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PRESENTATION

Yaoxian Chew - *Amplitude, Inc. - VP, IR*

Hello, everyone. Welcome to Amplitude's fourth quarter and full-year 2023 earnings conference call. I'm Yaoxian Chew, Vice President of Investor Relations. Joining me here at Spenser Skates, CEO and Co-Founder of Amplitude, and Criss Harms, the company's Chief Financial Officer.

During today's call, management will make forward-looking statements, including statements regarding our financial outlook for the first quarter and full-year 2024, the expected performance of our products, our expected quarterly and long-term growth, investments and overall future prospects.

These forward-looking statements are based on current information, assumptions, and expectations and are subject to risks and uncertainties, some of which are beyond our control that could cause actual results to differ materially from those described in these statements. Further information on the risks that could cause actual results to differ is included in our filings with the Securities and Exchange Commission. You're cautioned not to place undue reliance on these forward-looking statements, and we assume no obligation to update these statements after today's call except as required by law.

Certain financial measures used in today's call are expressed on a non-GAAP basis. We use these non-GAAP financial measures internally to facilitate analysis of our financial and business trends and for internal planning and forecasting purposes. These non-GAAP financial measures have limitations and should not be used in isolation from or as a substitute for financial information prepared in accordance with GAAP. A reconciliation between these GAAP and non-GAAP financial measures is included in our earnings press release, which can be found on our Investor Relations website at investorsatamplitude.com. With that, I'll hand the call over to Spenser.

Spenser Skates - *Amplitude, Inc. - CEO & Co-Founder*

Thanks, Yao, and good afternoon, everyone. I'm excited to welcome you to the Amplitude Q4 and 2023 earnings call. We have a lot to share today, and we are going to cover it in three main sections. First, our financial results for Q4 and 2023 overall. Second, the maturation of Amplitude in 2023, including an update on innovation and customer wins. And thirdly, our views on 2024.

Let's start with the Q4 and full-year financial highlights.

Our fourth quarter revenue was $71.4 million, up 9% year-over-year. Annual recurring revenue was $281 million, up $8 million from the end of the third quarter. We've grown our customer base to more than 2,700. 511 of those customers pay us more than $100,000 per year, up from 480 at the end of 2022. We also have 39 who pay us more than $1 million a year, up from 30 at the end of last year.

Lastly, we delivered almost 10 percentage points of non-GAAP operating margin expansion year-over-year. We also generated $1.5 million of free cash flow in Q4 and $22 million of free cash flow in 2023. Q4 was our largest quarter for net ARR in 2023, marked by broad-based growth across all customer sizes. It was also the largest quarter of new enterprise logo wins in the company's history. While total churn was still high, it was lower than previous.

2023 was a big year for Amplitude. I'm proud of how the team delivered. First, we made great progress in stabilizing the business, focusing on what we can control. We delivered margin expansion and positive free cash flow even against slowing growth. Second, we launched our Plus Plan in October, helping us to serve the lower end of the market much more effectively with a product-led growth motion. In doing so, we provided ourselves the ability to further up-level our go-to-market efforts, which we initiated early this year.

We are scaling our strategic sales efforts across different buyers focusing on high potential accounts up and down the stack. We are targeting the lower end of the market with our product-led growth motion and using an inside sales team to address the in between. Third, we had our strongest year ever for product innovation. I've said before, this is the best way to drive value long term. So I'd like to recap a few key areas.

I just mentioned our Plus Plan, and we are off to a great start. It's early days on our own product-led journey. There is more to test and iterate on, but we like what we see so far. Plus is tracking ahead of its early internal expectations. There are almost no signs of cannibalization, and we continue to see five-figure deals in the sign-up process.

We previewed this Session Replay with customers last year and launched it publicly two weeks ago. Session Replay helps our customers reconstruct a user visit by capturing how they interacted with a website app or digital product. It's a tool used by product, marketing, and data teams to understand user behavior, diagnose product issues, and improve outcomes. Session Replay is powerful because it is tightly integrated with Amplitude Analytics in our broader platform. As a result, companies can get quantitative and qualitative insights to understand what their customers are doing and why.

We are already getting strong feedback and encouraging early traction, with customers already ripping and replacing point solutions with our Session Replay offering. They tell us they love being able to watch sessions without having to read charts and that they are excited to do everything in one platform. As we continue to demonstrate with experiment and CDP, many workflows are better with Amplitude Analytics at the core.

In addition to Plus and Session Replay, we introduced a suite of AI powered capabilities, including Ask Amplitude to shorten the learning curve when you're getting started and data assistant to make data governance effortless. We believe AI will dramatically improve the caliber of digital products and experiences.

We also improved our CDP solution, bringing it close to parity with market leaders in terms of connections. This led to an increasing number of companies choosing the powerful combination of analytics, experiment, CDP as their starting point. We also released numerous product vest explicitly designed to help us win simple and win the enterprise. It's easier to get started with Amplitude with dashboard templates for B2B, SaaS, media, fintech, and marketing analytics.

