March 1, 2023

Q4 FY2023 Earnings Prepared Remarks

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Veeva

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 March 1, 2023 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, and general macroeconomic and geopolitical events (including inflationary pressures, rising interest rates, currency exchange fluctuations, impacts related to Russia's invasion of Ukraine, and the pandemic). 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 October 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.

Q4 Business Update

Peter Gassner, Founder, CEO

Financial Results

The fourth quarter was a strong finish to the year for Veeva, delivering results ahead of our guidance. Total revenue was $563 million, up 16% year over year, and non-GAAP operating income was $209 million, or 37% of total revenue. Fiscal year revenue was $2.16 billion, up 16% year over year, and non-GAAP operating income was $830 million, or 39% of total revenue.

Looking Back at the Year

The past year was an important one for Veeva.

We got back together through customer summits, coworking, field kickoffs, and regional events. Connecting in person is key to building our intuition and forging strong bonds. I am especially proud of how we advanced the ways we get together with customers and each other, which are now optimized for deep connections and collaboration.

The breadth and depth of our solutions increased as we expand to support the most important areas of a life sciences company. We now have 10 major product areas and more than 30 major products, all on a path to product excellence. This product footprint is unique in the industry and is the fundamental driver of our deep industry partnership.

Picking the right big markets and executing with product excellence in each is something we have done very well over the years and that continued strong in fiscal 2023. It was a breakout year for clinical data management and we saw great traction in newer areas, including Veeva Vault Safety, Veeva Link, and Veeva Compass. We also set a course to move Veeva CRM to the Vault Platform which will give customers a better application over time and a common platform across commercial and R&D.

Overall, we made great progress in our vision to become the most strategic provider to life sciences. Our partnership with the industry strengthened in all customer segments and geographies. Among the most significant was the first-of-its-kind, 10-year partnership with Merck, who is taking a Veeva-first approach when our software and data are fit for purpose.

No Layoffs or Back to the Office Mandates

We have always operated the company with a disciplined, long-term approach to investing in the right people and the right markets for profitable growth and not swinging to extremes in difficult times or boom times.

We didn't over hire in the last few years or jump into speculative markets. We kept our teams lean and aren't planning to lay people off. Careful hiring helps us build high employee engagement and results in strong execution, innovation, and customer success.

Veeva Work Anywhere has been another positive for attracting and retaining the best talent and we are sticking with it. The team is productive and thriving with the flexibility to work at home or in the office on any given day.

Commercial Solutions

Our expansion in commercial continues. In core CRM, we added 44 new customers in the year which included a number of SMBs in the fourth quarter. In fiscal 2023, Veeva CRM seats were unchanged year over year.

As expected, the evolution to hybrid customer engagement models leveraging digital is driving a roughly 10% reduction in field reps. These reductions began in the second quarter of fiscal 2022, the majority were completed by the end of fiscal 2023, and we anticipate additional reductions to take place through the end of fiscal 2024. We expect our growing market share and increasing commercial product adoption to more than offset the impact of rep reductions.

Vault CRM is off to a strong start in our customer communications and with product development. Since it's a backend platform change, the mobile app for field reps will remain the same, so no end user training will be needed. We plan to demo Vault CRM at Veeva Commercial Summit in early May and customers have appreciated the clarity and time to plan well ahead of the 2030 transition.

Commercial content is another area of strength and is key to our customers' digital engagement strategies. We added 90 new customers in the year and further expanded our leadership position.

Crossix ended the year with its second top 20 pharma committed to using Crossix analytics for all brands. While the advertising environment remains tough, causing slowing growth in the near-term, we are optimistic about long-term growth opportunities driven by new product innovations and our focus on enterprise-wide agreements.

Veeva Link ended the year strong with our fifth top 20 pharma selecting Veeva Link Key People for all therapeutic areas. Link Key Accounts and Link Workflow are growing with good early adopter customer engagement. Overall, Link is becoming a high leverage platform that will allow us to build a range of applications for real-time intelligence into the future.

I am very optimistic about what's ahead for Veeva Compass. We made great strides with the Compass Patient product this year, we're doubling down on resources focused in the data area, including a dedicated sales team for Compass, and the pipeline is growing. We're taking the right approach and time to deliver a better alternative to the legacy data provider and expect to release sales and prescriber data in early 2024.

