are investing to win in this market.

Fourth, the large enterprise market represents a big opportunity for us, and we are expanding upmarket. Key recent product launches, including multi-storefront and multi-location inventory features, reflect the growing capability of the BigCommerce platform. In addition, BigCommerce provides differentiated omnichannel capabilities critical to many large enterprise merchants, utilizing Feedonomics' market-leading AI technology to drive merchant growth and ROI through advertising and marketplace channels. Other competitors offer omnichannel connectivity, but connectivity alone is not enough. Connectivity and data quality together drive results for merchants, and Feedonomics' platform-agnostic, AI-driven data feed optimization capabilities deliver one of the best solutions in the world. In fact, in a Q2 2023 Feedonomics customer survey, more than 75% of their customers reported up to 50% or more improvements in their omnichannel conversion, return on ad spend, and revenue. We believe our platform can disrupt the large enterprise market, and we are committed to growth in this market.

Finally, international expansion represents a significant growth opportunity for us as well. We expanded our sales and marketing presence to twelve new countries over the past two years. Our expansion has been particularly focused on EMEA, where we see an opportunity to win share from legacy, more expensive ecommerce providers. While we have slowed the pace of new country launches recently, we have not significantly changed the amount of sales and marketing investments in existing markets. Our near-term focus is on building scale and profitability in our recently-launched markets, where we are truly just scratching the surface of our growth potential. We expect to continue our international expansion efforts in the coming years in a disciplined, profitable way.

BigCommerce is fundamentally an open, flexible, partner-first company. Merchants have freedom to choose among the market-leading commerce technology partner solutions that suit their businesses, including AI, which we'll discuss further in a moment. It also means merchants can drive improved omnichannel growth and ROI while using our Feedonomics solution on other ecommerce platforms as well.

Being partner-first delivers both better go to market results for BigCommerce and improved performance for merchants. Our checkout performance results are an example of the advantages of this open, best of breed, partner-first strategy for our merchants. For example, when examining merchant checkout data from May and June 2023, we validated that our native one-page checkout delivers a 61.9% checkout conversion rate. This exceptional result was the average of all Enterprise stores using a BigCommerce storefront, a flagship payment processor (such as Braintree, PayPal Commerce Platform, Stripe, or Adyen), PayPal Wallet and Apple Pay, and our native one page checkout. We expect to publish a third party independent review and validation of these superior checkout results in the coming weeks.

I'd now like to spend some time on two recent leadership changes that I believe will help scale our business and execute our strategy. Earlier this week, we announced the addition of technology industry veteran and ecommerce sales leader Steven Chung as company President. Steven will oversee our sales, marketing and services teams, aligning our go-to-market teams to fuel our leadership in global enterprise ecommerce. Steven brings relevant experience from his time at Delphix and PagerDuty, and he previously served as global sales leader at Demandware back when they moved upmarket prior to being acquired. There is no better person to fill this role and lead our midmarket and enterprise growth. I'm also excited to highlight Daniel Lentz as our new CFO, replacing Robert Alvarez who recently retired after holding that position since 2011. RA left big shoes to fill, but there is no doubt in my mind or the minds of our board members that Daniel is absolutely the best person for this job. Few in our company know our business as well as Daniel, and he has extensive experience across a variety of finance roles at Procter & Gamble and enterprise sales experience at Dell that make him a well-rounded leader in our business. We have every confidence in his ability to steer the company to long-term success.

Now, I'd like to shift gears to focus on a couple of merchants that are great examples of how our open, partner-first strategy resonates with midmarket and enterprise customers. The first is Houzer, a US supplier of kitchen sinks and faucets for over three decades. Houzer Sinks had a solid B2B presence, and they wanted a modern tech stack to support their direct to consumer strategy. They turned to our agency partner, Coalition Technologies, and launched a new store on BigCommerce in just 60 days. Creating an omnichannel presence was vital for Houzer, and they found that BigCommerce and Feedonomics was the powerhouse combination they needed. With the ability to manage products and orders across over 100 channels, Feedonomics gave Houzer the power to drive omnichannel growth without a high price tag. Coalition and BigCommerce helped Houzer quickly migrate its complex portfolio of products and dramatically increase its site speed, all while maintaining a growing omnichannel presence.