Customers can now quickly send data to Amplitude in a low-code fashion. Personalized homepages deliver out-of-the-box insights to users right when the login. Collaboration is a competitive differentiator for Amplitude and allows us to expand to different teams within the enterprise. We launched team workspaces to make cross-functional collaboration even easier.

Last but not least, we welcomed Francois Ajenstat as our new Chief Product Officer in December. Many of you may recognize Francois from Tableau. He was there for 13 years and led that product organization. I have huge respect for the work Tableau has done in the data space and it inspired a lot of Amplitude's own approach. The same is true for Francois, he is a world-class product leader and an inspirational storyteller who helped Tableau scale to beyond $1 billion in ARR. I am thrilled he is joining us on the next phase of our journey.

Let's turn our attention to customers. Q4 was the largest quarter for new enterprise logo wins in the company's history. We saw more traction with traditional companies, too. We both landed and grew with companies like Polaroid, CrossFit, iFit, Culver's, Lithia Motors, Rover, Krafton, Strava, and SpartanNash. In Q4, Driveway, Lithia Motors company moved away from their existing analytics provider and went all in on Amplitude across their web properties.

Ross Sherman, Driveway;s VP of Digital Innovation, told us that Amplitude was the best solution to iteratively improve Driveways experience, so they can meet customers in their moment of need. Buying or selling a vehicle online is an emotional decision. With Amplitude now positioned to ingest all of Driveway's web session telemetry, its team can easily understand the customer insights and test new features. This will improve the customer lifecycle, unlocking the full potential of its ecosystem.

We also won a large aerospace company this quarter. Airlines rely heavily on the company's digital products to manage their most critical aerospace needs, including warranties, repairs, and key safety updates. Every error results in unwanted ground time for aircraft, which costs their customers millions of dollars per minute. Their team realized it needed to use data to better meet their customers' needs.

It have been using a legacy martech solution for years, but it lacked adoption, trust, and relevance. In Q4, they turned to Amplitude. With Amplitude Analytics, They will help customers better leverage their online portals, quickly dive into data related to critical issues, and easily fix problems in a timely manner. We'll also aim to help them more effectively use their R&D dollars and improve roadmap prioritization.

Another win I'm excited about is with DFL Digital Sports, the subsidiary of Deutsche Football Liga, the German professional football league. DFL Digital Sports is rapidly growing. So it needed a new partner that could handle traffic spikes, connects the web and mobile experience and provide deep insights. In Q4, it chose Amplitude Analytics to help grow its global fan base. We'll be partnering with DFL Digital Sports to help them reach their most important acquisition goals, including conversion and audience creation and management. With Amplitude, they will also be able to create personalized span engagements, investigate issues causing drop-off, and discover new areas of opportunity.

Let's talk about what's ahead for Amplitude this year. It is too early to signal and all-clear on the macro environment, especially with layoffs persisting across our digital native heavy customer base. However, there is early evidence to suggest recent renewal cohorts are doing better. We are also starting to see clear examples of companies who were on stronger footing starting to growth following our initial reset.

While slower growth is a reality for this year, nothing has fundamentally changed about our long-term opportunity. Digital products and experiences will continue to proliferate. There's increasing recognition that legacy, web traffic, and marketing centric approaches are no longer sufficient. We see continued validation that our strategic approach, the digital analytics platform with product analytics at its core is the right one to win in the long term.

We'll continue to execute with urgency, drive product innovation aggressively, and widen our lead over our competitors. We will continue to make bold strategic plans. This will all help to drive business growth towards the end of the year and set us up for greater success in the future.

Here are the key areas of operational focus. We will continue to improve the effectiveness of our sales motion. We made substantial progress across the board last year, but there's plenty more to do to go from good to great. Our named account approach drives focus and prioritization. This increases our opportunity set materially. Targeted high-potential account dollars grew by 50%, while we almost have the number of accounts that we go after. We're leading with value and selling more strategically, everything from industry-specific use cases to more sophisticated account engagements.

We will continue to elevate our platform value proposition with experiment CDP and now Session Replay, we offer an all-in-one digital analytics platform that enables teams to create products that adapt to users, not the other way around. We know that our customers want a single provider for all their analytics needs. We see many opportunities to grow, cross-sell, and displace point solutions.

With Francois now onboard, we expect that our pace to product innovation will be even aggressive. I have been intentional about up-leveling accountability, maturation and execution of Amplitude throughout 2023. We are demonstrating progress. We will continue to drive profitable growth and invest for the future. At the foundation, our team remains persistent and adaptable. I'm optimistic about what we'll accomplish in 2024 and beyond.

With that, thank you for your interest in Amplitude. I'd now like to turn it over to Criss to walk through the financials.

Criss Harms - *Amplitude, Inc. - CFO*

Thanks, Spencer. Thanks to everyone joining us today. I take pride in our recent performance. We exited 2023 with Q4 being our largest quarter for net ARR for the year. It is also the largest quarter of new enterprise logo wins, which are a positive indicator to the momentum we are building as part of the win-the-enterprise pillar of our broader strategy. Total churn was still high, but I'm encouraged that it was lower than previous quarters. And I'm also encouraged that for the third quarter in a row, actuals were in line with what the forward-looking indicators were projecting.

