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ChannelAdvisor Corp. (ECOM)

Q2 2022 Earnings Call

CORPORATE PARTICIPANTS

Raiford Garrabrant
Director-Investor Relations, ChannelAdvisor Corp.

David J. Spitz
Chief Executive Officer & Director, ChannelAdvisor Corp.

Elizabeth Segovia
Chief Operating Officer, ChannelAdvisor Corp.

Richard F. Cornetta
Chief Financial Officer, ChannelAdvisor Corp.

OTHER PARTICIPANTS

Joshua Reilly
Analyst, Needham & Co. LLC

Colin Alan Sebastian
Analyst, Robert W. Baird & Co., Inc.

Zach Cummins
Analyst, B. Riley Securities, Inc.

Matthew Pfau
Analyst, William Blair & Co. LLC

Victoria James
Analyst, D.A. Davidson Companies

MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the ChannelAdvisor's Second Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference call is being recorded.

I would now like to hand the conference over to your speaker today, Raiford Garrabrant, Head of Investor Relations. Please go ahead.

Raiford Garrabrant
Director-Investor Relations, ChannelAdvisor Corp.

Thank you, Jose and good morning, everyone. Welcome to ChannelAdvisor's conference call for the second quarter of 2022.

With me on the call today are David Spitz, ChannelAdvisor's Chief Executive Officer; Beth Segovia, ChannelAdvisor's Chief Operating Officer; and Rich Cornetta, ChannelAdvisor's Chief Financial Officer.

This morning we issued a press release with details on our second quarter 2022 performance as well as our outlook for the third quarter and full year 2022. This press release can be accessed on the Investor Relations section of our website at ir.channeladvisor.com. In addition, this call is being recorded and a replay will be available after the conclusion of the call.

During today's call, we will make statements related to our business that may be considered forward-looking under federal securities laws. These statements reflect our views only as of today and should not be considered representative of our views as of any subsequent date. We disclaim any obligation to update any forward-looking statements or outlook.

These statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from expectations. These risks are summarized in the press release that we issued today. For a further discussion of the material risks and other important factors that could affect our actual results, please refer to those contained in our most recent Form 10-K as well as our other filings which are available on SEC website at sec.gov.

During the course of today's call, we will refer to certain non-GAAP financial measures, all of which are reconciled in the press release that we issued today. We also provide a GAAP to non-GAAP reconciliation schedule in our supplemental financial presentation posted on the Investor Relations section of our website.

Finally, at times in our prepared comments or responses to analyst's questions, we may offer metrics that are incremental to our usual presentation to provide greater insight into the dynamics of our business or our quarterly results. Please be advised that we may or may not continue to provide this additional detail in the future.

With that, let me turn the call over to David.

David J. Spitz

Chief Executive Officer & Director, ChannelAdvisor Corp.

Thanks, Raiford. Despite the backdrop of slower e-commerce growth, high consumer inflation and macro uncertainty, we delivered another good quarter in Q2 with solid revenue growth and adjusted EBITDA that again exceeded the high end of our guidance range. These results demonstrate the resilience of our subscription based revenue model and brands focused strategy.

Although the macro environment is more challenging, we remain optimistic regarding our long term prospects. For that reason, we were pleased to be able to return some of our surplus capital to our shareholders during the second quarter, retiring about 6% of our shares outstanding through our previously authorized share buyback. And in a sign of continued confidence, our board also authorized an additional $25 million in potential share repurchases, which we will deploy if and when we feel our free cash flow yield presents an attractive opportunity as part of our capital allocation strategy.

Now I'd like to walk through a few of the highlights from the quarter. First, our focus on brands continued to pay off with second quarter revenue from brands up 25%, excluding currency impacts. Even more impressive, brand subscription revenue increased 32% net of currency impacts. This represents roughly half of our subscription revenue, an all-time high. And we're getting closer to the point where the majority of our total revenues will come from brands. Because brands offer greater potential for expansion, we believe the strong unit economics we've enjoyed with brands will continue to benefit our results as they grow to represent a higher percentage of our business.

