

ONTF Q4' 24 Prepared Remarks

[CEO, Sharat Sharan]

Thank you, and welcome everyone, to ON24's Fourth Quarter and Full-Year 2024 Financial Results Conference Call. I appreciate you joining us today. With me is Steve Vattuone, our Chief Financial Officer.

Before we turn to Q4 results, I want to take a moment to look back at 2024, a year in which we laid the foundation for a return to growth by diligently focusing on improving our gross retention rates, executing on our product innovation roadmap, and delivering margin, profitability and cash flow improvements.

- We launched AI-powered ACE - the next generation ON24 Intelligent Engagement platform in January 2024 – and within a year, ACE accounted for over 20% of our growth ARR bookings*
- In Q4, the % of customers with 2 or more products reached an all-time high at close to 40%*
- We saw the ARR from multi-year deals increase to 51%*
- Gross retention for 2024 improved to its highest level in the last 3 years*
- Net Retention for our Enterprise business was 91%, a mid single-digit improvement over 2023*
- As a whole, new and expansion business reached their highest levels of the year in Q4. We had the best win rates of the year, and we continued to see win-back momentum with boomerang customers in Q4, which was a continuation from the prior quarter*

- *We consistently met and exceeded our margin and profitability targets*
- *Our non-GAAP gross margin improved from 75% in the 2023 fiscal year to 77% in 2024*
- *Adjusted EBITDA margin improved by almost 200 basis points in the 2024 fiscal year compared to 2023*
- *And, finally, our free cash flow for 2024 was positive \$2.6 million compared to negative \$14.4 million in 2023, an improvement of \$17.0 million*

Turning to Q4 RESULTS

Q4 Revenue from our core platform, including services, was \$36.0 million, and total revenue including Virtual Conference was \$36.7 million. Of total revenue for the quarter, subscription and other platform revenue was \$33.6 million and professional services revenue was \$3.1 million.

In terms of ARR, we ended the quarter with \$127.3 million of Core platform ARR, a decrease of \$2.3 million from Q3, in line with our guidance. Total ARR at the end of Q4, including ARR from our Virtual Conference product, was \$129.7 million. Steve will elaborate more on the results, including ARR but I'd like to highlight that even though Q4 is the largest renewal base in the year, our in-period gross retention in Q4 was consistent with the highest levels we have seen in 2024 and was up by mid-single digits compared to the gross retention we saw for the 2023 fiscal year.

As a whole, new and expansion business reached their highest levels of the year in Q4. We had our best win rates of the year, and we continued to see win-back momentum with boomerang customers in Q4, which was a continuation from the prior quarter. And finally, AI-powered ACE was a key contributor: The number of customers using and paying for AI-powered ACE grew each quarter of 2024 and now crossed double digits as a % of our customer base, and was over 20% of our growth ARR bookings in Q4. We will continue to build on this in 2025.

We recognize that there is more work to do, but we are excited by the progress we have made especially as we start to see green shoots in the spending environment relative to the start of last year. Our results in Q4 and 2024 as a whole reinforce the positive steps we've taken in transforming ON24 into a profitable, cash-generating business that is ready to return to growth in 2025. We remain committed to our long-term goal of generating double-digit top-line revenue growth and double-digit EBITDA margins.

Let me elaborate on the progress we made on executing our strategic priorities and how we are thinking about 2025:

Starting with our focus on platform innovation:

In 2024 our core focus on platform innovation was launching our next generation platform and putting AI at the center of our strategy to provide enterprises with a differentiated and intelligent platform for digital engagement.

Our AI strategy is built on the two pillars of our core strengths — content and 1st party data. Specifically, our customers deliver hundreds of thousands of prospect and customer facing webinar experiences on our platform. Allowing them to leverage what they've already created; and deploying global integrated campaigns based on that content and other derivative content generates massive ROI. On top of that, our AI innovations are built on ON24's 1st party data foundation to provide our customers deep insights on their prospects' engagement and propensity to purchase.

