



UserTesting

Fourth Quarter and Year End 2021 Earnings Conference Call

February 28, 2022

C O R P O R A T E P A R T I C I P A N T S

Erica Mannion, *Founder, Sapphire Investor Relations, LLC*

Andy MacMillan, *Chief Executive Officer*

Jon Pexton, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Stan Zlotsky, *Morgan Stanley*

Mark Murphy, *JPMorgan*

Terry Tillman, *Truist*

David Hynes, *Canaccord Genuity*

Bhavan Suri, *William Blair*

Brent Bracelin, *Piper Sandler*

Scott Berg, *Needham*

Ari Friedman, *Oppenheimer & Co.*

Brian Peterson, *Raymond James*

Rob Oliver, *Baird*

Yun Kim, *Loop Capital*

P R E S E N T A T I O N

Operator

Greetings, and welcome to the UserTesting Fourth Quarter and Year End 2021 Earnings Conference Call.

As a reminder, this conference is being recorded.

I would now like to turn the call over to Erica Mannion at Sapphire Investor Relations. Thank you, you may begin.

Erica Mannion

Thank you, and good afternoon.

With me today from UserTesting are Andy MacMillan, Chief Executive Officer, and Jon Pexton, Chief Financial Officer. Andy will begin with a brief review of the business results for the fourth quarter ended December 31, 2021. Jon will then review the financial results for the fourth quarter and full year, followed by the Company's outlook for the first quarter and Full Year 2022. We will then open the call for questions.

Please note that this call will include forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from Management's current expectations. For a discussion of the material risks and other important factors that could affect our actual results, please refer to our SEC filings available on the SEC's website, and on our Investor Relations website, as well as the risks and other important factors discussed in today's press release. Additional information will also be set forth in our annual report on Form 10-K for the year ended December 31, 2021 when filed.

All material contained in the webcast is the sole property and copyright of UserTesting with all rights reserved.

Please note this presentation describes certain non-GAAP measures including non-GAAP net loss and non-GAAP net loss per share, which are not measures prepared in accordance with U.S. GAAP. The non-GAAP measures are presented in this presentation as we believe that they provide Investors with a means of evaluating and understanding how the Company's Management evaluates the Company's operating performance. These non-GAAP measures should not be considered in isolation from as substitutes for or superior to financial measures prepared in accordance with U.S. GAAP. Information regarding reconciliation of non-GAAP to GAAP net measures can be found in the press release that was issued this afternoon on our Investor Relations website.

Now I'd like to turn the call over to Andy.

Andy MacMillan

Thank you, Erica. Thanks to everyone for joining us on the call this afternoon.

We're excited to report our first quarter as a public company. I want to extend a special thank you to the UserTesting team for their hard work and focus on our customers throughout the process of going public. I'll start this afternoon with a few highlights from the quarter. Then because it's our first earnings call as a public company, I want to take some time to discuss our business and market opportunity as many of you may be new to UserTesting.

We reported a record fourth quarter with revenue of \$42 million, up 45% year-over-year, resulting in full year revenue of \$147 million, up 44% over 2020. Subscription revenue accounted for over 90% of total revenue for the quarter and reached \$40 million, an increase of 49% from prior year. Investments in our product, sales, and marketing teams continued to drive upside to our result throughout 2021.

We had great momentum in our business in the quarter with our large customers, which we categorized as those spending more than \$100,000 in ARR, growing to 305 customers, representing a 61% increase year-over-year. Our Q4 net dollar retention rate increased to 118% from 114% one year ago. In total, we now have 2,350 customers on the platform, up 37% from one year ago.

Looking forward, we believe the long-term market opportunity ahead remains significant and we intend to continue investing in market awareness, technology innovation, and growth while prudently managing our expense structure. We continue to see good unit economics and a consistent payback period while

deploying investments into our sales and marketing organization to capture the near and long-term market opportunities we see in the industry. We also believe the investments we made in our product over the past several years, and in international expansion of our team, will continue to drive value.

The market continues to show strong, enduring demand for our solution. UserTesting enables organizations to understand what it's actually like to be their customer. We do that with an opt-in video first experience testing platform which we call the human insight platform. Our platform makes it easy for anyone in an organization to get a vivid first-person understand and even experience. Through the platform, you watch real people engage and share their perspectives on products, apps, services, and other digital and real world experiences, providing what we call a customer experience narrative or CxN. These narratives are critical to enabling companies to better understand and empathize with the experiences they offer and improve them.

UserTesting has customers in over 50 countries. Our customers include more than half of the world's top 100 most valuable brands according to Forbes. We have steadily built up our global network of contributors over the past 14 years and have qualified hundreds of thousands of people who have all opted in to share their perspectives. We are selective and who gets on this network and prioritize quality over quantity. Customers can rate each contributor's feedback, and we continually monitor responses with our software to ensure both quality and speed. Our customers can utilize this network or test with their own customers, prospects, employees, or anyone else.

Our focus is on an easy to use human insight platform that allows a wide range of audiences to frequently test products, apps, services, and other digital and real world experiences with a range of audiences like customers, employees, prospects, the public, underrepresented groups, and even people using competitor products. The main buying centers today are digital, product, research and design, marketing, and customer experience. We also continue to see emerging buying centers like HR, optimize candidate, new hire and employee experiences, customer support, training, and IT and operations to optimize internal service and communication experiences.

