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Similarweb Ltd. (NYSE: SMWB)

Prepared Remarks

Q4 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 Q4 2021 earnings call. It's great to be here with all of you this morning. We finished off a very strong 2021 with excellent performance in Q4. GAAP revenue grew 51% year-over-year, to \$40.2 million, exceeding our guidance for the quarter. I'm very proud of our team for continuing to execute well and accelerating our growth. During today's call, our CFO Jason and I will provide more details around our Q4 and 2021 results and provide Q1 and full year guidance for 2022. So, let's discuss the results.

In many ways, 2021 was a game-changing year for us. Most importantly, our growth trajectory has changed. In 2021, our total revenue grew by 47% to \$137.7 million. That represents an increase of 15 percentage points of growth over last year's 32%. We ended the year with \$165M in ARR, concluding our third straight year of accelerating ARR growth. As we move into 2022, we are seeing very strong tailwinds for the business, an increasing TAM, and rapidly expanding demand for our solutions. In light of these favorable conditions, we will continue to invest across the business in order to further nourish and grow our customer base, as well as strengthening our product portfolio and data assets.

The strength of our customer base has also improved. In 2021, our most significant growth came from our largest and most strategic customer segment -- those companies that generate more than \$100,000 in ARR. We grew the total number of these customers by 45%, and together, they now represent more than 51% of our total ARR. Overall, we more than doubled our rate of new customer acquisition versus 2020. We continue to see our customer growth being driven from a diverse set of industries. In 2021, the new logos we added include amazing global brands like Fiat Chrysler, Intel, 3M, Mondelez, Doordash, Tesco, CVS Health, and many more.

Our customers are more engaged with our solutions and more committed to them than ever before. 33% of our ARR is generated from customers signed to multi-year contracts, this is an 8-percentage point increase, from 25% of ARR last year. And even more significantly, we have increased our customer total lifetime value, with NRR hitting an all-time high. We closed Q4 with overall NRR at 113%, and at 125% for the critical \$100k+ ARR customer segment -- both a 12-percentage point improvement over our Q4 2020 numbers.

I want to pause here for a second to reflect on what we see as the most important market driver for our business growth. We believe that today, the #1 mission for every CEO and business leader is to drive growth. And the biggest growth opportunities come from the digital world -- a place without borders, where it's possible to almost instantly reach and sell to audiences at a global scale.

In this world, where growth potential is almost unlimited, data is king. To see and capture their growth opportunities, every company is looking for better market data. They need a complete picture of what's happening in their markets to answer their most strategic growth questions like: How do I grow my demand? How do I grow my product portfolio? How do I grow my market share? How do I grow my audience? How do I grow my sales?

This is what Similarweb does. We give companies visibility they don't have, and insight that guides them on what to do next in order to grow. We believe our proprietary data and growth insights give our customers an advantage in their markets. So, we believe the value we deliver is outstanding, and that every company that wants to compete and win in digital, needs us. And that's why we see a huge TAM and potential for high growth for many years to come.

In 2021, to accelerate our own growth rate, we expanded and improved our product portfolio. In Q2, we launched our Shopper Intelligence solution, and by Q3 we had already signed our first seven-figure deal for this product. Shopper Intelligence is a highly differentiated solution that gives our customers amazing insight into consumer behavior within online marketplaces. In Q4, we expanded this offering significantly, improving our marketplace insights coverage by adding Walmart, Target, Best Buy, and Chewy on top of our existing support for Amazon insights. Our goal is to become the market standard in this emerging space, and to be an essential growth enabler for every CPG or retail company looking to do business in online marketplaces. Within our customer base alone, we've identified over 700 companies that meet our target profile, so the opportunity for this product is huge.

We continued to add major enhancements to our other offerings as well. In Q4, we enhanced our Sales Intelligence solution by partnering with a leading data provider to add a contacts database to our offering. That solution now brings together 400M+ contacts with digital traffic and engagement insights, and technographics data. We believe this combination of data and insight is ideal for sales organizations who are targeting digital-first businesses, such as e-commerce, publishing, payments, and digital advertising. Now, with just one Similarweb solution, sales representatives can identify qualified accounts, connect with the right decision makers and influencers, and engage those prospects with a compelling pitch that leverages our proprietary digital insights.

