

VTEX

Deep dive: Top-notch product is the ticket for the global stage

Reiterate Rating: BUY | PO: 12.00 USD | Price: 7.71 USD

Best e-commerce platform in LatAm expanding globally

Our bullish view on VTEX is based on its LatAm operations, but we see upside for its global expansion. We expect its solid momentum to continue, with a top line growth of +27% YoY in 2024 (vs 26% in 2023), driven by an improvement in the e-commerce market, especially in Brazil. This, combined with the cost discipline seen in 2023, should lead to an ~450bps above consensus EBITDA margin expansion. Despite a higher growth rate vs global peers average, revenue CAGR 2023-26E of 25% vs 14%, it still trades at 18x EV/EBITDA vs 23x 2025E for peers, a 20% discount. VTEX was up 85% in 2023.

Top-notch product according to Gartner and IDC

After an in-depth analysis, it is clear to us that VTEX has a high-quality product which continues to improve. In all metrics analyzed it ranked as one of the best among peers. Data from Built With shows that it is gaining market share against almost all peers. In IDC, it ranks as a major player for B2C, despite limited US/EU exposure. In Gartner reviews, it has the highest average rating among peers and its main strengths listed were: (i) fast time to market, (ii) lower cost, (iii) customer support and (iv) ease to use.

US/EU: Slower pace but on track; 200% upside in bull case

In Brazil, VTEX's leadership position (40% market share) came after an extended period of converting large clients, strengthening its brand. In LatAm, it was faster, as clients in Brazil have rolled out their partnerships with VTEX to LatAm. For the US, this expansion has not been easy, due to a different and more difficult selling process. Despite that, we remain bullish on the US/EU expansion given its LatAm track record and top-notch product. In our numbers we consider VTEX will reach 1% market share in US/EU in 2028.

Preferred name in LatAm TMT – Buy; raise PO to USD12

We reiterate our Buy rating and raise our PO to USD12 from USD8.5 as we update our numbers, incorporating (i) new revenue model, leading to higher long-term top line growth, (ii) increase our short-term/medium-term gross margin to be in line with company guidance, (iii) update our macro estimates, and (iv) reduce our Ke to 13% from 13.2%.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(0.43)	(0.29)	(0.07)	0.07	0.21
EPS Change (YoY)	NM	32.6%	75.9%	NM	200.0%
Consensus EPS (Bloomberg)			(0.08)	0.05	0.15
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	110.1x	36.7x
EV / EBITDA*	NM	NM	141.4x	40.3x	20.5x
Free Cash Flow Yield*	0.1%	0.1%	2.8%	3.8%	6.0%

* For full definitions of *IQmethod*SM measures, see page 36.

22 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	8.50	12.00
2023E Rev (m)	198.8	198.9
2024E Rev (m)	251.9	252.1
2025E Rev (m)	314.6	316.1
2023E EPS	-0.08	-0.07
2024E EPS	0.06	0.07
2025E EPS	0.16	0.21

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Stock Data

Price	7.71 USD
Price Objective	12.00 USD
Date Established	21-Jan-2024
Investment Opinion	C-1-9
52-Week Range	3.24 USD - 8.05 USD
Mkt Val (mn) / Shares Out (mn)	1,387 USD / 179.9
Free Float	88.9%
Average Daily Value (mn)	2.71 USD
BofA Ticker / Exchange	VTEX / NYS
Bloomberg / Reuters	VTEX US / VTEX.N
ROE (2023E)	-4.5%
Net Dbt to Eqty (Dec-2022A)	-30.6%
ESGMeter TM	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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Refer to important disclosures on page 37 to 39. Analyst Certification on page 35. Price Objective Basis/Risk on page 35.

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iQprofileSM VTEX

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-26.2%	-12.8%	-5.0%	1.3%	10.5%
Return on Equity	-38.6%	-16.3%	-4.5%	4.4%	12.0%
Operating Margin	-52.4%	-31.7%	-8.8%	2.0%	11.1%
Free Cash Flow	1	1	39	53	83

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	4.4x	2.2x
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%	-15.5%	-32.1%	-49.8%
Interest Cover	NA	NA	NA	NA	NM

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	126	158	199	252	316
% Change	27.5%	25.3%	26.2%	26.8%	25.4%
Gross Profit	76	105	138	181	232
% Change	19.4%	37.6%	31.8%	30.9%	28.5%
EBITDA	(42)	(31)	10	34	67
% Change	NM	25.5%	NM	250.6%	96.9%
Net Interest & Other Income	1	1	1	1	16
Net Income (Adjusted)	(78)	(52)	(13)	12	39
% Change	NM	32.6%	75.3%	NM	221.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(78)	(52)	(13)	12	39
Depreciation & Amortization	4	6	5	6	6
Change in Working Capital	0	0	8	12	13
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	75	48	39	23	26
Capital Expenditure	0	0	0	0	0
Free Cash Flow	1	1	39	53	83
% Change	0%	0%	NM	37.1%	56.6%
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	40	93	176
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	229	230	250	264	279
Property, Plant & Equipment	5	5	3	2	1
Other Non-Current Assets	61	68	70	66	63
Total Assets	415	403	362	425	521
Short-Term Debt	2	3	0	0	0
Other Current Liabilities	57	57	79	102	127
Long-Term Debt	1	0	0	0	0
Other Non-Current Liabilities	28	27	28	33	39
Total Liabilities	88	88	107	135	166
Total Equity	327	315	255	290	355
Total Equity & Liabilities	415	403	362	425	521

* For full definitions of iQmethodSM measures, see page 36.

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 351,450

Quarterly Earnings Estimates

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

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E-commerce platform peers comps table

Exhibit 1: We see VTEX trading a discount in terms of EV/EBITDA 25 to its peers.

VTEX's international E-commerce comp table

Name	Market cap \$ USDmn	Revenue CAGR 23-26	Earnings CAGR 23-26	EV/Sales		EV/EBTIDA		P/E	
				24Y	25Y	24Y	25Y	24Y	25Y
E-commerce Platform peers									
VTEX	1,448	25%	-	4.7x	3.7x	34.6x	17.6x	122.2x	37.8x
SAP	198,262	9%	12%	5.3x	4.8x	17.4x	15.6x	24.4x	20.9x
Oracle	298,808	8%	12%	7.1x	6.5x	14.5x	13.0x	19.6x	17.6x
Microsoft	2,927,345	14%	16%	11.9x	10.6x	23.5x	20.4x	34.7x	30.3x
Shopify	99,741	21%	40%	11.5x	9.5x	68.9x	48.5x	70.3x	50.6x
Adobe Inc.	268,352	11%	12%	12.3x	11.0x	26.3x	23.7x	33.1x	29.2x
Salesforce	265,677	12%	30%	7.7x	6.9x	19.1x	17.4x	33.5x	28.6x
BigCommerce	616	21%	-	2.1x	1.9x	36.2x	21.1x	34.6x	23.5x
AVERAGE Ex- VTEX		14%		8.3x	7.3x	29.4x	22.8x	35.7x	28.7x

Source: Bloomberg

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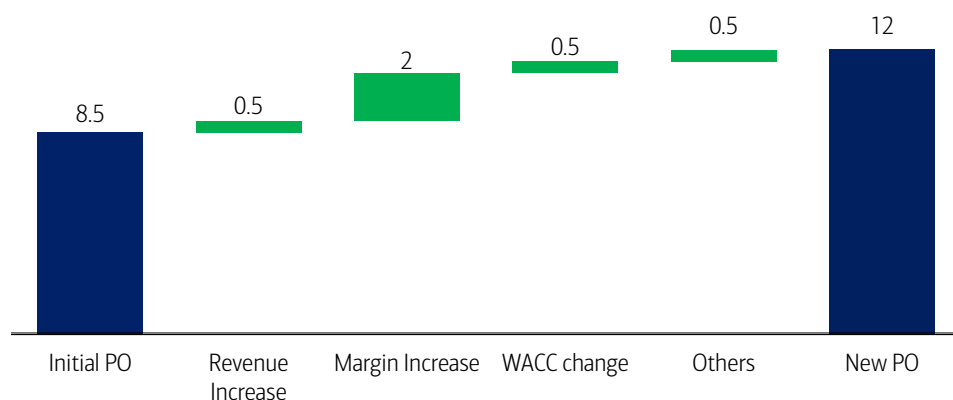
Main changes in our numbers

Preferred name in LatAm TMT – Buy; raise PO to USD12

We reiterate our Buy rating and raise our PO to USD12 from USD8.5 for VTEX as we update our numbers, incorporating (i) new revenue model, leading to higher LT top line growth, (ii) increase our ST/MT gross margin to be in line with company guidance, (iii) update our macro estimates, and (iv) reduce our Ke to 13% from 13.2%.

Exhibit 2: Most of our PO change is due to a higher gross margin and operational leverage.

Main changes in our PO



Source: BofA Global Research

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Old Vs New estimates

Exhibit 3: We raise our EBITDA numbers for VTEX as we incorporate higher margins.

VTEX' Old Vs New

	New			Old			% chg.			Consensus			New vs. Consensus		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Net Revenue	199	252	316	199	252	315	0.0%	0.1%	0.5%	198	243	301	0.5%	3.7%	5.1%
Adjusted EBITDA	10	34	67	8	32	59	N/A	5.1%	14.6%	(7)	22	46	N/A	53.9%	45.6%
EBITDA margin	4.9%	13.5%	21.2%	3.9%	12.9%	18.6%	N/A	65bps	262bps	-3.3%	9.1%	15.3%	N/A	442bps	591bps
Net Income	(13)	12	39	(15)	10	29	N/A	21.1%	34.1%	(14)	10	32	N/A	20.3%	19.5%
EPS (GAAP)	(0.07)	0.07	0.21	(0.08)	0.06	0.16	N/A	21.1%	34.1%	(0.08)	0.06	0.18	N/A	20.3%	19.5%

Source: Company data; Bloomberg; BofA Global Research

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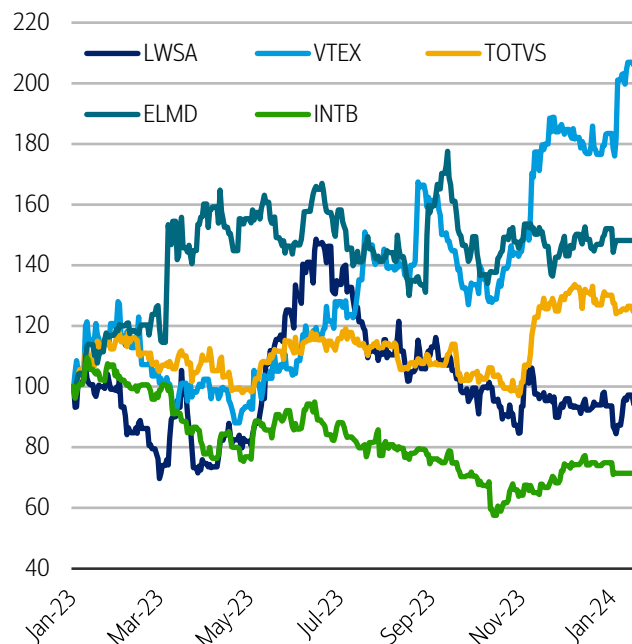


VTEX among the best performers in 2023

VTEX had a strong performance in 2023, up 83%, being one of the best performers among local and international peers. For the local tech names under our coverage, VTEX had the best performance by a wide margin, and its e-commerce peer in Locaweb was even down 6% in the year. Looking at international peers, Shopify also had a strong performance, 125%, while the S&P 500 Software Industry GICS3 Index (S5SOFT) was up 60% and ARKK innovation ETF was up 68%. We highlight that for most of the year, the three names had a similar stock performance, with VTEX having a strong performance in August and November but trailing at the end of the year.

Exhibit 4: VTEX had the best performance among local peers.

Stock performance for the tech names in our coverage

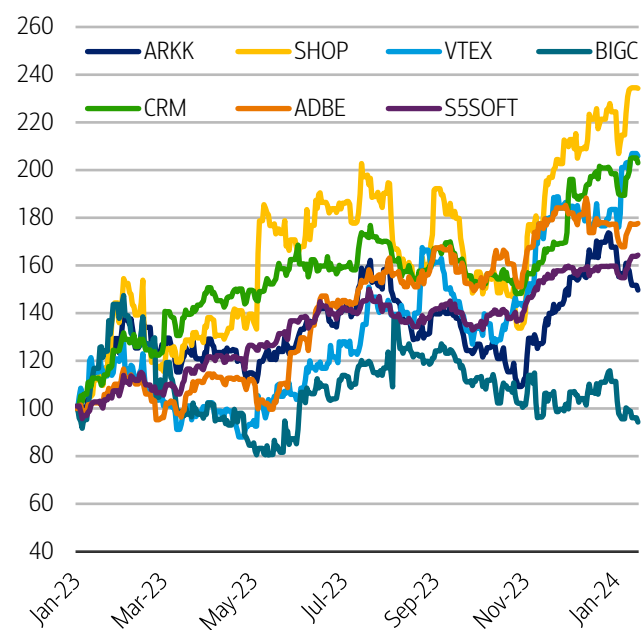


Source: Bloomberg

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Exhibit 5: International peers had a solid performance in 2023.

Stock performance for VTEX's international peers



Source: Bloomberg

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What do we consider in our numbers?

VTEX keeps gaining market share

We have updated our model for VTEX to incorporate our view on a per region basis. For the addressable markets we considered (i) BofA's analysts' projection for the e-commerce market per region, (ii) excluded P1 sales (sales directly from the marketplaces) (iii) 15% of the market would not be addressable due to being SMB and (iv) 25% of the market would not be addressable as they are long tail sellers.

We also highlight our numbers only consider the B2C business, so B2B would be seen as further upside risk if the final market shares in B2C are achieved. In addition, we do not consider any extra revenue from the monetization of the ecosystem, new products, or from any expansion in regions other than LatAm, Europe and US.

