



UserTesting

First Quarter 2022 Earnings Conference Call

May 4, 2022

CORPORATE PARTICIPANTS

Erica Mannion, *Sapphire Investor Relations*

Andy MacMillan, *Chief Executive Officer*

Jon Pexton, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Terry Tillman, *Truist*

Artie, *JP Morgan*

Scott Berg, *Needham & Co.*

Jake Roberge, *William Blair*

Ryan Petersen, *Raymond James*

Rob Oliver, *Baird*

Hannah Rudoff, *Piper Sandler*

Ari Friedman, *Oppenheimer*

Yun Kim, *Loop Capital Markets*

PRESENTATION

Operator

Good afternoon, everyone, and welcome to the UserTesting First Quarter 2022 Earnings Conference Call.

For opening remarks and introductions—at this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation.

As a reminder, this conference is being recorded.

I will now turn the call over to Erica Mannion at Sapphire Investor Relations. Thank you. Please go ahead.

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 first quarter ended March 31, 2022. Jon will then review the financial results for the first quarter, followed by the Company's outlook for the second 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 the Risk Factors contained in our SEC filings available on the SEC website and on our Investor Relations section of our 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 quarterly report on Form 10-Q to be filed for the quarter ended March 31, 2022. All material contained in the webcast is the sole property and copyright of UserTesting, with all rights reserved.

Please note, this discussion includes 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. We have included non-GAAP measures in this discussion 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 measures can be found in the press release that was issued this afternoon on our Investor Relations section of our website.

Now I would like to turn the call over to Andy.

Andy MacMillan

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

I'll begin with a few financial highlights from the quarter, then discuss some business updates here at UserTesting. We reported a record first quarter, with revenue of \$46 million, up 47% year-over-year. Subscription revenue accounted for over 90% of total revenue for the quarter and reached \$43 million, an increase of 51% from the prior year. We had great momentum in the quarter with our large customers, which we categorize as those spending more than \$100,000 in ARR, growing to 335 customers, representing a 55% increase year-over-year.

Our Q1 net dollar retention rate across all customer segments was 117%, consistent from one year ago. In total, we now have approximately 2,500 customers on the platform, up 35% from one year ago.

Some business highlights in the quarter included the publication of the Ninth Annual UserTesting CX Industry Survey. The report is based on feedback from over 5,000 global professionals and found that customer experience is a top investment area for 78% of executives. We also published The ROI of Customer Empathy study which was based on feedback from 200 global CEO's to understand the role customer empathy plays in overall business success. According to the study, nearly 80% of CEO's agree customer empathy fuels financial performance.

The study revealed three key trends.

First, CEO's agree that attention must be paid to customer empathy; second, designing better products and experiences takes deep customer understanding; and third, direct interaction is the best way to gain customer insights. This research reflects what we see every day with our customers. Customer empathy is having a greater impact on overall business outcomes.

Turning to some recent product updates. We're excited about our recent market release which includes three important new features: first, is Usage Management for Workspaces, this allows for better management of platform capacity across the organization for teams leveraging workspaces for different departments, user groups or lines of business.

Second, is Insight customization: customers can now train our machine learning models with their specific terminology such as product names and industry terms to ensure faster time to insight using the key words that matter most.

Third is that UserTesting is now HIPAA compliant. This enables customers to gather feedback and insights, including managing protected health information, from the UserTesting Contributor Network or from their own patients securely and confidently.

This aligns with our broader view that consumer privacy is becoming increasingly important, and companies are looking to move to a more honest and trusted opt-in conversation and feedback channel with their customers. We believe that this plays directly to a strength of the UserTesting Platform, where all of the feedback, and every single customer experience narrative, is gathered through an opt-in process. Within this process, the participants sharing their thoughts on screen know that they're being recorded and know that they are sharing their perspectives with an organization.

New customer wins and growth transactions in the first quarter included British Airways Corporation, Canada Post, FullStory, HP, Parkland Fuel, ServiceNow, Volvo Cars, and WM, previously known as Waste Management. We are very excited to have these customers adopting and expanding usage of our Human Insight Platform.

