**BigCommerce Third Quarter 2022 Earnings Call: prepared remarks**

**November 3, 2022**

**Daniel Lentz; Senior Vice President, Finance and Investor Relations**

Good afternoon, and welcome to BigCommerce's third-quarter 2022 earnings call. We will be discussing the results announced in our press release issued after today's market close. With me are BigCommerce's president, CEO and chairman, Brent Bellm; and CFO, Robert Alvarez. 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 2022 and the full-year 2022. 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; President, CEO, and Chairman of the Board**

Thanks Daniel, and thanks everyone for joining us. On today's call, RA and I will review our third-quarter results, highlight developments in the quarter, and discuss our view on the current operating environment. RA will also provide our view on Q4 and what we expect to see generally in the front half of 2023 in his discussion on updated guidance.

First and foremost, I'm pleased to share that we beat the high side of our guidance range for revenue and also outperformed our expectations on non-GAAP operating loss in Q3. Without doubt, we face a challenging operating environment. Appropriately, we are managing our business tightly and remain committed to deliver the growth and operating leverage expectations we provide.

Let's discuss the details.

In Q3, total revenue grew to $72.4 million, up 22% year-over-year. Our non-GAAP operating loss was $11.5 million. We concluded Q3 with an annual revenue run rate, or ARR, at $305 million, up 20% from last year. That represents a sequential growth in ARR of $9.4 million. Enterprise account ARR was $216.2 million, up 35% year-over-year. The enterprise segment now represents 71% of our total company ARR. We believe enterprise can eventually grow to more than 80% of our total company ARR and drive strong financial performance in the coming years.

I would like to highlight four areas of encouraging progress and resilient underlying performance in the business in Q3 and thus far in 2022.

First, despite macroeconomic and geopolitical uncertainties, we have over-performed revenue expectations every quarter in 2022, and, as RA will discuss in our Q4 guidance, we believe we can exceed the 2022 revenue expectations we set at the beginning of the year. We saw continued, above-market growth in subscription and partner and services revenue in Q3, driven by strong enterprise retention and durable order volume and GMV.

Second, we see tremendous enthusiasm in our partner communities. In August and September, we held a series of three Partner Summits, one each for our Americas, EMEA and APAC regions, where we celebrated our joint success and progress, and shared our roadmap and priorities for the future. It is clear to us and our partners that the future of enterprise ecommerce is open and composable, and BigCommerce provides the level of composability that B2C and B2B merchants need without the costs and complexities of competitive offerings.

During these summits, we announced the launch of our new Omnichannel Certified Partner Program. This is a new platform-agnostic program for agency, channel and technology partners that offers unique benefits to help merchants sell more, across more channels. Today's merchants know they need to meet their customers where they shop and spend their time online, but they often struggle to determine the best combination of channels for their business or the best solutions they should utilize to drive the best return on ad spend and conversion on each channel. This program solves that, and we're doing it in a very BigCommerce way, -- by leveraging our strong partner relationships with both agency and tech partners.

Our agency partners benefit by leveraging improved product data and listings through feed optimization using Feedonomics, which we acquired last year; omnichannel growth consultations with BigCommerce experts; and access to exclusive channel partner alpha and beta programs with partners including Amazon Buy with Prime, Google, TikTok, Meta, Snap, Target+ and Walmart Marketplace, among others in select regions. We're already seeing substantial demand globally with close to 100 agencies and tech partners in the program since launching it just a few weeks ago. It's a great win-win-win for merchants, partners, channels, and BigCommerce.

I would also like to reinforce that this is a platform-agnostic program. We aim to open commerce. We are using the combined expertise of BigCommerce and Feedonomics to help businesses succeed in omnichannel advertising and selling - whether they are using BigCommerce or a competing ecommerce platform. The more businesses succeed in omnichannel commerce, and the more agencies are able to use BigCommerce and Feedonomics expertise to better meet their clients' needs, the stronger our business will become and the faster we will grow. We believe the future of commerce is open, flexible, and composable. These great partner programs highlight that conviction.

Third, we continue to release features, product improvements, and partnerships that resonate with our target market of established and growing businesses. In Q3, we launched the closed beta of multi-location inventory. At the end of 2022, we will launch a set of new and updated APIs that enable merchants to create custom buy online pick up in store experiences. As shoppers increasingly demand flexible, fast, and convenient fulfillment options, these foundational APIs enable large enterprise merchants to create complex multi-location inventory scenarios. In addition, our customer segmentation feature is in open beta, as well as our app extension feature, which allows third parties to deeply integrate into the control panel experience.