Exhibit 6: We estimate VTEX will reach over 1% world market share in 2028.

Consolidated E-commerce and VTEX projections

World	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total E-commerce market (USDmn)	4,614	4,999	5,587	6,127	6,694	7,315	7,993	8,733	9,543
E-commerce market ex-1P (USDmn)	4,386	4,761	5,323	5,835	6,374	6,963	7,607	8,310	9,078
YoY Growth		8.4%	11.8%	9.7%	9.3%	9.3%	9.3%	9.3%	9.3%
Non-addressable clients (USDmn)	1754.3	1904.3	2129.2	2334.1	2549.5	2785.2	3042.6	3323.8	3631.1
E-commerce addressable B2C market (USDmn)	2,631	2,856	3,194	3,501	3,824	4,178	4,564	4,986	5,447
VTEX gross merchandise volume (USDbn)	12.7	16.1	20.4	25.7	31.5	38.2	45.9	53.4	62.0
YoY Revenue Growth		26.9%	26.8%	25.9%	22.4%	21.5%	20.1%	16.4%	16.0%
VTEX Market Share	0.48%	0.56%	0.64%	0.73%	0.82%	0.91%	1.01%	1.07%	1.14%
VTEX Revenue (USDmn)	148.5	186.8	236.8	297.0	360.9	434.6	516.2	607.2	710.8
VTEX Take rate	1.17%	1.16%	1.16%	1.16%	1.15%	1.14%	1.12%	1.14%	1.15%
YoY Revenue Growth		25.8%	26.8%	25.4%	21.5%	20.4%	18.8%	17.6%	17.1%

Source: BofA Global Research

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Brazil - We estimate VTEX currently has a ~40% market share in its addressable market, and believe it can reach over 50% in the long term. In addition, we see room for some take rate expansion as the company adds new layers/features to its solutions, although we believe most new clients should be enterprises, that generally pay lower take rates.

Exhibit 7: We estimate VTEX will continue gaining market share in Brazil, reaching 50% in 2028.

E-commerce and VTEX projections for Brazil

Brazil market	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total E-commerce market (USDmn)	51	52	57	64	71	78	86	95	104
E-commerce market ex-1P (USDmn)	35	36	39	44	49	54	59	65	72
YoY Growth		1.7%	10.4%	12.0%	10.4%	10.8%	10.0%	10.0%	10.0%
Non-addressable clients (USDmn)	14.0	14.2	15.7	17.6	19.4	21.5	23.7	26.0	28.6
E-commerce addressable B2C market (USDmn)	21.0	21.4	23.6	26.4	29.1	32.3	35.5	39.1	43.0
VTEX gross merchandise volume (USDbn)	7.0	8.5	10.2	11.9	13.6	15.6	17.8	20.1	22.8
VTEX Market Share	33.2%	40.0%	43.3%	45.0%	46.7%	48.3%	50.0%	51.5%	53.0%
VTEX Revenue (USDmn)	81.7	99.0	124.3	147.5	172.3	201.5	233.8	270.9	312.4
VTEX Take rate	1.2%	1.2%	1.2%	1.2%	1.3%	1.3%	1.3%	1.3%	1.4%
YoY Revenue Growth		21.3%	25.6%	18.7%	16.8%	17.0%	16.0%	15.9%	15.3%

Source: BofA Global Research

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LatAm (Ex- Brasil) – In LatAm, VTEX's expansion strategy seems to be on the right track, as cross selling multinational companies that already operate with VTEX in Brazil has been a success. We estimate it has a 13% market share in the region, but believe this number could surpass 21% in the long term. We also see some room for take rate expansion.



Exhibit 8: We estimate VTEX will continue gaining market share in LatAm, reaching 21% in 2028.

E-commerce and VTEX projections for LatAm Ex-Brazil

LatAm ex-BZ market	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total E-commerce market (USDmn)	61	71	83	92	101	111	122	134	148
E-commerce market ex-1P (USDmn)	59	69	81	90	98	108	119	130	144
YoY Growth		17.7%	16.2%	11.5%	9.2%	10.0%	10.0%	10.0%	10.0%
Non-addressable clients (USDmn)	23.6	27.7	32.2	35.9	39.2	43.1	47.5	52.2	57.4
E-commerce addressable B2C market (USDmn)	35.3	41.6	48.3	53.9	58.8	64.7	71.2	78.3	86.1
VTEX gross merchandise volume (USDbn)	4.4	5.3	6.5	8.0	9.6	11.4	13.5	15.7	18.1
VTEX Market Share	12.6%	12.8%	13.5%	14.9%	16.3%	17.6%	19.0%	20.0%	21.0%
VTEX Revenue (USDmn)	52.0	65.4	77.0	96.5	117.4	142.9	172.7	203.9	240.1
VTEX Take rate	1.2%	1.2%	1.2%	1.2%	1.2%	1.3%	1.3%	1.3%	1.3%
YoY Revenue Growth		25.8%	17.7%	25.3%	21.7%	21.7%	20.9%	18.1%	17.7%

Source: BofA Global Research

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US and Europe – The Ex-LatAm expansion has the potential to be transformational for VTEX, but it is still relatively small in its current revenue mix. We estimate that today the company has close to 0.3% market share in US/EU and due to limited visibility, we take a more conservative approach and consider the company will only reach slightly over 1% market share in the long term.

Exhibit 9: We take a more conservative approach for US and Europe and consider VTEX will only reach 1% market share in 2028.

E-commerce and VTEX projections for US and Europe

European Market	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total E-commerce market (USDmn)	618	601	662	722	787	859	937	1,022	1,114
1P Market (USDmn)	73	71	79	86	94	102	111	121	132
E-commerce market ex-1P (USDmn)	545	530	583	636	694	757	825	900	982
YoY Growth		-2.8%	10.1%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%
Non-addressable clients (USDmn)	217.8	211.8	233.3	254.5	277.5	302.7	330.1	360.0	392.7
E-commerce addressable B2C market (USDmn)	326.7	317.7	350.0	381.7	416.3	454.0	495.2	540.0	589.0
US Market	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total E-commerce market (USDmn)	1,040	1,129	1,257	1,395	1,534	1,688	1,856	2,042	2,246
1P Market (USDmn)	137	149	165	184	202	222	244	269	296
E-commerce market ex-1P (USDmn)	903	980	1,091	1,211	1,332	1,465	1,612	1,773	1,951
YoY Growth		8.6%	11.3%	11.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Non-addressable clients (USDmn)	361.2	392.1	436.4	484.5	532.9	586.2	644.8	709.3	780.2
E-commerce addressable B2C market (USDmn)	541.9	588.2	654.7	726.7	799.3	879.3	967.2	1,063.9	1,170.3
US + Europe Market	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total E-commerce market (USDmn)	1,658	1,730	1,919	2,117	2,322	2,546	2,793	3,064	3,360
E-commerce market ex-1P (USDmn)	1,448	1,510	1,674	1,847	2,026	2,222	2,437	2,673	2,932
YoY Growth		4.3%	10.9%	10.3%	9.7%	9.7%	9.7%	9.7%	9.7%
Non-addressable clients (USDmn)	579.0	604.0	669.8	738.9	810.4	888.9	974.9	1,069.3	1,172.9
E-commerce addressable B2C market (USDmn)	868.6	905.9	1,004.6	1,108.4	1,215.6	1,333.3	1,462.4	1,604.0	1,759.3
VTEX gross merchandise volume (USDbn)	1.3	2.3	3.7	5.8	8.3	11.2	14.6	17.6	21.1
VTEX Market Share	0.15%	0.25%	0.37%	0.52%	0.68%	0.84%	1.00%	1.10%	1.20%
VTEX Revenue (USDmn)	14.8	22.4	35.5	53.0	71.2	90.2	109.7	132.3	158.3
VTEX Take rate	1.2%	0.99%	0.97%	0.91%	0.86%	0.80%	0.75%	0.75%	0.75%
YoY Revenue Growth		51.0%	58.4%	49.3%	34.4%	26.6%	21.6%	20.7%	19.7%

Source: BofA Global Research

BofA GLOBAL RESEARCH

Other markets – The remaining markets represent ~60% of the global gross merchandise volume (GMV), mainly due to China, which alone represents almost half of the world's GMV. In our numbers we do not consider any market share gain in other regions for VTEX but see it as a relevant upside risk especially if the US/EU expansion is successful.

Exhibit 10: We consider any expansion in the rest of the world as an upside risk.

E-commerce and VTEX projections for the rest of the world (Excluding Brazil, LatAm, US and Europe)

Rest of the world	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total E-commerce market (USDmn)	2,844	3,146	3,529	3,854	4,201	4,579	4,991	5,441	5,930
E-commerce market ex-1P (USDmn)	2,844	3,146	3,529	3,854	4,201	4,579	4,991	5,441	5,930
YoY Growth		10.6%	12.2%	9.2%	9.0%	9.0%	9.0%	9.0%	9.0%
Non-Addressable clients (USDmn)	1,138	1,258	1,411	1,542	1,680	1,832	1,997	2,176	2,372
E-commerce addressable B2C market (USDmn)	1,706	1,888	2,117	2,313	2,521	2,748	2,995	3,264	3,558
VTEX gross merchandise volume (USDbn)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
VTEX Market Share	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
VTEX Revenue (USDmn)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
VTEX Take rate	1.2%	0.9%	0.9%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%

Source: BofA Global Research

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Sensitivity analysis US/EU

To better understand the impact that the US/EU expansion might have on our numbers we have also run a sensitivity analysis for the region in regard to its market share and take rate. In this analysis we considered that margins and the expansion in other regions would remain stable vs our base case.

Exhibit 11: At 0.75% take rate, 1% penetration in the US/EU represents ~USD1.6/share.

Projected fair value considering different market shares in US/EU and take rates

		Market Share US (%)				
Take Rate (%)	0.50%	0.0%	1.2%	3.0%	5.0%	10.0%
	0.75%	9.0	11.0	13.0	16.0	22.0
	1.00%	9.0	12.0	15.0	19.0	29.0
	1.25%	9.0	12.0	17.0	22.0	36.0
	1.50%	9.0	13.0	19.0	26.0	42.0
	1.50%	9.0	14.0	21.0	29.0	49.0

Source: BofA Global Research

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Exhibit 12: Even with no US business we still see upside to current stock price.

Upside to fair value from current stock price with different market shares in US/EU and take rates

		Market Share US (%)				
Take Rate (%)	0.5%	0%	1%	3%	5%	10%
	0.8%	17%	43%	69%	109%	187%
	1.0%	17%	56%	96%	148%	278%
	1.3%	17%	56%	122%	187%	369%
	1.5%	17%	69%	148%	239%	448%
	1.5%	17%	83%	174%	278%	539%

Source: BofA Global Research

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The key takeaways from this analysis were: (i) every percentage point market share gained in the US, even with a conservative 0.75% take rate, represents an additional ~100% upside to fair value and (ii) we see upside even with no success in the US/EU. In addition, if we consider a bull case scenario, in which the company is able to reach 5% market share at a 1% take rate (still below company's average), this would represent 185% potential upside.

Costs and Expenses – Operational leverage to continue

Gross Margin: We see room for gross margin expansion, as the company continues to gain efficiency. As a reference, gross margin went from 61% in 2021 to ~68% in 2023. Part of this expansion came from scale gains, while another share came from part of the company's R&D being directed at increasing its product efficiency (lower costs). With that in mind we now have our gross margin reaching 75% in the medium term, which is the target VTEX has for the next 3-5 years.

Expenses: For expenses we considered the following, (i) R&D should grow at a fast pace, but slower than revenue growth, (ii) Sales and marketing should grow above inflation but at much lower pace than top line growth and (iii) G&A should grow slightly above inflation. In 2022 VTEX moved to a leaner structure after a significant layoff, this led to a flattish YoY expenses structure. At the same time, revenues grew almost 30% YoY, showing the business scalability and the company's cost discipline.

Cash burn is coming to an end

One of the main reasons why VTEX had a significant drop in stock price a few quarters after its IPO was the high level of investment, which led to significant cash burn. For next year however, we already expect the company to reach not only EBITDA break even, but also start generating cash, something that should continue.

Quality product to support long-term growth

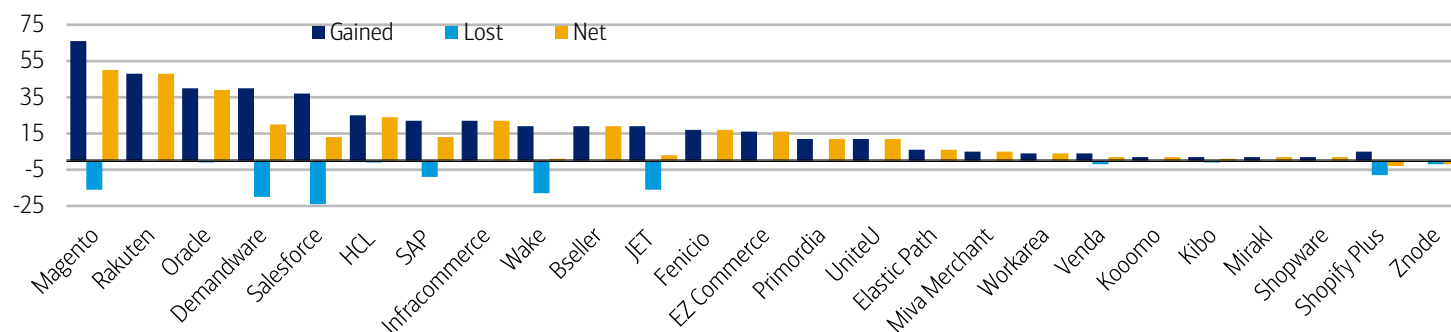
Part of VTEX's growth should come from the natural expansion of the e-commerce market, but in order for it to grow at a 20-30% rate in the coming years it needs to gain market share. For the past few years that has been the case, with VTEX reaching ~40% market share in 2023. Going forward we expect this trend to continue, given VTEX has a top-notch product build on Cloud + only one product (full focus). In the coming section we will show some metrics that support our view.