We continue to make investments in growing our international presence, including the recent hire of Jeff Solomon who will lead operations in Canada. In the first quarter, international revenue increased 73% compared to the prior year period, and represented 20% of Q1 total revenue. As we see more and more of the industry looking for Human Insights and ways to build empathy with customers, we're excited about the future. We look forward to updating all of you in the quarters to come.

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

Jon Pexton

Thank you, Andy, and good afternoon, everyone.

I'm excited to announce the financial results for the first quarter of 2022 today. It was our fifth consecutive quarter with year-over-year revenue growth of greater than 40% and we saw consistent performance over many metrics.

Let's begin with the key financial highlights.

Revenue in the first quarter was a record \$46 million, an increase of 47% compared to the prior year period. Subscription revenue of \$43 million increased 51%.

As we mentioned on our last earnings call, there was an accounting adjustment in the first quarter that increased subscription revenue by \$1.3 million related to the favorable remediation of a potential sales tax liability. Excluding that accounting benefit, the total revenue growth rate would have been 43% and the subscription revenue growth rate would have been 46%. That accounting adjustment puts the majority of our sales tax remediation efforts behind us. Even with that adjustment, again, it was still our fifth consecutive quarter of 40%-plus year-over-year growth.

Our net dollar retention rate was 117% in the first quarter, consistent with the first quarter of 2021. Calculated billings were \$50 million, an increase of 37% year-over-year. Historically, the first quarter is seasonally our lightest quarter of the year for billings with Q4 being our seasonally strongest.

As I talk about operating loss, free cash flow, gross margins and 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 first quarter was \$8.9 million, which compares to \$11.1 million in the prior year period. The operating margin was minus 19%. Excluding the accounting benefit of \$1.3 million that increased subscription revenue in the quarter, the operating margin would have been minus 23%, which still compares favorably to minus 35% in the year-ago period.

However, as we mentioned on our last earnings call, Q1 expenses were lower than our expected run rate for the remainder of the year. Q1 benefited from COVID restricted travel and events, some of which were rescheduled for the second and third quarters, as well as lower marketing spend.

Free cash flow was minus \$15.8 million in the quarter with a free cash flow margin of minus 35%. We ended the quarter with \$163 million in cash.

There are a few items of note impacting free cash flow in the quarter. First, we paid the annual premium of our public company D&O insurance policy of nearly \$4 million, which will be an annually recurring payment going forward. Second, we paid \$1.8 million of cash in the first quarter to settle sales tax liabilities which were already accrued on the balance sheet. Again, those remediation efforts are mostly behind us at this point. Third, our days sales outstanding was approximately 90 days which was an improvement from over 100 days in the prior quarter but still higher than historical periods.

Gross margin in the first quarter was 79% and subscription gross margin was 83%, both consistent with the prior quarter and up roughly 500 to 600 basis points compared to the year-ago period.

Turning to operating expenses.

Sales and marketing was 60% of revenue in Q1 compared to 58% in the prior year period. We have increased hiring over the last two quarters and plan to continue to invest in sales and marketing over the next few quarters to drive growth and awareness and continue our leadership position in the market.

We continue to see some leverage in R&D expense in the first quarter which was 21% of revenue compared to 31% of revenue in the prior year period. G&A expense was 18% of revenue in the first quarter compared to 19% in the prior year period.

Now onto guidance. We are raising our revenue guidance for the Full Year of 2022 by \$2.5 million to a new range of \$197 million to \$201 million, representing a new growth rate of 34% to 36%. For the second quarter, we expect revenue of \$46.5 million to \$47.5 million, or a growth rate of 33% to 35%.

For the full year, we are improving our expected non-GAAP operating margins by 200 basis points to a new range of minus 29% to minus 27% which is driven by the increased revenue guidance. For the second quarter, we expect non-GAAP operating margins in the range of minus 32% to minus 30%. We expect sales & marketing expense to increase in the second and third quarters as a percent of revenue as we have the full expense impact of recent hiring, increased spend in marketing programs and a planned return to pre-COVID levels of travel and in-person events including our sales club, sales kick-off, customer conference and other events. We believe the full year operating margin guidance addresses this planned increase.

For the full year, we expect non-GAAP net loss per share between minus \$0.37 and minus \$0.39 assuming 145 million weighted-average shares outstanding. For the second quarter, we expect non-GAAP net loss per share of negative \$0.10 assuming 143.5 million weighted-average shares outstanding.