The power of our platform comes in three main components.

First, the technology to help find specific audiences and get them to perform tasks and answer questions.

Second, technology to capture and generate customer experience narratives or CxN. These video-based narratives enable organizations to see and hear real people as they engage with digital or real world products, design, apps, processes, concepts, and brands.

Third, machine learning-based technology to help surface key moments of insight within a CxN to help get to the moments that matter faster. Our human insight platform delivers the speed, quality, and scale necessary for today's agile business environment.

We see several major tailwinds favoring our business over the coming quarters and years. In addition to the macro digital transformation and customer experience industry trends, there are two more recent and growing trends that we see having an impact on our business.

First, there are new types of immersive, hybrid, and third-party digital experiences. Customers are using our platform today to test multiple digital experiences, including some of the newer ones emerging. For example, in the Metaverse. Schell Games published a post on the Oculus Developer blog in July of last year talking about the benefits of testing VR experiences. Customers are also able to test third-party experiences, meaning they can test a competitor's website, or an important third-party digital experience in their value chain. For example, large financial institutions can capture CxN on emerging FinTech and open

banking initiatives. Airlines can test third-party travel booking sites, and quick-service restaurants can test to understand how their menu and brand shows up on popular food delivery platforms.

Second, we see a growing trend around consumer privacy. We believe this will move companies to a more honest and trusted opt-in conversation and feedback channel with their customers, as opposed to the surveillance and tracking model in place by so many digital and marketing optimization teams today. Importantly, I want to highlight that all of the feedback on the UserTesting platform, every single customer experience narrative is gathered through an opt-in process. Within this process, the participants sharing their thoughts in screen knows that they're being recorded and knows that they are sharing their perspectives with an organization.

Our contributors value that they are being asked for their input. This is how trust and relationships are built and how great companies show they value their customers. As consumers, we are sick of being endlessly tracked online. We do appreciate being asked. I believe we are at the beginning of this shift away from always on digital tracking and surveillance. That doesn't mean customers don't want to be heard. UserTesting is providing a way for companies to build trust and relationships with their customers, and honest opt-in relationship where companies ask for feedback and truly understand a customer's perspective and importantly, have the tools to listen and act on the learnings and that feedback.

With these tailwinds, we believe in understanding customer experiences using rich human insight provides a broad and under penetrated market opportunity. To capture this we are pursuing multiple growth drivers in parallel.

First, we're continuing to invest in sales and marketing to continue to acquire new customers leveraging a scalable go-to-market model to support new customer growth of all sizes. As an example in the fourth quarter we landed or expanded with some great customers, including AMC Entertainment, Anheuser-Busch, Hawaiian Airlines, Home Chef, Lowe's, MetLife, Philips, Phoenix Group, Reddit, and Vestiaire Collective SA. We continue to make investments in our growing international presence, including the establishment of a sales office in Edinburgh, Scotland in 2019 and in Singapore in 2020. In the fourth quarter, international revenue increased 76% compared with the prior year period and represented 20% of total revenue.

Second, we continue to innovate and expand our platform and technology. Our ability to use technology to analyze video feedback and highlight key moments of insight is improving at a rate where customers can run larger sample sizes within a research study and get quantitative level analytics to understand broader based sentiment, click path, activity and other key points of insight, and then quickly drill into rich qualitative video segments to better understand the human experience.

Third, we're in the early phases of building out our UserTesting partner and reseller program. Our focus areas include working with agencies, system integrators, and resellers. We just announced a new partnership with Quantum Metric. This partnership will help companies better understand customer needs and quantify the business impact of digital experiences. All of these channels will enable us to achieve go-to-market leverage as we scale supporting our continued growth.

This is an exciting time to be at UserTesting. Looking ahead, we recognize that our IPO is just one step on the journey of our Company and while we're excited to have achieved this milestone, we have much more to do. We look forward to continuing our momentum in 2022 and updating all of you in the quarters to come.

With that, I'll turn it over to Jon to discuss our financial highlights in more detail.

Jon Pexton

Thanks, Andy, and good afternoon, everyone.

I'm excited to announce the financial results for 2021 today. It was a record year for the Company. We saw improvements in many of our metrics, including revenue growth, margin improvement, customer additions, and net retention rates. Let's begin with the key financial highlights.

Revenue for the fourth quarter of \$42 million increased 45% compared to the prior year. Subscription revenue of \$40 million increased 49%. Revenue for the full year of \$147 million increased 44% year-over-year behind strong execution of the UserTesting team. Subscription revenue of \$137 million increased 46%. Importantly, our performance is broad-based, including growth in customers across all segments, improved net dollar retention rates and continued progress in our international geographies.

Specifically, our net dollar-based retention rate was 118% in the fourth quarter, up from 114% in the fourth quarter of 2020. We ended the quarter with 2,350 customers, up 37% year-over-year. We also ended the quarter with 305 large customers or those over \$100,000 of ARR, which was a 61% year-over-year increase. Most customers land below that amount and expand into our large customer category over time.

Calculated billings, which is quarterly revenue plus the quarterly change in contract liabilities was \$54 million, an increase of 41% year-over-year. International revenue was \$8.4 million in the fourth quarter, an increase of 76% year-over-year representing 20% of total revenues.

