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<<Rob Oliver, Analyst, Baird>>

Good morning everybody. Thank you for joining us for day two of Baird's Global Consumer, Technology & Services Conference. I'm Rob Oliver, I follow software and SaaS here at Baird. It's my pleasure to have the management of Yext here, Michael Walrath. Good to have you.

<<Michael Walrath, Chief Executive Officer>>

Thanks for having us.

<<Rob Oliver, Analyst, Baird>>

Yeah, my pleasure. Nils Erdmann is also here from Investor Relations. So if you see him, you can talk to him as well. Lots to cover. Michael, you guys just reported your earnings, a lot of excitement going on around changes you've made within the organization and also AI, which is a topic for everyone, but very demand to what you guys are doing? So, but let's start just because if stock's not currently under coverage here and just the levels at the room, let's maybe you could provide a brief overview of what Yext does.

<<Michael Walrath, Chief Executive Officer>>

Sure. So thanks for having us. It's an interesting time, interesting day today. We're – we'll be racing out of here and doing a lot of meetings today. The fundamental thing that Yext does is it helps companies create best-in-class digital experiences. And we've been doing this in a number of different ways over the last, since 2006. But really the business that we have today was created in 2010, which is when I joined the company as Chairman, one of the early investors in the company and became Chairman in 2010, almost 2011. And that was really when the company made a pivot from being a marketing company to a software company.

The center of everything that we do is this idea of authorized information provided by the business. And so that started initially in the world of managing and creating a syndication management of location based listings, which evolved into reviews, ultimately into pages, which is a content strategy. And a very significant pivot about five years ago into AI-led semantic search. And a pivot that candidly made us look really foolish for a while, because five years ago making a potentially overly aggressive pivot into AI, looks, was hard for people to understand.

And frankly, I think it's been hard for people to understand until the last couple of quarters where as my, one of my favorite investors told me the music that you guys have been dancing to finally turned on the rest of the market could hear it. And so where we sit today, we believe we have a best-in-class platform for helping businesses to manage the emergence of generative AI along with the massive fragmentation that we're seeing. And we'll continue to see in the digital

experience for their customer, for their employees, for their partners. And I believe there's going to be a next wave of digital transformation where we're going to go from the Frankenstein Systems that companies have invested in over the last 10 or 15 years. Or the, we talk about it as the bowl of spaghetti inside most organizations when it comes to their web platforms, their mobile platforms, their chat platforms, their search platforms, and with the introduction of conversational technologies and more semantic search. This is only going to get harder and the technology infrastructure's really not there to do it.

<<Rob Oliver, Analyst, Baird>>

You were on the board.

<<Michael Walrath, Chief Executive Officer>>

Correct.

<<Rob Oliver, Analyst, Baird>>

For a while of this company. And so you saw a lot of that evolution, a lot of the changes, maybe some of the missteps we could talk about those as well. But then you decided to kind of drop down and be CEO maybe a little over a year ago at this time.

<<Michael Walrath, Chief Executive Officer>>

15 months. Yep.

<<Rob Oliver, Analyst, Baird>>

Yeah. So what was it that made you feel like it was the right time and a compelling opportunity for you?

<<Michael Walrath, Chief Executive Officer>>

Sure. So, yeah. So as Chairman of the company for 12 years, Howard Lerman, who was the Founder and CEO of the company, amazing products entrepreneur, really built the foundations of the company was integral in the pivot to AI, which again, was in hindsight, might have been a little too aggressive, but was way ahead of the market. And so I think we, there were really two things that, one was that we probably pivoted a little too early and a little too hard to a strategy that now I think is bearing, it makes a lot of sense.

The second thing is, we did not operate efficiently as a company. And I think we got swept up like a lot of companies in the kind of growth at all costs, and the assumption that the demand universe was going to develop faster than it actually did. And so where the company really struggled was we're spending way too much on sales and marketing and not getting, and seeing declining growth rates, which is a most investors don't really like high sales and marketing expenses and reduced and reduction in growth rates.

