

1 Jonathan Gardner (admitted *pro hac vice*)  
 David Schwartz (admitted *pro hac vice*)  
 2 Alfred L. Fatale III (admitted *pro hac vice*)  
 Marco A. Dueñas (admitted *pro hac vice*)  
 3 LABATON SUCHAROW LLP  
 140 Broadway  
 4 New York, New York 10005  
 Telephone: (212) 907-0700  
 5 Facsimile: (212) 818-0477  
 Email: jgardner@labaton.com  
 6 dschwartz@labaton.com  
 afatale@labaton.com  
 7 mduenas@labaton.com

8 *Lead Counsel for Lead Plaintiff*  
*Leadersel Innotech ESG*

9 *[Additional Counsel on Signature Page]*  
 10

11 **UNITED STATES DISTRICT COURT**  
 12 **NORTHERN DISTRICT OF CALIFORNIA**  
 13 **OAKLAND DIVISION**

14	In re ON24, Inc. Securities Litigation	)	Case No. 4:21-cv-08578-YGR
15		)	ECF CASE
16		)	<b>CONSOLIDATED CLASS ACTION</b>
17		)	<b>COMPLAINT FOR VIOLATIONS OF</b>
18		)	<b>THE FEDERAL SECURITIES LAWS</b>
19		)	DEMAND FOR JURY TRIAL
20		)	Dept: Courtroom 1, 4th Floor
21		)	Judge: Honorable Yvonne Gonzalez Rogers

**TABLE OF CONTENTS**

1			
2			<b>Page</b>
3	I.	NATURE OF THE ACTION AND BACKGROUND.....	1
4	II.	JURISDICTION AND VENUE.....	6
5	III.	PARTIES.....	6
6	A.	Lead Plaintiff.....	6
7	B.	Defendants .....	7
8		1. Corporate Defendant.....	7
9		2. The Individual Defendants .....	7
10		3. The Underwriter Defendants .....	8
11	IV.	SUBSTANTIVE ALLEGATIONS .....	11
12	A.	ON24 and its Business.....	11
13	B.	ON24’s Pre-IPO Growth .....	12
14	C.	ON24 Conducts the IPO .....	14
15	D.	Defendants’ Materially False and Misleading Offering Documents.....	15
16		1. Former ON24 Employees Substantiate the Allegations that the	
17		Offering Documents Were Materially False and Misleading.....	15
18		(a) Former Employee 1 .....	16
19		(b) Former Employee 2 .....	18
20		(c) Former Employee 3 .....	20
21		(d) Former Employee 4 .....	20
22		(e) Former Employee 5 .....	23
23		2. The Offering Documents Contained Materially False and	
24		Misleading Statements About ON24’s Customers and Financial	
25		Condition.....	27
26		3. The Offering Documents Contained Material Omissions About	
27		ON24’s Customers and Financial Condition.....	29
28		4. The Offering Documents Failed to Disclose Significant Risks	
		Concerning ON24’s Customers That Made the IPO More	
		Speculative and Risky .....	34

1 E. Events Following the IPO..... 39  
2 V. CLASS ACTION ALLEGATIONS ..... 51  
3 VI. CAUSES OF ACTION ..... 52  
4 COUNT I FOR VIOLATION OF SECTION 11 OF THE SECURITIES ACT..... 52  
5 COUNT II FOR VIOLATION OF SECTION 15 OF THE SECURITIES ACT ..... 54  
6 VII. PRAYER FOR RELIEF..... 55  
7 VIII. JURY TRIAL DEMANDED..... 56

8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

1 Court-appointed Lead Plaintiff, Leadersel Innotech ESG (“Lead Plaintiff”), individually  
2 and on behalf of a class of similarly situated persons and entities, alleges the following upon  
3 information and belief, except as to those allegations concerning Lead Plaintiff, which are  
4 alleged upon personal knowledge. Lead Plaintiff’s information and belief is based upon, among  
5 other things, the investigation undertaken by Court-appointed Lead Counsel, Labaton Sucharow  
6 LLP, which included a review and analysis of: (i) regulatory filings made by ON24, Inc.  
7 (“ON24” or the “Company”) with the U.S. Securities and Exchange Commission (the “SEC”);  
8 (ii) Company press releases, transcripts of earnings calls, and other public statements issued and  
9 disseminated by the Company; (iii) Company website and marketing materials; (iv) price and  
10 volume data for ON24 common stock; (v) research reports from securities and financial analysts;  
11 (vi) news and media reports concerning the Company and other facts related to this action; (vii)  
12 interviews with former ON24 employees; and (viii) other publicly available materials and data.  
13 Lead Counsel’s investigation into the factual matters alleged herein continues and many of the  
14 relevant facts are known only by the Defendants (as defined herein) or are exclusively within  
15 their custody or control. Lead Plaintiff believes that substantial additional evidentiary support  
16 will exist for the allegations set forth herein after a reasonable opportunity for discovery.

## 17 **I. NATURE OF THE ACTION AND BACKGROUND**

18 1. The claims asserted herein are strict liability claims for violations of Sections 11  
19 and 15 of the Securities Act of 1933 (the “Securities Act”) relating to ON24’s initial public  
20 offering (the “IPO” or “Offering”), commenced on or about February 3, 2021, of over 8,560,930  
21 shares of common stock at a price of \$50.00 per share. This federal securities class action is  
22 brought on behalf of a Class (as defined herein) of all persons or entities who purchased or  
23 otherwise acquired ON24 common stock pursuant and/or traceable to the Offering Documents  
24 (as defined herein) issued in connection with the IPO, and who were damaged thereby.

25 2. Congress passed the Securities Act in the hopes of restoring investor confidence  
26 after corporate scandals and the stock market crash of 1929. The Securities Act requires that  
27 those who sell securities to the investing public do so on the basis of accurate and fulsome  
28 disclosure. The Securities Act creates liability for false, misleading, and incomplete statements

1 made in connection with public securities offerings in order to protect investors and maintain  
2 confidence in our public markets.

3 3. ON24 touts itself as offering a leading, cloud-based digital experience platform  
4 that enables businesses to convert customer engagement into revenue through interactive  
5 webinars, virtual events, and multimedia content experiences. ON24's customers include  
6 business-to-business ("B2B") companies that seek sales and marketing strategies to generate  
7 revenue through personalized and interactive digital customer engagement. ON24 is led by co-  
8 founder, President, and Chief Executive Officer ("CEO") Defendant Sharat Sharan ("Sharan").

9 4. ON24 offers four "Experience" products: (1) ON24 Elite, a live, interactive  
10 webinar; (2) ON24 Virtual Environment, a live, large scale virtual event experience; (3) ON24  
11 Engagement Hub, an always-on, multimedia content experience; and (4) ON24 Target, a curated,  
12 multimedia content experience.

13 5. ON24's Experience products are "backed" by two enhanced functionality  
14 solutions: (1) ON24 Intelligence, an analytics tool that captures first-person data to power the  
15 artificial intelligence ("AI")/machine learning ("ML") engine within ON24's platform; and  
16 (2) ON24 Connect, an ecosystem of third-party application integrations.

17 6. ON24 derives revenue and cash flow from sales of subscriptions to its products.  
18 As a subscription-based Company, ON24 must attract new customers and maintain and expand  
19 relationships with existing customers, including by "upselling" additional solutions. In order to  
20 grow, ON24 must continually secure new customers and renew or upsell existing customers. In  
21 the Offering Documents, ON24 touted its "highly engaged and loyal customer base," including  
22 1,900 customers in more than 40 countries as of September 30, 2020.

23 7. With the shift to a more digital world in 2020 due in part to the COVID-19  
24 pandemic, ON24 had purportedly hit a watershed moment and, as a result, was experiencing  
25 explosive growth.

26 8. On or about February 3, 2021, ON24 conducted the IPO and raised more than  
27 **\$428 million** in gross proceeds for the shares ON24 offered to the public, while the banks that  
28

1 underwrote the Offering collected over **\$29 million** in fees. In other words, the IPO was a great  
2 success for Defendants; however, the IPO was disastrous for investors.

3 9. Unbeknownst to investors, ON24 signed up new customers for 1-year contracts  
4 during the second quarter ended June 30, 2020 (“Q2 2020”), third quarter ended September 30,  
5 2020, and fourth quarter ended December 31, 2020 (“Q4 2020”)—the three quarters preceding  
6 the IPO—that planned to either not renew or downsell, a larger-than-typical percentage of which  
7 were small- and medium-sized business (“SMB”) customers, nonideal customers focused on  
8 one-time events, and one-time use cases that planned to either not renew or downsell.

9 10. Within months of the IPO, ON24 disclosed materially adverse and previously  
10 existing but undisclosed conditions, trends, uncertainties, and risks at the Company that pre-  
11 dated the IPO, including high churn, nonrenewals, and downselling amongst customers signed  
12 up during the second, third, and fourth quarters of 2020. For the second quarter ended June 30,  
13 2021 (“Q2 2021”), for example, higher churn was primarily in the first-time renewal cohort,  
14 which accounted for over 60% of the total renewal cohort, while SMB customers accounted for  
15 50% of ON24’s total “logo churn,” *i.e.*, the number of logos or customers lost during that period.

16 11. Former ON24 employees substantiate the allegations concerning ON24 customers  
17 that planned to either not renew or downsell.<sup>1</sup> According to Former Employee 3 (“FE-3”), ON24  
18 was already aware there was high churn amongst the SMB customers prior to the pandemic, but  
19 the pandemic amplified things. FE-3 explained that ON24 had instituted special, lower  
20 commission rates that were applied to accounts where the customer was interested in a one-time  
21 purchase and was not expected to renew. According to FE-3, these lower commission rates for  
22 one-time purchasers confirmed that ON24 knew which customers fell into that category. FE-3  
23 advised that ON24 tracked information through Salesforce including customer purchases,  
24 renewals, customers that were active, and customers that were dormant. When asked whether  
25 ON24 would have known that the small business customers who purchased single event or one-  
26 year subscriptions would not have renewed their services, FE-3 replied that they would have.

27  
28 <sup>1</sup> For ease of comprehension and readability, the Consolidated Complaint uses the pronoun  
“he” and possessive “his” in connection with the former ON24 employees. This convention,  
however, is not meant to identify the actual gender of any of the former employees.

1           12.     Former Employee 1 (“FE-1”) recalled that during the COVID-19 pandemic,  
2 ON24 signed anybody and everybody up regardless of if they were considered to be a good  
3 customer for the Company. In reference to ON24’s business during COVID-19, FE-1 recalled  
4 that the Company knew a lot of the COVID business was not going to stick including their  
5 enterprise business. FE-1 explained that there were always monthly calls with Defendant Sharan  
6 and other C-level employees to discuss clients, including churn risk and potential for expansion.  
7 He went on to recount that the C-suite employees at ON24 were very involved and that there was  
8 a monthly call (held both before the IPO and after) called the “sales and client success meeting.”

9           13.     According to FE-1, those monthly meetings lasted around five hours and  
10 everyone from employees of the small business cohort to the executives, including Defendant  
11 Sharan, participated. According to FE-1, there were open discussions during meetings and within  
12 ON24 that the small business cohort did not have good retention rates and that this information  
13 could be seen in Salesforce metrics. In reference to a customer’s expectation for renewal, FE-1  
14 recalled that employees were required to track their clients’ expectation for renewal in Salesforce  
15 in a field labeled “churn” as “low, medium, or high.” According to FE-1, “churn reports” were  
16 produced and were discussed at the monthly meetings that were led by Defendant Sharan where  
17 he would go through every customer to discuss their status on the churn reports. FE-1 added this  
18 included all the customers designated as having a high risk of churn and the reports would often  
19 be color coded green, yellow, orange, and red to signify likelihood of renewal.

20           14.     According to Former Employee 2 (“FE-2”), Defendant Sharan not only misled  
21 investors, but also employees about the sustainability of ON24’s performance. FE-2 explained  
22 that ON24 failed to adequately qualify potential customers, including ensuring they had an  
23 appropriate use case, from the beginning of the pandemic and throughout 2021. FE-2 explained  
24 that churn being indicated as occurring due to the customer citing ON24 as a COVID-19 related  
25 expense was brought up throughout 2020 and that everyone was running into these issues.  
26 According to FE-2, there were instances that he would notice 40-50% churn amongst his  
27 customers. FE-2 explained that churn was occurring in several ways: clients were only using  
28 ON24 as a COVID-19 solution and electing not to renew at all; customers were not renewing

1 one-time purchases (such as an event manager); or customers were electing to down sell and  
2 remove features from their contract. FE-2 stated that this represented a huge downturn.

3 15. FE-2 recalled customers informing him as much as six months in advance, during  
4 both 2020 and 2021, that they were not going to renew their contracts. FE-2 explained that the  
5 concerns regarding churn were explained to Defendant Sharan, and towards the end of 2020,  
6 there was a revision made to Salesforce to include a field to indicate if a customer had indicated  
7 they were engaging ON24 only due to the pandemic as a COVID-19 related expense.

8 16. Former Employee 5 (“FE-5”) recalled that, after a lot of early success, things  
9 really dropped off and demand declined during November/December 2020. FE-5 explained that  
10 market saturation and uncertainty regarding COVID-19 played crucial roles. FE-5 added that  
11 new competition was springing up and offering customers the ability to hold one-off events at  
12 more reasonable prices, and that ON24 began losing potential clients during initial calls. FE-5  
13 agreed that the Company became less particular about its prospective clients as time went on,  
14 whereas previously ON24 had only wanted a particular client profile.

15 17. Then-existing material facts confirmed by the FEs—and other then-existing  
16 material facts that were undisclosed until after the IPO—about ON24’s one-time, event-only, and  
17 SMB customers that planned to either not renew or downsell were omitted from the Offering  
18 Documents and rendered the Offering Documents’ statements materially false and misleading in  
19 context.

20 18. On August 10, 2021, for example, Defendant Sharan claimed that ON24  
21 “experienced higher-than-expected *churn and downsell from customers we signed up in the*  
22 *second quarter of last year* during the peak of COVID. This *higher churn was primarily in the*  
23 *first-time renewal cohort*, customers who signed up 1-year contracts last year and who were up  
24 for renewal.” Defendant Sharan added that “the *lower churn was primarily in the SMB.*”

25 19. Also on August 10, 2021, ON24’s Chief Financial Officer (“CFO”) Defendant  
26 Steven Vattuone (“Vattuone”) admitted:

27 [T]he *share of first-time renewals in Q2 ’21 was outsized*  
28 *accounting for over 60% of the cohort. We saw high churn and*  
*downsell within the first-time renewals cohort, which primarily*  
*included a substantial number of SMB buyers and nonideal*

1                    *customer profile buyers focused on onetime events* who rush to  
2                    find alternative solutions to in-person business, but are normally  
3                    not our primary target audience.

4                    20.        As a result of these undisclosed adverse facts that existed at the time of the IPO,  
5                    ON24 common stock plummeted, falling from the IPO price of \$50.00 per share to close at  
6                    \$18.86 per share on November 3, 2021, the date this Action was filed.

7                    **II.        JURISDICTION AND VENUE**

8                    21.        The claims asserted herein arise under and pursuant to Section 11 and 15 of the  
9                    Securities Act, 15 U.S.C. §§ 77k and 77o.

10                    22.        This Court has jurisdiction over this action pursuant to Section 22 of the  
11                    Securities Act, 15 U.S.C. § 77v, and 28 U.S.C. § 1331.

12                    23.        Venue is properly laid in this District pursuant to Section 22 of the Securities Act  
13                    and 28 U.S.C. § 1391(b), (c), and (d). Many of the acts and transactions that constitute violations  
14                    of law complained of herein, including the dissemination to the public of untrue statements of  
15                    material facts, occurred in this District.

16                    24.        In connection with the acts alleged in this complaint, Defendants, directly or  
17                    indirectly, used the means and instrumentalities of interstate commerce, including, but not  
18                    limited to, the United States mails, interstate telephone communications, and the facilities of  
19                    national securities exchanges.

