



BigCommerce Fourth Quarter and Fiscal year 2023 Earnings Call: prepared remarks

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Tyler Duncan; Senior Director, Finance and Investor Relations

Good morning, and welcome to BigCommerce's fourth quarter and fiscal year 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 Chief Executive Officer and Chairman, Brent Bellm; and Chief Financial Officer, 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 first quarter of 2024 and the full-year 2024. 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'm excited to share the progress and momentum that we see in our business and the strong execution we showed in 2023. We began last year with the #1 goal of improving our business's ability to deliver sustainable profitability and positive cash flow. That required difficult tradeoffs and disciplined execution, and I'm proud to say that our team has delivered on our commitment to our stakeholders. We finished the year with strong results, both topline and bottomline, and I'm encouraged by the underlying momentum in this business. I'll begin my remarks today by addressing our financial performance at a high level, and Daniel will later cover our financial results in detail.

The majority of my remarks will focus on what drives our business: our customers and how we serve them. Their success is our passion. I'll highlight notable accomplishments on behalf of our customers in 2023, where we are investing in 2024, and the go-to-market progress we are making.

In 2023, we balanced growth with significant improvement in operating cash flow. Q4 and full year revenue grew 16% and 11% year over year, respectively. Non-GAAP operating margin improved over 19 percentage points year over year to a positive margin of 6%. One year ago, we set a goal to hit quarterly breakeven on an adjusted EBITDA basis in Q4. We exceeded that goal with adjusted EBITDA of nearly \$7 million in Q4. In fact, we nearly reached adjusted EBITDA breakeven for the full year. We delivered \$13 million in operating cash flow on the quarter as well. I'm proud of the hard work and dedication of our team to make this happen, which Daniel will discuss in more detail in a few minutes.

Let's now focus on my favorite topic and our passion, our customers. It is my belief that BigCommerce can become the most loved ecommerce platform in the world. To maximize our customers' ecommerce success and platform satisfaction, we are making focused investments across all aspects of our business: our go-to-market teams, customer support teams, security, our partners, and of course, our products. I'd like to elaborate on each one of these aspects a little further.

Our go-to-market teams relentlessly focus on identifying, signing, and launching customers best positioned to thrive on BigCommerce. We have aligned the teams around our ideal customer profiles and have focused our sellers on the types of companies that are most successful using the BigCommerce platform and accompanying solutions. We also partner closely with the world's best agencies and systems integrators to maximize customer success.

Our customer teams continue to be some of the most dedicated and well-respected in the industry. Our customers and partners know that when they have a support question or challenge, they can easily pick up the phone and speak to an actual BigCommerce employee.

During Cyber Week, enterprise customers with priority support had to wait an average of only 13 seconds for their support calls to be answered, while customers with our standard, base level support had to wait, on average, only slightly more than 90 seconds. We are innovating with generative AI tools to enable customers to get answers directly in their store control panel, and customers resolved nearly a fourth of all support chats during the holiday period using this new technology without picking up the phone. We believe in the power of choice for our customers and will continue to offer multiple options for engagement.

We believe that our security practices are industry-leading. We are the only ecommerce platform among our key competitors that has been awarded an ISO 27701 certification for Privacy. This is the only certification designed to align with GDPR privacy requirements. We also expect to soon have two new certifications: Coalfire Systems Cloud Security and Cloud Privacy, awarding BigCommerce more international certifications than any of our major competitors.

Simplifying ecommerce success is the goal of our product strategy, support model, and partner ecosystem. We partner with hundreds of exceptional ecommerce and performance marketing agencies around the world to help our customers grow their businesses. The number of agency developers completing our advanced certification programs grew 125% year-over-year in 2023, bolstering the deep pool of expert resources in B2C and B2B ecommerce and omnichannel growth dedicated to BigCommerce.