Another notable and representative BigCommerce merchant is MKM Building Supplies, the largest independent builder's merchant in the UK with over 100 branches across England, Scotland and Wales. With origins as the neighborhood supply shop in the UK, MKM realized that it needed to keep up with digital transformation trends. Partnering with BigCommerce agency Brave Bison, MKM now has a fully composable storefront that delivers an online experience to match its offline presence. Brave Bison enlisted global market-leading front-end solution Vue Storefront to implement a headless architecture and collaborated with commerce experience provider Bloomreach to drive seamless personalization across the site. Just weeks after going live, MKM saw increased site performance, plus increases in online orders, average order value, new customer accounts and revenue. In June, MKM was honored with a MACH B2B Impact Award from the MACH Alliance, a group of independent tech companies dedicated to advocating for open, best-of-breed technology ecosystems when moving from legacy infrastructure and going composable.

We also remain committed to continuous innovation. Last week, we announced a partnership with Google to add new AI-powered features to our platform later this year. These features will help merchants improve operational efficiencies, elevate customer experiences, enhance product discovery and drive more sales. Merchants can save time and improve operational efficiency and productivity by using AI algorithms to streamline workflows, accelerate product development cycles, reduce costs and accelerate time-to-market. In partnership with Google, we're committed to using AI responsibly and to respect our merchants' user data, brand, and privacy. We will continue to use AI in a way that is fair, unbiased and transparent. We believe that these principles are essential for enterprise merchants to ensure their brand is protected. Our open approach positions us to be a leading ecommerce platform for AI, even as we add native AI functionality as well. We already have over 20 AI applications in our app marketplace, and as our partners continue to build new solutions, they will be easily integrated into our scalable platform.

Our platform received two notable pieces of recognition recently. First, we achieved 24 out of 24 total medals in the 2023 Paradigm B2B Combines for Digital Commerce Solutions (Enterprise and Midmarket Editions), increasing our rankings in six categories. We were also awarded the high placement of Major Contender in Everest Group's 2023 Digital Commerce Platform PEAK Matrix, which assessed 21 digital commerce providers around the world.

In Q2, we continued to grow our roster of leading, notable brands and merchants on our platform. **Francesca's**, a popular women's clothing and accessories brand with more than 450 stores, is taking advantage of BigCommerce's Page Builder tool combined with a customized theme and customized checkout in order to deliver unique, free-spirited fashion and lifestyle products to its customers. **Barbecues Galore**, an Australian market-leading seller of grills, grilling accessories and outdoor furniture, became the first merchant transacting with B2B Edition Multi-Storefront, going live in just 12 weeks. **Square Enix**, the company behind some of the world's most popular gaming franchises including Final Fantasy, Dragon Quest and Tomb Raider, launched multiple new stores to power their multi-language and multi-currency needs in North America, EMEA and APAC, enabling their customers to purchase games across multiple platforms, including digital games redeemed through the Steam marketplace. **BMW Group UK**, a leading supplier of BMW and MINI original parts, partnered with Autofixa Solutions to launch new stores for both brands, featuring ERP integrations that sync inventory supplies and pricing data directly with the stores.

I remain incredibly bullish about the long-term prospects for profitable growth and market leadership for BigCommerce. 2023 is a challenging year throughout tech, and I am proud of the progress we have made. We have a long way to go, and our team is committed to the hard work needed to deliver strong growth and returns for our shareholders.

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 Q3 and 2023.

Daniel Lentz; Chief Financial Officer

Thanks, Brent, for your kind remarks. And thank you, everyone, for joining us today. During my prepared remarks, I will cover our Q2 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, provide updated guidance for the remainder of the year, and I'll conclude by speaking to my primary focus areas as CFO.