One last point before we begin the Q&A session is a reminder that under the terms of the lock-up agreements with the underwriters of the UserTesting IPO, all lock-up restrictions will end immediately prior to the opening of trading on May 6.

Overall, we are pleased with the quarter. We achieved record revenues, strong customer growth, particularly with our large customers and improved operating margins and we are excited about the market opportunity ahead of us.

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

Operator

Thank you. The first question comes from the line of Terry Tillman with Truist. Thank you, please go ahead.

Terry Tillman

Hey, Andy and Jon, good afternoon. Thanks for taking my questions. It's great to see you are a top employer here in my hometown of Atlanta, that's nice. I haven't yet done with the book yet, so I'm going to come on the next earnings call to ask about or share my knowledge on the book. But now on to my questions and congrats on the quarter.

I think the first question, Andy, for you, is a high-level question that I was pondering whether I should even ask, but I feel like your all's market is about awareness or lack thereof, and what your solution can do in creating those aha moments. You've got two quarters as a public company and now that you reported; what are some of the early indicators? Are there early indicators of increased awareness or market presence after going public?

Also, maybe you could share a little bit about some of the early green shoots from some of these new go-to-market investments and where you see some early examples of, hey, we're seeing a good return on that? Then I had a follow-up for Jon, thank you.

Andy MacMillan

It's a great question, Terry. I would say, I think more so than purely awareness, obviously, is good awareness to be a public company and we obviously had the event of the IPO to drive awareness. But one of the things that I think being a public company has helped us is, as we drive awareness of a new category, a new kind of capability that people need, I think the credibility of being an app scale public

company helps folks pull the trigger on getting onboard and deploying a solution and having that confidence.

I think it's definitely been a benefit to our business, but I still say we're very early on in driving awareness that this is even possible, and as we've talked about before, really just illuminating more and more use cases of where around an organization and a product team and a marketing team in a research capacity, where you can get this fast, actionable, real human insight. I think we're still in the early days of driving that awareness.

Terry Tillman

Got it, okay.

Andy MacMillan

I'm sorry, Terry, you also asked about new use cases. We continue to see, I would call it, innovation on our platform where, as folks see what it does—when we say UserTesting is one of these things that is obvious in retrospect, once you see someone provide a customer experience narrative, you see a real person, a real user, give you feedback and show you what it's like to be that user or that customer, people do innovative things. We continue to see people testing all kinds of new technologies. We did a press release, we talked about Metaverse testing and templates there. We had some templates we put out about I think three weeks ago that talked about getting feedback on the ecofriendly and eco messages around products as that becomes increasingly important. It's really, for us, about illuminating those use cases.

Terry Tillman

Okay, got it. Then just maybe a follow-up question. On the net revenue retention, I think it was quoted as 117%. I think it was consistent with 1Q 2021, down a point from 4Q. I know that's going to move around a little bit. How do we think about the rest of the year based on what you're seeing transpire in terms of new customer growth, and then expansion sales and how that could affect NRR? How do we think about it for the rest of the year? Thank you, and congrats.

Jon Pexton

Yes, Terry. The 117% is consistent with a year ago. I think we did 117% in three of the last five quarters. We had a good quarter at 119% and a good quarter at 118% and so it's a blended number. We service customers as low as \$15,000 a year and over \$5 million a year. There's a lot going into that, but again, you have enough of a trend line I think that that gives you a sense of where we've been and so 117% is three of the last five quarters. That's where we're keeping our marks going forward right now.

Terry Tillman

All right. Thanks a lot.

Operator

Thank you. The next question comes from Mark Murphy with JP Morgan. Please go ahead.

Artie

Hey, guys. This is Artie (phon) on for Mark Murphy and thanks for taking the question and congrats on the quarter. First thing I had is if you guys are seeing any effects from the volatility, globally and geopolitically, on any of your markets and particularly in Europe? Then in a similar vein, are any of the fears of the tougher macro environment causing customers looking at you guys a little bit harder since you guys are a much more efficient and cost effective solution versus a lot of the other agency options and all that? Is that becoming more of a talking point? Thank you.