After launching our Intelligent Engagement Platform and introducing our new AI-powered ACE offering at the beginning of 2024, we were laser focused on driving adoption across our install base and further enhancing our competitive position. These break-through advancements introduce the ability for customers to easily segment their audiences and offer segment specific, hyper-personalized engagement experiences tailored to demographics, audience behavior and more. Additionally, these platform innovations offer the speed and simplicity of AI-generated content, personalized for different audience segments, enabling rapid multi-touch nurture and accelerated engagement.

In Q4, our AI-powered Analytics and Content Engine, or ACE, had its best quarter yet with the highest level of new bookings. Our AI innovations are delivering value by driving an immediate ROI for our customers.

Take, for example, a leading global accounting network of public accounting, tax, consulting and business professionals. They selected ON24 specifically for ACE's ability to create personalized and highly curated digital content experiences for their priority audiences to better move them throughout their buying journey. This platform innovation not only helps improve the customer's ability to deliver personalized experiences at scale, it also allows them to automate content creation, generate more qualified leads and drive measurable revenue results.

Another example which highlights our competitive differentiation, and was a customer win-back, is a global leader in testing and certification. This boomerang customer returned to ON24 and our purpose-built intelligent engagement platform, including ACE, after poor global customer service and weak data integrations with their previous solutions provider. Committing to a new three-year agreement, they are expecting to see an immediate increase in pipeline by using ON24's latest AI enhancement to create personalized and immersive customer experiences to generate an increase in first-party intent data and insights from their prospects and customers.

The 2024 adoption and revenue numbers for ACE show the impact that ACE has had in our customer base. Looking ahead, 2025 will bring even greater opportunities for platform innovation. We plan to expand our roadmap with our latest innovations to be announced at ON24 Next, our product innovation event scheduled for next month, highlighting a focus on

enhanced first-party data, new performance insight capabilities, and an increased focus on AI innovation which will continue to be at the center of our 2025 strategy.

Our second strategic pillar in 2024 was advancing our enterprise go-to-market strategy, with a strong emphasis on regulated industries and digital transformation use cases.

Our enterprise-focused efforts reinforced the industry leading advancements of our Intelligent Engagement Platform, our AI-powered Analytics and Content Engine, hyper-personalization capability, and enterprise readiness to work in some of the most highly regulated sectors.

In Q4, we saw continued strength in regulated verticals, including life sciences and financial services. This momentum reflects the value of our enterprise-grade platform for supporting mission-critical revenue generating go-to-market use cases in these industries.

To illustrate the strength of our life sciences vertical, I would like to highlight one of our customers, a multi-billion dollar revenue global pharmaceutical company, that expanded its partnership with ON24. Now a trusted partner, our platform, including ACE, has been elevated as a foundational technology within their tech infrastructure helping them advance their Healthcare professional or HCP digital-engagement strategy. Through our platform, they are transforming their ability to engage and interact with hard-to-reach HCPs and integrating ON24 first-party data with their systems of record to support both medical and commercial teams across global markets in gaining invaluable HCP insights.

As another example, and continuing our spotlight on highly regulated industries, an enterprise global asset management group, returned to ON24 in Q4. After switching to a point solution,

they recognized that without a purpose-built platform for engaging experiences and first-party actionable data and insights that their program could not be successful. Committing to a new four-year agreement, they returned to leverage the breadth and depth of our capabilities. Given their institutional focus, our first-party data was important in providing insights that they could use to deliver a high-touch, personalized customer experience at scale.

As we enter 2025, we are strengthening our focus and operating model around our enterprise go-to-market. To enhance our go-to-market leadership, we have added 3 new senior sales leaders to our North America Enterprise sales execution team, including the new head of North America Sales who joined in the latter half of 2024. These changes have brought renewed focus and alignment to our sales teams, contributing to a stronger foundation for new and expansion enterprise business.

We will continue to focus on mission critical use cases in regulated industries. In addition, we will be extending into other use cases and pursuing the green shoots we are seeing in the technology vertical.

