



Gary J. Fuges, CFA, VP of IR

Thank you. Good afternoon, and welcome to SurveyMonkey's First Quarter 2020 Earnings Call.

Joining me on today's call are Zander Lurie, our CEO; Tom Hale, our President; and Debbie Clifford, our CFO. After our prepared remarks, we'll take your questions.

Prior to this call, we issued a press release and shareholder letter with our financial results and commentary for our first quarter 2020. Those items were posted on our Investor Relations website at investor.surveymonkey.com.

During the course of this call, management will make forward-looking statements, which are subject to various risks and uncertainties, including statements relating to our strategy, investments, revenue, operating margin and cash flow. Actual results may differ materially from the results predicted and reported results should not be considered an indication of future performance. A discussion of the risks and uncertainties related to our business is contained in our filings with the Securities and Exchange Commission, in particular, in the section entitled Risk Factors in our quarterly and annual reports, and we refer you to these filings.

Our discussion today will include non-GAAP financial measures unless otherwise stated. These non-GAAP measures should be considered in addition to, and not a substitute for, or in isolation from, our GAAP results. A reconciliation of GAAP to non-GAAP results may be found in our earnings release and shareholder letter, which are furnished with our 8-K filed today with the SEC and may also be found on our IR website.

With that, I'll now turn the call over to Zander. Zander?

Zander Lurie, CEO

Thanks Gary. And thank you everyone for joining our call this afternoon.

I hope all our shareholders and friends in the Analyst & press community are staying healthy. To state that recent months have been tumultuous feels boilerplate, but the COVID-19 healthcare crisis and global economic slowdown is dominating every aspect of our lives. Companies, governments, communities and individuals are trying to navigate this “new normal” and stay connected with their stakeholders. If there was ever a doubt about the mission critical nature of SurveyMonkey’s software solutions, our pipeline of enterprise customers over the last 2 months provides a definitive answer. The increase in new accounts on our website and interest in our COVID-19 survey data gives me confidence that SurveyMonkey’s products deliver value, especially during a crisis.

I have been associated with SurveyMonkey since 2009 and I have never seen a moment in time where we have been more relevant to our customers. Every leader, in every organization, in every country is seeking feedback from their stakeholders in this volatile environment. SurveyMonkey employees are rising to meet the moment -- delivering for customers in all industries, around the world. We executed well in Q1 with solid financial performance driven by broad-based strength across the business. Our shareholder letter details our Q1 operating and financial results. But Q1 was forever ago. We are rallying to help our customers light up new solutions in a matter of days so they can meet the needs of their stakeholders throughout the crisis. Here are two takeaways from our shareholder letter: 1) new demand tailwinds are directly related to COVID-19 use cases; and 2) our subscription business model is resilient.

One: New demand tailwinds related to C19. There is no playbook for running a business in this environment so the best place to start is by asking questions. It is critical that decision makers solicit feedback from their stakeholders: What do your employees care most about in a distributed work environment? What technology solutions does your engineering team need to be more productive? How are your customers' expectations changing? How about their spending habits? What marketing campaign will strike the right tone in a recessionary environment? Are we being inclusive with our evolving HR policies?

We are giving business leaders, educators, nonprofits, and government entities the tools to collect feedback quickly so they can take action. Customers of all sizes in all industry verticals need to efficiently collect and analyze feedback in real-time from their increasingly distributed stakeholders -- companies like Darden Restaurants, Kraft Heinz, Unilever, and Traxx. And governments and nonprofits such as the World Health Organization, The American Red Cross and the public health departments of California and Rhode Island. We highlight a number of these organizations in our shareholder letter, and there’s one I’d like to call out:

Last week, we announced a collaboration with COVID Near You, a joint project of Boston Children’s Hospital and the Harvard Medical School, to accelerate coronavirus research. COVID Near You is using our platform to collect essential data that helps citizens and public health agencies identify current and

potential C19 hot spots. Aggregate data will be reported regularly on the COVID Near You and SurveyMonkey websites and made available to media outlets, public health officials and the Centers for Disease Control.

Large businesses are acting with urgency as well to accelerate the digital transformation of their businesses. In Q1, we added over 240 net enterprise logos and we're seeing customers continue to expand their SurveyMonkey relationship. For example, Informatica, a leader in enterprise cloud data management software, signed as a Usabilla customer in Q4. In Q1, they added SurveyMonkey Enterprise and GetFeedback to take advantage of our enterprise-grade data security and administrative functionality and drive a tighter integration with their system-of record, Salesforce.

There is no question in my mind that our products are more important than ever.

