BigCommerce First Quarter 2024 Earnings Call: prepared remarks

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Tyler Duncan; Senior Director, Finance and Investor Relations

Good morning, and welcome to BigCommerce's first quarter 2024 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 second 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, President and Chairman of the Board

Thanks Tyler, and thanks everyone for joining us.

Over the last two years, our business has dramatically improved its ability to deliver profitability and positive operating cash flow. As of 2024, our focus shifts to efficient revenue growth, and that imperative is front and center across every team in the company. We have yet to achieve the full growth potential of this business, but we pursue it with urgency and confidence.

I will focus my remarks today on improvements underway in how we go to market, key success metrics we're monitoring and improving, and an exciting leadership addition. I will also touch on product innovation that unlocks growth potential. Let me start by briefly summarizing key financial results on the quarter.

Q1 results reflected a good start to the year relative to our top and bottom line plans. Revenue finished just above $80 million, up 12% year-over-year. Adjusted EBITDA came in just over $4 million, or approximately 5% of revenue. We also had a solid start to the year from a cash flow perspective, improving free cash flow by more than 25 points as a percentage of revenue year-over-year.

Turning now to growth, we recognize the importance of reaccelerating our top line growth profitably, and we are laser focused on accomplishing that. Let me move into a more detailed discussion of improvements we are making to realize our growth potential.

As a reminder, BigCommerce was originally founded to serve the needs of small business customers. In my nine years as CEO, we have radically improved our product and service capabilities on behalf of the complex needs of midmarket and enterprise businesses, and we have successfully moved our customer base up-market as a result. As part of that progression, certain legacy behaviors, metrics and systems reflective of our roots must advance to incorporate the best practices of world-class enterprise software companies. I'll now describe three examples of these advancements.

First, we reorganized our business teams and leadership structure to introduce clear and unified end to end ownership of the customer. Sales, customer success, marketing, and our business development teams have congruent and clear targets that unify their efforts around customer success and growth. In Q4 we centralized end to end customer success ownership under our company President. Our company President now oversees all go-to-market efforts across the business, including the platform product, Feedonomics, and PSR.

Second, our internal performance metrics and goals have improved to better reflect our move up market. As we discussed on our last earnings call, our previous metrics and goals prioritized new customer acquisition as the primary means to fuel top line growth. New customer acquisition remains a priority of course, but it is now balanced with a strong focus on customer retention, satisfaction, and growth. Target metrics now balance gross retention, net retention, and new customer growth, including a greater focus on portfolio cross-sell of Feedonomics and partner solutions.

Third, we are optimizing our data and operational systems to improve the management of net retention and sales pipeline. A new customer master data management system will unify disparate partner and prospect data. We are also rearchitecting our CRM and marketing automation systems to put our platform and Feedonomics sales and marketing teams under one unified architecture built for account expansion, cross-sell, and multi-product sales growth. We expect these systems investments to be complete by mid-2025, and we are making tactical changes in the meantime to build momentum in our current architecture. We are excited about the growth potential these investments can enable, and we included the associated costs in our financial plans at the outset of the year.

These changes are by no means the only enhancements to our go-to-market strategy and operations, but they are illustrative of our transformation in pursuit of becoming a world-class enterprise software company.

To help lead this transformation, I'm pleased to welcome Travis Hess as our new company President. Travis brings more than 15 years of exceptional enterprise ecommerce leadership experience involving many of our top platform competitors, and his expertise in service and implementation, ecosystem partnerships, and competitive selling and positioning will help drive our go-to-market transformation and success. He has served on partner advisory boards for Shopify, Klaviyo, SAP/Hybris and Rackspace, and he most recently worked at Accenture as a managing director leading their direct-to-consumer ecommerce offering and go-to-market strategy.

Travis will target resources and attention on categories in which we are seeing the greatest customer traction and success, including apparel, home and garden, sports and outdoors, and B2B. We have many outstanding customers in these focus categories. Companies such as Coldwater Creek, Francesca's, Harvey Nichols and White Stuff in apparel and accessories. Burrow, One Kings Lane and Houzer in home, garden, and furniture. Marucci, Level 9 Sports and Tottenham Hotspur, who recently hosted our EMEA BigSummit, in sports and outdoors. MKM Building Supplies, Imperial Dade and United Aqua Group in B2B. We also continue to be a great fit for brands and B2B businesses in health and beauty, food and beverage, electronics, and other arenas spanning both B2C and B2B.

Our R&D investments continue to deliver industry-leading innovation on behalf of our customer promise of "enterprise ecommerce, simplified." A few weeks ago, we unveiled our inaugural "Next Big Thing," an extraordinary collection of more than 100 platform enhancements, new features, and partner integrations. I won't go through all 100 here of course, but I do want to call out a few examples of industry-leading innovation on behalf of our customers and ecosystem partners.

