

VTEX

4Q23 Review: When high growth meets pure operational leverage

Reiterate Rating: BUY | PO: 13.00 USD | Price: 7.73 USD

Strong beat in both revenue and margins

VTEX reported very strong results across the board. Net revenue was up 34% YoY, 5% above BofAe that was already above guidance. In addition, EBITDA margin reached 20%, 360bps above BofAe, showing operational leverage. As a reference, both EBITDA and revenue came in above BofAe by USD2.6mn, showing the extra revenue brought no extra cost. We reiterate our Buy rating and preference in LatAm TMT for VTEX and raise our PO from USD12 to USD13. We expect it to maintain its strong momentum with high growth and operational leverage and see upside for its US/EU operations. (see: [Deep dive: Top-notch product is the ticket for the global stage](#))

35% LT EBIT margin might be too conservative

The positive highlight of 4Q was the EBITDA margin, as it reached 20%, up 1200bps YoY and 360bps above BofAe, mostly due to operational leverage. For 2024, we expect this to continue, with VTEX reaching an EBIT margin of 12% vs mid to high single digit margin guidance. In addition, VTEX shared its adjusted EBIT margin for existing stores reached ~35% (excluding 10% of revenues from share-based compensation), up from 22% in 2022. This number not only supports our bullish view on operational leverage but also suggests a LT EBIT margin of ~35% (ex-share-based) might be too conservative.

Conservative guidance as expected, but we see upside

VTEX shared its revenue guidance for 2024, at USD234-243mn, vs BofAe 5% above the top end of the guidance. Although numbers were below BofAe, we believe VTEX might be taking a more conservative approach given an uncertain macro environment. Overall, if we see a sequential pickup in e-commerce in 2024, we believe there could be upside potential to these numbers.

Updating our numbers – Buy and preference in LatAm TMT

We update our estimates for VTEX with 4Q results and raise our PO to USD13 from USD12, as we incorporate slightly higher revenues for 2024 which should also lead to more EBITDA margin expansion, reaching 14% for the year.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(0.43)	(0.29)	(0.08)	0.07	0.23
EPS Change (YoY)	NM	32.6%	72.4%	NM	228.6%
Consensus EPS (Bloomberg)			(0.08)	0.05	0.15
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	110.4x	33.6x
EV / EBITDA*	NM	NM	136.3x	37.6x	18.8x
Free Cash Flow Yield*	0.1%	0.1%	2.8%	3.7%	6.3%

* For full definitions of *IQmethod*SM measures, see page 5.

27 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	12.00	13.00
2023E Rev (m)	198.9	201.5
2024E Rev (m)	252.1	255.4
2025E Rev (m)	316.1	321.3
2023E EPS	-0.07	-0.08
2025E EPS	0.21	0.23

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Stock Data

Price	7.73 USD
Price Objective	13.00 USD
Date Established	27-Feb-2024
Investment Opinion	C-1-9
52-Week Range	3.24 USD - 8.38 USD
Mkt Val (mn) / Shares Out (mn)	1,390 USD / 179.9
Free Float	88.9%
Average Daily Value (mn)	2.67 USD
BofA Ticker / Exchange	VTEX / NYS
Bloomberg / Reuters	VTEX US / VTEX.N
ROE (2023E)	-4.8%
Net Dbt to Eqty (Dec-2022A)	-30.6%
ESGMeter TM	NLA

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Timestamp: 27 February 2024 08:58PM EST

iQprofileSM VTEX

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-26.2%	-12.8%	-4.2%	1.8%	11.5%
Return on Equity	-38.6%	-16.3%	-4.8%	4.6%	12.7%
Operating Margin	-52.4%	-31.7%	-7.2%	2.9%	12.5%
Free Cash Flow	1	1	38	52	88

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	4.1x	2.1x
Asset Replacement Ratio	0x	0x	0x	0x	0x
Tax Rate	NM	7.1%	NM	24.0%	24.0%
Net Debt-to-Equity Ratio	-36.0%	-30.6%	-16.3%	-32.2%	-50.5%
Interest Cover	NA	NA	NA	NA	NM