Second, our strong overall subscription revenue growth helped us achieve total revenue above the midpoint of our guidance range, despite slow e-commerce growth and a more challenging macro environment. We continue to expect our year-on-year revenue growth to improve in the back half of the year starting in Q3 as we finish lapping this tough year-on-year comparisons and variable revenue, although our revenue growth outlook has been tampered by the impact of foreign currency rates.

Third, we've continued to deliver strong value to our customers through ongoing investments in our platform. Our expanding breadth of supported channels has continued to differentiate us, and that's why we maintained our rapid pace of channel expansion in Q2 and we now support over 350 channels globally.

Long tail GMV in aggregate was again larger than eBay and Walmart for us, second only to Amazon and again grew much faster than all three. In addition to channel expansion, we continued to broaden our capabilities in the fast growing area of retail media by launching an integration with Criteo. Beth will elaborate on this and some of the other product innovations we've recently rolled out in a moment.

Fourth, our disciplined approach to managing the business resulted in an adjusted EBITDA well above the high end of our guidance range and good cash generation. For the first half of the year, free cash flow exceeded $10 million, and while we continue to evaluate opportunities to liquidate our excess capital, we remain committed to a financially disciplined approach and focus on opportunities where we believe the potential returns align with our objectives.

Since Amazon Prime Day was held recently, we realize there's a lot of interest regarding the trends we saw across categories and how it translated to GMV for ChannelAdvisor. Overall, while inflation is on everyone's mind and industry expectations were somewhat muted coming into the event, our data suggests consumers are still spending even in non-essential discretionary categories.

Total GMV growth was solid led by categories such as baby, clothing, shoes and accessories, home and garden, and computers and networking. The performance was consistent with our expectations and supports our view of normalizing variable revenue in the second half of 2022.

Lastly, I'm very proud to share that we recently announced a winner of the Triangle Business Journal's 2022 Best Places to Work Award. This is particularly rewarding, because it's our eighth time winning and reflects how deeply we care about our employee experience. It's especially sweet to be a repeat winner as we adapt to a new normal that has challenged all of us.

To all of our teammates, thank you and with that, I'll turn it over to Beth.

Elizabeth Segovia

Chief Operating Officer, ChannelAdvisor Corp.

Thank you, David and good morning, everyone. Enabling brands to accelerate digital transformation and achieve their e-commerce objectives remains our priority. We do this by helping our customers connect, market, sell, fulfill and optimize their e-commerce operations to reach more consumers across every stage of their buying journey. The world of multi-channel commerce is constantly evolving and never rests, which is why we're innovating like never before to help our customers to keep pace.

The momentum continued to build in Q2, with progress made in releasing new product capabilities, access to more channels, gaining further industry recognition and earning accolades as an employer, whether it be our exciting new retail media partnership with Criteo, achieving the distinction of being named an Amazon Ads Advanced Partner or winning recognition as one of the best places to work in the Research Triangle area for the eighth time. There's a lot to feel good about. Now I'd like to walk you through this in a little more detail.

One way that multi-channel commerce has evolved rapidly is the proliferation of channels where consumers shop online. To help our customers capitalize, we've been building on our leadership position through rapid channel expansion. With the addition of over 20 new integrations in Q2, ChannelAdvisor now supports well over 350 channels.

New channels added include Bed, Bath & Beyond in the US and Canada, Poshmark in the US, Trendyol in Germany and Shopee in seven Southeast Asian countries. The Shopee integration is particularly exciting given the strong demand we've seen for greater access to the Asia Pacific market. Another way that multi-channel commerce is evolving rapidly is in the area of retail media. With retail media, we're witnessing a refragmentation of digital marketing and with that complexity comes the need to help advertisers streamline and optimize advertising campaigns across sites from a single platform, which is exactly what ChannelAdvisor's platform delivers.