Gaining market share against most peers

Although it may be difficult to analyze the changes in the entirety of e-commerce platforms' user bases, we can access some samples being tracked. Using Built With data, we can see that for out of 25 of its main competitors only two gained customers from VTEX and at a small scale. From the tracked sample, VTEX gained 446 clients and lost 118. Even looking at the solutions gaining share over VTEX, they are focused on smaller clients, which is not VTEX's target audience.

Exhibit 13: VTEX has been gaining share over most of its peers.

Customers gained and loss by VTEX vs each peer



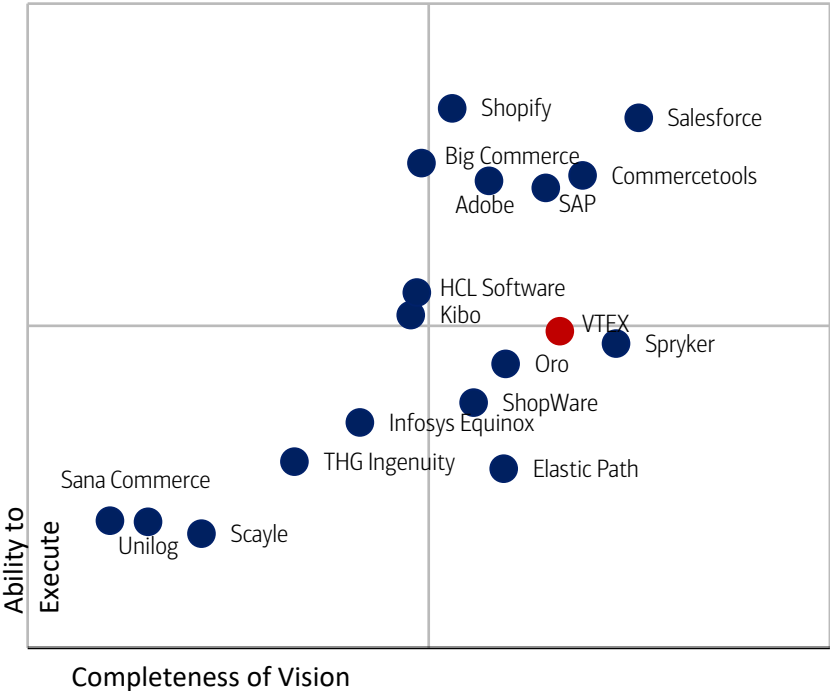
Source: Built With

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Gartner quadrant – Continuously improving

Another way to evaluate VTEX solutions is to look at Gartner's Magic Quadrant, which measures companies in terms of completeness of vision and ability to execute. Despite still having limited exposure ex-LatAm, VTEX already ranks as the 4th solution in terms of completeness of vision. In terms of ability to execute, it is still average vs peers, but we believe this is mainly linked to its smaller size and presence in the US and Europe. More importantly, VTEX is always showing relevant improvements each year, showing that its solution is gaining more recognition.

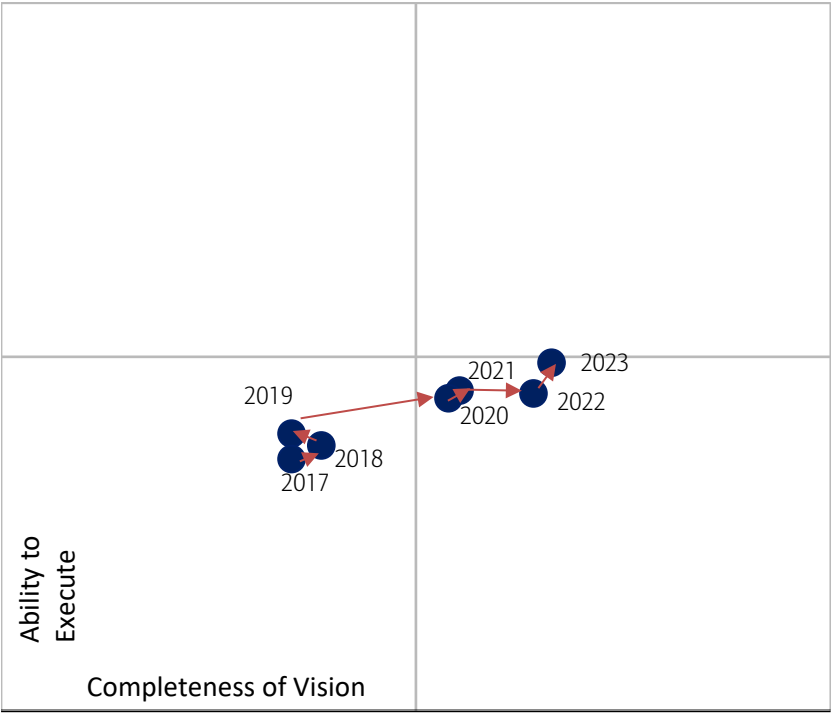
Exhibit 14: We see VTEX is already reaching a leading position in the market despite its limited global exposure so far.
Gartner's Magic quadrant for E-commerce in 2023



Source: Gartner

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Exhibit 15: We are seeing VTEX constantly improving in this metric.
VTEX' evolution in Gartner's magic quadrant for E-commerce each year



Source: Gartner, BofA Global Research

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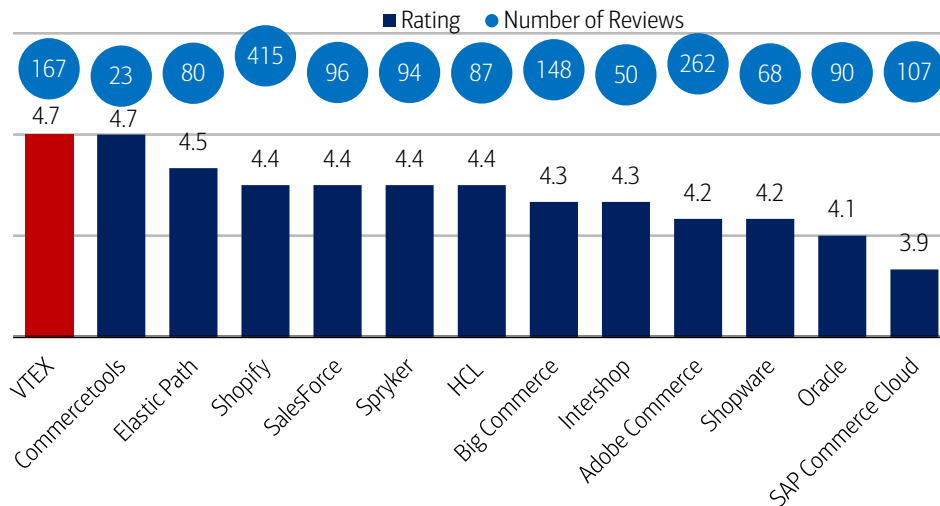


Gartner & G2 Reviews – Always ranked as one of the best

Looking at the reviews by customers, on Gartner VTEX has the highest average rating among peers at 4.7, showing that customers that use the solution have a high satisfaction. Looking at G2 reviews, we have a similar trend, with VTEX being tied at the second highest average in the segment.

Exhibit 16: VTEX has the joint highest average customer review rating among peers (or the highest for solutions with over 25 reviews)

Gartner user reviews summary

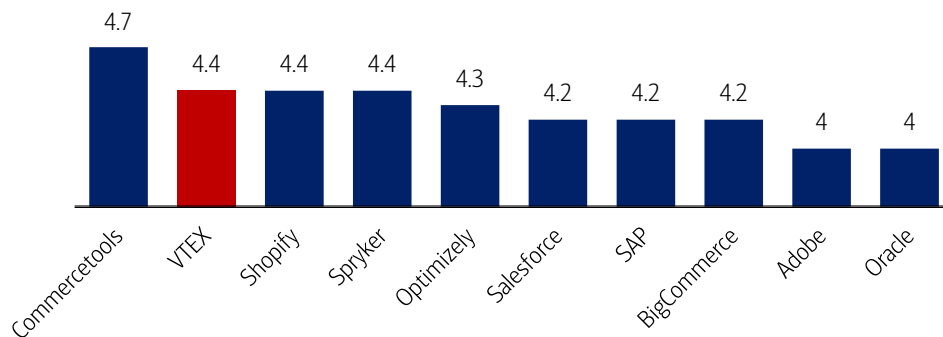


Source: Gartner, BofA Global Research

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Exhibit 17: VTEX has one of the highest average ratings among peers.

G2 user reviews summary



Source: G2, BofA Global Research

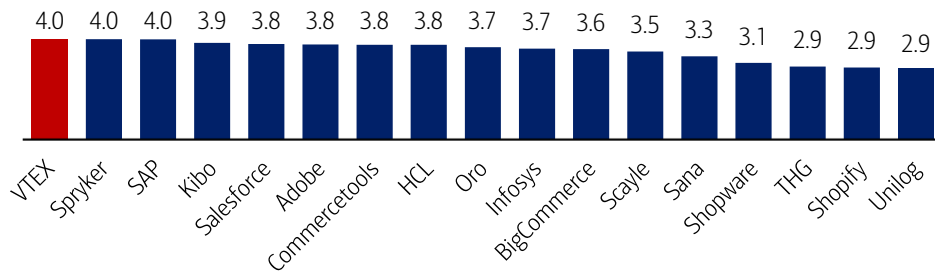
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Gartner critical capabilities – Best average rating

In Gartner's critical capabilities report, analyzing aspects of an e-commerce platform, VTEX ranked highly in all criteria, and was on average the best ranked solution. Overall, as a B2C commerce platform, VTEX ranked 2nd out of 17. For B2B ranked 5th out of 16. For offering B2B and B2C in the same platform ranked 3rd out of 13. In composable commerce ranked 3rd out of 18. In complex business model ranked 2nd out of 18.

Exhibit 18: VTEX has the highest average rating among peers

Gartner critical capabilities average

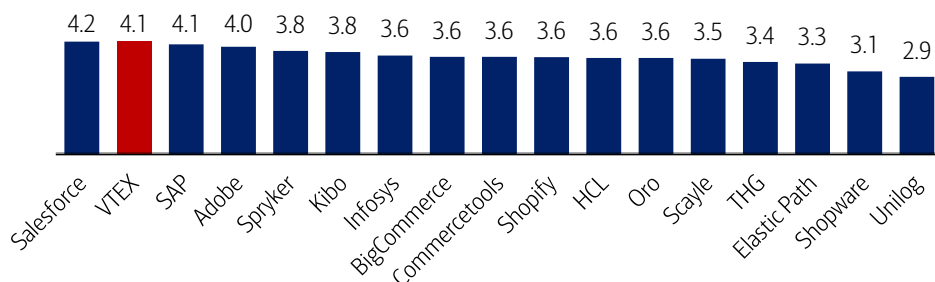


Source: Gartner, BofA Global Research

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Exhibit 19: VTEX has the second highest average rating among peers

Gartner critical capabilities B2C Digital Commerce

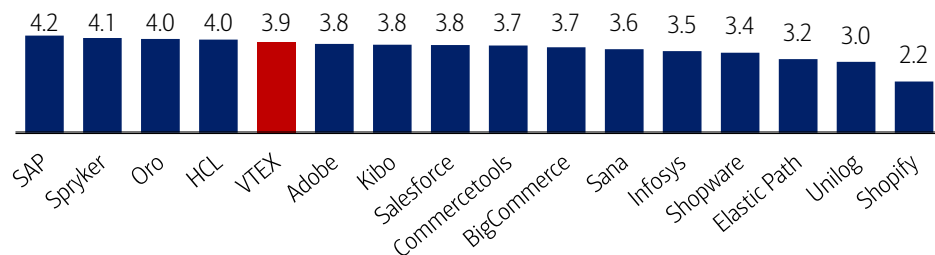


Source: Gartner, BofA Global Research

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Exhibit 20: VTEX has a solid rating despite ranking lower in B2B

Gartner critical capabilities B2B Digital Commerce

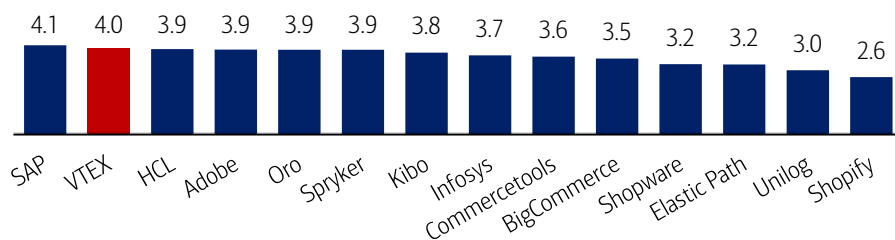


Source: Gartner, BofA Global Research

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Exhibit 21: VTEX has the second highest average rating among peers

Gartner critical capabilities for B2C and B2B in a single platform

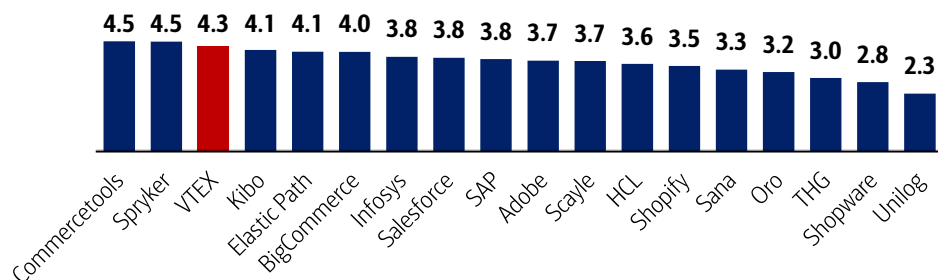


Source: Gartner, BofA Global Research

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Exhibit 22: VTEX has the third highest average rating among peers

Gartner critical capabilities for composable commerce

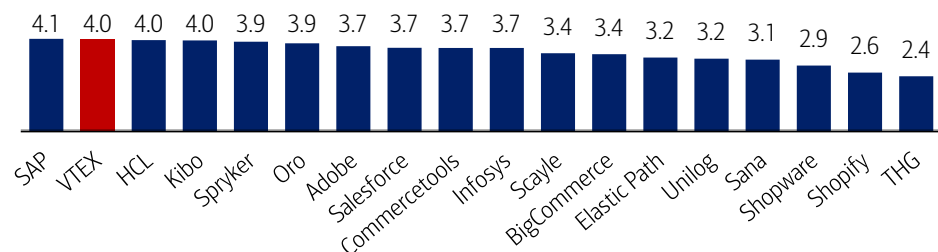


Source: Gartner, BofA Global Research

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Exhibit 23: VTEX has the second highest average rating among peers.