We also have made targeted adjustments within our Customer Success organization to better support retention and expansion efforts for our growing customer base in these key industries. These changes are helping us provide a more seamless customer experience, especially for enterprise customers with complex needs in highly regulated industries.

Finally, we continue to be focused on building a profitable cost structure while positioning ourselves for long-term growth.

In 2024 our total non-GAAP expenses were almost \$20 million lower than 2023 which underscores our disciplined cost management and operational efficiency. As I mentioned earlier, we delivered positive adjusted EBITDA and positive non-GAAP EPS in Q4 for the seventh consecutive quarter, while driving margin improvements. Furthermore, we were free cash flow positive for the fourth consecutive quarter. The steps we've taken to align our cost structure over the past few years have set the business up for profitable growth. We will continue to be laser focused on maintaining our efficient approach to expense control while prioritizing strategic investments in our key areas of focus. We remain committed to our long-term profitability target of generating double-digit EBITDA margins.

As we look ahead to 2025, there are several factors that will be key in continuing the progress we made this last year. First, we expect the stabilization of the install base to continue and anticipate more improvement in gross retention in 2025 as churn and downsell trend positively. Secondly, we are seeing customers return to spending initiatives which we believe will in turn drive increased adoption both in regulated use cases and in the technology vertical, where we are seeing green shoots. Lastly, we are excited to see the adoption of our AI tools expand in 2025 as AI-powered ACE continues to be a key driver for growth.

I am happy with the steps we took in 2024 to position the business for a return to growth in 2025. As I look into 2025, I am confident in our ability to achieve key goals:

- I expect we will continue to innovate with major new product introductions, many of them in the first half of the year*

- *We will continue to grow AI-powered ACE as a percentage of revenues*
- *We will return to customer growth in our \$100K customer cohort*
- *We will continue to reduce churn and improve gross retention*
- *We expect our NRR to steadily improve*
- *And most importantly, we will return to Positive ARR*

I enter 2025 with renewed confidence in our solutions and business and look forward to achieving our goals.

With that, I would like to hand it over to Steve Vattuone, our CFO, to share the financial details of Q4 and full year 2024.

[CFO, Steve Vattuone]

Thank you, Sharat, and good afternoon, everyone. I'm going to start with our fourth quarter 2024 results and will then discuss our outlook for the first quarter of 2025 and full year 2025.

Before I get into the numbers, I want to remind everyone that our focus, as it was in the prior quarters, will be on the core platform business, as we have de-emphasized the Virtual Conference product. We view the metrics from our core platform such as revenue and ARR as the best KPIs to measure our performance.

Before I get into the details, I wanted to quickly outline at a high level what we have delivered in 2024 and the progress we have made.

- On the top line, we have stabilized the business, with improved ARR performance relative to 2023, with improvements in both gross and net dollar retention.*
- On profitability, we have improved both our gross and operating margins in 2024, delivering adjusted EBITDA profitability for every quarter in 2024.*
- On cash flow, we delivered 4 consecutive quarters of positive free cash flow, with a \$17M improvement in free cash flow in 2024 as compared to 2023.*
- And on the innovation front, we launched our AI-powered ACE product, with new bookings for that product increasing every quarter since we launched it in Q1 2024.*

Now, let me provide the details, starting with revenue.

Revenue from our core platform, including services in Q4 of 2024 was \$36.0 million, representing a decrease of 6% year-over-year. Total revenue for the fourth quarter, which includes revenue from our Virtual Conference product, was \$36.7 million.

Total subscription and other platform revenue was \$33.6 million. Overages represented approximately 1% of total revenue in Q4. Total Professional Services revenue was \$3.1 million, a decrease of 13% year-over-year, representing approximately 8% of total revenue, compared to 9% in the year-ago period.

Moving on to ARR.

ARR represents the annualized value of all subscription contracts at the end of the period and excludes professional services and overages.

