



November 10, 2021

Similarweb Ltd. (NYSE: SMWB)

Prepared Remarks

Q3 2021 Earnings Call

Management Commentary

Annie Rosenberg

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 Q3 2021 earnings call. It's great to be here with all of you this morning. Our team is executing at a very high level, and we delivered very strong results for the quarter. As a result, we're pleased to raise our revenue guidance for full year 2021 to \$135 million, representing 45% year-over-year growth.

Q3 was a strong quarter, in which we achieved a number of new milestones. First and foremost, I'm proud and excited to report that in Q3 we saw our ARR exceed \$150 million, just one year after we reached \$100M in ARR back in Q3 2020. Also in the quarter, our GAAP revenue increased 46% year-over-year, to \$35.6 million. This result exceeded our guidance.

Q3 was a record quarter for us for both in terms of new customer acquisition and retention. Our customer base grew by 174 accounts, including the addition of amazing new logos across a diverse range of industries, including Volkswagen Group, Toshiba Electronics, The London School of Economics, Royal Caribbean, Quest Diagnostics, and News Corp Australia. Our most significant growth came in our largest and most strategic customer segment -- those companies who generate more than \$100,000 in ARR. In Q3, we set a new record, adding 25 additional \$100,000 customers, an increase of 48% year-over-year. This critical segment now represents over 50% of our total ARR for the first time.

We're seeing strong momentum as our expanding product portfolio is contributing to greater velocity in our land-and-expand direct sales motion. In Q3, we set new records for NRR -- improving from the previous high of 106% at the end of Q2, to 110% in Q3. In that critical customer segment of accounts with over \$100K in ARR, we improved NRR to 122% up from 118% in Q2, also a new record high.

These improvements are driven by expanding usage of our products, as well as by customers who purchase more than one of our Digital Intelligence solutions. As you know, we offer a complete suite of Digital Intelligence solutions, supporting a wide variety of use cases -- for digital marketing, sales, market research, ecommerce strategy, and alternative data for investors. Today, more than two-thirds of all customers purchase more than one solution.

As an example of how our portfolio strategy is helping to drive deeper customer penetration, in Q3 we completed one of the largest deals in Similarweb history, a combination upsell and cross-sell with a major multinational internet technology company. This was a seven-figure addition to our existing relationship -- making this the second consecutive quarter we've been able to announce an ARR contract of this size. This customer will be using four of our five Digital Intelligence solutions, representing a total of \$6.5M in ARR contracts.

I want to focus for a minute on one of our five solutions -- our new Shopper Intelligence offering. It's an exciting and differentiated solution, and we're seeing some amazing early successes with it. Shopper Intelligence delivers powerful insights into ecommerce activity on online marketplaces, enabling our customers to optimize their performance by revealing browsing and buying behaviors across online marketplaces. Our insights help them to shape their online sales strategies by optimizing product portfolios, benchmarking the competition, and improving search and advertising performance. When we launched our Digital Marketing and Digital Research solutions, it took us four years to get to our first seven figure deal. With Shopper Intelligence, it

took us just three months and in Q3 we signed our first seven figure ARR deal for Shopper Intelligence.

Here are a few examples of how our customers use Shopper Intelligence. A large North American retailer reported that Shopper Intelligence helped them rename a product to better align with search behaviors, resulting in a 20% increase in sales. In Q3, we completed a two-year deal of \$600k with this customer. Also, in Q3, Shopper Intelligence helped us win with a consultancy specializing in CPG. The deal expands our business with this customer by 6X, to \$360K ARR. This customer uses Similarweb in its sales processes, to target and pitch new customers, as well as in advising its CPG customers to optimize their partnerships with Big Box retailers. The customer has also agreed to be a referral partner for us, and is now recommending Similarweb to its own, direct customers.

One more solution that is growing nicely is our Sales intelligence solution that helps B2B companies that sell to digital players like e-commerce, digital publishers & digital advertisers. For example, Postscript is a leading SMS platform that enables ecommerce to communicate and engage with customers through text message marketing. Postscript needed to improve and automate its account targeting and lead generation, which was labor and time intensive. By implementing Similarweb's Sales Intelligence solution, the company now has access to Similarweb's e-commerce database in every region, and automatically can segment and prioritize e-commerce leads and integrate them directly into Salesforce. The result was an increase in target accounts pipeline of 27% within just the first month.