Our new integration with a Criteo Retail Media API allows brand advertisers to effectively reach new high intent shoppers by managing and optimizing their retail media campaigns across even more leading retailers. This is a fast growing area for us, and in fact we now manage more retail media ad spend across sites like Amazon, eBay and Walmart than Google AdSense, something unthinkable just a few years ago.

That helps explain why we were recently named an Amazon Ads Advanced Partner. Advanced partner status is granted to firms that have demonstrated experience across the breadth of Amazon ads capabilities and delivered results for advertisers. Advanced partners are in the top 5% of partner led investments by country for sponsored ads, and we now qualify for added benefits, including access to select beta program, tailored training on campaign strategies and new product releases.

Continuous product innovations like these have contributed to cementing our position as the leading multi-channel commerce platform. To see a case study that ties this all together, please visit our website to learn more about our customer Lexington Company, the Nordic lifestyle brand. Lexington was interested in leveraging marketplaces to drive growth and new partnerships, but they didn't want to engage channels directly due to the added complexity and time.

So they turned to ChannelAdvisor. Lexington initially launched on Amazon La Redoute and Zalando extending from 1 to 19 markets in just two years. With help and automation from ChannelAdvisor, Lexington says it can now focus on its core business functions like products and sales instead of spending time on error resolution, mapping and feeds.

By entering marketplaces with support from ChannelAdvisor, Lexington states that it has seen tremendous results, particularly on peak days. Between 2020 and 2021, they experienced an 83% increase in net sales and 400% growth on Black Friday, a terrific example of the power of marketplaces.

Our strategy to land and expand with brands was further demonstrated with successes in Q2. We signed new customers such as Brown-Forman, John Paul Mitchell Systems and McCormick Foods, and our teams grew our business with existing customers like Chanel, Hugo Boss and Bushnell.

To summarize, we have the platform of partners and people to enable success for our customers. We never rest as we continue to lead numerous initiatives to keep the momentum going. By empowering brands to reach new customers, promote their product offerings, and streamline operations globally, ChannelAdvisor continues to be well positioned to capitalize on the positive long term trends in our industry.

With that, I'll pass it to Rich now to provide a more detailed update on our financial performance. Rich?

Richard F. Cornetta

Chief Financial Officer, ChannelAdvisor Corp.

Thank you, Beth, and good morning, everyone. I'm pleased to report that our results for the second quarter of 2022 were better than expected with revenue above the midpoint of our guidance range. Subscription revenue growth of 16% on a constant currency basis and adjusted EBITDA that exceeded the high end of the guidance range, while continuing to achieve strong cash from operations and healthy margins.

So, let's get into the details for Q2. Total revenue reached $42.8 million in the second quarter, up 3% year-over-year, or more than 6%, excluding the negative effects of the stronger dollar. Growth was driven by subscription revenue performance, which increased 13% year-over-year and as mentioned earlier, 16% excluding the currency impact to another record at $36.1 million. And variable revenue of $6.7 million, demonstrated stability during a volatile market for consumers as it was similar to Q1 levels and in line with what we factored into our Q2 outlook.

Earlier David, provided some details on the continued strength of our brands' cohort with total revenue up 20% year-over-year or 25%, excluding the currency impact to $19.1 million. We also recognized record brand subscription revenue growing 27% year-over-year or 32% on a constant currency basis to $17.8 million.

Brand subscription revenue represented more than 49% of our total subscription revenue in Q2, also a new record, and this represents an increase of roughly 500 basis points from the prior year period. Brand's customer count now exceeding 1,000, an average revenue for brands customer continued to increase throughout the quarter, and our strong revenue retention is driven by the strategic cohort of customers.

Our fastest growing revenue cohort continues to be customers with ARR greater than $100,000, and these customers represent the majority of our ARR. We also reached another milestone in Q2 with brands ARR surpassing retailer ARR for the very first time.