I come from a background where efficient growth, because I started software companies in the early two 2000s and there was no capital and there certainly wasn't tons of growth capital. So my whole basis is that I'm not really a believer in this growth at all. Costs is the right answer. If you understand the signal in your business well enough, you can grow efficiently and you can grow fast efficiently, but it takes really instrumenting and understanding the demand universe sales productivity, and key metrics around that.

And so when it was clear that we needed to make some changes to the way we ran the business, the first thing I did was go hire a recruiting firm not to find a CEO. Because my assumption was that you don't see this kind of marketing – sales and marketing spend in – and declining growth rates unless you have a product problem. And I'm not the right CEO to solve a product problem. Fortunately, being Chairman and being in the business, I had the opportunity to dig into that question over the sort of three to four months before I took the job and realized that we didn't have a product problem, that the product was actually better than I thought it was. What we had was a core operating problem and a go-to-market strategy that wasn't working. And those are problems I do know how to solve. And so that was the impetus for me demoting myself.

<<Rob Oliver, Analyst, Baird>>

Got it. So what – how in the 15 months that you've been in the job, like what were some of the kind of initial problems that you identified and kind of where are we and the trajectory of solving those?

<<Michael Walrath, Chief Executive Officer>>

Yeah. So as Darryl likes to say, last year we had the sledgehammers out when it came to kind of demolishing a lot of the, what had grown into a multi-siloed, highly inefficient business, high teens executives reporting to the CEO. Now we're, I think we're in the phase now where it's is we're chiseling. We're not done, but we're – we've become much more efficient. I think our run rate OpEx, our run rate total expenses, were down $16 million a year-over-year in the quarter. So we've made a lot of progress. And at the same time, what we've been doing is re-architecting and starting to re-engineer our entire go-to-market system with new executives.

And so those two things have been kind of happening at the same time, rebuilding the infrastructure of the company, but then also modernizing and building around a demand led go-to-market machine. Which I – I said yesterday on our call we're probably a couple quarters from really feeling like we've got that demand machine rebuilt, but we're encouraged by what we're seeing in the early phases of that.

<<Rob Oliver, Analyst, Baird>>

Yeah. Well, you just touched on it, so we should probably talk about that a little bit and then we can move on to some other things. But you guys did report your earnings last night.

<<Michael Walrath, Chief Executive Officer>>

We did.

<<Rob Oliver, Analyst, Baird>>

The market seemed to like what they heard and saw. Maybe if you could just quickly share a quick recap for us and maybe touch on a couple of the more salient points.

<<Michael Walrath, Chief Executive Officer>>

Sure. So I think, we're always happy when the market likes it, but we try not to focus on it too much. We're fundamentally rebuilding the company. I think we're just getting started. And it really starts with everything we're doing is led by – is led by efficiency and understanding what the underlying efficiency in the business is. So, I think the progress we've made that's been a little faster than expected, as we've seen margin improvement, we've really – we deprioritized some areas where we had expensive revenue growth or unprofitable revenue growth. So, we've created some headwinds to revenue growth in that way. But they're creating tailwinds on the gross margin expansion of the business. And clearly the OpEx is an area that we continue to focus on.

So, I think the next question is that, I think the market will ask is, when does the growth get going again? And the answer to that question is tricky, because I can't predict what the macro environment's going to be like. So, we're going to continue to operate. We're going to look for those signals. And we're going to understand, because of the length of our sales cycles, we're going to have a pretty good understanding of what the demand universe looks like.

<<Rob Oliver, Analyst, Baird>>

Got it. You got, oh, by the way, if you want to ask a question, you can send it here to email. You can raise your hand if you want to, I can call you that way as well, but shoot an email if you want anonymity, and I'm happy to get it in here. You guys held an Analyst Day back in April. Ton of detail, the really great effort by you guys different product heads talking both near-term, medium-term, long-term about the business. As I was running through, it seemed like there were a bunch of really interesting takeaways, but like, maybe from your perspective, sort of like, what were the main like points for you that you were to drive – trying to drive home with the investment community about the kind of medium to longer term opportunity for Yext?