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	126	158	202	255	321
% Change	27.5%	25.3%	27.9%	26.8%	25.8%
Gross Profit	76	105	141	184	238
% Change	19.4%	37.6%	34.2%	31.2%	28.9%
EBITDA	(42)	(31)	10	37	73
% Change	NM	25.5%	NM	262.6%	100.0%
Net Interest & Other Income	1	1	1	0	14
Net Income (Adjusted)	(78)	(52)	(14)	13	41
% Change	NM	32.6%	73.9%	NM	225.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(78)	(52)	(14)	13	41
Depreciation & Amortization	4	6	5	6	6
Change in Working Capital	0	0	11	10	13
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	75	48	37	23	27
Capital Expenditure	0	0	0	0	0
Free Cash Flow	1	1	38	52	88
% Change	0%	0%	NM	35.8%	67.9%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	121	100	41	94	181
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	229	230	251	265	281
Property, Plant & Equipment	5	5	3	2	2
Other Non-Current Assets	61	68	70	67	64
Total Assets	415	403	366	427	527
Short-Term Debt	2	3	0	0	0
Other Current Liabilities	57	57	82	104	129
Long-Term Debt	1	0	0	0	0
Other Non-Current Liabilities	28	27	29	33	40
Total Liabilities	88	88	111	137	169
Total Equity	327	315	255	290	358
Total Equity & Liabilities	415	403	366	427	527

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Server & Enterprise Software

Company Description

VTEX is a leading cloud-based provider of digital commerce software, primarily serving large and global enterprise customers. The company was founded in Brazil and continues to be mainly exposed to the region with 94% of sales in the LatAm market. The platform enables enterprises to construct a unified commerce strategy, building and managing online stores across B2C, B2B and marketplace use cases, integrations to help deliver omni-channel ordering, inventory optimization and more.

Investment Rationale

VTEX is positioned well to benefit from secular growth trends as a leading ecommerce software vendor in the LatAm region. In our view, LatAm currently has lower competitive risks and a higher growth potential versus other regions given the low ecommerce penetration at 6% vs 18% globally in 2020. VTEX's leadership position and strong ecosystem in the region help drive growth close to a 30% CAGR in our model. In addition, we see an attractive valuation.

Stock Data

Average Daily Volume 345,177

Quarterly Earnings Estimates

	2022	2023
Q1	-0.09A	-0.04A
Q2	-0.11A	-0.03A
Q3	-0.06A	-0.01A
Q4	0A	0.02E

Exhibit 1: VTEX reported strong results, with revenues up 34% YoY adj EBITDA margin reaching 20%

VTEX 4Q23 Review

	4Q23a	4Q23e	Consensus	A/E	A/C	4Q22a	YoY	3Q23a	QoQ
Total Revenue	60.7	58.1	57.1	4.6%	6.4%	45.5	33.5%	50.6	19.9%
COGS	-15.8	-15.7		0.9%	-	-14.6	8.3%	-15.0	5.2%
Gross Profit	44.9	42.4		5.9%	-	30.9	45.3%	35.6	26.1%
Gross Profit margin	74.0%	73.0%		94bps	-	67.9%	606bps	70.3%	363bps
Research and development	-14.3	-15.7		-8.5%	-	-14.1	2.0%	-15.5	-7.5%
Sales and marketing	-15.1	-15.1		-0.2%	-	-12.4	21.7%	-15.1	0.0%
General and administrative	-9.1	-8.5		7.5%	-	-7.1	29.0%	-8.4	8.7%
Other income (expense)	-0.5	-0.3		72.3%	-	-0.4	24.4%	-0.1	405.1%
Total Operating Expenses	-39.0	-39.6		-1.3%	-	-33.9	15.1%	-39.1	-0.1%
EBIT	5.7	2.8		-100.8%	-	-3.0	-	-3.5	-
EBIT margin	9.4%	4.9%		450bps	-	-6.7%	1604bps	-6.8%	1623bps
Adjusted EBITDA	12.2	9.6	5.4	27.6%	125.3%	3.9	213.5%	2.4	401.2%
EBITDA margin	20%	16%	9%	363bps	1061bps	9%	1154bps	5%	1529bps
Financial Result	0.4	2.0	-	-82.4%	-	2.7	-86.7%	1.1	-66.7%
Pretax income (loss)	6.1	5.2	-	NA	-	0.0	-	-2.1	-
Tax related expenses	-2.9	-1.2	-	129.0%	-	-0.3	718.9%	-0.3	982.6%
Net income (GAAP)	3.2	4.0	1.2	19.0%	-169.4%	-0.3	-	-2.4	-
EPS (GAAP)	0.02	0.02	0.06	19.0%	73.8%	0.00	-	-0.01	-

Source: Company Data, BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 2: We raise our estimates for VTEX as we incorporate 4Q results

