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Similarweb Ltd. (NYSE: SMWB)
Prepared Remarks
Q2 2021 Earnings Call

Management Commentary

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Investor Relations - The Blueshirt Group LLC

Thank you, operator. During this call, we will make forward-looking statements related to our business, including statements related to the expected performance of our business, future financial results, strategy, the potential impacts of the COVID-19 pandemic and associated global economic uncertainty, long-term growth, and overall future prospects. These statements are subject to known and unknown risks, uncertainties and assumptions that could cause actual results to differ materially from those projected or implied during the call. Actual results and the timing of certain events may differ materially from the results or timing predicted or implied by such forward-looking statements and reported results should not be considered as an indication of future performance. Please review our filings with the SEC, including our final prospectus and the section entitled "Risk Factors" therein, filed with the SEC on May 12, 2021, for a discussion of the factors that could cause our results to differ. Also, note that the forward-looking statements on this call are based on information available as of today's date. We disclaim any obligation to update any forward-looking statements, except as required by law.

As a reminder, certain financial measures we use in this presentation and on our call today are expressed on a non-GAAP basis. We use these non-GAAP financial measures internally to facilitate analysis of our financial and business trends and for internal planning and forecasting purposes. We believe these non-GAAP financial measures, when taken collectively, may be helpful to investors because they provide consistency and comparability with past financial performance by excluding certain items that may not be indicative of our business, results of operations, or outlook. However, non-GAAP financial measures have limitations as an analytical tool and are presented for supplemental informational purposes only. They should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. A reconciliation between these GAAP and non-GAAP financial measures is included in our earnings press release, which can be found on our investor relations website at ir.similarweb.com.

With that, I will turn the call over to Or Offer, CEO of Similarweb.

Or Offer

Co-Founder & Chief Executive Officer – Similarweb Ltd.

Thank you, Annie and thank you all for joining us here today for our Q2 earnings call, which is also our first as a public company. It's a real privilege to be here with all of you on the call today. Our recent IPO was an exciting milestone for our employees, customers, investors, and partners, and I want to thank them for their confidence in us over the years. I also would like to welcome our new investors to the Similarweb family. During today's call, Jason, our CFO, and I will provide details of our Q2 results, as well as provide Q3 and full year guidance for 2021.

I will start today by covering highlights of our financial performance. Q2 2021 was a record quarter for us. And I am pleased to report that our revenue increased 49% year over year, to $32.5 million. We are also very happy that we were able to accelerate our growth versus Q2 2020, continuing our trend of accelerating growth. We also took advantage of a strong demand for our solutions, as companies across the globe focus on digital transformation. In Q2, we also improved our gross margins by more than 250 basis points year over year, to 78.5%, highlighting the scalability of our platform. Our Free Cash Flow was negative ($3.3) million, reflecting the strong fundamentals of our business, even as we expanded our operations.

I want to expand further on these results, and also touch on a few key trends that we see as exciting for our business. But first, since many of you are new to Similarweb, I wanted to spend a few minutes talking about our business and market opportunity, and how we believe our offerings are disrupting traditional markets and helping businesses compete and win in the digital world.

Similarweb was born out of my own personal pain. I was trying to do some market research for my offline business many years ago. But no matter what I searched for, I couldn't find anyone with the insights I needed. I saw a market opportunity, and 14 years later Similarweb is a leader in market intelligence for the digital world. Today, our customers are some of the largest and best brands -- leaders like Walmart, Google, Publicis, Merck, DHL, and CNN and many more. A lot has changed since we wrote our first lines of code. Digital has become a preferred way to communicate, transact, and deliver products and services. It is an important growth driver and a strategic focus for most businesses today. At the same time, it's made every market much, much more competitive. In this environment, businesses have no visibility into the online activity of their customers, prospects, partners, and competition. In reality, they are flying blind. Similarweb cuts through this lack of visibility, delivering a comprehensive view of the digital world to our customers, providing them with market data and insights to help them win in the digital world. The data – and more importantly, the actionable insight – that we provide, empowers our customers to be more competitive in their markets. We call this digital intelligence. Digital intelligence is embedded in critical business processes. It gives organizations the means to understand and gain insight from all relevant digital activity. It creates a powerful competitive advantage. It empowers companies to make better business decisions, increases their confidence, and helps them win their markets. Sometimes, it can mean the difference between business success and failure.