In Q2, total revenue was just over $75 million, up 11% year-over-year. Subscription revenue grew 10% year-over-year to approximately $56 million, while Partner and services revenue, or PSR, was up 14% year-over-year to just over $19 million. Revenue in all of the Americas was up 9%, while EMEA revenue grew 27% and APAC revenue was up 3% compared to prior year.

As Brent mentioned previously, we hit a couple of important milestones in our business in Q2, reaching breakeven on an adjusted EBITDA basis for the month of June and delivering positive free cash flow of nearly $14 million for the first time for the second quarter ended June 30, 2023. To be clear, we have a lot of work left to do. These milestones represent encouraging evidence that the operating focus driving our 2023 financial plan is making progress, but we recognize that these results are starting points - not ending points. We are committed to profitable, long-term growth in this business and the disciplined use of capital necessary to deliver that.

I'll now review our non-GAAP KPIs. Our ARR grew to approximately $331 million, up 12% year-over-year. That represents a sequential growth in total ARR of just over $14 million. Enterprise account ARR was approximately $236 million, up 14% year-over-year. Subscription ARR was up $12 million, or 5% vs Q1 and up 13% year-over-year. At the end of Q2, we reported 5,929 enterprise accounts, up 511 accounts or 9% year-over-year. ARPA, or average revenue per account, for enterprise accounts was $39,870, up 5% 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.

Q2 total cost of revenue was $17.5 million, up approximately $1.2 million sequentially from Q1. Q2 total operating expenses were $61.3 million, down six hundred thousand dollars sequentially from Q1. Q2 gross margin was 77%, up 12 basis points from the previous year, while gross profit was $58.0 million, up 11% year-over-year.

In Q2, sales and marketing expenses totaled $32.0 million, down 1% year-over-year. This represented 43% of revenue, down 515 basis points from a year ago. Research and development expenses were $17.5 million or 23% of revenue, down 523 basis points from a year ago and down slightly from Q1. General and administrative expenses were $11.9 million or 16% of revenue, down 509 basis points from a year ago.

In Q2, we reported an operating loss of $3.4 million, a negative 4.5% operating margin. This compares with an operating loss of $13.7 million or a negative 20.1% operating margin in the prior year and an operating loss of $6.4 million or a negative 9.0% operating margin in the prior quarter.

Adjusted EBITDA was negative $2.5 million, a negative 3.3% adjusted EBITDA margin, compared to negative $12.9 million and a negative 18.9% adjusted EBITDA margin in the prior year. Non-GAAP net loss for Q2 was $1.5 million or negative $0.02 per share, compared to negative $14.1 million or negative $0.19 per share last year.

We ended Q2 with approximately $299 million in cash, cash equivalents, restricted cash, and marketable securities. For the three months ended June 30, 2023, operating cash flow was nearly $15 million, compared to negative $13.9 million a year ago. We reported free cash flow of nearly $14 million, which compares to negative $16 million in Q2 2022.

I'd now like to share additional color on our 2023 financial plan and my view on our progress thus far on the year. We are making the tough decisions necessary to stabilize and improve the underlying economics of our non-enterprise business. We are focusing the bulk of our sales and marketing spending towards the superior unit economics of midmarket and enterprise merchants, including investments in new channels and up market merchant segments. Going into 2023, we knew these decisions would entail a fundamental shift in our weighted average sales cycle time and therefore impact near-term bookings results.

At the same time, we took decisive action to accelerate our timeline to adjusted EBITDA profitability and improve cash flows. We took these actions despite the resulting challenges to certain areas of near-term performance, because it is critical that we invest capital in a focused, disciplined, and efficient way against our most profitable market opportunities. We are adapting our tactics to a changing operating environment, while staying committed to our long-term market strategy.

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 stabilizing the small business portion of our business as well. Revenue and total ARR results are largely in line with where we expected to be at the halfway point of the year. We are being more selective in sales promotions and discounts than in prior years, and we are investing in our quote to cash processes and systems. We see the benefits of these operating changes and investments in our results. Days sales outstanding (or DSO) improved by 11 days to 63 days from Q1 to Q2, and we saw our largest sequential increase in deferred revenue ever in the quarter. This operating discipline is leading to higher quality revenue and bookings, which is driving our progress towards profitability and strong cash flows.