In 2024, ending ARR related to our core platform totaled \$127.3 million, a decrease of approximately \$2.3 million compared to Q3 of 2024, and in line with the guidance range we provided last quarter. Total ARR was \$129.7 million.

Looking at ARR performance on a year-over-year basis, while still negative for the year, ARR performance made an almost 5-point improvement from a y/y reduction of 11% in 2023 to a y/y reduction of 6% in 2024 in a tough macro-environment for marketing budgets. I believe we have laid the groundwork to return to positive ARR growth in 2025.

Specifically, it is important to note the fourth quarter would have shown even clearer evidence of our progress if we had not had two significant downsell. Both of these customers see the core value of our product, and made seven figure commitments, but did adjust the scope of their work with us for business reasons. I see a lot less of these large renewals that concern me in 2025, and I am confident that our underlying improvement will be much more evident in upcoming quarters.

Let me break down what we saw in ARR a little more, starting with new business and expansion bookings in Q4.

New business and expansion ARR were both the highest of the year in Q4. As Sharat mentioned, our AI-powered ACE product continues to show positive momentum, contributing over 20% of

our growth ARR bookings in Q4 and representing the highest dollar amount of bookings to date for this product.

Moving on to retention.

Even with the two larger customer downsell, in-period gross retention in Q4, was consistent with the highest levels we saw in 2024 and up by mid-single digits from gross retention for the 2023 fiscal year. As a one-time disclosure, in 2024, our gross retention was in the low 80s, which was up mid-single digits from 2023.

The Dollar Based Net Retention, or NRR for our Core Platform Enterprise customers was 91%, an improvement of mid-single digits from 2023. These are customers with over 1000 employees and make up close to 80% of our Core ARR, and the primary focus of our business. Core Platform NRR for the whole business was a couple points lower at 89% at the end of 2024.

Turning to customer metrics.

Our enterprise customers continue to show a commitment to our platform as we continue to strengthen our focus around our enterprise go-to-market strategy. The ARR contribution from the \$100K+ customer cohort continues to represent approximately 2/3 of our total ARR, which is consistent with the prior quarter. In a year when marketing conditions were challenging and

some customers lowered their spend with us due to budgetary constraints, we ended the year with 305 customers contributing more than \$100K in total ARR.

The majority of our ARR is from Enterprise Customers, and we continue to see these customers commit to longer-term contracts. The percentage of our ARR in multi-year contracts at the end of 2024 was 51%. This metric has improved over 20 points since the end of 2019 when it was 29%.

We are also encouraged with the multi-product adoption we are continuing to see in our customer base. The number of customers using 2 or more products increased to 39% at end of 2024, an all-time high. This metric has also steadily increased, increasing sequentially every year for the last 5 years, from 17% at the end of 2019 to 39% at the end of 2024. In Q4, the average Core ARR per customer was approximately \$77,000, up slightly from 2023 year-end levels. Total customer count at the end of Q4 was 1,645.

Before turning to expense items and profitability, I would like to point out that I will be discussing non-GAAP results going forward. Our non-GAAP results exclude stock-based compensation, restructuring charges, impairment charges for real estate, amortization of acquired intangibles, shareholder activism related costs, as well as certain other items. Our GAAP financial results, along with a reconciliation between GAAP and non-GAAP results, can be found within our earnings release.

In 2024, we focused on controlling our operating expenses and continuing to streamline our operations to improve our operational efficiency, which resulted in improvements to both our gross margins and our bottom-line performance. Let me provide the details, starting with our gross margin.

Our gross margin in Q4 was 77%, consistent with the past several quarters and with Q4 of last year. For the 2024 year as a whole, our gross margin was 77%, up from 75% from in 2023, reflecting the cost reduction actions we have taken to streamline our operations.

Now, moving on to operating expenses.

Sales and marketing expense in Q4 was \$16.0 million compared to \$16.7 million in Q4 last year. This represents 44% of total revenue, compared to 42% in the same period last year and consistent with last quarter. Our sales and marketing expenses have decreased in absolute dollars year over year, largely due to the cost savings measures we have implemented over past quarters to improve efficiency in our go-to-market organization.

