BigCommerce First Quarter 2023 Earnings Call: prepared remarks

May 4, 2023

Daniel Lentz; Senior Vice President, Finance and Investor Relations

Good afternoon, and welcome to BigCommerce's first 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 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 second 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; President, CEO, and Chairman of the Board

Thanks Daniel, and thanks everyone for joining us. On today's call, I will walk through our first quarter results and share my perspective on our progress thus far in 2023. RA will later share greater detail on our financial results and conclude the call with a discussion on updated guidance.

Let's discuss the details.

In Q1, total revenue was $71.8 million, up 9% year-over-year. Our Q1 non-GAAP operating loss was $6.4 million, which was well ahead of our quarterly guidance and a strong step toward our goal of reaching breakeven on an adjusted EBITDA basis in Q4 of this year. We concluded Q1 with an annual revenue run rate, or ARR, of $316.7 million, up 13% year-over-year. That represents a sequential growth in ARR of $5.0 million.

Enterprise account ARR was $228.8 million, up 21% year-over-year. Enterprise accounts now represent slightly over 72% of our total company ARR. On our previous earnings call, we noted that we are aiming for enterprise ARR growth in 2023 at or above 20% year-over-year, which we believe will be offset by non-enterprise account ARR contraction in the mid single digits. Q1 results met this goal. Non-enterprise account ARR was $87.9 million, up slightly on a sequential basis compared to Q4 and down slightly year-over-year as expected as we take action to build a scalable, more self-serve small business segment. I'd like to elaborate on a few areas in particular that demonstrate our progress.

Our shift of go-to-market focus from small business to the enterprise segment is showing positive results. Sales pipeline as of the start of Q2 for this segment is approximately 20% higher than where we were at this time last year. Win rates remain strong. Sales cycle times in the lower end of this segment are largely unchanged, while larger enterprise opportunities have seen an increase of approximately 50 days between first engagement with the merchant and close compared to this time last year.

Before I elaborate on how we are responding to these dynamics, I'd like to clarify what we mean by "enterprise accounts" and the parts of the market we serve. We sell four different ecommerce plan types to merchants. The first three - Standard, Plus, and Pro - are collectively our Essentials plans geared towards small businesses. Our Enterprise plans have richer feature sets, customized pricing and terms, and are typically sold to merchants in what we deem the midmarket and enterprise customer segments. We consider merchants doing between $1 million to $50 million per year in online gross merchandise value (or GMV) our mid market segment, and merchants doing more than $50 million in online GMV per year our large enterprise segment. We consider any account buying at least one enterprise plan an "enterprise account," and we include select financial metrics from these accounts in our quarterly results. As a result, our "enterprise account" metrics reflect a mixture of mid market and large enterprise segment merchants.

We are responding to the sales cycle time dynamics I mentioned previously by further prioritizing channels and products that deliver strong ROI with faster time to close. We are increasing our investment in lead generation with our agency partners and in the mid market segment, as these opportunities tend to have shorter sales cycle times and a strong LTV to CAC. Finally, we are seeing strong success with Feedonomics, which offers our customers incredible ROI with fast time to merchant value and also high ROI for BigCommerce. All merchants are actively seeking ways to increase revenue and improve their return on ad spending, and Feedonomics can help merchants running on many different platforms see strong results without the need to replatform.

Feedonomics continues to win accolades in customer satisfaction and deepen BigCommerce's relationship with key partners and merchants. Thirty percent of the top 1000 internet retailers trust Feedonomics to optimize their product catalog and expand their market reach. In Q1, G2 issued their Spring Grid Reports that measure overall customer satisfaction and market presence. Feedonomics was in the leadership position in three ecommerce software categories: Multichannel Retail, Catalog Management, and Online Marketplace Optimization Tools. Feedonomics also rolled out its own native integration into Amazon Multi-Channel Fulfillment during the quarter, enabling thousands of merchants to take advantage of Amazon's fulfillment services for orders that originate on non-Amazon channels. Feedonomics also continues to support merchant adoption of key global channel programs, including Macys.com, Meta's Facebook and Instagram Shops Ads, and TikTok Shop.

Our platform and omnichannel products drive scalable, cost-effective growth for our merchants. We are confident that we will continue to broaden our mid market base even as we invest in expansion further into the enterprise segment as well.

