August 30, 2023

Q2 FY2024 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 August 30, 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 performance, security, or privacy 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, changes in applicable laws and regulations, 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 37 and 38 in our filing on Form 10-Q for the period ended April 30, 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-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.

Q2 Business Update

Peter Gassner, Founder & CEO

Financial Results

We had a strong Q2, delivering results ahead of our guidance. Total revenue was $590 million, up 10% year over year. Non-GAAP operating income was $212 million, or 36% of total revenue. Normalizing for the one-time impact related to the standardization of termination for convenience, total revenue increased 14%. Normalizing for TFC, operating income was 38% of total revenue.

Macroenvironment

The macro forces we've cited before are generally playing out as expected. We see continued project scrutiny across the board and the challenging funding environment is putting pressure on smaller companies. Some smaller companies have been acquired, sold assets, or ceased operations. As expected, these dynamics impact some of our smaller biotech customers using our R&D products. These factors continue to be included in our guidance.

Times like these are long-term positives for Veeva as organizations focus on deeper partnerships with high-quality, innovative leaders and on projects that improve core capabilities with a clear return on investment. Point solutions and speculative projects are not as attractive as they once were.

These dynamics also benefit our hiring as employees look to profitable and growing category leaders where they can do their best work.

Executing as a Multi-Product Company

Before we dive into the details of our product areas, I wanted to provide some insight into how I think about Veeva as a multi-product company and why I think that is significant.

Veeva has over 35 main products now, at different levels of maturity and market leadership. We have a well-defined operating model that helps us achieve product and market leadership in multiple areas. We have autonomy in the product areas, but also alignment as a company across our areas. This makes Veeva a very durable company. Our operating model is why we can be the leader in life sciences CRM for 10 years now, the clear new leader in clinical operations, the emerging leader in drug safety, and the glimmer of hope for a better future in very new areas, like Compass.

Our operating model, including how it evolves, is a special thing that Veeva has developed and is the underlying foundation of our long-term results.

Commercial Solutions

Our market leadership position in commercial further expanded in the quarter and we've made great strides for product excellence and innovation in CRM and data.

In core Veeva CRM, our win rates remain strong. We added eight new SMB customers in the second quarter as companies continue to partner with Veeva for commercial solutions.

Vault CRM is off to a strong start. We just signed our first early adopter, an oncology biotech that plans to go live in Q4 of calendar 2023. Vault CRM will be generally available in April 2024 and will be the go-forward product for all new customers at that point. Migrations from Veeva CRM for existing customers are on track to begin in 2025. Customers have until September 2030 to migrate, but we anticipate most migrations to take place from 2026 to 2028.

Moving to Vault CRM is a big effort for the commercial side of Veeva. From sales to product and services, it's a big effort. The team is organized and energized and has clear goals. We see a bright future in commercial, and a big part of that is getting our customers to Vault CRM which will be the next generation of CRM for life sciences and be one of the anchor products for our broader Commercial Cloud offering.

Moving into data, I am also very excited about our innovation path to better support the new models and medicines that are the future of the industry. Compass, Link, and OpenData are all great data products and they also fit together as an integrated data suite. No other company can offer this level of innovation and integration in data.

It's an especially exciting time for Compass. We added four new customers in the quarter for Compass Patient. We are very excited about Compass Prescriber and National coming in January, which will complete the Compass suite. So much work and innovation has gone into Compass Prescriber and National thanks to a great product team. In many ways Compass reminds me of the early days of CRM. It's hard to replace an incumbent, especially one like IQVIA who abuses their monopoly power. But by taking a path of true innovation, assembling a great team, and with focused execution, we have a chance to topple the giant. If we succeed, it is a great thing for the life sciences industry and for Veeva.

Overall, I am confident in our data strategy and the opportunity to deliver a positive impact for the industry and for patients.

