



## **BigCommerce Third Quarter 2024 Earnings Call: prepared remarks**

**November 7th, 2024**

### **Tyler Duncan; Vice President, Finance and Investor Relations**

Good morning, and welcome to BigCommerce's third 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 Executive Chair, Ellen Siminoff; Chief Executive Officer, Travis Hess; 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, as well as our expected future business and financial performance, financial condition, and our guidance for both the fourth 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](https://investors.bigcommerce.com).

With that, let me turn the call over to Ellen Siminoff Executive Chair

**Ellen Siminoff; Executive Chair**

Good morning, and thank you all for joining our Q3 earnings call. I'm excited to be here as the company's new Executive Chair and share some of the important changes underway to lead BigCommerce into its next phase of growth.

I'd like to kick off today by acknowledging Brent's leadership over the last nine years. Brent's vision and dedication to our team, our partners and our customers have been essential to our success, and we are grateful for his many contributions.

Despite our growth and many achievements over the last several years, our operational performance has fallen short of expectations. With the many changes we are making and will discuss today, we believe we are well-positioned to create the level of shareholder value of which BigCommerce is fully capable.

The entire board is excited to see Travis Hess lead this company. We are confident he will drive value for shareholders. Travis brings the right mix of industry expertise, operational focus, and a fresh perspective on the business that will reignite and bolster our growth.

Now, I'd like to introduce Travis, our new CEO, to share his perspective and plans for the future of our business.

**Travis Hess; CEO**

Thank you, Ellen, and thanks to everyone joining the call today.

This team's hard work and dedication have created a business with tremendous potential, and I'm excited to take the reins at this pivotal moment to help lead BigCommerce into a new era of growth.

We had a solid Q3 with continued momentum in key areas - particularly profit and cash flow. Daniel will cover the details shortly, but I want to emphasize that while our performance was strong in many areas, this is just the beginning of what I believe we can achieve.

I was drawn to BigCommerce for a few key reasons, but the biggest one is that we are materially underrepresented in the market relative to the strength of our products - products that effectively meet the demand of organizations, industries, and brands with more nuanced use cases and requirements. We have too often tried to be all things to all people and as a result have unintentionally diluted our broader value proposition. By focusing on discerning organizations and brands with unique challenges not met by existing, prepackaged monoliths, we can help them be successful and drive more shareholder value.

Having spent the majority of my career on the services side, I have a proven record of addressing business challenges with clear and measurable outcomes. My approach here is no

different. My role - and BigCommerce's role - is not to debate commerce features and functions across different platforms. Instead, we need to be business outcome oriented and committed to quickly enabling organizations and brands to differentiate in the market, deliver value to their customers across all channels, and optimize their revenue while reducing their cost.

Through our full suite of products, we can be more transformational to our clients, while remaining agile and committed to best-in-class commerce and customer experience capabilities across both owned and non-owned channels. For example, in addition to our flagship commerce platform, we can help clients optimize product feed syndication across different channels and return on ad spend through Feedonomics, while also helping marketers and business users build best-in-class commerce and brand websites with no technical expertise or developers with Makeswift.

By going to market with a full suite of solutions focused on discerning customers with complex needs, we can solve their challenges and re-accelerate our own revenue growth. Our market is evolving rapidly. The need for agility, speed, and scale has never been more important. We are in a prime position to capitalize on the opportunity. But we have to move fast, and we have to make significant structural changes to align with our goals and help us reach our potential.

Efficient revenue growth has been a key strategic focus for BigCommerce. Let me take a moment to explain what efficient revenue growth means to me.

Efficient revenue growth isn't just about expanding our top line. It's about ensuring that every dollar we invest yields greater returns for our customers, for the business, and for our shareholders. It's about growing in a way that is sustainable, scalable, and profitable.