We came in above our guide on Q4 operating profit and delivered positive free cash flow for the third consecutive. We're demonstrating fiscal responsibility and proving ourselves strong stewards of shareholder capital by delivering 13 points of free cash flow margin improvement year-over-year, even against slowing growth and a stubbornly challenging macro environment.

Now onto the fourth quarter results. As a reminder, all financial results that I will be discussing, with the exception of revenue and balance sheet figures, are non-GAAP. Our GAAP financial results, along with the reconciliation between GAAP and non-GAAP results can be found in our earnings press release and supplemental financials on IR website.

Fourth quarter revenue was $71.4 million, up 9% year-over-year. Total ARR exiting Q4 increased to $281 million, an increase of 10% year-over-year and $8 million sequentially. Here's more details on key elements of ARR. New ARR was evenly split between land and expand, exemplified by a broad-based new ARR across our customer segments. Churn remained elevated and slightly lower in absolute dollar terms than Q2 and Q3, consistent with our expectations. Full churn accounted for just under two-thirds of the total amount in the quarter.

As expected, in period NRR dropped to 98%, and NRR on a trailing 12 month basis declined sequentially 101%. Spencer alluded to early evidence of recent renewal cohorts doing better. First year gross retention patterns from customers acquired in the second half of 2022 onward is on average 5 to 10 points higher than cohorts across 2020 and 2021. Non-analytics ARR crossed the $30 million threshold at the end of 2023. Our base of $1 million and $100,000 customers grew year-over-year. Double-clicking into these metrics, customers who spent more than $1 million increased to 39, up from 30 customers the end of last year. Customers who spend more than $100,000 continue to represent approximately three-quarters of our ARR base.

Gross margin was 77% for the fourth quarter up 3 percentage points year-over-year. Total operating expenses were $53 million, flat sequentially and down 1% year-over-year. Operating profit was a positive $2.3 million or 3% of revenue, almost a 10 percentage point improvement on a year-over-year basis. Net income per share was $0.04 based on $129.2 million of fully diluted shares compared to a loss of $0.03 with a $113.1 million shares a year ago.

Free cash flow in the quarter was positive $1.5 million or 2% of revenue. For the full year 2023, free cash flow was positive $22.4 million were 8% of revenue, 1a 13 percentage point improvement over last year's margin of negative 5%.

Now onto our outlook. We've taken many steps to stabilize the business, uplevel execution, and revisit how we allocate capital. We are selectively investing in key areas to ensure we successfully reaccelerate growth. The top of our list are continued product innovation, platform expansion, product-led growth, professional services, and business application infrastructure to better enable our go-to-market efforts.

For the first quarter of 2024, we expect Q1 revenue to be between $72.1 million and $72.7 million, representing an annual growth of 9% at the midpoint. We expect a non-GAAP operating loss between $2.8 million and $2.2 million, and we expect non-GAAP net loss per share to be between negative $0.01 and $0, assuming basic shares outstanding for approximately 120.5 million.

For the full year, we expect revenue to be between $291.5 million and $294.5 million, an annual growth rate of 6% to 7%. We expect non-GAAP operating income between negative$ 1.0 million and positive $2.0 million. And we expect non-GAAP net income per share to be between $0.06 and $0.08, assuming shares outstanding of approximately 133.0 million as measured on a fully diluted basis.

Here's more color for your modeling purposes. Consistent with what we conveyed in November 2023, we expect churn to remain at elevated levels through Q2 2020 and at similar levels to recent quarters. As we've characterized previously, primary driver to these elevated levels of churn are multiyear contracts from 2021 and 2022 that are being optimized upon renewal.

As reflected in our 2024 revenue guidance, we are implying that healthy new business trends in the first half of 2024 will be substantively offset by churn during this period. Specific to quarter to quarter dynamic, we expect Q2 revenue to be down slightly from Q1, due to the timing of anticipated churn within each of the respective quarters. We expect end-period NRR to remain below 100% and NRR to trough in the mid 90s this year. Both metrics should increase as we exit 2024.

We expect year-over-year ARR growth will trough in Q3 of this year in mid-single digits. Gross margin should be between 76% and 77% for the year, due to the aforementioned investments and professional services. While we have guided to operating profit for fiscal year 2024, we expect to generate a non-GAAP operating loss in the first half of 2024 due to the timing of certain events, such as employee tax resets and a higher concentration of discretionary spending. These items include certain marketing programs and events like the sales kickoff.

We expect to continue to be free cash flow positive for the full year. We expect diluted share count to increase by 3% to 5% in FY24. But I am happy but not satisfied with what we achieved in 2023. I am confident of the path we are setting for ourselves through 2024 and into 2025. We will continue to drive profitable growth. We will continue to deliver a rapid pace of product innovation and platform expansion. Our go-to-market efforts will be even more targeted and effective, which we believe will drive much higher sales productivity, NRR, and revenue acceleration.

With that, I'll open it up for Q&A. Over to you, Yao.