20                    **III.        PARTIES**

21                    **A.        Lead Plaintiff**

22                    25.        As set forth in the Certification filed in this Action on January 3, 2022 (Dkt. No.  
23                    36), Lead Plaintiff Leadersel Innotech ESG purchased ON24 common stock in the IPO pursuant  
24                    and/or traceable to the Offering Documents. Lead Plaintiff purchased ON24 common stock at a  
25                    time when only shares offered in the IPO were in the market. Lead Plaintiff suffered damages as  
26                    a result of the violations of the federal securities laws alleged herein. On February 3, 2022, the  
27                    Court appointed Leadersel Innotech ESG as Lead Plaintiff in this Action (Dkt. No. 67).  
28

1           **B. Defendants**

2                   **1. Corporate Defendant**

3           26. Defendant ON24 is a Delaware corporation headquartered at 50 Beale Street, 8th  
4 Floor, San Francisco, California 94105. ON24 claims it provides a leading, cloud-based digital  
5 experience platform that enables businesses to convert customer engagement into revenue  
6 through interactive webinars, virtual events, and multimedia content experiences. ON24's stock  
7 is listed under the ticker symbol "ONTF" on the New York Stock Exchange ("NYSE").

8                   **2. The Individual Defendants**

9           27. At the time of the IPO, Defendant Sharat Sharan, a co-founder of the Company,  
10 was ON24's President and CEO and served as a member of ON24's board of directors (the  
11 "Board"). Defendant Sharan sold 147,453 shares of ON24 common stock in the IPO for \$7.4  
12 million.

13           28. At the time of the IPO, Defendant Steven Vattuone was ON24's CFO.

14           29. At time of the IPO, Defendant Irwin Federman ("Federman") was a director on  
15 the Board and a member of the Audit Committee.

16           30. At time of the IPO, Defendant Denise Persson ("Persson") was a director on the  
17 Board.

18           31. At time of the IPO, Defendant Holger Staude ("Staude") was a director on the  
19 Board and a member of the Compensation Committee. At the time of the IPO, Defendant Staude  
20 was also an employee of Underwriter Defendant Goldman Sachs & Co. LLC.

21           32. At time of the IPO, Defendant Dominique Trempont ("Trempont") was a director  
22 on the Board and a member of the Audit Committee and the Compensation Committee.

23           33. At time of the IPO, Defendant Barry Zwarenstein ("Zwarenstein") was a director  
24 on the Board and a member of the Audit Committee and the Compensation Committee.

25           34. Defendants Sharan, Vattuone, Federman, Persson, Staude, Trempont, and  
26 Zwarenstein are collectively referred to herein as the "Individual Defendants."

27           35. Each of the Individual Defendants signed the Registration Statement.

1           36. Each of the Individual Defendants participated in the preparation of the Offering  
2 Documents and in the making of the materially inaccurate, misleading, and incomplete  
3 statements alleged herein. In particular, the Individual Defendants reviewed, edited, and  
4 approved the Offering Documents, participated in the IPO and solicited the purchase of ON24  
5 common stock in the IPO to serve their financial interests and those of ON24.

6           37. The Individual Defendants conducted the roadshow along with the Underwriter  
7 Defendants to solicit the purchase of ON24 common stock in the IPO. The Individual  
8 Defendants each also reviewed, approved, and delivered to investors the IPO's roadshow  
9 presentation, talking points, and script.

10                           **3. The Underwriter Defendants**

11           38. Defendant Goldman Sachs & Co. LLC ("GS&Co.") was an underwriter for the  
12 IPO, serving as a financial advisor for and assisting in the preparation and dissemination of the  
13 materially inaccurate, misleading, and incomplete Offering Documents. Defendant GS&Co. was  
14 allocated 3,145,029 shares in the IPO to sell to the investing public.

15           39. Defendant J.P. Morgan Securities LLC ("JPMorgan") was an underwriter for the  
16 IPO, serving as a financial advisor for and assisting in the preparation and dissemination of the  
17 materially inaccurate, misleading, and incomplete Offering Documents. Defendant JPMorgan  
18 was allocated 2,714,204 shares in the IPO to sell to the investing public.

19           40. Defendant KeyBanc Capital Markets Inc. ("KeyBanc") was an underwriter for the  
20 IPO, serving as a financial advisor for and assisting in the preparation and dissemination of the  
21 materially inaccurate, misleading, and incomplete Offering Documents. Defendant KeyBanc was  
22 allocated 775,487 shares in the IPO to sell to the investing public.

23           41. Defendant Robert W. Baird & Co. Incorporated ("Baird") was an underwriter for  
24 the IPO, serving as a financial advisor for and assisting in the preparation and dissemination of  
25 the materially inaccurate, misleading, and incomplete Offering Documents. Defendant Baird was  
26 allocated 385,242 shares in the IPO to sell to the investing public.

27           42. Defendant Canaccord Genuity LLC ("Canaccord") was an underwriter for the  
28 IPO, serving as a financial advisor for and assisting in the preparation and dissemination of the

1 materially inaccurate, misleading, and incomplete Offering Documents. Defendant Canaccord  
2 was allocated 385,242 shares in the IPO to sell to the investing public.

3 43. Defendant Needham & Company, LLC (“Needham”) was an underwriter for the  
4 IPO, serving as a financial advisor for and assisting in the preparation and dissemination of the  
5 materially inaccurate, misleading, and incomplete Offering Documents. Defendant Needham was  
6 allocated 385,242 shares in the IPO to sell to the investing public.

7 44. Defendant Piper Sandler & Co. (“Piper Sandler”) was an underwriter for the IPO,  
8 serving as a financial advisor for and assisting in the preparation and dissemination of the  
9 materially inaccurate, misleading, and incomplete Offering Documents. Defendant Piper Sandler  
10 was allocated 385,242 shares in the IPO to sell to the investing public.

11 45. Defendant William Blair & Company, L.L.C. (“William Blair”) was an  
12 underwriter for the IPO, serving as a financial advisor for and assisting in the preparation and  
13 dissemination of the materially inaccurate, misleading, and incomplete Offering Documents.  
14 Defendant William Blair was allocated 385,242 shares in the IPO to sell to the investing public.

15 46. Defendants GS&Co., JPMorgan, KeyBanc, Baird, Canaccord, Needham, Piper  
16 Sandler, and William Blair are collectively referred to herein as the “Underwriter Defendants.”  
17 Defendants ON24, the Individual Defendants, and the Underwriter Defendants are collectively  
18 referred to herein as the “Defendants.”

19 47. The Underwriter Defendants are investment banking houses that specialize,  
20 among other things, in underwriting public offerings of securities. The Underwriter Defendants’  
21 participation in and their solicitation of purchases of ON24 common stock in the IPO was  
22 motivated by their financial interests. Collectively, the Underwriter Defendants received over  
23 \$29 million in fees and commissions in connection with their sale of ON24 common stock in the  
24 IPO.

25 48. The Underwriter Defendants determined that in return for their share of the IPO’s  
26 proceeds, they were willing to merchandise ON24 common stock in the IPO. The Underwriter  
27 Defendants worked with the Individual Defendants to prepare and arrange a roadshow prior to  
28

1 the IPO during which they, and the Individual Defendants, met with investors and presented  
2 highly favorable information about the Company, its operations, and its financial prospects.

3 49. The Underwriter Defendants also demanded and obtained an agreement for ON24  
4 that ON24 would indemnify and hold the Underwriter Defendants harmless from any liability  
5 under the federal securities laws. They also made certain that ON24 had purchased millions of  
6 dollars of directors' and officers' liability insurance.

7 50. The Underwriter Defendants assisted ON24 and the Individual Defendants in  
8 planning the IPO, and purportedly conducted an adequate and reasonable investigation into the  
9 business and operations of ON24, an undertaking known as a "due diligence" investigation. The  
10 due diligence investigation was required of the Underwriter Defendants in order to engage in the  
11 IPO. During the course of their "due diligence," the Underwriter Defendants had continual  
12 access to confidential corporate information concerning ON24's operations and financial  
13 prospects.

14 51. In addition to availing themselves of virtually unbridled access to internal  
15 corporate documents, the Underwriter Defendants had access to the Company's lawyers,  
16 management, and directors and top executives (including the Individual Defendants) to  
17 determine: (i) the strategy to best accomplish the IPO; (ii) the terms of the IPO, including the  
18 price at which the Company's common stock would be sold; (iii) the language to be used in the  
19 Offering Documents; (iv) what disclosures about the Company would be made in the Offering  
20 Documents; and (v) what responses would be made to the SEC in connection with its review of  
21 the Offering Documents. As a result of those constant contacts and communications between the  
22 Underwriter Defendants and the Company's lawyers, management, directors, and top executives  
23 (including the Individual Defendants), at a minimum, the Underwriter Defendants were negligent  
24 in not knowing of the materially untrue statements and omissions contained in the Offering  
25 Documents as detailed herein.

26 52. The Underwriter Defendants caused the Offering Documents to be filed with the  
27 SEC and to be declared effective in connection with offers and sales of the Company's common  
28

1 stock pursuant and/or traceable to the IPO and the Offering Documents, including to Lead  
2 Plaintiff and the Class.

3 **IV. SUBSTANTIVE ALLEGATIONS**

4 **A. ON24 and its Business**

5 53. ON24’s self-professed “mission” is to “transform the way businesses drive  
6 revenue and customer engagement through data-rich digital experiences.” Founded in 1998 and  
7 led by co-founder and CEO Sharat Sharan, ON24 serves B2B company customers by providing a  
8 cloud-based digital experience platform for interactive webinars, virtual events, and multimedia  
9 content experiences, either live or on-demand. The platform prioritizes two-way engagement  
10 between businesses and their customers by turning end-user data into buying signals and  
11 behavioral insights that enable businesses to convert customer engagement into revenue.

12 54. ON24 offers four “Experience” products: (1) ON24 Elite, a live, interactive  
13 webinar that engages prospective customers in real-time and on-demand; (2) ON24 Virtual  
14 Environment, a live, large scale virtual event experience that engages prospective customers in  
15 real-time and on-demand; (3) ON24 Engagement Hub, an always-on, multimedia content  
16 experience that engages specific prospective customer segments; and (4) ON24 Target, a curated,  
17 multimedia content experience that engages specific prospective customer segments to drive a  
18 desired action.

19 55. ON24’s Experience products are “backed” by two enhanced functionality  
20 solutions: (1) ON24 Intelligence, an analytics tool that captures first-person data to power the  
21 artificial intelligence/machine learning, or AI/ML, engine within ON24’s platform; and  
22 (2) ON24 Connect, an ecosystem of third-party application integrations.

23 56. ON24 derives revenue and cash flow from sales of subscriptions to its products.  
24 As a subscription-based Company, ON24 depends on its ability to attract new customers and  
25 maintain and expand relationships with existing customers, including by expanding customer  
26 usage by “upselling” additional solutions. In order to grow its business, ON24 must continually  
27 secure new customers and renew or upsell existing customers.  
28

1 57. The terms of ON24 subscription agreements are primarily annual and the  
2 Company bills clients for the full term in advance on an annual or monthly basis.

3 58. Although ON24 used to facilitate one-off digital conferences, the Company de-  
4 emphasized this legacy revenue over the past decade and now focuses on “stickier,” recurring  
5 platform revenue.

### 6 B. ON24’s Pre-IPO Growth

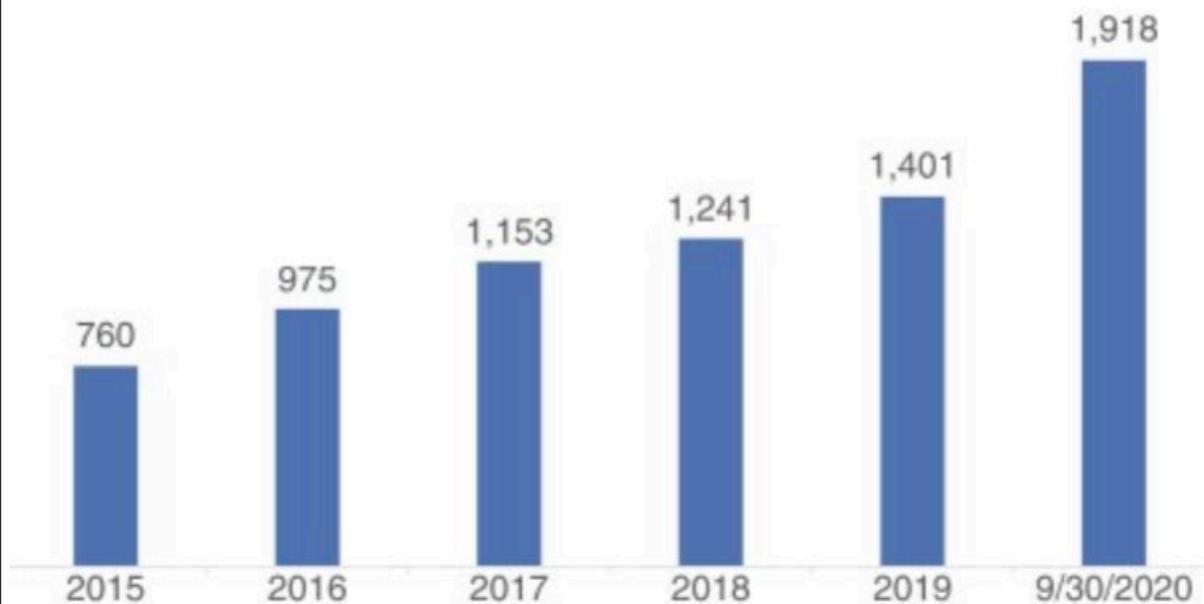
7 59. ON24 proudly touted to investors that due to the changes in how businesses were  
8 operating more digitally in response to the COVID-19 pandemic, the Company had experienced  
9 explosive growth in the new, more digital world.

10 60. For example, for the nine months ended September 30, 2020, the Company’s  
11 revenue increased by 59% as compared to the nine months ended September 30, 2019:

	<u>Year Ended December 31,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>
	(unaudited)			
	(in thousands, except share and per share data)			
<b>Consolidated Statements of Operations Data:</b>				
Revenue:				
Subscription and other platform	\$ 66,079	\$ 72,589	\$ 53,368	\$ 81,379
Professional services	16,529	16,544	11,825	22,276
Total revenue	82,608	89,133	65,193	103,655
Cost of revenue:				
Subscription and other platform(1)	14,232	16,730	12,571	14,405
Professional services(1)	10,689	10,411	7,666	8,883
Total cost of revenue	24,921	27,141	20,237	23,288
Gross profit	57,687	61,992	44,956	80,367
Operating expenses:				
Sales and marketing(1)	46,980	47,773	35,460	40,495
Research and development(1)	14,343	15,730	11,660	13,272
General and administrative(1)	13,299	14,590	10,928	14,370
Other gains from operations	(850)	—	—	—
Total operating expenses	73,772	78,093	58,048	68,137
Income (loss) from operations	(16,085)	(16,101)	(13,092)	12,230
Interest expense, net	1,052	1,029	799	633
Other expense, net	256	42	134	226
Income (loss) before provision for income taxes	(17,393)	(17,172)	(14,025)	11,371
Provision for income taxes	198	355	44	123
Net income (loss)	\$ (17,591)	\$ (17,527)	\$ (14,069)	\$ 11,248
Change in Class B-1 preferred stock redemption value	—	(10,047)	(7,547)	—

23 61. Importantly, ON24 highlighted how “key business metrics” such as the number of  
24 customers grew because of purported “[i]ncreasing awareness” of ON24’s platform and  
25 offerings. In particular, the Company’s customer base grew from 760 customers as of December  
26 31, 2015 to over 1,900 customers as of September 30, 2020:

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28



62. According to ON24, at the time of IPO, the Company was “focused on continuing to grow the number of customers that use [its] platform[,]” and “[d]espite [its] strong growth to date,” ON24’s “market [was] still relatively underpenetrated” and there was “significant opportunity to attract many more customers across industries, market segments and regions.”

