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Asana, Inc. (ASAN)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Asana's Second Quarter Fiscal Year 2025 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to Catherine Buan, Head of Investor Relations. Please go ahead.

Catherine Buan
Head-Investor Relations, Asana, Inc.

Good afternoon, and thank you for joining us on today's conference call to discuss the financial results for Asana's second quarter fiscal year 2025. With me on today's call are Dustin Moskovitz, Asana's Co-Founder and CEO; Anne Raimondi, our Chief Operating Officer and Head of Business; and Tim Wan, our Chief Financial Officer.

Today's call will include forward-looking statements; including statements regarding our expectations for free cash flow, our financial outlook, strategic plans, our market position, and growth opportunities. Forward-looking statements involve risks, uncertainties, and assumptions that may cause our actual results to be materially different from those expressed or implied by the forward-looking statements. Please refer to our filings with the SEC, including our most recent Annual Report on Form 10-K and quarterly report on Form 10-Q for additional information on risks, uncertainties, and assumptions that may cause actual results to differ materially from those set forth in such statements.

In addition, during today's call, we will discuss non-GAAP financial measures. These non-GAAP financial measures are in addition to, and not a substitute for, or superior to measures of financial performance prepared in accordance with GAAP. Reconciliation between GAAP and non-GAAP financial measures, and a discussion of the limitations of using non-GAAP measures versus their closest GAAP equivalents are available in our earnings release, which is posted on our Investor Relations web page at investors.asana.com.

And with that, I'd like to turn the call over to Dustin.

Dustin Moskovitz

Chief Executive Officer, Co-Founder & Director, Asana, Inc.

Thank you, Catherine, and thank you all for joining us on the call today.

In the second quarter, Asana continued to execute on our transition to the enterprise and make strides on Asana AI. I'll go through a few highlights from the quarter, and then jump into some of the key trends that are shaping our industry, and informing our strategy to be the enterprise leader in the category.

In Q2, our revenues grew 10% year-over-year, ahead of our guidance and consistent with our expectations that Q2 would be a baseline for stabilization going forward. We saw great leading indicators for growth in pockets of our business, including key wins in manufacturing, energy, transportation, and government, which Anne will talk about. Excluding the technology vertical, our Q2 revenue growth rate would have been in the mid-teens.

We also reported free cash flow positive of $12.8 million or 7% on a free cash flow margin basis in Q2, reflecting our continued focus on operational discipline. The number of customers spending over $100,000 or more grew 17% year-over-year. We had a record number of multi-year deals as we continue to build partnerships with industry leaders, and the most innovative companies in the world who are redefining how they work.

In fact, two of the most well-known AI lab companies had significant expansions in Q2 as they adopt Asana internally and partner with us on the technology front as well. We are clearly on the right path and are confident that our business will reaccelerate. However, the macro headwinds persist. Also, the technology vertical remains a drag on our overall growth. At the same time, we see encouraging signs in some of our top verticals, such as retail and consumer goods, and media and entertainment. We have more work to do, and this quarter marks a stabilization point from which we're well poised to inflect in the coming quarters.

Today, we're at a pivotal moment where AI, particularly generative AI, has enormous potential to revolutionize work management and reshape the software industry. This era of AI transformation is poised to be as significant as, if not more than, the digital transformation trend that preceded it.

At Asana, we're laser focused on unlocking the potential of AI for our customers. At our Work Innovation Summit in San Francisco this June, we previewed for the first time, Asana AI workflows, a groundbreaking advancement that leverages AI to manage your work, helping our customers tackle complex workflows and elevate teamwork with AI. These AI workflows, which have been in beta since June, will be part of our upcoming paid offering, Asana AI Studio, launching in October. The AI Studio platform will allow customers to build, deploy, and enhance workflows with AI teammates taking on some of the work.

In AI Studio, a program manager or any designated team member can dictate where an AI teammate can start doing useful work without anyone else having to learn something new, adopt the new application, or change their behavior. Importantly, employees don't need to go elsewhere to access this AI capability. It's embedded right where they work every day. This provides a practical, powerful solution for organizations trying to adopt AI internally. It also means you have existing integrations to all your important tools across CRM, finance, HR, productivity suites, and more. This supports our long-term strategy to be the hub that moves work forward across your systems using AI.

