May 31, 2023

Q1 FY2024 Earnings Prepared Remarks

Peter Gassner, Founder & CEO
Brent Bowman, CFO

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 May 31, 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 issues related to the security or performance of our products, competitive factors, customer decisions and priorities, events that impact the life sciences industry, general macroeconomic and geopolitical events (including inflationary pressures, changes in interest rates, currency exchange fluctuations, and impacts related to Russia's invasion of Ukraine), and issues that impact our ability to hire, retain and adequately compensate talented employees. We have summarized what we believe are the principal risks to our business in a section titled "Summary of Risk Factors" on pages 9 and 10 in our filing on Form 10-K for the period ended January 31, 2023 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-K 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.

Q1 Business Update

Peter Gassner, Founder & CEO

Financial Results

We had a strong start to the year delivering results ahead of our guidance. Total revenue was $526 million, up 4% year over year. Non-GAAP operating income was $157 million, or 30% of total revenue. Normalizing for the one-time impact related to the standardization of termination for convenience (TFC) rights and foreign currency (FX), total revenue increased 16%. Normalizing for TFC, operating income was 36% of total revenue.

Long-term Partner to the Industry as a Public Benefit Corporation

Before we move to our updates for the quarter, I wanted to share an update about Veeva operating as a Public Benefit Corporation (PBC) now that we're two years in.

As a PBC, we have a legal duty to balance the interests of all stakeholders, including employees, customers, and investors. This is helping us forge deeper and more strategic customer relationships as customers have confidence that our interests are aligned with theirs for the long term.

This month we published our 2023 PBC Report detailing progress achieved on our PBC objectives and key decisions we made in the year that reflect our PBC purpose. I encourage you to take a look.

Being a PBC plays an important role in how we're building a company that will have a major impact on the industry for generations to come.

Commercial Solutions

It's been exciting times in commercial. We had our largest commercial event of the year, announced major innovations in our CRM and data areas, and had a solid quarter of new customer additions and expansions in Veeva Commercial Cloud.

In early May, we had nearly 2,000 people at North America Commercial Summit in Boston. It was incredibly energizing for our customers and the Veeva team. Customers are excited about the new innovations in Commercial Cloud, especially in CRM and Compass.

Our leadership position in core CRM expanded with 11 new SMB customers in the quarter, including a number of competitive wins and displacements. Our high win rates and momentum has remained strong since we announced in December that Veeva CRM is moving to the Vault Platform.

At Summit, we shared how Veeva CRM is further advancing with capabilities like Microsoft Outlook and Teams integration, which will drive efficiency in the field. The product team gave an excellent Vault CRM demo at the opening keynote, our first time showing it to a broad audience. It was a perfect way to kick off the event as it showcased the incredible progress the team has made and the thoughtful product approach we are taking.

Vault CRM will include the full functionality of Veeva CRM and more. It has the same data model and the same mobile apps as Veeva CRM, which will help make customer migrations as smooth as possible. And we announced two major new applications – Service Center and CRM Bot – that will be available over time with Vault CRM.

Service Center is an integrated call center application for inside sales teams and hybrid reps. It will be included at no additional cost to Vault CRM customers and can replace the third-party applications they currently use, providing a more integrated solution.

CRM Bot is an AI application for Vault CRM. You can think of it as ChatGPT for field teams. We will start by powering it with Veeva data, specifically Compass. We'll learn and evolve from there, with a focus on partnering with customers to get AI right for the industry.

Turning to data, Veeva Compass Patient is making steady progress. The product is maturing, we added five new customers in the quarter, and customer interest is increasing.

At Summit, we also announced Compass Prescriber and Compass National are planned for release in January 2024. They will provide prescription data projected at the prescriber, zip code, state, and national levels. The industry uses these data for HCP segmentation, targeting, incentive compensation, and market share analysis.