QUESTIONS AND ANSWERS

Yaoxian Chew - *Amplitude, Inc. - VP, IR*

Thanks, Criss. Please turn your microphone and camera on and limit yourself to one question and one follow-up in the interest of time.

Our first question will come from Koji Ikeda of Bank of America, followed by Taylor McGinnis from UBS.

Koji, go ahead, please?

Koji Ikeda - *BofA Securities, Inc. - Analyst*

Hey, guys. For some reason I can't turn my camera on here but let me just ask the question here. So maybe a question -- two questions, one for Spenser and one for Criss. So Spenser, starting with you. How does the demand environment feel today, February 2024 versus February 2023? It sounds like things are better lapping of optimizations. Sounds like some green shoots in renewal cohorts. So as you're talking to new customers, are the pain points the same? Are you having the same types of conversations, same types of prospects or have things changed? And if so, maybe you could talk about that a little bit.

Spenser Skates - *Amplitude, Inc. - CEO & Co-Founder*

Yeah, for sure. I think demand for what we do has always been strong, whether I look at now whether I look at a year ago, whether I look at many years ago. This is a top priority for many product and data teams for them to understand how it is, their end-customers are using the product. And we're seeing that in both tech companies as well as the traditional enterprise.

In terms of now versus a year ago, I'd say, it's maybe slightly stronger. I think there's still pressure on a lot of digital natives and tech companies. As they're optimizing and expanding, the companies continue to go through layoffs. I think the big thing that changes for us is structurally stuff gets a lot better as we go through the first half, as we talked about once those earlier renewal cohorts wash out.

And then, I think I have to give a lot of credit to -- the last pieces, I give a lot of credit to the changes that Thomas has driven across go-to-market to mature our motion. That's really a big part of what led to our success in Q4 with a record number of enterprise lands. That's what led to our ability to deploy a Plus Plan, where we have self-service motion and we can then take those resources and focused them up market at higher potential accounts. And so it's just -- it's both -- I'd say the primary drivers is the demand has always been there, it's our execution that is getting better.

Koji Ikeda - *BofA Securities, Inc. - Analyst*

Got it. Thank you. And then a follow-up for Criss here. Your ARR just grew 10% added $8 million net new sequentially, as you said, the best of 2023. And last quarter, you said there's a high correlation of kind of this year's ARR is an indication of next year's growth, but you're guiding to 6%. I did hear you on your commentary of kind of the puts and takes there. But just trying to understand a little bit further of that 400 point delta, the finishing ARR growth next year guide. Is it just added conservatism or just take you to what you said in your prepared remarks? Thank you.

Criss Harms - *Amplitude, Inc. - CFO*

Yeah, no, there is a spread, acknowledged. There's the kind of the really the role that Q1 and Q2 were going to play in terms of our expectation and the drag on our net ARR from the anticipated churn and the impact that they're going to have on the 2024 revenue. That's the primary driver to that obvious disconnect.

Spenser Skates - *Amplitude, Inc. - CEO & Co-Founder*

Got it. Thanks so much, guys.

Thank you.

Yaoxian Chew - *Amplitude, Inc. - VP, IR*

Great. Taylor McGinnis, you are up next, followed by Rob Oliver, Baird. Taylor, go ahead, please.

Taylor McGinnis - *UBS - Analyst*

Yeah. Hi, team. Thanks so much , for taking the question. Just with the rise of layoff activity that we've seen in tech, can you talk about where we stand in terms of the timeline of license rationalization and what's embedded in the guide?

So it seems like the guide implies a steady deceleration throughout the year, but it looks like in 1Q, you're assuming similar growth to 4Q. So is that just because you're assuming now these tougher renewals are going to continue into the second, maybe it's just conservatism. But I guess why could we not see an acceleration if churn is starting to improve some of these new cohorts look better? Maybe you can just give a little bit of color there.

Criss Harms - *Amplitude, Inc. - CFO*

Yeah, I will take that on. I talked about churn, I talked about it being at commensurate levels with what we saw in Q2, Q3, Q4. A commensurate level does not mean down, and we did say that Q4 was down relative to Q3 -- Q2 and Q3. Kind of with those elements in play, I'll remind you that my guide for or -- I didn't guide specifically, but my signaling for Q4 kind of net ARR was a number much closer to zero. I was very pleased with our overperformance. I was very pleased it was very broad-based. And I guess that same level of tempering, both what we hope to achieve in Q1 and Q2 from a new ARR perspective is just being offset, as I try to be prudent about how to approach it, with what we see from churn.

And I'll just remind you churn, we definitely have gotten our arms around that for Q2, Q3, Q4. While it has been an elevated number, one of the positives I take away from that is at least the indicators gave it pretty good signaling to that. So all of those different ingredients turn is kind of what has shaped how I'm thinking about those elements.

Taylor McGinnis - *UBS - Analyst*

Perfect. And just one follow-up question.