For example, we are streamlining our brand architecture, with a focus on fully integrating the capabilities of our flagship platform product with Feedonomics and Makeswift. Our BigCommerce offering is powerful on its own, and coupling it with Feedonomics and/or Makeswift provides a more comprehensive and compelling solution to our customers. We also recognize that these additional capabilities richly serve markets, brands, and organizations independent of our flagship platform and will continue to do so. As I mentioned earlier, it's ok for us not to be everything for everyone. Ultimately organizations and brands need to go where their customers want to engage them, and they need to do this with scale, agility, and value. This requires technical agility, vision and enablement, and we feel our collection of capabilities and approach uniquely positions us to provide this to both existing and prospective customers at scale.

We will be expanding our efforts in the coming quarters to build greater product adoption and cross-sell our integrated solutions to grow our revenue per customer. We have not yet delivered on the market potential of better integrating these solutions as one company. We can and must better integrate these products, brands, and teams to deliver leading solutions for our customers. This will also improve our differentiation in market by orienting our collective products towards three key offerings - B2C, B2B, and Small Business.

Solving our customer's business challenges means listening and responding to what those challenges are. Our B2C offering will continue to prioritize rapid feature rollouts that solve the challenges our customers encounter. We know that agility, experimentation, and speed to market are critical in B2C, so we introduced our Catalyst reference architecture and framework earlier this year and continue to rapidly evolve it. Catalyst provides exceptional customer experiences out of the box via Makeswift, pre-integrates with best-in-class technology partners, is natively composable - while also being steeped in agility, allowing for incredibly fast implementation timelines for clients to go live.

Catalyst is also providing value for B2B businesses. In Q3, Stronghold Safety, an industrial safety equipment company, switched to BigCommerce, leveraging Catalyst and B2B Edition to launch a fully headless site in just four months.

Speaking of B2B, we obviously feel this is a massive market for us to compete and win in, and we are continuing to accelerate investment in this area. For clarity, we see three specific types of B2B-oriented clients: first, enterprise and mid-market core B2B organizations consisting primarily of manufacturers and distributors. These organizations want to use BigCommerce to drive organizational transformation and headcount reduction via digitalization and broader system standardization. They typically run their business on legacy or homegrown platforms and have a fair amount of technical debt. They also have complex requirements such as custom contractual pricing, configurable and bespoke products that require quoting workflows before purchase, a unique catalog with checkout and purchasing requirements that may be purchase order oriented, purchases against credit terms, or a combination of alternatives.

The second type of B2B-oriented clients are greenfield core B2B organizations consisting of manufacturers and distributors looking to quickly digitize their operations and launch a best-in-class B2B commerce platform and maintain it with a very small internal team that also allows them to scale into the future despite some complicated requirements and use cases.

Lastly, we also service hybrid B2B customers - essentially customers who primarily sell direct to consumer but also have wholesale requirements and sell through third-party retail or marketplaces but are too small to warrant EDI connectivity. This last group is by far the simplest of the three examples and is the primary B2B use case for our largest competitor.

Now that I've clarified the B2B target market, I want to circle back to where we are investing in our B2B capabilities. In Q3, we integrated the next phase of our B2B features into our core platform, giving customers access to all of BigCommerce's B2B edition features directly in the control panel. In Q4, we plan to add additional functionality to streamline the complex selling and buying processes of enterprise manufacturers and distributors. We will continue to focus on solving true B2B use cases, which includes much more than simple, wholesale use cases, widening our B2B TAM - while distinguishing us from our competition in this market. This can drive both significant value to our B2B customers and our shareholders.

Discerning small businesses are also increasingly turning to technology to differentiate and scale. We believe that by providing them with fast, easy to use tools that are simple yet

powerful, we can offer a world class product to this segment of the market. This, along with other features and enhancements we will discuss on later calls, will enhance our ability to capture businesses early in their growth journey and continue supporting them as they scale. We will also launch a hosted Catalyst solution and additional Feedonomics tooling and automation that will unlock powerful AI-driven omnichannel revenue optimization for small and mid-size businesses.