With Compass Patient, Prescriber, and National, we will have a full suite of commercial data products customers can use to replace IQVIA. Compass provides a modern patient-first approach to commercial data that's designed for how today's more complex medicines are delivered.

At next year's Summit we expect to have early customers live on both Vault CRM and the full Compass suite.

Overall, I am very pleased with our product strategy, direction, and momentum in Commercial Cloud and the significant innovation we are delivering for the industry.

R&D Solutions

In R&D, we continue to see broad-based adoption across Veeva Development Cloud, which represents a very large opportunity to power the industry's drug development processes. It was a great quarter across the board and newer products – like Vault Safety and Vault EDC – progressed well.

In safety, we added our second enterprise agreement with a top 20 pharma and are advancing several other enterprise opportunities. Safety is a very important and risk-averse area for life sciences. Our modern solution is displacing legacy incumbents and we are encouraged by how we're progressing the product and delivering on customer success.

On the clinical data management side, I am especially pleased with our speed and execution. In just six months, a top 20 pharma went live with Vault EDC for all new studies. That's extremely fast for a project of this size and importance. This is a testament to the readiness of the product, our services capabilities, and our customer relationships.

We also saw continued progress in clinical data management with enterprise and CRO opportunities. Customers appreciate the innovation we are bringing to the market and the tight integration with clinical operations.

I am increasingly confident we will become the market leader in clinical data over time.

Veeva Vault Quality had another strong quarter, adding 26 new customers. We had our eleventh Vault QMS win at a top 20 pharma and two enterprise pharmas selected both Vault QualityDocs and Vault QMS. Quality is a big opportunity for Veeva, and we are executing well by offering a unified quality suite that connects processes across systems, people, and partners.

Regulatory continues its steady growth as well, adding 20 new customers in the quarter.

Generative AI

There is a lot of excitement around generative AI, and rightfully so. It represents a fundamental technological shift that's advancing both software and hardware. Over time it will be a major disruptor and create some big winners and losers. There is also a lot of hype and some major unresolved questions around regulation and intellectual property rights.

Given the breadth and the nature of our industry cloud software, data, and services, AI will not be a major disruptor for our markets, rather it will be complementary and somewhat positive for Veeva in a few ways. We will develop focused AI applications where the technology is a good fit, such as CRM Bot for Vault CRM. The broadening use of AI will make our proprietary data assets, such as Link and Compass, more valuable over time because the data can be used in new ways. We will also make it easy for customers to connect their own AI applications with their Veeva applications, creating even more value from the Veeva ecosystem.

Looking Ahead

We've seen no significant change in the macro environment or customer sentiment since our last earnings call.

While the funding environment continues to put pressure on smaller customers and project scrutiny continues, we are executing well, and our competitive position and innovation engine are as strong as ever.

Times like these are long-term positives for companies like Veeva, as customers and employees appreciate the high-quality, profitable, and well-positioned business that we've built. We are executing well and are building a multi-product company that will last for generations.

Peter Gassner, Founder & CEO

Q1 Financial Update

Brent Bowman, CFO

Fiscal Year 2024 First Quarter Performance

We had a strong first quarter of execution with all financial results coming in above the high end of our guidance. Total revenue increased 4% year over year to $526 million. Subscription revenue was up 3% year over year to $415 million. Non-GAAP operating income was $157 million, or 30% of revenue.

Standardizing customer contracts to include termination for convenience (TFC) rights created a $51 million revenue and non-GAAP operating income headwind in the quarter, roughly consistent with expectations. The impact from foreign exchange (FX) was roughly in line with our expectations and created a revenue headwind of $7 million. FX also created a modest reduction to non-GAAP operating income.

Normalizing for the impact of TFC and FX, total revenue increased 16% and subscription revenue increased 17%. Non-GAAP operating margin, normalized for TFC, was about 36%.

Bookings performance and subscription revenue growth continued to be broad based across our R&D Solutions with clinical, quality, and regulatory all making significant contributions. In Commercial Solutions, subscription revenue growth was driven primarily by Vault Commercial, Veeva Link, and Crossix.