To paint a picture of how digital intelligence can make this kind of impact, I want to share a conversation we recently had with one of our customers, the Head of Digital Marketing at Staysure, one of the top travel insurance companies in the UK. When COVID hit, their entire business was at risk of failure. Similarweb helped them adapt to the new reality. With Similarweb, they were able to quickly identify which markets recovered the fastest from initial

lockdowns and focus on those opportunities. They also used Similarweb to identify new market segments – for example, younger travelers looking to insure against COVID-19 risks. They were able to create new products designed for this emerging segment and used Similarweb insights to build a strategy to reach the new audience. According to the company, and I quote: "Similarweb kept us in business. When times are challenging, it's all about understanding what the competition is doing, where we fit in the market, and what's going on in the market overall." It's notable that in Q2 we completed an upsell deal with Staysure, increasing the ARR value of their contract by over 30%. This example isn't unique. Now more than ever, companies need visibility into what's happening in their digital ecosystem, if they want to survive and win. Digital transformation is accelerating, but all that investment cannot be optimized without comprehensive, accurate and timely market data that's integrated into corporate workflows. This makes digital intelligence mission critical. We believe this is a massive opportunity and we estimate that our total addressable market today is over $34 billion.

Delivering this kind of impactful digital intelligence isn't an easy task to do. It is extremely difficult to gather massive quantities of digital signals from across the internet – each signal providing only a small perspective of what is going on in the digital world. And it is even harder to use those signals to build the models that are designed to measure and predict how the digital world behaves. Just think, every day we need to estimate traffic for tens of millions of websites and apps in over 190 countries in over 210 industries. And we need to do it really well – because we know that leading companies and investors around the world will make critical business decisions based on the insights provided in our platform.

We've been working on solving this problem and creating this technology for over 10 years. Over time, we've invested significant resources and funds in our data assets and acquisition, and building a very strong competitive moat around our technology. To achieve this, we've built a unique R&D organization that operates in an innovative, fast-paced culture. Every month, this team delivers hundreds of innovative data and feature enhancements that improve customer retention and increase average customer spend. We've continued to expand this team, which now includes nearly 250 top notch developers, PhDs, data scientists, and big data engineers.

We've built a very efficient sales and marketing organization to approach and attack our large market opportunity. This starts by attracting and engaging prospects with our widely used free tools. On our website, and through a popular browser extension, we provide free access to a broad range of basic capabilities, as well as the opportunity to explore our paid offerings. The cost-effective leads from this "freemium" inbound motion are efficiently converted to pipeline opportunities for our sales teams to pursue. We complement this with an outbound sales motion focused on developing new opportunities with larger target accounts. After successfully landing a new customer, we also have a team of client success analysts who help our customers realize more value from our platform, resulting in a more strategic relationship and expanding revenues. This land-and-expand motion is working very successfully for us.

I want to turn now and discuss our Q2 performance. I'd like to mention a couple of highlights and how they illustrate several of our business strategies – specifically, our "land and expand" sales motion, creation of new channels of indirect growth, and the introduction of new products and data sets. Let's start with land and expand. Over the last 12 months, we accelerated new logo acquisition, landing over 600 new customers and crossing the 3,000-customer logo threshold in Q2. We're building on this strong new logo acquisition by refining our motion around customer retention and growth. As an example of this, in Q2 we completed one of the largest

deals in Similarweb history, with a major eCommerce company. This customer began its journey with us in 2016, starting with one use case and around $50k in annual ARR. Today, they use Similarweb across 25 teams globally, with around 1500 users, representing over $3.5M in ARR. Our Q2 upsell was a seven figure ARR upsell, with a multi-year commitment, included the addition of hundreds of new users, as well as upsell of premium product features and extended data sets. It also highlights our land-and-expand motion in operation, where we started small and over time were able to expand to additional users, use cases, departments, and geographies within the customer. This land and expand motion is driving significant growth among our largest and most strategic customer segment – those companies where we are generating more than $100K in ARR. We grew the number of these accounts by 52% year over year, and nearly 60% of this growth came from existing customers where our ARR expanded to more than $100K. Overall, our ability to retain customers and expand ARR is reflected in the highest levels of NRR that we've ever recorded. NRR strongly improved from 101% at the end of 2020, to 106% at the end of Q2. In that critical customer segment of accounts with over $100K in ARR, we improved NRR to 118%, up from 113% at the close of 2020.