Gartner critical capabilities for Complex business model



Source: Gartner, BofA Global Research

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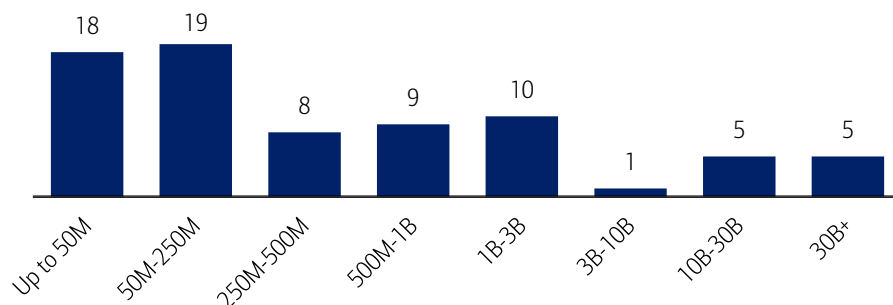
Gartner reviews – A deep dive on VTEX's pros and cons

As most metrics already pointed to VTEX as being one of the best commerce solutions, we also ran a deeper analysis checking the last 75 reviews made on Gartner, with real clients listing their likes and dislikes about the platform, as well as other metrics.

First, we tried to map who is VTEX's client, in terms of size and sector. For size, most of VTEX's clients still were ranked in the smaller size (among the enterprise segment), which is probably due to its higher exposure to LatAm, that moves less money than the US and European markets. For the sector of operations, as expected, more than half of the clients operate in retail.

Exhibit 24: Most of VTEX's clients are still within the smaller companies range, probably due to its higher exposure to LatAm

Gartner reviews, company size (in USD)

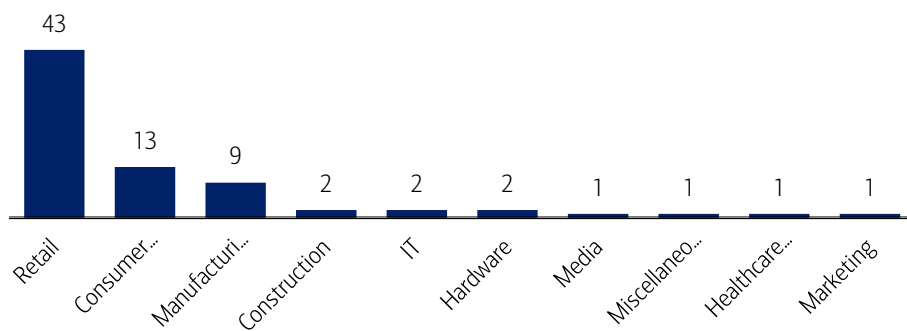


Source: Gartner, BofA Global Research

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Exhibit 25: Most of VTEX's clients are retail companies

Gartner reviews, segment of operation



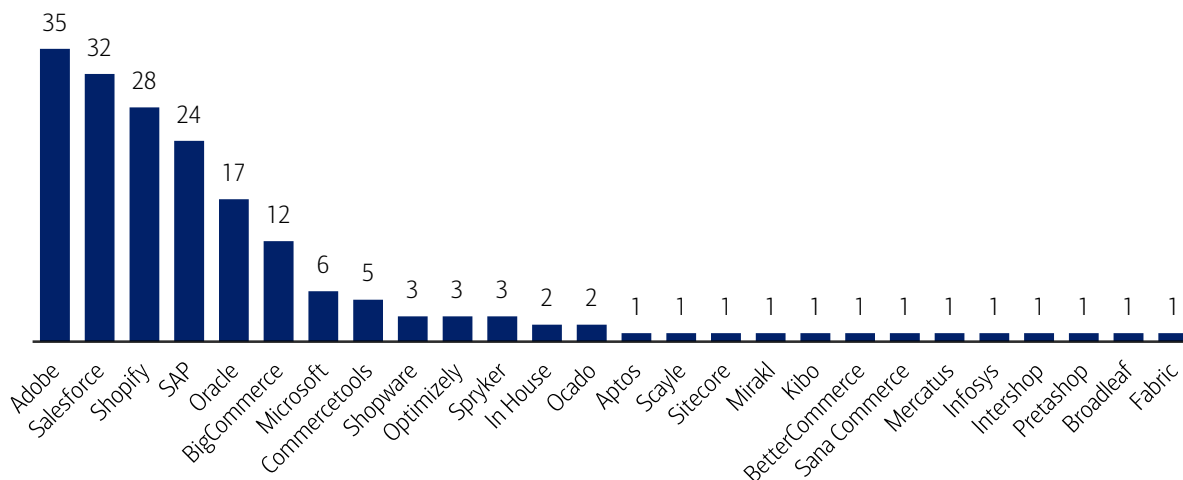
Source: Gartner, BofA Global Research

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Another important information extracted were the other solutions being considered by clients prior to ultimately choosing VTEX, and the most cited were (i) Adobe, (ii) Salesforce, (iii) Shopify, (iv) SAP, (v) Oracle and (vi) BigCommerce.

Exhibit 26: Adobe, Salesforce, Shopify, SAP and Big Commerce were among the peers most considered by VTEX clients prior to choosing the company.

Most recurring companies cited as other options considered by VTEX clients



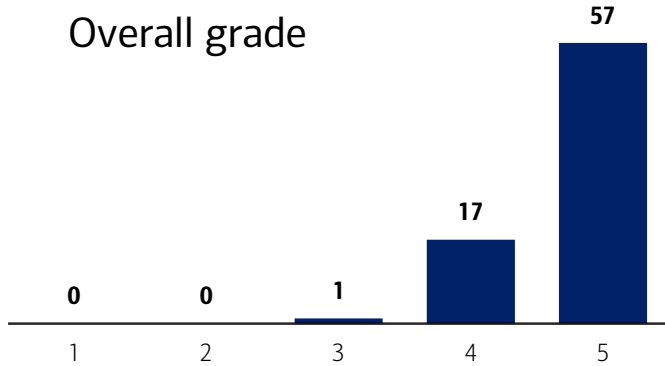
Source: Gartner, BofA Global Research

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Among the metrics analyzed, VTEX ranked well across the board, with all categories ranking above 4.7/5, and with an overall grade average of 4.75/5. The best performing category was customer support, ranking at an average of 4.8. We also highlight that VTEX only had one overall grade below 4, and that among all categories, only one review had one category below 3. We believe this supports our view of VTEX's product being one of the best in the industry.

Exhibit 27: Almost all customers ranked VTEX with an overall grade of 4 or higher (out of 5)

Average overall grade for VTEX's customer reviews

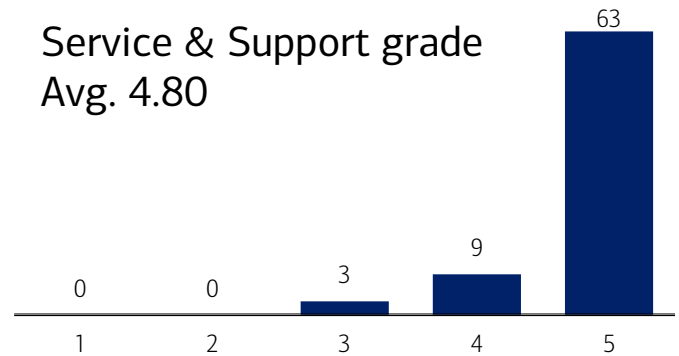


Source: Gartner, BofA Global Research

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Exhibit 28: Over 80% of customers gave VTEX the maximum grade in service and support.

Average service & support grade for VTEX's customer reviews

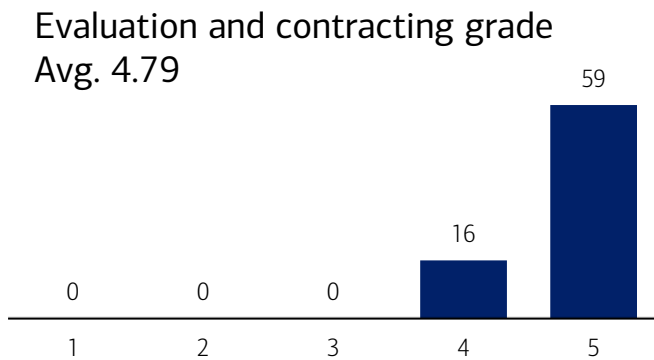


Source: Gartner, BofA Global Research

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Exhibit 29: All customers graded VTEX at least 4 (out of 5) in Evaluating and contracting.

Average evaluating and contracting grade for VTEX's customer reviews

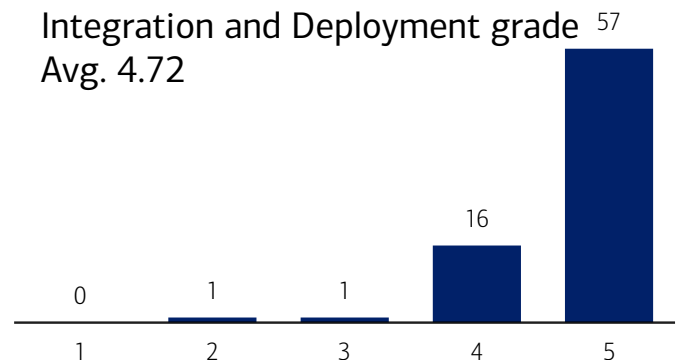


Source: Gartner, BofA Global Research

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Exhibit 30: Integration and deployment had a solid average grade of 4.72, but was the only factor with a review below 3 (out of 5)

Average Integration and Deployment grade for VTEX's customer reviews

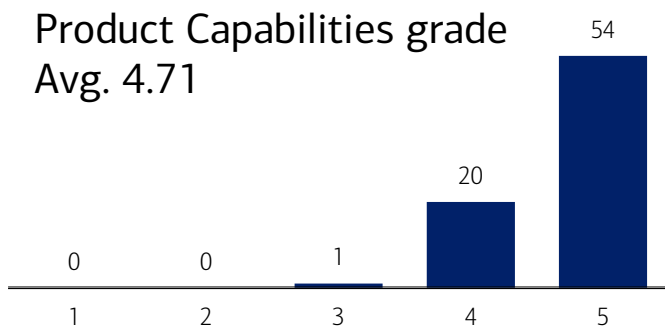


Source: Gartner, BofA Global Research

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Exhibit 31: Product capabilities had the lowest grade for VTEX, but still only one customer graded it below 4 (out of 5)

Average product capabilities grade for VTEX's customer reviews



Source: Gartner, BofA Global Research

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Finally, probably the most important information extracted is what makes VTEX's product good, and what can the company still improve.

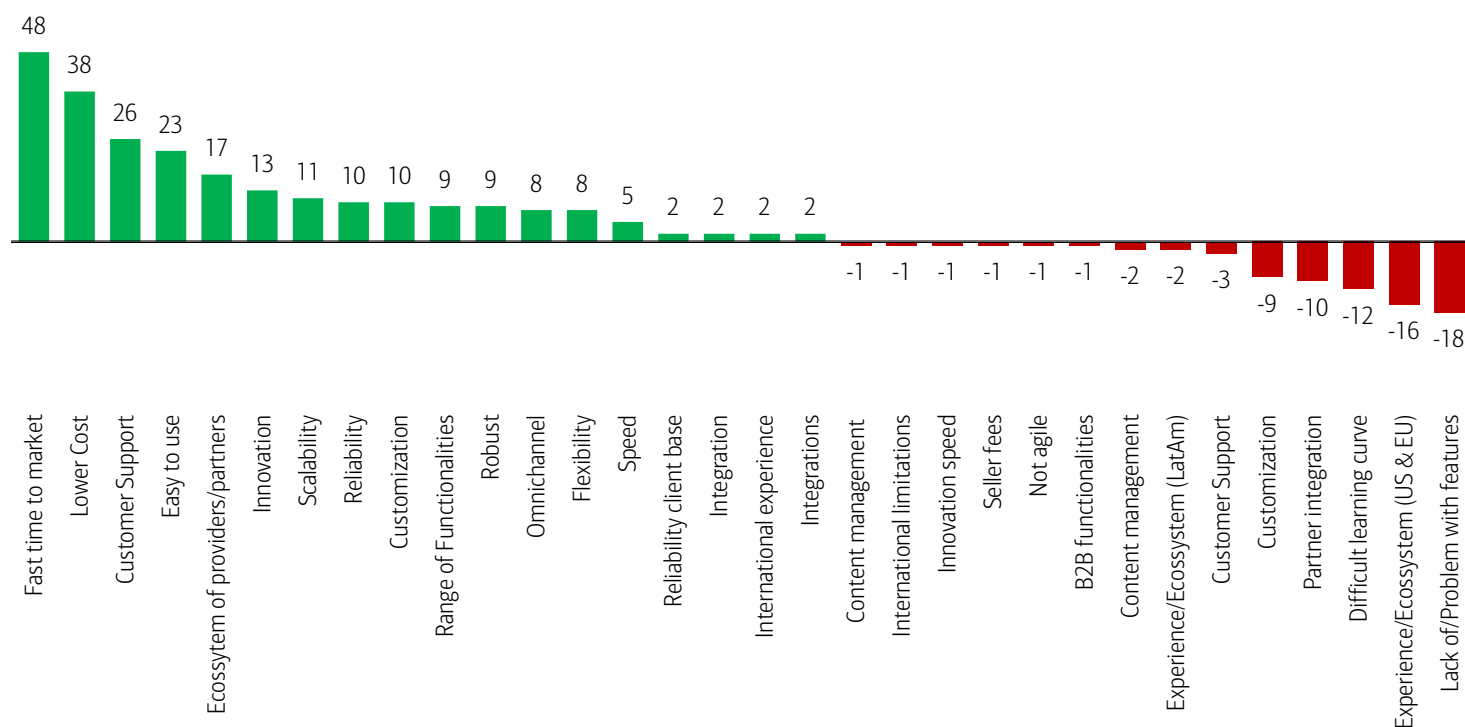
On the positive side (with at least 15 reviews in the category), the most cited characteristics were (i) having a fast time to market (ii) Lower cost, (iii) solid customer support, (iv) being easy to use and (v) a having a solid ecosystem of providers and partners.

