

Semrush Q2 2025 - Earnings Call Script

Brinlea Johnson, Investor Relations

Good morning and welcome to Semrush Holdings second quarter 2025 conference call. We will be discussing the results announced in our press release issued after market close on August 4th, 2025. With me on the call today is our CEO, Bill Wagner, and our CFO, Brian Mulroy.

Today's call will contain forward-looking statements which are 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 and growth strategies, sales and marketing activities and strategies, future spending and incremental investments, our guidance for the third quarter of 2025 and the full year 2025, statements about future pricing and operating results, including margin improvements, revenue growth and profitability, assumptions regarding foreign exchange rates, and plans, and expectations and statements regarding our share repurchase program. 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 annual report on Form 10-K, filed with the Securities and Exchange Commission, as well as our other filings with the SEC.

And finally, 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 Bill.

Bill Wagner, CEO

Thank you and good morning.

I'm pleased to share that Semrush had another quarter of strong revenue growth and solid margins. Revenue in the quarter was \$108.9M, representing 20% YoY growth, and Non-GAAP operating margin came in at 11%.

We once again reported very strong performance in our Enterprise segment, a major area of focus for us in 2025. We continue to see strong demand for our Enterprise Search Engine Optimization products in this segment, and our Enterprise SEO solution grew to 260 customers with an average ARR of approximately \$60,000. We believe this growth underscores the compelling value proposition and the continuing importance of SEO for larger organizations. Importantly, Enterprise SEO is now the largest contributor to overall company growth.

Continuing on the enterprise theme and building on the success of Enterprise SEO, in June we introduced our Enterprise AI Search product, AI Optimization. In a few short weeks, we had over 30 enterprise customers purchase this new AI product for a total ARR of nearly \$1M, underscoring the relevancy and timeliness of this solution.

Overall, this success moving up-market in the enterprise segment is reflected in the company's Average ARR per customer, which is up 15% YoY, while the number of customers paying over \$50,000 per year grew by over 83%. Despite this early success, we believe we are at the beginning of our journey and see a long runway for continued growth. As a reminder, we have approximately 9,000 enterprise accounts using Semrush for SEO, and fewer than 5% are on our Enterprise SEO solution today.

Another top priority that I outlined on our last call was doubling down on AI. The strong growth in our AI products also continued during the quarter. As I just mentioned, we successfully introduced AI Optimization in Q2 and will be introducing significant enhancements in the second half of the year. AI Toolkit, which we launched at the end of Q1, is the fastest growing product in the company's history, growing from zero to \$3M in ARR in a few months. We believe we are approaching a time when every SEO expert will need to add AI Search capabilities. Our usage data shows that when customers purchase AI Toolkit, we see a 20% increase in their activity in our SEO Toolkit, showing the highly complementary nature of these products. For Semrush, we believe AI Toolkits is the tip of the spear, and we plan to make new AI search capabilities available to our customers in the upcoming quarters.

To underscore our success in both Enterprise and AI, we expect the ARR from these products to approach \$50 million by the end of the year.

While we are excited by the growth and adoption of our Enterprise and AI products this quarter, we continued to experience softness at the lower end of the market. This customer segment includes freelancers and less sophisticated users who have historically had the highest churn rate of our customer cohorts. We also saw a dramatic increase in paid search cost-per-click in the quarter, which increased our costs to acquire these customers. In the face of the declining unit economics for this lower value customer segment, and given the strong returns we were seeing from our investments in AI Search and the Enterprise

segment, we made a strategic decision to not increase our marketing spend, which would have pursued volume and near-term revenue at the expense of long-term value. Instead we directed more of our marketing and engineering resources toward our high-growth, high retention areas—specifically Enterprise and AI search—where we are seeing rising customer demand and compelling returns.

While this deliberate resource shift may contribute to near-term revenue headwinds, we are confident it positions us for stronger, more sustainable growth. As Brian will outline shortly, we are adjusting our full year guidance to reflect these near-term market conditions and our prioritization of resources on higher value segments.

Before wrapping up my comments this morning, I want to share our view of the changing landscape in digital marketing and why I remain so bullish on the opportunity in front of us.