So it seems like this past quarter, the pace of NRR deterioration was starting to subside. But you talked about and are troughing in the mid 90s and 2Q revenue being down sequentially. So is there something specific to the 2Q renewal base that you're trying to fly coming up? I guess, is it larger does a greater tech exposure, maybe you can just help us think through what that base looks like, maybe relative to what we've seen in the last couple of quarters?

Criss Harms - *Amplitude, Inc. - CFO*

Yeah. So remember, we do not have an evenly distributed renewal base. We are definitely highly concentrated in Q1 and Q2 relative to where we are in Q3 and Q4. And then, our ability to have our arms better around our customers, the rule of the multi-year is kind of where we think they're going to reset on the renewals. All of those are just taking shape to how we're thinking about the precision to Q1 and Q2, and how we think about the kind of the cyclical nature of being in a mechanically different place as we talked about in Q3, and that therefore kind of forming our trough.

Taylor McGinnis - *UBS - Analyst*

Awesome. Thanks so much, appreciate it.

Yaoxian Chew - *Amplitude, Inc. - VP, IR*

Great. Next question, Rob Oliver from Baird, followed by Tyler Radke from Citi. Rob, go ahead, please.

Rob Oliver - *Robert W. Baird & Co. Incorporated. - Analyst*

Yeah, great. Thank you. Thanks, guys, good afternoon. My question is, I think, probably a bit of a follow-up to Taylor's. You guys clearly have made some tremendous strides on managing that churn. There's been a lot of changes and go-to-market, a lot of internal optimization of the process. So I guess what I'm wondering is when you look out to that big cohort that's coming out in Q2, in terms of what you guys can control -- because some of it's just natural, there's lower headcount, but in terms of what you guys can control, maybe talk about some of the opportunities to get other products into the hands of these customers or other ways to maybe get the platform sale going?

Spencer, I know in your prepared remarks, you mentioned Session Replay as an example. So maybe talk a little bit about, like, some of the ways you guys can maybe work, those contracts a bit better? And then a quick follow-up.

Spenser Skates - *Amplitude, Inc. - CEO & Co-Founder*

Totally. So I divide it into two big ones. There's the operational of how we manage a particular account and then there's the strategic in terms of how we approach our entire customer base.

On the operational side, we've gone through a lot of maturing of our go-to-market team over the last year. And I think you're starting to see the results in terms of our ability to forecast and understand where things are going to be further out. We're also able to have conversations with much more senior executives than we were before. A great example is one of our large food delivery customers, multimillion dollar customer with us -- been with us for six or seven years.

We were stuck at the Director level in terms of our conversations for many years. And we just had a conversation with them about a month ago, with the VP of Data Engineering and that was completely changed the dynamic. They were skeptical of continuing to invest in Amplitude in the past, because they're like, hey, this thing keeps growing in terms of cost without bound. And I don't necessarily know -- yes, it's popular and used by a lot of end users at my company, but I don't necessarily know and understand the value it's driving.

We had the conversation, we said, hey, we're going to work through doing an enterprise license agreement, so you do have to worry about how it subscales and work with you on the pricing side, and then that helped him direct the organization to lean into us. And so it's like those conversations repeated again and again and again. We're focusing on getting into much senior levels, get executive business reviews, talking about the value that we're driving.

On the strategic side, I think the callout is great. I'd point to a few different things. So first, while it's early, we do see that customers on multiple products have higher retention rates. And so that's a big focus for us this year, both across experiments, CDP, now at Session Replay as well, just to get those attaches much higher. As Criss mentioned, non-analytics products are at only $30 million ARR. So still a small portion of our customer base, we have an opportunity to penetrate way more. And the early signs there are that if you do, the retention rate gets significantly better. So that's been very good.

The other element I talk to is on the fact that we launched the Plus Plan allows us to take resources and focus it on the higher value accounts. And so instead of running the same go-to-market motion that you do for a multimillion dollar customer with a $10,000 customer, we're starting to specialize that a lot more and introduce things like premium professional services at the high end, in order to make sure those customers get deployed and grow with us successfully.

So there's a lot -- as I've been talking about, there's -- we're not happy with where it's at, there's a lot we're doing both operationally and strategically. And as those 2021 and 2022 cohorts finish coming up for renewal, we expect that to get structurally better in terms of our growth.

Rob Oliver - *Robert W. Baird & Co. Incorporated. - Analyst*

Great. That's super helpful, thanks.

I'll hop back in the queue. Thanks, guys.

Yaoxian Chew - *Amplitude, Inc. - VP, IR*

Great. Tyler Radke from Citi, followed by Nick Altmann from Scotia. Tyler, Go ahead, please.

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Tyler Radke - *Citi - Analyst*

Yeah, thanks, Yao, and hey, everyone.

So just starting off on the quarter, and a question for Criss. It looked like the revenue performance was a little bit light of the midpoint of guidance. And I think historically, you typically showed some upside relative to that guidance range. So it looks like ARR was solid. So was there anything unusual to call out in terms of linearity in the quarter, maybe more back-end loaded?

And then the follow-up question is, as we just think about the guidance for 2024, with sequential revenue declines in Q2, it does imply a pretty at larger pace of sequential revenue increases in Q3, Q4, can you just talk about the visibility and confidence you have in the new business side of that for that to be a -- for that to play out? Thanks.