63. Annual recurring revenue (“ARR”)—which is driven by ON24’s ability to acquire new subscription customers and to maintain and expand its relationship with existing subscription customers—similarly exploded prior to the IPO growing from \$61.2 million as of December 31, 2018, to \$138.9 as of September 30, 2020:

	December 31,		September 30,	
	2018	2019	2019	2020
	(dollars in thousands)			
Customers	1,241	1,401	1,342	1,918
ARR	\$61,249	\$76,852	\$69,997	\$138,872
NRR	107%	108%	106%	147%
\$100k Customers	116	144	129	271

64. As noted in these figures, the Company also reported massive growth in its net retention rate (“NRR”)—which reflects ON24’s ability to retain and organically grow revenue from existing customers.

1           65.     Moreover, ON24 told investors that at the time of the IPO it believed it could  
2 “achieve significant organic growth by expanding penetration of [its] existing customer base.”

3           66.     Finally, ON24 told investors that this growth was “partly in response to the  
4 COVID-19 pandemic.” This partial candor aside, Defendants omitted to disclose and  
5 misrepresented, as further alleged below, that material adverse events, trends, and risks had  
6 already developed at the time of the IPO that were putting ON24’s growth story to an end.

7           **C.     ON24 Conducts the IPO**

8           67.     On or about February 3, 2021, ON24 conducted its IPO, in which it sold  
9 8,560,930 shares of common stock to the public. The IPO, which was priced at \$50 per share,  
10 generated over \$428 million in gross proceeds for ON24 and the selling stockholders, while the  
11 Underwriter Defendants collected over \$29 million in fees.

12           68.     The Underwriter Defendants also had an overallotment option to purchase up to  
13 an additional 1,284,139 shares of common stock from ON24 at the \$50 per share IPO price,  
14 which, if exercised in full, would raise over \$64 million in additional gross proceeds for ON24  
15 and generate over \$4.4 million in additional fees for the Underwriter Defendants.

16           69.     The IPO was conducted pursuant to, and the sale of ON24 stock was solicited by,  
17 several documents that were filed by ON24 and the Underwriter Defendants with the SEC and  
18 disseminated to the investing public, including (i) an January 8, 2021 registration statement on  
19 Form S-1, which following amendment on January 25, 2021, was declared effective by the SEC  
20 on February 2, 2021 (the “Registration Statement”), and (ii) a February 4, 2021 final prospectus,  
21 which forms part of the Registration Statement, on Form 424(b)(4) (the “Prospectus” and,  
22 together with the Registration Statement, the “Offering Documents”).

23           70.     The Prospectus states that investors “should rely only on the information  
24 contained in this prospectus and any free writing prospectus that we may provide to you in  
25 connection with this offering.”

26           71.     The Prospectus also states: “You should not assume that the information  
27 contained in this prospectus is accurate as of any date other than its date. Our business, financial  
28 condition, results of operations and prospects may have changed since that date.”

1           **D. Defendants' Materially False and Misleading Offering Documents**

2                   **1. Former ON24 Employees Substantiate the Allegations that the**  
3                   **Offering Documents Were Materially False and Misleading**

4           72. Five former ON24 employees (FEs) cited herein substantiate the allegations.<sup>2</sup>

5           73. For example, the Offering Documents misleadingly touted ON24's customer base  
6 of over 1,900 highly engaged and loyal customers as of September 30, 2020. The Offering  
7 Documents also misleadingly claimed that ON24's competitive strengths include a growing base  
8 of customers across verticals, and that ON24 intended to leverage its land and expand model to  
9 further penetrate customers across these verticals.

10           74. The Offering Documents further misleadingly claimed that ON24's annual  
11 recurring revenue or ARR reflects its success in acquiring new customers and expanding  
12 subscriptions within existing customers.

13           75. Several other statements in the Offering Documents were rendered false and  
14 misleading by the omission of undisclosed adverse facts and trends detailed by the former ON24  
15 employees.

16           76. In addition, the Offering Documents purported to warn of certain risks—*e.g.*,  
17 ON24's growth and ability to retain, expand the usage of, or upsell existing customers, as well as  
18 ON24's customers' ability or willingness to purchase or renew subscriptions and COVID-19's  
19 effects on customer demand—that, unbeknownst to investors, had already materialized.

20           77. As discussed by the former ON24 employees below, ON24 signed up new  
21 customers for 1-year contracts during Q2 2020, Q3 2020, and Q4 2020 that planned to either not  
22 renew or downsell. Of those 1-year customers, a larger-than-typical percentage were SMB  
23 customers and nonideal customer profile buyers focused on one-time events, and many were  
24 one-time use cases that did not integrate ON24's platform in their sales and marketing  
25 ecosystem. These customers planned to either not renew or downsell.

26  
27  
28           <sup>2</sup> Lead Plaintiff believes that the details of the FEs' identities contained herein are sufficient to satisfy the pleading requirements of Rule 8 of the Federal Rules of Civil Procedure. Lead Plaintiff can provide additional information to the Court through an *in camera* submission.

1 (a) Former Employee 1

2 78. Former Employee 1 or FE-1 was an ON24 account executive from January 2019  
3 through September 2021. FE-1's responsibilities included handling enterprise sales and accounts.

4 79. In reference to ON24's business during COVID, FE-1 recalled that the Company  
5 knew a lot of the COVID business was not going to stick including their enterprise business.

6 80. FE-1 recalled that ON24 used at least three different systems to track sales,  
7 clients, and other information including Salesforce, Forrester, and Gartner. He added that  
8 Totango was used to track outreach, contacts to clients, and every interaction with clients. FE-1  
9 advised that Totango showed how long it had been since ON24 last heard from a client.

10 81. FE-1 went on to clarify that he was not sure if Gartner was still in use and that  
11 Salesforce, Forrester, and Totango were more prevalently used during his tenure. FE-1 explained  
12 that these systems were used to track all meetings with and notes about clients and that all entries  
13 made by a customer success manager ("CSM") would be time stamped in the system.

14 82. FE-1 recounted how he regularly sent updates to C-level employees via email,  
15 including Defendant Sharan, and that the same was required for the small business cohort.

16 83. FE-1 explained that there were always monthly calls with Defendant Sharan and  
17 other C-level employees to discuss clients, including churn risk and potential for expansion.  
18 According to FE-1, all updates went through the directors and above.

19 84. FE-1 recounted that weekly meetings were held with his supervisor to discuss  
20 accounts and that the same thing was required of the small business cohorts. He went on to  
21 recount that the C-suite employees at ON24 were very involved and that there was a monthly call  
22 (held both before the IPO and after) called the "sales and client success meeting." According to  
23 FE-1, those monthly meetings lasted around five hours and everyone from employees of the  
24 small business cohort to the executives, including Defendant Sharan, participated.

25 85. At these meetings, employees discussed every customer, what was going well and  
26 what was not, which clients were likely going to renew, and which were not. According to FE-1,  
27 these meetings typically took place during the first or second week of every month. FE-1 recalled  
28 that ON24 skipped the meetings in February and March of 2021 but that he was still required to

1 give account details to C-level employees via email. He went on to recall that the monthly  
2 meetings started back up in April 2021.

3 86. According to FE-1, there were open discussions during meetings and within the  
4 Company that the small business cohort did not have good retention rates and that this  
5 information could be seen in Salesforce metrics. He added that employees knew when clients  
6 would be signing up and going away.

7 87. FE-1 explained that every time an employee met with a client upcoming renewals  
8 were discussed, and employees were required to put a note in Salesforce regarding that  
9 conversation and update their superior as well.

10 88. FE-1 recalled that during the COVID-19 pandemic, ON24 signed anybody and  
11 everybody up regardless of if they were considered to be a good customer for the Company. FE-  
12 1 explained that a “good customer” was measured by the Company as (1) having multiple  
13 products within their business and (2) fully integrated or having internal customer relationship  
14 management (“CRM”) or large integration programs like Oracle to handle the data.

15 89. FE-1 explained that during the COVID-19 pandemic whoever wanted a contract  
16 got one, whereas before the Company wanted customers that would sign on for three of ON24’s  
17 four or five product offerings.

18 90. FE-1 explained that during this period a lot of eventual clients were scrambling to  
19 put on conferences or events. According to FE-1, ON24 was historically interested in customers  
20 who would use ON24’s platform for meetings with investors, marketing meetings, or large  
21 internal meetings, whereas the new COVID-19 related customers were looking to buy maybe  
22 five to ten events.

23 91. According to FE-1, ON24 had never serviced these customers before and that  
24 previously they were looking for a greater degree of integration with ON24’s products. When  
25 asked if the Company had shifted towards event only clients during the pandemic, FE-1  
26 described the shift towards event only customers as 100% accurate.

27 92. In reference to a customer’s expectation for renewal, FE-1 recalled that  
28 employees were required to track their clients’ expectation for renewal in Salesforce in a field

1 labeled “churn” as “low, medium, or high.” He added that the client success team regularly  
2 tracked this field in Salesforce.

3 93. FE-1 explained that the Customer Success team would be present on all client  
4 calls and were responsible for updating Totango, which served as their Salesforce equivalent.  
5 FE-1 added that all managers through C-level employees had access to these systems.

6 94. According to FE-1, “churn reports” were produced and were discussed at the  
7 monthly meetings that were led by Defendant Sharan where he would go through every customer  
8 to discuss their status on the churn reports. FE-1 added this included all the customers designated  
9 as having a high risk of churn and the reports would often be color coded green, yellow, orange,  
10 and red to signify likelihood of renewal. According to FE-1, executives received this report  
11 regularly.

12 **(b) Former Employee 2**

13 95. Former Employee 2 or FE-2 worked in sales at ON24 before and after the IPO.

14 96. According to FE-2, the churn of customers who signed on during the pandemic  
15 was a concern from an account management perspective, but Defendant Sharan was only  
16 concerned with revenue. FE-2 stated that ON24 was signing on everyone and did not care about  
17 their potential use cases.

18 97. FE-2 explained that ON24 was intended to be used as a marketing tool, not an  
19 internal use product, which is what many customers were intending to use it for. FE-2 stated that  
20 ON24 signed on customers that only intended to use the product for a single event as well. FE-2  
21 recalls these concerns being escalated to management, but not addressed.

22 98. According to FE-2, Defendant Sharan not only misled investors, but also  
23 employees about the sustainability of ON24’s performance. FE-2 recalled that ON24’s success  
24 was characterized as a success in itself and not something dependent on the circumstances of the  
25 pandemic. FE-2 explained that this materialized in the form of increased quotas in winter 2020 in  
26 the lead up of the IPO. According to FE-2, the increase in quotas were instituted despite a  
27 dramatic decline in demand once lockdown restrictions had begun to relax.

28

1           99.     According to FE-2, customer success managers or CSMs would attempt to track  
2 the reason behind why customers signed on to determine if they were COVID-19 related  
3 customers. FE-2 explained that when CSMs would go to account executives for clarification,  
4 they would be told that the account executives were being told to just sell and did not have time  
5 to qualify customers. FE-2 explained that ON24 failed to adequately qualify potential customers,  
6 including ensuring they had an appropriate use case, from the beginning of the pandemic and  
7 throughout 2021.

8           100.   FE-2 explained that churn being indicated as occurring due to the customer citing  
9 ON24 as a COVID-19 related expense was brought up throughout 2020 and that everyone was  
10 running into these issues. According to FE-2, there were instances that he would notice 40-50%  
11 churn amongst his customers.

12           101.   FE-2 explained that churn was occurring in several ways: clients were only using  
13 ON24 as a COVID-19 solution and electing not to renew at all; customers were not renewing  
14 one-time purchases (such as an event manager); or customers were electing to down sell and  
15 remove features from their contract. FE-2 stated that this represented a huge downturn.

16           102.   FE-2 recalled customers informing him as much as six months in advance, during  
17 both 2020 and 2021, that they were not going to renew their contracts. According to FE-2, staff  
18 were given strict instructions not to check churn, referring to a specific field in Totango, for these  
19 customers and instead indicate that they had informed ON24 that they would not renew in the  
20 notes section. FE-2 explained that the notes section could not be aggregated in a report to show  
21 the true numbers of customers that were going to churn and that the notes field was not tracked.

22           103.   FE-2 explained that the concerns regarding churn were explained to Defendant  
23 Sharan, and towards the end of 2020, there was a revision made to Salesforce to include a field to  
24 indicate if a customer had indicated they were engaging ON24 only due to the pandemic as a  
25 COVID-19 related expense. FE-2 recalled staff being told to retroactively go back through  
26 accounts to indicate if this was the case, in order to better assess which customers would likely  
27 churn.

28

1                                   **(c) Former Employee 3**

2           104. Former Employee 3 or FE-3 was an ON24 account executive from March 2019  
3 through April 2021. FE-3 was responsible for selling ON24 products to small business and mid-  
4 market companies.

5           105. In reference to ON24 tracking customer information, FE-3 advised that ON24  
6 tracked information through Salesforce including customer purchases, renewals, customers that  
7 were active, and customers that were dormant. When asked whether ON24 would have known  
8 that the small business customers who purchased single event or one-year subscriptions would  
9 not have renewed their services with ON24, FE-3 replied that they would have.

10           106. FE-3 also added that the Company was already aware there was high churn  
11 amongst the SMB customers prior to the pandemic, but the pandemic amplified things. FE-3  
12 explained that the Company had instituted special, lower commission rates that were applied to  
13 accounts where the customer was interested in a one-time purchase and was not expected to  
14 renew. According to FE-3, these lower commission rates for one-time purchasers confirmed that  
15 the Company knew which customers fell into that category.

16           107. According to FE-3, there was a lot of new business in the first few months of the  
17 pandemic, which then leveled out shortly before and after the Company's IPO.

18           108. When asked whether ON24's annual recurring revenue or ARR computation has a  
19 churn element or consideration for existing customers, FE-3 replied that it does not.

20                                   **(d) Former Employee 4**

21           109. Former Employee 4 or FE-4 worked at ON24 from July 2020 through July 2021  
22 as a sales development representative ("SDR") for the enterprise team and, after the IPO, for the  
23 higher education business segment team.

24           110. According to FE-4, during his first several months at ON24, business was doing  
25 extremely well on the back of the first wave of COVID-19. FE-4 explained that customers were  
26 coming directly to ON24, which was unheard of in sales, and the quotas established by the  
27 Company were obtainable during these initial months.

28

1           111. FE-4 recalled customers needing quick solutions during this period and willing to  
2 try new services, like ON24.

3           112. FE-4 stated that during this period account executives were selective in taking  
4 meetings with prospective clients and were only interested in meeting with companies identified  
5 as being good potential customers. He explained that when detailing “opportunities,” it was  
6 necessary to provide very detailed notes to the account executives describing the customer’s  
7 interest. FE-4 added that notes taken when assessing opportunities were important in the  
8 beginning of his tenure, but progressively became less crucial over time as account executives  
9 became less selective about who they took meetings with.

10           113. FE-4 explained that it got to the point where account executives would tell him,  
11 “Look we just need meetings” to attempt to meet quotas in the face of increased pressure and  
12 declining demand.

13           114. According to FE-4, enterprise level clients were described as having over \$500  
14 million in revenue and over 1,000 employees. FE-4 recalled that over time ON24 was taking  
15 meetings with prospective clients that were simply not an enterprise level opportunity, like the  
16 City of Portsmouth or small Christian universities. FE-4 explained that ON24 did have major  
17 clients like Deloitte, but he added that outside of these large and established clients, others were  
18 not interested in renewing their subscriptions.

