

SMWB Earnings Call Transcript

Date: 2025-11-12

Quarter: 3

Operator: Good morning, ladies and gentlemen, and welcome to the Similarweb Q3 Fiscal 2025 Earnings Call. [Operator Instructions] Please note that this event is being recorded. I will now hand you over to Rami Myerson. Please go ahead.

Rami Myerson: Thank you, operator. Welcome, everyone, to our third quarter 2025 earnings conference call. Joining me today are our CEO and Co-Founder, Or Offer; and our Chief Business Officer, Maoz Lakovski. Yesterday, after market close, we released our results for the third quarter and published a discussion of our results in a letter to shareholders as well as an investor presentation with a strategic overview of the business on our Investor Relations website at ir.similarweb.com. Certain statements made on the call today constitute forward-looking statements, which reflect management's best judgment based on the currently available information. These statements involve risks and uncertainties that may cause actual results to differ from our expectations. Please refer to our earnings release and our most recent annual report filed on Form 20-F for more information on the risk factors that could cause actual results to differ from our forward-looking statements. Additionally, certain non-GAAP financial measures will be discussed on the call today. Reconciliations to the most directly comparable GAAP financial measures are available in the earnings release and the earnings presentation. We will begin with Or's highlights of the quarter, and then I will provide an overview of the financials. Then we will open up the call to questions from sell-side analysts. With that, I'll turn the call over to Or. Or, please go ahead.

Or Offer: Thank you, Rami, and welcome, everyone, joining the call today. I'm super proud of the third quarter financial results that we reported yesterday. Revenue increased by 11% year-over-year to \$72 million, in line with our expectation. Our customer base grew 15% year-over-year to more than 6,000 ARR customers at quarter end. We reported an eighth quarter of positive free cash flow, and we are reiterating guidance for 2025 revenues and raising our profit guidance for the year. Customer interest in our Gen AI data and solution is amazing, and revenues from our Gen AI data and new solution continue to expand and are one of our fastest-growing revenue streams. We remain focused on 3 high-impact opportunities where Similarweb is highly positioned to lead. The first one is the Gen AI Intelligence. Our Gen AI Intelligence suite has been well received by our customers. In October, we launched a Web Intelligence 4.0 that integrates our Gen AI capabilities into our web intelligence solution, providing an even more comprehensive view of the digital world. ARR from Gen AI Intelligence product is growing rapidly and to more than \$1 million since the launch in April, a great milestone for this product. The second one is our data selling for LLMs. We are supplying our unique and fresh digital data to companies that are building their own LLM and generative AI applications. And the third one is our AI agent. We continue to roll out AI agents to help our customers maximize the value and automate their workflow, enabling them to extract insight from our data in the shortest time possible. Utilization of our AI agent continue to grow. For example, 27% of our Sales Intelligence customers use our AI meeting prep and our new AI outreach agent with adoption and utilization is growing quarter-over-quarter. In September, we launched our new Similarweb MCP server that can deliver trusted digital market intelligence data directly into AI agent and workflows. These new products empower our customers with a tool to integrate our digital data insight at scale via LLMs and automation tools, including Claude, Copilot, OpenAI Agent Builder and more. The MCP is an exciting

milestone in our deployment of data-driven AI products and services. I'm super proud of the strong adoption of the Similarweb App Intelligence that we launched in March. At the end of Q3, more than 580 of our customers were using our App Intelligence, and ARR has increased rapidly to above \$10 million. Similarweb digital app data today cover over 4 million iOS and Android apps across 58 countries, providing our clients with comprehensive coverage of data that includes ranking, download, usage, engagement, retention and audience demographics. The investment in go-to-market that we started in the fourth quarter of 2024 is ramping as planned, and we are starting to see good results. At the end of Q3, we had 30% more sellers than in the third quarter last year, and we are seeing encouraging improvement in yield. I'm super proud that we continue to operate efficiently and reported our eighth quarter of positive free cash flow in Q3, generating \$43 million of free cash flow in the past 8 quarters. We remain focused on delivering profitable growth over time as well as achieving our long-term profit and free cash flow targets. I'm super excited that Ran Vered, our new CFO, will join in December. Ran has over 20 years of finance experience and a proven track record of driving growth, efficiency and strategic transformation. He has worked as a CFO at 3 companies, 2 U.S. traded public companies and recently in a SaaS enterprise data company. I would like to thank Jason Schwartz for 10 years of service at Similarweb and wish him good luck and success. And as I like to say, we are just getting started. Thank you, everyone, for the call and for your continued support. And with that, I will turn the call back to Rami.

