BigCommerce Fourth Quarter and Fiscal Year 2022 Earnings Call: prepared remarks

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Daniel Lentz; Senior Vice President, Finance and Investor Relations

Good afternoon, and welcome to BigCommerce's fourth-quarter and fiscal year 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 first 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 results for the quarter and year, share my thoughts on the ecommerce business climate, outline progress against our five strategic priorities, and finally share perspective on our approach to 2023. RA will also share some of the assumptions on which we have built our 2023 financial plan. He will conclude with our high level expectations for 2023 in his discussion on full year guidance.

In a challenging year for global ecommerce, BigCommerce grew faster than the broader ecommerce industry, and our Q4 results showed strong progress in both profitability and operating cash flow. We also delivered on our full year opening guidance set last February, highlighted by our 27% full-year topline revenue growth.

Let’s discuss the details.

In Q4, total revenue grew to $72.4 million, up 12% year-over-year. Full year 2022 revenue grew to $279.1 million, up 27% year-over-year. Our Q4 non-GAAP operating loss was $9.4 million and the full year was $47 million. We concluded Q4 with an annual revenue run rate, or ARR, at $311.7 million, up 16% year-over-year. That represents a sequential growth in ARR of $6.4 million. Enterprise account ARR was $224 million, up 30% year-over-year. The enterprise segment now represents 72% of our total company ARR.

Let me now share some perspectives on our results. Without a doubt, 2022 was a challenging year in global ecommerce. As macroeconomic conditions deteriorated in the first half, we took decisive action to reduce planned spending and focus efforts on our enterprise business. I am confident these choices are yielding the proper balance between necessary tactical adjustments to near-term economic conditions and steady, long-term investments in the strategic initiatives that will drive profitable growth in the years ahead.

Our results reflect this challenging climate and our response to it. We continue to see marked progress moving up market into larger, more complex enterprise opportunities. However, as a reflection of the macroeconomy, enterprise opportunities have longer sales cycle times and reduced aggregate deal pipeline relative to before 2022. Those are two common themes we all hear across many enterprise software segments. Inflation and consumer spending also remain difficult to predict, and RA will discuss this later in his remarks.

Overall, our results demonstrated the resiliency of our business and the commitment and competence of our team to deliver, even in a tough economy. Most importantly, by growing 27% for the year and restructuring for profitability in 2023, we firmly positioned ourselves for continued healthy ecommerce leadership in the years ahead.

As we look ahead to 2023, the economic conditions of 2022 motivated us to prioritize profitability as our #1 goal by year-end. Obviously, rising inflation and interest rates have made the cost of growth funded by operating losses unattractive to both us and our shareholders. Whereas we began 2022 with a plan to achieve profitability by the second half of 2024, we have now restructured our operations to target profitability in Q4 of this year, 2023. The restructuring has already made us a better company. Our go-to-market spend now focuses entirely on our highest ROI segments, like enterprise, B2B, and omnichannel. Operations throughout the company have been streamlined. Unnecessary and excessive expenditures have been eliminated. Company focus and alignment are better than ever. In sum, we believe we are an even stronger company, operationally and financially, than we were prior to the December restructuring. Longer-term, we reiterate our belief that our business can achieve operating profit margins of 20% or higher, thanks in part to our strong gross margins of 75%+. As RA will outline, this operational excellence and rapid path to profitability is reflected in our guidance for 2023.

Next, I'll provide an update on the substantial progress relative to our core strategic initiatives in 2022. At this time last year, I walked through our three strategic pillars – Open SaaS, disruptive innovation and Commerce-as-a-Service – and the five strategic priorities that support them. Today, I'll briefly review those and discuss the progress we made in 2022, as well as our commitment to these areas this year.