Of course, automated workflows and workflow builders have been around for years, but now customers have the ability to design these workflows in Asana with AI teammates to assist with any step in the workflow. Customers will be able to subscribe to AI Studio builder and begin creating and deploying AI workflows. This model will allow customers to unlock AI actions on a consumption basis, allowing enterprises to buy exactly what they need to fit their organization at that moment in time.

It's been exciting to see the early momentum in our AI Studio beta program, since we rolled it out in June. The beta program has already attracted industry leaders across various sectors, including media, technology, financial services, manufacturing, healthcare, professional services, and consumer goods. There's a healthy amount of skepticism around AI and the value it's currently providing in the enterprise. My view is we're still early in the adoption cycle, especially in businesses, and customers are just beginning to successfully leverage the potential and understand how to apply it effectively to more parts of their business.

AI is powerful, but it demands new skills and behaviors from users. Most of these capabilities are currently being offered in chat apps and copilots, leaving it up to every individual to determine how to extract value. Likewise, autonomous agents are not ready to take over real roles in an organization, they're too unpredictable and unreliable. Effective AI adoption means integrating AI directly into everyday work and workflows where AI can drive meaningful and measurable impact at scale, complementing human efforts rather than replacing them.

Let me detail a few specific early use cases from actual customer implementations to make this real for all of you. Regardless of industry or size, every company has work and workflows that touch multiple departments and teams such as strategic planning, customer service, store openings, procurement, and due diligence. Coordinating work cross-functionally is notoriously difficult because it extends across teams, tools, and geographies. Work intake is oftentimes the bridge across a lot of these teams, tools, and processes, and now Asana AI teammates can not only improve the process holistically, it can manage and do a lot of the work. Each of the four phases of cross-functional work gets easier, including intake. This is where AI teammates are able to refine tasks, extract data, triage requests, prioritize work, communicate with requesters, and route tasks.

Next stage is planning, where AI teammates are able to summarize requests, conduct research, including the integrations with other tools and recommend next steps. Execution, where AI teammates are able to draft content, do translations, incorporate feedback, and answer questions using various data sources. And finally, reporting/reflection, this is where AI teammates are able to update metadata for reporting and suggest retrospective topics driving continuous improvement.

One of our customers, a global cybersecurity leader, has tested how our AI teammates can contribute to their global marketing organization and significantly improve their processes for intaking email requests to execution. Before Asana AI teammates, they faced challenges with missing information in submissions, time-consuming prioritization meetings, and delays in global market launches.

Our AI teammates have shown how we can address these pain points comprehensively. So the first step is request intake. AI can now evaluate requests at the point of submission, auto naming them for clarity and proactively finding missing information. Requests are summarized in natural language, making their relative importance clear at a glance.

Second step, prioritization. We've shown how we can streamline their alignment meetings with better first stab prioritization, reducing the time spent on these sessions.

Third step, execution. Perhaps most impressively, this customer has expressed how this can eliminate translation delays that have previously caused more than two-week gaps between English and other market launches. Now all launches can happen simultaneously, ensuring no market feels deprioritized and the marketing organization can deliver a more consistent, improved customer experience globally. It's worth noting that this AI-powered solution replaces the need for dedicated industry specific translation software or services that companies might traditionally use for such tasks. And we expect to offer this for much less than what those traditional translation services cost, providing significant value and cost savings to customers.

Last, reporting, in the reporting/reflection phase, AI can update metadata, which you know as custom fields, to inform work reporting and suggest topics for retrospectives. This helps teams capture learnings and insights more effectively, leading to continuous improvements in their processes.

Let me share another customer example. A global leader in outdoor advertising has been testing Asana AI teammates for their creative request intake process across regions. The team is very encouraged by the potential here. In the words of the VP of Marketing Operations, it allows them to prioritize the bigger things they want to do to show more business impact and affect the bottom line. Importantly, this customer views AI as an enabler for human creativity and strategic thinking, not as a replacement for human work. This encapsulates our vision for AI teammates, tools that enhance human capabilities, drive efficiency, and ultimately contribute to our customers' bottom line.

These stories exemplify our AI capabilities built on the foundation of our unique and proprietary Work Graph data model can drive efficiency, improve collaboration, and ultimately contribute to better business outcomes for our customers. The testament to the power of AI teammates working alongside human teams to enhance productivity and strategic impact. These are just a few early examples of AI teammates in action. We hope to be able to report next year that we have hundreds or even thousands of such workflows at a meaningful number of our customers.