Now moving on to adjusted EBITDA. We finished Q2 at $8.4 million, well ahead of the high end of our outlook of $7.6 million, generating an adjusted EBITDA margin of 20%. The adjusted EBITDA out performance was driven by OpEx discipline even as we brought on additional sales reps and continued the momentum in product innovation.

With sales capacity at appropriate levels and the products and services team executing well, we target OpEx growth to begin moderating in the back half of the year. This should leave us well-positioned to achieve our objective of balanced growth over our long term financial model.

As mentioned earlier, we had another good quarter of cash generation during Q2. Operating and free cash flow remained very healthy again in the quarter, coming in at $5.8 million and $4.6 million respectively. And on a trailing 12-month basis, we have generated cash from operations of over $30 million and free cash flow of over $24 million.

As David mentioned earlier, given our view that ChannelAdvisor shares represented good value, we took the opportunity to return some of our surplus capital to shareholders during Q2 and repurchased 1.8 million shares for $25 million at an average price of $13.67. This completed the buyback authorization approved by our board last August, and a new $25 million buyback authorization was put in place, that expires in June of 2023.

Even after utilizing $25 million of our cash for the buyback, we ended Q2 with $84 million in cash and no debt, highlighting the fact that our balance sheet remains very strong.

Now, on to our financial outlook. For the third quarter of 2022, we are providing a revenue outlook range of between $43.4 million and $43.8 million and an adjusted EBITDA range of between $8.1 million and $8.5 million. As we've discussed, the strengthening of the US dollar has had a meaningful impact on our revenue growth and exchange rates continue to be volatile.

Similar to Q2, currency is expected to impact our year-over-year growth rate for Q3 by approximately 3 percentage points. We expect subscription revenue growth for Q3 to be in the low double digits on a constant currency basis. This represents a lower growth rate than our full year guide due to a difficult comp versus Q3 of last year, where higher than typical number of launches drove a higher than typical release of deferred revenue.

We expect subscription revenue growth to return to the low to mid-teens in Q4, again, dependent on currency. As for variable revenue, we anticipate Q3 to be similar to Q2, consistent with the normalization trend we mentioned last quarter. We believe this past quarter was the low point for revenue growth this year. And we have finally lapped the effects of COVID and stimulus tailwinds from last year.

Given the continued headwinds driven by foreign currency coupled with uncertain macro conditions, we are modestly reducing the high end of our revenue outlook for the full year. However, despite this reduction, our revenue outlook, adjusted for constant-currency exceeds consensus for Q3 and the full year. We now target revenue to be in the range of $177 million to $179 million for the full year of 2022.

We anticipate full year subscription revenue growth to be in the low-to-mid-teens dependent on currency. As for adjusted EBITDA, we are reaffirming our full year adjusted EBITDA outlook to be in the range of $37 million to $39 million.

So, in closing, our focus remains on our capital allocation framework, which emphasizes generating returns on our invested capital above our cost of capital. Over the last two plus years, we have prioritized investing for growth through sales and services resources and product enhancements.

We also completed an acquisition to enhance our platform capabilities for brands and more recently, as mentioned earlier, repurchased our common stock at what we believe to be an attractive price. We believe these actions, along with our brand strategy position us well towards achieving our long-term targets and increasing shareholder value.

With that operator, we'd like to now open the call to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will conduct the question-and-answer session. [Operator Instructions] Our first question is going to be from Joshua Reilly with Needham. Joshua, your line is open.

Joshua Reilly
Analyst, Needham & Co. LLC

Q

Hey, guys, thanks for taking my questions and nice execution here in the quarter. Maybe starting off with probably one of the questions everybody is thinking about. How should we think about the puts and takes on e-commerce GMV in the market right now? You know it seems that Amazon's third party GMV outperformed a bit better than expectations here in the second quarter. And then – but then we've also seen some profit warnings from Zalando, which, as we all know, is exposed to Europe. So what are you seeing right now there?

David J. Spitz
Chief Executive Officer & Director, ChannelAdvisor Corp.