Beyond our direct sales motion, we continue to develop indirect sources of demand. First, we recently announced the availability of Similarweb digital insights on the AWS Data Exchange. With the AWS Data Exchange, companies ranging from CPGs to hedge funds can enrich their big data analysis with digital market intelligence, including website traffic, keywords, and retail transactions. While this did not have a material contribution to Q2 results, I believe that this partnership will broaden our customer reach and further help customers integrate Similarweb into their workflows. And in Q2 we also introduced an affiliate marketing program and a partner referral program, launching two new indirect channels for lead and opportunity creation.

Also, in Q2 we launched a new solution, our Shopper Intelligence, which is targeted at the rapidly growing eCommerce segment. Shopper Intelligence analyzes consumer shopping behavior across desktop and mobile and provides a comprehensive solution for understanding the digital customer journey and what consumers are buying online. Our goal is that Shopper Intelligence will analyze and deliver insights about digital consumer behavior across both eCommerce marketplaces and first-party shopping websites. We're off to a strong start with this new solution. We've already closed new business in a diverse set of industries, not just in the primary CPG audience, but also retail, pharma, technology, and private equity. I'm looking forward to giving you more details on these wins in the future. We believe Shopper Intelligence is an innovative product with features that are unique in the market. I'm super excited about it and I think we have a huge opportunity in front of us with this new offering.

In Q2, we also made significant additions to the scope of data and insight available through the Similarweb platform. We completed the acquisition of the assets of SimilarTech, which we believe is one of the best providers of technographic data in the market. The acquisition enables us to more completely integrate SimilarTech's data into our solutions, and the opportunity to leverage their data to build some exciting new features as well. Separately, we recently announced significant advancements in the capabilities of our Keyword Generator, which enables search professionals to find and explore keywords relevant to expanding their business. Keyword Generator now includes support for YouTube, the world's second largest search engine, as well as Amazon, where 60% of all product searches currently originate. These enhancements expand our coverage by over 800 million keywords, extending our breadth of coverage and keyword volume accuracy.

Beyond these efforts, we continued to invest in our organizational growth and development. We continued to scale our organization to support our strong growth. Employee headcount in Q2

grew nearly 60% year over year. We continued our international expansion, opening up a new direct sales presence and office in Germany. Recently, we also announced a new office in Reston, Virginia, where we will focus on hiring sales and marketing roles, and where we expect we will be able to tap into strong local talent in the areas of digital measurement and market research.

Finally, I'm very excited to announce that last week we closed on a new headquarters facility in the Tel Aviv area. This new building will accommodate our rapid growth and we will be able to fully design the space to meet our needs for our growing team. Our new "Similarweb HQ" is located in the center of Tel Aviv metropolitan, and I expect that when complete, it will be a significant attraction that will enable us to continue to recruit top talent here in Israel.

Finally, as we said during the IPO, we'll leverage our momentum and continue to pursue both organic and inorganic growth strategies. We will invest in our sales and marketing efforts to accelerate customer acquisition because of the high ROI we get on these investments and the big market opportunity we see. We will take advantage of our strong financial position to opportunistically target and acquire companies, in order to improve and expand our data, use cases, and addressable markets. We are operating in a fragmented market, and we believe we have an opportunity to be a consolidator.

Wrapping up, I'm very proud of the company we've built. We've followed up our 2020 performance with strong and accelerating growth in the first half of 2021. We have outstanding leadership and our team is smart, bold, fast, talented and experienced. We have a strong balance sheet. Our solutions are market-leading and provide timely and comprehensive data and insights that we believe our customers cannot get anywhere else. Every day, thousands of businesses rely on Similarweb's solutions to make mission-critical decisions. We believe we are recognized as a standard measure of the digital world. Our insights are frequently referenced publicly by CEOs, major publications, and respected research firms. Our platform has become a required experience for job opportunities and a notable skill that users highlight on LinkedIn. We are confident in our growth strategy, and we have a track record of strong operational execution. It's still early in our journey, and we believe we're in a great position to capitalize on and capture an increasing share of a very large market. And as I like to say, we're just getting started.