In August, we announced an expanded partnership with Affirm, enabling merchants of all sizes to be able to use Affirm's Adaptive Checkout. This provides eligible customers with the flexibility and control to choose which payment schedule works best for them. In September, we announced a strategic partnership with cryptocurrency leaders BitPay and CoinPayments to easily and securely deliver cryptocurrency payment solutions to BigCommerce merchants. We also announced the launch of BigCommerce on Google Cloud Marketplace, making it easier for global enterprise customers to modernize their ecommerce platform to expand audience reach and drive business growth. This gives businesses powerful ecommerce tools that work within the Google Cloud ecosystem to reach more people and drive sales at every stage of growth.

Earlier this week, we announced our launch of Snapchat for BigCommerce in partnership with Snap, Inc. This gives BigCommerce merchants of all sizes the ability to easily create, manage and optimize Snapchat ad campaigns to showcase products and broaden audience reach to millions of Snapchat users.

Also in Q3, we successfully obtained SOC 1 Type 2 and SOC 2 Type 2 certifications, demonstrating commitment to protecting our customers' sensitive and valuable information. These certifications are very important to enterprise merchants and strengthen our reputation with those businesses.

Fourth, we are rolling out bigger and more sophisticated enterprise accounts than ever. **IAG Loyalty**, the loyalty program for British Airways and partner airlines, launched The Wine Flyer, a new online store leveraging BigCommerce's Open SaaS, API-first platform, where the millions of members of the British Airways Executive Club can exchange loyalty points for wine and earn loyalty points by making purchases. **One Kings Lane**, a US-based seller of designer, vintage, and exclusive home furnishings, launched a beautiful custom headless site, taking advantage of our integrations with Avalara, Braintree and Cybersource.

**Music Direct**, the world's largest online retailer for high-end audio equipment, music and accessories, is now selling on BigCommerce with a custom order flow built on a custom Azure environment that is seamlessly integrated with its ERP. **Hungry Harvest**, which nobly reduces food waste by selling rescued produce that otherwise would have been discarded due to surplus, supplier over-purchasing, or physical deformity, took advantage of our Multi-Storefront functionality to launch two stores - one for their customers' on-demand purchases and another for its subscribers.

**MKM Building Supply**, a prominent UK-based hardware and commercial building supply company, launched a new headless store that allows them to have more flexibility and an improved website design. **Jimmy Brings**, one of Australia's largest express alcohol delivery services, launched a progressive web app storefront built on BigCommerce's headless architecture that takes advantage of our local Australia-based hosting offering to maximize page speed and minimize the potential for disruptions. And last but not least, **Dippin' Dots**, the frozen treat brand that our kids no doubt know, launched a new storefront that combines a fun and engaging customer experience with checkout functionality that ensures its temperature-sensitive products are delivered when their buyers want them.

Now I would like to address some of the macro-driven challenges we face and our actions to focus resources on our highest ROI opportunities. RA will expand on many of these further during his remarks as well.

Similar to other ecommerce providers, bookings growth was a bit slower in Q3 than in previous quarters. We are seeing different dynamics at play here in the enterprise and non-enterprise portions of our business. Enterprise ARR grew sequentially by $9.6 million, which was a positive result in a difficult climate. We are seeing larger and larger enterprise deals in our pipeline, growing traction with large, sophisticated systems integrators, and outstanding partner engagement and momentum. We continue to see high win rates in enterprise as well. However, we are also seeing slightly longer sales cycle times and tighter volume of leads overall, consistent with what normally happens during economic down cycles.

With respect to the non-enterprise portion of the business, we are actively shifting our demand generation budgets, both in people cost and variable spending, towards the superior economics delivered by enterprise accounts. We have tested this increased spending prioritization over the past two quarters, and we are moving full speed on this now across all teams and budgets. We are also focusing on ROI and operating leverage by removing most promotions on new non-enterprise bookings. This is increasing revenue and profit, even as it delivers fewer short term bookings in the non-enterprise business. We will continue to invest in our non-enterprise business, but we plan to focus more on R&D, product excellence, inbound marketing activities, and self-service sign ups to improve the LTV to CAC for non-enterprise plans.