Rami Myerson: Thanks, Or. I'll provide highlights of our financial performance, and then we'll open the call up to questions. We generated \$71.8 million of revenue in Q3, an 11% increase relative to Q3 2024. Revenue growth was driven by the 15% growth in overall customers as well as increased revenues from some of the new products we launched in 2025, including App Intelligence and Gen AI Intelligence. The quarterly growth rate reflects a strong Q3 '24 comparison and the early recognition of LLM evaluation revenues in Q2, which we had originally expected in Q3, as we discussed with you last quarter. We are proud that 58% of our ARR is contracted under multiyear contracts, up from 45% last year. We believe this demonstrates the durability of our revenues and the importance of our data to our customers. We generated \$3 million of normalized free cash flow in the quarter, a 4% free cash flow margin and an eighth consecutive quarter of positive free cash flow. We plan to continue to generate positive free cash flow on a quarterly basis going forward. Our remaining performance obligations, or RPO, totaled \$268 million at the end of Q3, up 26% year-over-year. We expect to recognize 68% of total RPO as revenue over the next 12 months. In Q3, overall NRR was 98% across all customers and 105% for customers with over \$100,000 of ARR. The decline in NRR reflects a strong expansion activity in 2024, particularly from large contracts booked during the second and third quarter of last year. We are very encouraged by the improving trends in GRR that increased sequentially in Q3 and was our highest in 2 years. Moving to guidance for the year. We are reiterating our revenue guidance for full year 2025 and expect total revenue in the range of \$285 million to \$288 million, representing 15% year-over-year growth at the midpoint of the range. We are raising our non-GAAP operating profit guidance to between \$8.5 million and \$9.5 million, an increase from our previous expectation and significantly higher than the guidance we provided at the beginning of the year. This is due to our focus on disciplined execution. With that, Or, Maoz and myself are ready to answer your questions.

Operator: [Operator Instructions] Our first question comes from Surinder Thind of Jefferies.

Surinder Thind: Or, could you maybe just talk about your gross revenue retention? It looks like things are trending in the right direction, but NRR would suggest even given the tough comps that maybe the upsell process has been a little bit more challenging. Any color there would be appreciated.

Or Offer: Yes, of course, and thank you for the question. I'm talking about the NRR trend. And so the NRR we report is the average of the 4 last quarter of the past 12 months. And in this past 12 months, a lot of the expansion we're doing is mostly like big part of the big expansion were those engagement on the data for LLMs. And the way this work is usually start as a onetime test that is significant. And then down the road, it's converting into ARR deals. So because a lot of the expansion come from those in the past 12 months, and you don't see it in the NRR because the NRR only reflect in ARR deals. So I hope that as a lot of those pipelines of big deals we have for selling data for LLMs will convert into ARR deals going forward, this trend will change and go up down the road.

Surinder Thind: That's helpful. And then maybe, I guess, since you mentioned kind of the LLMs and the

training data partnerships in the pipeline, can you maybe talk about how that's evolving at this point? In the past, you've announced a number of kind of these upfront data purchases that aren't in your ARR. So should we be expecting conversion? Is this something where the clients maybe take 6 months to evaluate whether they want to enter into a longer-term relationship? Or how should we think about what's coming down the pipeline here?

Or Offer: It's excellent question. Thank you. So indeed, the answer is yes. It's a long process of sell. And when you usually provide a big chunk of historical data that those companies are trying to use and analyze and prove that it will improve their accuracy of the models. So those processes usually take a long time and there's many different data sets. Similarweb is a leading digital company of the world. We have so many different data sets that there are so many assumptions and so many things we see how it's improving. So there's many tests going and there's different companies. So yes, I feel very confident that a majority of those engagements will convert to ARR deals going forward because we already have a few of them that are already in ARR with long-term commitments. So we see the impact, it's driving on other players. So we're very confident that we can drive this impact on all the other players.

Operator: Our next question comes from Raimo Lenschow of Barclays.

Raimo Lenschow: Perfect. I had 2 questions as well. So first of all, great to see the App Intelligence customer count grow and ARR reaching almost \$10 million there. Can you help us understand where these customers are coming from? Are they cross-sell or net new? Like can you speak to that, please? And then I have one follow-up.

