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Q2 FY2025 Earnings Prepared Remarks

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Tim Cabral, Interim CFO and Board Director

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 28, 2024, 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, availability, 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 and impacts related to Russia's invasion of Ukraine and the Israel-Hamas conflict), 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 35 and 36 in our filing on Form 10-Q for the period ended April 30, 2024 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 second quarter, delivering results ahead of guidance. Total revenue was $676 million, up 15% year over year. Normalizing for the one-time impact related to the standardization of termination for convenience rights, total revenue increased 12%. Non-GAAP operating income was $280 million, or 41% of total revenue.

Veeva Development Cloud

In R&D, we continue to see broad-based adoption across Veeva Development Cloud.

On the enterprise side, we had a significant win in the quarter with a top 20 biopharma that is very early in their Veeva journey with R&D. They started with Vault QMS three years ago and this quarter selected the full Vault RIM Suite for regulatory and Vault CTMS as their first clinical application.

This large biopharma is an innovator at their core. They like to lead and pride themselves in doing things differently where needed. They wanted to modernize their systems in regulatory and clinical and chose Veeva after a thorough evaluation because of our track record of customer success, product excellence, innovation, and the quality of our people. I consider this one of our most important recent wins because it speaks to our continued innovation not just in newer markets, but also in our core markets where we are the clear leader. We are off to a great start with the customer, focusing on speed and quality in the implementation.

On the other end of the customer size spectrum, for emerging biotechs with less than 200 employees, we released Vault Basics in April with eTMF, Submissions, QualityDocs, and Training. And in Q2 we already closed 12 early adopter customers. Vault Basics customers use our products and our industry standard processes. There is no implementation cost, ongoing configuration, or maintenance for the customer as we keep the processes up to date and provide resources for customers to learn and use our processes. This is fundamentally different and a significant innovation for the industry. We see potential to expand Vault Basics to other applications over time, including in the commercial area.

Clinical had a great Q2 overall. From a product perspective, a major release of Veeva Site Connect in August added significant capabilities, simplified the core product architecture, and improved the user experience and onboarding process for sites. I think Site Connect is going to be a hit product for Veeva and significantly improve the clinical trial process for sites and biopharma sponsors. We have strong sales momentum in Site Connect and our seventh top 20 biopharma selected Site Connect in the quarter.

Another significant clinical innovation is Veeva CDB, or Veeva Clinical Database. Seven of the top 20 biopharmas have selected CDB alongside Vault EDC. It's a real game changer because it streamlines and automates data collection from multiple sources and provides a central data cleaning environment. Two of our large CDB customers have reached a steady state where they are using CDB for most or all of their clinical trials, resulting in significant cost savings in data collection and cleaning. With powerful data science capabilities like Auto Checks, CDB reduces manual tasks and increases speed and efficiency.

Safety added six new customers in the quarter and had a top 20 biopharma select Vault Safety Workbench as an early adopter. Safety is a critical and complicated area and therefore somewhat resistant to change. It is still largely served by on-premise applications from legacy providers. We are delivering an innovative safety suite in the cloud with Safety Workbench and Safety Signal, joining our core Safety and SafetyDocs applications. We are the innovation leader and are confident we will be the market leader in Safety over time, but we know achieving market share leadership will take a number of years.

In Quality, we had 25 customer wins in the quarter, including a top 20 biopharma that selected their first Quality applications.

We have a strong and compelling vision in R&D and a significant opportunity ahead.

Veeva Commercial Cloud

We added 14 new Vault CRM customers in the quarter and reached another important milestone with the release of Vault CRM Service Center. Early adopters for Service Center are expected to go live in early 2025. Campaign Manager is also on track for planned availability in December.

Vault CRM, Service Center, and Campaign Manager form the core of the Vault CRM Suite, an industry-specific suite of cloud applications that brings together sales, marketing, medical, and service to enable true customer centricity. This means customer-facing teams can work seamlessly using the same customer data, content, processes, and customer preferences to provide a better customer experience.

We are looking ahead to the next release of Vault CRM at the end of 2024, which will have the full functionality of Veeva CRM and more. Veeva CRM migrations will begin for smaller customers in Q4 this year. We have some of our larger customers planning to start their migration programs in early 2025. We expect our first large global top 20 biopharma to complete their migration to Vault CRM by the end of 2025.

Vault CRM is going well and according to plan. This reflects a disciplined plan and focused execution. Thanks to our customers and the Veeva team for this outstanding progress.

Crossix also had another strong quarter with great execution across the board. We had a number of brand expansions, new customer adds, and continued share gains with Crossix Audiences.

Veeva Data Cloud

Our vision to modernize data for the life sciences industry is resonating. Veeva Data Cloud products are providing a lot of value for early customers and represent another large long-term opportunity for Veeva.

In the quarter, Veeva Link Key People further extended its leadership, including another top 20 biopharma win. The new Link products, Link Workflow, Link Medical Insights, and Link Key Accounts, are in the early adopter phase but are gaining momentum as the products mature.

In Compass, eight new customers across 15 new brands selected Compass Patient in the quarter. Interest in our newer projected data products, Compass Prescriber and Compass National, continues to increase.

Progressing our AI Strategy

When groundbreaking technology like GenAI is first released, it takes time for things to settle and become clearer. That's starting to happen now. Customers have appreciated our taking the long view on AI and our orientation to tangible value rather than hype.

In Q2, our first early customers started using the Vault Direct Data API to power AI and other use cases. The ability to retrieve data 100 times faster than traditional APIs is a major software platform innovation and will be a big enabler of AI that uses data from Vault applications.