With that, I would like to turn the call over to Jason Schwartz, our CFO. Jason?

Jason Schwartz

Chief Financial Officer – Similarweb Ltd.

Thank you Or. I'm going to start with an overview of our financial model and then I will review our financial results for the quarter and wrap up with our guidance for Q3 and full year 2021.

Our financial model is built on the delivery of strong and predictable revenue growth, substantially all of which is generated from SaaS subscriptions. We deliver a high net dollar-based retention rate, or NRR, and also maintain high gross margins and unit economics that drive cash efficiency.

In Q2, we delivered record revenue of $32.5M, reflecting 48.5% year over year growth. We increased our total number of customers to 3,068 up 24% from 2,479 in Q2 last year. This

includes, as Or mentioned, a strong increase in our $100,000 or more ARR customers, which grew by 52% from 145 in Q2 2020 to 220 in Q2 2021. Most of these customers began initially as smaller customers – and have expanded through our successful land & expand motion. Today, these customers comprise 49% of our overall recurring revenue base.

Our revenue and customer base is highly diversified, and no single customer amounts to more than 5% of revenue.

In discussing the remainder of the income statement, please note that unless otherwise stated, all references to our expenses and operating results are on a non-GAAP basis and are reconciled to the GAAP results in the earnings press release that was issued just before this call.

Our gross profit totaled $25.6 million in the quarter representing a gross margin of 78.6% versus 76.0% in Q2 2020. This margin improvement reflects the significant operating leverage we have been able to realize in our fixed SaaS infrastructure and data costs.

Operating expenses grew to $36.3 million in Q2 up from $19.1 million in Q2 2020, largely reflecting the investment in personnel across the business – from product and R&D, sales and marketing and our G&A team, to support our business growth. We see a large TAM and opportunity ahead of us and will continue to invest in personnel and initiatives that help us capture more market share. The specific components of our operating expenses were:

Research and Development – $8.3 million vs. $4.7 million in Q2 2020. This excludes $696,000 of retention payments relating to the acquisition of SimilarTech during the quarter. We anticipate an additional $350,000 in Q3.

Sales and Marketing – $21.4 million vs. $11.8 million in Q2 2020.
General and Administrative – $6.6 million vs. $2.6 million in Q2 2020. This excludes $1.2 million of non-recurring expenses related to our initial public offering.

As a result, our non-GAAP operating loss in the quarter totaled $10.8 million, increasing from $2.5 million in Q2 2020.

Free cash flow for the quarter was negative ($3.3) million, compared to ($1.5) million in Q2 2020.

In May we successfully completed our initial public offering of our ordinary shares raising net proceeds of $150.7 million after deducting underwriting fees and commissions and related offering costs. During the quarter, we also repaid all outstanding amounts under our credit facility, such that, as of the end of the quarter, we have no outstanding debt. As a result, we have a strong cash position, that totaled $177 million of unrestricted cash balances as of June 30, 2021. We have additional capacity available to us under our $75 million credit facility with Silicon Valley Bank. As such, we believe that we have sufficient liquidity to successfully execute our business growth plans.

As Or mentioned, last week, we signed an office lease agreement for our new Israel headquarters. We anticipate investing $8-10 million in leasehold improvements over the next 4 quarters in advance of our anticipated move-in date in Q2 2022, which will be amortized over the 10-year term of the lease.

We are introducing guidance for both Q3 and the full year 2021:

For Q3 2021, revenue is expected to be in the range of $32.8 million to $33.2 million.

Non-GAAP operating loss is expected to be in the range of $14.5 million to $14.9 million

Full year 2021 revenue is expected to be in the range of $ 129 million to $130 million.

Non-GAAP operating loss for full year 2021 is expected to be in the range of $49 million to $50 million.

I'll now hand the call back over to Or, for his closing remarks.

Or Offer

Co-Founder & Chief Executive Officer – Similarweb Ltd.

Thank you, Jason. I'd like to close by thanking my leadership team and our employees around the world for working hard to deliver a very successful first half of the year. Our IPO was a milestone for us as we continue to grow, and I am pleased to welcome our many new investors to the Similarweb family.

With that, operator, please open the call up for questions, thank you.