Or Offer: Yes, of course, we're very excited about the new product that we launched into the market. So not only the App Intelligence that is like super successful, also our Gen AI offering that just passed \$1 million like in super fast time. So regarding the customer, I think the majority of the customer is cross-sell. We think that we have more than 6,000 customers that we engage buying our digital data to increase their market share all across the digital world. So the App Intelligence is like spot on for them, like they all usually have website and app. So it's an easy sell. They love us. They trust us fast. So we see a very big success. The more we're increasing the coverage of countries we provide and the metrics, it's going to be very successful. So we're very happy. We're seeing good success that the product that we innovate and build and launch are adopting by our customers.

Raimo Lenschow: Yes. Okay. Perfect. And then if you look at the -- to the last question, you talked a little bit about the days in the quarter as well. But the -- if I look at the sequential add this quarter was kind of more on the lower side of what we've seen historically. Can you speak a little bit to -- were there other factors? Or was it just what you mentioned to the first question?

Or Offer: Yes. I think that -- we think that the execution was good. So I know it's very hard to land exactly where you plan, but we felt that the execution was good. We feel good for the year. So some of the deals are big, so it's very hard to forecast them. But overall, I think that like we're really able to land spot on what we -- maybe, Rami, if you have anything to think about that?

Rami Myerson: Raimo, just to add to that, as you remember, we had some contracts that came in earlier than expected, some of those evaluation contracts in Q2. And so the phasing isn't linear. And so we booked revenues in Q2 earlier than Q3. If we would have booked those revenues in Q3, then the sequential improvement would have been more gradual.

Operator: The next question comes from Ken Wong of Oppenheimer & Co.

Hoi-Fung Wong: This one might build on the response you just gave, Rami. But just wanted to get thoughts on kind of why the ARPU declined slightly even with the focus on upmarket customers. How are we thinking about the trend on ARPU going forward?

Rami Myerson: I think that ARPU is impacted by the number of customers that we added. And particularly for the larger customers on the ARR, we added some -- mainly the large end, some onetime customers. We didn't add, we saw an increase in revenues, whereas a lot of the customers that are crossing the trend are coming through below average, but we expect this to fluctuate over time. What most matters to us is the increase in customer count because that ultimately means that we have a big range of customers that we can then sell and upsell to and move them from single product into multiyear products, which move them from single geographies to multi geographies. As we mentioned in the shareholder letter, we have customers that have increased 6x over time or 10x over time. And so once they're in the pipeline, then we can work on them and land and expand and implement the

playbook. So quarterly fluctuation or decline or increase. It's very, very small and doesn't really have a big impact on the way we think about the business.

Hoi-Fung Wong: Okay. Perfect. And then a broader theme, we just wanted to kind of pick your brain on with SEO traffic coming down, I know you guys have some AI tools that are helping customers kind of focus on other channels. But any impact you're seeing in terms of demand for web intelligence and some of your core products with some customers maybe deemphasizing web traffic?

Or Offer: So I think we see a little bit the opposite. I think that a lot of those digital companies that have a website and now getting less traffic from SEO, now they need to close those gaps from other channels. And then they come to us, we are the leading digital company to give visibility to the market. So they want to understand how they position if the decrease they see is worse or better than the competition and what action they need to do to drive more traffic. So for us, those market changes and dynamic only increasing the need and the demand for the solution we provide. Maoz, maybe...

Maoz Lakovski: Yes. I think I would just add that, first, we are following and seeing where the users are, and we are making sure that we are able to track and have compelling offer, and we are investing a lot in the GEO or AEO offer. And it's also important to mention that we launched Web Intelligence 4.0, a new pricing schema about a month, 1.5 months ago, and we're seeing initial good signs of monetization of our core products. We are optimistic about it and think that our monetization strategy will make sure that we keep growing our core offering.

Operator: Ken, does that conclude your questions?

Hoi-Fung Wong: Yes, it does.

Operator: Our next question comes from Arjun Bhatia of William Blair & Company.

Willow Miller: I'm Willow Miller on for Arjun Bhatia. So curious to hear more about the sales rep ramp that were added a few quarters ago now that we're through the third quarter and into the fourth quarter. In the past, you mentioned you were looking forward to the newer sales resources closing more deals in the back half of the year. Is that playing out?