A

Hey, Josh, I would say overall pretty, pretty stable trends on GMV. I would characterize Amazon as continuing to be a juggernaut and a strong channel for us, as you would expect. Zalando also continues to perform well for us. So, a logical conclusion is that we're probably gaining continued share of Zalando GMV relative to their overall performance.

They've been great partner of ours. We work really closely with them. I think they like it when we're involved. We tend to drive faster and higher quality integrations with their brand customers. And that leads to a better overall consumer experience.

So, it's been a productive partnership. And I expect it'll continue to be so. So, I would characterize overall GMV as stable in the quarter. Obviously, there's a lot of noise from currency, which is just a reality. But I'd say overall consumer seems fairly resilient just given the inflationary environment. So, it'll be super interesting to see how the next couple of quarters play out.

Joshua Reilly
Analyst, Needham & Co. LLC

Q

Great. And then with Prime Day in July this year versus the June quarter last year, how much of an impact does that have on variable revenue year-over-year here in the third quarter, which is potentially offsetting some of the lower just general e-commerce trends?

David J. Spitz
Chief Executive Officer & Director, ChannelAdvisor Corp.

A

It really doesn't have that much of an impact. It's a couple of days total out of the quarter and we saw solid strong performance out of Prime Day. But given that it's literally just a couple of days and it's a portion of our GMV and it's really spread across the entire quarter, I would say it's not something that has a significant impact on variable revenue.

Joshua Reilly
Analyst, Needham & Co. LLC

Q

Got it. Thank you, guys.

David J. Spitz
Chief Executive Officer & Director, ChannelAdvisor Corp.

A

Thanks, Josh.

Operator: Thank you. Please stand by for our next question. Our next question comes from Colin Sebastian with Baird. Your line is open.

Colin Alan Sebastian
Analyst, Robert W. Baird & Co., Inc.

Q

Thanks, and good morning, everybody. Good quarter. I guess first I just wanted to drill down a little bit on the retail media segment. Obviously, you made the announcement with respect to Criteo and the Amazon advertising, you've achieved that nice partner status there as well. So, putting that into more context for us, how incremental is this in terms of whether you look at it as a take rate or as additional subscription opportunity? And is this something that can be a meaningful portion of that revenue growth as you look out the next two to three years and I have a follow-up. Thanks.

David J. Spitz
Chief Executive Officer & Director, ChannelAdvisor Corp.

A

Hey, Colin. Yeah, I think it's not unlike our channel expansion strategy with marketplaces. So, this opens up what has already been a pretty fast growing area for us in retail media and significantly expands the size of the network of retailers that we can help our customers advertise on.

So, it's a fairly recent partnership and integration. So, I think it's probably too early to call the ball on it per se. But, our significant channel expansion on the marketplace side has been a huge differentiator for us and it's helped us win customers. And so, I would expect on the retail media side, it should be a positive impact for us.

Colin Alan Sebastian
Analyst, Robert W. Baird & Co., Inc.

Q

All right. And then a bigger picture question, I think on the follow-up. I mean a lot of moving parts and changes in the kind of industry. And I mean, if you look out towards your 2025 goals, balancing everything that's within your control and those macro and industry factors that are out of your control, how should we think about the implied acceleration in revenue growth? I mean, obviously, there is a shift towards brands, so. But beyond that, what are the levers you pull there and how might that impact profitability in the medium term, as you execute on that acceleration? Thanks.

David J. Spitz
Chief Executive Officer & Director, ChannelAdvisor Corp.

A

Yeah, I think there's a couple of key levers in there that are more in our control. I mean, obviously, things like currency, it's unpredictable and try not to spend too much time thinking about that. But I would say sales capacity, which was a challenge for us at the beginning of the year and a gap that we had largely closed by the middle of or by the end of Q2, that's an important input into our overall ability to generate bookings and ultimately revenue growth.