R&D expense in Q4 was \$6.5 million compared to \$6.7 million in Q4 last year. This represents 18% of total revenue, compared to 17% in the same period last year and consistent with last quarter. While our R&D expenses have decreased in absolute dollars over the past year, we have continued to invest in product innovation for our platform, including AI enabled features, such as AI-powered ACE.

G&A expense in Q4 was \$5.9 million compared to \$6.6 million in Q4 last year. This represents 16% of total revenue compared to 17% in the same period last year and last quarter. We have taken actions to reduce our G&A spending and streamline our G&A functions and as a result, our G&A expenses in absolute dollars have decreased as compared to the prior quarter and prior year.

Moving on to our bottom-line performance.

We have seen an improvement of almost 200 basis points in our adjusted EBITDA for 2024 as compared to 2023, and I am pleased to report that we exceeded the profitability targets that we provided in the prior earnings call. The operational enhancements we made to reduce our cost structure have been effective. For 2024, our total expenses were almost \$20M less than 2023, the result of our efforts to contain our costs and streamline our operations. In Q4, we achieved positive adjusted EBITDA and non-GAAP EPS profitability for the seventh consecutive quarter.

Operating loss for Q4 was \$0.4 million or a negative 1% operating margin compared to operating income of \$0.2 million and a positive 1% operating margin in the same period last year. Net income in Q4 was \$2.5 million or \$0.06 per share based on approximately 45.3 million diluted shares outstanding. This compares to net income of \$2.6 million or \$0.06 per share in Q4 last year, using approximately 46.0 million diluted shares outstanding.

Turning to the balance sheet and cash flow.

We ended the quarter with \$182.7 million in cash, cash equivalents, and marketable securities. In March of 2024, we announced a new \$25 million share repurchase program which runs for one year, until March 2025. This new share repurchase program follows the completion of two earlier capital return programs, which collectively returned \$166 million to shareholders. Under the new \$25 million share repurchase program, we have utilized \$23.6 million to date, with approximately \$20.5 million utilized in 2024 and approximately \$3.1 million utilized thus far in Q1 2025. Our balance sheet continues to remain strong with almost \$183 million of cash and investments at the end of 2024.

Turning to our cash flow metrics for Q4 and for 2024 as a whole. Cash provided by operations in Q4 was \$1.0 million compared to cash used in operations of \$0.9 million in Q4 of last year. Free cash flow was positive \$0.4 million in Q4 compared to negative \$2.0 million in Q4 last year. This is our fourth quarter in a row of positive free cash flow.

Our cash flow in Q4 and for 2024 includes cash outflows related to our restructuring efforts, which totaled \$0.4 million in Q4 and \$2.6 million for 2024.

Our free cash flow for all of 2024 was positive \$2.6M compared to negative \$14.4 in 2023, an improvement of \$17.0 million in one year.

Before I talk about how we are thinking about ARR in 2025, I wanted to expand on what Sharat said regarding how we believe our strategy heading into 2025 can help drive a return to ARR growth.

- Starting with product innovation, we have seen meaningful progress with our AI-powered ACE product, and we believe our AI enabled content generation and personalization capabilities will further differentiate us from the competition. We are not stopping there and will be launching more exciting product innovations to take advantage of our treasure trove of first party data to deliver increased ROI to our customers.*
- Our focus on highly regulated customer use cases, particularly in the life sciences and financial verticals, will continue, with a solutions-based approach tailored to these verticals. We expect these verticals will be growth vectors for us.*
- We expect the meaningful changes we made to our go to market team, including bringing in new senior leaders, will enable us to better execute on our strategic goals and drive our return to ARR growth. Our execution strategy in 2025 is focused on driving ARR growth while maintaining EBITDA profitability. We believe this will position us for sustained growth in 2026 and beyond.*