<<Michael Walrath, Chief Executive Officer>>

Yeah. So, I think there are two. I think one is big and strategic, and that is that we're at the – even though we've been doing this for five years with bringing AI technology and semantic search natural language technology to the enterprise, we're still really early days in this process. And the ChatGPT and the sort of what's the burgeoning search wars are definitely creating a lot of energy around this and a lot of questions. But there's still a ton for businesses to figure out. I think what we're seeing is that the conversations are getting really interesting, because, I said this on our, I think in the Q&A yesterday, as a business, if you're in the C-suite of any kind of

any scaled enterprise, you've got a real problem, because you can't – you can't just do these things.

And we, you can't just go plug in generative AI all over your enterprise, because there's a lot of downside and there's a lot of risk. You also can't do nothing because your competitors are going to figure out how to use these things. And the productivity gains and the, particularly when it comes to content, the amount of content that's going to be created by putting these technologies to work is going to fundamentally change the landscape of the digital experience.

So that's kind of theme, theme number one. And we find ourselves right in the center of that discussion as far as enabling these technologies safely through authoritative information. And it's really about gating the generative AI to make sure that it's not off-roading and making stuff up. And I put some examples in our presentation about, all the beautiful lies that it made up about me in my biography. So that's kind of theme number one.

I think theme number two is, is a fundamental rebuild of the operating philosophy of the company. And that goes to, we believe that there's going to be a massive wave of demand for these types of technologies. What we're not going to allow ourselves to do is operate based on, unknown timing of that wave. And so one of the things we spent a lot of time talking about and introduced our new marketing CMO, CRO in that Investor Day was the way to do this right, is to granularly understand your sales productivity on a channel by channel basis overlaid on top of what the demand generation, what your pipeline actually looks like. And that's the signal that I think a lot of companies have missed over the last few years, is that this push for growth has ignored the fact that the demand curve across any part of the customer set could be more robust or less robust. And it's how we get these really inefficient go-to-market models.

<<Rob Oliver, Analyst, Baird>>

Got it. You started out by telling us that Yext is the DXP digital experience company platform company, and it feels like that and has really evolved and fragmented quite dramatically for companies, so…

<<Michael Walrath, Chief Executive Officer>>

Yeah. Yeah.

<<Rob Oliver, Analyst, Baird>>

Maybe talk about the different ways, say for example, and if I remember following you guys, like when you were first public, like you have a lot of big customers and stuff like that. So like, how have – how have their approaches changed? And how has your platform approach changed to make sure you are evolving with their DXP needs?

<<Michael Walrath, Chief Executive Officer>>

Yeah, so I think the biggest shift in terms of the way that the enterprise is thinking about the digital experience is that, they've been in point solution buying mode for 10, 15 years. And every time there's a, it was the internet, obviously, then it was mobile, then it was social, then it was every one of these evolutions creates this increased complexity where, okay, I now have to deliver information through this new channel, and I have to do it to my customers, to my prospects, to my employees, to my partners. And so every time that there's a new digital experience, and usually what happens is, we see these things show up in the consumer world, and then they follow in the enterprise world that the expectation is that you're going to deliver me an experience.

So, 15 years ago, the idea that, there was going to be a Twitter channel or a social media channel between the consumer and the end business was sort of a, I'm not sure anyone really saw that coming until it was here. And the consumers lead that, right? Because they start talking to you through these channels, and you have to be responsive. Generative AI is going to massively change this, because everything's going to become conversational, and the consumer expectation is going to be, you can talk to me, right? And so what's going to happen is that the complexity of that problem, and sorry, this is a little in the weeds, but I think it's really important, is that every time I create a digital experience, I have to connect that digital experience back to all the information inside my business.

And this is why, like, first party search is really, is fundamentally broken across the industry, is because I, the information I need to search is in dozens of different ERP systems and CRM systems and all of the different, and a bunch of homegrown systems that hold customer information or and things like that. And so trying to connect all those pieces together has become impossible for the business. And so the digital experience suffers, and the next wave of this will be the consolidation of these digital experiences through platforms that we talk a lot about headless and composable.