We also saw healthy stabilization in our non-enterprise or retail accounts. While this portion of our business was down 4% year-over-year, it showed sequential growth for the first time since Q4 2021. As we have shifted focus towards more established small businesses, adjusted plan pricing to encourage prepayment, and decreased the volume and depth of sales promotions, we have seen improved net retention results in this portion of our business and encouraging signs of stabilization in ARR. We expect results from this portion of the business to benefit from our recent pricing changes as well. We will not see the full effect of the February pricing action on our base retail accounts until June, but early results are strong. New merchant bookings remain consistent, and we are also seeing a higher mix of pre-paid annual plans as well.

Finally, our Q1 results reflect progress on our path towards profitability. To be clear, adjusted EBITDA breakeven in Q4 is not a finish line. It is a starting line in our business from which we will drive profitable growth for our shareholders. Q1 was a strong step toward that goal.

Despite the prevailing caution among businesses regarding the near-term economic outlook, established mid-market and enterprise merchants continue to demonstrate interest in long-term investments in our ecommerce platform and omnichannel capabilities. Although acquiring these

larger merchants may come at a greater financial cost and require a longer time to close deals, they offer significantly higher long-term value. These merchants have impressive retention rates, greater cross-selling potential, and healthier unit economics. They are also more likely to adopt technologies and omnichannel integrations that help sustain and accelerate their growth, which drives significant revenue for us. These merchants are central to our strategic and financial success, and we will continue to balance the need to invest in winning these segments while also improving profitability and cash flow.

Our average revenue per account (or ARPA) for enterprise accounts was a little over $39K in Q1, which was up steadily from $35K in Q1 2022 and $32K in Q1 2021. The consistent growth we have seen in this metric reflects our progress moving up from our historical base in small business into the mid market segment and now early progress in the enterprise segment as well. This move into enterprise is succeeding, as is evident by merchants such as Curology, Conn's Home Plus, and Harley Davidson launching with us in Q1 as I'll discuss more later, and also by merchants such as Coldwater Creek picking us as their new ecommerce provider.

This go-to-market focus on the mid market and enterprise segments does not mean that we are walking away from small business merchants. We continue to acquire and serve small businesses on our platform, and we are committed to helping them build their business with BigCommerce. But we have optimized our go-to-market approach to small businesses to be more self-serve with less sales and marketing demand generation investment. The goal is to build a small business segment with a scalable LTV to CAC. Our recent Standard, Plus, and Pro pricing action and prioritization of annual prepayment is an example of the adjustments we are making to build this segment into a profitable and more scalable business.

Our ecommerce and omnichannel solutions are designed to be flexible, composable, and scalable -- providing unmatched versatility for both B2C and B2B clients alike.

Earlier this week, we announced the latest update to B2B Edition, our comprehensive suite of B2B functionalities that enhance the online selling experience for suppliers, manufacturers, distributors and wholesalers. The new release introduces Multi-Storefront compatibility, a brand-new B2B buyer portal, and headless support. Next-level B2B Edition functionalities allow merchants to manage quotes, invoices, and buyer approval workflows. B2B Edition's open and intuitive solution transforms the way sellers and buyers do business, turning legacy B2B practices into a modern, agile, and nimble digital operation with a composable foundation ready to scale with the business. These enterprise-grade capabilities provide B2B brands with the flexibility and customization they need to elevate online selling experiences, launch new brands, and expand into new regions.

In addition to strengthening B2B Edition, BigCommerce continues to release features and product enhancements that resonate with our target market. In March, we launched Buy Online Pick Up In Store functionality, also known as Click & Collect, giving merchants more options to meet shoppers where they are and provide frictionless shopping experiences. Previously only available for enterprise merchants, we expanded our Multi-Storefront offering in Q1 as a

self-service feature accessible to small and midsize BigCommerce merchants running on our retail plans. BigCommerce merchants of all sizes now have the advantage to manage multiple storefronts to grow sales in new regions, streamline operations for multiple brands and customize various customer segments to drive global growth.

In Q1, we announced a new strategic partnership with WPP to offer omnichannel solutions to help WPP clients drive growth and maximize sales across hundreds of advertising channels and marketplaces. This innovative partnership will give WPP priority access to new product tools on both BigCommerce and Feedonomics, in addition to providing APIs and data sets that will enable WPP agencies to develop unique insights for clients across product, trend and purchasing data. Given the attractiveness of the joint BigCommerce and Feedonomics value proposition to enterprise brands, we continue to be focused on engaging, activating and enabling many other Global Agency partners to serve mutual merchants with these market-leading capabilities across advertising, marketplace and branded commerce channels.