And so we just have to continue to execute on that. I will say related to that that we've seen employee retention improve over the last few months. Like a lot of tech companies, we saw higher than normal attrition towards the end of 2021 and at the beginning of 2022. And that feels like it's moderated and kind of come back down to normal levels, which makes it easier to kind of maintain the staffing levels that we want.

So, sales capacity is important and then you touched on customer mix, which I think is also important. The fastest growing cohort of customers for us is customers with over $100,000 in ARR. They tend to have superior retention characteristics and assuming we can continue to drive that favorable improvement in customer mix, that should yield either a stronger revenue growth or give us the opportunity to maintain a certain growth rate and maybe put a little bit more on the bottom line and invest a little bit less in sales and marketing to drive the same growth rate.

So those are probably the two things that I think are important and most under our control. Beyond that, from an industry evolution perspective, I think we remain in a pretty fertile environment in the sense that we see actually increasing fragmentation of e-commerce channels, which creates complexity, which ultimately means that we create more value for our customers. COVID kind of notwithstanding, we see continued share of wallet gains of e-commerce over the next few years. I don't think it's going to kind of stop where it is and just stay flat. I think it's going to continue to grow. So I think as long as we execute on product innovation, as long as we execute on capacity and continue to focus on the right kinds of customers, I think we should be able to continue to drive good revenue growth and as you point out, a hopefully faster revenue growth as we get closer to 25%.

Richard F. Cornetta
Chief Financial Officer, ChannelAdvisor Corp.

A

And Colin, further on the bottom line, we've proven that we've been able to manage expenses through any sort of environment and we reaffirmed our EBITDA outlook for the full year of this year. We continue to manage discretionary spend, make decisions that are looking for the future in support of revenue growth, but also understanding that there's flexibility in our expense profile and we'll continue to manage that.

Colin Alan Sebastian
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thank you very much.

David J. Spitz
Chief Executive Officer & Director, ChannelAdvisor Corp.

A

Thanks, Colin.

Operator: Thank you. Please hold for our next question. Our next question is from Zach Cummins with B. Riley Securities. Zach, your line is open.

Zach Cummins
Analyst, B. Riley Securities, Inc.

Q

Hi. Good morning, everyone. Thanks for taking my questions. David, just given the current environment, have you seen any elongation in sales cycles with some of your brands customers?

David J. Spitz
Chief Executive Officer & Director, ChannelAdvisor Corp.

A

Hey, Zach. Yeah, I'd say sales pacing has moderated a bit in the last few weeks. I think that there's a fair amount of macro uncertainty and so I think everybody is taking a little bit of a breather in trying to assess what the back half of the year looks like for them. So I wouldn't say it was entirely unexpected. The urgency that we saw in the last couple of years, especially when traditional retail channels were shut down or you had lockdown type of orders, drove a particular kind of urgency.

So, we don't quite have that at our back like we used to. But I don't expect this to go on forever. I expect as we go through the back half of the year, I actually anticipate some improving macro conditions, so. But I would say – yeah, I would say we've seen some moderation in pace. Pipelines are really strong. So pipeline continues to be good. It's just I think pace that's been a little bit softer over the last few weeks.

Zach Cummins
Analyst, B. Riley Securities, Inc.

Q

Understood. And another question for me, Rich. What sort of assumptions are being made on the variable revenue line in the second half of this year and any sort of insight into kind of relative GMV assumptions that you're making?

Richard F. Cornetta
Chief Financial Officer, ChannelAdvisor Corp.

A

Yeah. As we've mentioned and David mentioned earlier, we've seen GMV moderate more recently. And we built in that moderation into our remainder of year forecast. We expect Q3 to be similar to Q2. Obviously with the seasonality of our business, you should see a pop in Q4 with variable revenue, but we've always said longer term is that with our focus on brands, variable revenue will become less of a contributing factor to our top line. Subscription revenue will continue to grow with our brands focus and variable revenue over time, potentially could drop below the levels that we're seeing now over the long-term model.