From a retention point of view, we have seen the same level of strong results in enterprise as we saw both during and post-pandemic. As we have discussed on previous calls, however, non-enterprise account retention has not maintained the performance of the pandemic's early quarters. What is different about our business is the strategic focus and merchant concentration in durable, resilient enterprise B2C and B2B customers.

Again, the strong unit economics of enterprise accounts are compelling, and we are prioritizing our sales and marketing spending on this segment. As a result, we expect enterprise to continue to grow into a larger and larger share of our ARR in the quarters and years ahead.

I'll conclude my discussion about current challenges with an update on our team in Ukraine. On a personal note for our teammates, the continued war remains a hardship for our employees, particularly as attacks on civilian targets have resumed in Kyiv. It is tragic on a human level for our friends and teammates. I am extremely proud of the resilience of our Ukraine team, as well as how supportive our BigCommerce team and partner ecosystem has been for them. As an example, at our US Partner Summit in August, we were able to raise funds to purchase five ambulances to assist with humanitarian aid efforts in Ukraine. I can't say enough about how inspired we are as a company by the bravery of our colleagues in Ukraine.

I'd like to conclude by speaking at a high level about how we are building our plans for next year.

To repeat, we are doubling down our sales and marketing spending on enterprise accounts. As we highlighted in our investor day in May, our average LTV to CAC for enterprise accounts across the last four years was 8:1, compared to 2:1 for non-enterprise accounts. We believe we are the world's most modern enterprise ecommerce platform, and we're going all-in on this enterprise segment.

Next, we remain committed to our open, partner-centric strategy. We believe Open SaaS is the strategy that will win in the enterprise market, which means our business will become more partner-focused than ever in 2023.

Further, we are basing our 2023 planning activities on the expectation that the macroeconomic and geopolitical challenges that have impacted this year will persist into 2023. To offset this, we will remain disciplined about the pace and size of our investments. As we highlighted on previous calls, 2022 was an investment year for our company. Our 2022 investment plans were modified throughout the year to stay on track to deliver our original topline and bottomline guidance, which we are pleased to have accomplished through the first three quarters. We remain committed to hit breakeven on an adjusted EBITDA basis in the second half of 2024, and 2023 will therefore be an operating leverage year. We are making hard decisions to focus and prioritize our spending on our best ROI investments, and we will continue to do so during 2023.

Shifting sales and marketing resources away from shorter sales cycle, but lower retention non-enterprise plans - to longer sales cycle, and higher retention enterprise plans is an example of this. This decision may impact bookings growth in the front half of next year as these investments expand our enterprise deal pipeline at the short-term expense of non-enterprise pipeline and retail plan bookings. We believe this is the right decision for our business to deliver long-term growth and returns to our shareholders. RA will discuss this in his remarks.

In conclusion, you heard me say last quarter that we have spent the last few years building our enterprise capabilities, and Q2 marked the moment in time when we could say with confidence that BigCommerce had arrived as a true enterprise platform. The merchants I listed earlier reflect that. These are large, prominent brands that chose BigCommerce because of our enterprise capabilities, our open platform, and our strong partner ecosystem. This is a differentiated, winning strategy that our partners are as excited about as we are.

With that, I'll turn it over to RA.

**Robert Alvarez; Chief Financial Officer**

Thanks, Brent, and thank you, everyone, for joining us today. During my prepared remarks, I'll walk through our Q3 results and provide details on how current conditions are impacting elements of the business such as bookings and Partner and Services Revenue. I'll also provide details on our Q4 revenue and profit guidance, and our current views on 2023 and our long-term financial outlook.

In Q3, total revenue was $72.4 million, up 22% year-over-year. Subscription revenue grew 26% year-over-year to $53.2 million, driven by our continued mix shift to enterprise accounts.

Partner and services revenue, or PSR, was up 12% year-over-year to $19.2 million. Both subscription revenue and PSR beat our expectations, driven by healthy enterprise MRR retention rates and durable order volumes and GMV. We are incredibly encouraged by the resiliency of the enterprise business in a tough climate. We will continue to take a careful, conservative approach to the forecast, and I'll address this further later in my remarks when discussing our Q4 guidance.

