December 1, 2022

Q3 FY2023 Earnings Prepared Remarks

Peter Gassner, Founder, CEO
Brent Bowman, CFO

Legal Disclaimer

These prepared remarks contain forward-looking statements regarding Veeva's expected future performance and, in particular, includes statements regarding Veeva's products and services and guidance provided as of December 1, 2022 about Veeva's expected future financial results. Estimating guidance accurately for future periods is difficult. It involves assumptions and internal estimates that may prove to be incorrect and is based on plans that may change. Hence, there is a significant risk that actual results could differ materially from the guidance we have provided in these prepared remarks and we have no obligation to update such guidance. There are also numerous risks that have the potential to negatively impact our financial performance, including as a result of competitive factors, customer decisions and priorities, events that impact the life sciences industry, issues related to the security or performance of our products, issues that impact our ability to hire, retain and adequately compensate talented employees, the pandemic, fluctuations in foreign currency exchange rates, and general macroeconomic and geopolitical events (including inflationary pressures and impacts related to Russia's invasion of Ukraine). We have summarized what we believe are the principal risks to our business in a section titled "Summary of Risk Factors" on pages 39 and 40 in our filing on Form 10-Q for the period ended July 31, 2022 which you can find here. Additional details on the risks and uncertainties that may impact our business can be found in the same filing on Form 10-Q and in our subsequent SEC filings, which you can access at sec.gov. We recommend that you familiarize yourself with these risks and uncertainties before making an investment decision.

Q3 Business Update

Peter Gassner, Founder, CEO

Financial Results

We had a strong Q3, delivering results ahead of guidance. Total revenue in the quarter was $552 million, up 16% year over year, and subscription revenue was up 16% to $442 million. Non-GAAP operating income was $219 million or 40% of total revenue.

Strong Execution and Durable Model in Changing Times

Though a difficult macroeconomic environment and impacts from the strengthening of the U.S. Dollar remain, we have not seen a material change in the overall environment or customer sentiment since last quarter. We are well positioned as a strategic partner providing a broad set of mission-critical solutions to a large and growing industry. Together with our highly durable operating model, this drives strong growth and profitability over the long term and lessens the impact of shorter-term fluctuations in the macroeconomic environment.

Times like these are long-term positives for high quality and profitable companies like Veeva, as we continue to benefit from a flight to quality both competitively and in hiring. This is a great time for us to invest to address our large and growing market opportunity.

Since our founding, we have developed a disciplined approach to hiring. This is even more important now and the results are really paying off. In the quarter, we added an organic record 483 net employees. We are hiring excellent people, both new graduates and experienced hires, that have the right skills and are aligned to our values. Veeva is a company where they can do their best work around great people and contribute highly to society. This contributes to strong employee success and to the life sciences industry.

Becoming the Strategic Partner to a Critical and Growing Industry

In the quarter we established a 10-year strategic partnership with Merck, which builds on our existing 12-year partnership. Merck will take a Veeva-first approach when our software and data are fit for purpose. This will make it more efficient for Merck to evaluate, purchase, operate, and create value from Veeva products and services and will help Merck optimize for enterprise value rather than functional silos. This is the first agreement of its kind for Veeva. We view it as highly significant, and we hope to have more agreements like this over the coming years.

Another key part of our role as a strategic partner is in bringing the industry together to advance. In October, we hosted our R&D and Quality Summit in Boston. This was the first full two-day event in our history and the largest Summit ever with more than 2,000 people. The event was incredibly energizing, for the Veeva team and our customers. I could not be more pleased with the attendance, the new format, how we executed, and how we are adding value to the industry.

Commercial Solutions

Our market leadership position in commercial again expanded in the quarter, driven by continued innovation and our broadening position as a strategic partner.

In core Veeva CRM, we added a number of new SMB customers and saw enterprise seat expansions in Asia Pacific and North America. This resulted in net seat growth for CRM in the quarter.

We also increased our market leadership position in commercial content in the quarter, delivering new innovations and expanding market share. Veeva Vault PromoMats had 17 customer wins and Veeva Vault MedComms had a top 20 expansion.