Or Offer: Yes. So we're seeing an improvement in the go-to-market quarter-over-quarter. And I think last quarter, we said that we have a record high of salespeople closing deals. And I think even this quarter, we saw even higher numbers of salespeople that are participating in generating revenues. And of course, as a CEO, you always want better and bigger. So you're always optimizing that the go-to-market will be much more stronger and better.

Operator: Our next question comes from Tyler Radke of Citi.

Tyler Radke: So just going back to the results and the guidance. I mean, I think we're used to Similarweb, probably vast majority of your quarters as a public company, beating the midpoint, if not the entire guidance range and raising at least on revenue. So I just wanted to make sure I understood the dynamics. Certainly, can appreciate the quarterly dynamics in terms of the revenue that sort of got accelerated last quarter. But just relative to your guide, was it simply deal timing, linearity of the quarter when these deals closed? Are you building in more conservatism just given the CFO transition? Just help us understand sort of the lack of a beat and raise on revenue.

Or Offer: I think that overall, I think, of course, everything you said is part of that. But I think that also when we started the year, we were -- and even now, we're very focused on optimizing the margin, the EBITDA margin, and this is where we felt that we can drive good impact. And this is, as you can see, we're doing very nice beat and raise on that, running a very efficient and disciplined execution. So I think this is where we put our focus.

Tyler Radke: Okay. And then on the margin side, you talked about a pretty healthy growth in the number of sales reps that you had this quarter. But sort of what's driving that incremental raise? Like where are you taking costs out? Is it more sort of not hiring as many sales and marketing people? Is it more R&D; and GA? Maybe you're seeing some AI efficiencies in the business? Would love to just hear specifically what's driving the lower costs here for the full year?

Or Offer: I think it's a combination of -- we decided to become better at that metrics and become more disciplined around it. And of course, you have the AI tailwind that is helping increase productivity so you can run a very tight engineering without growing the R&D; resource. And of course, around the go-to-market as you go when you optimize, you start in the beginning of the year, hiring many people to execute and the one that were not performing, you let go. So basically, you keep with the best ones,

and they are becoming more productive. And I think this was the majority of the cost savings we look into.

Operator: Our next question comes from Patrick Walravens of Citizens Bank.

Kincaid LaCorte: Great. This is Kincaid on for Pat. Congratulations on the quarter, guys. So I was just curious if you could highlight any customer conversations that you've had around the Gen AI products? And what's really driving uptake with these seeing a lot of love for?

Or Offer: Yes. I think it's very interesting. It's kind of the Gen AI optimization product that we sell. It's a new channel for all of our customers. It's a channel that happened rising this year. And there's many questions about getting visibilities and understand how to be successful. It's a very interesting dynamic because maybe it's not driving a lot of traffic, but I think a lot of the answers coming on the chatbots are kind of defining the customer perceptions on brands and the purchase decision-making. So it's very important to them to understand how many consumers asking about their brand, what are the, what is the sentiment. So as you work with the customers and basically building and developing the product they need in order to be more successful in this new channel that arise.

Rami Myerson: Kincaid, this is Rami here. If I can just jump on. And we've had some meetings with the leadership that are coming back from meetings with a range of customers around the U.S. and around the world. I think there's general excitement in the business about the opportunities. C-suite are very, very keen to understand how Gen AI is impacting the business on the one hand. On the other hand, all the leading LLMs are very, very keen to understand how the data we provide them can help them improve their modeling. So I think that when we combine those 2 parts of the market, on the one hand, the interest that we're getting from all the model generators and creators and from the corporates that the business is being impacted and disrupted by AI really gives us a lot of makes us very excited about the opportunities we have from that part of the market.

Operator: The next question comes from Luke Horton of Northland Securities.

Lucas John Horton: Just wanted to talk a little bit about the customer side. And kind of are you seeing any mix shift between enterprise versus mid-market customers, especially with kind of the new use cases and product launches that you guys have made over the past year?

Or Offer: Not really. I think the mix between SMB and enterprise stayed the same. We didn't observe any change in that.

Lucas John Horton: Fair enough. And then just kind of piggybacking off of that into the competitive landscape here. Just have you seen an uptick in competition here, especially with, I mean, a couple of other companies out there kind of doing similar cadence of new product launches and trying to capture this Gen AI demand. Just curious your thoughts on the overall competitive landscape.