Now, let me talk about how we're capturing the consolidation opportunity. We remain in a budget-focused environment, and customers are looking for consolidation opportunities. Our proven ability to scale the structural advantages of the Work Graph, especially as it relates to AI, and our focus on our central functions across the enterprise makes us particularly well-suited to capitalize on this opportunity.

We believe we're the only collaborative work management platform that's proven at scale for large enterprises, and we have several customers with over 10,000 seats and one customer with 200,000 seats actively deployed. In practice, there's no organization too big for Asana, and we've proven that the value and differentiation of Asana accrues with scale, thanks to our unique and differentiated data model.

To support this effort and help our customers realize more value even faster, we're expanding the baseline offering of our enterprise tiers. In addition to premium AI features, we're adding more high-value functionality like request tracking and work intake, resource management, enhanced executive reporting, and visualizations of how goals and work are inextricably linked in Asana.

We're also rolling out unlimited view-only licenses to see work in Asana with an in-product path to request a paid license to comment or add work. We think this has the potential to meaningfully contribute to paid seat growth within our accounts.

Finally, we announced our official commitment to pursue FedRAMP certification, which will unlock new market opportunities in government agencies and other regulated industries. These initiatives are designed to help enterprises quickly achieve the critical mass needed to fully leverage the AI-enhanced Work Graph, and consolidate their work management needs on a single, powerful platform.

Finally, let me explain how we believe AI will help us drive revenue and adoption in three key ways. First, it already enhances the value we deliver in our core work management functionality, such as Smart Goals and Smart Status features. This is what customers get in most of our packages today, depending on their tiers.

Second, AI is enabling us to introduce new add-ons and we have specific ones we're developing now. Resource planning will be a license based add-on, for example.

And third, we continue to believe in the potential of usage-based AI revenue. We're in the early stages here, but we're learning more on this front every day from our customers and our AI Studio beta program, which we're expecting to formally launch soon.

In closing, we're clearly making progress with our enterprise strategy, but the shape of the re-acceleration curve will be very modest in the next few quarters and more pronounced later. We're confident it will happen because we've already seen it in some segments of the business and we're beginning to see stabilization in others. We remain committed to a sustained, positive, free cash flow by the end of Q4. We're winning strategic customers across important industries, closing more multiyear deals, and investing in AI to meet enterprise demands.

We're excited to share more of our innovation and customer success stories at the Work Innovation Summit in New York City on October 22, and again, in London on November 13. We hope to see you there.

Before I hand it over to Anne, I'd like to also say a few words about the announcements we made today in conjunction with our earnings release. As you probably read, we announced Tim's departure and the arrival of a new CFO. Change is always bittersweet, but it's part of being in a high growth environment. As many of you already appreciate, Tim has been a great leader, partner, and friend for all of us at Asana for almost eight years. And now he'll be handing over the baton.

He's been an integral part of the Asana journey, joining Asana in 2017, building financial infrastructure to help us scale and navigating us through our entry into the public markets and improving operating margins dramatically, while we continue to invest in growth. I'll miss working with Tim. He's been a strong partner to me and the Asana leadership team, but he'll remain on as an advisor to help in the transition. Tim, we're very grateful for your many contributions.

At the same time, I'm excited to announce our new Chief Financial Officer, Sonalee Parekh. Sonalee is a seasoned finance executive with over 25 years' experience in high growth technology. Most recently, she was CFO of RingCentral. Sonalee brings deep operational and financial experience in leading companies at scale. I look forward to partnering with her in our next stage of growth.

And with that, I'll hand it over to Anne.

Anne Raimondi

Chief Operating Officer & Head-Business, Asana, Inc.

Thanks, Dustin. And I'll just echo Dustin's sentiment on both fronts. And Tim, thank you for everything. You will certainly be missed, but definitely not forgotten. As Dustin mentioned, early access to our Asana AI Studio beta program is getting great response from our customers. When we talk to our top 100 customers, virtually every customer wanted to be part of our beta program. Customers are interested in Asana AI Studio for everything from translating global communications across over 100 countries in minutes, to managing and prioritizing complex work requests and even making other existing applications more effective by adding a workflow layer on top of a customer database.