Each of these areas represents a significant growth opportunity, and by orienting our offerings to solving business challenges and creating measurable outcomes, we can unlock a greater share of wallet with our customers.

We will also be making significant investments to advance our AI capabilities across our product suite, with a strong focus on AI solutions that enhance revenue generation for our clients, boost operational agility, and drive cost savings. We've had success in launching AI that automates tactical workflows and tasks with efforts now more tangibly focused on more material value that we feel would be differentiating in market while widening our TAM in specific segments.

To support these initiatives, we are making strategic organizational changes that will allow us to scale efficiently and to be more agile and responsive to market opportunities. This includes bringing in industry veterans like Doug Hollinger as our Senior Vice President of Strategy, John Huntington as our Senior Vice President of Partnerships, and Ryan Means as our Senior Vice President of Services.

Doug joins us from Accenture where he led B2C commerce strategy with a focus on retail and CPG verticals. He is laser-focused on aligning our product strategy and offerings with enablement and product marketing to make it clear who we best serve and how BigCommerce solves their business challenges.

John is uniquely adept at architecting and monetizing partner programs. He will help us deepen our partnerships to work more with global systems integrators to facilitate joint investment, as well as curated accelerators tied to specific industries with more opportunities for disruption and transformation, such as direct selling and B2B.

Coming most recently from Merkle, Ryan brings an incredible background in commerce, operations, enterprise architecture, and system integration across multiple commerce platforms. Services provide an important opportunity for us to differentiate ourselves in the market via delivery and enablement best practices and governance, ensuring speed-to-market. These proven leaders each have over 20 years of deep commerce experience and expertise and know how to scale a business.

With more deliberate and focused investments in our go-to-market efforts, we will drive more authenticity, faster growth, better profitability and cash flow for shareholders. Today, we also announced a series of actions to both reduce costs and reinvest in specific areas to foster growth. Daniel will cover the details later in his remarks, but at a high level, these changes

materially improve our cost structure and aim to nearly double our quota-carrying capacity in 2025.

I'm incredibly optimistic about where we're headed. We have the right products, the right team, and the right strategy to drive efficient growth and deliver meaningful value to our customers and shareholders alike. We absolutely can meet that challenge, and we will do so with decisive change and accountability. I'm confident that the actions we're taking now will set the stage for long-term success.

Thank you for your time today, and I look forward to sharing more updates on our progress in the coming quarters. I'll now turn it over to Daniel.

### **Daniel Lentz; Chief Financial Officer**

Thanks, Travis, and thank you, everyone, for joining us today. During my remarks, I will cover our Q3 results, including the cost reductions and restructuring announced this morning, provide additional detail on our key areas of operational focus, and offer updated guidance for Q4 and the full year 2024.

In Q3, total revenue was just under \$84 million, up 7% year-over-year. Subscription revenue grew 7% year-over-year to approximately \$63 million, while partner and services revenue (PSR) increased 8% year-over-year to just under \$21 million. Regionally, revenue in the Americas grew 6%, EMEA increased by 12%, and APAC was up 9% compared to the prior year.

We remain committed to profitable growth. Our Q3 non-GAAP operating income was just over \$4 million, compared to a loss of \$1 million in the same period last year. This reflects a year-over-year improvement of 700 basis points in our non-GAAP operating margin, from approximately negative 2% in Q3 2023 to positive 5% in Q3 2024.

As Travis mentioned earlier, we are investing in and streamlining our go-to-market organization. I'd like to provide more detail on how these actions reaffirm our commitment to the three strategic priorities we've discussed over the past two earnings calls.

First, we remain focused on driving efficient revenue growth. We have significantly reduced our investments in underperforming channels and reallocated those resources toward higher-performing areas, and we will nearly double our quota-carrying sales capacity in 2025. Additionally, we've realigned our sales organization and compensation structure to better match the strategic areas Travis outlined earlier. We now have dedicated go to market teams built around our B2C, B2B, and small business offerings, with incentives focused on driving customer share of wallet across our entire product portfolio.