We have grown from a platform-only business to a multi-product portfolio of world class products and services, offering enterprise-grade security and functionality without sacrificing any of the ease and flexibility that comes with Open SaaS. Our customers want simple, elegant solutions to complex problems. They depend on the performance of the BigCommerce platform, which continues to set the industry standard. For the tenth year in a row, we achieved 100% platform uptime over the Cyber 5 holiday selling period, and customers such as Luxo Living, Luna Cycle, and Priority Tire saw GMV growth rates of approximately 140-150% year-over-year during that period on BigCommerce.

We invest to build not only a scalable, dependable platform, but also to drive market-leading results for our customers. Our out-of-the-box checkout user-experience is optimized with the world's leading payments and checkout providers to maximize conversion. In the back half of 2023, Enterprise stores using any of our flagship payment solutions, plus PayPal Wallet and Apple Pay, achieved an average site visit conversion rate of 2.67%, which is 15% higher than the results reported by one of our closest competitors. Similarly, those same Enterprise stores achieved an average checkout conversion rate of approximately 71% during that period, which is roughly 46% higher than the internet average of a little less than 50%.

We are leveraging generative AI technology to drive customer growth on BigCommerce. BigAI is our suite of AI-powered tools that enables better converting storefronts, more efficient store operations, and new creative ways to market and reach shoppers. BigAI Copywriter, built using generative AI from Google's Vertex AI, launched in 2023 and provides customers the capability to streamline their workflows and save time by generating high-quality, high-performing product

descriptions matching their businesses' voices and target audiences. Later this year, we will also launch product recommendations using Google's AI technology. Customers will be able to serve personalized and highly relevant product suggestions to their shoppers in real time, increasing average order value and conversion. In early tests on live stores, we've seen this solution drive more than a 20% increase in the click through rate on "Related Products", and more than 100% lift in revenue among shoppers who engaged with related products. We're also investing in semantic search, using AI to understand the intent of shoppers' search terms to deliver more accurate and relevant in-store search results, ultimately creating a better shopper experience and further increasing conversion rates.

Our innovative AI use extends to Feedonomics' FeedAI, a proprietary AI tool that customers such as Conair, Ethan Allen, and Tecovas leverage as part of the Feedonomics suite of solutions to categorize millions of products to the Google taxonomy with a 96% accuracy rate. Feedonomics customers can see strong improvements in return on advertising spend, click through rate, and omnichannel revenue. Dell uses Feedonomics to categorize, enrich, and connect catalog data feeds via event-driven sync for 18 different channels, 17 different countries, in 9 different languages across 1.3 million SKUs globally. New Balance realized a 95% increase in return on ad spend by leveraging Feedonomics as well. We also recently released a beta program leveraging generative AI for creative content generation at scale.

Similarly, our recently-acquired visual site editor, Makeswift, is investing in AI to generate page layout and website creative content. In addition to our native AI capabilities, we have empowered our partner and developer community to integrate their expertise seamlessly within our platform. For example, we've released an open-source AI app foundation package, simplifying generative AI integrations with BigCommerce. Twenty seven powerful AI solutions already exist in our app marketplace ranging from AI-powered merchandising, search, chat and more. We are investing in AI technology to make running a growing business on BigCommerce simpler than ever, and I'm very excited about the possibilities this emerging technology presents to our customers.

Fundamentally, BigCommerce empowers customers to build beautiful and engaging stores. Customers such as British fashion and lifestyle brand White Stuff have leveraged our platform and partners to compose agile, flexible and fast tech stacks that can adapt to future needs. Two weeks ago, we announced Catalyst, which ushers in the next era of composable storefront technology, enabling customers to create incredible shopper experiences faster. It's purpose-built for today's modern commerce landscape, and it's optimized for the most important aspects of online commerce including speed, SEO, mobile, and accessibility. Coupled with Makeswift, it gives non-technical merchandisers and marketers powerful and flexible tools to design and publish beautiful and engaging site content - no coding required. Catalyst's reception from developers and partners has been extraordinary. We believe Catalyst and Makeswift will power the next era of storefront experiences and will be a game changer for B2C and B2B commerce.

In partnership with PayPal we have co-developed the next generation of accelerated checkout, called Fastlane, which benefits from PayPal's existing network of over 400 million registered shoppers. Early test results are outstanding. When Fastlane is enabled, brands have seen conversion rates in the 70% range and accelerated checkout speeds nearly 40% faster than traditional guest checkout processes.