Finally, as you may have seen, I am very excited about today's announcement of a new data licensing agreement with App Annie, a market leader in mobile app insights. The agreement gives us access to an important set of App Annie's mobile application data, which we will incorporate into our platform. We plan to launch a new offering based on the App Annie data and insights in Q2. By bringing together our respective best-in-class data, we believe Similarweb will be able to deliver an even more accurate, more comprehensive view of the digital world – a powerful offering that will improve the insight and competitive advantage we create for our customers.

And of course, this means that companies will be able to purchase industry-leading web and mobile app data and insights from a single source. We believe this will be a very compelling proposition in our markets, and a game-changer for companies looking to take a unified approach to optimizing their digital strategy across platforms.

In 2021 we also enhanced and expanded our product offerings by completing two acquisitions, Similartech and Embee Mobile. Both transactions demonstrate our ability to execute on smart acquisition opportunities to improve our customer value. Similartech technographic data is now used across the board in almost every Similarweb product, from our free offerings, to solutions like Sales Intelligence and Investor Intelligence, to our APIs and data feeds.

Embee Mobile, which was completed in Q4, has already been used to enhance our offerings as well. For example, in Q4, we added a new feature to our Shopper Intelligence solution, called Shopper Demographics. This feature enables e-Commerce companies to get to know their audience on a deeper level, so they can inform new product development and optimize buyer

campaigns. Going beyond basic identifiers like age and gender, this new analysis segments every category and brand on Amazon according to education level, household size and income, and employment status. We believe it is a highly differentiated feature in the market, and it would not have been possible without data from the Embee Mobile acquisition.

Finally, in 2021 we continued to invest in our people, aggressively scaling our organization to support our growth. We expanded geographically, adding new offices in Munich and in Northern Virginia, and we are working hard to build out our new “Similarweb HQ”, which will be located in the center of the Tel Aviv metropolitan area. When it’s complete, we believe it will be a significant attraction that will help us to continue to recruit top talent here in Israel.

To summarize, we believe 2021 was a pivotal year, and we’re entering 2022 with great momentum -- including a track record of accelerating growth and a growing market opportunity ahead of us.

Back in May, we successfully completed our IPO on the New York Stock Exchange. Since then, we’ve delivered three consistent quarters of strong revenue growth, all north of 45% year-over-year growth, concluding this Q4 with more than 50% year-over-year growth. Our story has improved materially since our IPO, across all of our business.

We continue to add to and improve our product portfolio and offering, both organically and inorganically, expanding our TAM. We’re rapidly increasing our product value and stickiness, resulting in double digit growth in our Net Revenue Retention.

We believe our combination of consistently strong growth and solid gross margins positions us in a small group of best-in-class SaaS businesses.

And most importantly, we are a leader in a large and high-value market, with the unique opportunity to become a critical growth driver for every company that wants to compete and win in the digital world.

I’m excited about our progress and the opportunity we have going forward. We delivered a strong Q4, capping off a year of tremendous acceleration in our business. We’re confident about our growth strategy and our ability to ultimately capture a large share of a very valuable market.

I will now turn the call over to our CFO, Jason, to discuss more about the financial results and 2022 financial guidance. Jason?

Jason Schwartz

Chief Financial Officer – Similarweb Ltd.

Thank you Or and good morning, everyone. I will now walk you through our fourth quarter financial results before introducing our guidance for the first quarter and full year 2022

Total revenue for the fourth quarter of 2021 was \$40.2M, reflecting record 51% year over year growth. This increase was driven both by an increase in our total number of customers, which

rose by 28% in Q4 to 3,487— also a record high for us — as well as an increase of 18% in our average revenue per customer, to nearly \$48K in Q4. For the full year 2021, total revenue was \$137.7M, reflecting 47% year over year growth.

Dollar-based net retention rate, or NRR, was 113% overall, and was 125% for our greater-than-\$100K ARR customer segment — an increase of 12 percentage points for each of those metrics, compared to last year.