Second, we are focused on driving operating leverage. We've streamlined leadership layers to enhance decision-making, agility, and focus, which included the retirement or departure of several senior leaders. These include our Chief Marketing Officer, Chief Operating Officer, and

multiple SVPs, VPs, and directors across the organization. We have also taken decisive steps to ensure stability and continuity, bringing in experienced industry veterans to key leadership roles, reinforcing our capabilities in critical areas. These initiatives align the company more closely with our strategic goals - fostering a more agile and focused leadership team - and position us to operate more efficiently even as we increase our sales capacity.

Third, we are prioritizing healthy cash flow. The initiatives I've just outlined have led to operating cash flow of just under \$14 million for the nine months ended September 30, 2024, a \$51 million improvement year-over-year. As we've discussed on previous calls, our focus on prepayment optimization and working capital management, along with our continued commitment to efficient revenue growth and operating leverage, positions us to drive further cash flow improvements in the coming quarters.

Now, turning to our non-GAAP KPIs: We ended Q3 with an ARR of approximately \$348 million, up 5% year-over-year. This represents sequential ARR growth of \$2 million. Our enterprise account ARR was approximately \$257 million, up 7% year-over-year, with enterprise accounts now representing 74% of our total ARR. Our non-enterprise accounts, using exclusively our Essentials plans, had an ARR of just under \$91 million, down 1% year-over-year as we lapped the prior-year small business plan price adjustments. Average revenue per account (ARPA) for enterprise accounts was \$43,600, up 8% year-over-year.

We are not at all satisfied with these results. We are doing a better job prioritizing dollarized retention in our best accounts, but we must do a better job driving efficient growth. I believe we are making decisive changes necessary to drive the long-term growth results our shareholders expect. And to be clear, we are not done. We will continue to look for opportunities to drive focus, efficiency, and top line growth reacceleration. That also includes looking at opportunities to further adjust our product and partner offering in areas that may look different from the past, adjust pricing where that makes sense, and pursue other opportunities to drive focus on customer outcomes that will fuel our growth. We will do this in a way that continues to prioritize financial discipline and progress towards a healthy, balanced growth and profit profile.

Looking ahead to our guidance: For Q4, we expect revenue in the range of \$85.8 million to \$87.8 million, reflecting year-over-year growth of 2% to 4%. For the full year 2024, we expect revenue between \$331.7 million and \$333.7 million, representing growth of approximately 7% to 8% and consistent with our previous full-year guidance at the mid-point. Non-GAAP operating income for Q4 is expected to be between \$4.4 million and \$6.4 million, with full-year non-GAAP operating income projected to be between \$13.8 million and \$15.8 million.

We are making material changes in this business. We are reallocating and re-focusing resources, and we will have a more detailed perspective on the February earnings call when we issue 2025 guidance. From an early read perspective, we are building internal plans around mid-single digit growth rates for the full year 2025 as we execute this transition. We expect growth rates to ramp modestly across 2025, and we consider Q4 2024 growth to be a floor from a planning perspective. We also expect the changes I outlined to deliver further meaningful improvement to our operating margins and cash flow.

We are in a great position to further increase our level of investment in top line growth in 2025, and are confident in our investments to double sales capacity, even as we remain disciplined about our overall level of go to market spending. We are committed to a balanced Rule of 40 framework to deliver profitable and accelerating growth. Our capital allocation decisions will have the right balance of growth and profitability, which is critical to driving increased shareholder value over time. We plan to discuss this in greater detail and share more about our long-term strategy at our upcoming Investor Day in New York on March 11th as well.

In closing, I'd like to thank our team for their dedication and commitment as we execute on this new go-to-market strategy. We believe the path ahead is promising, and we're energized by the opportunities in front of us.

Travis and I are now happy to take your questions. Operator?