Veeva Solutions in China

Before we move to R&D, some information on our business in China. Veeva has operated in China for more than 10 years with a great team that has developed deep customer relationships. China represents roughly 3% of our global revenue, which mostly comes from Veeva CRM sold to Chinese divisions of multinational customers. Chinese regulations have recently changed to now require approval for cross-border transfer of personal information and this covers information contained in Veeva CRM. As a result, for CRM deployments in China, over time some customers may be required to implement a solution that does not transfer data outside of China. We offer a CRM solution developed and hosted in China, called China SFA, that meets these new local requirements. Some of our Veeva CRM customers in China may implement China SFA or they may evaluate alternative solutions for China. This information has been factored into our guidance.

R&D Solutions

In the quarter, we saw broad-based adoption across Veeva Development Cloud and we advanced several major partnership opportunities with top 20 pharmas. Our momentum is strong and large enterprises are increasingly interested in using Veeva as their technology foundation for drug development in clinical, regulatory, and safety. They see the potential to streamline and improve operations and be more responsive to patients and clinical researchers.

In clinical operations, our momentum continues with CTMS and eTMF. It is early days for Study Training and Site Connect, but I am very optimistic there. We have a clear vision, great teams, and are making progress. We should achieve market leadership in these products over time if we execute well and focus on customer success. And these are large application areas. Study Training and Site Connect together can be similar in opportunity size to the combination of eTMF and CTMS.

In clinical data, we added eight new Vault EDC customers in the quarter. EDC represents a big opportunity for Veeva and the potential in clinical data extends well beyond EDC to include Veeva ePRO for electronic patient reported outcomes, and Veeva RTSM for randomization and trial supply management. Combined, ePRO and RTSM could be a bit larger than our core EDC opportunity over time. ePRO and RTSM are very early, and we have to execute well and focus on customer success to realize our vision of leadership for Veeva and improvement for the industry, but we are making great progress.

We had our first top 50 pharma select Veeva ePRO on an enterprise license agreement which is great news for the industry and patients. Patients get a great application to more easily manage and report health information via their own device. And it means higher quality data and more seamless data sharing between sponsors, sites, and patients. We look forward to working with this early adopter to refine and improve our ePRO product.

Veeva RTSM is an outstanding product and has an outstanding services delivery team. We continue to invest heavily here. We have over 70 people on the RTSM team, up from about 10 when we acquired Veracity Logic in December 2021. We had several new wins in Q2 and Veeva RTSM now has 35 customers, nearly 40 studies live, and more than 20 in development. There’s growing interest from CROs and sponsors of all sizes who see the benefit of a better product and better service delivery, as well as integration with the broader Veeva clinical platform.

In other areas of R&D, strength in quality continues and newer innovations are progressing well. We had 23 quality wins in the quarter and our first Vault LIMS early adopter went live. Safety had six wins and is seeing growing interest among enterprise accounts. In regulatory, our leadership expanded as we added 15 new customers.

Finally, we’re getting ready for Veeva R&D Summit in early September in Boston. Now more than 2,000 people, it’s where the industry gathers to see the latest advances and to learn and connect.

Overall, I am pleased with the execution against our vision for Veeva Development Cloud. It’s early days and we are less than 20% penetrated in our growing market opportunity. We are setting a course to become the foundation for drug development with a strong, expanding product portfolio, and deep, trusted partnerships built on customer success.

Looking Ahead

We have a bold vision to build the industry cloud for life sciences and we are executing well. Our strategic partnership with the industry is increasing and our innovation engine has us well positioned to deliver durable, profitable growth for many years ahead.

Peter Gassner

Peter Gassner, Founder & CEO

Q2 Financial Update

Brent Bowman, CFO

Fiscal Year 2024 Second Quarter Performance

We had another strong quarter of execution in Q2, delivering all financial results above the high end of our guidance. Total revenue increased 10% year over year to $590 million. Subscription revenue was up 10% year over year to $471 million. Non-GAAP operating income was $212 million, or 36% of revenue.