While a decrease this year in U.S. TV and digital marketing spend in life sciences creates a headwind for Crossix, the business is growing steadily at about 10%. The pipeline is increasing as we drive more innovation, tighter integration with other Veeva products, and establish more multiyear enterprise agreements.

In Veeva Data Cloud, Veeva Link Key People continues to do well and is progressing towards market leadership. New Veeva Link product innovations are also going well in the early adopter phase and feedback has been positive. We continue to refine the Veeva Compass product and work with early adopters, focusing on patient data.

Moving Veeva CRM to the Vault Platform

Also, in commercial, we are making a change in our CRM product strategy. We are moving Veeva CRM from the Salesforce Platform to the Veeva Vault Platform. Therefore, we will not renew our Salesforce OEM agreement when it expires in September 2025. With the agreement's five-year wind-down period, existing customers can continue with Veeva CRM on the Salesforce platform through September 2030. This provides plenty of time for the transition. We do not anticipate this change to have any material impact to our current or 2025 targets.

Having the application and platform from one company will allow us to deliver a better application and a better customer experience. It also makes sense for Veeva and our customers to have a common platform across our R&D and commercial solutions. Vault is a unique and powerful platform for the industry with an amazing team behind it delivering significant innovation. In CRM, our development efforts will focus on Vault CRM for pharma and biotech, and we will not pursue MedTech CRM opportunities at this time.

Salesforce has been an outstanding partner for 15 years and was foundational to the building of Veeva. We expect that partnership to continue. We have many joint customers, many complementary products, and will continue to work together for customer success through 2030 and beyond.

R&D Solutions

In R&D, we saw continued broad-based adoption across Veeva Development Cloud.

Our vision is to provide the operating system for product development, and at the center is clinical, where we are seeing increased adoption across both newer and established solutions. This includes continued adoption of our market leading solution, Veeva Vault eTMF, where we had 30 customer wins in the quarter.

We also saw increased adoption and record bookings for Veeva Vault CTMS, our clinical trial management system. We had 18 Vault CTMS wins in the quarter, including a top six CRO. Vault CTMS has been selected by nine of the top 20 pharmaceutical companies, four of the top six CROs, and more than 40 CROs overall.

Companies are looking for a modern CTMS solution, seamlessly integrated with eTMF, on a single platform from a partner they trust. Vault CTMS plays a critical role in clinical operations, across both sponsors and CROs, by managing the end-to-end clinical trial process, from startup, through enrollment and monitoring, to study close. The adoption of Vault CTMS is also leading to increased interest in our newer clinical operation solutions such as Vault Site Connect, and Vault Study Training. By going all-in across our suite of clinical operations solutions, companies are turning to Veeva to help transform their end-to-end development operations.

In the clinical data area, momentum is very strong with our core Veeva Vault EDC product. We added 11 new Vault EDC customers in Q3 and we also saw continued progress with CROs. We closed very significant Vault EDC deals in early November with two top 20 pharmaceutical companies. Both companies are looking to modernize their systems in this critical area and are looking for long-term partnership. We are very excited about these wins and will be laser focused on customer success.

In safety we had a very significant milestone in the quarter. Our first top 20 pharma went live with Veeva Vault Safety across their main divisions and most countries. Their remaining divisions will go live next year. Safety is an important and risk averse area for life sciences. The fact that a top 20 pharma successfully standardized on Vault Safety globally is a testament to the readiness of the product at scale and our ability to execute on our commitment to customer success and product excellence. We have a great partnership with this early adopter customer. They are helping us improve the product and they spoke at our Summit in Boston. Consistent with our reference selling model, we will leverage this success as we progress other large enterprise opportunities in safety.

Focus on Execution in a Large, Growing Market

We have a bold vision to build the industry cloud for life sciences and we are pleased with our progress in the quarter. Our innovation engine remains as strong as ever, we are investing to deliver against our large and growing market opportunity, and our strategic partnerships are increasing. We are executing well and continue to track a year ahead of our 2025 revenue run-rate target of $3 billion.