Maoz Lakovski: Yes, Maoz here, thank you for the question. We -- there is a lot of interest and a lot of demand for our Gen AI products, but we are confident that we can be a dominant player in this space. We have a unique data sets that enable us to be the best solution in this field. We have great client relationships, and we get a lot of demand, both from new prospects and from existing clients. It's a very horizontal play. Many of our clients across brands, agencies, publishers, they all care about Gen AI visibility. So we are not too concerned. We are focusing. We are building a great product. We have great data sets on this landscape. We are really allowing brands to understand visibility within the engines. So for us, it's more about market growth and market education. It's not really about this competitor or that competitor at this point.

Lucas John Horton: Okay. Fair enough. And then just last one here. Apologies if this one has already kind of been asked and answered, but just looking at the implied revenue guidance for 4Q, it's sort of a wider band here. Just wondering if that's kind of more so due to uncertainty around the timing of some of these larger deals flowing through or just kind of the puts and takes on the implied 4Q revenue guide?

Or Offer: Yes. It's basically because we have a very strong pipeline and very big deals. So we want to keep it in that range to understand we're very confident we'll end on the range, and we want to see how it materialize.

Operator: [Operator Instructions] Our next question comes from Adam Hotchkiss of Goldman Sachs.

Adam Hotchkiss: I just wanted to ask on your RPO metric that was strong for a second consecutive quarter here. Maybe just comment a little bit on contract duration and how we should think about the

interplay of revenue growth versus that higher RPO growth rate.

Or Offer: Yes. Thank you, Adam, for the questions. Indeed, we're seeing a good success with a multiyear commitment. We see more and more of our customers loving our product, monetize it, getting great ROI from that and willing to engage with us for a multiyear. And as they report that we now have 58% of the revenue is closed for multiyears that we're very, very proud with that metric. And it's a very strong indication of the value of the data we give to our customers. So with that success and every quarter, we're getting better and more customers engage with us, it's also helping to get a better RPO.

Adam Hotchkiss: Great. That's really helpful. And then just on sales and marketing, I appreciate the comments on the ramping of sales employees. I did notice that sales and marketing expense did come in a little light of expectations this quarter and sequentially, which I think was potentially part of the profit outperformance. I know or we had talked about you taking a real-time approach to sales rep productivity and trying to understand that relative to margin performance, particularly when you gave the guide earlier this year. So maybe comment on if there are any changes in what you're seeing there and if anything flowed through the sales and marketing number in Q3 that we should be aware of?

Or Offer: Yes. So the ramp-up of the salespeople is on track as you try to scale go-to-market organization, what we did in Q1, we overhire in a lot of those areas to make sure that we can ramp the people and then we can have the options to double down on the ones that are successful and can show indication that they can be successful selling our solutions. So the process, you little bit over hire, you see who is successful, who can be part of our culture. And then as you go through, you start optimizing and let go the one that are less successful. And as you're doing that, your S&M; is getting better and you're able to start getting more yield from the salespeople. So I think this is what you're seeing in the numbers.

Operator: Our next question comes from Patrick Walravens of Citizens.

Patrick Walravens: Can I ask 2 follow-ups? First of all, what kind of big deals do you have in that pipeline? What the very big deals are, obviously, not the companies, but just like if you could characterize them? And then secondly, how should we think about next year?

Or Offer: So I will try to answer what I heard because I think the line was not super clear. I think the first question was around the big deals that we have that, as we said over the past few quarters, we're seeing big success on selling data for LLM companies or companies that are trying to create the best LLMs for this new AI world. And we're seeing that our digital data is a critical element in building, training those LLMs. And once we're able to engage and show the value of our data after those long process of evaluation, we get a very good engagement that is very sticky and very long term, and we're becoming a critical part of building and developing those LLMs. So this is around the big deal. And the second question that I heard, I think, is about next year. We're going to give guidance to next year in the next quarter. So...

Operator: Ladies and gentlemen, with no further questions in the question queue, we have reached the end of the question-and-answer session. I will hand back over to Or Offer for closing comments.

Or Offer: So I would like to thank you all for joining the call and especially our shareholders for the support. We look forward to speaking to you again over the coming weeks. Thank you all.

Operator: Lovely. Thank you very much, sir. Ladies and gentlemen, that concludes this event. Thank you for attending, and you may now disconnect your lines.