We also announced a new global partnership with InfoTrax Systems, a leading provider of commissions software and distributor tools for direct sales companies. The new "InfoTrax Powered by BigCommerce" solution will give thousands of direct-selling customers access to more innovative and sophisticated commerce capabilities, including the ability to launch omnichannel sales strategies using Feedonomics. In addition, THG Ingenuity, the complete commerce division of THG plc, and BigCommerce intend to develop a US and EMEA-focused complete commerce solution that would bring together BigCommerce's composable ecommerce storefront with Ingenuity's fully integrated technology stack and operational capabilities.

Earlier in Q1, in partnership with Amazon, we launched the Buy with Prime app for BigCommerce, a new self-service integration for US merchants to easily enable Buy with Prime on their BigCommerce storefront with no coding required. With shopping benefits that millions of Prime members know and trust, including fast, free shipping, Buy with Prime is shown to increase conversion by 25% on average.

This week, we also announced that we have expanded our global footprint into Poland, Romania, India, the UAE and South Africa with an expanded engineering team in Poland, two partner-led entities in Eastern and Central Europe, and a new country leader in India.

In Q1, we continued to grow our roster of leading, notable brands and merchants on our platform. Innovative health and beauty brand **Curology** launched a beautiful new storefront leveraging our NetSuite ERP partnership to connect Curology's store with its ERP for product and inventory data syncing. **Conn's Home Plus**, a leading retailer of furniture, appliances, and electronics with more than 160 stores across 15 U.S. states, recently launched on BigCommerce using a natively-hosted Stencil storefront and a custom BigCommerce checkout, taking advantage of integrations with custom financing solutions and location based pricing. **Tottenham Hotspur**, one of the world's top football clubs, is leveraging BigCommerce's platform to further enhance its popular online store's capabilities and fan experience not only at home in the UK, but also in APAC and North America where the club has a significant and

growing fanbase. **ASSA ABLOY**, a global leader in door-opening solutions used in many of the world's locks and security installations, is revolutionizing its customers' experience by integrating its broad product catalog and using our B2B Edition solution to customize the shopping experience. Iconic motorcycle brand **Harley-Davidson** launched a new line of lifestyle apparel utilizing BigCommerce's APIs to build a full suite of custom integrations with back-end systems and leveraging BigCommerce's stencil framework to build a chic front-end. **Diamonds Direct**, a worldwide leader in diamond sourcing, selection, education and value, launched a new store with a headless digital experience front-end and BigCommerce back-end to deliver a seamless, intuitive shopping experience, including custom "ring builder" options.

Feedonomics also signed many new customers on the quarter as well, with highlights including **Chico's**, **Findel**, **Rappi** and **Tiendamia** as well as signing new agreements with existing BigCommerce customers such as **Solo Brands**, **Diono**, **Houzer**, and **Badgley Mischka** among many others.

To conclude, our 2023 plan is focused on three primary goals: first, continued top line growth in the mid market and enterprise segments; second, breakeven in Q4 on an adjusted EBITDA basis; and third, further efficiencies in our business to improve operating cash flow. We are laser-focused on delivering these commitments. These set up our business for strong, profitable growth in 2024. We are operating from a position of strength in the mid market segment and building momentum in the enterprise segment as well. We have a winning product in a growing market with a diverse partner ecosystem vested in our success. We are encouraged by results thus far in 2023, and we are committed to deliver healthy returns to our shareholders.

Next, I'd like to turn it over to RA to discuss our financial results in more detail and conclude with our updated guidance for Q2 and 2023.

Robert Alvarez; Chief Financial Officer

Thanks, Brent, and thank you, everyone, for joining us today. During my prepared remarks, I'll cover our Q1 results in detail, provide additional commentary on some of our key goals for the year, and finally conclude with updated guidance.

In Q1, total revenue was $71.8 million, up 9% year-over-year. Subscription revenue grew 12% year-over-year to $53.8 million, while Partner and services revenue, or PSR, was down 1% year-over-year to $17.9 million. Revenue in the Americas was up 7%, while EMEA revenue grew 27% and APAC revenue was up 1% compared to prior year.