On the negative side (with at least 15 reviews) the most cited were (i) the lack of or problem with a feature, which refers to problems with one or more features, but we did not find one being cited multiple times and (ii) the experience/ ecosystem in the US and Europe. For the last one, clients mentioned to have problems dealing with providers from LatAm and not directly from their region.

Overall, we believe this problem will be fixed with time, as VTEX still has a lower share in those regions, so most partners/providers will focus on larger companies. Once VTEX gains more scale, the ecosystem should develop as it happened in Brazil and LatAm.

Exhibit 32: The most cited pros of VTEX's solution were a fast time to market, lower cost, customer support and ease to use. The most cited cons were the lack of/problems with features, the experience/ ecosystem in US and Europe and having a difficult learning curve.

Gartner reviews Summary



Source: Gartner, BofA Global Research

BofA GLOBAL RESEARCH

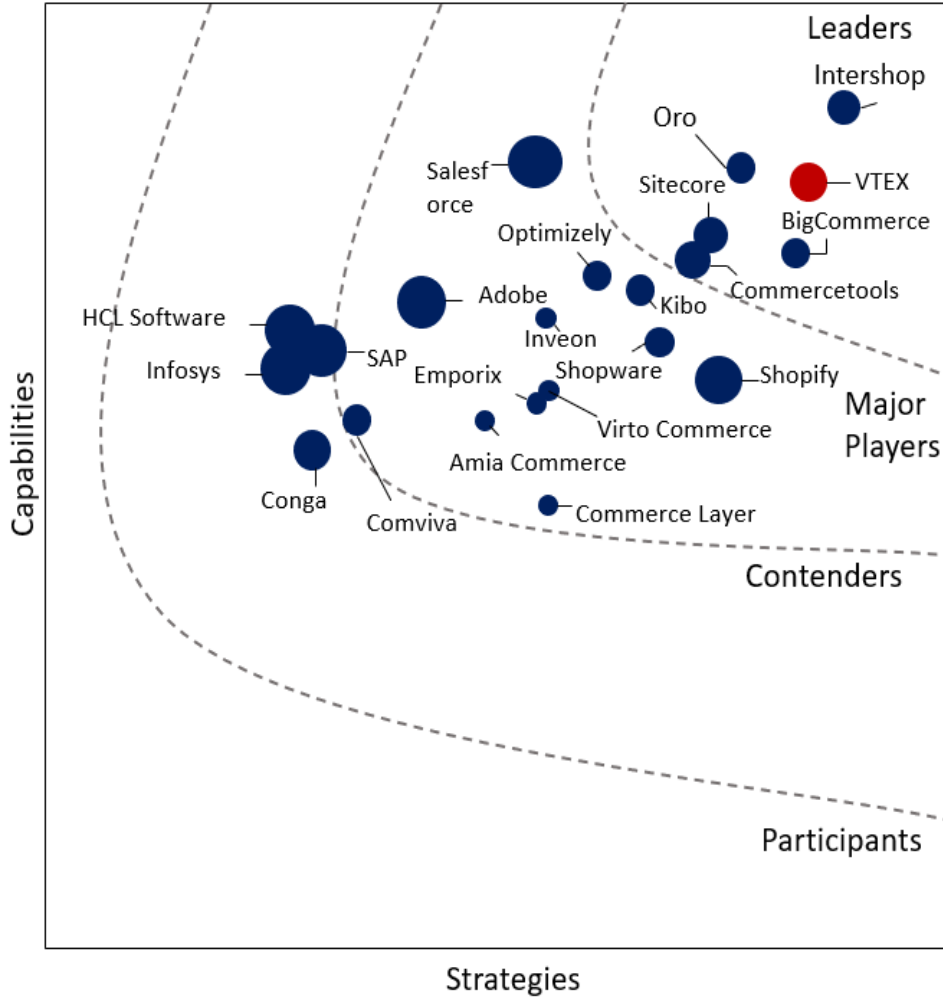
Strengths and challenges according to IDC

Another study by IDC also listed what it considered to be VTEX's main strengths and challenges. In terms of strengths, IDC listed (i) having an unified commerce solution, being able to offer, B2B, B2C, B2X and being omnichannel, having experimental commerce and marketplace integrations, (ii) having native marketplace capabilities and order management systems (OMS), (iii) having developer friendly solutions, that is future-proof, offering both scalability and flexibility and (iv) having a low code platform, enabling easy to use fast development and extensions, as well as having testing workspaces that do not affect the user.

In terms of challenges, IDC noted that VTEX's serverless product may lead to some dependency risk with the company and changing vendors (re-platforming) may be a challenge. This may be partially offset by VTEX being highly composable and decomposable. The second challenge highlighted was the need to establish recognition beyond LatAm.

Exhibit 33: VTEX is ranked as a leader in B2B by IDC

IDC MarketScape worldwide B2B Digital Commerce Applications for Midmarket growth

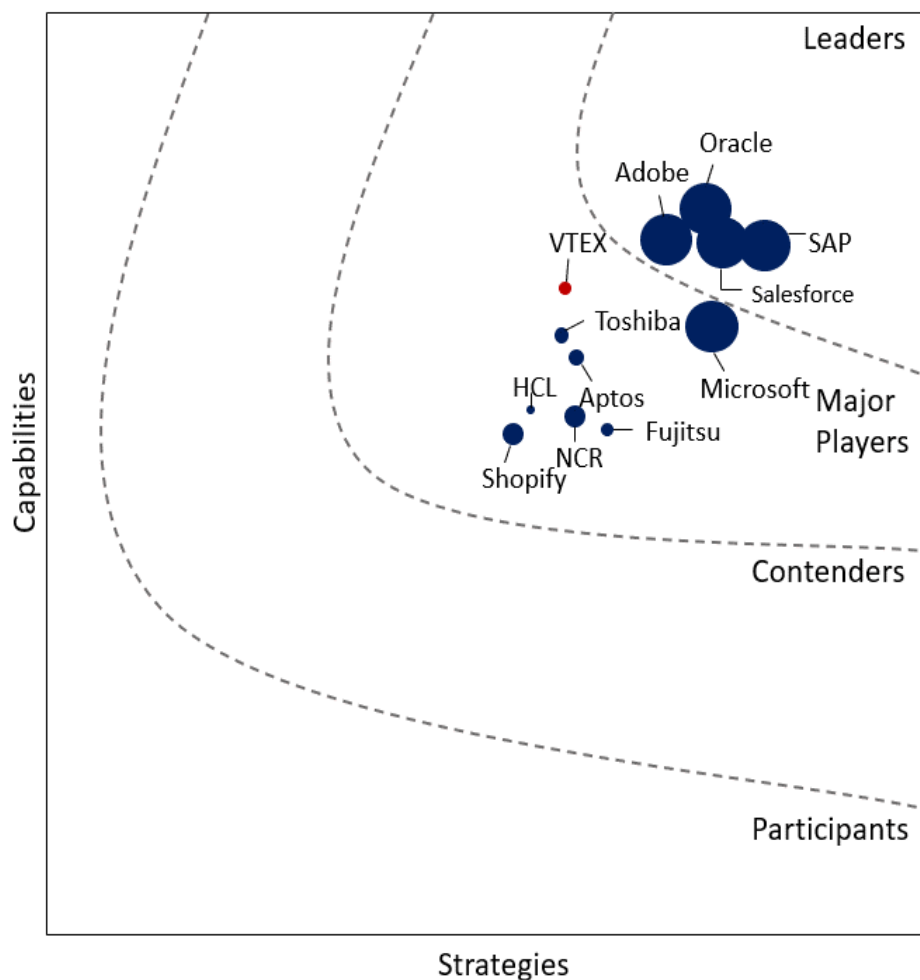


Source: IDC

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Exhibit 34: Despite its limited presence outside LatAm, IDC already ranks VTEX as a major player.

IDC MarketScape worldwide retail commerce platform software



Source: IDC

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Many clients start with a region/brand and roll out more

On a quarterly basis VTEX shares new large clients that are going live and divides it in actual new clients and existing clients rolling out new regions/brands. With that, we can see a relevant share of VTEX's expansion, especially in LatAm, has been happening due to satisfied customers that want to use its solutions in a larger share of its operations. Although this impact has still been limited beyond LatAm, we believe with time, it should help the company open the doors for new regions.

Exhibit 35: We can see that every quarter a relevant part of VTEX's expansion comes from old clients expanding to new regions/brands.

List of new clients being added per quarter (expansion of old clients highlighted in yellow)

3Q23	2Q23	1Q23	4Q22	3Q22	2Q22	1Q22
Naldo in Argentina - New	Riviera Bike in Romania - New	Banco Provincia in Argentina - New	Garmin in Colombia - New	Levi's in Argentina - New	Groupe Seb Andeans in Colombia - New	Arcor in Argentina - New
Ren-Wil in Canada - New	ProBeauty in Romania - New	Whitebird in Canada - New	Old Navy in Mexico - New	Belcorp in Colombia and Chile - New	Yamaha in Colombia - New	Boston Medical Group in Mexico - New
ICB Food in Chile - New	Supermercados Internacionales in MX - New	Intime in Chile - New	Inpost Fresh in Poland - New	Chedraui in Mexico - New	BRF in Chile - New	Briggs & Stratton in the US - New
CoopiDrogas, Gabrica, Eurosuper and Mattelsa in Colombia - New	New Zealand Wine Cellars in New Zealand - New	Easy and Only Muebles in Colombia - New	Auchan in Romania - New	Asics and Claro in Peru - New	Garbarino in Argentina - New	Easy in Chile - New
Vianney and Farma Piel in Mexico - New	Kayser Roth in the US - New	Farmaenlace in Ecuador - New	Danone Font Vella in Spain - New	The Foschini Group in South Africa - New	Citric and Grainger in Mexico - New	EcoWater in Canada - New
Beautycounter and Pierce Manufacturing B2B in the US - New	Belcorp, added Panamá - Expansion	Canali in Italy - New	Reebok in Argentina, BZ, Chile, Colombia and Peru - New	WH Candy in the US - New	Momentum Textiles in the US - New	Moulinex in Argentina - New
Calvin Klein, added Ecuador - Expansion	Tommy Hilfiger, added Costa Rica - Expansion	Sonepar in Peru - New	Belcorp, added Mexico and Peru - Expansion	H&M added a store in Uruguay - Expansion	Invitadisima in Spain - New	AB InBev added Mexico - Expansion
Farmacity, added Simplicity brand in Argentina - Expansion	Whirlpool, added Mexico, Spain and Sweden - Expansion	Floria in Romania - New		Motorola added Saudi Nation - Expansion	AB Inbev added the Dominican Republic - Expansion	H&M added Colombia - Expansion
Reebok, added Panama - Expansion		CornerUp in the US - New		Whirlpool added Germany - Expansion	Sugo added Mexico - Expansion	Oster in Argentina - Expansion
Whirlpool, added Kitchenaid brand in France, UK, Italy and others - Expansion		Belcorp, added Ecuador - Expansion				Under Armour in Uruguay - Expansion
		CAE, added two brands in Canada - Expansion				Walmart in Central America - Expansion
		Mazda, added Netherlands - Expansion				Whirlpool added France, India, Poland and Singapore - Expansion
		H&M, added Ecuador - Expansion				Xiaomi in Peru - Expansion
		Motorola, added Singapore - Expansion				

Source: Company data

What if VTEX wins a large client in US?

One of the questions we get the most from clients is if VTEX will be successful in its US/EU expansion and what will be the impact of a large client on economics. As we mentioned in previous sections, we are bullish on VTEX's expansion in the long term, as we believe it has a very competitive product, but it will likely take some time.

What one large client looks like for financials

Regarding the impact of a single client, we have run a simulation using Euromonitor's data on the gross merchandise volume (GMV) for some of the largest retailers in the US and Europe, and what getting one of them would imply on GMV, revenues and margins. We believe VTEX is already close to getting this "large client", as looking at recent announcements, it is implementing its solution on Beauty Counter, that in 2021, had a GMV of over USD300mn/year.

In our calculations we considered a conservative scenario in which the company has a 0.5% take rate in GMV and that new clients would have a gross margin of 50% (below company's average). We also considered a single new client would bring no additional expenses. We highlight however that more than likely a large client would imply in additional expenses and other service revenues (lower margin). For example, if VTEX converts a client like Foot Locker in the US (USD1.4bn annual GMV), this would imply a 9% growth in GMV, +4% in revenues and a 2% margin gain for the entire company.