Veeva Commercial Business Consulting had a record quarter and year. It's proving to be a very valuable service that leverages unique industrywide insights generated from Veeva product usage along with deep industry and product expertise. We have more than 180 people in Commercial Business Consulting today and are expanding into R&D.

R&D Solutions

The quarter and year were strong across the board for Veeva Development Cloud, which includes some of the most significant opportunities we see ahead.

Clinical operations grew to more than 470 Vault eTMF and 180 CTMS customers, which is also driving momentum in new areas including Veeva Site Connect and Study Training.

It was an outstanding year in clinical data management as well, led by Vault EDC. Six top 20 pharmas have now selected Vault EDC for all new clinical trials going forward. Three closed in Q4 alone. These major multi-year agreements will contribute significant revenue over time and our EDC success will help advance our other early clinical data products, including RTSM and ePRO.

Clinical is a very big growth area for us. With the applications we have announced, we are only about 30% penetrated by revenue in clinical operations and less than 5% penetrated in clinical data.

Quality is another very large market opportunity for Veeva. In the year, we added more than 160 new customers and saw continued growth across the Vault Quality Suite. Validation Management, an add-on to QualityDocs, is progressing well with early adopters. We are also working on the fundamentals of Vault LIMS, a large and transformational product for quality and expect to have early adopters in the second half of 2023. We are very excited about LIMS and what it means for our future.

We continue to expand in regulatory, adding over 60 new customers in the year and increasing adoption of our newest Vault RIM offering, Vault Publishing.

Veeva Vault Safety matured significantly, and our first top 20 pharma is live. This has set us on a great path and our sales pipeline is increasing.

Finally, we are tracking well to plan in our Consumer Products and MedTech segments and establishing a strong reputation for delivering customer success.

Looking Ahead

The macro conditions in which we operate remain stable and we have not seen any significant changes since our last earnings call.

We expect fiscal 2024 revenue to be between $2.35 and $2.36 billion, or roughly 10% growth. Normalizing for one-time impacts related to the standardization of termination for convenience rights (TFC) and foreign currency (FX), growth would be about 15%.

We are also providing our initial guidance for fiscal 2025 to give additional context to the one-time, TFC standardization impacts to fiscal 2024. We expect fiscal 2025 revenue of at least $2.8 billion, representing about 19% growth. Normalizing for TFC, our growth expectation for fiscal 2025 would be at least 15%.

We are building a highly durable, growth business for the long term. We are early in the significant industry cloud opportunity ahead and we have an exceptional product innovation engine to meet it. It’s this combination of opportunity and execution that positions us well for the future. We’re looking forward to meeting our $3 billion annual revenue run rate target a year ahead of plan and driving strong growth well beyond 2025.

Peter Gassner

Peter Gassner, Founder, CEO

Q4 Financial Update

Brent Bowman, CFO

Fiscal 2023 Fourth Quarter Performance

We closed the year strong with revenue performance and profitability above our guidance. Fourth quarter total revenue grew 16% year over year to $563 million with subscription revenue of $460 million, also growing 16% year over year. Non-GAAP operating income in the fourth quarter was $209 million, or 37% of revenue.

For fiscal 2023, total revenue of $2.16 billion grew 16% year over year. Subscription revenue of $1.73 billion grew 17% year over year. Non-GAAP operating income in fiscal 2023 was $830 million, or 39% of revenue.

The impact from foreign exchange (FX) was roughly in line with our expectations and created a revenue headwind of roughly $10 million in Q4 and about $35 million for fiscal 2023. FX created a modest headwind to non-GAAP operating income for Q4 and fiscal 2023.

Bookings in the fourth quarter were particularly strong in quality and clinical. Subscription revenue growth in Q4 was driven by our most established products.

Professional services revenue in Q4 was $103 million as we saw continued strength in R&D Solutions services and Veeva Business Consulting.

Q4 calculated billings were $926 million, up 15% year over year. Billings included a roughly $4 million tailwind related to changes in customer billing terms and an FX headwind of roughly $11 million, in line with our expectations.

Non-GAAP operating income came in above guidance at $209 million, driven largely by revenue outperformance in Q4. This included approximately $5 million of payroll tax expense related to CEO option exercises in the period that we previously excluded from our guidance.