I'll start with Catalyst, our next generation storefront technology which we announced in Q1. Catalyst provides a simplified starting point for customers, agency partners, and ecommerce developers to easily and quickly build beautiful, high-performing stores using a headless, composable architecture. It combines a streamlined GraphQL client optimized for the latest version of Next.js and React server components with a reference storefront featuring industry-leading Google Lighthouse scores of 100 out-of-the-box.

Catalyst is the culmination of more than 4,000 headless and composable builds on BigCommerce since 2016. It represents the fastest and simplest path to developing extraordinary customer experiences leveraging the world's highest performing and most popular front-end storefront technologies.

Catalyst lowers the technical requirements and complexity of a composable implementation, making it far easier for customers and agencies to realize the store design and performance benefits of composable without added implementation cost and complexity. Customers using Catalyst will set high standards for shopper UX, site performance, and conversion rates while benefiting from faster, higher quality development. Simply put, with Catalyst, we aim to make composable as easy to use as our native hosting and theming framework, Stencil. Modere, White Stuff, Conn's HomePlus, Brompton, and Bestway Europe are but a few examples of recent launches leveraging BigCommerce's expertise in composable builds. White Stuff in particular saw an immediate 80% improvement in site speed – and 100% on its mobile site – after launching its composable store on BigCommerce.

Another major area of product innovation featured in Next Big Thing is multi-geography selling leveraging our multi-storefront product capabilities. Our multi-geography and multi-language functionality enables multi-storefront localizations such as language, content, pricing, payment methods, and promotions. Customers and partners can configure unique checkout experiences for every storefront, all while maintaining one centralized backend for easy and efficient management.

We also announced our new Open Source B2B Buyer Portal. Open-sourcing B2B Edition's Buyer Portal equips enterprise suppliers, manufacturers, distributors and wholesalers with the tools to deliver a bespoke buyer experience throughout the entire buyer lifecycle—from product discovery to sale, service and warranty, directly from a single portal. By leveraging this customizable starting point, B2B brands can tailor their site experience to the unique needs of their business, their customers, and their operational cost minimization. The open sourcing of our B2B Buyer Portal represents another example of the industry-leading flexibility of BigCommerce's platform. Just as our platform-wide APIs and open checkout brought industry-leading flexibility to B2C ecommerce for a SaaS platform, the open sourcing of our Buyer Portal has now done the same for B2B ecommerce. For us, Open SaaS is a philosophy, the foundation of our product strategy, and a major source of competitive advantage.

Finally, we announced Instant Commerce from Feedonomics. Instant Commerce represents the enablement by Feedonomics of same-day fulfillment and delivery of orders. Feedonomics provides the catalog, inventory, order, and fulfillment data connectivity between brands and retailers and the third-party marketplaces, like Amazon and Walmart, through which they sell and fulfill. It also supports same-day delivery apps and driver services. For same-day delivery and/or in-store pickup, inventory must be held in a store or warehouse within delivery service proximity of the consumer. As the popularity of same-day delivery explodes, Instant Commerce from Feedonomics connects brands, retailers, and businesses to the leading marketplace and delivery services that enable it.

I'll conclude my remarks with a few observations on the macro environment in ecommerce. Consumer spending remains resilient across our major markets, though aggregate ecommerce is growing at lower rates than during and before the pandemic. I'm encouraged overall by the underlying consumption signals that we are seeing in our business. The consumer health that we observed in the 2023 holiday period held up well in Q1, which is a good sign both for 2024 and long-term ecommerce growth. We believe platform investment spending will inevitably improve, and we're transforming our go-to-market capabilities to capitalize on that.

Overall, I am encouraged by our start to the year and see a path to growth reacceleration fueled by our go-to-market transformation and continued industry-leading product innovation. We already see encouraging improvements in gross and net retention since initiating operational changes in Q4. Our competitive advantage in total cost of ownership is stronger than ever, thanks to price increases taken by our competitors. Our product continues to receive strong reviews and advocacy by customers and partners. With strong competitive advantages in product and service, combined with significantly improved sales, marketing, and service practices, BigCommerce can achieve its full potential for growth and profitability.

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 Q1 results, give additional detail on our key areas of operational focus, and provide updated guidance and our outlook for both the second quarter and for the remainder of the year.

As Brent just outlined in his prepared remarks, we are pleased with our execution in the quarter and feel we are off to a good start in 2024. Revenue exceeded the high-end of our guidance range, and non-GAAP operating income also came in above the top of our expected range. We believe we are well-positioned to improve upon these results and advance our execution in the quarters ahead.

In Q1, total revenue was $80 million, up 12% year-over-year. Subscription revenue grew 13% year-over-year to approximately $61 million, while partner and services revenue or PSR was up 8% year-over-year to just over $19 million. Revenue in all of the Americas was up 12%, while EMEA revenue grew 15% and APAC revenue was up 11% compared to the prior year.