As I talk about operating loss, free cash flow, gross margins, expenses, I'll be referring to non-GAAP measures unless otherwise specified. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release.

Operating loss in the fourth quarter was \$9.9 million, which compares to \$7.5 million in the prior year period. Our operating margin was minus 23%, which improved approximately 300 basis points from a year earlier. This brings the full year operating margin to minus 27%, an improvement of approximately 300 basis points from 2020. Free cash flow of minus \$16 million in the quarter was impacted by the timing of collections in December. We had turnover on our collections team that we're working to right-size. Free cash flow margin for the year was minus 30%. We ended the year with \$178 million in cash.

Let's dig a little deeper into the numbers before we go into guidance. Gross margin in the fourth quarter was 79%, an increase compared to 73% in the year ago period. For the full year 2021, gross margin was 76%, an increase compared to 71% in 2020. Subscription gross margin in the fourth quarter was 83% compared to 79% in the year ago period. For the full year subscription gross margin was 80% which was an increase of approximately 300 basis points from 77% in 2020.

If you look at our subscription gross margins on a quarterly basis, for the past three years, you will see it is highest in the fourth quarter, and then declines in the subsequent first and second quarters. The fluctuations are driven in part, by the seasonality we see with usage and the corresponding payments to our contributor network.

Turning to operating expenses, we continue to invest in our sales and marketing organization to drive global growth and our leadership position in the market. We increased our spending in that segment by 55% in the fourth quarter of 2021, compared to the prior year period, to approximately 61% of revenue. When we look at the payback period calculations, I'm impressed at how we've been able to deploy that additional investment, while maintaining that payback period in a range we believe is reasonable. It also says something about the state of the market and its willingness to adopt our solution as sales and marketing activity increases.

We saw some leverage in R&D expense in the fourth quarter, which was 22% of revenue compared to 26% of revenue in the prior year period. G&A expense increased as a percentage of revenue to 18% in the fourth quarter of 2021 compared to 16% in the prior year period. The increase was primarily due to investments in people, systems, and outside professional services in preparing to become a Public Company. As I mentioned before, even with these investments and operating expenses, we were able to improve our operating margin by approximately 300 basis points in both the fourth quarter and the full year of 2021 compared to the prior year periods.

Now, onto guidance. We are entering 2022 with good business momentum. For the full year, we are guiding revenue to \$194.5 million to \$198.5 million, representing a growth rate of 32% to 35%. For the first quarter, we expect revenue of \$43 million to \$44 million, or a growth rate of 38% to 41%. The growth rate in the first quarter is higher than the full year guidance, due mostly to an expected one-time accounting benefit that will increase subscription revenue by \$1.4 million in the first quarter. This is related to the reversal of a reserve for a potential sales tax liability that was initially recorded as a reduction to subscription revenue in a prior period. The favorable outcome of that reserved contingency will put most of our sales tax remediation efforts behind us.

For the full year, we expect non-GAAP operating margin in the range of minus 31% to minus 29%, which at the midpoint of that range implies a decrease in operating margin of approximately 300 basis points compared to 2021. For the first quarter, we expect non-GAAP operating margins in the range of minus 27% to minus 25%, which at the midpoint of the range implies and approximately 900 basis point improvement in operating margin compared to the first quarter of 2021. The operating margin in the first quarter is better than the full year guidance due to the one-time accounting benefit I just mentioned that will increase subscription revenue by \$1.4 million in the first quarter.

We also expect some other temporary favorability in operating expenses as we continue to limit travel and meetings due to the COVID pandemic. We hope we are coming to an end of those restrictions soon. For example, in January, we postponed our planned sales kickoff event where we bring the global sales team together for planning and training sessions. We now expect to hold that event in the third quarter, which will shift planned expense from the first quarter to the third quarter as a result. So, with some of that expected volatility and our quarterly operating loss, I would encourage more focus on the full year operating loss number as a better measure of financial trends.

For the full year, we expect non-GAAP net loss per share between minus \$0.39 and minus \$0.41, assuming 145 million weighted average shares outstanding. For the first quarter, we expect non-GAAP net loss per share of between minus \$0.07 and minus \$0.08, assuming 142.5 million weighted average shares outstanding. For modeling purposes and in line with our historical performance, we expect calculated billings to decline in the first quarter compared to the fourth quarter of 2021. This is consistent with a normal seasonality that occurs in the business where the fourth quarter is usually our strongest quarter for billings, and the first quarter is usually our softest.

We also expect subscription gross margin to decline as well compared to the fourth quarter consistent with the seasonality we have seen in the past. Payments to our contributor network are usually lower in the fourth quarter due to lower activity during the holiday season. Overall, we are very pleased with the quarter. We achieved record revenues, strong customer growth, particularly with our large customers, improved gross margin, improved operating margins, and we are excited about the market opportunity ahead of us. It is critical for organizations to have great experiences for customers, prospects, employees, and others. UserTesting is pioneering a better way to help them do that with real human insight.

With that, we'll open up the call for questions. Operator, will you please prompt for questions?

Operator

Thank you.

Our first questions come from the line of Stan Zlotsky with Morgan Stanley. Please proceed with your questions.

