August 31, 2022

Q2 FY2023 Earnings Prepared Remarks

Peter Gassner, Founder, CEO
Brent Bowman, CFO

Veeva

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Q2 Business Update

Peter Gassner, Founder, CEO



Financial Results

We had a solid Q2 with revenue ahead of our guidance and operating income coming in at our guidance. Overall, it was another great quarter of execution as we advance the life sciences industry to digital. Total revenue in the quarter was $534 million, up 17% year over year, and subscription revenue was up 17% to $429 million. Non-GAAP operating income was $202 million, or 38% of total revenue.

Fiscal Year Guidance and the Macro Environment

The life sciences industry is critical to human health. It works in long cycles and is generally less sensitive to macroeconomic fluctuations than most other industries. However, the industry is not entirely immune from the current environment.

Early-stage companies fuel a portion of the industry's growth through research and innovation. Tightening of funding for these companies impacts their investments. And since they are an innovation engine it also causes more conservatism in the industry overall, as does the building macro uncertainty.

We started to see effects of these headwinds on our pipeline in June. Therefore, we are taking our full-year revenue guidance down slightly by $30 million, or about 1.5%. Roughly half is related to foreign currency (FX), and half is related to macro factors including lower spending among SMB companies and extra project scrutiny on some enterprise opportunities.

There is no change to our long-term opportunity or our 2025 financial goals. We continue to track ahead of our target to exceed a $3 billion revenue run rate in 2025. Our competitive position and innovation engine have never been stronger and our strategic partnership with the industry is increasing.

Times like these are long term positives for companies like Veeva because high quality, vibrant, and profitable leaders are well positioned to further consolidate market share and attract top talent. We are seeing the benefit of this flight to quality in our competitive momentum, hires, and rehires. Speculative tech startups are no longer as attractive to customers and employees as they were a year ago.

Drug Pricing Legislation

Before we move to our results for the quarter, I wanted to touch on the U.S. drug pricing legislation just passed that allows for the government to set the maximum Medicare price manufacturers can charge on select drugs starting in 2026. The legislation does not impact drug pricing under private coverage and there is time for the industry to manage and adjust over many years until any pricing changes go into effect. Therefore, we don't expect this legislation to impact Veeva in the short or medium-term. Any long-term impacts will become clearer as the industry adapts.

Commercial Solutions

Our leadership in commercial continues as we innovate to advance the industry to new digital ways of working.

Q2 marked another quarter of Veeva's expanding leadership position in core CRM, both from an innovation and a market share perspective. We added 12 new SMB customers and saw further international CRM expansions in Asia and Latin America. This resulted in net seat growth in the quarter.

Being the industry standard in core CRM gives Veeva the ability to provide valuable data and insights from more than 130 million quarterly interactions between life sciences and their customers. In July, Veeva Business Consulting published its first Veeva Pulse Field Trends Report to share this unique industry-wide view of global HCP engagement. The groundbreaking research showed the power of the new digital models we're enabling including how online meetings, when used in conjunction with in-person engagement, increases impact 3x.

Moving into other areas of commercial, we are also pleased to see our leadership position expanding in commercial content. The modular content capabilities in Vault PromoMats are helping companies develop content faster and increase content reuse. In the quarter, we had 22 SMB customer wins and saw a commitment for a major expansion at a top 20 pharma.

In data, we are encouraged by our progress across Veeva Data Cloud. Veeva Link for Key People had another strong quarter with 10 customer wins and further momentum among enterprise accounts. Development of our four new Link products is also tracking well.

In Veeva Compass, we added four new customers in the quarter. Feedback from early adopters has been positive. While Compass remains very early in its product and customer lifecycle, and it will take time to realize our vision, we are making good progress in providing an alternative for patient, prescriber, and sales data to the industry.

R&D Solutions

On the R&D side, we saw further adoption across all areas of Veeva Development Cloud. Companies are increasingly looking to Veeva to put in place the right technology foundation for drug development.

Vault Quality had a record 52 customer wins in the quarter. We now have more than 500 customers with at least one Vault Quality product and our focus is on their success, giving us a great base from which to grow. New product innovations in Vault Quality are also progressing well. We expect to have early adopter projects started for Vault LIMS and Vault Validation Management later this year.

In clinical operations, growth was driven by both established and newer solutions. We had 15 eTMF customer wins in the quarter and saw strong growth in CTMS as well. And it was a good quarter for Vault Study Startup. We added two new top 20 pharmas, both now have more than one Vault Clinical application and a vision for unified clinical on a single platform.

Momentum continues to build in clinical data management as well with Vault CDMS, especially in enterprise accounts. These are long sales cycles, and it will take time to generate significant revenue, but I am very pleased by our progress with the product and customer success. Customers appreciate the innovation we

are bringing to market and the tight integration of clinical operations and clinical data management as they look to unify and speed clinical execution. I am confident we are on a path to becoming the market leader in CDMS over time.

Our momentum also continues in regulatory with 15 wins in the quarter, including a top 20 customer selecting Vault Submissions, Vault Submissions Archive, and Vault Publishing. This customer had previous success with Veeva in clinical and quality and looked to Veeva when it was time to modernize their core regulatory systems. This win is a great example of how our opportunity is fueled by customer success.

Establishing Veeva Development Cloud as the operating system for drug development is a big vision. We are early in the journey and executing well on our plan.