Our differentiated **Open SaaS** technology approach is our first strategic pillar. It combines a truly modern approach to API-first composability with the inherent benefits of multi-tenant SaaS, including built-in performance, security, usability, innovation, and lower cost of ownership. This combination helps businesses turn digital transformation into competitive advantage. Our software conglomerate competitors attempt to lock customers into their proprietary suites. In contrast with Open SaaS, we provide a configurable and flexible platform that enables complex businesses to adopt best of breed technology solutions and customize their ecommerce approach to their specific needs.

Our next strategic pillar, **disruptive innovation**, is the business strategy to extend up market, propelled by an ever higher-performing product at a lower total cost of ownership than established incumbents. Our enterprise capabilities enable high-end merchants to expand faster and further at a much lower cost, while providing advanced functionality to smaller businesses that allows them to grow and scale without having to replatform.

Our final strategic pillar, **Commerce-as-a-Service**, describes our ability to enable partners to create and sell customized commerce solutions powered by our platform technology. We aim to leverage our Open SaaS platform to empower our ecosystem, not compete with it, and through Commerce-as-a-service, our partners can combine the power of our platform with their unique use cases and competitive offerings to create comprehensive solutions for their target markets. The three pillars of Open SaaS, disruptive innovation, and Commerce-as-a-Service remain core to our strategy in 2023.

We are laser-focused on two big objectives this year: achieving global leadership in enterprise and reaching profitability on an adjusted EBITDA basis in Q4. By prioritizing our investments and staffing to focus on enterprise growth, we are confident we can both grow our enterprise ecommerce leadership position and accelerate our profitability timeline. The continued success of and investment in our five strategic priorities will be critical to deliver these goals.

In 2022, we delivered our biggest advancements to date in terms of true enterprise-grade functionality and composability. Our launch of multi-storefront capabilities was a major milestone. This enables businesses to easily launch and manage multiple storefronts from a single BigCommerce backend. Customers can now launch additional brands, geographies and customer segments, such as B2B in addition to B2C, at much lower operational cost and complexity than with distinct infrastructures for each storefront. We also bolstered flexibility for enterprise merchants through our launch of multi-location inventory APIs. These APIs enable customers to execute more complex order fulfillment scenarios, including buy-online-pickup-in-store and multi-warehouse shipping optimization. Major new brand launches during 2022, including Ted Baker, Tastes of Chicago, One Kings Lane, Ollie Pets, Mountain Equipment Company, and Lifetime Brands, leverage enterprise capabilities like these to power their growth.

Our omnichannel offering helps customers advertise and sell successfully through more channels than they could on competitive platforms. In 2022, we made remarkable progress following our 2021 acquisition of Feedonomics, the industry's best solution for managing product catalog integrations at scale into more than one hundred of the world's foremost search, advertising, social network and marketplace channels. Major channels enabled include Amazon, Walmart, Target+, Google, Microsoft, Mercado Libre, Facebook/Instagram, TikTok, and most recently, Snap. Just last week, 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.

New Feedonomics customers added in 2022 included Tottenham Hotspur, a marquee English Premier League football club, for both Advertising and Marketplace channels; Landmark Group, one of the largest retail and hospitality conglomerates in the Middle East, Africa and India; and Les Mills, a $150M+ fitness company headquartered in Auckland, New Zealand; as well as many others across multiple ecommerce platforms. Feedonomics is a platform-agnostic solution. We will continue to invest in Feedonomics' ability to meet the needs of the world's largest merchants and advertising and marketplace partners, whether they are using BigCommerce or competing ecommerce platforms.

Within BigCommerce, we launched our new Certified Omnichannel Partner Programs, both for agency and technology partners. This enterprise-focused initiative gives partners new ways to generate revenue by helping merchants on any ecommerce platform achieve omnichannel success. Armed with numerous tools, services and exclusive channel partner programs, partners can educate and guide merchants on how to strategically expand into new channels that can drive more traffic with higher shopper intent, improve return on ad spend, and generate more GMV. We welcomed Amazon Buy with Prime into the program and, in January, BigCommerce became the inaugural partner for the launch of Buy with Prime, which allows BigCommerce merchants to easily sync their existing catalog across Amazon and BigCommerce and deploy the Buy with Prime button on their sites. In January, we also started a new partnership with Microsoft Ads and Listings, allowing BigCommerce merchants to create and manage ad campaigns across Microsoft's extensive properties.