19           115. According to FE-4, there were customers who only wanted to utilize ON24 for a  
20 single event: “quick fix” customers who would still require a one-year subscription. FE-4  
21 explained that during the summer and early fall 2020, account executives were not interested in  
22 speaking with these potential customers.

23           116. According to FE-4, things began to change in November 2020 when additional  
24 pressure was being placed on account executives and all the employees overall. FE-4 explained  
25 that it was around this time that account executives became willing to take meetings with  
26 prospective clients that were interested in using ON24 for “event only” purposes, which did not  
27 signify an ideal customer.

28

1           117. FE-4 explained that qualified and unqualified often came down to the way the  
2 potential customer planned to use ON24's product and their size. According to FE-4, qualified  
3 customers met certain benchmarks, including revenue and number of employees. FE-4 stated that  
4 qualified customers were not single event customers; they were going to maybe use the product  
5 for a few flagship events at the least.

6           118. FE-4 explained that unqualified customers were too small in regard to revenue  
7 and employee figures or were interested only in using the products for single events. According  
8 to FE-4, he was responsible for determining which prospective clients would advance to a  
9 meeting with an account executive.

10           119. FE-4 explained that as time went on and demand decreased that he was more  
11 likely to pass on unqualified potential customers to an account executive. FE-4 added that there  
12 were times where smaller inbound clients would present themselves, and early on his tenure  
13 these would be deemed unqualified, but account executives took meetings with these clients as  
14 time went on.

15           120. FE-4 described how customers would signal to him that they were interested in  
16 trying ON24 for one event and reluctantly signing on for the one-year subscription in order to do  
17 this. FE-4 explained that some customers had previously established multi-year deals with Zoom  
18 at the time and did not want a long-term commitment to ON24 as well. FE-4 explained that  
19 ON24 did have an integration with Zoom, which was a selling point for clients especially if they  
20 only wanted a one-year subscription. FE-4 described how ON24's Zoom integration made it  
21 worth it for these clients, a lot of whom already had Zoom.

22           121. FE-4 recalled a lot of notes and memos going around in November/December or  
23 early winter 2020 hinting that the Company would be going public soon and with that came the  
24 additional pressure on staff. FE-4 explained that this pressure continued after the IPO. FE-4  
25 explained that from his perspective there was increased pressure for him to set meetings, while  
26 account executives were pressured to sign clients, noting that overall the whole sales team was  
27 feeling the pressure. According to FE-4, the Company expected more from the sales team despite  
28 the declining demand, failing to adjust to the changes from the beginning of the pandemic.

1 (e) Former Employee 5

2 122. Former Employee 5 or FE-5 was an ON24 sales development representative or  
3 SDR from August 2020 through July 2021. FE-5's responsibilities included handling new  
4 business opportunities for mid-market clients, which involved engaging potential customers and  
5 setting up meetings with account executives.

6 123. According to FE-5, demand was very high during the Spring, Summer, and Fall of  
7 2020, so account executives were more selective with what potential customers they took  
8 meetings with. FE-5 recalled that during that timeframe, he was exceeding his quotas and even  
9 exceeding the more difficult quotas that were implemented thereafter.

10 124. FE-5 explained that in the beginning there were other companies coming in at a  
11 similar price point to ON24, so that did not become an issue until later on. According to FE-5,  
12 customers were not using the platform as a replacement for their internal systems, such as  
13 Microsoft Teams, and that ON24 was primarily used for marketing purposes through webinars or  
14 large company all-hands type of events.

15 125. FE-5 recalled that, after a lot of early success, things really dropped off and  
16 demand declined during November/December 2020. FE-5 explained that market saturation and  
17 uncertainty regarding COVID-19 played crucial roles. FE-5 added that new competition was  
18 springing up and offering customers the ability to hold one-off events at more reasonable prices,  
19 and that ON24 began losing potential clients during initial calls.

20 126. FE-5 clarified that the drop-off occurred towards the end of 2020 and customer  
21 interest continued at the turn of the year. FE-5 explained that ON24 became interested in  
22 pursuing a hybrid model to cater to potential clients interested in one-time events, and there were  
23 discussions around the possibility of a less strict subscription model. FE-5 agreed that the  
24 Company became less particular about its prospective clients as time went on, whereas  
25 previously ON24 had only wanted a particular client profile.

26 127. According to FE-5, prior to his employment with the Company, SDRs were  
27 focused on large enterprise clients exclusively, and when he joined in August 2020, he was  
28 placed on a new team that focused on small and mid-market clients. FE-5 explained that he was

1 instructed to target tech companies in the software as a service (“SaaS”) space because these  
2 customers were likely to have the necessary resources available to them to afford ON24.

3 128. FE-5 explained that over time the focus on tech companies lessened and any  
4 prospective client with a suitable “use case” was considered even if it appeared they would have  
5 less money available for ON24’s products. FE-5 recalled that the instruction was to get clients in  
6 the door, regardless of if they satisfied ON24’s previously particular prospective customer  
7 profile.

8 129. FE-5 recalled a shift from inbound to outbound customers, and as 2020 turned to  
9 2021, customers were more interested in “one-off” events. According to FE-5, these prospective  
10 clients would express that they did not have the capital that made sense for a subscription like  
11 ON24 or they simply did not have a use for a platform such as ON24 any longer. FE-5 added that  
12 meetings with clients deemed “event only” were taken on more and more as time went on.

13 130. According to FE-5, Webex, Zoom, and later Hopin, served as ON24’s primary  
14 competition. FE-5 explained that price became the number one objection by customers as time  
15 went on. FE-5 added that customers would speak positively about the platform, but ultimately  
16 decline to advance the process due to the one-year commitment and the considerable price  
17 compared to competitors.

18 131. FE-5 clarified that when he initially joined ON24, BrightTALK was essentially  
19 ON24’s only competitor. FE-5 explained that BrightTALK had a similar platform at a similar  
20 price point and at this time Zoom did not yet offer measurements for engagement metrics.

21 132. According to FE-5, the competition shift occurred with the shift towards an  
22 increased desire for one-off events. FE-5 explained that once this occurred, Zoom and Hopin  
23 became greater competitors. FE-5 explained that Hopin’s price was based on number of  
24 registrants, which was much more attractive for smaller customers, like those that he dealt with.  
25 FE-5 recalled that as a member of Commercial Acquisition I, his focus was on prospective  
26 customers that had between 25 and 200 employees.

27 133. FE-5 recalled Hopin becoming a real issue for ON24 later in 2020, which  
28 continued in 2021, as Hopin had become the Company’s biggest competition. According to FE-

1 5, Hopin was a cheaper alternative and customers were drawn to its transparent pricing model.  
2 FE-5 explained that Hopin was available for one-off events and did not have the same contract  
3 requirements as ON24.

4 134. FE-5 clarified that that Hopin's prominence rose in 2021, the same time that  
5 things began opening up regarding COVID-19 restrictions, and customers had a greater interest  
6 in hosting cheap one-time events.

7 135. FE-5 added that it was his understanding that ON24 was exploring altering their  
8 product suite to cater to one-off events at a more reasonable price point in late 2020, but he is not  
9 sure what the status of that possibility ended up being.

10 136. According to FE-5, there was a big shift towards hybrid style events, which SDRs  
11 began pitching to customers. FE-5 explained that companies were optimistic about hosting in-  
12 person events in 2021 and as a result expressed uncertainty regarding their willingness to commit  
13 to a one-year subscription. FE-5 continued to say that the hybrid model, which would allow for  
14 in-person events to be accessible to those who could not attend, was a selling point SDRs used to  
15 try to convince prospective clients of ON24's value.

16 137. FE-5 recalled a shift around the time of the IPO in February 2021 and noted that  
17 the shift to new quotas for sales staff were announced in either March or April. According to FE-  
18 5, when demand began to drop off the sales staff pushed a lot harder, including more dials and  
19 contact increased in late 2020. FE-5 explained that the new quotas were announced without  
20 warning and included an increase of 40-45%.

21 138. FE-5 explained that the shift was pretty much centered around the IPO and that it  
22 was made clear that ON24 going public and its numbers being public as a result contributed to  
23 messaging for sales staff to push. According to FE-5, the pressure to increase output did not  
24 appear to be coming from sales managers, but instead from the top.

25 139. According to FE-5, quotas and key performance indicators ("KPIs") increased for  
26 SDRs and account executives, and it was his understanding that Defendant Sharan had a hand in  
27 determining these new benchmarks. Through conversations with account executives, FE-5  
28 recalled that it was not just the SDR team whose quotas went up, but also account executives.

1           140. According to FE-5, Defendant Sharan was tuned in to what was going on with the  
2 sales team and was closely monitoring their performance. FE-5 explained that Defendant Sharan  
3 played a role in the establishment of the new quotas, noting that it was Defendant Sharan and  
4 other executives pushing the sales directors who then pushed the account executives to increase  
5 numbers. FE-5 added that he was told that Defendant Sharan oversaw everything.

6           141. FE-5 explained that in speaking with account executives, it was his understanding  
7 that Defendant Sharan was a micro-manager and was hands on with the account executives. For  
8 example, FE-5 explained that when contracts were going through, it would have to go through  
9 Defendant Sharan and not just the account executives. FE-5 explained that it appeared that the  
10 executive team as a whole was closely involved with monitoring the performance of the sales  
11 team. FE-5 added that you could see that every decision, from every team, came from Defendant  
12 Sharan and that Defendant Sharan wanted control of every aspect of every department.

13           142. According to FE-5, customers became reluctant over signing one-year deals as  
14 time went on, especially in his segment. FE-5 noted that early on customers were somewhat  
15 experimenting to see if a platform like ON24 could add value to their business. FE-5 explained  
16 that, over time, clients realized ON24 did not add enough to their bottom line to justify the cost  
17 of the subscription. FE-5 stated that customers either removed this aspect from their businesses  
18 all together or elected to go with a cheaper alternative.

19           143. FE-5 recalled conversations with account executives where it became apparent  
20 that Defendant Sharan was aware when inbound opportunities slowed down. FE-5 stated that in  
21 response, the SDRs had to go to an outbound approach, which was seen by all the account  
22 executives from the meetings booked by the SDR team. According to FE-5, when account  
23 executives saw what was happening regarding demand, they went to the SDRs, who informed  
24 them that opportunities were no longer coming in like they were previously. FE-5 explained that  
25 this information made its way up the chain of command.

26  
27  
28

1                   **2. The Offering Documents Contained Materially False and Misleading**  
 2                   **Statements About ON24's Customers and Financial Condition**

3                   144. The Offering Documents misleadingly touted ON24's customer base of over  
 4 1,900 highly engaged and loyal customers as of September 30, 2020. The Offering Documents  
 5 stated, in pertinent part, as follows:

6                   *As of September 30, 2020, we had over 1,900 customers* in more  
 7 than 40 countries, including three of the five largest global  
 8 technology companies, four of the five largest U.S. banks, three of  
 9 the five largest global healthcare companies and three of the five  
 10 largest global industrial and manufacturing companies, in each  
 11 case measured by 2019 revenue. No single customer contributed  
 more than 5% of our total revenue for the year ended December  
 31, 2019 or for the nine months ended September 30, 2020. *We*  
*have a highly engaged and loyal customer base that has allowed*  
*us to grow our revenue with them over time*, and achieve an NRR  
 of 147% as of September 30, 2020. Our NRR was 107% and 108%  
 as of December 31, 2018 and December 31, 2019, respectively.

12                   145. The Offering Documents misleadingly claimed that ON24's competitive strengths  
 13 include a growing base of customers across verticals, including 1,900 customers as of September  
 14 30, 2020, and that ON24 intended to leverage its land and expand model to further penetrate  
 15 customers across these verticals. The Offering Documents stated, in pertinent part, as follows:

16                   *Growing base of customers across verticals. We have a large and*  
 17 *diverse set of customers across a broad set of industries. We have*  
 18 *grown our customer base from approximately 760 customers as*  
 19 *of December 31, 2015 to over 1,900 customers in more than 40*  
 20 *countries as of September 30, 2020*, including three of the five  
 21 largest global technology companies, four of the five largest U.S.  
 banks, three of the five largest global healthcare companies and  
 three of the five largest global industrial manufacturing companies,  
 in each case measured by 2019 revenue. *We intend to leverage our*  
*land and expand model to further penetrate customers across*  
*these verticals.*

22                   146. The Offering Documents misleadingly claimed that ON24's annual recurring  
 23 revenue or ARR reflects its success in acquiring new customers and expanding subscriptions  
 24 within existing customers. The Offering Documents stated, in pertinent part, as follows:

25                   Key Factors Affecting Our Performance

26                   \* \* \*

27                   Annual Recurring Revenue

28                   We believe that ARR is a key metric to measure our business  
 because it is driven by our ability to acquire new subscription

1 customers and to maintain and expand our relationship with  
 2 existing subscription customers. ARR is calculated as the sum of  
 3 the annualized value of our subscription contracts as of the  
 4 measurement date, including existing customers with expired  
 5 contracts that we expect to be renewed. Our ARR amounts exclude  
 6 professional services, overages from subscription customers and  
 7 Legacy revenue. Our ARR was \$61.2 million as of December 31,  
 8 2018, \$63.6 million as of March 31, 2019, \$67.2 million as of June  
 9 30, 2019, \$70.0 million as of September 30, 2019, \$76.9 million as  
 10 of December 31, 2019, \$85.9 million as of March 31, 2020, \$114.2  
 11 million as of June 30, 2020, and \$138.9 million as of September  
 12 30, 2020. ***Our consistent ARR growth each quarter reflects our  
 13 success in acquiring new customers and expanding subscriptions  
 14 with existing customers, which was occurring prior to the  
 15 COVID-19 pandemic and has accelerated in 2020 partly in  
 16 response to the COVID-19 pandemic.***

17 147. The statements referenced above in ¶¶144-146 were each materially false and  
 18 misleading statements of material fact when made because they failed to disclose and  
 19 misrepresented the following significant, then-existing material events, trends, and uncertainties  
 20 that ON24 had already been facing at the time of the IPO:

- 21 (a) ON24 signed up new customers for 1-year contracts during the second,  
 22 third, and fourth quarters of 2020 that planned to either not renew or downsell;
- 23 (b) Of these new, 1-year customers that ON24 signed up during the second,  
 24 third, and fourth quarters of 2020, a larger-than-typical percentage were SMB customers and  
 25 nonideal customers focused on using ON24’s platform for one-time events that did not integrate  
 26 ON24’s platform into their sales and marketing ecosystems because they planned to either not  
 27 renew or downsell;
- 28 (c) Prior to the IPO, ON24 relaxed the qualification criteria to sign up new  
 customers and shifted to signing up one-time, event-only customers that saw ON24 as a COVID-  
 19 related expense, regardless of whether the customer had an appropriate use case or would be  
 “sticky” customers generating recurring revenue;
- (d) During both 2020 and 2021, customers informed ON24 employees as  
 much as six months in advance that they were not going to renew their contracts;
- (e) Before the COVID-19 pandemic, ON24 was already aware that there was  
 high churn amongst SMB customers, and the pandemic amplified this high churn;

1 (f) Customer churn manifested prior to the IPO in several ways: customers  
2 only using ON24 as a COVID-19 solution and electing not to renew; customers such as event  
3 managers not renewing one-time purchases; and customers electing to downsell and remove  
4 features from their contract;

5 (g) Prior to the IPO the facts that ON24's small business customers were not  
6 renewing, were choosing to downsell, and did not have good retention rates were discussed at  
7 monthly "sales and client success" meetings, and customer churn was reflected in churn reports  
8 and email updates and recorded with Salesforce, Forrester, Gartner, and Totango;

9 (h) Customer demand declined during November and December 2020; and

10 (i) Given declining demand and the magnitude of new, 1-year customers that  
11 ON24 signed up during the second, third, and fourth quarters of 2020 that were either not  
12 renewing or were going to downsell, ON24 already faced material customer churn and  
13 downselling at the time of the IPO, as well as inevitable weaker revenues, operating losses, and  
14 losses per share in 2021.