Stan Zlotsky

Perfect. Thank you so much and congratulations guys on your first call as a public company. Very, very exciting.

Maybe just to kick things off. At a very high level, what are you seeing as far as the way that companies are approaching the need for UserTesting's product? As you went through 2021, what really stood out to you as a big change that's taking place in the marketplace? How do you expect that to carry over as we go into 2022? Then have a quick follow-up.

Andy MacMillan

All right, thanks, Stan. Appreciate the question. I think for us what we're finding as we went through last year and coming into this year is continued core demand for people wanting to get the kind of feedback that we provide on our platform. But where we see emerging opportunity is more organizations wanting to share and leverage the results they're seeing on our platform more broadly. We've started to focus on how we expand out from some of our core use cases in design and research teams and are helping product and marketing teams more broadly, not just self-service for their own questions, but actually work more and more together around feedback they're seeing on the platform.

I think there's an opportunity there that we're leaning into and really gearing up our team to speak to.

Stan Zlotsky

Perfect. Then just a quick follow-up, wanting to dig into net revenue retention, very impressive, 118% result. How should we be thinking about that moving forward? What are the puts and takes behind that number as we move into 2022?

Andy MacMillan

Yes, one of the things I keep in mind when looking at that is it's a blended number across a wide variety of segments. We sell into small, even pre-product market fit companies to some of the largest enterprises in the world, and is the case with any SaaS business, those are different models for expected retention rates. But I think what we found was we had made some improvements in our go-to-market motion, our pricing model that helped us get to that 117%, 118% mark. We think going forward that is a good projected rate for us.

Like any SaaS company, we get up every day and try to figure out how to continue to make customers successful and we're going to continue to try to drive those rates where we can, but I think right now we feel like it's a blended rate across enterprise all the way down to SMB. We're pretty happy with where that number is at.

Stan Zlotsky

Perfect. Thanks, guys.

Jon Pexton

Thanks, Stan.

Andy MacMillan

Thank you.

Operator

Thank you. Our next questions come from the line of Mark Murphy with JPMorgan. Please proceed with your questions.

Benjamin

Great. Hey, this is Benjamin (phon) on behalf of Mark. I echo my congratulations to you guys as well.

Andy, maybe I could start with, help us understand what is driving the expansion of the large customers that you're seeing? It's pretty impressive. Is it largely usage in their core use cases? Are you seeing some of the emerging use cases drive that expansion further into the organization? Or is it just a larger throughput of tests that is driving that because of the AI/ML capabilities that that allows them to do so today?

Andy MacMillan

Yes, it's really broad based. I appreciate the question. It is in part that we are still largely awareness-constrained and in large organizations, there's an opportunity for us to drive awareness through the product itself, that when teams run tests on the platform, they get this powerful feedback in video format. We're doing more and more things to help empower them to share that feedback across the organization. When people see the output from the platform, they apply that to their own solution. It's one of these things that we talk about being obvious in retrospect.

When you see UserTesting, most people go, oh, that makes sense, I should see people use the thing that I've built, that I'm designing, that I'm marketing, whatever that might be. That drives all of the things you mentioned. It drives more people on the platform, more seats, it drives more use cases. That's been one of our focus with templates and other things to highlight all the ways you can use the platform. It also drives more usage of the platform. If I'm someone using the platform and when I run a test and I get this great feedback and people in the organization rally around it, I do more of it.

I think it all comes back to that core focus area we've had of just driving awareness and I think being in companies, in our customers, and helping drive that awareness as an expand motion is where we're seeing some of that opportunity.

Benjamin

Got it. One quick follow-up, can you maybe update us on the flex based pricing? What are you seeing with respect to customer adoption on that front? How should we think about the revenue of bookings next—of that flex-based pricing over this year?

Andy MacMillan

Yes, we continue to still see strong adoption of the new pricing model. Again, as we've spoken about publicly before, it was not really designed to be a price increase or a change in revenue per customer. It's

really just designed to be in alignment with how customers want to buy the product. We listened to the feedback from our customers. What they told us was sometimes I just want to roll it out to more people and I need more seats. Sometimes the people that have seats just want to run more test volume. By enabling our customers to buy in whatever combination made the most sense for them, it really does become the best option for a vast majority of companies when they're selecting the platform.

We did, in the second half of last year, roll that out to all of our segments, as we've talked about publicly before we started with part of our sales team and rolled that out as we went along. We ended the year with every one of our sales teams enabled to go sell the flex-based pricing model. We continue to see really strong customer demand for that pricing model and great feedback on it, while it's still a bit early days.

Benjamin

Got it. Thank you.

Andy MacMillan

Thank you.

Operator

Thank you. Our next questions come from the line of Terry Tillman with Truist. Please proceed with your questions.

Terry Tillman

Yes, good afternoon, Andy, Jon, and Erica. I'll echo the congratulations on the IPO and also, maybe Andy, on being a writer now, congratulations on your book.

Andy MacMillan

Thank you, Terry.

Terry Tillman

Yes. My first question just relates to, you did mention some new customers and they look like some large enterprise brands. What I'm curious about is just as human insight space evolves and you guys are a market leader, are you starting to see opportunities to sell higher and get C level attention? For example, to me, the competitor testing sounds like it would be something that C level executives would actually want to see a lot of. I'm curious, are you starting to see the evolution of this market where you can sell higher and get more mindshare with C level executives earlier on? Then I had a follow up for Jon.