Importantly, customers are most excited with what AI can do inside their Asana workflows. Customers are saying the quality, efficiency and personalization that we can deliver at scale is groundbreaking. As we're seeing in our beta program, our AI Studio offering is opening up new kinds of conversations across our customer base and helping us access new incremental budget dollars. Through our AI Studio beta program, we've seen AI help us gain more executive mindshare and create significant inroads with executive leadership and AI strategy groups. Our AI capabilities are not just operational tools, but strategic assets. This level of access is allowing us to enhance the traditional workflows our customers rely on Asana for, such as work intake, product launches and strategic planning, while also giving us the opportunity to support new workflows due to the power, ease of use and flexibility of our AI offering.

We're finding that customers don't want to introduce another siloed tool for their AI workflows. They want AI embedded where their employees are already managing their work and that's in Asana. This engagement at the highest levels of organizations and direct collaboration with AI councils positions Asana as a key partner in shaping our customers' AI strategies and sets us up well for expanded partnerships and growth opportunities.

Turning to Q2. As we expected going into the quarter, ongoing budget scrutiny and longer sales cycles continued to impact our business, consistent with last quarter. As a result, we saw a number of deals pushed out, but they remained in our pipeline. Secondly, the headwinds in the technology vertical continue to weigh down our overall revenue growth. Despite the continued headwinds, we closed some very strategic deals across industries such as automotive, manufacturing, government, energy, among many others.

By geography, international led revenue growth at 12.3% reported and 12.8% year-over-year when we exclude the currency impact. The international team continues to execute well, with particular success in key verticals such as energy and manufacturing. In the US, we continued in Q2 to be pressured by early successes in the technology sector. Overall, US growth was 9% year-over-year, heavily impacted by the technology sector exposure. Fortunately, we now have put our larger seat adjustments behind us as of last quarter and we believe that the in-quarter dollar based net retention rate is at a stabilizing point.

As Dustin mentioned on a previous call, in order to get to reacceleration, you need to first go through stabilization and that's where we believe we are today. We are well poised for slight reacceleration in the near term and more substantial acceleration in the out-quarters.

Now turning to customer dynamics in Q2. Our enterprise customers continued to expand and multi-year deals jumped significantly this quarter, pointing to the types of longer term partnerships we are forming with large and strategic enterprises. The first sector I'll mention, you may be very familiar with. While the overall technology sector has been cycling through various buying dynamics, there are specific cohorts such as AI, where growth is very healthy. For example, we are the de facto standard across two of the most well-known AI labs. Both significantly expanded their use of Asana so more departments can manage their strategic programs and work in a central platform. They also both upgraded to our Enterprise Plus solution to access enhanced security capabilities and get the most value from our platform. Both companies have seen rapid organic adoption of Asana in departments like marketing, sales, growth, engineering, finance and more, thanks to improved cross-department collaboration, which is enabling them to release products faster and work more effectively.

The Energy vertical is another place where the need for innovation and efficiency is fueling demand for Asana. For example, one of the largest energy companies in Iceland selected Asana's Enterprise Plus solution after a competitive evaluation. They will use Asana to manage their long-term strategic investments projects like the construction of energy plants, low temperature and high temperature geothermal, hydropower, fiber networks and more. Also, the British Renewable Energy Group, specializing in sustainable energy, empowering millions of homes in eight countries, renewed their use of Asana to manage work across their entire company this quarter. Asana is the hub for all business activities and teams manage everything from hardware development to business strategy planning to vendor management so they can innovate and execute quickly to deliver continued value to their customers.

In transportation, we closed a deal with Fleetio, a leader in fleet management software, who upgraded to our Enterprise Plus solution this quarter to gain access to our latest features, including Asana AI. They use Asana to manage their core work across the entire company so they can make data-driven decisions and execute on their goals. And we have several deals across the manufacturing sector. Through one of our partners, we landed a subsidiary of a prominent Korean automotive manufacturer this quarter after winning a competitive RFP. They're replacing their legacy project management system with Asana's Enterprise Plus. Additionally, a Japan-based global innovator in manufacturing electronics expanded their use of Asana this quarter because of our ease of use, ability to enable seamless collaboration across departments and ability to integrate Asana into their current tech stack like Microsoft 365. Now, more departments like Engineering Team Management will manage their work in Asana to drive innovation faster.