15 **3. The Offering Documents Contained Material Omissions About**  
16 **ON24's Customers and Financial Condition**

17 148. The Offering Documents were also materially false and misleading in context  
18 because they omitted the following material adverse facts, material adverse trends, material  
19 uncertainties, or significant risks that existed at the time of the IPO, including:

20 (a) ON24 signed up new customers for 1-year contracts during the second,  
21 third, and fourth quarters of 2020 that planned to either not renew or downsell;

22 (b) Of these new, 1-year customers that ON24 signed up during the second,  
23 third, and fourth quarters of 2020, a larger-than-typical percentage were SMB customers and  
24 nonideal customers focused on using ON24's platform for one-time events that did not integrate  
25 ON24's platform into their sales and marketing ecosystems because they planned to either not  
26 renew or downsell;

27 (c) Prior to the IPO, ON24 relaxed the qualification criteria to sign up new  
28 customers and shifted to signing up one-time, event-only customers that saw ON24 as a COVID-

1 19 related expense, regardless of whether the customer had an appropriate use case or would be  
2 “sticky” customers generating recurring revenue;

3 (d) During both 2020 and 2021, customers informed ON24 employees as  
4 much as six months in advance that they were not going to renew their contracts;

5 (e) Before the COVID-19 pandemic, ON24 was already aware that there was  
6 high churn amongst SMB customers, and the pandemic amplified this high churn;

7 (f) Customer churn manifested prior to the IPO in several ways: customers  
8 only using ON24 as a COVID-19 solution and electing not to renew; customers such as event  
9 managers not renewing one-time purchases; and customers electing to downsell and remove  
10 features from their contract;

11 (g) Prior to the IPO the facts that ON24’s small business customers were not  
12 renewing, were choosing to downsell, and did not have good retention rates were discussed at  
13 monthly “sales and client success” meetings, and customer churn was reflected in churn reports  
14 and email updates and recorded with Salesforce, Forrester, Gartner, and Totango;

15 (h) Customer demand declined during November and December 2020; and

16 (i) Given declining demand and the magnitude of new, 1-year customers that  
17 ON24 signed up during the second, third, and fourth quarters of 2020 that were either not  
18 renewing or were going to downsell, ON24 already faced material customer churn and  
19 downselling at the time of the IPO, as well as inevitable weaker revenues, operating losses, and  
20 losses per share in 2021.

21 149. The Offering Documents misleadingly touted ON24’s growth strategy, including  
22 expanding within existing customers by selling more subscriptions to existing customers and  
23 upselling new solutions. The Offering Documents stated, in pertinent part, as follows:

24 Our Growth Strategy

25 We intend to drive the growth of our business and the adoption of  
26 our solutions by executing the following strategies:

- 27 • Expand within existing customers. We believe we can achieve  
28 significant organic growth by expanding penetration of our  
existing customer base. ***Our land and expand model drives  
expansion of new subscriptions within our existing customer  
base by selling subscriptions to additional parts of existing***

1                    *customers' organizations, expanding into new regional*  
 2                    *divisions and upselling new solutions.* In addition, we are  
 3                    developing new applications for our platform, including partner  
 4                    training and employee recruiting and forms of indirect  
 5                    marketing, such as education, enrollment and benefits  
 6                    programs.

7                    150. The Offering Documents misleadingly touted how the COVID-19 pandemic  
 8                    accelerated ON24's opportunity to help businesses generate revenue as industries modernize.

9                    The Offering Documents stated, in pertinent part, as follows:

10                    Businesses today primarily use automated solutions, such as digital  
 11                    advertising and email, for marketing. While these automated  
 12                    solutions reach large numbers of prospective customers, they have  
 13                    generally failed to deepen customer engagement because they were  
 14                    designed with the simple purpose of pushing marketing messages  
 15                    in one direction—from the business to the prospective customer.  
 16                    For businesses to succeed, we believe their sales and marketing  
 17                    strategies must evolve from the era of automation to the era of  
 18                    engagement. Our platform provides an innovative way both to  
 19                    scale digital marketing and deepen prospective customer  
 20                    engagement. We believe *our opportunity to help businesses*  
 21                    *convert digital engagement into revenue will continue to grow as*  
 22                    *industries modernize their sales and marketing processes, which*  
 23                    *has been accelerated by the COVID-19 pandemic.*

24                    151. The Offering Documents misleadingly emphasized and touted how ON24 had  
 25                    seen an increase in the proportion of multi-year subscriptions as the number of larger customers  
 26                    increase. The Offering Documents stated, in pertinent part, as follows:

27                    The terms of our subscription agreements are primarily annual and,  
 28                    to a lesser extent, multi-year. We bill for the full term in advance  
 29                    or on an annual or monthly basis, depending on the terms of the  
 30                    agreement. We recognize subscription revenue ratably over the  
 31                    term of the subscription period beginning with the date customers  
 32                    are granted access to our platform. Our contracts typically require  
 33                    payments in annual installments. *We have seen an increase in the*  
 34                    *proportion of multi-year subscriptions as the number of larger*  
 35                    *customers has increased.* Customers with multi-year subscription  
 36                    agreements accounted for 21% and 27% of ARR as of December  
 37                    31, 2018 and September 30, 2020, respectively. See “—Key  
 38                    Business Metrics—Annual Recurring Revenue” for further  
 39                    information regarding how we calculate ARR.

40                    152. The Offering Documents misleadingly claimed that ON24 continued to focus on  
 41                    customers with 2,000 or more employees and expand usage within those accounts. The Offering  
 42                    Documents stated, in pertinent part, as follows:

43                    *We intend to continue to focus on the acquisition of new*  
 44                    *customers with 2,000 or more employees, or Enterprise*

1                    **customers, and to expand the usage of our platform within these**  
 2                    **larger accounts.** We follow a named account coverage approach  
 3                    with aligned account teams, including sales, account management  
 4                    and customer success. After establishing a customer relationship  
 5                    with a business unit of an Enterprise, we seek to expand to new  
 6                    business units, divisions, departments and geographic regions, as  
 7                    well as increase subscriptions to additional products, which we  
 8                    refer to as “attachments,” and expand product use cases.

9                    153. The Offering Documents misleadingly claimed that ON24 could achieve  
 10                    significant growth by retaining, upselling, and increasing sales among existing customers. The  
 11                    Offering Documents stated, in pertinent part, as follows:

12                    We believe ***we can achieve significant growth by retaining and***  
 13                    ***further penetrating our existing customer base with the addition***  
 14                    ***of new users and new products, and through upsell and cross***  
 15                    ***sell.*** Our multi-dimensional land and expand model drives  
 16                    onboarding and allows us to acquire customers via free trials, live  
 17                    demos and continuous engagement with an efficient sales and  
 18                    marketing investment. As we continue to drive more actionable  
 19                    revenue generating marketing insights, we believe that ***we have a***  
 20                    ***significant opportunity to further increase sales among existing***  
 21                    ***customers across different functional and geographic***  
 22                    ***departments within each respective organization.*** Our ability to  
 23                    pursue this opportunity will require us to scale our sales and  
 24                    marketing organization and otherwise increase our operating  
 25                    expenses, and we may not be successful on the timetable we  
 26                    anticipate, or at all, for any number of reasons, which may cause  
 27                    our results to vary from period to period.

28                    154. The statements referenced above in ¶¶149-153 were each materially false and  
 misleading in context because they omitted the following significant, then-existing material  
 events, trends, and uncertainties that ON24 had already been facing at the time of the IPO:

- (a) ON24 signed up new customers for 1-year contracts during the second,  
 third, and fourth quarters of 2020 that planned to either not renew or downsell;
- (b) Of these new, 1-year customers that ON24 signed up during the second,  
 third, and fourth quarters of 2020, a larger-than-typical percentage were SMB customers and  
 nonideal customers focused on using ON24’s platform for one-time events that did not integrate  
 ON24’s platform into their sales and marketing ecosystems because they planned to either not  
 renew or downsell;
- (c) Prior to the IPO, ON24 relaxed the qualification criteria to sign up new  
 customers and shifted to signing up one-time, event-only customers that saw ON24 as a COVID-

1 19 related expense, regardless of whether the customer had an appropriate use case or would be  
2 “sticky” customers generating recurring revenue;

3 (d) During both 2020 and 2021, customers informed ON24 employees as  
4 much as six months in advance that they were not going to renew their contracts;

5 (e) Before the COVID-19 pandemic, ON24 was already aware that there was  
6 high churn amongst SMB customers, and the pandemic amplified this high churn;

7 (f) Customer churn manifested prior to the IPO in several ways: customers  
8 only using ON24 as a COVID-19 solution and electing not to renew; customers such as event  
9 managers not renewing one-time purchases; and customers electing to downsell and remove  
10 features from their contract;

11 (g) Prior to the IPO the facts that ON24’s small business customers were not  
12 renewing, were choosing to downsell, and did not have good retention rates were discussed at  
13 monthly “sales and client success” meetings, and customer churn was reflected in churn reports  
14 and email updates and recorded with Salesforce, Forrester, Gartner, and Totango;

15 (h) Customer demand declined during November and December 2020; and

16 (i) Given declining demand and the magnitude of new, 1-year customers that  
17 ON24 signed up during the second, third, and fourth quarters of 2020 that were either not  
18 renewing or were going to downsell, ON24 already faced material customer churn and  
19 downselling at the time of the IPO, as well as inevitable weaker revenues, operating losses, and  
20 losses per share in 2021.

21 155. Item 303 of SEC Regulation S-K, 17 C.F.R. § 229.303(a)(3)(ii), required the  
22 Defendants to “[d]escribe any known trends or uncertainties that have had or that the registrant  
23 reasonably expects will have a material favorable or unfavorable impact on the sales or revenues  
24 or income from continuing operations.” Similarly, Item 105 of SEC Regulation S-K, 17 C.F.R.  
25 § 229.105, requires, in the “Risk Factors” section of registration statements and prospectuses, “a  
26 discussion of the most significant factors that make the offering speculative or risky” and  
27 requires each risk factor to “adequately describe[] the risk.” The failure of the Offering  
28 Documents to disclose the omitted material facts set forth above in ¶¶144-154—including the

1 fact that ON24 signed up new customers for 1-year contracts during the second, third, and fourth  
2 quarters of 2020, the three quarters preceding the IPO, that planned to either not renew or  
3 downsell—violated Item 303, because these undisclosed facts were known and would (and did)  
4 have an unfavorable impact on the Company’s sales, revenues, and income from continuing  
5 operations. This also violated Item 105, because these specific risks were not adequately  
6 disclosed, or disclosed at all, even though they were some of the most significant factors that  
7 made an investment in ON24’s stock speculative or risky. Indeed, as alleged below in ¶¶156-  
8 162, the purported Risk Factors that were provided in the Offering Documents were themselves  
9 materially false and misleading when made.

10 **4. The Offering Documents Failed to Disclose Significant Risks**  
11 **Concerning ON24’s Customers That Made the IPO More Speculative**  
**and Risky**

12 156. The Offering Documents contained materially misleading risk factors that failed  
13 to warn of significant, then-materialized risks posed by ON24’s one-time and event only  
14 customers that planned to either not renew or downsell, including weak revenues, operating  
15 losses, and losses per share. In other words, the Offering Documents contained materially  
16 misleading risk factors that purported to warn of various risks related to, *e.g.*, ON24’s growth,  
17 ability to retain and upsell existing customers, and the impact of COVID-19 that “may”  
18 adversely affect the Company, while failing to disclose that these very “risks” had materialized  
19 prior to and at the time of the Offering.

20 157. The Offering Documents inaccurately described as potential certain risks  
21 associated with ON24’s ability to sustain revenue growth and expand sales to existing customers,  
22 fluctuation in ON24’s performance, potential decline in demand for ON24’s solutions, ON24’s  
23 ability to expand its sales and marketing capabilities and manage its growth, and the impact of  
24 the COVID-19 pandemic. The Offering Documents stated, in pertinent part, as follows:

25 Investing in our common stock involves risks, which are discussed  
26 more fully under “Risk Factors.” You should carefully consider all  
27 the information in this prospectus, including under “Risk Factors,”  
28 before making an investment decision. ***These risks include, but  
are not limited to, risks relating to:***

- 1 • *Our ability to sustain our recent revenue growth rate in the*  
2 *future, attract new customers and expand sales to existing*  
3 *customers;*
- 4 • *Fluctuation in our performance, our history of net losses and*  
5 *expected increases in our expenses;*
- 6 • *Competition and technological development in our markets and*  
7 *any decline in demand for our solutions or generally in our*  
8 *markets;*
- 9 • *Our ability to expand our sales and marketing capabilities and*  
10 *otherwise manage our growth;*
- 11 • *The impact of the COVID-19 pandemic.*

12 158. The Offering Documents inaccurately described as potential certain risks  
13 associated with ON24's ability to sustain recent revenue growth, the impact of increasing  
14 demand following the onset of the COVID-19 pandemic, and whether new customers will elect  
15 not to continue their subscriptions. The Offering Documents stated, in pertinent part, as follows:

16 *We may not be able to sustain our recent revenue growth rate in*  
17 *the future.*

18 For the year ended December 31, 2019, our revenue increased by  
19 8% as compared to the year ended December 31, 2018. We have  
20 experienced significant revenue growth during 2020, with our  
21 revenue increasing by 59% for the nine months ended September  
22 30, 2020 as compared to the nine months ended September 30,  
23 2019. *Our recent revenue growth has been significantly impacted*  
24 *by an increasing demand for our platform and products*  
25 *following the onset of the COVID-19 pandemic and resulting*  
26 *precautionary measures. As the impact of COVID-19 lessens,*  
27 *there may be reduced demand for our platform, and our revenue*  
28 *growth rate may decline. If these new customers elect not to*  
*continue their subscription as the impact of COVID-19 lessens,*  
*our business, financial condition and results of operations would*  
*be harmed.*

159. The Offering Documents inaccurately described as potential certain risks  
associated with fluctuations in ON24's quarterly results and the performance of the business,  
potential declines in ON24's revenue growth rate and fewer new enrollments or renewals as the  
impact of COVID-19 lessens, and ON24's ability to retain and expand customer usage, and to  
attract new customers. The Offering Documents stated, in pertinent part, as follows:

*Our quarterly results may fluctuate significantly and may not*  
*fully reflect the underlying performance of our business.*

1 Our quarterly results of operations and financial condition may  
 2 vary significantly in the future, and period-to-period comparisons  
 3 may not be meaningful. Accordingly, the results of any one quarter  
 4 should not be relied upon as an indication of future performance.  
 5 Our quarterly results of operations and financial condition may  
 6 fluctuate as a result of a variety of factors, many of which are  
 7 outside of our control and may not fully reflect the underlying  
 8 performance of our business. ***For example, our revenue and  
 revenue growth rate may decline in future periods compared to  
 2020 as the impact of COVID-19 lessens.*** Further, because we  
 9 generally invoice our customers at the beginning of the contractual  
 10 terms of their subscriptions to our solutions, our financial condition  
 11 reflects deferred revenue that we recognize ratably as revenue over  
 12 the contractual term. ***If fewer new enrollments or renewals occur  
 as the impact of COVID-19 lessens, our cash and deferred  
 revenue as of future dates may decrease.*** Fluctuation in quarterly  
 13 results may negatively impact the value of our securities. ***Factors  
 that may cause fluctuations in our quarterly results of operations  
 include:***

- 11 • ***our ability to retain and expand customer usage;***
- 12 • ***our ability to attract new customers.***

13 160. The Offering Documents inaccurately described as potential certain risks  
 14 associated with: ON24's ability to attract new customers or retain, expand the usage of, or upsell  
 15 products to existing customers; whether customers will renew, increase their usage of, or  
 16 purchase subscriptions for additional solutions; whether subscription renewals will decline or  
 17 fluctuate; and whether ON24 will expand the usage of solutions amongst existing customers. The  
 18 Offering Documents stated, in pertinent part, as follows:

19 ***Failure to attract new customers or retain, expand the usage of,  
 and upsell our products to existing customers would harm our  
 20 business and growth prospects.***

21 We derive, and expect to continue to derive, a significant portion  
 22 of our revenue and cash flows from sales of subscriptions to our  
 23 products. As such, our business depends upon our ability to attract  
 24 new customers and to maintain and expand our relationships with  
 25 our existing customers, including by expanding their usage and  
 26 upselling additional solutions. Our business is largely subscription-  
 27 based, and customers are not obligated to and may not renew their  
 28 subscriptions after their existing subscriptions expire. ***As a result,  
 customers may not renew their subscriptions at the same rate,  
 increase their usage of our solutions or purchase subscriptions  
 for additional solutions, if they renew at all. Renewals of  
 subscriptions may decline or fluctuate because of several factors,  
 such as dissatisfaction with our solutions or support, a customer  
 no longer having a need for our solutions or the perception that  
 competitive products provide better or less expensive options.*** In  
 order to grow our business, we must continually add new

1 customers and replace customers who choose not to continue to  
 2 use our platform. Any decrease in user satisfaction with our  
 3 solutions or support may result in negative online customer  
 reviews and decreased word-of-mouth referrals, which would harm  
 our brand and our ability to grow.