Two: Our business model is resilient. More than 90% of our revenue is recurring and 85% of our users are on annual plans. For the third consecutive quarter, our annual plan user count increased more than 20% year-over year. With over 746,000 paying users, we've never had customer concentration with a single company or even concentration within a single industry. After doing a detailed analysis on our customers' domains, we estimate that approximately 5% of our 2019 bookings came from customers acutely impacted by C19 such as hospitality, travel, and retail. Our products deploy easily, integrate with other software systems, drive insights quickly, and are priced to disrupt. And our hybrid go-to-market motion combines a large, highly cash-generative self-serve channel with an emerging enterprise channel that relies primarily on cost-efficient inside sales. In situations where we compete with enterprise software companies who rely on in-person sales pitches, heavy professional services, and high entry prices, advantage SurveyMonkey. Our strategy is to leverage our massive self-serve base, high velocity sales cycles, and time to value for our customers. We are helping hybrid offline/online businesses make the transition to a cloud-based world -- that transition will happen a lot faster because of this pandemic. Small silver lining.

Our resilience is playing out in the trends we've experienced since mid-March. In the last week of April, we saw record enterprise pipeline creation and responses on the platform increased more than 25% year-over-year. And we are seeing accelerated selling cycles with healthcare and government agency customers. Our model is generating clear tailwinds. Are there headwinds at SurveyMonkey based on the current economic crisis? Of course, there are. Given the size of our customer base, we know there will be incremental churn in specific segments of our broad portfolio, along with longer sales cycles in affected industries. On the flip side, we are seeing new customers with innovative use cases embracing our platform. Over the month of April, the heart of the pandemic, our volume of new paid annual seats grew more than 25% year-over-year, a clear testament to the importance of our software. Our net revenue retention rate was again over 100%. And for customers whose budgets are being compressed, we are going to work with them on terms. Our actions today may not always drive near term monetization but will help spring load future quarters. These factors are reflected in our Q2 guidance, and our stress-testing of the business indicates we will continue to grow our revenue, our bookings, our customer base, and our market share in 2020. We have taken prescriptive actions to reduce our cost structure and our capex

outlay for the remainder of the year ensuring continued positive free cash flow generation in 2020 even if the economic downturn persists through Q4.

Most importantly, we believe today's challenges are highlighting our competitive advantage in the market. In times of change and disruption, leaders need to collect feedback and take actions: agility is the new superpower in business. While most social and technological changes happen over years, cycles are now happening in weeks and organizations need to adapt faster than ever before. We believe this accelerated trend plays to our product and pricing strengths which, in combination with our resilient business model, gives us confidence we will emerge from today's challenges as a stronger company.

There has never been a more important time for leaders to listen to your stakeholders -- so you can take actions to support the people who power your organization. We believe our Q1 financial results, our resilient business model, and the actions we are taking to manage our business in the near-term position SurveyMonkey to thrive for many years to come.

With that, I'll turn the call over to Tom.

Tom Hale, President

Thank you, Zander.

In Q1, we continued to execute on our three-pillar strategy. First, to deliver an enterprise-grade survey platform, second to deliver Customer Experience management for the Salesforce ecosystem, and third, to enable agile market research with software. While the COVID crisis has created incremental opportunities, it's also amplified our conviction in our strategy. In times of disruptive change, organizations of every stripe need feedback more than ever.

In addition, we believe our disruptive pricing, ease of implementation, and speed to insight are hitting a sweet spot in the market. The crisis has created urgency and alacrity as organizations react to work-from-home, school-from-home, and "everything from home" or check in with their customers, employees, and stakeholders. In March and April, we observed a non-linear increase in many leading indicators of our business, such as responses collected, and basic accounts created. This increase in usage is correlated with the dramatic uptick in COVID-related surveys - and the engagement and usage illustrate the value we deliver.

In Q1, paid users grew to 746,000, with annual users accounting for 85% - a new high, driven by continued strength in Teams and Enterprise Survey plans. In a quarter where we introduced lower cost monthly plans to support our non-profit and academic customers, the continued shift to annuals is a strong signal of the resilience of our business.

Q1 marked a strong start to the year for product delivery. Let's start with Surveys, where we continue to enable broader adoption within organizations. For Teams, we introduced a new limited-use seat category -- Contributors -- for team members who consume and analyze data. Through Contributors, Teams customers can expand their work groups and extend the value of the data they collect. On the enterprise side, we entered a limited release of Divisions, which enables large organizations to customize their deployment - templates, questions, policies, assets - department by department. These new capabilities will help us land large prospects and expand existing customer relationships more easily.