So basically, the new version of digital experience creation is going to be headless in the sense that it's not monolithic. It's not just web, it's not just mobile, it's not just chat, it's all these things together and the idea that content is your authoritative information and you can deliver that content through all of these channels if you're gathering it and organizing it correctly.

<<Rob Oliver, Analyst, Baird>>

So, as that's evolved and as you guys have evolved to meet those needs, as you laid out at the Analyst Day and stuff, I'm sure there's a different set of competitors that you guys now see in the market, potentially some maybe venture back companies going after things. So like, how has the competitive set shifted for you guys, if at all? And who do you compete with?

<<Michael Walrath, Chief Executive Officer>>

Yeah. So, I mean, we've had in our sort of core, longest listings and reviews business, there've been a bevy of sort of small competitors who've had really fertile, a really fertile environment to raise money and be aggressive on the customer acquisition side of things. I mentioned this on the call yesterday, I think it's, I think that's changed. And I think we're seeing it and we're seeing

that, the irrational deals for those point solutions are going to start to go away, which was a headwind to our business. We're also seeing that, companies expect more, and so the low cost provider of a single point solution is a lot less attractive in this environment. Because the real gain is in consolidating the pieces of this platform into a single, sort of composable architecture.

The same is going to happen with generative AI. We're already seeing it. So the private market is funding lots of things that are skinning Google's Bard or OpenAI. And these are going to show up, initially as point solution, vertical point solutions across things like chat and conversational interfaces, which will, some of these will be successful. But they're going to have the same problem, which is, and particularly in this environment, the enterprise is not interested in buying dozens of additional point solutions that their IT team has to try to manage and connect. And we talk about spaghetti because, if you multiply, it's just simple math. You multiply every, every vertical digital experience point solution that you buy times the number of systems that you have that has to be connected to inside your business. And you imagine what that architecture looks on paper, it looks like on paper, the people who manage that architecture, they don't want to see another point solution coming into their business.

<<Rob Oliver, Analyst, Baird>>

Got it. Got it. On the AI offering as I was kind of digging through to prepare for this, it struck me, you guys had a little bit of a different approach from some of the other companies, and it all, it's still very early here, but a lot of companies are just basically going out and saying, okay, we're going to leverage ChatGPT or another model. And you guys have kind of a bit what you described as a build, borrow, buy model, which, I think if you get it right could have some very meaningful implications for customer stickiness, as well as potentially margins, right? Because I think right now what investors are fearful of is, companies committing to AI and getting that pricing, right? Because it's around costs. So can you talk a little bit about that build, borrow, buy model that you guys have?

<<Michael Walrath, Chief Executive Officer>>

Yeah. So I think at the core of that is this is our fundamental belief that like the large language models themselves are going to be a commodity, right? And they're a really important commodity, and this is why Google and Microsoft and, are so and Amazon are so interested in these things. And that goes more into their consumer experiences. But there are dozens, hundreds of these things out there, and they're going to become cheaper, faster, and better at what they do, and they're going to be differentiated based on the data sets that they're trained on.

And so, our belief is that as a business, you don't want to marry yourself to one of these models. You want to have access to as many of them as possible. And so by putting in the infrastructure that enables these things, you can easily click say, okay, well Bard is now, and I don't know if this is true or not, but Bard is now better than OpenAI in generating responses to customer questions because it's connected to the internet or, whatever that, and so you should, it should be virtually as easy as flipping a switch to say, I used to use OpenAI for the core language model of my chat interface, but I'm now going to use Bard, or I'm going to use, a different model that's been trained differently. We see different models are good for different things.

So if you're going to respond to user reviews, for example, you want a model that's very empathetic and can learn your brand voice, that's a very different model than, sort of a hybridized search structured information and conversational model that you might use for chat. And so the complexity of this problem is going to just like, much like the digital experience are going to fragment the number of opportunities to use large language models that people spend a lot of money to train and make scalable in your business, is going to present a both an opportunity to make sure you have the right model. And you can always be changing, but also a huge challenge because if you don't have this composable architecture to click the models in and out, then every time you want to make a change, you're going back into your bowl of spaghetti and you're making the change all over the place and it's incredibly inefficient.