We continue to make positive strides on our commitment to running a profitable growth business. Our Q1 non-GAAP operating income was just over $3 million versus a loss of $6 million a year ago. These results represent a nearly 13 point year-over-year improvement to non-GAAP operating margins, increasing from negative 9% in Q1 2023 to positive 4% in Q1 2024. As we communicated last quarter, we expected operating margins to finish sequentially lower in the first quarter due to strong Q4 holiday results in partner and services revenue and planned spending in Q1.

I want to give you an update on where the three strategic priorities I called out on our last call currently stand. First, we made a commitment to drive efficient revenue growth. Brent spoke in detail to efforts underway with respect to go-to-market improvements and transformation, so I won’t restate the details that he outlined previously. What I will add is that we are already beginning to see encouraging progress in only the first quarter since initiating many of those improvements. Q1 gross and net retention rates improved versus the prior quarter, and I see greater focus on customer success and growth than I have at any other time during my nearly six years with BigCommerce.

Second, we committed to improve our operating leverage and grow profitability. More specifically, we aim to expand non-GAAP operating margins in the mid-single digits on a full-year basis in 2024. Q1 non-GAAP operating income and margin finished roughly double our guidance expectation, reflecting the hard work and continued spending discipline that we will exhibit across the year. This includes discipline on stock based compensation and equity incentives as well. Q1 stock based compensation expense finished more than 400 bps lower as a percent of revenue compared to Q1 2023. We have moved a significant portion of our 2024 executive equity awards to performance-based stock units to further increase alignment between management incentives and shareholder returns. As our go-to-market efforts drive top line growth acceleration, the business has the potential to grow margins at an accelerated rate as well. Put simply, we have made material improvements to spending and cash discipline, even as top line growth rates did not meet our expectations in 2023. That discipline puts the business in a position to see strong gains to profitability as revenue growth rates improve.

Third, we committed to healthy cash flow generation and cash management. I am very encouraged with our progress in this area, and we continue to evaluate all of our spending to look for opportunities to drive improvements in cash flow. Our investments in internal systems and controls along with discipline around accounts receivable and collections are paying off in terms of our working capital and accounts receivable. Deferred revenues have increased year-over-year by $12 million, from $23 million to $35 million while annual plan subscription deferrals have increased $12 million, from $8 million to $20 million. The current portion of remaining performance obligations, or CRPO, saw a $18 million year-over-year increase, or up 21%, from $87 million to $105 million. Operating cash flow was approximately negative $3 million in Q1, while underlying operating cash flow was around positive $3.5 million apart from sizable software prepayments and annual employee payments made in the first quarter. Again, this was a solid start to the year.

I'll now turn to our non-GAAP KPIs.

We concluded Q1 with an annual revenue run rate, or ARR, of approximately $340 million, up 7% year-over-year. That represents a sequential growth in ARR of nearly $4 million. Enterprise account ARR was approximately $248 million, up 8% year-over-year. As of the end of Q1, enterprise accounts represent 73% of our total company ARR. Accounts using exclusively our essentials plans, which we refer to as "non-enterprise accounts," finished with ARR slightly over $92 million, up 5% year-over-year. At the end of Q1, we reported 5,970 enterprise accounts, up 142 accounts or 2% year-over-year. ARPA or average revenue per account for enterprise accounts was $41,581, up 6% year-over-year.

Before we move on to guidance, I'd like to share some high level thoughts on our performance to start the year and how I see 2024 shaping up going forward. Overall, I was pleased with results in Q1 relative to our financial plan. We're off to a good start on revenue, profit, and cash flow, and that builds confidence as we approach the mid-year line. ARR results in Q1 reflected both cause for optimism and highlighted the criticality of the go-to-market transformation Brent outlined in detail earlier. Gross and net retention results beat our internal plans, which reflected early signs of progress in the changes we are making in our go-to-market transformation. We also continue to see challenges in sales cycle times and platform investment spending, which will require continued focus and effort by our team throughout the year.

I'll now shift to our outlook and guidance for the second quarter and the full-year 2024. For the second quarter, we expect revenue in the range of $79.8 million to $81.8 million, implying a year-over-year growth rate of 6% to 8%. For the full year, we expect revenue between $329.7 million to $335.7 million, translating to a year-over-year growth rate of approximately 7% to 9%.

Note that we are increasing our full year revenue outlook, balancing our overall confidence based on a good start to the year with maintaining prudent conservatism with respect to full year guidance. For Q2, our non-GAAP operating income is expected to be between $200 thousand and $1.2 million. Note this is slightly lower than Q1 non-GAAP operating income sequentially due to planned salary increases taking effect out of our annual spring merit and promotion cycle during Q1. For the full year, we expect non-GAAP operating income between $10.2 million and $14.2 million, which also reflects an improvement to our full year outlook based on progress through Q1.

Again, I would like to thank everyone for joining us today. As Brent said at the start of the call, our business has delivered notable improvements to profit and cash flow over the last two years. Now is the time to do the same in go-to-market and top line results, and our entire team is laser focused on that goal.

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