Criss Harms - *Amplitude, Inc. - CFO*

Yeah, both very fair questions with pretty straightforward answers. As it pertains to Q4 and actually any quarter, we do have in-period revenue, overages, professional services. But it was overages. Overages did not come in at a consistent level with where it had. The plan B that I had rolled into the midpoint did not materialize, and we came in about $200,000 below that. It is a small part of our top line, but it did drop off in Q4 below the expectations. And then, that prompted me to do the postmortem and make sure that I was more appropriately gauging it for how we look to 2024.

As it pertains to your second question on the quarter-over-quarter, the churn that we've identified for Q1 is very back-end loaded. And some of the large ones that we're expecting, they are actually happening March 30, March 31. But that's not the same case in Q2. The ones that we've identified as really weaving in, those are month one and early parts of month two of the quarter. So the ARR or the associated churn that we're kind of conveying is a consistent number. The timing of when those happened in the quarter and their associated impact is what's in play. And Yao and I felt that it was appropriate to signal that to you now as part of our culture, that's our expectation for Q2.

Tyler Radke - *Citi - Analyst*

Great. Just on the second half, anything that you assuming, I guess, is it consistent new business assumptions with the first half? And then just a follow up on the spending. So it looks like you are guiding margins to be down from this year. What are the biggest priority areas you're spending on? And can you just talk about how you think about the pace of medium to long-term margin expansion?

Criss Harms - *Amplitude, Inc. - CFO*

Yeah. So let me trying to break down first part of your question. While I don't want to get into specifics of new ARR, I will say, look, I have high expectations for how we deliver in the back half of the year. But I haven't built all of those into our topline. As it pertains to the mechanics of churn, we will finish of that prior thought, because of their impact on revenue in 2024, obviously, very diminimus tied to the Q3 ARR performance.

As it pertains to the broader look, kind of reemphasizing the point that we've been conveying, is that the first half of the year is going to face some anticipated churn that will substantively offset our new ARR for the first half, and that obviously, plays a role in the broader revenue.

As it pertains to your margin question, like we are increasing our margin profile from where we finished 2023. We are guiding a couple of points up in terms of margin expansion. One of the points I did try to call out in the prepared remarks is I look at our business, when I look at how we are from a market maturation, when I look at all the things that Spencer alluded to in terms of up-leveling the business, getting more focused, I have a lot of confidence and I tried to convey that in my closing remarks about how we'll be positioned exiting 2024, heading into 2025, when all of these pieces start to come together.

With that level of confidence, there is a level of investment that I just think is appropriate for the opportunity that's ahead of us and kind of where we are on our maturation. Again, upon those across product innovation, platform expansion, all the things that we've done within PLG and all the other things that we're going to do in PLG in 2024, now that we've got a much more focused go-to-market, I think our customer engagement on professional services can be much more effective.

Spencer spoke to what we're doing with kind of premium services packages there. I think we're going to get some value out of those incremental investments, which is why I've given a little bit of a point drag in terms of range on gross margin. And then, just in my own backyard of the business applications infrastructure and what we can do to further enable Thomas and his team to understand what dials to turn up, what dials to turn down, I think all of those investments are prudent. And if you look at the overall kind of percentage of our cost structure, there are relatively nominal investments on a year-over-year basis, but I think they're the right ones to make at this time for the long term.

Tyler Radke - *Citi - Analyst*

Great. Thank you.

Yaoxian Chew - *Amplitude, Inc. - VP, IR*

Thank you. Next question, Elizabeth Porter from Morgan Stanley, followed by Arjun Bhatia. Elizabeth, go ahead, please.

Elizabeth Porter - *Morgan Stanley - Analyst*

Thanks so much for the question. Really impressive acceleration in the new customer -- in the total customer count. I just wanted to get some color on how should we think about the pace that adds into 2024? And then additionally, just given a lot of momentum is likely driven by some of those smaller low-end customers, how do you think about the opportunity to upgrade that customer base? The character is the quality of those companies very likely to upgrade, any color there would be helpful. Thank you.

Criss Harms - *Amplitude, Inc. - CFO*

Spenser, you want to take it?

Spenser Skates - *Amplitude, Inc. - CEO & Co-Founder*

Yeah., sure.So we don't as a total customer count, includes those of Plus and those annual contracted customers. So it can be deceiving as to which bucket is which. I think first on the enterprise side, like I said, a record number of lands there on the high end, so that was fantastic to see. Obviously, not going to make a not huge contribution to the total customer count. So the acceleration really comes from the Plus Plan.

Now, I think most of those customers, obviously, they're going to be paying hundreds, thousands of dollars a month, not to the level that our enterprise customers had. But we have seen some upgrading over time, and we expect that will be a fantastic channel for our enterprise team.