Zach Cummins
Analyst, B. Riley Securities, Inc.

Q

Understood. Well, thanks for taking my questions and best of luck in the coming quarter.

David J. Spitz
Chief Executive Officer & Director, ChannelAdvisor Corp.

A

Thanks, Zach.

Operator: Please stand by for the next question. Our next question is going to be from Matthew Pfau with William Blair. Matthew, your line is open.

Matthew Pfau
Analyst, William Blair & Co. LLC

Q

Great. Thanks for taking my questions, guys. I wanted to follow-up, David, on your comments around becoming a more challenging operating environment and how is that manifesting in your business? Or I guess, where are you seeing it? Because it seems like variable revenue in line with expectations, pipelines, good [ph] ex impacts (29:04). It seems like you're trending in line with plans. So maybe just help us understand where you're seeing some of those macro impacts perhaps hit your business if they are?

David J. Spitz
Chief Executive Officer & Director, ChannelAdvisor Corp.

A

Yeah. Matt, I really kind of meant it more as a generalized climate commentary, not so much specific to our business. On a prior question, I did note that we've seen some slowing of sales gains over the last few weeks or a moderation of cadence, pipelines are strong. But I think, there are prospects to a year ago, their first order of business was to get something in place. Now, I think you see folks that are having a little bit more of a measured approach thinking about what does the back half of the year look like for them.

So that's probably the one area where we've seen a little bit of an impact. And again, I expect that to be transitory. I think my sense, I'm an optimist. As we get into the back half of the year, I do expect inflation to moderate, I do expect sort of business sentiment to improve. And so therefore, I think this is a temporary phenomenon.

I think one of the other comments I made earlier, which I'll reiterate here is that I think the – in a good way, I think the macro has actually helped in terms of employee retention rate. So we – as I said earlier, we did see higher than normal attrition at the end of last year, in the beginning of this year, which, kind of ironically, we just won the Best Place to Work award for the eighth time. But, there was a lot of crazy money out there in start-ups that were offering sort of unsustainable salary packages to folks. And I don't blame them for taking the lead.

But I think a lot of that in the tech space has reversed pretty quickly. We've seen some folks even come back to ChannelAdvisor. And I would say, just the hiring and the retention environment around employees is actually significantly better than it was even three or four months ago. And so in that sense, I think it's a positive for us. So really more of a general business comment Matt, not so much ChannelAdvisor other than the sales cadence comment.

Matthew Pfau
Analyst, William Blair & Co. LLC

Q

Got it. Great to hear. And then, Beth that's called out the Shopee integration as being something that you're excited about in the APAC market. I believe you hired a managing director there recently, as well. So maybe you can just update us on what you're seeing in APAC and what are your growth plans there in that area?

Elizabeth Segovia
Chief Operating Officer, ChannelAdvisor Corp.

A

Yeah, absolutely. And we've been talking about this for a little bit here as we've talked about channel expansion being a big priority as we've executed over the last 18 months, Asia Pacific has represented a pretty large percentage of those in channels that we've added. We launched [indiscernible] (31:46) not that long ago in a number of markets and now Shopee in a number of markets.

And we're continuing to work through a list of pretty major integrations in the region, and that's really been driven by major client requests. So we work with a lot of large brands that are global in nature and they've implemented ChannelAdvisor as part of their infrastructure. And as they expand and focus on the Asia-Pacific markets, they want ChannelAdvisor to be there along with them. And so we've had partnership with customers as we've taken on those major channel integrations.

So Shopee is just the latest in the mix and we're very excited about that partnership. We've seen a great level of relationship building with that channel and are expecting to see some of our brand customers take that on board really quickly.

Matthew Pfau
Analyst, William Blair & Co. LLC

Q

Great. Thanks, guys. Appreciate it.

David J. Spitz
Chief Executive Officer & Director, ChannelAdvisor Corp.

A

Thanks Matt.