Professional services revenue in Q1 was $112 million and was driven by continued strength in R&D Solutions services and Veeva Business Consulting.

Normalized billings were $554 million, up 11% year over year. The outperformance compared to our guidance was in part driven by new business that had a greater proportion of annual billing terms than expected.

Recall, normalized billings reflect calculated billings adjusted for the impact of customer billing term changes. A reconciliation of normalized to calculated billings can be found in our supplemental investor presentation.

Our Q1 non-GAAP operating income came in above our guidance at $157 million, driven largely by the revenue outperformance in Q1. As expected, we have seen an increase in travel and event spend as we return to in-person field kickoffs and customer summits.

Q1 was another solid quarter of hiring in which we added 135 net employees. Note that Q1 is typically our seasonally lowest hiring quarter.

In Q1, non-GAAP cash flow from operations was $444 million, which excludes an excess tax benefit of about $62 million. At the end of the quarter we had more than $3.6 billion of cash and short-term investments.

Guidance for Second Quarter and Fiscal Year 2024

We have not seen a material change in the overall macroeconomic environment relating to customer buying behavior since our last guidance. Our guidance assumes no material change in the buying environment and that FX rates will remain at current levels.

For Q2, we expect total revenue between $580 and $582 million, with subscription revenue of about $465 million. This guidance includes an expected $17 million headwind from TFC standardization and a roughly $5 million headwind due to FX.

We anticipate Q2 non-GAAP operating income to be between $199 and $201 million. Our non-GAAP operating income guidance reflects increased travel and event spend as well as ongoing investments in employees. This guidance also includes the expected $17 million headwind from TFC standardization and a modest headwind due to FX.

Non-GAAP earnings per share for Q2 is anticipated to be between $1.12 and $1.13 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.

For Q2, we expect normalized billings of about $539 million, which reflects an anticipated $8 million headwind to calculated billings due to customer billing term changes.

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.

For the full year, we expect total revenue of $2.360 to $2.370 billion, an increase of $10 million from our prior guidance. This guidance continues to include the $95 million expected headwind related to TFC standardization and a roughly $15 million headwind from FX.

Subscription revenue for the fiscal year is projected to be about $1.890 billion, an increase of $10 million from our prior guidance. Our subscription revenue guidance consists of Commercial Solutions subscription revenue of roughly $980 million and R&D Solutions subscription revenue of roughly $910 million. Our full year revenue guidance attributes substantially all of the expected $95 million TFC headwind to R&D Solutions.

We project non-GAAP operating income for the fiscal year of approximately $810 million, an increase of $10 million from prior guidance. This increase is largely driven by the Q1 outperformance. This guidance continues to include the $95 million expected headwind related to TFC standardization and a modest headwind from FX.

Non-GAAP earnings per share for the fiscal year is expected to be approximately $4.59 based on a fully diluted share count of approximately 163 million.

We expect full year normalized billings to be about $2.615 billion, up 15% year over year, including an immaterial FX impact. For the full year, we expect about 41% of normalized billings to occur in Q4. We anticipate normalized billings to be roughly consistent with calculated billings for the full year, as we now expect the net impact from customer billing term changes to be immaterial.

We project fiscal 2024 non-GAAP cash flow from operations, which excludes excess tax benefit, to be about $840 million, an increase of $30 million from our prior guidance. This is driven by the increase in operating income and an expected increase in interest income.

Guidance for Fiscal 2025

As a reminder, we previously provided guidance for fiscal 2025 to give additional visibility on the momentum we see in the business in light of the TFC impact to our fiscal 2024 results. For fiscal 2025, we are reiterating expectations for at least $2.8 billion in total revenue and at least $1.0 billion in non-GAAP operating income.

In closing, Q1 was a strong quarter of execution, and I am excited about the opportunity ahead.

Brent Bowman, CFO