Our customers get the best of both worlds - industry-leading checkout experience and conversion rates out-of-the-box, plus the flexibility to customize as their businesses require it. Importantly, we provide our customers choice among the world's leading payment providers with best-in-class integrations. We don't try to force adoption of a proprietary payments solution. We don't surcharge customers for using the solution of their choice, and we don't surcharge them for B2B transactions. The combination of payments choice, exceptional integrations, and superior checkout user experience are what drive great checkout conversion and payments economics for our customers.

In May, BigCommerce launched the B2B Buyer Portal, the most modern, out-of-the-box B2B buying experience of any ecommerce platform. This new functionality is packed with the features B2B businesses need to engage their buyers: quoting, invoicing, buyer approval workflows, automated trade applications, and much more. Our B2B customers are seeing incredible results. MKM Building Supplies, the largest independent building supplies distributor in the United Kingdom, revolutionized their ecommerce site using BigCommerce B2B functionality, delivering a personalized omnichannel experience rarely seen in B2B. The results speak for themselves. MKM saw a 44% increase in average order value and a 42% increase in store traffic, leading to an 82% increase in revenue. But it's not just about one story. In 2023, we welcomed industry giants like Twin Liquors, AAPC Medical, Asahi Beverages, Bunzl, Srixon Sports, and Imperial Dade as well. Total B2B Edition GMV grew 78% YoY, and we're laser-focused on extending BigCommerce's leadership position in B2B ecommerce to help our customers grow and scale efficiently.

Our latest multi-storefront features make it even easier for customers like Brompton bicycles to sell in multiple geographies, allowing brands and B2B businesses to deliver high-converting, fully localized experiences - all centrally and efficiently managed from a single store instance. This saves customers time and money that would otherwise be spent managing individual store instances for each market. Customers can streamline their international expansion by swiftly launching storefronts worldwide, without clones, and localize the entire customer journey across search, shopping, and shipping for a tailored experience. Efficient management of global storefront channels from a centralized backend enables rapid launches, changes, and optimizations, all while reducing the need for extensive custom development work.

As I close, I would like to look back on our performance and priorities. I said on our fourth quarter 2022 earnings call that our number one business priority for 2023 was profitability. We have improved our non-GAAP operating profit margin by 26 points in the last 6 quarters. We met our goal, and I'm proud of our team for doing so. As I look forward to 2024, it's time for us to

build on our strong financial position and accelerate top line momentum. 2023's number one priority was profitability. 2024's number one priority is efficient revenue growth.

Ultimately, it all comes back to taking care of our customers. We are passionate about serving our customers not just because it's the right thing to do for them, but also because it's the best way to drive long-term value for BigCommerce. Customer focus can help make us the most loved ecommerce platform and partner in the world, and it can deliver healthy long term returns for our shareholders. With that, I'll turn it over to Daniel.

Daniel Lentz; Chief Financial Officer

Thanks, Brent. And thank you, everyone, for joining us today. During my prepared remarks, I will cover our Q4 and full year 2023 results in detail, provide additional detail on our progress in 2023 - both where we are showing strengthening trends and where we need to improve, and provide guidance for Q1 and the full year 2024.

In Q4, revenue was just over \$84 million, up 16% year-over-year. Full year 2023 revenue grew to \$309 million, up 11% year-over-year. In Q4, subscription revenue grew 14% year-over-year to approximately \$61 million, while Partner and services revenue, or PSR, was up 23% year-over-year to just under \$24 million, driven by strong seasonal consumer spending. Revenue in all of the Americas was up approximately 15%, while EMEA revenue grew 24% and APAC revenue was up 22% compared to prior year.