While total ARR results are largely in line with our expectations going into the year, the mix between enterprise and non-enterprise ARR has been different. Non-enterprise account ARR has exceeded our expectations, growing 6% year-over-year in Q2. We indicated on our February earnings call that we expected non-enterprise ARR to contract in the mid to high single digits. We now expect non-enterprise account ARR to grow in the low single digits on a full year basis. This is strong progress.

Enterprise ARR growth fell short of our expectations in Q2. Sales pipelines continue to grow at a rate similar to what we discussed in Q1, and win rates remain strong. Non-enterprise account ARR is tracking ahead of our expectations, and enterprise account ARR is tracking lighter than our expectations. As Brent mentioned, sales cycle times remain considerably elevated compared to prior years with Enterprise merchants, while Midmarket sales cycle times are largely in line with prior years. We also saw an increase in the number of merchants looking to reduce platform spending where order volumes have been impacted by market conditions, and this led to a higher volume of pricing adjustments to existing merchants than we expected in Q2.

We expect these macroeconomic trends to continue in the back half of the year. We now estimate enterprise account ARR growth to finish the year in the low teens year-over-year. Merchant retention rates remain strong, our sales pipeline and performance remain healthy, and we are encouraged by growing market recognition of the strength of our products. We are confident that these results will improve, and we will also provide the accountability necessary to ensure that we see improvements in associated sales and marketing spending efficiency as well.

Second, we remain confident in our ability to deliver positive adjusted EBITDA for the full quarter in Q4 of this year. Q2 Sales & Marketing, R&D, and G&A expenses were over 500 basis points lower than Q2 2022. Operating expenses are down 7% year-over-year. We delivered the consistent margin improvement we committed to, averaging nearly 400 bps of operating margin improvement over each of the last four quarters.

Third, we are taking steps to prioritize cash flow improvements to drive healthy, consistent cash flow generation. As we mentioned on the Q1 call, 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 largely completing planned retail pricing changes to existing customers in June. Our results are beginning to show the effects of these actions, including improving accounts receivable and DSO, healthy growth in deferred revenue, and positive free cash flow.

Overall, I believe our results at the halfway point reflect cause for optimism in a number of areas. Margin, cash flow, and deferred revenue improvements are notable and encouraging. Non-enterprise account performance has exceeded our expectations, and revenue and operating loss results have exceeded guidance. Enterprise ARR growth must improve, and, as

Brent said, we are taking actions to deliver better sales and marketing efficiency to that end as well.

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

For the third quarter, we expect total revenue in the range of $76.3 million to $79.3 million, implying a year-over-year growth rate of 5% to 10%. Note that we expect subscription revenue to grow in the high single to low double digits and for PSR to grow in the low single digits. For the full year 2023, we expect total revenue between $304.0 million to $310.0 million, translating to a year-over-year growth rate of approximately 9% to 11%. For Q3, our non-GAAP operating loss is expected to be between $1.0 million and $5.0 million, which reflects a slight increase in planned sales and marketing spending in Q3. For the full year, we expect a non-GAAP operating loss between $10.2 million and $15.2 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'd now like to share my focus areas and priorities as CFO. First, we must focus on our core business and manage capital consistent with our core growth levers. Directing capital in a highly disciplined way and in alignment with these core priorities requires difficult tradeoffs and decisions, and I consider this one of my fundamental responsibilities. Second, spending efficiency and operating execution are critical to driving long-term, profitable growth. While we are making great progress, we have a number of areas in our business where we can and must improve our results. Finally, closely aligning capital allocation decisions with the long-term interests of both our shareholders and debt holders has long been a focus of our leadership team, and this practice will continue to be core to what we do and how we operate. This means tightly managing our cash flow, debt, stock-based compensation, and net dilution.

In summary, I would like to thank BigCommerce's employees and partners for their tireless work to support our merchants and grow this business. This is an incredible company full of dedicated, caring teammates. I am honored to be a part of this team and serve as the new CFO.

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