Semrush Q3 2024 - Earnings Call Script

Brinlea Johnson, Investor Relations

Good morning and welcome to Semrush Holdings third quarter 2024 conference call. We will be discussing the results announced in our press release issued after market close on Thursday, November 7th. With me on the call is our CEO, Oleg Shchegolev, our President, Eugene Levin, and our CFO, Brian Mulroy.

Today's call will contain forward-looking statements which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements concerning our expected future business and financial performance and financial condition, expected growth, adoption and existing and future demand for our existing and any new products and features, our expected growth of our customer base and specific customer segments, the continued development of our products, industry and market trends, our competitive position, market opportunities, sales and marketing activities, acquisition activity, integration and results of recent acquisitions, future spending and incremental investments, our guidance for the fourth quarter of 2024 and the full year 2024, and statements about future pricing and operating results, including margin improvements, revenue growth and profitability, and assumptions regarding foreign exchange rates. Forward looking statements are statements other than statements of fact and can be identified by words such as expect, can, anticipate, could, plan, believe, seek or will. These statements reflect our views as of today only, and should not be relied upon as representing our views at any subsequent date and we do not undertake any duty to update these statements.

Forward-looking statements address matters that are subject to risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. For a discussion of the risks and important factors that could affect our actual results, please refer to our most recent quarterly report on Form 10-Q and our annual report on Form 10-K, filed with the Securities and Exchange Commission, as well as our other filings with the SEC.

During the course of today's call, we refer to certain non-GAAP financial measures. There is a reconciliation schedule showing the GAAP versus non-GAAP results currently available in our press release issued yesterday after market close, which can be found at investors.semrush.com.

Now, let me turn the call over to Oleg.

Oleg Shchegolev, CEO and Co-Founder

Thank you and good morning to everyone on the call. I am pleased with our results this quarter - delivering revenue of $97.4 million, up 24% year-over year and ARR growth of 24% year-over-year. We reported income from operations of $1.7 million and non-GAAP

income from operations of $12.1 million in the third quarter. Non-GAAP operating margin increased to 12.4%, compared to non-GAAP operating margin of 9.5% in the prior year period.

We exceeded our guidance and I am pleased to say we are raising our full year 2024 guidance and are very excited about our growth opportunities in 2025. We continue to expand our leadership position in online visibility and are succeeding in combining strong durable growth with profitability and free cash flow generation.

We recently hosted our first analyst day a few weeks ago in New York, which was very exciting for us, so I will keep my remarks today brief. In case you could not attend in person, a webcast along with the accompanying slides is available on the Investor Relations section of our website.

One of the highlights from our Analyst Day was the discussion around our total addressable market. We have more than tripled our TAM from $13 billion at the time of our IPO to roughly $40 billion today. What is really exciting about this TAM is that it provides Semrush an opportunity to gain share within an existing, fragmented market and more importantly to capture new white space created by the ever evolving digital marketing landscape.

Our platform solves marketers' increasingly complex and critical problems. The volume and diversity of available content is immense… the amount of time we spend online is maxed out… every business that needs to be online is already online… the algorithms keep changing… and it is getting more expensive to navigate through all this. This is where we come in.

Our Semrush Digital Marketing Platform utilizes data and intelligence at its core and is surrounded by AI-powered interconnected hubs focused on search engine optimization, paid advertising, social media management, local marketing, brand marketing and content marketing. We continue to innovate on our platform to help marketers find opportunities to deliver efficient results across numerous marketing channels.

I am especially excited about the early momentum we are experiencing from our new Enterprise product. Prior to the Enterprise SEO product launch, we successfully acquired 8,000 enterprise sized accounts, our term for companies with over 500 employees. And we believe these 8,000 enterprise size accounts are ideally situated to migrate to our Enterprise SEO product. To date, we closed new deals with Salesforce, HSBC, LG, Samsung, Alibaba, Sony, DoorDash, TikTok, Square, and many more. We believe the demand for our innovative Enterprise SEO product is strong, and we have a long runway for growth ahead.

Semrush's edge over the competition comes from our strong culture and history of leveraging our differentiated data to elevate the digital marketing activities of our customers. And, as we add more customers and data to our platform, our competitive moat increases. This data generates a flywheel effect as it strengthens the quality of our

algorithm and enhances the effectiveness of the recommendations we give to our customers.