Andy MacMillan

Hey Artie, thanks for the question. In the very specific areas in Europe that are a hotspot right now, in Ukraine and Russia, we don't have a lot of direct exposure. Those are not large either selling markets for us, or we don't have employees in those locations. Generally, we continue to see a consistent demand in that region in particular, but globally as well. We have a solution where, when there is uncertainty, for whatever reason, one of the things that our customers are trying to figure out is what does that uncertainty mean to their users, their customers? I think we serve a wide variety of use cases to help folks figure that out. I think we're continuing to see strong demand for that reason. We're continuing to see good execution. We don't today see a macro trend changing that.

Artie

Got it. That's helpful. Thank you. Then on another vein, I know you guys made—recently made a higher (inaudible) drives the partners and sales channels and I know that's still in the early stages, but important, can you guys just speak a little bit to that and what you're seeing there?

Andy MacMillan

Yes. It's a big opportunity for us, as we talked about, even through the IPO process, that we have not historically had a large partner channel, but I think that's an opportunity that we can lean into. We see that in several different areas. One area in particular that we saw some highlights in Q1 that I would call out is we talked about partnerships with Quantum Metric and with Contentsquare, which are more on the quantitative data side of measurement. We partner with them and our joint customers use our platform to get qualitative feedback when they want to dig deeper to understand what those maybe quantitative numbers are telling them.

We continue to lean into our partnerships with folks like Qualtrics and Adobe. We're continuing to see, I would say, emerging interest of working more closely with agencies themselves, where agencies want to have a more performant way to get this fast feedback as part of the service that they provide to clients, but we're pretty early on in getting into that market. It's a unique market with some unique characteristics, but one in which we think over time we can have a real impact. I'd say early positive signs, but an area we're continuing to invest in and develop those partnerships.

Artie

Great. Thank you and congrats again on the quarter.

Andy MacMillan

Thank you.

Artie

Thanks.

Operator

Thank you. The next question comes from Scott Berg with Needham and Co. Please go ahead.

Scott Berg

Hi Andy and Jon. Congrats on a good quarter and thanks for taking my questions. Andy, I wanted to start off with a word you mentioned, I think it was to one of Terry's questions, used the word Metaverse. We attended the Shoptalk conference for retail and e-commerce technologies about a month ago. The key theme was Metaverse. While we're looking at what some of the use cases there were, we kept coming back to how the user testing platform can be a key technology as different brands or companies try to attack what that market opportunity looks like, but how should we think about the Metaverse with regards to the UserTesting platform? Does it open up new feature functionality use cases, or is it more of an extension of maybe what customers already are using in their other use of the platform?

Andy MacMillan

I think it starts as an extension being that the current solution we have in market today enables our customers to get really compelling feedback from folks in the Metaverse, if that's something they are interested in learning about. Our platform evolves constantly. We're making investments, as you heard Jon speak to earlier on the call, in investments in R&D and some of those investments will also continue to iterate on what we can do for customers that are testing in the Metaverse.

The main thing I would highlight is that our solution enables anyone in an organization to see what it's like to be someone operating in the Metaverse, shopping in the Metaverse, playing a game in the Metaverse, whatever that might be. This doesn't require them to have all the hardware. We take the Metaverse and can (inaudible) convert it almost to a desktop or mobile experience where you can imagine sharing a video around your organization of here's what it looks like when our customers are shopping with us in the Metaverse.

I think that's really powerful because it bridges this thing that we talk about at UserTesting called the empathy gap, of just what is it like to really be my customer, and how many people in these organizations that are thinking about how they're going to meet customers in the Metaverse? Are they themselves people spending all kinds of time in the Metaverse? That might not be the case. Using our current solution, they can go out and get that kind of feedback quickly from real Metaverse users and then distribute that shared understanding around their organization.

Scott Berg

Got it. Helpful. Then from a follow-up perspective, your quarterly additions for your large customers that spend over \$100,000 a year on the platform, at least in ARR, bounced right around 30 last five quarters, plus or minus each one of that, and that's a material step-up from where they were in 2020 before obviously, but how should we think about the growth in those areas? Does it come more from customer expansions? Those that are taking over the \$100,000 count threshold, or is there more opportunity going forward to land above \$100,000 versus what you might have done historically?