Standardizing customer contracts to include termination for convenience (TFC) rights created an $18 million revenue and non-GAAP operating income headwind in the quarter, roughly consistent with expectations. The impact from foreign exchange (FX) was also roughly in line with our expectations, resulting in a revenue headwind of $4 million and a modest reduction to non-GAAP operating income.

Normalizing for the impact of TFC and FX, total revenue increased 14% and subscription revenue increased 15%. Non-GAAP operating margin, normalized for TFC, was about 38%.

Bookings performance and subscription revenue growth were broad-based across our R&D Solutions. In Commercial Solutions, subscription revenue growth was driven primarily by Vault Commercial and Veeva Link.

Professional services revenue in Q2 was $120 million, driven by continued strength in R&D Solutions services and Veeva Business Consulting.

Normalized billings were $553 million, up 16% year over year. The outperformance compared to our guidance was primarily driven by deal timing, and to a lesser extent 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 term changes in renewal business. A reconciliation of normalized to calculated billings can be found in our supplemental investor presentation.

Our Q2 non-GAAP operating income came in above our guidance at $212 million, driven largely by the revenue outperformance in the quarter.

Q2 was another solid quarter of hiring in which we added 257 net employees.

In Q2, non-GAAP cash flow from operations was $262 million, which excluded an excess tax benefit of about $3 million. At the end of the quarter we had roughly $3.9 billion of cash and short-term investments.

Guidance for Third Quarter and Fiscal Year 2024

The macroenvironment is generally playing out as expected, and overall, we have not seen a material change relating to customer buying behavior since our last guidance. Our fiscal year 2024 guidance continues to reflect the impact of the challenging funding environment on some smaller companies and continuing project scrutiny. Our guidance also considers the changing regulatory environment in China as previously mentioned. We are assuming FX rates will remain at current levels.

For Q3, we expect total revenue between $614 and $616 million, with subscription revenue of about $493 million. This guidance includes an expected $12 million headwind from TFC standardization and an immaterial FX impact.

We anticipate Q3 non-GAAP operating income to be between $223 and $225 million. Our non-GAAP operating income guidance reflects continued investments in hiring and growth initiatives. This guidance also includes the expected $12 million headwind from TFC standardization and a modest headwind due to FX.

Non-GAAP earnings per share for Q3 is anticipated to be between $1.26 and $1.27 based on a fully diluted share count of approximately 164 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 Q3, we expect normalized billings of about $436 million. This guidance includes a roughly $7 million FX tailwind and an anticipated $8 million headwind to calculated billings due to billing term changes in customer renewals.

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 $2.365 to $2.370 billion, an increase of $5 million to the low end of our prior full-year guidance. This guidance continues to include an expected $95 million headwind related to TFC standardization and a roughly $12 million headwind from FX.

Subscription revenue for the fiscal year is projected to be about $1.895 billion, an increase of $5 million from our prior guidance. Our subscription revenue guidance consists of Commercial Solutions subscription revenue of roughly $985 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 expect professional services revenue for the fiscal year of $470 to $475 million, a decrease of $5 million to the high end of our prior full-year guidance.

We project non-GAAP operating income for the fiscal year of approximately $820 million, an increase of $10 million from prior guidance. This increase is largely driven by the Q2 outperformance. This guidance also includes the expected $95 million 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 $4.68 based on a fully diluted share count of approximately 163 million.

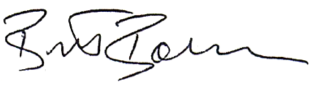
We expect full-year normalized billings to be about $2.615 billion, up 15% year over year, including an immaterial FX impact. We anticipate normalized billings to be roughly consistent with calculated billings for the full year, as we continue to expect the net impact from billing term changes in customer renewals to be negligible.

We project fiscal 2024 non-GAAP cash flow from operations, which excludes excess tax benefit, to be roughly $860 million, an increase of $20 million from our prior guidance. This is driven by the increase in operating income and higher expected 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, Q2 was another strong quarter of execution. Veeva is well positioned to deliver strong growth and profitability for many years ahead as we build the industry cloud for life sciences.



Brent Bowman, CFO