Andy MacMillan

Yes, Terry, I think that's a great point. It actually connects well to your point about the book, which for those that aren't aware, Janelle Estes, our Chief insights Officer, and I wrote a book that came out, published by Wiley this month. It really does illuminate some of these use cases, these ideas that not only can you test with competitors, I think—test competitor experiences, which I think is great for executive teams to understand market dynamics, it's also really about how do you as an organization align your company culture around what it's like to be a customer? We're starting to see savvy executives think about how do I get my team sharing the narratives, the empathy, the understanding of the transformation, maybe our

business is going through or what it's like to be a customer in different segments, or with different backgrounds. I think that is a big opportunity for us.

I'll just echo, to my previous comment, a lot of what we're doing today is just about driving that awareness that's at every level in every segment. That's where a lot of our investments, broadly in sales and marketing, have been around empowering our marketing and sales teams to get into more conversations. I think, to your point, that's at every level in the organization.

Terry Tillman

Got it. Thanks for that, Andy. Jon, just a follow-up question on cash collections. I'm curious, should we see a quick snap back in reversal to where we see a perking up of working capital benefits, or how do we think about the first half versus second half, post the fourth quarter and what you called out? Thank you.

Jon Pexton

Yes, Terry, it popped up on us in Q4. You'll see that in the DSO number of days going up meaningfully. We had turnover on our collections team and we're still working to right-size it. It's hard to hire people during the holidays. I expect us to get back on track over the next two quarters. It's not going to be a snap back in 30 days. It's going to take a little bit time.

Terry Tillman

Understood. Thank you.

Operator

Thank you. Our next questions come from the line of DJ Hynes with Canaccord. Please proceed with your questions.

David Hynes

Hey, guys, great start here.

Andy, I want to go back to the awareness factor you've cited a couple times. If I asked you to put it on a scale of 1 to 10, where would you say enterprise awareness is today? What's the most significant thing you can do to increase awareness?

Andy MacMillan

I would say, not to try to split hairs on the question, which I appreciate by the way, I think it varies a little bit by role. I think if you were to go ask someone in a UX research background or maybe a design background, I think that awareness is reasonably high. It might be six or seven. I think you'd find very high positive product affinity with what we do in that audience for those that know us. What a lot of those folks are telling us is, hey, I learned all these things on UserTesting, but I'm trying to get my product team, my marketing team, to change what they're doing because of what I'm learning.

What we're doing is really partnering with those folks to help them tell their stories internally of what they're learning and together we're helping drive awareness to those other groups. I think if you were go to product management teams, marketing teams, I think that awareness is still quite a bit lower. That's why we're investing in this broader set of collaborative solution plays to really help our folks that already know us champion us internally, which I think is the opportunity.

David Hynes

Yes, yes. Got it. Makes sense. Then I want to ask you a question about the contributor pool. If you look competitively at others in this space, how do you think the pool that you've built stacks up in terms of size diversity to others in this space? How easy would that be to replicate?

Andy MacMillan

I think it's—maybe a two-part answer there too, as well. One is we've been doing this for a while and so I think we have built up a bit of a marketplace dynamic where this is the place to go give this kind of feedback. I think that is a really big advantage when you think about both how we attract new contributors and also how we attract brands and companies onto our platform. But I think the second piece is much more important, which is we've used this running start that we've had over the last 14 years of building up this network of qualified individuals and the volume of customer experience narratives on our platform. We noted in our S-1 that we'd run 1.4 million CxNs in the previous year. We use those as training data for machine learning models and the technology in our platform. That helps us rate and score and pull insights out of these narratives.

I think the combination of the scale of the network, the focus on quality of the network, but also what the output of that network has enabled us to build has really helped us build a technology competitive advantage on top of the network effects of the contributor network itself.

David Hynes

Yes, yes. Super helpful. Thank you, guys.

Andy MacMillan

Thank you.

Operator

Thank you. Our next questions coming from the line of Bhavan Suri with William Blair. Please proceed with your questions.

Bhavan Suri

Thank you, team, and thanks for taking my questions. Let me echo my congrats, it was a really solid quarter there.

Let me just jump into this concept of use case that you've touched on a little bit, coupled with the new model. One of the concepts of the new model was to drive broader usage. I'd love to ask two questions, Andy, question one, which is how have expansion rates played out with the guys that are using the flex model, or that adopted that early? Then two, have you seen different use cases from those folks, where because they're not constrained by budget or prestige or something like that, that product manager has been able to expand it faster across all the use cases? Help me think through both the expansion and the types of use cases you might be seeing there.

Andy MacMillan

Yes, thanks, Bhavan. Let me take the second part first, which is, one of the things that we're finding is because we have enabled customers to buy and share capacity across seats and to more easily buy more seats where needed, it's really enabling this motion I was talking about earlier of as people discover the product, it's easier for them to come on board, it's easier for an organization to say someone in marketing saw some of the CxNs that came out of the product team. They'd like to get access to a seat and come on board with the platform. Again, I don't think that's any magic in the pricing model. I think that's just removing friction of where we had the model previously combined those concepts, made it harder for companies to mix and match the growth that made sense for them.