Old vs New estimates for VTEX

	New			Old			% chg.			Consensus			New vs. Consensus		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Net Revenue	255	321	392	252	316	384	1.3%	1.6%	2.0%	243	301	366	5.1%	6.8%	7.0%
Adjusted EBITDA	37	73	108	34	67	99	7.5%	9.2%	9.2%	22	46	94	65.5%	59.0%	15.3%
EBITDA margin	14.4%	22.8%	27.5%	13.5%	21.2%	25.7%	82bps	158bps	183bps	9.1%	15.3%	25.5%	524bps	749bps	198bps
Net Income	13	41	69	12	39	65	5.3%	6.8%	6.2%	11	32	55	19.8%	27.6%	25.2%
EPS (GAAP)	0.07	0.23	0.38	0.07	0.21	0.36	5.3%	6.8%	6.2%	0.06	0.18	0.31	19.8%	27.6%	25.2%

Source: Bloomberg; BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

VTEX (VTEX)

Our \$13 PO is based on DCF-to-Firm from 2023E-2035E that assumes a weighted average cost of capital of 12.7% which considers a 280bps country risk to Brazil (c.60% of revenues), a 5.7% market premium and 3.4% risk free rate. We also assume a 6% perpetuity growth rate (g) and a capital structure of 95% equity and 6.6% debt.

Risks to our PO are: 1) New software technology/product/AI, 2) slowdown in the E-commerce segment, 3) large clients developing their own software, 4) more aggressive competition leading to lower take rates.

Analyst Certification

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Latin America - Telecom Services and Information Technology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	America Movil	AMXVF	AMXB MM	Fred Mendes, CFA
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	Eletromidia	XSUHF	ELMD3 BZ	Fred Mendes, CFA
	Locaweb	XZVMF	LWSA3 BZ	Fred Mendes, CFA
	Telefonica Brasil	XCPTF	VVT3 BZ	Fred Mendes, CFA
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	TIM Brasil	XZUAF	TIMS3 BZ	Fred Mendes, CFA
	TOTVS	XBEGF	TOTS3 BZ	Fred Mendes, CFA
	VTEX	VTEX	VTEX US	Fred Mendes, CFA
NEUTRAL				
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	Brisanet	XNHKF	BRIT3 BZ	Fred Mendes, CFA
	Megacable Holdings SAB	MHSDF	MEGACPO MM	Fred Mendes, CFA
	Unifiqu S.A	XFYDF	FIQE3 BZ	Fred Mendes, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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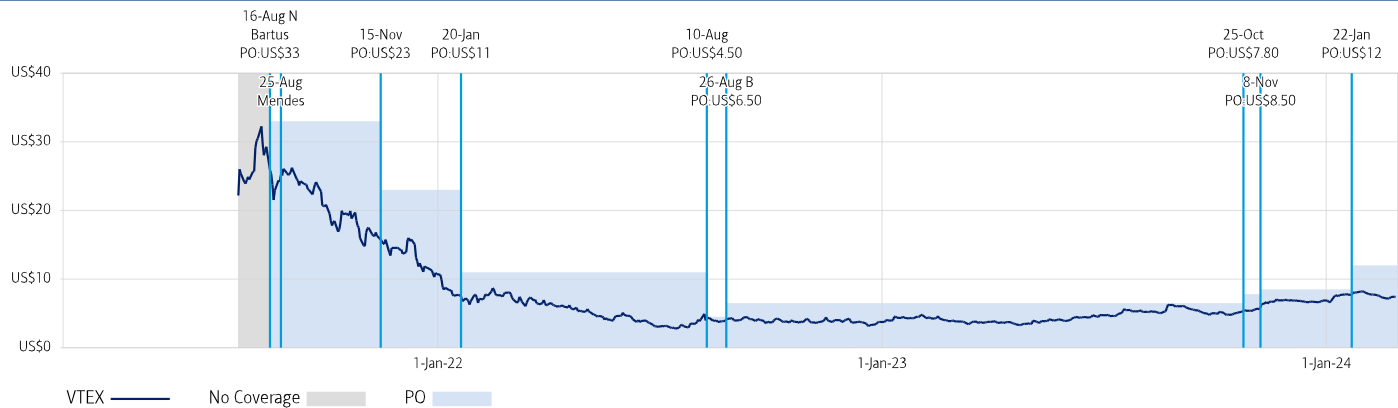
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VTEX (VTEX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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