Mid quarter, we upgraded our Microsoft Teams survey integration significantly to enable polling, quizzing, and feedback with a broader set of question types and the ability to view analytics directly within the Teams experience. In a quarter where remote collaboration solutions like Microsoft Teams, Zoom, and Slack are seeing rapid adoption, this innovation should drive usage and engagement as team members "check in with each other." In Q1, we also began to monetize our Microsoft Power BI integration. It's early days, but we're excited about the value we can deliver, to shared Microsoft-SurveyMonkey customers as we take this market in Q2.

Turning to Customer Experience Management, we hit a major milestone in Q1 with the launch of new CX-oriented capabilities in GetFeedback including NPS driver analysis, a crosstab dashboard; tools to automate CX, as well as user interface enhancements. Under the covers, this release brings us closer to

the full integration of Usabilla and GetFeedback into a single Customer Experience Management suite. Building this unified offering to disrupt the expensive and service-heavy solutions on the market today remains on track for completion in the second half of this year.

As Companies have rushed to accelerate their e-commerce business motions because of COVID, we have seen an uptick in interest for our CX products for ecommerce. Customers like YETI, DHL Parcel, Hibbett Sports, Puma, and Build.com are taking advantage of our price-disruptive and easily deployed CX solutions. As we march towards the second half of the year, we have increasing conviction that our strategy of anchoring on customer data, omni channel data collection, automated actions, and deep integration within the Salesforce ecosystem is on target. It's early days, but the digital transformations and the focus on cost effective offerings wrought by COVID may end up being a tailwind.

At the same time, we are preparing our CX go-to-market muscle internally and in the broader Salesforce ecosystem. Our sales team is building their fluency in CX, while we sharpened our market messages for high-ACV CX customers and started to build pipeline. In Q1, we ran training for nearly 1,000 Salesforce account executives and sales engineers, delivered a training module on GetFeedback into the Salesforce Trailhead platform, and shipped a new partner website for system integrators. We've onboarded four Tier 1 partners to date - and we're just getting started.

In our Market Research pillar, at the close of Q1, we shipped Expert Solutions, a suite of 7 products that accelerate concept testing. Expert Solutions combines our Audience market research panel, expert methodology, industry benchmarks, and our AI-Powered Insights that use software to replace expensive and time-consuming research services. At the end of Q1, we shipped seven concept testing solutions - ad and video creative, product concepts, packaging, logos, messaging, and brand names.

COVID has made it even more important for our customers to validate marketing strategy and spend - Testing messages, visuals and products in order to quickly understand where they resonate with a target demographic, and where they don't is key to making better decisions. We've seen strong early interest in our expert solutions from Insights Professionals in industries such as healthcare, financial services and consumer packaged goods. We look forward to updating you with our progress here in Q2.

As companies are working to understand and track the impact COVID on the broader economy, we are seeing increased usage of Audience to gauge consumer sentiment and purchase behavior. Market research companies are working to help affected industry verticals, Global investment firms are looking for signals to play the recovery, while multinational technology firms like Salesforce are spending significantly, tracking changes in the data every few weeks. The best leaders at the best companies are using Audience to gather insights so that they can respond to disruptions and opportunities with agility.

In times of change and disruption, organizations must be agile and act with urgency. Feedback provides critical input for organizations of every stripe and helps them course correct quickly. Our mission is to enable organizations to turn feedback into action - and in the face of a global pandemic, I am proud of the progress we are making across our three pillars in order to better serve our customers. I'll now turn the call over to Debbie, who will review our Q1 financial results and our outlook. Debbie?

CFO Debbie Clifford

Thanks Tom.

Our Q1 results exceeded our prior expectations for both revenue and non-GAAP operating margin. We remain committed to our long-term strategy and are encouraged by the demand we're experiencing for our feedback solutions. These dynamics exemplify the resilience of our business, the quality of our overall customer base and our commitment to execute on our long-term strategy.

Unless otherwise noted, all comparisons are year-over-year. As a reminder, Q1 2020 results include the impact of the Usabilla acquisition, which closed on April 1, 2019, and the GetFeedback acquisition, which closed on September 3, 2019.

Revenue was \$88.3 million during Q1, reflecting 29% growth. Revenue growth was driven primarily by Enterprise sales, which increased 128% and accounted for 29% of total revenue compared to 16% in the year-ago period. The enterprise customer count increased 75% to 6,800. Q1 revenue included approximately \$2 million of non-recurring revenue from a Market Research customer. If we exclude this customer from our Q1 results, our revenue performance still exceeded our guidance range.

Deferred revenue increased 37% to \$152 million. Remaining performance obligation, or RPO, which is the sum of deferred revenue and backlog, was \$169 million, reflecting 39% growth. These metrics continue to be solid indicators of the health of our business.

Non-GAAP operating margin was (1.6)%, down slightly from (0.2)%, due to the disciplined investments we continue to make to drive growth in our business.