<<Rob Oliver, Analyst, Baird>>

That's helpful. Thanks, Michael. Content generation really feels like it's, it feels like it's maybe one of the kind of the ground zero areas of GenAI, I think it was either Washington Post or New York Times, there was an article last week of like, these are the first people, these are the first professionals to be displaced by ChatGPT, and it basically was like sort of like copy editors and content editors. And so maybe are you seeing any impact yet? Is there any draw yet from that? Or how should we think about kind of the…

<<Michael Walrath, Chief Executive Officer>>

Yeah. So, I think one of the things, you're hitting on something important, which is that, content will be at the center of this evolution, right? Because at the end of the day, content is information, but it's also how these models get trained and what they learn. And so, this idea that generative models by the nature of what they are, they're not interested in being correct, right? They're interested in what's the highest probability of the next word in the sentence. That's what they do, right? Fundamentally.

And so when you, the idea that, but these things will be correct once they're connected to the internet is a bit of a fallacy because that assumes that the internet is correct, right? And so the next step in that discussion is, well if the generative AI is connected to the internet, and that's internet, and that's how we get to correctness, the strategy to make sure that your business information is being delivered to these generative models and is findable and accessible to these generative models is going to be massive proliferation of authoritative content by the business.

And this is something that businesses struggle with today. So this thesis that copy editors and blog writers and content generators are going to be out of work, I'm not sure it's right. What's going to happen with connecting generative AI to the digital experience is that the work product of these jobs is going to massively increase in scale. And I'll give you a real world example. If you take a financial firm that has financial advisors and they want to generate content for, so you have a thousand financial advisors, a small firm and you, what you want is you want a weekly blog post by that – by each of those advisors on their area of specialty. So, some might write about fixed income, some might write about equity, some might write about crypto, whatever it might be.

The army of copywriters, you need to generate that content is unfathomably large. You're talking about, a thousand blog posts a week times 52 weeks a year time, it's a lot. But with generative AI, you can do 90% of that work upfront. And your copy editors can – just make sure that the work is in the right voice, and is of the right quality. Because, and this is the critical piece. If you have all the information about all those advisors and the services that they provide in a system that enables this technology, you don't have to worry about the accuracy problem. Right.

And you're not going to start, your generative AI is not going to start may, issuing political opinions on behalf of your financial advisors, because you're not going to put political opinions into your authoritative information. And I think this is the hard part that people are still trying to wrap their head around is like, why is this so important? And the answer is because the next battleground is going to be how much content can you, how much great content can you create? Because that's what feeds Google and Bing in companies like that. And that's why generative AI is going to be – content generation is going to be such a huge piece of this.

<<Rob Oliver, Analyst, Baird>>

Yeah, it's helpful. And when you laid out the example of, your bio and the Analyst Day, that was fantastic.

<<Michael Walrath, Chief Executive Officer>>

Yeah. I wish I did some of that stuff.

<<Rob Oliver, Analyst, Baird>>

Yeah. Where did it get some of that stuff?

<<Michael Walrath, Chief Executive Officer>>

It doesn't get it anywhere. It just, it always says, I went to the University of Virginia because there's like, because by the time, as it's constructing the words, it's, I did go to the University of Richmond, right? But the probability of, there's a lot more people went to the University of Virginia, and if you think about the data it's trained on, there's a lot more data that says University of Virginia out there than University of Richmond. It's literally that simple, so occasionally it'll get it right because it does throw a, it's a statistical probability exercise.

<<Rob Oliver, Analyst, Baird>>

Is generative AI trying to suggest that, like a spider couldn't be a successful, CEO and Chairman of a company?

<<Michael Walrath, Chief Executive Officer>>

It feels like an attack, but to…

<<Rob Oliver, Analyst, Baird>>

Me, too…

<<Michael Walrath, Chief Executive Officer>>

So this is why, I soothe myself by understanding that it's just statistical models. It's not a, they don't, there is no judgment.