B2B ecommerce has gone through a major evolution over the last few years. B2B buyers increasingly expect a modern experience similar to what they see in consumer-focused ecommerce. That means B2B businesses must provide speed and ease-of-use without compromising the complexity and uniqueness of the B2B buying journey. Building on the 2021 launch of B2B Edition, our 2022 acquisitions of BundleB2B and B2B Ninja completed a foundation for BigCommerce to become the world's most flexible and easy-to-deploy B2B platform. BundleB2B powers the functionality of our B2B Edition, and B2BNinja offers best-in-class B2B quoting capabilities. By incorporating this range of functionality natively within BigCommerce, we have made B2B ecommerce practical and attractive for businesses of all sizes. Our B2B offering has achieved widespread industry recognition from leading analysts including Gartner, Paradigm and Forrester.

We further enhanced our international footprint with notable 2022 country launches in Germany, Austria, Spain, Denmark, Norway, Sweden, Mexico and Peru. Expansion markets contributed to revenue growth of 34% in EMEA and 42% in Latin America. Notable international brand launches included British Airways' IAG Loyalty, Jimmy Brings, MKM Building Supplies, Industrial Tool Supplies, and Mexico's Chivas soccer club. In addition, we collaborated with partners to grow our presence in markets including China, Korea, Poland, India and UAE.

The last of our five strategic priorities is composable commerce, of which headless is an important subset. Composable commerce gives merchants the freedom to mix, match and combine best-in-breed tech vendors to create a customized and robust technology stack. With BigCommerce's open commerce approach and commitment to MACH Alliance principles, B2B and B2C merchants can make smart technology investments that are agile, functional and flexible. In an unpredictable economy, flexibility and composability are especially important. Our open platform is unrivaled in its ability to let merchants build the technology stack that best serves the needs of their customers and their businesses.

Finally, I'd like to conclude by speaking at a high level about our plans and operating focus for this year. How we are investing and winning in-market has not changed. Our strategic focus and initiatives have not changed. We have a great product and leadership position in global ecommerce. I believe continued leadership requires commitment, discipline, and resolve -- staying on strategy even as market conditions may require tactical adjustments from one year to the next. We intend not to overreact or over-correct in a way that disrupts long-term growth.

Our actions over the last several months reflect this. We chose to focus our time and go to market spend on the superior economics of the enterprise segment. Last quarter, we shifted sales and marketing resources away from non-enterprise prospects with shorter sales cycles to enterprise prospects with longer sales cycles. We did this knowing it may impact bookings growth in the first half of 2023 because the superior retention profile of enterprise businesses makes this the right priority for the medium and long term. We saw that effect in our Q4 results as well. In addition, we restructured elements of the business to accelerate our timeline to profitability into Q4 of this year, while still maintaining key investments in our long-term strategic priorities. These were not easy decisions, but they've already made us an even stronger company with an accelerated timeline to profitability.

In conclusion, a challenging operating climate requires leadership to adapt, improve, and strengthen both strategy and execution. I believe our team successfully rose to the challenges of 2022 while positioning us for continued success in 2023 and beyond. Our plans reflect the prioritization of improved operating margins and cash flow, balanced with focused investment in enterprise, such that we continue to grow our leadership position in global ecommerce. Profitability and enterprise focus are the commitments of our leadership team to our customers, partners, and shareholders. We remain proud and excited to serve you all.

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 Q4 results, provide details on some of the key assumptions behind our 2023 plans, and conclude with discussion on our Q1 and full year revenue guidance.

In Q4, total revenue was $72.4 million, up 12% year-over-year. Subscription revenue grew 14% year-over-year to $53.3 million, while Partner and services revenue, or PSR, was up 6% year-over-year to $19.1 million. For the full year 2022, revenue finished at $279.1 million, up 27% versus 2021. Subscription revenue and PSR were up 33% and 13%, respectively, year-over-year.