Criss Harms - *Amplitude, Inc. - CFO*

I'll add, you'll see that I actually pulled it out of our press release, I didn't want to highlight it. We're very focused on the $1 million-plus customers increasing from 33 to 39. We're very focused on $100,000-plus customers increasing from the 488 -- 48o to the 511. That pool reflects three-quarters of our ARR base, I think, is central to our long-term success. We know we're going to be able to farm and develop those are coming into the low, but I don't find the metric to be as insightful as to our progress, as it did before we got the PLG motion up much more generally available full production environment. So we're going to continue to share the number. I just -- it's not going to be one of my highlight bullets in the press release.

Elizabeth Porter - *Morgan Stanley - Analyst*

Got it. And then just as a follow-up, now that you're kind of bifurcating the strategy more between the low-end and high-end customers, any sort of differences in the competitive landscape that you could speak to adding to those bases?

Spenser Skates - *Amplitude, Inc. - CEO & Co-Founder*

It is a great question. I think on the low end, it tends to be some -- let me see, how would I characterize it -- well, let me start with the high end first, I think that's a little more straight forward. High end is very greenfield. I think you might see previous generation legacy marketing analytics players like a Google Analytics or Adobe.

But it's not like, when thinking about product analytics and Session Replay and some of these other pieces of value, it's not a lot of times these companies are adopting it, and it might just be you an RFP or might be you and one other company. I'd say on the lower end, that's where we see us competing ourself with a lot more point solutions. And it is a big part of why we release that our suite approach as well as the Plus Plan, so that we say, hey, we're in for the most value at the lowest cost, and there's no reason not to choose Amplitude as the provider to get started with there.

Elizabeth Porter - *Morgan Stanley - Analyst*

Thank you.

Yaoxian Chew - *Amplitude, Inc. - VP, IR*

Great. Next question, Arjun Bhatia from Blair, followed by Nick Altmann from Scotia. Arjun, go ahead, please.

Arjun Bhatia - *William Blair & Company, L.L.C. - Analyst*

Yeah, hi, guys. Thanks for taking the question. Maybe if I could start so on the churn side of the equation, I'm curious, I guess, is this something that you're seeing with your competitors as well? Like is this more of an industry issue in product analytics, where either customers or rightsizing or you have budgetary pressures that are impacting growth? Or is there something you think internal that's driving it? I guess, where are these customers going when they're turning?

Spenser Skates - *Amplitude, Inc. - CEO & Co-Founder*

Yeah, we're not seeing them go to competitors. And typically, as I talked about in the past more, a huge chunk of it is rightsizing to aggressive spends from that 2021 and 2022 time period. And so all our indicators in the competitive front as we continue to make progress against both the legacy players and the point solutions and continue to grow market share, so it's just you've gotten over exuberance in 2021. Some of that's coming off, but you still have a great underlying growth rate, as you look at where we sit versus any of those guys in the market.

Criss Harms - *Amplitude, Inc. - CFO*

I'm going to add one because I -- one of things we've conveyed Q2, Q3 was -- there are two forces that are in play. Spencer just spoke to what we're seeing at the high end, both in digital native and traditional enterprises, where we're doing a lot of right sizing. That's just the nature of what was driving that.

Yes, there was some lost churn there, but that's by far the small minor to the major, which has been just partial churns. And a reminder to everyone, like, we can't build a partial and fully lost NRR -- GDR numbers. The second thing that's there is at the lower end, right, it is the venture capital funded companies, where they are struggling to survive. And I alluded to in the prepared remarks that two thirds of our churn in Q4 was lost churn that very much driven by what's happening in that venture capital, digital native community. And they are struggling to survive. And clearly, that will be a temporary environment that we're going to face at that end of our market. But that too will change and we look forward to be in a much different position in our execution muscle when those market forces change and get the most out that opportunity.

Yaoxian Chew - *Amplitude, Inc. - VP, IR*

Sorry, Arjun, you're on mute.

Arjun Bhatia - *William Blair & Company, L.L.C. - Analyst*

Yeah, perfect, sorry. That's helpful.

And then one, maybe for Spencer, again, just as we're thinking about category evolution, I think there was a time even for Amplitude, where we kind of started to go down a different buyer persona into the marketing org. I'm curious if you think that's something that still inevitable in the product analytics category, and how fast you think that might occur both with Amplitude and the broader industry?

Spenser Skates - *Amplitude, Inc. - CEO & Co-Founder*

I think it's a longer-term phenomenon. I mean, we aren't launched a whole bunch on the marketing side, and we've been deliberate about targeting that persona. But most companies we work with, it's still kind of two separate personas and two buying centers, and they have their own tech stack. So while eventually, I look 5, 10 years out, I expect to see it be quite different. In the short term, they are still quite distinct. Now that we've said, we want to get ahead of it. So we're doing quite a bit, as I mentioned, on making sure that we're able to speak to value to that persona and tackle them and displace a lot of the legacy players.

The other thing I'll call out on the suite offering is that I -- we've always been very aggressive on the innovation front. The part, I'm excited about Francois to join is to help us how in terms of how he tackles the organization of that innovationm, so that we can continue.

We have four products now, how do we continue to come out with the fifth, and sixth seventh, and make sure we win everyone in this product category by having the best offering in terms of the full platform. So and we're going to continue to do more there, whether it's to tackle marketing or to tackle some of the other use cases when you think about digital analytics broadly.