Operator: [Operator Instructions] Our next question comes from Victoria James with D.A. Davidson. Victoria, your line is open.

Victoria James
Analyst, D.A. Davidson Companies

Q

Good morning. Thank you for taking my call. My question is, at a high level, what are your thoughts on the e-commerce landscape, including the impact of consumers spending more of their discretionary income on things like travel or experiential things, and then also consumers managing high inflation on food and energy costs?

David J. Spitz
Chief Executive Officer & Director, ChannelAdvisor Corp.

A

Hey, Victoria, this is David. I think there's definitely a narrative out there that after a couple of years of not being able to travel and go out to enjoy a meal and even go to the mall, although personally that's not something I completely understand, fighting traffic and crowds, I think that it's kind of a rebound effect. We just took our kids for a – out of the country vacation for the first time in quite a while. And there's – you can definitely tell walking through the airports that there's a lot of pent-up demand to just kind of go somewhere and make up for a couple of years of lost time.

So the reason I kind of share all that backdrop is, I don't think that is sort of like the new normal. I think what you're seeing is pent-up demand for those kinds of things that people missed over the last couple of years, basically releasing. And I would expect things to normalize a bit as we get to the back half of the year and into next year. On your inflation question, there's no doubt that has an impact. I mean, when people are paying $4 or $5 a gallon for gasoline and food prices have been up considerably, there could be no doubt that that has some effects on discretionary spending, particularly at lower income levels.

But as I said earlier, I'm an optimist. I'm certainly no economist. But I think some of the supply chain challenges that we've had over the last year or so, I think eventually gets solved and dissipate. And I would expect – we've already seen gasoline prices moderate somewhat over the last few weeks. My expectation is that inflationary pressures in general probably ease and probably moderate as we get into the back half of the year. So I think that pressure point probably reduces a little bit.

And again, I still think people probably – there's still some pent-up demand for travel and experience and dining out that probably continues to drive some higher than normal spend in the back half of the year. But as we get into 2023, I kind of think that we're going to be back to the sort of normal e-commerce growth rate. I think everything just kind of normalizes at that point. That's my gut sense.

Victoria James
Analyst, D.A. Davidson Companies

Q

Thank you. And then if I can just ask for a slightly different angle of the question that I think we've bandied about a little bit as far as your sales cycle for talking to brands, interested in selling on marketplaces, have you changed your approach to talking to them? It seems like you have a pretty strong pipeline regardless of the sort of slightly softened pace. Have you had any changes, I guess, as far as chatting with brands?

David J. Spitz
Chief Executive Officer & Director, ChannelAdvisor Corp.

A

I don't – that's a great question. I don't think there's been a significant change in our messaging. I think if you went back two, three or four years ago, pre-COVID, there was a little bit more of a evangelistic element to our pitch in the sense of your brand. You're not – you have a minimal sort of direct-to-consumer exposure, why should you sell on marketplaces, more sort of convincing about the why. I think COVID eliminated that, right.

So it was really – it then became a question not of, why should I do this, but how do I do it? And I don't think we're going back to the why. I think everybody's eyes were open during COVID. Brands in particular, about the need to get closer to the consumer, to focus on their digital channels. It's an area of strong growth for them. And I think it just made clear to everybody that this part of their business is not going to be [indiscernible] (37:14) it's going to be bigger. And so it needs to become a strategic focus. So I would say we really haven't changed our messages as we've gotten in – as we went through COVID and coming out with the backside of COVID. I think it's a pretty compelling message.

Victoria James
Analyst, D.A. Davidson Companies

Q

Thank you so much.

David J. Spitz
Chief Executive Officer & Director, ChannelAdvisor Corp.

A

Thanks Victoria.

Operator: At this time, I would now like to turn it back to Raiford Garrabrant for closing remarks.

Raiford Garrabrant
Director-Investor Relations, ChannelAdvisor Corp.

Thank you, everyone, for joining us today. We look forward to speaking with you again soon.

Operator: Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.