Now, before I move on to guidance, I want to provide our outlook on 2025 ARR and our framework for top and bottom-line guidance. In 2024, we made meaningful progress in stabilizing our business with our Enterprise and total Net Dollar Retention Rate, as well as our

gross retention, all improving by mid-single digits in 2024. And in 2025 we expect to make more progress on all of these metrics. We are encouraged by the positive signs in our new and expansion business heading into 2025 compared to last year, and we are confident that the momentum from AI-powered ACE will continue to be a tailwind to ARR growth. For 2025, given the momentum I just referenced, we do expect to return to ARR growth during the year, with ending 2025 Core ARR expected to be higher than ending 2024 levels. Our revenue guidance assumes ending 2025 Core ARR increases year over year by 1.0% to 2.0%. As 2025 progresses, we expect to improve our ARR performance.

For Q1, our revenue guidance assumes Core ARR will be break-even to down 1% compared to 2024 year-end levels.

For our Virtual Conference product, we expect Q1 ARR to decline approximately \$0.1 million in Q1, ending Q1 at \$2.2 million. We expect ARR from that product to continue to decrease slowly during 2025, ending 2025 at approximately \$1.9 million.

Our revenue guidance takes into account Q1 being a seasonally softer quarter for new business and we expect that Q1 will be the low point for revenue, and revenue will improve over the course of 2025.

Our bottom-line guidance reflects this seasonality, and we do not expect to be adjusted EBITDA positive in Q1 but do expect to be adjusted EBITDA positive for the following 3 quarters.

For the year, we are focused on getting back to ARR growth, making strategic investments including in AI innovation and maintaining a consistent level of expense discipline. We are committed to our long-term target of double-digit operating margin.

Now, turning to our annual guidance for 2025.

For the full year, we expect core platform revenue, including services, to be in the range of \$136.3 million to \$139.3 million. We expect total revenue to be in the range of \$138.6 million to \$141.6 million. Professional Services is expected to represent approximately 8% of total revenue. We expect a non-GAAP operating loss in the range of \$5.5 million to \$3.5 million, and non-GAAP net income per share of \$0.02 per share to \$0.05 per share, using approximately 47.5 million diluted shares outstanding. We expect gross margins for the year to be approximately 76%. We expect to be adjusted EBITDA positive for 2025, and given the seasonality of a soft Q1, we expect to deliver positive adjusted EBITDA in each quarter of 2025 starting in Q2.

Restructuring charges and amortization of acquired intangibles, and certain other items are excluded from the full year non-GAAP amounts provided above.

Now, turning to Q1 Guidance.

We expect Q1 core platform revenue, including services, in the range of \$33.4 million to \$33.9 million and total revenue, which includes our Virtual Conference product, in the range of \$34.0 million to \$34.5 million.

Professional Services is expected to represent approximately 7% of total revenue. We expect our gross margin to be 76% in Q1.

We expect a non-GAAP operating loss in the range of \$3.3 million to \$2.3 million and non-GAAP loss per share of \$(0.03) to \$(0.01) per share using approximately 42.0 million basic and diluted shares outstanding. We expect a restructuring charge of \$0.8 million to \$1.0 million in Q1

related to our ongoing cost reduction efforts, which is excluded from the non-GAAP amounts provided above.

I would like to remind everyone that Q1 is typically a seasonally softer quarter for us, with fewer days in the quarter to deliver platform revenue, and it is seasonally softer for services. As such, we would expect quarterly revenue, and bottom-line performance, to increase in 2025 from seasonally soft Q1 levels.

In summary.

In 2024, we executed against our strategic growth pillars, made operational enhancements, and demonstrated operational discipline by improving margins and retention rates.

We are confident in our ability to return to ARR growth in 2025 while maintaining adjusted EBITDA profitability and positive cash flow generation, and we remain committed to our long-term goal of generating double-digit top-line revenue growth and double-digit EBITDA margins.

With that, Sharat and I will open the call up for questions.