Peter Gassner, Founder, CEO

Q3 Financial Update

Brent Bowman, CFO

Fiscal Year 2023 Third Quarter Performance

Veeva's durable business model delivered results above our guidance in the third quarter with solid revenue growth and strong profitability. Total revenue grew 16% year over year to reach $552 million with subscription revenue of $442 million also growing 16% year over year. Third quarter non-GAAP operating income of $219 million resulted in a 40% non-GAAP operating margin.

Continued strength of the U.S. Dollar relative to other currencies created a foreign exchange (FX) year-over-year revenue headwind of roughly $11 million, which was in line with our expectations. The impact of FX to operating income was minimal, as we expected, due to largely offsetting foreign currency exposures of our costs and revenue.

Third quarter bookings reflected strength across R&D Solutions, including multiple seven-figure deals in both clinical operations and quality. Commercial Solutions saw solid bookings contributions from the CRM Suite and Vault Commercial Content, extending our market leadership position. Q3 subscription revenue growth was driven by our most established products in R&D Solutions and increased growth contribution from Veeva Vault CTMS and Veeva Vault QMS. We are executing well as we build the industry cloud for life sciences.

Q3 professional services revenue of $111 million was driven by strong demand associated with R&D Solutions and Veeva Business Consulting.

Calculated billings in Q3 were $373 million, up 17% year over year. Billings growth benefited by roughly $6 million from bookings in Q3 that had more annual billing terms than expected. FX headwinds in Q3 had a roughly $15 million year-over-year impact on calculated billings, about $5 million of which was incremental to our expectations when we last set guidance.

Non-GAAP operating income of $219 million benefited from strong revenue growth in the quarter and the timing of recognition of certain product development expenses.

Q3 was another strong quarter of hiring in which we added 483 net new employees.

Our Q3 non-GAAP cash flow from operations was about $142 million, excluding roughly $1 million of excess tax benefit. At the end of the quarter, we had more than $3 billion of cash and short-term investments.

Guidance for the Fourth Quarter and Fiscal Year 2023

We have not seen a material worsening or improvement in the impact of the overall macroeconomic environment on customer buying behavior since our last guidance. Our guidance continues to reflect lower spending among some SMB customers and extra project scrutiny in certain enterprise opportunities that we started to see in June. We are also assuming FX rates remain at current levels.

For Q4, we expect total revenue between $551 and $553 million, with a year-over-year FX headwind of roughly $11 million, and subscription revenue of about $452 million.

We anticipate Q4 non-GAAP operating income to be about $199 million. This amount excludes the anticipated impact of roughly $9 million of payroll tax expense related to previously announced option exercises by our CEO that are expected to happen in Q4. Our non-GAAP operating income guidance reflects increased investments in employees and lower services gross margins due to seasonally lower utilization.

Non-GAAP earnings per share for Q4 is anticipated to be about $1.05 based on a diluted share count of approximately 163 million shares. 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 Q4 calculated billings of about $909 million, including a year-over-year FX headwind of roughly $16 million. This reflects the benefit to Q3 billings noted above, and, to a lesser extent, a higher-than-expected proportion of recent bookings that have an annual renewal billing in Q1 of fiscal 2024.

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.

Our Q4 guidance implies the following for fiscal year 2023:

- Total revenue of $2.143 billion to $2.145 billion, including a roughly $36 million headwind related to year-over-year FX rate changes;
- Subscription revenue of roughly $1.725 billion, consisting of Commercial Solutions subscription revenue of roughly $942 million and R&D Solutions subscription revenue of roughly $783 million;
- Non-GAAP operating income of roughly $820 million; and
- Calculated billings of roughly $2.260 billion, up 16% year over year. This guidance includes an FX related year-over-year headwind of roughly $51 million.

Non-GAAP earnings per share for the fiscal year is expected to be about $4.19 based on a fully diluted share count of approximately 162 million.

We expect our fiscal year guidance for non-GAAP cash flow from operations to be about $740 million. This excludes the tax impact related to the capitalization of R&D and any excess tax benefits, including the expected Q4 benefit of our CEO's option exercises.

As mentioned on our investor day, we will provide FY24 financial guidance on our Q4 earnings call.

Overall, Veeva continued to execute well in Q3 and I am proud of our ability to deliver strong growth and profitability as we execute on our vision of creating the industry cloud for life sciences.

Brent Bowman, CFO