Revenue in the Americas was up 23% in the quarter, while EMEA revenue grew 31% and APAC revenue was up 2% compared to prior year. We see strong growth in enterprise accounts and bookings in EMEA, and we are also encouraged by early signs in our expansion markets. Our APAC presence today remains focused on Australia and New Zealand, and we hope to drive growth in the coming year as we build additional partnerships more broadly across the APAC region.

I'll now review our non-GAAP KPIs. Our ARR grew to $305 million, up 20% year-over-year, driven by continued strength in our enterprise customer base. That represents a sequential growth in total ARR of $9.4 million. Enterprise account ARR was $216.2 million, up 35% year-over-year.

As I outlined on our last call, the change in total subscription ARR, which can be calculated by subtracting the trailing twelve months of PSR from total ARR, is a good indicator of our underlying change in net bookings during the period. Subscription ARR was up $7.4 million vs Q2 and up 21% year-over-year. As Brent mentioned, this growth was a bit slower than previous quarters. We expect changes in net bookings to have wider variance period to period in the future as we mix more and more towards higher ARPA, longer sales cycle enterprise accounts and shift sales and marketing spending into building an even larger enterprise pipeline.

At the end of Q3, we reported 5,560 enterprise accounts, up 758 accounts or 16% year-over-year including Feedonomics. ARPA, or average revenue per account, for enterprise accounts was $38,885, up 17% year-over-year.

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

Q3 gross margin was 77%, up 57 basis points from the previous quarter. Meanwhile, we reported gross profit of $56.0 million, up 19% over the prior year.

In Q3, sales and marketing expenses totaled $31.5 million, up 31% year-over-year. This represented 44% of revenue, up 288 basis points compared to last year. This increase was driven by additional headcount, particularly due to investments in international expansion and enterprise go to market efforts.

Research and development expenses were $19.1 million or 26% of revenue, up 124 basis points from a year ago, driven by additional hiring to support investments in our key strategic initiatives.

Finally, general and administrative expenses were $16.9 million or 23% of revenue, up from 20% of revenue a year ago. This includes finance and accounting, legal, human resources, some operations spending, bad debt expense, etc. We expect this to decline as a percentage of revenue during 2023 as we limit hiring and moderate expenses in the coming year.

In Q3, we reported a non-GAAP operating loss of $11.5 million, a negative 15.9% operating margin. This compares with negative $3.8 million or a negative 6.5% operating margin in Q3 2021 and negative $13.7 million or a negative 20.1% operating margin in the prior quarter.

Adjusted EBITDA was negative $10.9 million, a negative 15.1% adjusted EBITDA margin, compared to negative 5.2% in Q3 of 2021. Non-GAAP net loss for Q3 was negative $11.2 million or negative $0.15 per share, compared to negative $4.2 million or negative $0.06 per share last year.

We ended Q3 with $308.0 million in cash, cash equivalents, restricted cash, and marketable securities. Year to date, operating cash flow was negative $86.7 million, declining from negative $31.5 million a year ago. We reported free cash flow of negative $90.9 million or a negative 44% free cash flow margin which includes $32.5 million paid during the quarter as part of the Feedonomics first anniversary acquisition related payment. This compares to negative $33.8 million and a negative 22% free cash flow margin in Q3 2021.

I'd now like to transition to a more detailed discussion on several areas of the business, starting with subscription ARR and bookings in Q3.

We saw different dynamics at play in our enterprise and non-enterprise businesses in Q3. We are extremely encouraged by our success in enterprise. We continue to see strong momentum and performance, though we are also seeing some challenges with respect to sales cycle time and the volume of deals in the pipeline. Again, this is not an unexpected dynamic in enterprise software during a down economic cycle, and we are offsetting this by redoubling our focus on this segment and actively shifting sales and marketing spending here - and away from the non-enterprise business.

As a result, we expect to see flat to slightly contracting non-enterprise ARR in the coming quarters. This is due to a combination of macroeconomic factors and deliberate spending choices. On the macro front, recent economic data highlights the challenges small businesses are experiencing in the United States and abroad. For example, according to the Census Bureau and NFIB, new business formation has slowed significantly over the past 12 months, while the SMB optimism index is at its lowest level in 48 years. Additionally, we are also very deliberately shifting spending away from the non-enterprise to the enterprise segment in our business. This is driven by the underlying differences in ROI that we've shared and our commitment to hit breakeven on an adjusted EBITDA basis at or near mid-2024.