We generated \$4 million in **operating cash flow** and approximately \$1 million in free cash flow, net of annual bonus payments made in the first quarter, and in line with our expectations.

We also have a solid cash position on our balance sheet, access to additional liquidity and modest annual debt servicing requirements. We ended the quarter with approximately \$145 million in cash and cash equivalents, an increase of approximately \$14 million quarter-over-quarter, and our total potential liquidity stands at approximately \$215 million with the inclusion of our \$70 million untapped revolving line of credit.

While Zander and Tom articulated the product and go-to-market initiatives designed to capitalize on new business opportunities, I want to highlight the defensive measures we are taking to efficiently manage the company if the economic downturn is sustained. While our business model is resilient, it is not immune to extended economic uncertainty. As a result, we are taking a proactive and prudent approach to managing the business as we navigate the current economic climate.

We have created several scenarios of financial performance to help us understand a variety of potential outcomes depending on how deep and elongated the economic downturn may be. We intend to optimize for free cash flow in the near-term while investing in our growth initiatives to best position us to succeed in the long-term. As we further understand what the potential revenue impact may be, we are taking proactive steps to drive efficiencies in our investments to optimize for cash flow. Examples of proactive expense measures we have taken include a comprehensive review of our facilities landscape and related costs, a reduction in our hiring plans, and a holistic review of variable expenses across our business.

Some of the actions we've taken only impact free cash flow, which aligns with our goal to optimize for cash flow in the near-term. You may recall that on our last call, we highlighted that our free cash flow outlook reflected approximately \$10 to 15 million in anticipated facilities buildouts during the year. We've evaluated our facilities plans carefully and will no longer proceed with a significant majority of this spend.

Other actions we've taken, like reducing the pace of our hiring for the remainder of the year, impact both our operating expenses and cash flow. As we look forward, we're committed to optimizing for free cash flow and have identified several additional levers at our disposal if the pace of the recovery extends over a long time period, including tighter restrictions on hiring and further reductions in our variable expenses. Having said that, we don't believe that this is the time to take more draconian action on spend- our business is growing, and our strategy is sound. We believe that great companies leverage economic disruption to drive innovation and expedite strategic differentiation. So, our focus is to ensure that we invest smartly in our long-term strategic growth drivers, while balancing for free cash flow in the immediate term.

As we look ahead, our recurring revenue model provides us with near-term visibility, however, there remains a great deal of uncertainty regarding how the COVID-19 pandemic will impact the economy, our market, and our customers. While we are pleased with the resilience we're seeing, we have little visibility into the broader economic situation, specifically the depth and length of the recovery, which makes providing detailed financial guidance for the full year impractical at this time. As a result, we intend to continue to provide quarterly guidance but are suspending our full year outlook for the time being.

For Q2, we expect revenue to be in the range of \$87 to \$90 million for 18% year-over-year growth at the midpoint. As we mentioned before, Q1 revenue included approximately \$2 million of non-recurring revenue from a Market Research customer. Excluding this customer from Q1 revenue, our Q2 revenue guidance at the midpoint reflects a sequential increase. We expect non-GAAP operating margin to be in the range of break-even to positive 2% for the quarter, reflecting operating leverage quarter-over-quarter and incorporating the cost efficiency actions we've already taken.

Now, I'll turn the call back over to Zander.

CEO Zander Lurie

While the COVID-19 crisis is truly unprecedented in modern times, SurveyMonkey has a long history of delivering for our stakeholders amid turbulent macro events. For the past 20 years, not only have we been investing to solidify our position as a market leader, but we have been investing in our corporate culture. Today, these investments are paying off. We established a company-wide work-from-home policy in mid-March and we didn't miss a beat. Our team is supporting millions of active users, developing and shipping new products and functionality, and winning enterprise business. I am so proud of how everyone at SurveyMonkey has stepped up and supported our business and each other.

We have plans in place to steer the business through multiple economic scenarios to set us up for long-term success, while upholding our commitment to prudent cash management. We are managing our business to deliver in the near term and thrive in the long term.

In the coming months, every organization on the planet will be charting their way back to some version of a new normal. New workplace practices and new ways of doing business will combine with health concerns in complex and novel ways. Leaders everywhere will be making decisions and rewiring their businesses with the highest of stakes - the health and safety of their employees and customers. We stand at the ready to help organizations of every stripe - from state governments to businesses to schools and non-profits - as the world reimagines the workplace in the aftermath of the COVID crisis.

The pace of change is so rapid and the urgency to find solutions is so great -- there is no question in my mind that our products are more important than ever. Our team is inspired. SurveyMonkey is part of the solution. With that, I'll open the line for questions.