Exhibit 36: A customer of USD1bn GMV would represent 6% of VTEX total GMV and would add 3% extra revenues under conservative assumptions.

Examples of US retailers online GMV and the potential impact they would have if they were to become VTEX customers

	2022 GMV (USDmn)	% of VTEX' 2023E GMV	Take rate	Fixed Fee (USDmn)	Revenue for VTEX (USDmn)	% of VTEX' 2023E rev	EBITDA @ 50% gross mg (USDmn)	Margin impact with no further expenses
PetSmart Inc	9,667	60%	0.50%	0.4	49	26%	24	10%
Qurate Retail Inc	9,265	58%	0.50%	0.4	47	25%	23	10%
Macys Inc	8,277	52%	0.50%	0.4	42	23%	21	9%
Roadget Business Pte Ltd	8,059	50%	0.50%	0.4	41	22%	20	9%
Lowe's Cos Inc	7,588	47%	0.50%	0.4	38	21%	19	9%
Nordstrom Inc	6,293	39%	0.50%	0.4	32	17%	16	7%
Williams-Sonoma Inc	5,561	35%	0.50%	0.4	28	15%	14	7%
Nike Inc	5,344	33%	0.50%	0.4	27	15%	14	6%
Gap Inc, The	5,178	32%	0.50%	0.4	26	14%	13	6%
Kohl's Corp	4,727	30%	0.50%	0.4	24	13%	12	6%
HelloFresh SE	4,633	29%	0.50%	0.4	24	13%	12	6%
Koninklijke Ahold Delhaize NV	4,027	25%	0.50%	0.4	21	11%	10	5%
Albertsons Cos Inc	3,437	21%	0.50%	0.4	18	10%	9	4%
JC Penney Co Inc	3,318	21%	0.50%	0.4	17	9%	8	4%
lululemon athletica inc	2,601	16%	0.50%	0.4	13	7%	7	3%
GoBrands Inc	2,492	16%	0.50%	0.4	13	7%	6	3%
Hudson's Bay Co	2,325	15%	0.50%	0.4	12	7%	6	3%
Bed Bath & Beyond Inc	2,144	13%	0.50%	0.4	11	6%	6	3%
Dick's Sporting Goods Inc	2,126	13%	0.50%	0.4	11	6%	6	3%
Dell Technologies Inc	2,085	13%	0.50%	0.4	11	6%	5	3%
Newegg.com Inc	2,040	13%	0.50%	0.4	11	6%	5	3%
Ulta, Salon, Cosmetics & Fragrance Inc	1,927	12%	0.50%	0.4	10	5%	5	3%
Urban Outfitters Inc	1,900	12%	0.50%	0.4	10	5%	5	3%
Overstock.com Inc	1,890	12%	0.50%	0.4	10	5%	5	3%
Otto Group	1,735	11%	0.50%	0.4	9	5%	5	2%
Stitch Fix Inc	1,714	11%	0.50%	0.4	9	5%	4	2%
Victoria's Secret & Co	1,712	11%	0.50%	0.4	9	5%	4	2%
BJ's Wholesale Club Inc	1,669	10%	0.50%	0.4	9	5%	4	2%
Neiman Marcus Group Inc, The	1,642	10%	0.50%	0.4	9	5%	4	2%
Bath & Body Works Inc	1,610	10%	0.50%	0.4	8	5%	4	2%
Restoration Hardware Holdings Inc	1,576	10%	0.50%	0.4	8	4%	4	2%
Foot Locker Inc	1,424	9%	0.50%	0.4	8	4%	4	2%
American Eagle Outfitters Inc	1,375	9%	0.50%	0.4	7	4%	4	2%
LVMH Moët Hennessy Louis Vuitton SA	1,329	8%	0.50%	0.4	7	4%	4	2%
LL Bean Inc	1,279	8%	0.50%	0.4	7	4%	3	2%
H&M Hennes & Mauritz AB	1,230	8%	0.50%	0.4	7	4%	3	2%
Inter IKEA Systems BV	1,179	7%	0.50%	0.4	6	3%	3	2%

Exhibit 36: A customer of USD1bn GMV would represent 6% of VTEX total GMV and would add 3% extra revenues under conservative assumptions.

Examples of US retailers online GMV and the potential impact they would have if they were to become VTEX customers

	2022 GMV (USDmn)	% of VTEX' 2023E GMV	Take rate	Fixed Fee (USDmn)	Revenue for VTEX (USDmn)	% of VTEX' 2023E rev	EBITDA @ 50% gross mg (USDmn)	Margin impact with no further expenses
J Crew Group Inc	1,120	7%	0.50%	0.4	6	3%	3	2%
Signet Jewelers Ltd	1,065	7%	0.50%	0.4	6	3%	3	2%
Abercrombie & Fitch Co	1,052	7%	0.50%	0.4	6	3%	3	1%
HP Inc	1,031	6%	0.50%	0.4	6	3%	3	1%
Bass Pro Shops Inc	997	6%	0.50%	0.4	5	3%	3	1%
Express Inc	887	6%	0.50%	0.4	5	3%	2	1%
Lands' End Inc	880	5%	0.50%	0.4	5	3%	2	1%
GameStop Corp	817	5%	0.50%	0.4	4	2%	2	1%
Petco Health and Wellness Company Inc	755	5%	0.50%	0.4	4	2%	2	1%
Academy Sports & Outdoors Inc	688	4%	0.50%	0.4	4	2%	2	1%
ASOS Plc	576	4%	0.50%	0.4	3	2%	2	1%

Source: Euromonitor, BofA Global Research

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Exhibit 37: A customer of USD1bn GMV would represent 6% of VTEX total GMV and would add 3% extra revenues under conservative assumptions.

Examples of European retailers online GMV and the potential impact they would have if they became VTEX customers

	2022 GMV (USDmn)	% of VTEX' 2023E GMV	Take rate	Fixed Fee (USDmn)	Revenue for VTEX (USDmn)	% of VTEX' 2023E rev	EBITDA @ 50% gross mg (USDmn)	Margin impact with no further expenses
Otto Group	12,291	77%	0.50%	400	62	34%	31	13%
J Sainsbury Plc	9,052	57%	0.50%	400	46	25%	23	10%
Tesco Plc	7,150	45%	0.50%	400	36	20%	18	8%
Apple Inc	6,800	43%	0.50%	400	34	19%	17	8%
Zalando SE	6,591	41%	0.50%	400	33	18%	17	8%
John Lewis Partnership Plc	5,807	36%	0.50%	400	29	16%	15	7%
Mianello Ltd	5,711	36%	0.50%	400	29	16%	14	7%
Inter IKEA Systems BV	5,676	35%	0.50%	400	29	16%	14	7%
E Leclerc	5,299	33%	0.50%	400	27	15%	13	6%
Ceconomy AG	5,004	31%	0.50%	400	25	14%	13	6%
Asda Stores Ltd	3,743	23%	0.50%	400	19	10%	10	5%
Currys plc	3,705	23%	0.50%	400	19	10%	9	5%
ASOS Plc	3,633	23%	0.50%	400	19	10%	9	5%
DNS Group	3,475	22%	0.50%	400	18	10%	9	4%
Ocado Group Plc	3,264	20%	0.50%	400	17	9%	8	4%
Metro AG	3,261	20%	0.50%	400	17	9%	8	4%
H&M Hennes & Mauritz AB	3,233	20%	0.50%	400	17	9%	8	4%
Kingfisher Plc	3,163	20%	0.50%	400	16	9%	8	4%
Inditex, Industria de Diseño Textil SA	3,149	20%	0.50%	400	16	9%	8	4%
Next Plc	3,063	19%	0.50%	400	16	9%	8	4%
El Corte Inglés SA	3,016	19%	0.50%	400	15	8%	8	4%
Very Group, The	2,984	19%	0.50%	400	15	8%	8	4%
Roadget Business Pte Ltd	2,925	18%	0.50%	400	15	8%	8	4%
Citilink OOO	2,652	17%	0.50%	400	14	7%	7	3%
Carrefour SA	2,552	16%	0.50%	400	13	7%	7	3%
Fnac Darty SA	2,425	15%	0.50%	400	13	7%	6	3%
Decathlon SA	2,210	14%	0.50%	400	11	6%	6	3%
Auchan Group SA	2,135	13%	0.50%	400	11	6%	6	3%
Adeo Groupe	1,977	12%	0.50%	400	10	6%	5	3%
Katren AO	1,968	12%	0.50%	400	10	6%	5	3%
Zooplus AG	1,861	12%	0.50%	400	10	5%	5	3%
Nestlé SA	1,813	11%	0.50%	400	9	5%	5	2%
Qurate Retail Inc	1,776	11%	0.50%	400	9	5%	5	2%
Boohoo.com Plc	1,723	11%	0.50%	400	9	5%	5	2%
Galleries Lafayette SA	1,648	10%	0.50%	400	9	5%	4	2%
AO World Plc	1,610	10%	0.50%	400	8	5%	4	2%
Alza.cz as	1,604	10%	0.50%	400	8	5%	4	2%
Bofrost Dienstleistungs GmbH & Co KG	1,579	10%	0.50%	400	8	5%	4	2%
LDLC Com SAS	1,577	10%	0.50%	400	8	5%	4	2%

Source: Euromonitor, BofA Global Research

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VTEX Ex-US/EU: is it priced in?

What do LatAm and Brazil operations look like?

To better understand VTEX's financials, we tried to estimate the financials for the business ex-US/EU. According to VTEX, its Ex-LatAm operations operate with gross margins below the average of its new stores, so we estimated them at 40%. We also considered that from its current expense structure, around 27.5% refer to US/EU expenses, while revenues represent only ~12.5%. This implies an adjusted EBITDA of around -USD6.5mn in 3Q, while the rest of the business would be operating at +USD10mn, a 24% adj EBITDA margin.

Exhibit 38: We estimate VTEX's LatAm business is currently operating with an adjusted EBITDA margin of close to 24%

Estimates of VTEX' financials for its LatAm and Ex-LatAm business

3Q23	
VTEX revenue	50,638
Percentage of Ex-LatAm	12.6%
Revenue Ex-LatAm	6,394
Gross Margin	40%
Gross Profit Ex-LatAm	2,557
Total expenses	39,082
Share Based Compensation	6038
Percentage of Ex-LatAm	27.5%
Share Base compensation Ex-LatAm	1660.45
Expenses Ex-LatAm	10,748
EBITDA Ex-LatAm	-6,530
Reported Adj EBITDA	3,879
Reported Adj EBITDA mg	8%
Revenue LatAm	44,244
Adj EBITDA LatAm	10,409
Adj EBITDA mg LatAm	24%

Source: BofA Global Research

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What does that represent for valuation?

We also ran an analysis to see what the company is currently valued at excluding the Ex-LatAm operations. In this scenario, if we consider that our LatAm margin in 3Q23 will be the margin for 2024, this would imply the company trading at 24x EV/EBITDA. We highlight that we believe this number is conservative as VTEX's margin should continue to improve in 2024, and this analysis also disregards the positive seasonality in 4Q.

Exhibit 39: We see VTEX trading at 24x EV/EBITDA 24 for its standalone LatAm operations (with no value for the other regions)

VTEX' implied multiples for the LatAm operations or for the entire business if it operated with LatAm margins

2024		2024 LatAm only	
VTEX revenue 2024	252	VTEX revenue 2024	206
Adj EBITDA mg LatAm 3Q23	24%	Adj EBITDA mg LatAm 3Q23	24%
EBITDA at LatAm	59	EBITDA at LatAm	49
EV	1,179	EV	1,179
EV/EBITDA	19.88	EV/EBITDA	24.30
2025		2025 LatAm only	
VTEX revenue 2024	316	VTEX revenue 2024	250
Adj EBITDA mg LatAm 3Q23	24%	Adj EBITDA mg LatAm 3Q23	24%
EBITDA at LatAm	74	EBITDA at LatAm	59
EV	1,179	EV	1,179
EV/EBITDA	15.85	EV/EBITDA	20.03

Source: BofA Global Research

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Is that expensive? Maybe not

VTEX's peers trade at an average of 30x EV/EBITDA 2024E, a 30% premium to our numbers for the LatAm business, despite VTEX having higher growth rates. We also highlight that the peers considered have most of their value coming from other business, usually with lower growth rates. If we look at something closer to "pure e-commerce" peers, we see Shopify and BigCommerce trading at 72x and 37x. If we considered VTEX's numbers at the same multiple as peers, this would imply a 40% upside; if we only consider its commerce peers, this number would rise to 100%.

Exhibit 40: We see VTEX trading a discount in terms of EV/EBITDA 25E to its peers.

VTEX' international E-commerce comp table

	Market cap	Revenue	Earnings	EV/Sales		EV/EBTIDA		P/E	
Name	\$ USDmn	CAGR 23-26	CAGR 23-26	24Y	25Y	24Y	25Y	24Y	25Y
E-commerce Platform peers									
VTEX	1,448	25%	-	4.7x	3.7x	34.6x	17.6x	122.2x	37.8x
SAP	198,262	9%	12%	5.3x	4.8x	17.4x	15.6x	24.4x	20.9x
Oracle	298,808	8%	12%	7.1x	6.5x	14.5x	13.0x	19.6x	17.6x
Microsoft	2,927,345	14%	16%	11.9x	10.6x	23.5x	20.4x	34.7x	30.3x
Shopify	99,741	21%	40%	11.5x	9.5x	68.9x	48.5x	70.3x	50.6x
Adobe Inc.	268,352	11%	12%	12.3x	11.0x	26.3x	23.7x	33.1x	29.2x
Salesforce	265,677	12%	30%	7.7x	6.9x	19.1x	17.4x	33.5x	28.6x
BigCommerce	616	21%	-	2.1x	1.9x	36.2x	21.1x	34.6x	23.5x
AVERAGE Ex- VTEX		14%		8.3x	7.3x	29.4x	22.8x	35.7x	28.7x

Source: Bloomberg

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Exhibit 41: Considering peers valuation, we see significant upside for VTEX's LatAm business.