4 ***In addition to striving to attract new customers to our platform,***  
 5 ***we seek to expand the usage of our solutions by our existing***  
 6 ***customers by increasing the number of departments, divisions***  
 7 ***and teams that use our solutions within each of our customers. If***  
 8 ***we fail to expand the usage of our solutions by existing***  
 9 ***customers or if customers fail to purchase other solutions from***  
 10 ***us, our business, financial condition and results of operations***  
 11 ***would be harmed.***

12 161. The Offering Documents inaccurately described as potential certain risks  
 13 associated with: COVID-19's impact on ON24's results of operations; the economic impact of  
 14 COVID-19 on customer and prospective customer spending; customers' ability or willingness to  
 15 purchase or renew subscriptions; whether ON24's results of operations reflect the effect of  
 16 COVID-19; and COVID-19's effects on customer demand. The Offering Documents stated, in  
 17 pertinent part, as follows:

18 ***Our results of operations may be adversely impacted by the***  
 19 ***COVID-19 pandemic.***

20 ***[T]he economic impacts of COVID-19 have affected and may***  
 21 ***continue to affect customer and prospective customer spending***  
 22 ***on technology such as ours, particularly for businesses involving***  
 23 ***in-person interactions, such as hospitality, manufacturing and***  
 24 ***professional services businesses. These customers may***  
 25 ***experience reduced revenue and revised budgets, which may***  
 26 ***adversely affect our customers' ability or willingness to purchase***  
 27 ***subscriptions to our platform, the timing of subscriptions,***  
 28 ***customer retention, and the value or duration of subscriptions,***  
***all of which could adversely affect our operating results.***

\* \* \*

***Due to our subscription-based business model, the effect of the***  
***COVID-19 pandemic may not be fully reflected in our results of***  
***operations until future periods.*** In addition, uncertainty regarding  
 the impact of COVID-19 on our future operating results and  
 financial condition may result in our taking cost-cutting measures,  
 reducing the level of our capital investments and delaying or  
 canceling the implementation of strategic initiatives, any of which  
 may negatively impact our business and reputation. ***The global***  
***macroeconomic effects of the COVID-19 pandemic and related***  
***impacts on our customers' business operations and their demand***  
***for our solutions may persist for an indefinite period, even after***  
***the COVID-19 pandemic has subsided.***

1           162. The statements referenced above in ¶¶157-161 were each inaccurate statements of  
2 material fact when made because while noting only the potential negative impacts on ON24’s  
3 business, financial condition, and results of operations, the Offering Documents failed to disclose  
4 the following significant, then-existing material events, trends, and uncertainties that ON24 had  
5 already been facing at the time of the IPO:

6           (a) ON24 signed up new customers for 1-year contracts during the second,  
7 third, and fourth quarters of 2020 that planned to either not renew or downsell;

8           (b) Of these new, 1-year customers that ON24 signed up during the second,  
9 third, and fourth quarters of 2020, a larger-than-typical percentage were SMB customers and  
10 nonideal customers focused on using ON24’s platform for one-time events that did not integrate  
11 ON24’s platform into their sales and marketing ecosystems because they planned to either not  
12 renew or downsell;

13           (c) Prior to the IPO, ON24 relaxed the qualification criteria to sign up new  
14 customers and shifted to signing up one-time, event-only customers that saw ON24 as a COVID-  
15 19 related expense, regardless of whether the customer had an appropriate use case or would be  
16 “sticky” customers generating recurring revenue;

17           (d) During both 2020 and 2021, customers informed ON24 employees as  
18 much as six months in advance that they were not going to renew their contracts;

19           (e) Before the COVID-19 pandemic, ON24 was already aware that there was  
20 high churn amongst SMB customers, and the pandemic amplified this high churn;

21           (f) Customer churn manifested prior to the IPO in several ways: customers  
22 only using ON24 as a COVID-19 solution and electing not to renew; customers such as event  
23 managers not renewing one-time purchases; and customers electing to downsell and remove  
24 features from their contract;

25           (g) Prior to the IPO the facts that ON24’s small business customers were not  
26 renewing, were choosing to downsell, and did not have good retention rates were discussed at  
27 monthly “sales and client success” meetings, and customer churn was reflected in churn reports  
28 and email updates and recorded with Salesforce, Forrester, Gartner, and Totango;

- 1 (h) Customer demand declined during November and December 2020; and
- 2 (i) Given declining demand and the magnitude of new, 1-year customers that
- 3 ON24 signed up during the second, third, and fourth quarters of 2020 that were either not
- 4 renewing or were going to downsell, ON24 already faced material customer churn and
- 5 downselling at the time of the IPO, as well as inevitable weaker revenues, operating losses, and
- 6 losses per share in 2021.

7 **E. Events Following the IPO**

8 163. After the market closed on August 10, 2021, just six months after the IPO, ON24

9 announced its financial results for Q2 2021. In its Q2 2021 earnings release, ON24 provided its

10 financial outlook for the third quarter ended September 30, 2021 (“Q3 2021”). Specifically,

11 ON24 reported that it expects total revenue of \$47.5 to \$48.5 million—**\$3.2 million less** at the

12 midpoint versus analysts’ consensus of \$51.2 million total revenue. ON24 also reported that it

13 expects a non-GAAP operating loss of \$(4.0) to \$(3.0) million and a non-GAAP net loss per

14 share of \$(0.09) to \$(0.07)—**\$0.9 million and \$0.03 per share worse** at the midpoints versus

15 analysts’ consensus of \$(2.60) million operating loss and \$(0.05) net loss per share, respectively.

16 164. In the same Q2 2021 earnings release, ON24 also provided its financial outlook

17 for the full year ended December 31, 2021 (“FY 2021”). Specifically, ON24 reported that it

18 expects total revenue of \$201.2 to \$204.2 million—**\$6.3 million less** at the midpoints versus

19 ON24’s prior guidance of \$207.5 to \$210.5 million total revenue, and **\$6.4 million less** at the

20 midpoint versus analysts’ consensus of \$209.1 million total revenue. ON24 also reported that it

21 expects a non-GAAP operating loss of \$(4.3) to \$(1.3) million and a non-GAAP loss per share of

22 \$(0.13) to \$(0.06)—**\$2.3 million and \$0.05 per share worse** at the midpoints versus ON24’s

23 prior guidance of \$(2.0) to \$(1.0) million operating loss and \$(0.08) to \$(0.02) loss per share, and

24 **\$2.6 million and \$0.10 per share worse** at the midpoints versus analysts’ consensus of \$(0.2)

25 million operating loss and \$0.0 loss per share.

26 165. During the related Q2 2021 earnings call held on August 10, 2021, Defendant

27 Sharan claimed that ON24 “experienced higher-than-expected **churn and downsell from**

28 **customers we signed up in the second quarter of last year** during the peak of COVID. This

1 **higher churn was primarily in the first-time renewal cohort**, customers who signed up 1-year  
2 contracts last year and who were up for renewal.” Defendant Sharan added that “the total Q3 and  
3 Q4 renewal cohorts are meaningfully smaller than Q2. Most importantly, when we look at Q2,  
4 the **lower churn was primarily in the SMB.**”

5 166. During the same Q2 2021 earnings call, Defendant Vattuone explained:

6 [T]he **share of first-time renewals in Q2 '21 was outsized**  
7 **accounting for over 60% of the cohort. We saw high churn and**  
8 **downsell within the first-time renewals cohort, which primarily**  
9 **included a substantial number of SMB buyers and nonideal**  
10 **customer profile buyers focused on onetime events** who rush to  
11 find alternative solutions to in-person business, but are normally  
12 not our primary target audience.

10 Defendant Vattuone added that, “in the second quarter of 2020, a larger-than-typical percentage  
11 of customers added were SMB customers, and these customers accounted for approximately  
12 50% of our logo churn.”

13 167. In response to a question about churn from an analyst at Defendant Baird,  
14 Defendant Vattuone answered, “Now the primary factor for this was our first year renewals,  
15 which Sharat mentioned, being over 60% of the renewal mix in Q2. And we did see higher churn  
16 and downsell than we were initially expecting.”

17 168. The same analyst at Defendant Baird followed up with another question about  
18 churn, to which Defendant Sharan responded, “One of the things we learned, now that we know  
19 the data points and why these people churn, if they don't integrate our platform in this onetime  
20 use case, that's not the customer I want.”

21 169. In response to another question about churn from an analyst at Defendant  
22 KeyBanc, Defendant Sharan answered,

23 First of all, I explained our ideal customer buyer profile, and I  
24 think it's important to keep in mind that we focus on solving the  
25 sales, marketing and partner engagement platform, right? People  
26 who -- customers who integrate our products in their sales and  
27 marketing ecosystem. Now we have the churn that we saw was  
28 downsell, that we would win back. And we also talked about the  
SMB customers being -- and the onetime buyers were the large  
part of the churn. So let me talk about the SMB and onetime  
buyers. As these folks saw in Q2 that life may return to some form  
of normalcy, they're focused on going back to physical events and  
then also probably thought about going back to cheaper point  
solutions, cheaper virtual event platforms, okay? In some cases,

1 what I would call ankle buyers, okay? And there's also probably a  
2 small portion of people who -- our sales and marketing customers  
3 but don't care about data and integration. They may have looked at  
4 cheaper video conference tools.

5 170. Market analysts quickly noted both the weakened third quarter 2021 and full year  
6 2021 outlook and the unexpected churn issues. On August 11, 2021, for example, analysts at  
7 Defendant JPMorgan downgraded ON24's common stock from "overweight" to "neutral" and  
8 lowered their price target from \$85 per share to \$32 per share in a report titled "2Q21:  
9 Downgrading to Neutral as Post-Pandemic Churn/Down-Sell Is Bigger than Anticipated." The  
10 report explains that the "*major issue is the increase in churn and enterprise down-sell that will  
11 likely cause platform revenue to decelerate into the first quarter of 2022.*" The report stresses:

12 *Management's previous guidance had not factored in enough in  
13 churn from smaller accounts* that had driven up professional  
14 services revenue, and that causes a double hit to both platform and  
15 professional service revenue line items. Separately, a shift back to  
16 hybrid and in-person events is seeing some portion of enterprise  
17 accounts reducing spend on items like number of licenses and  
18 workspaces, and that further impacts platform revenue.

19 171. The August 11, 2021, JPMorgan report further explains:

20 On24 experienced *higher than expected churn and down-sell in  
21 the June quarter, primarily in the first-time renewal cohort that  
22 represented ~60% of the entire renewal base. Less sticky SMB  
23 customers accounted for roughly 50% of this churn*, as many of  
24 these businesses rushed to adopt digital solutions at the onset of the  
25 pandemic but now are either adopting smaller-scale solutions or  
26 returning to in-person events.

27 The report also notes: "FY21 revenue guidance is coming down by ~\$6M at the midpoint as a  
28 result of these dynamics, in addition to the fact that professional services revenue should decline  
to 13-14% of total revenue for the full-year, down from its COVID high of ~22% in FY20."

29 172. On August 11, 2021, analysts at Defendant Canaccord downgraded ON24's  
30 common stock from "buy" to "hold" and lowered their price target from \$45 per share to \$30 per  
31 share in a report titled "COVID renewals take a bite out of growth; *ONTF in the penalty box,*  
32 downgrade to HOLD." The report explains:

33 Q2 was a transition quarter as vaccinations became widespread and  
34 a significant number of transitory customers who had joined  
35 ON24's platform out of necessity during the pandemic chose not to  
36 renew. *Elevated churn came primarily from first-time renewals  
37 who had signed up for one-year deals at the height of COVID,*

1 **and in particular from SMB buyers** within that cohort who had  
 2 rushed to find alternatives to in-person business for one-time  
 3 events – 50% of logo churn came from those SMBs. **To be clear,**  
 4 **these are not normally ON24’s target customer,** with its platform  
 5 being far better suited to enterprises, and priced as such.

6 173. The August 11, 2021, Canaccord report further explains:

7 ON24 added 183 new logos during the quarter, which was offset  
 8 by 167 customer departures, equating to 8% logo churn in a single  
 9 quarter. For the sake of comparison, ON24 added 266 net new  
 10 customers in the year ago quarter – **we believe this indicates that**  
 11 **around half of renewals in that COVID cohort chose not to**  
 12 **renew, if not more. This was ON24’s largest renewal cohort ever,**  
 13 **with the share of first-time renewals accounting for over 60% of**  
 14 **the batch** – the remaining 40% of the cohort saw retention  
 15 dynamics equivalent to pre-pandemic levels.

16 The report also notes: “Management lowered its guidance for the year, citing two factors: (1)  
 17 most obviously, churn and downsell in Q2 was more than anticipated, and those trends are  
 18 flowing through to future periods; and (2) management expects professional services revenue to  
 19 decline in conjunction with lower implementation- and one-time event-related fees.”

20 174. On August 11, 2021, analysts at Defendant Piper Sandler also lowered their price  
 21 target from \$70 per share to \$40 per share in a report titled “Largest Renewal Quarter Bites Hard  
 22 as Customers Downsize; Lowering PT to \$40.” The report explains that “[m]ixed Q2 results and  
 23 revised 2H guidance of 5% y/y (vs. 12% prior estimate) **was clearly more negative than we had**  
 24 **anticipated.** Q2 was the largest renewal quarter, and **it bit hard as enterprise customers**  
 25 **downsized contract values** and was **further exacerbated by higher SMB churn.”**

26 175. The August 11, 2021, Piper Sandler report further explains:

27 **ARR stalled at \$164.1M, pressured by renewal downsizing and**  
 28 **churn....** ARR increased just \$1M sequentially to \$164.1M with  
 strong new customer additions partially offsetting the **largest**  
**quarter of existing customer renewals that selected to downsize**  
**the number and volume of virtual events and webinars. SMB**  
**churn also contributed to the smallest number of net new**  
**customer additions of just 16 q/q in three years.**

The report also notes: “2H guidance lowered by \$7M on declining professional services. The  
**combination of renewal downsizing and higher SMB churn was accentuated by a material**  
**reduction in the 2H outlook for professional services.”**

1           176. The August 11, 2021, Piper Sandler report also stresses: “Reducing PT to \$40 on  
2 revised outlook and execution risk. Despite *material estimate cuts, a considerable amount of*  
3 *near-term execution risk, and a potential turnaround that might not materialize until mid-*  
4 *2022*, we see limited downside risk below our bear-case of \$25 (4x CY23E EV/S).”