In Q3, we continued to make smart product investments to enhance our solution portfolio and make it stickier. Year over year, we doubled the size of our engineering team, and in Q3, we delivered hundreds of improvements across our portfolio of Digital Intelligence solutions. That includes major functional advancements to our competitive insight, keyword strategy, and advertising intelligence features, to name a few. These improvements are driving more customer value and increasing our product stickiness, which is reflected in our constantly improving NRR numbers. It's also reflected in the way our customers use our solutions, incorporating them directly into their business workflows.

Indirect channels -- referral partners, affiliates, resellers, and OEMs -- are a new area of expansion for our business. For example, in September we announced that we had been selected by Google to power its new Market Finder service. Market Finder helps small- and medium-sized businesses target and grow into new global markets. The service leverages Similarweb data to analyze a company's export potential, delivering an automated score along with personalized and actionable recommendations to kick-start an international expansion plan. Google has told us that it was the unique accuracy of our digital data and insight - our data edge -- that sealed their decision to integrate with us.

The win with Google reflects our growing relationship, and also is representative of the increasing potential we see to build OEM relationships, where partners include our data and insights in their own product offerings. We also saw channel growth outside of OEMs. In fact, Q3 was the first quarter in which our resellers outside of Japan contributed more than \$1M in new business. Overall, we have a strong opportunity for our indirect business, and we plan to increase our investments in this area.

Our data and insights are recognized by our customers -- companies like Google and Postscript, who I've referred to today -- as well as by the industry more broadly. In fact, last

month, we were recognized by Hedgeweek as the Best Alternative Data Provider in their 2021 Americas Awards.

For over 10 years, we've been working on solving the incredibly challenging problem of measuring digital behavior. We've invested significant resources in our data assets and acquisition, and we've built an amazing R&D team of top-notch data scientists and engineers -- these investments & technology are very difficult to replicate. We are proud of and confident in our data edge, and we differentiate ourselves on the reliability and comprehensiveness of our data. But we are always looking to innovate and improve on our measurement and insight creation.

That's why today, as you may have seen, we announced the acquisition of Embee Mobile, a San Francisco-based mobile insights provider and market leader in mobile audience analytics, consumer panels, and mobile sampling. We've been a partner of Embee for over a year, so we know them very well and we've been very impressed with the quality and depth of their data. Embee's measurement approach is backed by a large-scale metered panel of highly engaged, opt-in users. This approach complements our existing measurement strategies, and will enable us to enhance our mobile intelligence offering with more granular data and more powerful use cases. Beyond this, we believe that Embee will position us to introduce exciting new market research capabilities in the future. We welcome the Embee team to the Similarweb family, and we're looking forward to working together with them to advance the state of the art in digital measurement.

In general, we continue to benefit from the strong secular trends toward digitization in our markets. Digital has become a preferred way to interact, transact, and deliver products and services. It is an important growth driver and a strategic focus for most businesses today. Digital markets are highly competitive and almost every player is looking for an advantage. Our digital intelligence solutions give our customers an edge -- data and insight that enables them to understand their markets better than their competitors, take action faster, and win. The more that companies shift their business and become dependent on digital, the more mission-critical our offerings become. These trends are driving our strong growth and reinforcing our confidence in our opportunity, our strategy, and the investments we're making in our future.

We have a massive market opportunity, which we believe today is approximately \$34B. Our solutions target the most essential, revenue-driving operations of our customers -- sales, marketing, ecommerce, and the C-suite. And we sell across a wide variety of industries, ranging from financial services, to retail, travel, CPG's, to media, and many more.

To summarize, we're continuing to execute successfully on our strategy. Since our IPO, we reached the \$150M ARR milestone nearly 3 months ahead of our plan and have delivered two consistent quarters of strong revenue growth, both north of 45%. We've grown our indirect channels, and we've expanded our data edge both organically and through acquisitions in Q2 and Q3. We've introduced new products and features that expand our TAM and proven our ability to monetize these with significant new and upsell deals.

Our combination of strong revenue growth and outstanding gross margin puts us among a small group of best-in-class SaaS companies in the world, and we're very proud of this achievement. Finally, our execution and growth would not be possible without every member of our global team, each of whom works hard to achieve these results. We built a top-class recruiting machine to drive and support our growth, and we are currently signing new hires at the rate of

50 new employees per month. I am very happy that earlier this week, D&B recognized us as one of the top 30 tech companies to work for in Israel.

Overall, I'm pleased with the way our team continues to execute, and our focus on helping our customers succeed and win in the digital world. We are heading into Q4 with a tremendous amount of energy and momentum, as you can see by our raised guidance. And as I like to say.... We are just getting started.

With that, I'll turn it over to Jason, our CFO to review the financials. Jason?