In summary, Q3 was another solid quarter for us, which is a testament to our integrated and complete platform approach to serve companies of all sizes. With our continued revenue growth acceleration, I am confident that we have built a strong foundation for the future. We plan to leverage our profitability to invest in new products that extend our reach, and drive cross-sell and up-sell capabilities. We have a strong balance sheet and disciplined capital allocation approach around M&A opportunities. I look forward to keeping you updated on our progress.

I will now turn the call over to Eugene and Brian to discuss the results of the quarter and our outlook in more detail.

Eugene Levin, President

Thank you Oleg.

We delivered another solid quarter and continue to scale and innovate, all while driving strong growth. Our platform is very powerful and helps marketers all over the world improve their online visibility. We continue to expand our product portfolio by leveraging our innovative internal development teams, partnerships and M&A.

Most recently, we acquired the digital marketing publisher Third Door Media, whose brands include Search Engine Land, MarTech, Search Marketing Expo (SMX), and Digital Marketing Depot, which are all known for their contributions to search and digital marketing education. We believe this will help us expand our reach of industry-related content and insights to marketers. This acquisition, coupled with the presence we have at over 200 accredited universities, is part of our commitment to inspire and equip both current and future generations of digital marketers with the know-how to succeed in an increasingly competitive landscape.

To help illustrate our successful top-of-funnel marketing strategy, I'd like to highlight two recent customer wins. The first is a new Enterprise customer, a market-leading provider of efficient, resource-conserving cleaning systems. Prior to working with us, the company was using Searchmetrics, with a unique user and access management approach, limiting their ability to oversee other market activities. They are now scaling our Enterprise SEO solution across all of their markets. Semrush's Customer Success Team is onboarding and training the entire organization, demonstrating our commitment to equipping their teams with actionable SEO insights that drive consistency and coordination. In addition, the company is leveraging our Adobe Analytics integration and unique data insights to better align digital strategy, using custom dashboards for precise, data-driven decision-making across regions.

The second example highlights Semrush's ability to successfully expand our footprint within existing enterprise customers. For one of the world's largest online retailers, like all

e-commerce platforms, success hinges on search visibility, attracting new customers, driving repeat purchases and increasing average basket size. Selection, price, and exposure are core - if they cannot understand all three in real time they risk losing sales. In priority categories such as electronics, toys and apparel, our customer was struggling due to significant competition in the market. This led to stagnation in new customer additions, repeat purchases, and flat average basket size.

Leveraging our Enterprise Solution, they are now able to track hundreds of thousands of key items in real-time. This is a process that used to take days or even weeks. Using AI and advanced analytics, our Enterprise Solution identifies what is impacting rankings and suggests immediate actions to boost visibility, driving revenue from both new and existing customers. And this isn't just saving the customer time—it is delivering immediate business insights that directly drive revenue.

Looking at our enterprise product and customer wins in more detail, in only 5 months since our general availability launch, we've secured major deals with brands like Salesforce, HSBC, LG, Samsung, Alibaba, Sony, DoorDash, TikTok, Gartner, Square, and many more.

Salesforce, Samsung, Sony, Alibaba, DoorDash and Gartner were existing clients who made substantial upgrades, while HSBC, LG, TikTok, and Square represent significant new wins, choosing SEMrush as their enterprise platform and displacing competitors. This strong demand from both existing and new clients, achieved with minimal marketing, gives us immense confidence as we continue to accelerate growth.

In summary, I am excited about our ability to service enterprise customers and continue to expand our portfolio of offerings, reiterated by our customer examples and wins.

I will now turn the call over to Brian who will provide a more detailed discussion of our financial performance and guidance. Go ahead Brian.

Brian Mulroy, CFO

Thank you, Eugene.

We had a solid third quarter across the board. Our revenue was $97.4 million, growing 24% year over year.   Growth was driven primarily by an expansion of our average revenue per customer as we continue to execute on our cross-sell and up-sell strategy.

Before reviewing Q3 results in greater detail, I want to call your attention to the new disclosures we made during our analyst day in early October as I think it's worth driving home some key takeaways from them.