5           177. On August 11, 2021, analysts at Defendant William Blair analyzed ON24’s weak  
6 results and financial outlook in a report titled “Rocky Second Quarter Impacted By Churn and  
7 Downsell in COVID Cohort; Revenue Guidance Lowered for the Year.” The report explains:

8                   At the beginning of the pandemic, many customers looked to  
9 ON24 as a quick fix to help them reach their customers in a virtual  
10 environment. While this led to explosive growth for the company  
11 during 2020, many of them purchased ON24 for a limited use-case  
12 (e.g., hosting a small number of webinars) and did not take  
13 advantage of the data capture and analytics capabilities that are a  
14 core part of ON24’s platform. In addition, *many of these*  
15 *customers were outside the customer profile the company*  
16 *typically targets. Of those customers who churned, about 50%*  
17 *were SMB, whereas ON24 is primarily enterprise focused.*

18           178. After the market closed on November 9, 2021, just nine months after the IPO,  
19 ON24 announced its financial results for the third quarter ended September 30, 2021, or Q3  
20 2021. In its Q3 2021 earnings release, ON24 provided its financial outlook for the fourth quarter  
21 ended December 31, 2021 (“Q4 2021”). Specifically, ON24 reported that it expects total revenue  
22 of \$51.0 to \$52.0 million”—*\$0.8 million less* at the midpoint versus analysts’ consensus of \$52.3  
23 million total revenue.

24           179. During the related Q3 2021 earnings call held on November 9, 2021, Defendant  
25 Sharan claimed that the “third quarter of 2021 marked our lapping the second COVID-influenced  
26 quarter. Overall, the dollar value of churn declined quarter-over-quarter, and churn rate was in  
27 line with our expectations.” Defendant Sharan added: “As we anticipated in Q2, the percentage  
28 of first-time renewals in the renewal cohort decreased meaningfully quarter-over-quarter,  
although *we continue to face headwinds from those renewals.*”

          180. During the same Q3 2021 earnings call, Defendant Vattuone explained:

                  In Q3, we lapped another COVID-influenced quarter and first-time  
renewals from customers who purchased in the year ago period  
represented slightly more than half of the total renewal cohort, a  
meaningful decline compared to Q2. *We faced headwinds with*  
*respect to those first-time renewals, particularly with*

1 **organizations that were not our ideal customer profile and had**  
 2 **onetime needs.** We also saw some rationalization with midterm  
 3 additions from the year ago period. Overall, the dollar value of  
 churn declined compared to Q2, and the churn rate was in line with  
 our forecast.

4 Defendant Vattuone added:

5 Total customer count declined slightly quarter-over-quarter to  
 6 2,054, with **SMB churn representing the largest contributor to**  
 7 **the decrease.** Given the learnings from the past couple of quarters,  
 8 **we are laser-focused on acquiring enterprise and mid-market**  
 9 **customers that meet our ideal customer profile** and with whom  
 we can develop a lasting strategic relationship.

10 181. In response to a follow-up question about the “sequential” loss of new customers  
 11 and “SMB churn” from an analyst at Defendant Piper Sandler, Defendant Vattuone answered:  
 12 “So in terms of Q3, given our learnings from the last couple of quarters, we are really most  
 13 focused on customer quality and adding enterprise and mid-market customers that really meet  
 14 our ideal customer profile. I can tell you that **SMB was the largest contributor to the customer**  
 15 **count decrease in Q3.**”

16 182. Market analysts quickly noted both the weakened Q4 2021 outlook and the  
 17 continued churn issues. On November 10, 2021, for example, analysts at Defendant JPMorgan  
 18 lowered their price target from \$32 per share to \$22 per share in a report titled “3Q21: Working  
 19 Towards Stabilization.” The report explains:

20 (1) Total customer count declined by ~1% sequentially to 2,054,  
 21 **largely driven by continued SMB churn.** (2) Net new ARR of  
 22 \$3.1M brought September quarter total ARR to \$167.2M, and this  
 metric was negatively impacted by the fact that **slightly more than**  
**half of the total renewal cohort were first-time renewals.**  
 (3) Though renewal-related headwinds are beginning to abate, the  
 percentage of first-time renewals should still represent ~30% of the  
 total renewal cohort in the fourth quarter.

23 183. On November 10, 2021, analysts at Defendant Canaccord lowered their price  
 24 target from \$25 per share to \$19 per share in a report titled “A little bit of good, a little bit of bad,  
 25 but not enough to change our view in either direction; HOLD.” The report explains:

26 [A]ttention remains a challenge at the low-end of the market as  
 27 ON24 works through a **slew of first-time renewals that signed on**  
 28 **during the depths of the pandemic.** To that point, **the firm’s total**  
**customer count actually declined sequentially – a dynamic we**  
**had yet to see play out in this model** – and guidance suggests that  
 revenue will decline year-over-year in Q4, which is heavily

1 influenced by lower services revenue (subscription should grow  
2 about 10%).

3 184. The November 10, 2021, Canaccord report further explains:

4 ***[O]utsized logo churn continued***, bringing total customer count  
5 down by 24 sequentially to 2,054 (+7% y-o-y) – ***logo churn was***  
6 ***primarily attributed to SMB cohorts that became first-time***  
7 ***customers during the pandemic primarily looking for one-time***  
8 ***alternatives to in-person events***. The number of >\$100K ARR  
9 customers increased by 14 to 359 in Q3, which was also a decline  
10 in net adds to that group, although it now accounts for ~67% of  
11 total ARR.

12 The report also notes:

13 Management alluded to longer sales cycles as it focuses its GTM  
14 efforts on acquiring enterprise and mid-market customers that tend  
15 to be more strategic and complex in nature. ***In terms of first-time***  
16 ***renewals who purchased in the COVID influenced year ago***  
17 ***period, management noted this cohort had decreased***  
18 ***meaningfully q-o-q and represented ~50% of total renewals this***  
19 ***quarter***. Further, it is expected to drop to ~30% of total renewals in  
20 Q4, and Q1/22 will mark the last COVID influenced quarter – the  
21 ***expectation is these one-time COVID buyers will largely churn***  
22 ***off or settle, and the firm will be able to move forward with churn***  
23 ***characteristics that more closely align with pre-COVID historical***  
24 ***norms***.

25 185. On November 10, 2021, analysts at Defendant Piper Sandler also lowered their  
26 price target from \$40 per share to \$25 per share in a report titled “COVID Hangover Persists;  
27 Lowering 2022 ARR Estimates and Reducing PT to \$25.” The report explains that “While ARR  
28 exceeded \$150M+ exiting last year, ***eroding customer renewals rate and contract downsizing***  
29 ***over the last two quarters has pressured ARR growth to moderate meaningfully*** to an estimated  
30 11% y/y this year.”

31 186. The November 10, 2021, Piper Sandler report further explains:

32 Despite a slight improvement in ARR build in Q3 (+\$3.1M q/q vs.  
33 \$1.1M during Q2), we are ***lowering 2022 revenue estimates by***  
34 ***\$11M to better reflect near-term headwinds***. Additionally, we are  
35 lowering our PT to \$25 from \$40 on ***increasing execution risks,***  
36 ***lower estimates, and a lower multiple*** given our updated growth  
37 outlook.

38 The report stresses:

39 ***ON24 continued to see headwinds from first-time renewals***, but  
40 noted that both the percentage of first-time renewals in the renewal  
41 cohort and the dollar value of churn declined q/q. Despite a \$1.4M  
42 beat to the midpoint of Q3 revenue guidance, full-year 2021

1 revenue guidance was only raised \$0.4M at the midpoint and  
2 continues to represent a ***moderation to 29% y/y growth from 76%  
growth in 2020.***

3 187. On November 10, 2021, analysts at Defendant William Blair analyzed ON24's  
4 weak financial outlook in a report titled "Mixed Quarter With Solid Quarterly Results but  
5 Underwhelming Guidance." The report explains:

6 ON24 did not flow the entire revenue beat through its updated full-  
7 year revenue guide, implying ***continued weakness into the fourth  
quarter.*** Although ON24's guidance plans are disappointing, we  
8 believe that management is taking a conservative stance to its  
9 fourth-quarter guidance, which factors in ***similar churn and down-  
sell dynamics that the company experienced in the second and  
third quarter this year.*** Of note, ON24's COVID-19 renewal  
10 cohort is expected to represent just 30% of the overall renewal  
11 base in the fourth quarter (down from 50% in the third quarter and  
12 60% in the second quarter).

13 The report stresses: "Despite the conservative guidance, we believe there may still be a few  
14 ***tough quarters ahead for ON24 as it works through renewal cycles for its COVID cohort of  
customers*** and laps difficult comps. The 2022 guide next quarter will be critical, and we believe  
15 first-half revenue figures still pose some risk of being underwhelming."

16 188. The November 10, 2021, William Blair report further explains: "In the third  
17 quarter, total customers fell by 1.2% sequentially to 2,054 ***as ON24 continues to see elevated  
churn dynamics in its SMB customer base.***"

18 189. After the market closed on February 28, 2021 one year after the IPO, ON24  
19 announced its financial results for the fourth quarter and full year ended December 31, 2021, or  
20 Q4 and FY 2021. In its Q4 2021 earnings release, ON24 provided its financial outlook for the  
21 first quarter ended March 31, 2022 ("Q1 2022"). Specifically, ON24 reported that it expects  
22 "total revenue of \$47 to \$48 million"—***\$4.5 million less*** at the midpoint versus analysts'  
23 consensus of \$52 million total revenue. ON24 also reported that it expects a non-GAAP  
24 operating loss of \$(8) to \$(7) million and a non-GAAP net loss per share of \$(0.17) to \$(0.15)—  
25 ***\$4.4 million and \$0.10 per share worse*** at the midpoints versus analysts' consensus of \$(3.1)  
26 million operating loss and \$(0.06) net loss per share, respectively.  
27  
28

1           190. In the same Q4 and FY 2021 earnings release, ON24 also provided its financial  
2 outlook for the full year ended December 31, 2022 (“FY 2022”). Specifically, ON24 reported  
3 that it expects total revenue of \$200 to \$204 million—**\$21.4 million less** at the midpoint versus  
4 analysts’ consensus of \$223.4 million total revenue. ON24 also reported that it expects a non-  
5 GAAP operating loss of \$(30) to \$(27) million and a non-GAAP loss per share of \$(0.64) to  
6 \$(0.58)—**\$22.8 million and \$0.50 per share less** at the midpoints versus analysts’ consensus of  
7 \$(5.7) million operating loss and \$(0.11) loss per share.

8           191. During the related Q4 and FY 2021 earnings call held on February 28, 2022,  
9 Defendant Sharan explained: “Looking ahead, we believe that Q1 will mark the trough for 2022.  
10 By far, our **largest challenge in 2021 was the first time renewal cohort** which is 4x the dollar  
11 value of first-time renewals in 2019 and had a churn rate that was approximately double that are  
12 [sic] first-time renewals in 2019.” Defendant Vattuone elaborated on customer churn:

13                   Our dollar-based net retention rate, or NRR, ended the year at  
14 97%. As a reminder, NRR is a lagging indicator and reflects the  
15 **impact of elevated churn that we experienced over the past few**  
16 **quarters with first-time renewals, particularly with organizations**  
17 **that were not our ideal customer profile and had onetime needs**  
18 as well as some customers that rationalized their expansions.

19           192. During the same Q4 and FY 2021 earnings call, Defendant Vattuone explained:  
20 “Our **largest challenge that we experienced in 2021 was the first-time renewal cohort**, which  
21 was 4x the dollar value of first-time renewals in 2019, and **we experienced a churn rate that was**  
22 **approximately double that of the 2019 cohort.**”

23           193. Defendant Vattuone blamed ON24’s weak FY 2022 outlook on customer churn:  
24 “We expect a non-GAAP operating loss in the range of \$30 million to \$27 million and a non-  
25 GAAP net loss per share of \$0.64 to \$0.58 per share using 49 million basic and diluted shares  
26 outstanding. As I mentioned, we faced headwinds in 2021, **primarily from the elevated churn**  
27 **within first-time renewal cohorts and rationalization** from large expansions during COVID.”

28           194. In response to a follow-up question about churn from an analyst at Defendant  
William Blair, Defendant Vattuone answered: “Now we’ve always run this company prudently,

1 but we are making targeted investments to drive growth, but the major issue really has been  
2 churn.” Defendant Sharan added:

3 Let me add, Arjun, to what Steve just said is ***churn has been our***  
4 ***biggest issue***. If you look at 2021, I mean, we did quite well on  
5 growth ARR but the -- ***we couldn't outrun the churn***. And if you  
6 look at the numbers we talked about, the first-time renewal cohort  
7 where we saw the maximum churn, that size was 4x what it was in  
8 Q1 in 2019 and the churn of the first hand renewal cohort was  
9 twice what it was in 2019.

10 195. Market analysts quickly noted both the weak Q1 and FY 2022 outlook and the  
11 continued churn issues. On February 28, 2022, for example, analysts at Defendant JPMorgan  
12 lowered their price target from \$22 per share to \$16.50 per share in a report titled “4Q21: Almost  
13 Out of the Woods.” The report explains:

14 The December quarter was not too bad on the surface, but the  
15 ***churn/usage still has another quarter of pandemic headwinds to***  
16 ***get through*** before we start to see ARR improvement. We do  
17 believe that ARR will be the leading metric to seeing overall  
18 improvement in revenue growth, but the ***one more quarter of***  
19 ***headwinds does have us cutting our estimates again*** and that  
20 leads to the reduction in price target.

21 196. The February 28, 2022, JPMorgan report further explains:

22 (1) ***On24 continues to experience elevated levels of churn,***  
23 ***specifically in the first-time renewal cohort***. In January, a handful  
24 of customers with large expansions amid COVID-19 began to  
25 reassess their post-pandemic digital budgets and in turn showed  
26 higher than anticipated rationalization. This combined with a three-  
27 point revenue headwind related to a reduction in professional  
28 services and overages is resulting in FY22 revenue guidance of  
\$202M at the midpoint, which is ~\$23M below our previous  
estimate.... (3) Dollar-based net retention came in at 97%, down  
from 149% in the year-ago period and reflecting the ***impact of***  
***elevated churn over the past few quarters***. This was the first time  
that the company disclosed net retention in FY21 and the 97%  
level represents a steep discount to the pre-pandemic range of  
~105-110%.

197. On March 1, 2022, analysts at Defendant Piper Sandler downgraded ON24's  
common stock from “overweight” to “neutral” and lowered their price target from \$25 per share  
to \$17 per share in a report titled “Lowering to Neutral; Churn and Return to Travel Heighten  
Execution Risks.” The report explains:

Guidance reflects challenges ahead and increased investments. ***Top***  
***and bottom-line guidance came in below Street expectations*** for  
multiple reasons:

- 1 • **Churn from first-time renewals: Q1 includes a large proportion**  
2 **of first-time renewals, many of which have already reduced**  
3 **spend on the platform as they ‘rationalize’ their pandemic**  
4 **expansions.** The 2021 first-time renewal cohort was 4x the dollar  
5 value with a churn rate 2x the size of the 2019 first-time renewal  
6 cohort. An ARR growth trough and elevated churn are expected in  
7 Q1.
- 5 • Increased investments: ON24 plans to make targeted investments  
6 in customer success, the enterprise sales motion, the partner  
7 ecosystem, product innovation, and public cloud infrastructure. As  
8 such, non-GAAP operating loss guidance for 2022 is (\$30M)-  
9 (\$27M) vs. Street expectations of (\$5M).

8 198. On March 1, 2022, analysts at Defendant William Blair downgraded ON24’s  
9 common stock from “outperform” to “market perform” and analyzed ON24’s weak results and  
10 financial outlook in a report titled “Disappointing 2022 Outlook as Customers Rationalize  
11 Spend; Downgrading to Market Perform.” The report explains: “[F]irst quarter and full year  
12 2022 revenue guidance were below expectations as the company is anticipating **higher-than-**  
13 **expected downsell and spend rationalization from its customers.** This is largely due to COVID-  
14 19 transitioning from pandemic to endemic as businesses return to more normal operations.”