As I mentioned on the last earnings call, we built our 2023 financial plan assuming conservative net bookings growth, particularly in the front half of the year. We also assumed further moderation in consumer spending, which would impact volume-driven pricing upgrades and PSR. Q1 results were largely in line with these assumptions, and I am encouraged by the progress that we showed in the quarter.

I'll now review our non-GAAP KPIs. Our ARR grew to $316.7 million, up 13% year-over-year. That represents a sequential growth in total ARR of $5.0 million. Enterprise account ARR was $228.8 million, up 21% year-over-year. Subscription ARR was up $5.1 million vs Q4 and up 15% year-over-year. As we mentioned last quarter, we are aiming for enterprise ARR growth in 2023 at or above 20% year-over-year, which we believe will be offset by non-enterprise account ARR contraction in the mid single digits. Q1 non-enterprise results exceeded our expectations. We believe improving cohort health and recent pricing changes will offset the degree of contraction risk we outlooked at the beginning of the year.

At the end of Q1, we reported 5,828 enterprise accounts, up 463 accounts or 9% year-over-year. ARPA, or average revenue per account, for enterprise accounts was $39,260, up 11% 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.

Q1 total cost of revenue was $16.3 million, down approximately $1 million sequentially from Q4. Q1 total operating expenses were $61.9 million, down $2.7 million sequentially from Q4.

Q1 gross margin was 77%, up 192 basis points from the previous year, while gross profit was $55.5 million, up 11% year-over-year. This gross margin expansion is notable, in that we drove healthy margin expansion even while growth in high gross margin PSR was challenged. We are making deliberate decisions on automation, staffing, and other cost drivers to drive sustainable margin improvements over time.

In Q1, sales and marketing expenses totaled $31.2 million, up 2% year-over-year. This represented 43% of revenue, down 297 basis points compared to last year. Research and development expenses were $17.3 million or 24% of revenue, down 366 basis points from a year ago and down $1.7 million sequentially from Q4. General and administrative expenses were $13.4 million or 19% of revenue, down 121 basis points from a year ago.

In Q1 2023, we reclassified certain costs that we had previously included in general and administrative expense into sales and marketing expense. To maintain consistency between comparable periods, we reclassed $1.5 million from general and administrative expenses to sales and marketing expense for the period ending March 31, 2022. This change in classification had no effect on the reported results of our operations or cash flow.

In Q1, we reported a non-GAAP operating loss of $6.4 million, a negative 9% operating margin. This compares with an operating loss of $12.4 million or a negative 18.7% operating margin in the prior year and an operating loss of $9.4 million or a negative 13% operating margin in the prior quarter.

Adjusted EBITDA was negative $5.5 million, a negative 7.6% adjusted EBITDA margin, compared to negative $11.6 million and a negative 17.5% adjusted EBITDA margin in the prior year. Non-GAAP net loss for Q1 was negative $4.9 million or negative $0.07 per share, compared to negative $13.2 million or negative $0.18 per share last year.

We ended Q1 with $283.5 million in cash, cash equivalents, restricted cash, and marketable securities. For the three months ended March 31, 2023, operating cash flow was negative $20.8 million, compared to negative $22.0 million a year ago. We reported free cash flow of negative $21.9 million or a negative 31% free cash flow margin. This compares to negative $23.3 million and a negative 35% free cash flow margin in Q1 2022.

Q1 operating cash flow results included a number of one-time impacts that contributed to the difference between cash flow and our non-gaap operating loss results. These differences included approximately $4 million between severance related to our December restructuring and normal year-end bonus payments and $6 million in Q1 revenue from a payments technology partner which was paid in early April and will be reflected in Q2 operating cash flow. Apart from these timing-related impacts, operating cash flow would have been between negative $10-11 million on the quarter. I'd also note that Q1 is the quarter in which we have the most prepaid software obligations as well, which also contributes to a difference between operating cash flow and underlying operating results during the period as well.

As Brent mentioned, our 2023 plan is focused on three primary goals.

First, we are investing to continue to win in the mid market and enterprise segments. Top line revenue results and net bookings in Q1 were a positive first step. We saw strong growth from the mid market segment and Feedonomics, and we are encouraged by the sales pipeline

heading into Q2. We continue to see strong win rates in our key segments as well. However, we are also seeing fewer volume-driven pricing upgrades and additional conservatism with respect to software spending from our existing merchants, which is in line with the expectations on which we built our plans.