We believe—and the data shows—that ChatGPT and Google’s AI Mode are increasing the size of the opportunity. We agree with Google’s perspective that overall search is growing: AI is powering an expansion in how people are searching and accessing information.

Our own data shows a positive correlation between use of Chat GPT and use of Semrush products. We believe this is because today’s marketers understand they have to get their brands to show up in classic search results and in answers generated by a user’s prompts into an LLM. It’s because the things that marketers had to do to rank in search—namely build credibility and authority—are the same things they need to do for LLMs.

The big difference is that the number of sources has grown by an order of magnitude. This means that marketers have to better understand the prompts that people are using to find their products or brands, understand how those brand shows up in answers, optimize their content for those prompts, and make sure their message is showing up not only on their website or in their blog, but also in videos on Youtube, in local reviews, and on sites like Reddit and Quora.

This is exactly what Semrush does, and we believe the shift to LLMs and Answer Engines creates an enormous opportunity for us. With the changes we’ve made to accelerate our innovation in AI Search, I am confident Semrush will emerge as the leader in this field.

In summary, we are very excited about our position in the market and the opportunity in front of us, and we have made an intentional shift in our allocation of resources to capitalize on the largest opportunities in front of us, including the changing search landscape and the large and untapped enterprise segment.

With that, I will turn the call over to Brian to walk you through the financial results of the quarter and discuss guidance.

Brian Mulroy, CFO

Thanks, Bill. Let me start with our second-quarter results, and then I would like to reinforce a few key points Bill made and provide additional context on how they shape our 2025 outlook.

We delivered on our commitments in the second quarter, achieving revenue of \$108.9 million, exceeding the midpoint of our guidance and representing 20% year-over-year growth. Notably, our Enterprise SEO solution, just one year after general availability, became the single largest contributor to our revenue and ARR growth in the quarter. Additionally, we saw continued momentum cross-selling our broader digital marketing platform within our existing customer base, underscored by sustained and accelerating year-over-year growth in Average ARR per Paying Customer.

As of June 30, 2025, we had approximately 116,000 paying customers, down sequentially from the prior quarter, primarily reflecting continued softness among freelancers and less sophisticated customer segments.

Our dollar-based net revenue retention at the end of the second quarter was 105%. Over the mid-to-long term, we remain confident that our net revenue retention will strengthen further, driven by our ongoing shift toward more sophisticated and higher-value customers. However, in the near term, we anticipate some temporary pressure as softness in our less sophisticated customer segments continues. As our intensified focus on Enterprise and AI customers increasingly influences our business mix, we expect this pressure to ease and ultimately become a significant source of strength.

We achieved positive non-GAAP operating income of \$12.0 million in the second quarter, in line with our guidance, resulting in a non-GAAP operating margin of 11.0%. This result is down approximately 240 basis points year-over-year, driven almost entirely by a weaker USD.

Cash flow from operations was \$0.7 million in the second quarter, representing a cash flow from operations margin of 0.6%. Free Cash Flow was negative \$3.6 million in the quarter, resulting in a Free Cash Flow margin of negative 3.3%, primarily due to the timing of cash tax payments, collections, and prepaid expenses. We continue to expect a 12% Free Cash Flow margin for the full year 2025, and as a reminder, we encourage investors to evaluate our cash flow performance on an annual basis, given the inherent quarterly variability driven by annual subscription renewal cycles and the timing of tax payments and prepaid expenses.

We ended the quarter with cash, cash equivalents, and short-term investments of \$258.5 million, up \$27.0 million from the prior-year period, reflecting the strength of our free cash flow generation.

Annual Recurring Revenue grew 15.3% year-over-year to \$435.3 million, reflecting some deceleration consistent with the segment dynamics I mentioned earlier. Despite this, our average ARR per Paying Customer increased to \$3,756, representing growth of more than

15% compared to the same quarter last year, which is the highest level of growth we've achieved in 12 quarters. This growth was driven by strong adoption of our Enterprise and AI products, ongoing success in cross-selling our solutions, and our strategic focus on engaging more sophisticated and higher-value customers.

Turning now to our guidance, I'd like to reinforce a few key points Bill made and offer additional context on how they impact our outlook for 2025.