Specifically, I would like to highlight the customer segmentation metrics we provided.

We have 8,000 Enterprise accounts, over 17,000 Mid-Market and over 21,000 Marketing Agencies in addition to our strong SMB business. Our midmarket, agency, and enterprise

accounts represent our most sophisticated users and contribute a healthy 55% of our overall ARR.

We also significantly expanded the number of customers paying more than $10,000 and $50,000 per year and you can see that there was a noticeable uptick in 2024 as we've really chosen to focus more on this group. To demonstrate the increase, during 2018 we had approximately 200 customers paying more than $10,000 and close to 0 paying more than $50,000. Fast forward to today, we now have more than 4,000 customers paying us over $10,000 and nearly 300 paying over $50,000. We expect both of these to increase significantly as our new Enterprise SEO Solution gains traction.

In fact, since we launched the Enterprise solution for general availability just a few months ago, we have already added 50 new customers to the $50,000+ cohort. Our confidence in our ability to deliver strong growth and profitability going forward comes - in part - from the demonstrated successes in these higher Average ARR segments where our retention rates are also the strongest. As we said during our analyst day, NRR in this group is above 120.

Now turning to our Q3 results, which came in slightly ahead of what we released a few weeks ago.

Annual Recurring Revenue for the quarter grew 24% year over year to $401 million.

We've enjoyed success in building out a very strong and loyal customer base, increasing it nearly 3X since the end of 2018. During the third quarter, we added approximately 1,300 net new paying customers

Our calculated average ARR per Paying Customer now exceeds $3,400, up 13% year-over-year. This was due to both the relative mix of business and agency customers and also the strong upsell activity, including our enterprise product that we saw this quarter. We have consistently increased the average ARR per Paying Customer, which is up 2X since the end of 2018. This strong Average ARR per Paying Customer increase is a result of the success in our cross-sell strategy as well as our sophisticated customers growing as a % of our overall ARR, a trend we expect to continue going forward, especially with our new Enterprise SEO product and up-market investments in Sales & Marketing.

Our dollar-based net revenue retention for the third quarter was strong at 107%. We believe our dollar-based net revenue retention will increase overtime as we benefit from our Enterprise go-to-market and product investments.

Moving down the income statement, during the third quarter we achieved positive non-GAAP operating income of $12.1 million. We reported another significant improvement in our non-GAAP operating margin to 12.4%, which was up nearly 300 basis points year-over-year and surpassed our third quarter guidance. Cash flow from operations in the third quarter was $8.1 million.

Turning to the balance sheet, we ended the quarter with cash and cash equivalents, and short-term investments of $233 million, up $1.3 million from the previous quarter as cash flow from operations was offset by the approximately $9 million in cash we disclosed last quarter that we used to acquire Ryte.

Turning now to guidance. For the fourth quarter of 2024, we expect revenue in a range of $100.8 million to $101.8 million, which at the mid-point would represent growth of approximately 21% year-over-year. We expect our fourth quarter non-GAAP operating margin to be approximately 11%.

For 2024, we are raising revenue guidance to be in a range of $375 million to $376 million, up from our prior range of $373 million to $375 million, which translates into growth of 22% at the midpoint .

As it relates to full-year 2024 non-GAAP operating margins, we now expect to be approximately 12% and we continue to expect our free cash flow margin of approximately 8%.

Our guidance assumes a Euro exchange rate of 1.08. Approximately 30% of our expenses are denominated in Euros.

And finally, looking beyond the current fiscal year, we expect to maintain a 20% compound annual revenue growth rate over the near-term.

In closing, we are very pleased with our performance. We executed well to overachieve on our top line growth and profitability, advance forward our strategic priorities and place Semrush in a strong position for our next phase of growth.

With that, we are happy to take any of your questions. Operator please open the line for questions.

OLEG CLOSING REMARKS

Thank you all for joining us today. We delivered a strong third quarter, exceeding our guidance and positioning us to raise our full year 2024 guidance. Semrush has consistently delivered and innovated at each moment to keep up with the increasing demands, advancing sophistication and the ever evolving digital marketing landscape. It is because of that innovation that we have been able to deliver strong growth across key metrics. Revenue, Average ARR per Customer, Net Revenue Retention and Net New Customer Additions.