Our Q4 non-GAAP operating income was just over \$5 million and the full year was a loss of \$6 million. In the last six quarters, our business has grown from a non-GAAP operating margin of approximately negative 20% to a non-GAAP operating margin of positive 6%. That's more than a twenty-six point improvement to profitability in only six quarters. That progress reflects the hard work and dedication of our entire team, and it fulfills a commitment to profitability that we made to shareholders at the beginning of 2023. We have also made significant improvements in cash, finishing Q4 with operating cash flow and free cash flow of \$13 million and \$12 million, respectively. This progress in both non-GAAP operating income and cash flow is evidence of our continued commitment to operating a strong, profitable long-term growth business.

We concluded Q4 with an annual revenue run rate, or ARR, of nearly \$337 million, up 8% year-over-year. That represents a sequential growth in ARR of just over \$4 million. Enterprise account ARR was approximately \$245 million, up 9% year-over-year. As of the end of Q4, Enterprise accounts represent 73% of our total company ARR. Accounts using exclusively our retail plans, which we refer to as "non-enterprise accounts," finished with ARR slightly over \$91 million, up 4% year-over-year. I'll speak in more detail to what we are seeing with respect to ARR growth and what we are seeing from a macroeconomic point of view as we head into 2024 later in my remarks.

Like many other software companies, we redoubled our efforts to drive efficiency and profitability improvements in response to market conditions during 2022, and our business has executed a notable financial transformation over the last six quarters as a result. Even as we take decisive steps to reaccelerate top line growth, we have delivered major improvements to our financial results. Over the last six quarters, adjusted EBITDA has grown from approximately negative \$13 million or an adjusted EBITDA margin of negative 19% to approximately positive \$7 million or an adjusted EBITDA margin of positive 8%. That represents an average quarter-over-quarter adjusted EBITDA margin improvement of 444 basis points every quarter for six consecutive quarters. We have made significant improvements in working capital and collections, decreasing days sales outstanding, or DSO, from 61 to 41 days. We nearly doubled

our deferred revenue balance from approximately \$17 million to \$32 million, and drove prepayment levels over four times higher. As we continue to make progress with advanced billing with our customers and partners, I expect deferred revenue and the current portion of remaining performance obligations, or RPO, to become more indicative of the underlying health of our business as well.

This progress drove significant improvement in cash flow. Apart from the acquisition-related payments for Feedonomics and Makeswift of \$32.5 million and \$9 million, respectively, 2023 free cash flow finished at just over \$13 million, compared to underlying non-GAAP operating loss of just under \$6 million. On top of improvements to profitability and cash flow, we also remain focused on strong stewardship of our equity programs. Stock-based compensation finished Q4 at 9% of revenue compared to 17% a year ago. This has driven a lower annual net dilution of approximately 3.7% in 2023 compared to 6.6% in 2022.

As Brent discussed, we continue to orient our business around the best interest of our customers, our partners, and the ecosystem. A core tenet of our customer-first approach is the freedom of choice our Open SaaS platform offers. BigCommerce customers get to pick the best-in-breed partners for their particular use case. Unlike what we are seeing across the ecommerce space, we are not pressuring our customers into using solutions that are self-serving. We take an agnostic approach to partners. In addition to flexibility, this approach is also economically advantageous for our customers.

For example, we offer integrations with many of the world's leading payments partners, and we do not impose additional fees on our customers based on their payment processor choice. Mid-market & Enterprise customers on BigCommerce can save 25% or more off their existing credit card processing fees by leveraging rates with BigCommerce's preferred payments partners. In some cases, this savings can more than offset the cost of the BigCommerce platform itself. And that 25% savings on payment processing doesn't even account for the surcharges some of our leading competitors require to pressure customers into using their white-labeled payments solutions or additional surcharges recently introduced on B2B orders as well. We maintain the view that our customer-first, open platform is a core differentiator for BigCommerce, and we see this becoming exponentially more valuable to customers, as our competitors shift increasingly to a walled-garden approach. Our approach leads to better relationships with our customers, improved retention, and enables customers to adjust their technology choices to their needs as they grow without needing to replatform.