Conversely, if the centralized team was tasked with doing a lot more because other folks wanted them to run the platforms, they might need to buy capacity but not buy seats. I think what it's really enabled us to do is have more customer centric conversations in the expansion motion that says, yes, we can match the way that you want to buy the product. I think that has enabled us, to the first part of your question, to—you saw a great expansion rate improvement over the course of the previous four quarters, we continued to see customers moving to a new pricing model.

Again, I think those are related, but I wouldn't say it's purely the cause. I think the cause is we're driving awareness. We've got a good motion in our accounts. I think what we've done is removed an inhibitor of a pricing model that might have made that harder or more complicated. We might have gotten there in the old pricing model, it just would have taken more time. I definitely think the new pricing model is helping us do that. I don't think it's the only unlock. I think the fact that we've got a product and a set of motions and our customer base around this upsell, cross sell has really been the secret.

Bhavan Suri

Got you. Anyways, they're executing well, right. The question we're asking, I think, around friction or growth, and I'm not saying that you're not growing, 35%-plus, it's just trying to understand what's holding it back. Maybe I'll touch on that a little bit more at a strategic level. In the old days, CIOs hated software-as-a-service because they had a system and a spend and it's capital budget, and people trained in a certain way. It took a while to get over that SaaS cloud is the right way to do it.

Is there a certain set of folks in organizations or groups or legacy mentality, we should use market research firms or our agencies, is there a set of those things that we need to overcome, that will happen over time, that the pricing models are helping, but is there is there some friction? Is there an obstacle that we haven't thought of that you're seeing that may take time? How should we think about the champions, and also the guys who are pushing back in organizations?

I realize it's a tough question. It's different for every organization. We certainly saw that in SaaS, and it took a while to play out, but it's playing out amazingly well. I wonder, is that—do you get from a 35% growth rate to 70% growth rate again, in two or three years, as you overcome that? Or it becomes the norm? Because once you see the video, it's so obvious. I'm trying to get my arms around that part.

Andy MacMillan

I think it's a great question and I would say it's in two parts. One is, you're right, it is just raw awareness, right? When you see one of the CxNs come back, people go, Eureka, I get it. That makes sense. I should see people use it. I think the other thing that we are educating the market on is that you can use technology to solve this problem to do it at scale and do it quickly. I think, first pass, if all you show them is a video, they go, that sounds like it'd be hard to go find the right people, get them to record themselves, have all the technology, have the ability to watch all that content.

The fact that we've built a technology platform that makes it easy to go find the right people, to have them record themselves and to help you interpret and go through that volume of qualitative rich data to point you to the right moments, I think that's the other piece. I did a one/two, right? One, aware that it's possible, and then two, aware that it's possible at scale, using technology to do it quickly and efficiently.

Operator

Thank you. Our next questions come from the line of Brent Bracelin with Piper Sandler. Please proceed with your questions.

Brent Bracelin

Thank you.

Maybe one for Andy here. Just as you think about product and end market research going back in person. Are you seeing any enterprises make that move or is there evidence you think this might be more of a structural permanent change in how these brands are conducting product and end market research? Would love to get any viewpoint on that just given the return to office that's happening place right now.

Andy MacMillan

Yes, we haven't seen any kind of structural shift back. I think most folks aren't looking to bring back the expense and complication of trying to do this in person.

Brent Bracelin

Perfect. Then Jon, if I look at the subscription gross margin, nice uptick here this quarter. Obviously, to some extent, you are facing labor shortages as well. Maybe just walk through how we should think about the contributor costs, subscription gross margins? How sustainable are those subscription gross margins going forward in light of labor shortages? Are you contemplating increasing costs there on contributor side just given the shortages we're seeing out there? Thanks.

Jon Pexton

Yes. No expectation if contributor costs go up. The margin is seasonal. I made those comments and you should appreciate on a quarterly basis that Q4 is always a little bit better because there's just less studies that are being done around the holidays. Then seasonally, we see that reverse. I do expect subscription gross margin to come down as it has the last, I think, three years in a row in Q1 and Q2. But we're range bound and historically it's been 78%, 79%. We're ahead of that right now.

We've said in the past that, going forward, the long-term model target is about 78%. I think we'll be in that range. I think in the next four quarters we'll probably be a little bit above that range. But we've had pretty good stability over an annual basis with our subscription gross margins. With some scale and some efficiencies, I think that that can float up a little bit.

Brent Bracelin

Helpful color. Thank you.

Jon Pexton

Thanks, Brent.

Operator

Thank you. Our next questions come from the line of Scott Berg with Needham. Please proceed with your questions.

Scott Berg

Hi, Andy and Jon, congrats on the fantastic first quarter and thank you for taking my questions.

We have two. Andy, when you think about the contributor network, how should we think about the growth of the individuals that are in that network for you? Given the size and the number and where they are geographically today, do you feel like you have to grow that meaningfully going forward to give your customers even more options there? Thank you.

Andy MacMillan

I don't know about growing it meaningfully, I think it continues to grow at the pace of the market demand and that's the way that the model is built. We continue to see really strong performance out of the network. As we've grown, we continue to see fast response times, great ratings from our customers. We know that the network is able to continue to expand and grow and meet the needs and demands of our customers on a global basis. I think we're pretty happy with how the network continues to meet the market need.