Second, we are operating with discipline to reach breakeven by the end of Q3 on an adjusted EBITDA basis, and remain confident in our ability to deliver positive EBITDA for the full quarter in Q4 of this year. Q1 results reflect our continued progress and are a strong indicator that we are on track to meet this goal. We are also highly focused on driving operating leverage further as we scale the business. One important item to note with respect to GAAP net loss is how the August 2021 $145 million acquisition of Feedonomics is accounted for in our financial statements. Our Q1 net loss includes over $6 million in expenses from third party acquisition costs and intangible asset amortization from that transaction. We expect the majority of third party acquisition costs to be fully recognized by the end of Q2 of this year. Our focus is scaling this business while balancing top line and bottomline growth, and we will continue to manage our spending in a financially disciplined way to accomplish that - including costs to run the business, careful evaluation of potential acquisitions and partnerships, and equity grants to employees.

Third, we are taking steps to prioritize cash flow improvements to drive healthy, consistent cash flow generation. As I mentioned before, apart from one-time impacts on the quarter, operating cash flow would have finished between negative $10-11 million. We are taking numerous actions to drive cash flow improvements, such as prioritizing advance billing on new subscriptions, investing in our quote to cash systems and processes, and maintaining tight discipline around accounts receivable and collections. We will see the full effect of our February pricing action on our base of customers on retail plans beginning in June, so we expect to see further improvements in operating cash flow from annual payments from our base of merchants in June through the end of the year. We believe these initiatives will ultimately yield a better customer experience, higher deferred revenue, and long-term improvements to DSO as well.

I'll now conclude with an updated view on our outlook and guidance for the second quarter and full year 2023.

For the second quarter, we expect total revenue in the range of $72.1 million to $74.1 million, implying a year-over-year growth rate of 6% to 9%. Note that we expect subscription revenue and PSR to grow in the mid single digits, similar to the growth reflected in the guidance range for the quarter. For the full year 2023, we expect total revenue between $303.0 million to $311.0 million, translating to a year-over-year growth rate of approximately 9% to 11%.

For Q2, our non-GAAP operating loss is expected to be between $5.5 million and $9.5 million. For the full year, we expect a non-GAAP operating loss between $14 million and $20 million. While we are encouraged by progress thus far on the year, we intend to remain conservative in

our guidance based on the macroeconomic uncertainty in our industry. We believe this is a reasonable approach at this time.

Note that the midpoint of this guidance range for Q2 non-GAAP operating loss is sequentially down slightly compared to Q1 results. This is primarily due to some one-time expense benefits in Q1 and select investments planned for Q2. Let me elaborate on this just for a moment.

Q1 non-GAAP operating loss saw approximately $2.1 million of one-time expense benefits to the quarter from two primary sources. First, we regularly reserve for doubtful accounts under our normal practice, and we made good progress in collections on a number of outstanding accounts in Q1. That contributed a $1 million expense benefit to the quarter. Second, our increased sales and marketing spending towards the mid market and enterprise segments ramped a little more slowly than expected as we added resources and new marketing channels, which contributed approximately a $1.2 million benefit to the quarter. We also plan to make small investments in select initiatives in sales and marketing in Q2 to capitalize on opportunities we are seeing in the marketplace and continue to build a strong sales pipeline for the back half of the year.

Apart from the effect of those Q1 items and this small investment increase in Q2, our non-GAAP operating loss outlook at the midpoint would have been sequentially better as we work towards breakeven by the end of Q3. While we may make additional changes or investments as the year progresses, we plan to keep spending relatively flat across the remainder of the year. Our aim is to reach breakeven in late Q3 with full quarter positive adjusted EBITDA in Q4.

We remain incredibly bullish about the potential of this business. We have the product, market opportunity, and partner ecosystem to build our presence further in the mid market and expand up market into the enterprise segment. We have many paths for growth, including B2C, B2B, composable commerce and headless, international growth, cross-sell with our existing customers, and omnichannel expansion across merchants using both BigCommerce and other ecommerce platforms. We also have the organizational focus necessary to win in these segments while driving the operational improvements necessary to profitably scale the business and generate strong returns for our shareholders.

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