<<Rob Oliver, Analyst, Baird>>

You're not offended. Okay, good. That's great. I – we only have a few minutes left, so I wanted to hit on a, just a couple of efficiency and model related questions. So you guys have talked about both investments in growth coupled with operating efficiency. Thomas laid out some of those details at the Analyst Day. That's a hard balance to strike. So maybe help us understand a little bit how you do that.

<<Michael Walrath, Chief Executive Officer>>

Yeah, you have to have the signal to do that, right? And I think where that gets really hard is if you're trying to do it by feel, especially at enterprise scale. And so part – a big part of reconstructing this go-to-market machine is understanding, your marketing funnel, your buy channel sales productivity, geographically, vertically and size based at a minimum. You're, cutting it across those three things. And then how do you allocate capital across those different opportunities, both from a marketing a top of funnel activity, but also a bottom up funnel. And if you don't have good instrumentation on that, then you're going to make bad decisions, right? Because, in theory, the aggregate numbers might say, we've got a lot of demand and not enough sales capacity – that's what you want it, that's the world you want is you want, you should be able to expand sales capacity to drive velocity through the business.

But in aggregate, that information's fairly useless. You need to understand, because if you add rep, we talked about yesterday our smaller enterprise channel's actually doing really well. Small, shorter sales cycles, higher velocity. So, if I have, an incremental demand opportunity in that channel and I add enterprise reps, I'm making a huge mistake. Large enterprise reps, because I'm diluting the pool of demand that my large enterprise reps are attacking when actually what I should be hiring are these smaller enterprise reps. And the same goes vertically, the same goes geographically. And so that's the – that's why it takes a while because you got to rebuild, the intelligence infrastructure before you make the decisions.

<<Rob Oliver, Analyst, Baird>>

Last question for me little birdie told me that you're working for free.

<<Michael Walrath, Chief Executive Officer>>

That's true right now. Yep. So far.

<<Rob Oliver, Analyst, Baird>>

You don't get paid until the stock hits 15 bucks. Not a structure we usually bump into, but I think one that certainly is an attention grabber for investors, your stock has been working nicely. What, why that structure and, what is the cultural impact it's had on the organization? Because it, from what I've heard, it seems to have had one.

<<Michael Walrath, Chief Executive Officer>>

Yeah. So I think, what I'm asking the team to believe is that the historical stock price doesn't matter and that, what matters is what we do together as a team and how we generate enterprise value. And so there's no better way for me to, hammer that message home than to put, a 100% of my compensation into a stock program that, at the time that I took over was three times, the first vesting tranche of $15 was almost three times the price of the stock. It goes 15, 17, 19, 21 for my on hire grant. So, I have not earned a dollar of compensation in 15 months. That's fine with me. I'm going to earn a lot of compensation when we get the business firing the way that we wanted to.

And there were a couple filings this week where what we're starting to do is drive that philosophy through the rest of the executive team. So, increasingly more of our compensation will be incentive based and will be performance based much like mindless.

<<Michael Walrath, Chief Executive Officer>>

Got it. Michael, really appreciate, it's been fun and seems like a really exciting opportunity for you. Yeah, questions.

Q&A

<Q>: [Question Inaudible]

<A – Michael Walrath>: Look, I'll tell you the same thing that I tell my people. Like I am not really that worried about whether the stock is up or the stock is down. What I, we know internally whether we're making the right choices and whether, we're building the business. So, I'd prefer it be up 30% to down 30% on any given day, but we're not going to get to, I'm not going to be out here peacocking, because we're up 30% today. Like, we're what is 30% up? What's the number? All right. So we're still below our IPO price, which to me is, would be a good starting point to start thinking about where we've, anyone who bought our stock in the IPO has made money. But like I said, we're just getting started here and there's a massive amount of value in this business and in this opportunity. And we'll see how the next few years play out with respect to that.

<<Rob Oliver, Analyst, Baird>>

That's great. Thanks Michael. Really appreciate it. Thank you. Have fun.

<<Michael Walrath, Chief Executive Officer>>

Thank you. Appreciate it.

<<Rob Oliver, Analyst, Baird>>

Appreciate your time. Thanks.