Scott Berg

Got it. Then my follow-up question is on the improvements in net revenue retention that you've seen really throughout this year and the last five quarters in particular. How should we think about those improvements in terms of is it maybe that same individual within an organization, or maybe a team using more of your solution versus moving outside to other different departments to other different teams? I don't know if you think of it that way, but any color there. I'm trying to understand if you just go deeper with a certain set of teams or employees or maybe you're making more impact across the organization? Thank you.

Andy MacMillan

Yes. It's a great question, Scott. I would say it's—whether it's with the same user or with a broader team, it's often by use case expansion. This is something we talked a little bit about during the roadshow, which was one of the things at the start of the COVID period that we did is we released a bunch of templates on our platform. What was interesting about that was the template didn't solve a usability problem. It's not hard to create a test on our platform. It takes a couple of minutes. But what it did was illuminate use cases. When we put together a template to say, you can test your food delivery service app experience with a restaurant, every one of our restaurant customers went, oh, that's a good idea. I should do that.

Now we have well over 100 templates deployed, our sales teams, our success teams are using those to highlight use cases. Whether that's somebody who's already using the product, who says I'm going to pull another use case off the shelf, and do some more testing, or whether it's the person sitting next to them that says, hey, that's a great idea. I'm going to do that with the platform. In either case, it's largely just been around, again, awareness of use cases and things that folks can do on the platform.

Scott Berg

Excellent, congrats on the strong quarter. Thank you.

Andy MacMillan

Thanks, Scott.

Operator

Thank you. Our next questions come from the line of Brian Schwartz with Oppenheimer. Please proceed with your questions.

Ari Friedman

Hi, this is Ari Friedman subbing in for Brian Schwartz. Thanks for taking my question and congrats on the quarter. I was wondering, when you go up for an RFP, are you guys mainly displacing like other softwares like a user of Zoom? Or are you also displacing maybe a focus group company or a Cantar type of agency? Just trying to understand what you guys are displacing. Thanks.

Andy MacMillan

Yes, great question, Ari. Thank you. It's interesting, I think being a market maker, we answer very few RFPs. I think I can count it on probably one hand, certainly on two, last year. It's just not an established market yet in that way. What we do see a lot of companies do is displace other less effective spend. Your example of using an outsourced market research agency. Rather than paying for one outsourced study, people might take those dollars and deploy it instead as a technology solution to embed this in an agile process. That's more typically what we see.

Ari Friedman

Thanks, that makes sense. Then another question I have are what investments are you most excited about going into 2020? Thanks.

Andy MacMillan

Yes, I think the investments we're excited about—we continue to see great, durable performance out of investment in sales and marketing, which is always good to see in a growing business. But I think in terms of excitement, I'm really excited about the investments we're making in the technology, the work we're doing around some of our machine learning to help people get to the moments of insight, the collaborative capabilities of more people on the platform, getting access to these CxNs. Some of the use cases we're seeing on the platform where we see organizations doing things like deliberately reaching out to more diverse audiences that maybe weren't—they weren't getting those perspectives before, I think that's having a real impact on the world and how people use our technology.

I'd also say just telling our story, everything from the book that we put out to the marketing that we're doing, I think it's really important to the Company that we're just out telling our story, whether that's through our expanding field sales team or through the marketing dollars that we put to work.

Ari Friedman

Thank you.

Andy MacMillan

Thank you.

Operator

Thank you. Our next questions come from the line of Brian Peterson with Raymond James. Please proceed with your questions.

Brian Peterson

Good afternoon, gentlemen. Thanks for taking the question and congrats on the strong quarter. Andy, maybe a higher level one, just on the partnership opportunity. I'm curious how big of an impact partners are having in new business today. As we think about the growth opportunities and driving awareness, how big of a factor is that in terms of driving growth and awareness going forward?

Andy MacMillan

Great question, Brian. It's early days for us on partnering to be honest, it's one of the big growth vectors that we see in front of us. We really had two limiting factors previously. One is our old pricing model didn't really lend itself to partnering. For those that will recall, we actually used to sell an unlimited use seat, which actually worked reasonably well for direct customers. But you obviously wouldn't want to give an unlimited use products to a partner that's going to go then sell it a bunch of times to a bunch of customers.

Our new flex-based pricing model actually works much better for things like agency partnerships and SI partnerships that want to use the platform. One is we've removed that barrier and are starting to build out those partnerships. Then the second is on the product side, we continue to see demand from the market of other technology product companies who want to come in and partner with us. They see the value that we're providing.

One of the things we did during the last year was start to publish a set of public APIs, which is going to really enable us to take advantage of that interest in product level partnerships, which I think will be really valuable to our customers. It's an area of the business I'm really excited about, but I would say it's still an opportunity in front of us versus something I think we're really leveraging historically.

Brian Peterson

Understood. Maybe a follow-up for Jon, I want to understand maybe the sales cycles, how have those progressed over the course of 2021? Anything that you can share on the land size of deals with new customers? Thanks ,guys.