Our AI Partner Program is also progressing well. We now have more than 10 AI partners supporting roughly 30 use cases across R&D and Commercial. We also continue to explore additional AI application opportunities beyond our current AI solutions.

Great Execution Against a Large Opportunity

In all, it was an excellent quarter. We have a clear product strategy and are executing well on our vision to build the industry cloud for life sciences. This has us well positioned to help the industry become more efficient and effective and deliver profitable growth through 2030 and beyond.

Peter Gassner, Founder & CEO

Q2 Financial Update

Tim Cabral, Interim CFO and Board Director

Fiscal Year 2025 Second Quarter Performance

We had another quarter of strong execution in Q2, delivering revenue and profitability ahead of guidance. Total revenue grew 15% year over year to $676 million with subscription revenue of $561 million, growing 19% year over year. Normalizing for the estimated impact of termination for convenience (TFC), total revenue increased about 12% and subscription revenue increased about 15% in Q2. Non-GAAP operating income in Q2 was $280 million, or 41% of revenue.

As a reminder, customer contracts were standardized to include TFC rights effective February 1, 2023, which created a one-time impact to revenue in fiscal 2024. The normalized fiscal 2025 growth rates reflect our reported revenue compared to our estimated fiscal 2024 revenue had TFC rights always been in place. We view these normalized growth rates as a better reflection of the underlying momentum of the business.

The impact from foreign exchange (FX) was also roughly in line with our expectations, resulting in an immaterial impact on all financial metrics in the quarter.

Subscription revenue growth in Q2 was broad-based across our R&D Solutions. In Commercial Solutions, subscription revenue growth was driven primarily by Crossix and Vault Commercial.

Professional services revenue in Q2 declined 4% year over year to $115 million, in line with the high end of our guidance, as a decline in core professional services was partially offset by continued strength in Business Consulting.

Q2 normalized billings were $617 million, up 11% year over year. The outperformance compared to guidance was primarily driven by better-than-expected new bookings. Recall, normalized billings reflect calculated billings adjusted for the impact of customer term changes in our renewal business. A reconciliation of normalized to calculated billings can be found in our supplemental investor presentation.

Q2 non-GAAP operating income was $280 million, ahead of guidance due to both revenue outperformance and expense discipline.

Net headcount increased by 43 in the quarter. In Q2, non-GAAP cash flow from operations was $92 million, which excluded an excess tax benefit of about $1 million. At the end of the quarter we had roughly $4.9 billion of cash and short-term investments.

Guidance for Third Quarter and Fiscal 2025

We saw no significant change to the macroeconomic environment in Q2, and our guidance assumes conditions remain stable. We also assume FX rates stay at current levels, the impact from which is unchanged compared to prior guidance.

For Q3, we expect total revenue between $682 and $685 million, which represents growth of about 9% when normalized for the estimated impact of TFC standardization in fiscal 2024.

We anticipate subscription revenue of about $571 million in Q3. This represents growth of about 13% when normalized for the estimated impact of TFC standardization in fiscal 2024.

We expect Q3 non-GAAP operating income of $273 to $275 million, implying a non-GAAP operating margin of about 40%.

Non-GAAP earnings per share for Q3 is anticipated to be $1.57 to $1.58 based on a fully diluted share count of approximately 165 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 normalized billings of about $449 million in Q3. This guidance includes an expected $10 million tailwind 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. Full-year normalized billings and subscription revenue guidance are better indicators.

For the full year, we expect total revenue of $2.704 to $2.710 billion, representing growth of about 11% when normalized for the estimated impact of TFC standardization in fiscal 2024.

Subscription revenue for the fiscal year is expected to be about $2.257 billion, an increase of $12 million from our prior guidance. This represents growth of about 14% when normalized for the estimated impact of TFC standardization in fiscal 2024.

Our subscription revenue guidance consists of Commercial Solutions subscription revenue of roughly $1.090 billion, an increase reflecting continued strong execution and anticipated demand for both established and newer solutions. For R&D Solutions, we are modestly increasing our full-year subscription revenue guidance to about $1.167 billion.

We expect professional services revenue for the fiscal year of $447 to $453 million, a decrease of $12 million from the high end of our prior guidance. The decrease primarily reflects the timing of certain services projects as well as a few customers contracting directly with third-party vendors to whom Veeva normally subcontracts for data migration work.

We are increasing our non-GAAP operating income guidance for the fiscal year by $10 million to about $1.080 billion, reflecting continued operating expense discipline and focused hiring across the company.

Non-GAAP earnings per share for the fiscal year is expected to be approximately $6.22 based on a fully diluted share count of approximately 165 million.

We expect full-year normalized billings to be about $2.880 billion, an increase of $15 million from our prior guidance, primarily reflecting strong performance in Q2, partially offset by our reduced services outlook. The guidance is adjusted for an expected $15 million tailwind to calculated billings due to customer billing term changes, slightly higher than prior guidance reflecting new term changes in Q2.

We expect fiscal 2025 non-GAAP cash flow from operations, which excludes excess tax benefit, to be about $1.030 billion, an increase of $20 million from prior guidance. This is primarily driven by the increase to expected non-GAAP operating income.

Overall, our focus on execution and customer success continues to pay off, as we delivered strong financial results and advanced Veeva's position as a strategic partner to the life sciences industry in the quarter. We remain on track to hit our revenue run-rate target of $3 billion in calendar 2025 and are well-positioned to deliver durable growth for years to come.

Tim Cabral, Interim CFO and Board Director