Managing this investment transition further towards enterprise will be key to our 2023 results and driving strong growth in our business overall. Again, 2022 was an investment year; 2023 will be an operating leverage year. We view driving leverage as both a short-term drive to profitability and making long-term investment decisions to maximize economic value to shareholders. Balancing the short-term effect of this enterprise prioritization on the P&L against the long-term shareholder value this higher ROI will deliver will be key to our 2023 plans.

In addition, Q3 order volume and GMV was resilient given the tough macro climate. Even so, we are taking a conservative approach to our guidance for Q4. Given persistently high inflation and geopolitical issues, we expect headwinds to consumer spending and PSR to persist into the front half of 2023 and are building our plans accordingly. Maintaining strong operating discipline will be crucial heading into next year.

We have materially reduced our pace of hiring and are diversifying our geographic employee footprint to bring in high performing team members from geographies with more favorable cost bases as well. We are making tough priority calls to focus our spending on the highest long-term LTV to CAC, and we will remain disciplined about equity compensation and dilution as well.

We will also remain disciplined about sales promotions to attract new merchants. We have materially reduced the volume and value of promotions on our non-enterprise plans to focus on revenue and profitability. We have also maintained tight discipline around enterprise plan promotions, which often take the form of free promotional months in the early period of agreements. As we mix more and more towards enterprise accounts, we are seeing success signing deals that have longer, multi-year durations and pre-negotiated step-ups in pricing. We will continue to work towards long-term enterprise contracts that create consistent, durable revenue to BigCommerce and predictable, negotiated pricing for our merchants - all while maintaining tight discipline on the level of sales promotions we offer to merchants.

Now let's shift to our guidance and outlook for Q4 and full year 2022, then conclude with a discussion about our preliminary view on 2023 and our long-term financial outlook.

For the fourth quarter, we expect total revenue in the range of $72.4 million to $74.2 million, implying a year-over-year growth rate of 12% to 14%. For Q4, our non-GAAP operating loss is expected to be $12.3 million to $14.3 million. For the full year 2022, we expect total revenue between $279.1 million to $280.9 million, translating to a year-over-year growth rate of approximately 27% to 28%. We expect a non-GAAP operating loss between $49.9 million and $51.9 million. Note we are holding our full year revenue guidance flat at the midpoint based on the conservative view we are taking on Q4 PSR and bookings as we discussed previously.

I would like to conclude my remarks by sharing thoughts on 2023 and our long-term performance.

We are leading through a challenging cyclical environment, while making the right decisions to maximize long-term shareholder value. As we discussed, our prioritization of enterprise by shifting both people costs and variable costs away from non-enterprise to enterprise demand generation activities may create a period of slower bookings and potentially revenue growth in the front half of next year as those resources build an even larger enterprise deal pipeline. We are confident we can manage through the transition and the current macroeconomic climate with tight spending discipline, focus, and execution.

We are still in the process of setting up our 2023 plan, and we plan to provide detailed guidance on our February 2023 earnings call. That said, we want to be transparent and give you a preliminary glimpse into how we are thinking about the business next year.

Importantly, we continue to target the 25-30% multi-year revenue CAGR that we outlined in our May investor day. However, we expect our 2023 growth rate to be below our target CAGR as we shift sales and marketing demand generation spending more fully to enterprise accounts. To be more specific, we believe that we can continue to deliver enterprise ARR growth rates materially above our total ARR growth rates, offset by flat to contracting non-enterprise ARR in the near term.

We believe that enterprise can grow to 80% of total ARR or higher by the end of 2024. Over time, as non-enterprise becomes a smaller and smaller percentage of the business, there will be less divergence between the overall growth rate of the business and the enterprise growth rate of the business.

We also remain committed to the mid-2024 adjusted EBITDA breakeven timeline that we discussed in our May investor day. Improvements in the overall macro climate would help us meet this timeline, given the impact on high margin PSR. But we are aiming to hit at or near that timeline even in the current climate, and we will continue to make the tough choices necessary to deliver that.

Finally, I'd once again like to thank all of our incredible employees, merchants, and partners. While the past year has certainly brought many unexpected challenges, I'm tremendously proud of the commitment and execution of the BigCommerce team and our partners.

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