Upside for VTEX's stock considering peers valuations

2024		2024 LatAm only		2024 (Pure E-commerce Peers)		LatAm only	
VTEX revenue 2024	252	VTEX revenue 2024	206	VTEX revenue 2024		VTEX revenue 2024	206
Adj EBITDA mg LatAm 3Q23	24%	Adj EBITDA mg LatAm 3Q23	24%	Adj EBITDA mg LatAm 3Q23		Adj EBITDA mg LatAm 3Q23	24%
EBITDA 2024	59	EBITDA at LatAm	49	EBITDA at LatAm		EBITDA at LatAm	49
EV/EBITDA @ Peers	29.95	EV/EBITDA @ Peers	29.95	EV/EBITDA @ SHOP		EV/EBITDA @ SHOP	54.93
EV	1,776	EV	1,453	EV		EV	2,665
Net Debt	-264	Net Debt	-264	Net Debt		Net Debt	-264
Market Cap	2,040	Market Cap	1,717	Market Cap		Market Cap	2,929
Current Market Cap	1,457	Current Market Cap	1,457	Current Market Cap		Current Market Cap	1,457
Upside	40%	Upside	18%	Upside		Upside	101%

Source: BofA Global Research

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How it positions for 2024's key themes

Earlier this month BofA's software team released their Year Ahead for 2024 (see: [Year Ahead 2024: AI, Consolidation, Cloud](#)), highlighting the key themes and trends for the year of 2024. Although many of those themes are US specific or do not apply to VTEX, in we will share our view on how those topics may impact its investment thesis.

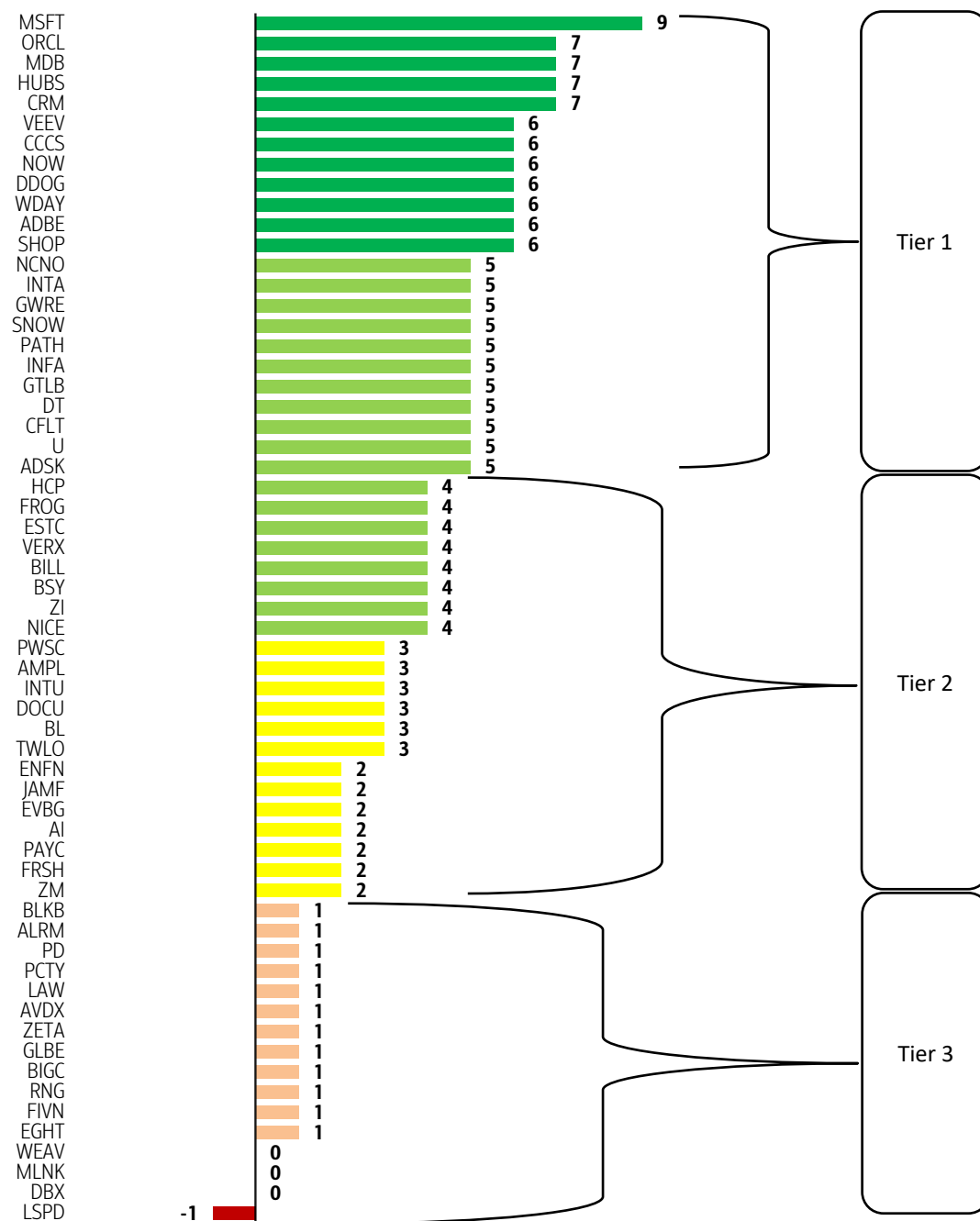
AI: VTEX's peers are at the forefront

Most of VTEX's direct competitors are some of the largest tech companies in the world, which should have sizable investments in AI technology. Although we expect VTEX to leverage AI capabilities as much as possible in its product and ecosystem, we expect this to be done through third party solutions. With that, we see a risk that this AI implementation may happen faster and potentially better with larger peers.

Looking at BofA's AI framework for example, we can see that VTEX' peers like, Oracle (ORCL), Salesforce (CRM), Adobe (ADBE) and Shopify (SHOP) are considered as "Tier 1" companies in the AI market.

Exhibit 42: MSFT and LSPD screen most/least favorably within our coverage universe

Leveraging our AI framework to produce scores and tiers for our coverage universe

**Source:** BofA Global Research

This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions. This screen is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. The screen was not created to act as a benchmark.

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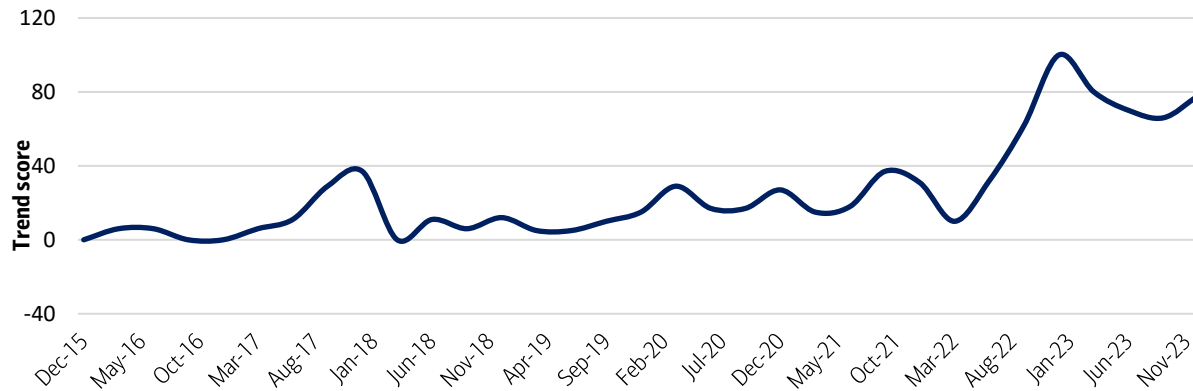
Vendor consolidation is a risk for expansion

Another trend highlighted in the report is vendor consolidation, as companies look to reduce costs, and for other benefits like (i) better user experiences and workflows, (ii) more seamless transfer of data and (iii) reduced complexity. Although we see much potential from the roll out of VTEX's expansion, the company has only one main product, and a vendor consolidation process would be a negative.



Exhibit 43: Vendor consolidation was an important '23 theme and will likely persist in '24.

Vendor consolidation trend score based on software company transcript mentions



Source: BofA Global Research, AlphaSense trend score based on number of event transcript mentions

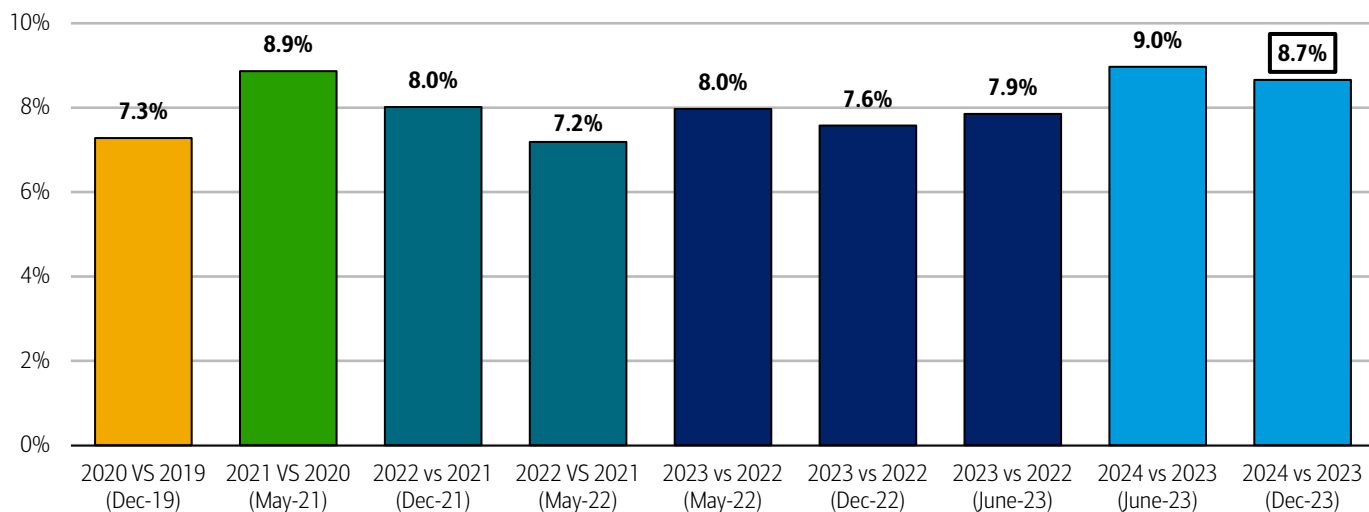
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Constrained budgets may not be a negative

BofA expects IT budgets to increase in 2024, but less than previously expected, which may lead to some budget constraints. We believe growing client expenditure is the best situation for VTEX to keep growing in all regions, but at the same time, one of its solutions key differentials is having a lower price and associated costs. With that, it is possible that a client, which would not previously look at VTEX as an option, may consider it to save costs if it has a reduced budget.

Exhibit 44: What is your expected software spending budget increase for 2024?

Spending growth held relatively steady for 2024.



Source: BofA Global Research

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VTEX is a cloud native solution

Another trend highlighted in the report is the continuous roll out of cloud solutions, which should continue to increase in penetration. We believe this higher adoption of cloud solutions is a positive for VTEX as the company's solution is cloud native and was created with a value proposition of being lean and fast.

Enterprise software to grow, VTEX should benefit

IDC expects the Global total addressable market (TAM) for enterprise software to grow 12% YoY in 2024, with CRM (which includes e-commerce) being among the segments

with highest growth rates (+13%). Among the main drivers for this growth are 1) cloud migration, 2) broader suites running on a single platform for an integrated view of a customer across CRM channels and 3) AI-enabled features for workflow automation.

According to BofA's software team, enterprises and SMB are expected to reprioritize CRM and other front office applications after two sluggish years post-pandemic. Other growth drivers should be AI applications and the customer data platform (CDP) adoption cycle. In this scenario of a higher focus on front office should benefit VTEX.

Exhibit 45: The global enterprise software market is expected to grow at a 13% CAGR and reach \$920bn in '24 (+12% y/y)

Enterprise software TAM estimates (\$bn) and percent change y/y

Total Addressable Market (TAM) Estimates											
Subsector	2023	% Y/Y	2024	% Y/Y	2025	% Y/Y	2026	% Y/Y	2027	% Y/Y	CAGR ('23-'27)
Collaboration	\$23	10%	\$25	12%	\$28	11%	\$31	11%	\$34	10%	11%
Communication	\$68	10%	\$74	9%	\$80	8%	\$86	7%	\$92	7%	8%
CRM	\$87	12%	\$98	13%	\$111	13%	\$125	13%	\$140	12%	13%
Design	\$46	9%	\$50	9%	\$55	9%	\$60	9%	\$65	9%	9%
ERP & Back Office	\$113	9%	\$125	10%	\$138	10%	\$152	11%	\$168	11%	10%
HCM	\$40	10%	\$45	12%	\$50	12%	\$56	12%	\$62	12%	12%
Infrastructure	\$442	12%	\$503	14%	\$573	14%	\$655	14%	\$749	14%	14%
Total TAM	\$819	11%	\$920	12%	\$1,035	12%	\$1,165	13%	\$1,312	13%	13%

Source: BofA Global Research, IDC

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M&A to accelerate, might VTEX be a target?