Andy MacMillan

I think the answer is a little bit of both. You say is there an opportunity to land in those higher levels? We do see that from time-to-time. I think as we drive awareness, and to my point earlier to Terry about credibility as well, where this become something people are aware of, more and more companies are

doing it, I think we will see opportunities for larger lands, but most customers that are above that \$100,000 threshold, are growing into our largest customers, they land below that threshold. They see it, they're like, wow, this is a way to get this kind of feedback. They find other use cases, other folks in the organization see it, that information and that word gets out and then we land and expand from there.

It's mostly an expansion play. I think it's not just to that \$100,000 mark. One of the things that I would like to remind folks is it's not like we're a one, two punch, and once they're over \$100,000, then we're done. We just continue to grow. That's a demarcation line that we drew just to show large customers, but once they're above \$100,000, we continue to grow them as well.

Jon Pexton

I'll just add, Scott, sorry, that we also have six-figure expands that are happening every quarter. Frankly, there's more six-figure expand deals than there are six-figure land deals. We're seeing it on both sides, but once they have that aha moment, as Andy said, there's some big expand opportunities that can occur.

Scott Berg

Great. That's all I have. Congrats again on the strong quarter.

Jon Pexton

Thanks, Scott.

Andy MacMillan

Thanks, Scott.

Operator

Thank you. The next question comes from the line of Jake Roberge with William Blair. Please go ahead.

Jake Roberge

Hey, guys. Thanks for taking my question. Just a follow-up on that \$100,000-plus cohort. When you get to that scale, are you starting to have C-Suite level engagement where you can really show the value of the platform for new use cases outside of the U.S. research org, like marketing and product development? Or are you still really just landing in those smaller departments and expanding within those individual business units from a usage perspective? Just trying to understand the land and expand model right now.

Andy MacMillan

Hi, Jake. Great question. It's a mix of both. I would say we are, on one hand, pretty blue-collar about getting in there and showing value. If we're going seat to seat, sometimes we can see pretty substantial seat and session unit growth just by going in and doing the work and doing that with the front-line teams. I think we pride ourselves on being able to go in and do that, but we also have certain use cases that really do get a lot more visibility internally.

We heard some great stories in the past quarter of companies who are doing things like doing testing with more diverse audiences to have more inclusive products. That's top of mind for C-level executives that are thinking about their brand footprint and how they're reaching out to new audiences.

The templates we launched and talked about more eco-friendly messaging, again, top-of-mind for key executives. I would say even individual teams that are using our product, the usage might really run the gamut or sometimes it's a really important but tactical thing they're doing maybe with a front-line designer. Sometimes it's a project that's getting visibility much higher in the organization and so it's a real mix.

Jake Roberge

Great, thanks. Then just a follow-up question. You mentioned those partnerships with some of the quantitative partners, but I'm curious if since you've rolled out that flex-based model, have you seen customers start to take a more quantitative approach with your platform where they run hundreds of tests instead of the typical five, 10, 15 study cadence? Is there anything in terms of the platform's analytics functionality that you think could actually help drive that type of adoption moving forward?

Andy MacMillan

Jake, it's a great question. If you ever decide investment banking is not for you, come work on the product team. It's right in line with where our heads are at, but I want to be clear about where we are and then where we're going. We do have customers that want to run larger sample sizes, if you will, to the point of your question, and we do now have capabilities in our product to use machine learning, things like our interactive path flows that help you analyze the customer experience narratives much more quickly and does enable us to think about having more substantively larger sample sizes, and you are right that the pricing model does also now line up with that, but to be clear, the pricing model was originally rolled out mostly just to match how our customers thought about buying the product.

We do have the ability over time to start to think about really opening up those samples sizes and how the product works. We'll work with our customers to make sure that we do that in a way that makes sense for them. We do see some demand for that, but it isn't something I'd yet say we've really packaged up in the product as a core strategy.

Jake Roberge

Great. Sounds good. Well, thanks for taking my questions and congrats again on the great quarter.

Jon Pexton

Thanks, Jake.

Operator

Thank you. The next question comes from the line of Ryan Petersen (phon) with Raymond James. Please go ahead.