Jason Schwartz

Chief Financial Officer – Similarweb Ltd.

Thanks, Or, and good morning, everyone. I will now walk you through our third quarter financial results before moving on to our guidance for the fourth quarter and full year 2021.

As Or mentioned, in Q3, we delivered record revenue of \$35.6M, reflecting 46% year over year growth. This increase was driven both by an increase in our total number of customers, which rose by 27% to 3,242, as well as an increase of 16% in our average annual revenue per customer, to \$45K.

In our large customer segment, those who generate \$100,000 or more in ARR, we increased the number of customers by 48% year over year, to 245 customers. Once again, most of these customers began initially as smaller customers - and have expanded through our successful land & expand motion. Today, this customer segment represents 51% of our ARR, although no single customer accounts for more than 5% of our ARR or revenue.

Dollar-based net retention rate, or NRR, was 110% overall and 122% for our \$100,000 ARR customer segment as compared to 101% and 114%, respectively, last year. The success of our land and expand model continues to prove itself as NRR not only improved substantially year-over year, but also sequentially, as compared to Q2.

As you know, substantially all of our revenue is ARR - annual recurring revenue with minimum subscription terms of 1 year. We continue to increase the number of customers with multi-year subscription terms. As of the end of Q3, 31% of our ARR is generated from customers with multi-year subscription commitments, compared to 25% last year. This trend, along with our high NRR, reaffirms the value that our customers are generating from Similarweb and gives us visibility into the health of our ARR.

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 \$27.9 million in the quarter, representing a gross margin of 78.3% versus 78.0% in Q3 2020. Operating expenses grew to \$41.7 million in Q3 up from \$21.4 million in Q3 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. Employee headcount increased 69% to 864 employees as compared to 511 last year, which has fueled our top line growth. The specific components of our operating expenses were;

Research and Development - \$10.4 million vs. \$5.3 million in Q3 2020. This increase was driven primarily by growth of employee headcount; those employees are focused on our newer solutions, such as Shopper Intelligence, Sales Intelligence and Investor Intelligence. We are already realizing revenue growth from these new solutions and believe that these investments will prove to be meaningful growth drivers in the future.

Sales and Marketing - \$23.2 million vs. \$12.9 million in Q3 2020, driven principally by increased investment in sales and account management headcount and marketing activities.

General and Administrative - \$8.1 million vs. \$3.2 million in Q3 2020, which includes \$1.2 million of additional costs for the quarter that we now incur as a publicly traded company.

As a result, our non-GAAP operating loss in the quarter totaled \$13.9 million, better than our guidance, increasing from \$2.4 million in Q3 2020.

Free cash flow for the quarter was negative (\$17.1) million, compared to (\$2.3) million in Q3 2020, primarily as a result of the investment in employee hiring, to drive our growth. These investments are already showing their value in the acceleration of ARR, customer growth and higher NRR.

Turning to the balance sheet - we ended Q3 with \$159.1 million in cash and cash equivalents and no debt. We believe that our cash balance and our \$75 million credit facility, totaling \$234 million of available funds, provide us with more than enough liquidity to execute on our growth plans.

Deferred revenue at the end of the quarter was \$66.4 million, compared to \$43.6 million at the end of Q3 2020. Our Remaining Performance Obligations, or RPO, totaled \$114.1 million, up from \$85.7 million as of December 31, 2020. We expect to recognize approximately 87% of total RPO as revenue over the next 12 months. We believe that the combination of deferred revenue and RPO are a good indicator of the health of our business.

During Q3, we exceeded \$150 million of ARR, continued to deliver strong and accelerating NRR and customer growth both overall and from our \$100,000 ARR customers. These trends and the continued momentum and demand in our business fuels our confidence to again raise revenue guidance for the year.

For Q4 2021, we expect total revenue in the range of \$37.5 million to \$37.9 million. For the full year we are raising guidance and expect total revenue in the range of \$135.0 million to \$135.4 million, representing 45% growth year over year at the midpoint of the range, as compared to 32% growth last year.

Non-GAAP operating loss for the fourth quarter is expected to be in the range of (\$18.8 million) to (\$19.2 million) and for the full year between (\$52.1 million) and (\$52.5 million). This includes approximately \$3 million of incremental operating costs related to the acquisition of Embee Mobile, which we expect to close this month.

In summary, we have executed well since our IPO. Our business is tracking well across all of our major initiatives and our financial performance and guidance indicates that we will end the year on a high note and head into 2022 with strong momentum.

With that, Or and I are happy to take your questions. Operator?