15 199. The March 1, 2022, William Blair report further explains:

16 This is driving some of ON24’s customers to reassess their budgets  
17 related to digital experiences, such as webinars and virtual events.  
18 The company noted that this is **largely concentrated in customers**  
19 **that signed large expansions during COVID-19. However, these**  
20 **customers are having a meaningful impact on the company’s**  
21 **ability to grow in 2022, as guidance calls for revenue to be flat at**  
22 **the high end and down 2% at the low end.** Given the change in  
23 the company’s growth prospects as a result of fading pandemic  
24 effects, we believe the next few quarters will likely be tough for  
25 ON24 as it focuses on reaccelerating the business for growth in a  
26 post-pandemic world.

22 200. The March 1, 2022, William Blair report stresses:

23 **Downsell dynamics and churn were an ongoing challenge in**  
24 **2021 as the COVID-19 cohort of customers came up for renewal**  
25 **for the first time.** While management reiterated its confidence that  
26 first quarter 2022 will be the last quarter impacted by the COVID-  
27 19 renewal cohort, **customer rationalization of spend creates**  
28 **another headwind for growth in the same quarter.** As the world  
moves past COVID-19, companies across industries are beginning  
to revisit their digital experience budgets to optimize their strategy.  
During January 2022, management saw a handful of customers that  
have previously expanded their usage as much as 3 times during  
COVID-19 begin to reassess their post-COVID spend. While some  
rationalization is normal and forecast, this **current rationalization**

1            *is higher than expected* and hits at an earlier time than expected  
2            with bookings more heavily weighted toward the beginning of the  
3            quarter.

4            201. On March 1, 2022, analysts at Defendant Canaccord lowered their price target  
5            from \$19 per share to \$15 per share in a report titled “Another wave of renewal headwinds early  
6            in Q1 take a bite out of ’22 growth; maintain HOLD.” The report explains:

7            The challenge, and *what drove the disappointing 2022 guide,*  
8            *came after the quarter as January was an unusually large*  
9            *enterprise customer renewal month, and ON24 saw more*  
10            *significant contraction than expected.* These were customers  
11            generally renewing for the first time post-COVID, though many  
12            were multi-year customers that expanded on a co-terminus basis  
13            during the pandemic, and now they’re rationalizing spend as some  
14            digital engagement is anticipated to be replaced with in-person  
15            activity.

16            202. The March 1, 2022, Canaccord report further explains:

17            Management was clear to point out that many of these customers  
18            are still renewing at 2x their pre-COVID run-rate, but that’s *in*  
19            *many cases down from 3x at the peak of COVID, which is a*  
20            *change the team did not properly anticipate. This headwind,*  
21            *along with a reduction in professional services revenue, has*  
22            *ON24 guiding for what is essentially a zero revenue growth year*  
23            *in 2022,* which is more than \$20M below our prior expectation.  
24            We expect that Q1 should mark the growth trough and that results  
25            should improve over the course of the year, but even so, we expect  
26            ON24 will be little more than a low-double digit ARR grower by  
27            the end of 2022.

28            203. The March 1, 2022, Canaccord report stresses:

          While ON24 had a decent Q4 relative to expectations, its *revenue*  
          *outlook came in weaker than anticipated due to significant spend*  
          *rationalization from several large customers that had signed*  
          *large expansion deals during COVID and were renewing for the*  
          *first time since then.* For perspective, these customers had  
          expanded as much as 3x during COVID, and while their average  
          spend is still materially higher than it was pre-COVID, they’re  
          now re-assessing their post-COVID digital marketing budgets.

          204. Since the IPO, the value of ON24 common stock shares has collapsed from the  
          IPO price of \$50.00 per share to \$18.86 per share on November 3, 2021 (*a 62% decline from the*  
          *IPO price*), the date this Action was filed, and to an all-time low of \$12.05 per share on March  
          14, 2022 (*a 76% decline from the IPO price*).

1 **V. CLASS ACTION ALLEGATIONS**

2 205. Lead Plaintiff brings this action as a class action pursuant to Rules 23(a) and  
3 23(b)(3) of the Federal Rules of Civil Procedure on behalf of a class consisting of all persons and  
4 entities who purchased or otherwise acquired ON24 publicly traded common stock pursuant  
5 and/or traceable to the Offering Documents for ON24's IPO, and who were damaged thereby  
6 (the "Class"). Excluded from the Class: the Defendants and the Individual Defendants'  
7 immediate family members; the officers, directors, affiliates of ON24 and the Underwriter  
8 Defendants, at all relevant times, including ON24's employee retirement and/or benefit plan(s)  
9 and their participants and/or beneficiaries to the extent they purchased or acquired ON24  
10 common stock through any such plan(s); any entity in which Defendants have or had a  
11 controlling interest; and the legal representatives, heirs, successors, or assigns of any such  
12 excluded person or entity.

13 206. The members of the Class are so numerous that joinder of all members is  
14 impracticable. The exact number of Class members is unknown to Lead Plaintiff at this time and  
15 can only be ascertained through appropriate discovery. Lead Plaintiff believes there are at least  
16 thousands of members in the proposed Class as the Company offered over 8,560,930 shares of  
17 common stock in the IPO. Record owners and other members of the Class may be identified  
18 from records maintained by ON24 or its transfer agent and may be notified of the pendency of  
19 this action by mail, using the form of notice similar to that customarily used in securities class  
20 actions.

21 207. Lead Plaintiff's claims are typical of the claims of the members of the Class as all  
22 members of the Class are similarly affected by Defendants' wrongful conduct in violation of the  
23 Securities Act as set forth herein.

24 208. Lead Plaintiff will fairly and adequately protect the interests of the members of  
25 the Class and has retained counsel competent and experienced in class and securities litigation.

26 209. Common questions of law and fact exist as to all members of the Class and  
27 predominate over any questions solely affecting individual members of the Class. Among the  
28 questions of law and fact common to the Class are:

- 1 (a) whether Defendants violated the Securities Act;
- 2 (b) whether the Offering Documents contained inaccurate statements of
- 3 material fact and/or omitted material information required to be stated therein; and
- 4 (c) to what extent the members of the Class have sustained damages and the
- 5 proper measure of damages.

6 210. A class action is superior to all other available methods for the fair and efficient

7 adjudication of this controversy since joinder of all members is impracticable. Furthermore, as

8 damages suffered by individual Class members may be relatively small, the expense and burden

9 of individual litigation make it impossible for members of the Class to individually redress the

10 wrongs done to them. There will be no difficulty in the management of this action as a class

11 action.

12 **VI. CAUSES OF ACTION**

13 **COUNT I**

14 **FOR VIOLATION OF SECTION 11 OF THE SECURITIES ACT**

15 **Against All Defendants**

16 211. Lead Plaintiff repeats and realleges each and every allegation above as if fully set

17 forth herein.

18 212. This cause of action is brought pursuant to Section 11 of the Securities Act, 15

19 U.S.C. § 77k, on behalf of the Class, against Defendant ON24, each of the Individual

20 Defendants, and each of the Underwriter Defendants.

21 213. This cause of action does not sound in fraud. Lead Plaintiff does not claim that

22 any of the Defendants committed intentional or reckless misconduct or that any of the

23 Defendants acted with scienter or fraudulent intent. This Count is based solely on strict liability

24 as to ON24 and negligence as to the remaining Defendants. Lead Plaintiff expressly disclaims

25 any allegations of scienter or fraudulent intent in these non-fraud claims except that any

26 challenged statements of opinion or belief made in connection with the IPO are alleged to have

27 been materially misstated statements of opinion or belief when made.

28 214. The Offering Documents issued in connection with the IPO were inaccurate and

misleading, contained untrue statements of material facts, omitted material facts necessary to

1 make the statements made not misleading, and omitted material facts required to be stated  
2 therein.

3 215. ON24 is the registrant and issuer of the common stock sold pursuant to the  
4 Offering Documents. As such, ON24 is strictly liable for the materially inaccurate statements  
5 contained in the Offering Documents and the failure of the Offering Documents to be complete  
6 and accurate. By virtue of the Offering Documents containing material misrepresentations and  
7 omissions of material fact necessary to make the statements therein not false and misleading,  
8 ON24 is liable under Section 11 of the Securities Act to Lead Plaintiff and the Class.

9 216. None of the Defendants named herein made a reasonable investigation or  
10 possessed reasonable grounds for the belief that the statements contained in the Offering  
11 Documents were true and without omissions of any material facts and were not misleading.

12 217. The Individual Defendants each signed the Registration Statement and caused its  
13 issuance. The Individual Defendants each had a duty to make a reasonable and diligent  
14 investigation of the truthfulness and accuracy of the statements contained in the Offering  
15 Documents. They each had a duty to ensure that such statements were true and accurate and that  
16 there were no omissions of material fact that would make the statements misleading. By virtue of  
17 each of the Individual Defendants' failure to exercise reasonable care, the Offering Documents  
18 contained misrepresentations of material facts and omissions of material facts necessary to make  
19 the statements therein not misleading. As such, each of the Individual Defendants is liable under  
20 Section 11 of the Securities Act to Lead Plaintiff and the Class.

21 218. Each of the Underwriter Defendants served as the underwriters for the IPO and  
22 qualify as such according to the definition contained in Section 2(a)(11) of the Securities Act, 15  
23 U.S.C. § 77b(a)(11). As such, they participated in the solicitation, offering, and sale of the  
24 securities to the investing public pursuant to the Offering Documents. Each of the Underwriter  
25 Defendants, as an underwriter of the securities offered in the IPO pursuant to the Offering  
26 Documents, had a duty to make a reasonable and diligent investigation of the truthfulness and  
27 accuracy of the statements contained in the Offering Documents. They each had a duty to ensure  
28 that such statements were true and accurate and that there were no omissions of material fact that

1 would make the statements misleading. By virtue of each of the Underwriter Defendants' failure  
2 to exercise reasonable care, the Offering Documents contained misrepresentations of material  
3 facts and omissions of material facts necessary to make the statements therein not misleading. As  
4 such, each of the Underwriter Defendants is liable under Section 11 of the Securities Act to Lead  
5 Plaintiff and the Class.

6 219. None of the untrue statements or omissions of material fact in the Offering  
7 Documents alleged herein was a forward-looking statement. Rather, each such statement  
8 concerned existing facts. Moreover, the Offering Documents did not properly identify any of the  
9 untrue statements as forward-looking statements and did not disclose information that  
10 undermined the putative validity of those statements.

11 220. Each of the Defendants named in this Count issued, caused to be issued, and  
12 participated in the issuance of materially untrue and misleading written statements to the  
13 investing public that were contained in the Offering Documents, which misrepresented and failed  
14 to disclose, *inter alia*, the facts set forth above. By reasons of the conduct herein alleged, each  
15 such Defendant violated Section 11 of the Securities Act.

16 221. Lead Plaintiff and the Class have sustained damages. The value of ON24 common  
17 stock has declined substantially subsequent to and due to violations by Defendants named in this  
18 Count.

19 222. At the time of their purchases of ON24 common stock, Lead Plaintiff and other  
20 members of the Class were without knowledge of the facts concerning the wrongful conduct  
21 alleged herein and could not have reasonably discovered those facts prior to the disclosures  
22 alleged herein. Less than one year has elapsed from the time that Lead Plaintiff discovered or  
23 reasonably could have discovered the facts upon which this Complaint is based and the time that  
24 this action was commenced. Less than three years has elapsed between the time that the  
25 securities upon which this cause of action is brought were offered to the public and the time that  
26 this action was commenced.

27 **COUNT II**  
28 **FOR VIOLATION OF SECTION 15 OF THE SECURITIES ACT**  
**Against the Individual Defendants**

1           223.   Lead Plaintiff repeats and realleges each and every allegation above as if fully set  
2 forth herein.

3           224.   This cause of action is brought pursuant to Section 15 of the Securities Act, 15  
4 U.S.C. § 77o, on behalf of the Class, against each of the Individual Defendants.

5           225.   This cause of action does not sound in fraud. Lead Plaintiff does not allege that  
6 any of the Individual Defendants committed intentional or reckless misconduct or that any of the  
7 Individual Defendants acted with scienter or fraudulent intent, which are not elements of a  
8 Section 15 claim. This Count is based solely on negligence and/or strict liability. Lead Plaintiff  
9 expressly disclaims any allegations of scienter or fraudulent intent in these non-fraud claims  
10 except that any challenged statements of opinion or belief made in connection with the IPO are  
11 alleged to have been materially misstated statements of opinion or belief when made.

12           226.   The Individual Defendants each were control persons of ON24 by virtue of their  
13 positions as directors and/or senior officers of ON24. The Individual Defendants each had a  
14 series of direct and/or indirect business and/or personal relationships with other directors and/or  
15 officers and/or major shareholders of ON24.

16           227.   Each of the Individual Defendants participated in the preparation and  
17 dissemination of the Offering Documents, and otherwise participated in the process necessary to  
18 conduct the IPO. Because of their positions of control and authority as senior officers and/or  
19 directors, each of the Individual Defendants were able to, and did, control the contents of the  
20 Offering Documents, which contained materially untrue information and/or omitted material  
21 information required to be disclosed to prevent the statements made therein from being  
22 misleading.

23           228.   As control persons of ON24, each of the Individual Defendants is liable jointly  
24 and severally with and to the same extent as ON24 for its violation of Sections 11 of the  
25 Securities Act.

26 **VII. PRAYER FOR RELIEF**

27           229.   WHEREFORE, Lead Plaintiff, on behalf of itself and the other members of the  
28 Class, prays for relief and judgment as follows:

1 (a) Determining that this action is a proper class action under Rule 23(a) and  
2 (b)(3) of the Federal Rules of Civil Procedure on behalf of the Class defined herein;

3 (b) Awarding all damages and other remedies set forth in the Securities Act in  
4 favor of Lead Plaintiff and other Class members against all Defendants, jointly and severally, in  
5 an amount to be proven at trial, including interest thereon;

6 (c) Awarding Lead Plaintiff and the Class their reasonable costs and expenses  
7 incurred in this action, including attorneys' fees, accountants' fees, and expert fees, and other  
8 costs and disbursements; and

9 (d) Awarding Lead Plaintiff and the Class such other relief as may be deemed  
10 just and proper by the Court.

11 **VIII. JURY TRIAL DEMANDED**

12 230. Lead Plaintiff demands a trial by jury.

13 Dated: March 18, 2022

Respectfully submitted,

14 LABATON SUCHAROW LLP

15 /s/ Alfred L. Fatale III

16 Jonathan Gardner (admitted pro hac vice)  
17 David Schwartz (admitted pro hac vice)  
18 Alfred L. Fatale III (admitted pro hac vice)  
19 Marco A. Dueñas (admitted pro hac vice)  
140 Broadway  
New York, New York 10005  
Telephone: (212) 554-1400  
Facsimile: (212) 554-1444  
20 Email: jgardner@labaton.com  
21 dschwartz@labaton.com  
22 afatale@labaton.com  
mduenas@labaton.com

23 *Lead Counsel for Lead Plaintiff*  
*Leadersel Innotech ESG*

24 Thornton Law Firm LLP  
25 David Bricker (CA SBN 158896)  
9595 Wilshire Boulevard, Suite 900  
26 Beverly Hills, California 90212  
Telephone: (310) 282-8676  
27 Facsimile: (310) 388-5316  
Email: dbricker@tenlaw.com

28 *Liaison Counsel for Lead Plaintiff*  
*Leadersel Innotech ESG*

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that on March 18, 2022, I was authorized to electronically file the foregoing with the Clerk of Court using the CM/ECF system, which will send a Notice of Electronic Filing to all counsel of record.

/s/ Alfred L. Fatale III  
Alfred L. Fatale III