Arjun Bhatia - *William Blair & Company, L.L.C. - Analyst*

All right. Perfect, thank you.

Yaoxian Chew - *Amplitude, Inc. - VP, IR*

Thank you.

Last question, Nick Altmann from Scotia. Nick, go ahead, please.

Nick Altmann - *Scotiabank - Analyst*

Awesome, thanks, guys. Criss, you mentioned overages were a bit late in Q4. I guess how should we read into that exactly and what does the guidance sort of embed from an overage perspective?

Criss Harms - *Amplitude, Inc. - CFO*

Yeah. Great question. But it is it small part of our top line. But when it moves a few hundred thousand in any quarter as an in-period revenue, it can just step back. And it did kind of came in lower than what our historical models had suggested for Q4, which definitely prompted us to update how we were looking at that heading into Q1 and the rest of 2024. But it was one of these were a small part of the equation just moved in a different direction than what our historical trend lines would suggest.

In terms of the core of your question, what's undermining -- and I think are underpinning it is a function of where we are in both right-sizing contracts, part of the optimization. The other side of that coin is customers increasing their levels and expanding and upselling in a period where it's now part of the subscription base. And when those happen and not offsetting any overages, it's just a fine tuning to our model that had to take a lesson out of Q4 on our plan going forward.

Nick Altmann - *Scotiabank - Analyst*

Okay. And just to clarify, the revenue guidance for this year, what does that kind of imply from an overage perspective versus this year's or sort of not any overages embedded in the guidance?

Criss Harms - *Amplitude, Inc. - CFO*

There is, I actually have less overages built into the 2024 guidance than what we delivered in 2023.

Nick Altmann - *Scotiabank - Analyst*

Okay. And then my second one is just, you guys have said like the renewal cohort has been trending sort of above expectations. Churn actually improved a little bit the quarter. But you're still kind of circling to Q2 as potentially a little bit of a higher churn quarter. You talked about a sequential step down from 1Q on the top line. I guess how much visibility do you guys have into that? And is it isolated to a couple of large customers? Is it a cohort of customers who have large multiyear deals that they purchased when the macro looked a lot different? Maybe just help us understand the visibility into that 2Q renewal base? Why are you expecting to get a little bit worse there?

Criss Harms - *Amplitude, Inc. - CFO*

Yeah, there are many facets to that question when we try to hit them all. First, as it pertains to with the mix of renewals and expected churn, it's not just Q2, right? It's Q1 and Q2. And I've tried to convey that those are commensurate levels with what we generally saw across Q2, Q3, and Q4 of 2023. Technology in Q4 was a little lower than Q2 and Q3. So I want to clarify, it's not just Q2. But that once we get to Q3, we go from an environment where the multiyear contracts are representing, right, 50% of the renewal base, two of them are reflecting less than a quarter of the renewal base. So a just mechanically different environment in Q3 and Q4 in terms of the impact that these can have.

Second piece I wanted I want to hit upon. You heard me kind of with pride for the entire organization is that for three consecutive quarters, Q2, Q3, Q4, Thomas and team really had their arms around our churn exposure. And what they're leading indicators were suggested to me came in very consistent with what our actuals were. Now, while nobody's pleased with the levels those came in, I take a cup half full view on that, that we really got our arms around that, which we didn't have when I write. That was one of the things I tried to highlight in my first earnings call.

So as it pertains to our visibility, it is both at an account level, very much up and down the stack, driven by the kind of account, executive ownership culture that Thomas started to drive back in April, May of last year, that and his arrival has continued to drive, and us just being much closer. As reflective of Spencer's antidote of we are getting much closer to a strategic level than just the buyer. So our pulse with our customers as we're going through renewals is much better.

Third facet to it, right, our ability to convey the platform in its entirety and the additional capabilities, that experiment, the CDP, and now Session Replay could bring is something we're doing to offset that churn and the team is getting better and better about it. One of the -- we still have --80% of our customers still or assuming, over 80% of our customers are still analytics only. So we have an opportunity to kind of offset what's ahead of us. But as I said at the core, much of it is large, digitally native, and traditional company enterprise contracts that we signed in '21 and '22, that we know are going to get optimized. And we know or we expect that the role of our SMB venture capital-backed are going to continue at a similar pace.

So many facets to how we're looking at this, many -- identifying the maturation that we've developed to be able to be better about it. And I've tried to share since November, I think we're just in some different mechanical situation, come Q3 of this year, and I look forward to being able to evidence that when we get into that time period.

Nick Altmann - *Scotiabank - Analyst*

Great. Thanks, guys.

Yaoxian Chew - *Amplitude, Inc. - VP, IR*

Great, thank you. With that, I'm seeing no further questions in the queue. We will be at the Morgan Stanley Global Technology Conference in March. Details will be posted on our IR website. Thank you very much for attending our Q4 earnings conference call. You may now disconnect.

Spenser Skates - *Amplitude, Inc. - CEO & Co-Founder*

Thank you all.