In Q4, revenue in the Americas was up 12%, while EMEA revenue grew 22% and APAC revenue was down 6% compared to prior year. For the full year 2022, Americas and EMEA revenue were up 28% and 33%, respectively, year-over-year. APAC grew 9% year-over-year.

2022 was a tough environment for ecommerce and SaaS software. Despite those headwinds, we posted solid growth in subscription revenue - especially in the Americas and EMEA where we launched in new markets. We also generated PSR growth that outpaced consumer spending in ecommerce as a whole.

I'll now review our non-GAAP KPIs. Our ARR grew to $311.7 million, up 16% year-over-year. That represents a sequential growth in total ARR of $6.4 million. Enterprise account ARR was $224 million, up 30% year-over-year and is up more than 2.2X from where it was just two years ago. As we have outlined previously, 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 $5.3 million vs Q3 and up 17% year-over-year. As Brent mentioned, like many other enterprise software companies - we continue to see longer sales cycles and a tighter deal pipeline. Q4 subscription ARR growth reflected the challenges of that dynamic. Again, we are confident that the investment choices we are making are the correct ones - focusing on long-term profitable growth with enterprise accounts. We expect subscription ARR growth rates to improve in time as our pipeline investments and prioritization choices are fully realized and as we close larger and larger accounts.

At the end of Q4, we reported 5,786 enterprise accounts, up 750 accounts or 15% year-over-year including Feedonomics. ARPA, or average revenue per account, for enterprise accounts was $38,708, up 13% year-over-year. Enterprise ARPA was approximately flat quarter-over-quarter as sales cycle times at some enterprise merchants lengthened. We have built our 2023 plans conservatively in line with this dynamic. Finally, net revenue retention, or NRR, from enterprise accounts was 111% in 2022, compared to 118% in 2021. 2022 NRR was impacted by tightening consumer spending that led both to PSR growth rates below that of 2021 and fewer orders-driven subscription upgrades.

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.

Q4 gross margin was 76%, up 57 basis points from the previous year, while gross profit was $55.2 million, up 12% year-over-year.

In Q4, sales and marketing expenses totaled $30.5 million, up 10% year-over-year. This represented 42% of revenue, down 69 basis points compared to last year. Sales and marketing expenses were down $1 million sequentially from Q3, driven by expense reductions in demand generation activities focused on the non-enterprise segment of the business.

Research and development expenses were $19.0 million or 26% of revenue, down 147 basis points from a year ago on approximately flat spending sequentially from Q3. We have prioritized product roadmap initiatives that aim to bring greater enterprise functionality to merchants of all sizes, and we are working diligently to maintain the investments needed to fuel enterprise product improvements while also realizing better operating results on the bottom line.

Finally, general and administrative expenses were $15.1 million or 21% of revenue, down 224 basis points from a year ago. This was down $1.8 million sequentially compared to Q3 due to lower staffing costs and continued operational improvements.

In Q4, we reported a non-GAAP operating loss of $9.4 million, a negative 13% operating margin. This compares with an operating loss of $11.6 million or a negative 17.9% operating margin in Q4 2021 and an operating loss of $11.5 million or a negative 15.9% operating margin in the prior quarter. Recall that we guided to a non-GAAP operating loss range for the quarter of $12.3 to $14.3 million. We delivered strong underlying cost reductions apart from any restructuring efforts, which reinforces our confidence that we will achieve profitability on an adjusted EBITDA basis in Q4 as we announced in December.

Adjusted EBITDA was negative $8.6 million, a negative 11.9% adjusted EBITDA margin, compared to negative 16.8% in Q4 of 2021. Non-GAAP net loss for Q4 was negative $7.7 million or negative $0.10 per share, compared to negative $12.1 million or negative $0.17 per share last year.