Employee and Customer Rights

Lastly, we had another positive development in the quarter as a federal court dismissed the baseless trade secret lawsuit Medidata filed against Veeva in 2017. This is a major win for employee rights and the life sciences industry as the court ended Medidata's moves to limit competition and intimidate employees. I hope this ruling encourages others to focus their energy on innovation and employee success rather than unnecessary and harmful litigation. I also hope it encourages other leaders to stand-up for employee rights.

Leading Through Innovation and Focused Execution

We are well positioned for the significant market opportunity ahead with an innovation engine that's never been stronger and the disciplined execution that sets companies apart in times like these. Our strategic partnership with the industry is increasing, and our values of do the right thing, customer success, employee success, and speed continue to provide Veeva a distinct advantage.



Peter Gassner, Founder, CEO

Q2 Financial Update

Brent Bowman, CFO



Fiscal Year 2023 Second Quarter Performance

Veeva delivered solid results in the second quarter with continuing broad-based growth. Revenue in the quarter exceeded our guidance and helped drive strong profitability. Total revenue increased 17% year over year to $534 million and subscription revenue increased 17% year over year to $429 million. Non-GAAP operating income was $202 million, or 38% of total revenue.

While our overall FX exposure has not changed materially, the US Dollar continued to appreciate and created year-over-year FX headwinds to total revenue of roughly $8 million in the quarter. About $3 million of this headwind was related to FX movements that happened since we provided guidance for the second quarter. The impact of FX movements to operating income was minimal due to largely offsetting foreign currency exposures of our costs and revenue.

Bookings in Q2 were primarily driven by broad-based strength in R&D Solutions. We continued to execute on Veeva's large opportunity for growth, closing seven-figure deals in the quarter in both Commercial and R&D Solutions.

Professional services revenue was $106 million, driven by continuing demand for professional service associated with our R&D Solutions and strong revenue performance from Veeva Business Consulting.

Q2 calculated billings were $478 million, growing 18% year over year. Billing term changes created an $8 million net benefit to Q2 calculated billings, consistent with our expectations. FX movements created an $11 million headwind to year-over-year billings growth, about $4 million of which is related to FX movements since we provided guidance for Q2. Normalizing for the impact of customer billing term changes and FX movements, billings grew 19% year over year.

Our Q2 non-GAAP operating income was $202 million, which included higher than expected litigation expenses. Q2 was another quarter of strong hiring in which we added 335 net employees.

In Q2, non-GAAP cash flow from operations was about $129 million, which excludes about $2 million of excess tax benefit and $38 million of tax impact related to the capitalization of R&D expenses. We exited the quarter with more than $2.9 billion of cash and short-term investments.

Guidance for the Third Quarter and Fiscal Year 2023

Our guidance assumes FX rates remain at current levels and factors in the current macro environment including lower spending among SMB companies and extra project scrutiny in some enterprise opportunities.

For Q3, we expect total revenue between $545 and $547 million, including roughly $11 million in year-over-year FX headwind, with subscription revenue of about $439 million.

We anticipate Q3 non-GAAP operating income to be between $209 and $211 million. Our non-GAAP operating income guidance reflects continued growth investments and increasing travel and event spending.

Non-GAAP earnings per share for Q3 is anticipated to be between $1.07 and $1.08 based on a fully diluted share count of approximately 163 million. We are maintaining our non-GAAP tax rate at 21% for the fiscal year and continue to monitor the impact of any tax law changes.

We expect calculated billings to be about $365 million in Q3, including roughly $10 million in year-over-year FX headwind.

As a reminder, there are numerous factors that make year-over-year comparisons of calculated billings highly variable on a quarterly basis. Therefore, we do not believe quarterly billings growth is a good indicator of the underlying momentum of our business, and we do not manage to it internally. Our subscription revenue guidance and calculated billings guidance for the full year are better indicators of our momentum.

For the full year, we expect total revenue of $2.140 to $2.145 billion, a decrease of $30 million from the high end of our prior guidance. Our guidance reflects roughly $35 million in year-over-year FX headwind, $15 million of which is incremental to our previous guidance, some softening in Crossix revenue growth related to tightening advertising budgets, and the macro environment, as mentioned above.

Subscription revenue for the fiscal year is projected to be roughly $1.725 billion. Our subscription revenue guidance consists of Commercial Solutions subscription revenue of roughly $938 million and R&D Solutions subscription revenue of roughly $787 million.

We project non-GAAP operating income for the fiscal year of approximately $820 million, or 38% of total revenue. Note, we expect the impact of FX movements to operating income will not be material given the largely offsetting foreign currency exposures of our costs and revenue.

Non-GAAP earnings per share for the fiscal year is expected to be approximately $4.17 based on a fully diluted share count of approximately 163 million.

We expect full year calculated billings to grow 16% year over year to $2.270 billion, a decrease of $50 million from prior guidance. Normalizing for the impact of customer billing changes and a $45 million FX headwind, $15 million of which is incremental to our previous guidance, calculated billings is expected to grow 18% year over year.

We project fiscal year 2023 non-GAAP cash flow from operations, which is net of the excess tax benefit and the tax impact related to the capitalization of R&D expenses, to be about $740 million. We still expect the tax impact to cash flow from operations to be roughly $70 to $80 million in fiscal year 2023 if the R&D expense tax legislation is not deferred or repealed.

We are pleased with our second quarter results and the opportunity we see ahead. Veeva is well positioned to deliver durable growth with strong profitability as we continue to track ahead of our 2025 targets of $3 billion in revenue and 35%+ in non-GAAP operating margin.



Brent Bowman, CFO