Q4 was another good hiring quarter with 241 net new employees, in line with typical seasonality, and followed strong services hiring in the prior quarter.

Q4 had a non-GAAP operating cash outflow of $13 million, excluding roughly $76 million of excess tax benefit. The Q4 outflow included about $47 million in tax payments related to the capitalization of R&D expenses. Note that we previously excluded this tax impact from our non-GAAP operating cash flow guidance, but we will include it going forward. At the end of the quarter we had more than $3.1 billion of cash and short-term investments.

First Quarter and Fiscal 2024 Guidance Considerations

A number of key items factored into our guidance are important for consideration. We previously announced an expected revenue and operating income headwind related to standardizing our customer contracts to include termination for convenience (TFC) rights. We expect a roughly $95 million headwind related to TFC standardization in fiscal 2024: $60 million we previously discussed, $15 million from deals signed in Q4 of fiscal 2023, and $20 million related to multi-year ramping fee orders we anticipate signing in fiscal 2024. We anticipate about $52 million of the TFC impact to occur in Q1 of fiscal 2024.

As a reminder, TFC standardization impacts the timing of revenue recognition but is not expected to impact the total revenue contribution over the term of the orders. Further, we do not expect an impact to billings or cash flow.

Additionally, our previously announced inflation pricing adjustments are not expected to have a meaningful revenue contribution in fiscal 2024, as renewals reflecting this price increase are more heavily weighted toward the end of fiscal 2024.

Our guidance assumes current FX rates remain constant.

Guidance for First Quarter and Fiscal 2024

We expect total revenue between $514 and $516 million in Q1, with a year-over-year FX headwind of roughly $8 million, and subscription revenue of about $405 million.

We anticipate Q1 non-GAAP operating income of $141 to $143 million, including a modest headwind due to FX. Our non-GAAP operating income guidance reflects increased travel and event spend as well as ongoing investments in employees. Q1 also includes approximately $4 million of payroll tax expense related to CEO option exercises that took place early in Q1.

Non-GAAP earnings per share for Q1 is anticipated to be $0.79 to $0.80 based on a diluted share count of approximately 162 million shares. We forecast a non-GAAP tax rate at 21% for the fiscal year and continue to monitor the impact of any tax law changes.

Going forward, we plan to focus our billings commentary on normalized billings, which we define as calculated billings after adjusting for customer billing term changes. For Q1, we expect normalized billings of about $538 million. Q1 guidance reflects the impact of recent bookings that have increased the proportion of annual renewals expected in Q3 and Q4 versus Q1. FX is expected to have an immaterial impact on billings.

A reconciliation of normalized to calculated billings can be found in our supplemental investor presentation.

As a reminder, there are numerous factors that make year-over-year comparisons of normalized 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 and normalized billings guidance for the full year are better indicators of our momentum.

We are providing the following guidance for fiscal 2024:

- Total revenue of $2.35 billion to $2.36 billion, including a roughly $15 million FX headwind and the $95 million headwind related to TFC standardization;
- Subscription revenue of roughly $1.88 billion, consisting of
    - Commercial Solutions subscription revenue of roughly $972 million, and
    - R&D Solutions subscription revenue of roughly $908 million, including substantially all of the headwind related to TFC standardization;
- Non-GAAP operating income of roughly $800 million, including the $95M TFC headwind and a modest headwind from FX;

- Normalized billings of roughly $2.61 billion, which adjusts for an approximate $20 million headwind to calculated billings due to customer billing term changes. FX is expected to have an immaterial impact on billings. We expect roughly 42% of full year normalized billings to occur in Q4;
- Non-GAAP earnings per share is expected to be about $4.33 based on a fully diluted share count of approximately 163 million; and
- Non-GAAP cash flow from operations of about $810 million, which includes the impact of about $90 million of expected tax payments related to the capitalization of certain R&D expenses.

Initial Guidance for Fiscal 2025

We are providing initial guidance for fiscal 2025 to give additional context in light of the TFC impact in fiscal 2024. For fiscal 2025, our initial expectation is at least $2.8 billion in total revenue and at least $1.0 billion in non-GAAP operating income.

We closed fiscal 2023 with strong execution and I am enthusiastic about the opportunity ahead. Veeva continues to track a year ahead of our 2025 targets of a $3 billion revenue run-rate and delivering operating margin above 35%.

Brent Bowman, CFO