As I discussed last quarter, we have streamlined our go-to-market motions and organizational structure to reinforce the criticality of our customers. Historically, our business has sourced revenue growth disproportionately from new customer acquisition. Our Q3 2023 restructuring and 2024 financial plan aim for a more balanced growth profile between existing customers and new customers. That restructuring consolidated all go-to-market efforts under the leadership of a Global President role. While we are actively recruiting a strong go-to-market leader to step into that role, we are not missing a beat on our plans for 2024. We have a playbook that is oriented

around sustainable, customer-first retention and growth, a multi-product portfolio of market-leading solutions, and a long tenured, highly motivated commercial team. We are already seeing signs of success in this improved model. Cross-sell results are improving, retention is improving, and we continue to see healthy competitive win rates as well. We are confident that these improvements will also drive improvements to net revenue retention, or NRR, which finished at 100% for Enterprise accounts in 2023.

Let me take a moment to elaborate on what we are seeing with respect to revenue and ARR. Two primary macroeconomic factors affect our business: consumer spending and platform investment spending. Consumer spending has proven a bit more resilient than we had planned, particularly during the holiday period in Q4. I'm cautiously optimistic by the trends I see in this area, though I believe we will continue to face risk in key markets, such as the US and UK, in 2024. Signals on platform investment spending remain mixed. Sales cycle times remain elevated, and customers continue to seek opportunities to reduce contractual volumes to decrease spending - though at a lower rate than what we saw during mid-2023. Competitive win rates remain healthy, and our redoubled focus on gross and net retention is showing positive results in recent months as well. Overall, we are taking a cautious approach to 2024, and our plans balance investments against our ideal customer profiles and key markets with the need to run the business in a lean, accountable way.

I would now like to shift to discuss our three main financial focus areas for 2024.

First, while we made significant progress in the financial performance of the business in 2023, we are not satisfied with our top line growth rates. As Brent said, our number one priority in 2024 is efficient revenue growth, and we have the people, the partnerships, and products to do so. For example, we have improved our processes and measurements to evaluate our go-to-market performance and efficiency, including customer-first goals that measure product performance and quality, customer satisfaction, and improvements to gross and net revenue retention. We are confident that these shifts in our go-to-market will unlock faster revenue growth as the year progresses by driving improvements to NRR and focusing on customer expansion and cross-sell.

Second, our goal is to improve our non-GAAP operating margin in the mid-single digits on a full year basis. As I've said, our progress thus far is notable, but our commitment to improving profitability is unchanged - even as we look to improve revenue growth rates as we progress through 2024.

Third, we have seen success in driving consistent cash flow generation. We will continue to focus on advanced billings on new subscriptions. We will also invest in systems to improve customer data management, CRM capabilities, quote to cash processes, and back office systems and controls, while maintaining tight discipline around accounts receivable and collections. I continue to be encouraged by our progress in this area and believe we will continue to see further improvement through 2024.

I'll now share an updated view on our outlook and guidance for the first quarter and full year 2024.

For the first quarter, we expect revenue in the range of \$76 million to \$78 million, implying a year-over-year growth rate of 6% to 9%. For the full year 2024, we expect revenue between \$327.1 million to \$335.1 million, translating to a year-over-year growth rate of approximately 6% to 8%. For Q1, our non-GAAP operating income is expected to be between \$1 million and \$2 million. For the full year, we expect non-GAAP operating income between \$8.5 million and \$12.5 million. Note that we expect revenue growth rates and profit margins to be sequentially lower in the first quarter compared to the prior quarter. This is primarily due to the Q4 seasonal factors in partner and services revenue that I mentioned earlier and planned sales and marketing spend in Q1.

Our outlook reflects an assumption that, similar to 2023, consumer spending remains resilient though muted, and that business investment remains cautious in 2024. In addition, though we expect our recent go-to-market restructuring to yield strong long term improvements in top line growth, we are taking a moderately conservative view on front half growth as we execute those changes.

While 2023 was a challenging year for BigCommerce in many respects, I am tremendously proud of the financial improvements we delivered. Again, we have a long way to go. We are not satisfied, and we are committed to our customers and to our shareholders. We believe we have the best customers in the world. It is by aligning our success with theirs that we will continue to drive profitable revenue growth for our team and our shareholders.

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