Ryan Petersen

Hi, gentlemen. Thanks for taking my question and congrats on the quarter. Andy, I want to start with you just on the HIPAA compliance. Obviously, that's a key hurdle for you guys. How do you think that evolves the product and do you think it maybe caters to certain verticals like that? I'm also curious, from a contributory network perspective, do you need to go out and get different types of people or segment them in a different way? I'd just be curious, what do you think about the opportunity, particularly as it relates to the healthcare vertical?

Andy MacMillan

I think that's exactly well stated. I think the health care vertical is a big opportunity for us and the HIPAA certification helps us go after that opportunity. One of these you guys talk a lot about is our product is an entirely opt-in product, where you typically work with an anonymized contributor, and we have a large network of qualified contributors, many of whom obviously have healthcare needs and things. I think our current network meets the supply side very well. What we heard often though from healthcare companies was even though it's anonymized and even though it's all opt-in, they have very clear mandates of using HIPAA compliance software to solve problems.

It's just a very good backstop for them, just to ensure that, for whatever reason, one of our contributors were to, I don't know, say something that was identifiable information or anything like that, that they can just have the comfort and confidence that we have this certification, that we're managing all of their data and their CXNs in a way that is HIPAA compliant. I think it's a great opportunity for us. I think you're going to see us reaching out into more and more healthcare related opportunities, and the certification helps us do that effectively and efficiently and with more confidence.

Ryan Petersen

Good to hear. Maybe a follow-up for Jon. I know you mentioned some of the sales and marketing investments stepping up over the next few quarters. When would you expect a return on that? Is that something that you think could drive incremental bookings or sales this year, or should we expect that more into '23?

Jon Pexton

So far we've been pretty happy with the payback period magic number. I know there's a few different ways to calculate that, but we've put a lot of money into the sales and marketing engine, and it's proportionately delivered output. I think with COVID going away and us going to start traveling more, we are looking forward to that. We think it's important to get together and see our customers. I don't know that that extra spend is immediately going to have an impact. It's, again, reconnecting with customers and getting our sales team together, so it might be a little bit of an impact to magic number in the short-term, but it's the right way to go with where we are in the marketplace, and then these in-person user events are also going to have potential, but I don't know they'll have an immediate return in three months.

Ryan Petersen

Understood. Thanks, Jon.

Operator

Thank you. The next question comes from the line of Rob Oliver with Baird. Please go ahead.

Rob Oliver

Great. Hi. Good afternoon, guys. Thank you for taking my questions. First question is, obviously great momentum on the large customer expansion side which Scott and some of the other guys flushed out here. I just was curious, I know around the time of the IPO, you guys were seeing nice momentum from the Flex model and I know you're not actively seeking to convert people, but just wondering if you could add a little bit more color on the Flex model, whether that's helping you expand those seats and use cases with current customers and how, if at all, that might be contributing? Then had a quick follow-up for you, Jon.

Andy MacMillan

I appreciate the question. We've been focused on the idea that the Flex model is not designed to really be a price increase on our customers, but it is amazing that when you structure pricing in a way that is clear and transparent and makes sense to customers, they tend to buy more of it over time. I think we're seeing that strong performance under the new pricing model. I think, especially in larger accounts, it's enabling us to expand and drive usage and adoption in a way that shows up in the numbers. We're at a point now where majority of the revenue is on the Flex pricing model and majority of our revenue in the quarter was on the new Flex pricing model and we're not forcing customers to necessarily convert over, but again, most customers see the model and it makes sense to them, which was really the idea. I think we're really happy with how the model's working and the results that it's delivering.

Rob Oliver

Great. Thanks, Andy. Appreciate it. Then, Jon, just one for you, just on the tester side. First, just any observations around changes in either tester capacity or engagement or anything else with people leaving their homes and going back out into the workforce? Then, corollary to that, any changes around tester pricing as you guys perceive it? Thanks very much.

Jon Pexton

Hey, Rob. Tester capacity or contributor network has got plenty of availability and so that's really, again, a unique strength of the business. Similar pricing for that, no changes there. I think we had a gross margin that was probably above our long-term average in the quarter, so seasonally, I think that we have the potential to grow into some more volume. Longer-term, I think that 80% is probably a target we're looking at. We came in at, I think, 83% this last quarter, so I think we're probably little bit above the mean, but there will be some ebbs and flows, but that's how we think about it.