First, as Bill highlighted, our Enterprise customer segment and our Enterprise and AI product portfolio continue to become increasingly meaningful contributors to our business, demonstrating clear momentum across several key metrics. Dollar-based net revenue retention within our Enterprise segment remained strong, consistently above 120%. Additionally, we're seeing rapid growth among our largest customers, with the number spending over \$50,000 annually increasing 83% year-over-year. Our recently launched Enterprise SEO, Enterprise AIO, AI Toolkit, and AI Content Toolkit products are also scaling impressively, together reaching nearly \$25 million in ARR as of the end of Q2.

Second, given the traction we are seeing and the future opportunity ahead, we are further accelerating resource allocation toward these areas to capture market share and strengthen our leadership position. Our investments will fuel product innovation, expand go-to-market capabilities, and deepen support for our highest-value customers. We are funding these strategic investments primarily through resource reallocation and efficiencies across our business, rather than expanding our overall cost structure. Our strategy is about investing thoughtfully and with discipline, positioning us to drive sustained, profitable growth.

Finally, while we remain very encouraged by the momentum in our Enterprise and AI offerings, we continue to see softness at the lower end of the market, amplified by a significant increase in paid-search cost per click. As Bill highlighted, given the declining customer acquisition economics in this segment and its historically lower net retention rates, we made the strategic decision not to pursue incremental marketing spend in response to elevated CPC levels. Instead, we focused our resources on areas with significantly stronger unit economics, specifically our growing Enterprise and AI portfolio. While we believe this decision positions us well for long-term success, it contributes to near-term revenue headwinds and is reflected in our revised annual guidance.

Taking all these factors into account:

We are adjusting our full-year 2025 revenue guidance. We now expect revenue in the range of \$443.0 million to \$446.0 million, representing approximately 18% growth at the midpoint, down from our previous guidance range of \$448.0 million to \$453.0 million.

We are reiterating our previous full-year guidance of 12% for both Non-GAAP Operating Margin and Free Cash Flow Margin, despite the reduced revenue outlook and a significant foreign exchange headwind due to a weaker U.S. dollar.

Our Non-GAAP Operating Margin guidance now absorbs an incremental expense headwind of about \$9.0 million resulting from recent exchange rate movements. Our initial guidance assumed a Euro-to-USD exchange rate of 1.05, and while we are currently modeling 1.16, rates during the first half reached as high as 1.18. Approximately 30% of our expenses are denominated in Euros, and since our revenue is almost entirely in USD, our margins are effectively unhedged against these currency fluctuations. Absent these exchange rate impacts, our full-year operating margin would have reflected meaningful leverage inherent in our model. Said another way, excluding these currency impacts, our margin guidance would have implied a year-over-year expansion of nearly 200 basis points.

Similarly, we continue to expect our full-year free cash flow margin to be approximately 12%, representing a 260 basis point improvement compared to 2024. This expansion is driven by improved profitability as well as continued growth in our Enterprise segment where we typically structure deals with a minimum annual commitments and annual billing, resulting in favorable cash flow dynamics.

For the third quarter of 2025, we expect revenue in a range of \$111.1 million to \$112.1 million, which at the midpoint would represent growth of approximately 15% year-over-year and non-GAAP operating margin at approximately 11.5%.

In closing, our Enterprise and AI products continue to show remarkable strength, adoption, and momentum, exceeding our early expectations. We have thoughtfully accelerated investment and resource allocation toward these high-potential areas, guided by disciplined financial management and supported by our strong balance sheet and robust free cash flow generation.

Looking ahead, I remain energized and optimistic about our ability to drive durable growth, profitability, and strong cash flow. We believe we are strategically aligned with where the market is headed, not where it's been, and we're in an excellent position, with the right products, customers, and strategy, to capitalize on this significant opportunity and deliver durable long-term shareholder value.

Reflecting our conviction in this strategy, the strength of our balance sheet and free cash flow generation, and our confidence in the long-term opportunity ahead, we are announcing a \$150 million share repurchase program that will commence this quarter. This program demonstrates our strong belief in the business and the attractive valuation opportunity we see today, reinforcing our commitment to delivering durable shareholder value.

With that, we'd be happy to take your questions. Operator, please open the line.