With takeout multiples increasing in 2023 to 9.1x EV/LTM sales vs 6.3x in 2022 (historical average of 8.9x), we expect an acceleration in demand for acquisitions. Overall we expect acquisitions among software leaders to accelerate given opportunities of cross sell and upsell. In this scenario, we see VTEX as a potentially appealing M&A target, as the company has a high-quality product, which should easily gain more traction with a more established brand. In addition, it is currently trading at 6.4x EV/LTM sales, a 30% discount to 2023's average deals. That being said, we do not expect VTEX to sell its operation and see a clear path for it to continue its organic expansion.

Upside risks not in our numbers

Our numbers for VTEX consider the company's B2C expansion in LatAm and some growth in the US and Europe. We already shared in previous sections why we are bullish on the company's US/EU expansion, but we also see other significant upside risk not considered in our numbers with (i) B2B, (ii) Ecosystem monetization, (iii) development of other products and (iv) expansion to new regions.

B2B – Already in place but limited data on it

Today VTEX has two types of products, B2B and B2C, but it does not disclose how much each product represents of its revenues. We believe the B2B segment still represents less than 10% of the company's revenues and gathering market information for it is much more difficult. Because of this, in our calculations we considered that the company's revenues are B2C, and B2B could be seen as an upside if we consider our target B2C market shares. Despite that, we see much potential in the vertical, that has lower take rates but much higher GMV per client. In US for example B2B already represents almost half of new sales.

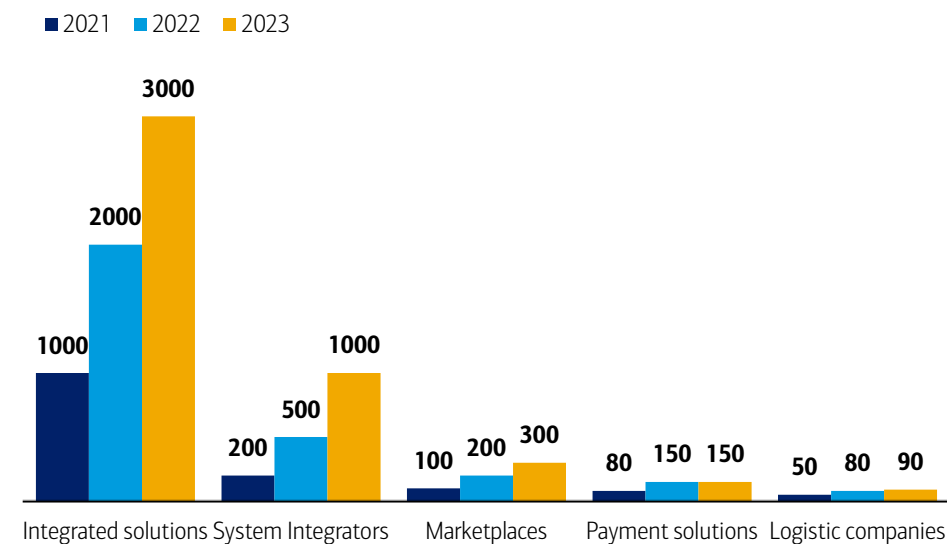
Ecosystem – Easy avenue for further long-term monetization

As VTEX's clients need more than just a platform to efficiently operate their e-commerce operations, one of its key differentiators is its ecosystem of partners, integrators, and integrated solutions. This ecosystem is highly developed and best-in-class in Brazil and is continuously expanding in other regions as it gains market share and relevance.

Although this is not the company's strategy in the short term, we see upside risk from the potential monetization of this ecosystem. As of today, VTEX gains limited revenues from it but in the long run, we believe it will be able to somehow monetize it, being with a revenue share model, fixed fees or others.

Exhibit 46: VTEX has been expanding its ecosystem with integrators, partners and developers

VTEX's integrators and partner solutions evolution



Source: Company data

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Other Products – Can VTEX expand its portfolio?

VTEX is fully focused on one product, its e-commerce platform. Although we see much room for growth with this product, and its strategy for the short and medium term is to continue with only the product, in the long run it could look for other avenues of monetization.

If we look at some of the company's peers like Shopify, they have a more diversified their portfolio to gain a higher share of wallet from its customers. As platform is the probably the most important solution for an e-commerce operation, we believe it should also have the easier cross sell process, like payments, CRM, fulfillment and others.

Other Regions – Massive market just as an upside risk

In our numbers we consider that VTEX will have revenues from its operations in Brazil, LatAm, US and Europe but consider no revenues from other regions. Despite that, the rest of the world market is even larger than the regions being considered (mostly China), so any market share in those regions could have a material impact on our numbers.

Main downside risks

E-commerce may not pick up as fast and sharply

In our numbers for VTEX we consider BofA retail team's estimates for the growth of the e-commerce market in the short to medium term. Those numbers, especially for Brazil, consider a sequential pickup in growth after a soft 2023. If this pick up does not happen however, and e-commerce GMV remains flattish YoY, we see downside risk to our numbers.

Expenses may be higher than expected

In our numbers we already consider that VTEX's expenses will accelerate in 2024 after being flat in 2023. Despite that, we expect to see much operational leverage in the coming year, as expenses should grow below top line growth. If expenses accelerate further however, we see downside risk to our numbers. As a reference, we have our R&D growing 16% YoY, S&M at +12% and SG&A at +10%.

Implementations have to occur smoothly

VTEX future expansion, especially outside LatAm, is highly dependent on the smooth implementation and operation of its solutions with clients. If there is some friction in this process, its expansion could be hampered, with a negative impact to our estimates.

Potential AI disruption

Most of VTEX's direct competitors are some of the largest tech companies in the world, which should have sizable investments in AI technology. Although we expect VTEX to leverage AI capabilities as much as possible in its product and ecosystem, we expect this to be done through third party solutions. With that, we see a risk that this AI implementation may happen faster and potentially better with larger peers.

Another strong quarter ahead

VTEX should report another strong quarter in 4Q. We expect top line growth of 28% YoY, reaching USD58mn, above the top of the guidance at USD57mn. This combined with a flattish cost structure QoQ should lead to more operational leverage, leading to an 880bps QoQ margin expansion. We also expect a positive net income of USD4mn.

Exhibit 47: VTEX should have another strong quarter in 4Q, with top line up 28% YoY.

VTEX 4Q23 Preview

	4Q23e	Consensus	New vs Consensus	4Q22a	YoY	3Q23a	QoQ
Total Revenue	58,053	57,043	1.8%	45,485	27.6%	50,638	14.6%
COGS	-15,654			-14,594	7.3%	-15,020	4.2%
Gross Profit	42,399			30,891	37.3%	35,618	19.0%
Gross Profit margin							
Research and development	-15,674			-14,059	11.5%	-15,508	1.1%
Sales and marketing	-15,133			-12,404	22.0%	-15,101	0.2%
General and administrative	-8,462			-7,052	20.0%	-8,374	1.1%
Other income (expense)	-290			-402	-27.8%	-99	193.2%
Total Operating Expenses	-39,560			-33,917	16.6%	-	NA
EBIT	2,839			-3,026	NM	-3,464	NM
EBIT margin	5%			-7%	12%	-7%	12%
Adjusted EBITDA	9,560	4,933	94%	3,892	145.6%	3,879	146.4%
EBITDA margin	16%	9%	8%	9%	8%	8%	9%
Financial Result	2,039			2,706	-24.6%	1,078	89.2%
Pretax income (loss)	5,187			27	NM	-2,105	NM
Tax related expenses	-			-349	NA	-264	NA
Net income (GAAP)	3,942	2,917	NA	-322	NA	-2,369	NA
EPS (GAAP)	0.02	0.01	NA	0.00	NA	-0.01	NA

Source: Company data; Bloomberg consensus; BofA Global Research

BofA GLOBAL RESEARCH

Financials Overview

Table 1: We expect VTEX to have a solid top line growth of 27% YoY in 2024

VTEX' income statement

Income statement (\$000's)	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Total Revenue	198,859	252,054	316,123	384,143	462,587	549,422	646,242	756,512
COGS	(155,569)	(175,627)	(197,211)	(223,150)	(251,329)	(282,444)	(319,047)	(359,636)
EBIT	(17,456)	5,111	35,065	65,002	99,508	138,814	180,903	228,352
Depreciation and amortization	5,295	6,301	6,322	5,762	2,313	1,648	1,292	567
EBITDA	(12,161)	11,413	41,387	70,764	101,821	140,463	182,196	228,919
EBITDA Ex-Share Based	9,726	34,098	67,126	98,745	131,546	171,054	212,633	266,745
Financial Result	4,687	9,320	14,049	18,224	23,846	29,912	37,568	46,804
Pretax income (loss)	(11,458)	15,830	50,868	85,358	125,921	171,775	222,057	279,354
Tax related expenses	(1,497)	3,799	12,208	20,486	30,221	41,226	53,294	67,045
Net income (GAAP)	(12,955)	12,031	38,660	64,872	95,700	130,549	168,764	212,309
EPS (GAAP)	\$ (0.07)	\$ 0.07	\$ 0.21	\$ 0.36	\$ 0.53	\$ 0.73	\$ 0.94	\$ 1.18
Income statement ratios								
EBITDA Margin	(6.1%)	4.5%	13.1%	18.4%	22.0%	25.6%	28.2%	30.3%
EBITDA ex-share-based margin	4.9%	13.5%	21.2%	25.7%	28.4%	31.1%	32.9%	35.3%
EBIT margin	(8.8%)	2.0%	11.1%	16.9%	21.5%	25.3%	28.0%	30.2%
Effective tax rate	13.1%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
Net margin	(6.5%)	4.8%	12.2%	16.9%	20.7%	23.8%	26.1%	28.1%
Growth rates								
Revenue, % y/y	26.2%	26.8%	25.4%	21.5%	20.4%	18.8%	17.6%	17.1%
EBITDA, % y/y	(130.9%)	250.6%	96.9%	47.1%	33.2%	30.0%	24.3%	25.4%
EBIT, % y/y	(65.0%)	(129.3%)	586.0%	85.4%	53.1%	39.5%	30.3%	26.2%
Pre-tax profit, % y/y	(79.7%)	(238.2%)	221.3%	67.8%	47.5%	36.4%	29.3%	25.8%
Net profit (reported), % y/y	(75.3%)	(192.9%)	221.3%	67.8%	47.5%	36.4%	29.3%	25.8%

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

VTEX (VTEX)

Our \$12 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.

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We, Fred Mendes, CFA, Gustavo Tiseo, Lucca R Brendim and Mirela Oliveira, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Latin America - Telecom Services and Information Technology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	America Movil	AMX	AMX US	Fred Mendes, CFA
	America Movil	AMXVF	AMXB MM	Fred Mendes, CFA
	Desktop S.A	XNUKF	DESK3 BZ	Fred Mendes, CFA
	Eletromidia	XSUHF	ELMD3 BZ	Fred Mendes, CFA
	Locaweb	XZVMF	LWSA3 BZ	Fred Mendes, CFA
	Telefonica Brasil	XCPTF	VIVT3 BZ	Fred Mendes, CFA
	Telefonica Brasil	VIV	VIV US	Fred Mendes, CFA
	Televisa	TV	TV US	Fred Mendes, CFA
	Televisa	GRPFF	TLEVICPO MM	Fred Mendes, CFA
	TIM Brasil	TIMB	TIMB US	Fred Mendes, CFA
	TIM Brasil	XZUAF	TIMS3 BZ	Fred Mendes, CFA
	TOTVS	XBEGF	TOTS3 BZ	Fred Mendes, CFA
	VTEX	VTEX	VTEX US	Fred Mendes, CFA
NEUTRAL				
	Intelbras S.A.	XLTXF	INTB3 BZ	Fred Mendes, CFA
UNDERPERFORM				
	Brisanet	XNHKF	BRIT3 BZ	Fred Mendes, CFA
	Megacable Holdings SAB	MHSDF	MEGACPO MM	Fred Mendes, CFA
	Unifique 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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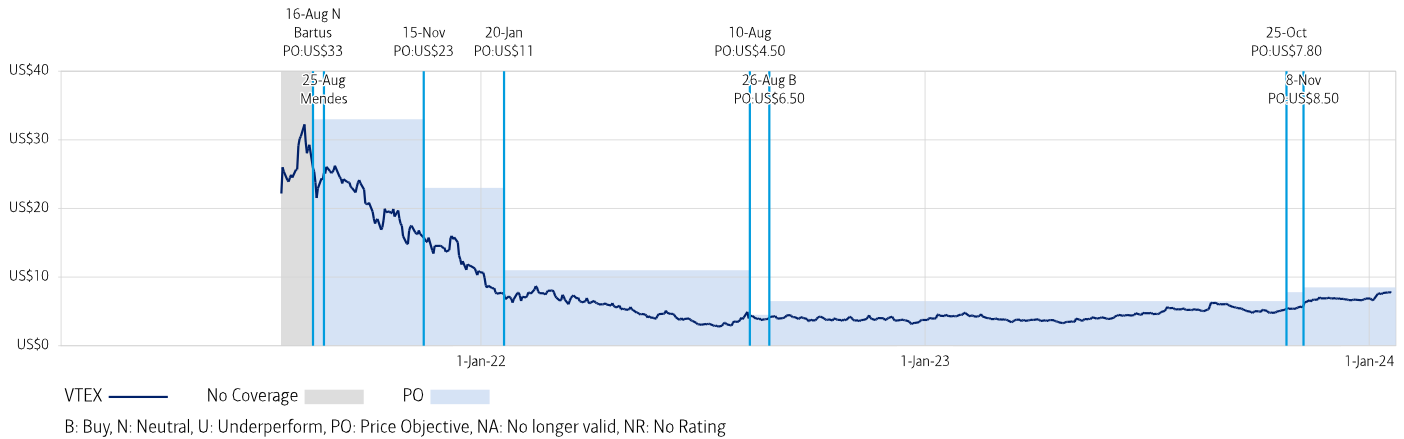
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VTEX (VTEX) Price Chart



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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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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