We ended Q4 with $305.0 million in cash, cash equivalents, restricted cash, and marketable securities. For the three months ended December 31, 2022, operating cash flow was negative $2.7 million, compared to negative $8.8 million a year ago. We reported free cash flow of negative $3.7 million or a negative 5% free cash flow margin. For the twelve months ended December 31, 2022, operating cash flow was negative $89.4 million, declining from negative $40.3 million a year ago. We reported free cash flow of negative $94.6 million or a negative 34% free cash flow margin. Note both full year operating cash flow and free cash flow results include $32.5 million paid in Q3 as part of the Feedonomics first anniversary acquisition-related payment. These full year results compare to negative $43.6 million and a negative 20% free cash flow margin in 2021.

The remainder of my remarks focus on our outlook and guidance for 2023.

For the first quarter, we expect total revenue in the range of $69.7 million to $72.7 million, implying a year-over-year growth rate of 6% to 10%. For the full year 2023, we expect total revenue between $301.0 million to $313.0 million, translating to a year-over-year growth rate of approximately 8% to 12%. I'll now discuss some of the expectations underlying this topline guidance.

Q4 subscription ARR grew at a slower pace than we have seen in recent quarters. We have built our financial plan assuming similar, conservative bookings growth in 2023. We believe we can generate 20% or higher enterprise ARR growth rates in 2023, which we expect to be offset by contraction in the non-enterprise segment of our business in the mid to high single digits. This guidance also includes the estimated impact of announced pricing changes to take effect across Q1 and Q2.

While we were encouraged by the resiliency in consumer spending that we observed in Q4, we observed moderation in platform orders and GMV as we exited Q4. This is consistent with recent economic reports, including recent US Department of Commerce data highlighting lower ecommerce growth in Q4 than recent years. While we are hopeful that macroeconomic forecasts in consumer spending will prove conservative, we have built our 2023 financial plan assuming a modest deceleration in same-store platform GMV and order growth year-over-year. We expect this to impact subscription pricing upgrades and PSR growth, and we have tightened budgeted spending accordingly.

For Q1, our non-GAAP operating loss is expected to be $8.2 million to $12.2 million. For the full year, we expect a non-GAAP operating loss between $15.7 million and $22.7 million.

Our entire industry faces an uncertain macroeconomic climate. Consequently, 2023 will be a year focused on driving profitability while focusing our go-to-market resources on enterprise accounts. Our plans anticipate strong spending discipline across our business, while accounting for prudent top line growth assumptions. Hiring will remain limited compared to prior years. We are not planning material expansion into new countries or geographies in 2023. Rather, we will focus our international investments on gaining scale in existing, recently-launched countries. We are confident that the expense reduction actions we have taken, combined with limited hiring and tight expense management will enable us to deliver our commitment and hit profitability in Q4 of this year.

We see strong, durable underlying health in the business that gives us great confidence in the success of these efforts. Enterprise retention rates and LTV to CAC results remain strong. Win rates remain healthy. The complexity and size of deals in our pipeline continue to move up market. We have an outstanding product gaining widespread recognition across our industry. We have more excitement and momentum with our agency and technology partners than ever before. We have a strong balance sheet, and our business is heavily concentrated in established merchants with enterprise requirements. These are strong, healthy merchants that prove durable even in down economic cycles.

As I said earlier, we believe we can generate 20% or higher enterprise ARR growth rates in 2023, which we expect to be partially offset by contraction in the non-enterprise segment of our business in the mid to high single digits. We also believe enterprise accounts could represent nearly 80% of total ARR by the end of 2023 or early 2024. Our plan puts us on a path to end the year with a strong base of enterprise accounts and sales pipeline as a profitable company - all while maintaining a strong balance sheet. This is a strong profile on which to base our 2023 plan.

Finally, I'd once again like to thank all of our incredible employees, merchants, and partners. 2022 was not an easy year. Our results reflect the resilience and dedication of our employees and the care and attention that we feel for our merchants and partners. I'm proud of our results in a tough climate, and I'm very excited about the progress this business will make in 2023.

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