Rob Oliver

Great. Thanks again, guys. Appreciate it.

Jon Pexton

Thanks, Rob.

Operator

Thank you. The next question comes from the line of Brent Bracelin with Piper Sandler. Please go ahead.

Hannah Rudoff

Hi, guys. This is Hannah Rudoff on for Brent today. Thank you for taking my questions. First one, just what percent of customers are using you in conjunction to something like a Qualtrics or a Medallia? I understand that you have very different value propositions, but how do you think about your stickiness relative to a platform like that?

Andy MacMillan

Sure. Thanks for the question, Hannah. I would say you'd be hard-pressed to find too many customers that don't have additional mechanisms for getting customer feedback. I think surveys and that kind of

quantitative feedback is pretty common in the industry, so I would expect most of our customers are using a mix of tools and those vendors certainly included, and a lot of them, again, will use us in concert with those tools, where actually, often, they'll front-load running a survey, for example, by putting the survey itself through UserTesting. If you're going to ask 5,000 people a question, you should probably make sure that people understand the question before you blast it out.

Then on the back-end, after they get those results and they wonder why did people answer questions three and four this way, they'll dig in on our platform and get the qualitative feedback that sits underneath that. I think that's why those are typically good partnerships for us.

Hannah Rudoff

Great. Really helpful. Then, Jon, it's great to see the really strong demand out there. How much of a cushion did you bake into guidance just given the macro uncertainty right now, and what's giving you confidence in those numbers you put out?

Jon Pexton

I think as we get farther away from our IPO and we look at the information that we have in front of us, we had a pretty big beat in our first quarter; this quarter, another good beat on the revenue side, but we intend to keep that trend line coming down and sharpening our pencils. We try to put out numbers that are responsible, but the expectation for Q2 should be much smaller than the beats you've seen the last two quarters.

Hannah Rudoff

Great. Thank you

Operator

Thank you. The next question comes from the line of Brian Schwartz with Oppenheimer. Please go ahead.

Ari Friedman

Hi. This is Ari Friedman subbing in for Brian Schwartz. Congrats on the quarter and thank you for taking my question. I was wondering if there were any specific verticals you're seeing adopt the platform more? I know you guys touched on HIPAA and talk about healthcare. Is that because there's a lot more demand from the healthcare vertical or are you seeing demand from everywhere? Any color on that would be great.

Andy MacMillan

Thanks, Ari. I would say the healthcare one is, I would say, an untapped demand in so far as I think the HIPAA certification in many ways was an entry card to play in the market. I don't know that we have been executing into that demand yet. I think the HIPAA certification allows us to start going into that area quite a bit more. We do have some healthcare customers, but I wouldn't say it was a major vertical push for us. We continue to see broad-based adoption of the solution. One of the slides that we're really proud of in our investor deck in our IPO roadshow is just how broadly the solution was adopted across so many different industries.

We continue to see both what I would call digitally native companies make this part of their product development process; some of the digital first leaders are proud customers of ours. But we're also seeing more and more industries that are going through substantive digital transformation. Not only tackling the design aspect of what users need using our product, but maybe even more so tackling the internal cultural aspect of what does it mean to be a quote-unquote customer in a digital product flow, I think is actually a lot more challenging for traditional industries, and so we're continuing to see strong performance in digital transformation centric industries as well.

Ari Friedman

Thanks, and if I could sneak in another quick one, what's driving NRR? Is it really just the new templates or is something else really driving it?

Andy MacMillan

Templates are part of it, but it's really this idea of expanding use cases. Our focus with our customers over the past few quarters has been to go in and drive adoption, not just of maybe the use case they originally brought us on board for, but to illuminate for them the other things they can be using the platform to go do. In some ways the templates aren't really solving a technical problem; it takes five to 10 minutes to structure a test on our platform if you want to launch it, so we're not solving a technical problem.

What we're doing is illuminating things that can be done on the platform. We find that to be a really effective way when a customer or a prospects says, "Oh, I see you have a template for testing this thing. I hadn't thought to do that, but that's a really good idea." The templates enable us to communicate those additional use cases and that use-case expansion is really one of the indicators that we look at as we see that NRR growth that we saw over the past four to six quarters, into that new range that Jon mentioned, in that 117 to 119 range.