Jon Pexton

Yes, so overall, land size has been pretty consistent. We've increased our team and we've increased our volume and our size. You'll see that the net new growth in customers was the largest we've done on record last quarter. We're bringing in a lot of customers of all sizes and we're also landing more six-figure deals than we've done in the past. But overall, when you blend it all together, still a pretty consistent land. It's definitely a land and expand motion, where we're landing people letting them, try out the software, and then really a large expansion opportunity.

Brian Peterson

Thanks, Jon.

Jon Pexton

Thanks, Brian.

Operator

Thank you. Our next questions come from the line of Rob Oliver with Baird. Please proceed with your questions.

Rob Oliver

Great. Thank you, guys, for taking my questions. My question was also on the land and expand opportunity, but in particular, in international. You guys have seen really nice growth in international over the last couple of years, it's becoming a more meaningful part of the business. I'd be curious when I look at historic customers, you guys planned around that 50k; you now have customers doing multiple hundreds of thousands of dollars. What are you guys seeing here early on from those international customers, in terms of land and the types of organizations that they are giving you a sense that maybe they could be meaningfully bigger? Then I just had a quick follow-up for Jon.

Andy MacMillan

Yes, I think we generally see it being analogous to what we see in our North America business. Again, it is still driving awareness. I think that's one of the things that makes our businesses expand internationally, more similar to our core business than maybe others are used to. We're in evangelical sale and we go into new markets, we're evangelizing. It's in many ways, the same motion.

We do also sell into every segment. You'd imagine large, global customers based overseas have a lot of the same needs and demands as our global customers in the U.S. We definitely see that as, in many ways, a similar motion.

Rob Oliver

Great. Thanks, Andy. Then, Jon, I know Brent asked earlier about the contributor network costs, so maybe I'll just ask in particular about as you guys expand in international, I would assume, and many of the multinational companies that you're using are just going to tap the existing network and try to get to U.S. consumers and therefore leverage that network. But as you sell more internationally, clearly, you're going to be needing to add more contributors abroad. I just wanted to get a sense for how we should think about that relative to costs as well? Thank you.

Jon Pexton

Yes, I still don't see any major changes to the overall cost on a per test basis there. We're rolling out different types of tests. We have a short test and that pays less. We've got standard test, which is roughly \$10. Then we've got live sessions, moderated sessions where we could be paying over \$100 for some of that stuff.

We have a variety of ways that customers can use the panel. Then we pay the panel in different ways as well. But so far, again, as Andy said, the panel—the demand drives the size of the panel and right now we're looking for more demand—the panels would love more tests.

Rob Oliver

Got it. Okay. Thanks again, guys.

Andy MacMillan

Thank you.

Operator

Thank you. Our next questions come from the line of Yun Kim with Loop Capital. Please proceed with your questions.

Yun Kim

Thank you. Another congrats on a strong quarter, Andy and Jon, and also Erica. Andy, just another follow-up question on the contributor network. As you expand use case to include more specialized and higher value CxNs, can you start charging different rates based on a target audience who may command higher rates to participate in your network?

Andy MacMillan

It's something we have the ability to do technically, if we so desired. What we find now is, frankly, the simplicity of our standard pricing works well in the market. We continue to hear from many contributors, interestingly, especially as we get into higher income brackets where being heard is actually a lot more important than being compensated. When you think about whether it's a premium flyer or someone who's a professional, what they really value is that their feedback is going to these brands and these companies.

I don't really see right now a need, frankly, for us to be paying a different compensation level for different levels of expertise, per se. I'd also add one of the things that we've done over the past few quarters is provide the ability for folks to bring their own participants, be that employees or their own customers. We often see that also in these more maybe B2B scenarios where a company says, hey, I have a pool of folks that have this expertise, I just need a technology set to access that. They almost use it as a customer loyalty perk of enabling them to be heard.

Again, we have the ability to do that should we choose to do so. But right now, I think the simplicity of the entire model is what makes the magic happen.

Yun Kim

Okay, great. Then, Jon, any change to contract length for billings frequency as you sign larger deals? Also, are you seeing a higher number of customers coming back for early renewals, or they use up their allotted numbers of CxNs under the new pricing model?

Jon Pexton

No major changes. We're doing probably some more multi-year deals and that'll show up in the RPO number that comes out in the 10-K. But basically, the vast majority are still annual deals. Then sometimes, if people want to have a larger bucket of consumption units, then by doing a multi-year deal, and they can they can spread that over the multi-year. That's been a driver of longer contract terms. But it's still the vast majority are one year deals. We keep it simple and we want to earn their business every time.

Yun Kim

What about the early renewals for those customers under the new pricing model?

Jon Pexton

Yes, again, half the contract value is on the platform, so that's not going to be up for early renewal. If they need to top off or up reload on some usage credits, then they can do that. Not significant in terms of billings or the macro environment.

Yun Kim

Okay, great. Thank you so much.

Operator

Thank you. There are no further questions at this time. I would like to turn the call back over to Andy MacMillan for any closing comments.

Andy MacMillan

All right, thank you to our Operator, Darryl. Appreciate the help with the call. Thanks, everyone, for joining the call and for your interest in UserTesting. We really look forward to future calls and continue to tell you more about the business.

I just want to say thank you again to our employees, our customers, and our partners. It's an honor for Jon and I to share these results and we're proud to tell our story. With that, we hope everyone has a great week and thanks again for your time and your questions.

Operator

This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.