As you know, substantially all of our revenue is annual recurring revenue or ARR — with a minimum subscription term of one year, but we continue to increase the number of our customers who commit to multi-year subscriptions. As of the end of Q4, 33% of our ARR is generated from customers with multi-year subscriptions, compared to 25% last year. This trend towards increasing contractual commitments, along with our high NRR, reaffirms the value our customers see in Similarweb, and speaks to the increasing health and durability of our ARR.

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 earlier today.

Our gross profit totaled \$30.2 million in the quarter, representing a gross margin of 75.1% versus 78.9% in Q4 2020. The decrease is primarily the result of the acquisition of Embee Mobile, which closed in Q4, whose fixed costs contributed to an increase in cost of revenue.

Operating expenses grew to \$48.5 million in Q4 up from \$25.7 million in Q4 2020, largely reflecting the investment in personnel across the business to support our growth.

The specific components of our operating expenses were: Research and Development — \$12.8 million vs. \$6.2 million in Q4 2020. This increase was driven primarily by growth in employee headcount; particularly among employees focused on our newer solutions, such as Shopper Intelligence, Sales Intelligence and Investor Intelligence. As I discussed in Q3, 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 — \$26.6 million vs. \$15.4 million in Q4 2020, driven principally by increased investment in sales and account management headcount and marketing activities, as we scale to build pipeline and support our plans for growth in 2022. General and Administrative — \$9.1 million vs. \$4.2 million in Q4 2020, which includes \$1.4 million of additional costs for the quarter that we now incur as a publicly traded company, as well as additional employee headcount required to support our growing operations globally.

As a result, our non-GAAP operating loss in the quarter totaled \$18.4 million, better than our guidance, compared to \$4.7 million in Q4 2020. For the full year, our non-GAAP operating loss totaled \$51.7 million, better than our guidance, compared to \$14.9 million in 2020.

Free cash flow for the quarter was negative (\$11.5) million, compared to (\$1.4) million in Q4 2020, primarily as a result of the investment in employee hiring to drive our growth. These investments continue to show their value in the acceleration of ARR, customer growth and higher NRR.

Turning to the balance sheet, we ended Q4 2021 with \$128.9 million in cash and cash equivalents and no debt. We believe that our cash balance and our \$75 million credit facility,

totaling \$204 million of available funds, provides us with more than enough liquidity to execute on our growth plans and take us to positive cash flow, which we plan to reach in 2024.

Our deferred revenue increased 46% year over year to \$78.8 million, compared to \$53.9 million at the end of Q4 2020. Our Remaining Performance Obligations, or RPO, increased 60% year over year to \$137.5 million, compared to \$85.7 million at the end of Q4 2020. We expect to recognize approximately 88% of total RPO as revenue over the next 12 months. We believe these metrics are a good indicator of the health of our business and our revenue streams.

As a result of our strong performance over the last 3 quarters since completing our IPO, as well as the product innovation that we continue to deliver and the market opportunity that we see ahead of us, we are issuing strong guidance for Q1 and for the 2022 fiscal year. For the first quarter of 2022, we expect total revenue in the range of \$41.1 million to \$41.5 million, representing 40% growth year over year at the midpoint. For the full year we expect total revenue in the range of \$193 million to \$194 million, representing 41% growth year over year at the midpoint.

Non-GAAP operating loss for the first quarter is expected to be in the range of (\$20.5 million) to (\$20.9 million), and for the full year between (\$83.0 million) and (\$84.0 million). This is driven by the investments we are making to continue our strong growth, as well as the investment we are making to further expand our data moats through strategic moves such as the acquisitions of SimilarTech and Embee Mobile, as well as the data licensing agreement with App Annie. This also includes negative impact due to foreign exchange movements, which we estimate at approximately \$10 million dollars of additional costs.

In light of our strong unit economics and efficient land and expand model, which are reflected in our strong NRR, and in order to capitalize on our strong momentum and market opportunity, we expect to continue to make significant investments in the business through 2022 and 2023, as we execute on our plans to become cash flow positive, on an ARR of \$450-500M in 2024. As I mentioned, we are in a strong cash position and believe that our available funds provide us with more than enough liquidity to execute on our growth plans until we reach positive cash flow.

To conclude, we have executed well since our IPO last year. Our business is performing extremely well across all of our major initiatives and our financial results and guidance indicate that we are heading into 2022 with strong momentum.

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