Ari Friedman

Thank you.

Andy MacMillan

Thank you.

Operator

The next question comes from the line of Yun Kim with Loop Capital Markets. Please go ahead.

Yun Kim

Thank you. Congrats on a solid quarter, Andy and Jon. First, thanks, Andy, for the book, enjoyed reading it, so it was a good read. I do have a follow-up question on the contributor network, which obviously, (inaudible). Any particular trend that you want to highlight? Then also, are you cutting into some of the templates and maybe try to make your solution more verticalized? Any trend that you want to highlight around the contributor network?

Also, are you seeing any higher cost to maintain the quality of your network? Obviously, given the current state of the labor market and a lot of people going back to work physically, are you seeing at all higher

churn rate or higher cost to acquire new contributors? Obviously, the gross margin in the quarter tell us something otherwise, but just wanted to ask. Thanks.

Andy MacMillan

Certainly, and appreciate the questions and the nice shout out on the book. Thank you for that. If anybody is thinking about being an author, it's a lot more work than they tell you at the beginning. The contributor network continues to give us the primary signal that they enjoy taking tests. They love having their voice be heard and they would love to continue to take more tests. That's the number one bit of feedback that we get from the network.

We view the gratuity, essentially the contributor payment, to be exactly that, a thank you for your time. We're not really paying them a wage per se. We're very clear upfront, this is not how you make a living. I think for that reason we're a bit isolated from the macro environment effects we see of employment or inflation, or things like that. Most folks in our network don't view this as their job. They view this as an opportunity for them to share their feedback, to be heard with some of the leading brands in the world on the things that they are building, and to be given a thank you for doing that.

We continue to see really good performance out of the network. We continue to see a high demand for taking tests. We continue to see really high-quality feedback on the network. I think that's holding well.

As far as vertical templates, I think that's a great question. The initial set of templates that we put into the market, which if you recall, I think we talked about on the last earnings call, was actually at the start of the COVID period. We launched a bunch of template to help our customers adapt to that change in consumer landscape.

We largely sorted those by vertical. We talked to banks about how to do online retail banking for laggards. We had a template that helped restaurants test food delivery services and things like that. I think there's a way that we sort the template discovery a bit by vertical. But we will continue to look at things like, as we go in, maybe more into healthcare for example, I'm sure there are templates that will make a lot of sense in the healthcare industry that will feel more vertical than others. That's certainly an avenue we'll continue to look at. We think the template strategy is really important. The more of those templates can speak to specific use cases in industries, the more powerful they'll be.

Yun Kim

Great. Then quick question to Jon, in regards to seasonality around billings, obviously understand that Q1 will be the weakest and Q4 being the strongest, especially as your deal sizes get larger and larger. But how should we think about Q2 and Q3 billing seasonality? Is last year's billing seasonality a good proxy?

Jon Pexton

Yes. I think we will see some similar seasonality. Q1 is always our lightest quarter. Q2 is better, but still light, then Q3 is a little bit better, and Q4 is the big quarter which is consistent across a lot of enterprise software plays. We have done a little bit of a restructuring in our sales organization this last quarter, which I think is meaningful. In the past, we split our global sales team into a land and expand function between enterprise and global.

Now, we've done that more broadly through our organization to have specific land teams and specific expand teams, and so I think that's definitely the right thing to do. But it's caused a little bit of friction in the sales team as we've done that. I think that we're probably a little bit more light than the normal seasonality you would see. But then we're confident in the long term, that's the right way to go.

Yun Kim

Okay. Great. Thank you so much.

Jon Pexton

Thanks.

Operator

Thank you. Ladies and gentlemen, we have reached the end of question-and-answer session. I would like to turn the call back to Andy MacMillan for closing remarks.

Andy MacMillan

Thank you, Heyman (phon), really appreciate you MCing the call and doing such a nice job. Thank you, everybody, for the questions. Thank you for those of you that took the time to read through the book that we wrote and took an interest in the activities that we're doing. We really appreciate it. We think maybe now more than ever, it's a time for folks to build empathy and human understanding. We're excited that we've got a product that's helping the market do that with their customers. We appreciate your time and your involvement in the business and look forward to talking to you next quarter.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time and thank you for your participation.