Within the public sector, a major department within the US government needed a new collaborative work management tool to bring together nine separate units to establish their first project management organization to manage operations and complex projects for the office in charge of planning, policy and resources and they selected Asana. They will use Asana to track executive team strategy, budget and finance management, complex project and process management and work intake from satellite government offices. With Asana, they have visibility across all current projects so they can report to leadership on progress and the support they're providing their satellite offices.

This great public sector customer win punctuates the importance of our government strategy as seen by our recent announcement to pursue FedRAMP certification. These are just a few stories to illustrate how well Asana can execute. We are driving initiatives to replicate these playbooks and scale the methodologies to repeatable, consistent processes. We're focused on several key initiatives that will help us develop and transform our business. First, investing in a more consistent post-sales experience to drive expansions. Second, improving velocity by further streamlining sales processes. Third, building on excitement around AI products to improve account engagement and adoption and finally, focusing on strategic industry verticals to further diversify our business.

In summary, our strategies are designed to drive seat expansion, deepen our customer relationships, and ultimately grow ARR. And with AI joining the team, we can deliver even greater value to our customers. We're excited about the path ahead and confident in our ability to execute on these initiatives.

And with that, I'll hand it over to Tim.

Tim M. Wan
Chief Financial Officer & Head-Finance, Asana, Inc.

Thank you, Anne.

Q2 revenues came in at $179.2 million, up 10% year-over-year. We have 22,948 core customers, or customers spending $5,000 or more on an annualized basis. Revenue from core customers grew 11% year-over-year. This cohort represented 75% of our revenues in Q2, up from 74% in the year-ago quarter. We have 649 customers spending $100,000 or more on an annualized basis, and this customer cohort grew at 17% year-over-year. As a reminder, we define these customer cohorts based on annualized GAAP revenues in a given quarter.

Our overall dollar-based net retention rate was 98%. Our dollar-based net retention rate for our core customers was 99%. And among customers spending $100,000 or more, our dollar-based net retention rate was 103%. As a reminder, our dollar-based net retention rate is a trailing four-quarter average calculation and thus a lagging indicator. However, it's important to highlight the in-quarter trends as we go through this transition. We believe that the in-quarter dollar-based net retention rate is at a stabilization point in Q2.

As I turn to expense items and profitability, I would like to point out that I will be discussing non-GAAP results in the balance of my remarks. Gross margins came in at 89%. Research and development was $56.5 million or 32% of revenue. Sales and marketing was $91.1 million or 51% of revenue. G&A was $27.7 million or 15% of revenue.

During the quarter, we also realized a one-time property tax credit related to our corporate headquarter, which lowered our operating expenses by $3.1 million. This was an allocation impacting each OpEx line item. Operating loss was $15.7 million and our operating loss margin was 9%. Net loss was $11.1 million and our net loss per share was $0.05.

Moving on to the balance sheet and cash flow. Cash and marketable securities at the end of Q2 were approximately $521.6 million. Our remaining performance obligation, or RPO, was $394.5 million, up 18% from the year-ago quarter. This is a reacceleration from last quarter, driven by multiyear deals. 83% of our RPO will be recognized over the next 12 months. That current portion of RPO grew 14% from the year-ago quarter.

Our total ending Q2 deferred revenue was $289.2 million, up 11% year-over-year. Q2 free cash flow was $12.8 million or 7% on a margin basis. However, remember that Q3 free cash flow will be seasonally lower, but we expect to see durable, positive free cash flow by the end of Q4. As you know, we announced a $150 million stock repurchase program in June. In Q2, we repurchased 19.7 million of our shares at an average price of $13.64 per share. We remain committed to investing in our growth and managing dilution, while returning excess capital to shareholders via share repurchases.

Moving to guidance for Q3 fiscal 2025, we expect revenues of $180 million to $181 million, representing growth of 8% to 9% year-over-year. We expect non-GAAP loss from operations of $19 million to $18 million, representing an operating margin of negative 10% at the midpoint of guidance. And we expect net loss per share of $0.07, assuming basic and diluted weighted average shares outstanding of approximately 227 million.

For the full fiscal year 2025, we expect revenues to be in the range of $719 million to $721 million, representing growth rate of 10% year-over-year. We expect non-GAAP loss from operations of $58 million to $55 million, representing an operating margin of negative 8% at the midpoint of guidance and we expect net loss per share of $0.20 to $0.19, assuming basic and diluted weighted average shares outstanding of approximately 227 million.

As you can see from our guidance and commentary, we continue to see the software macro environment consistent with last quarter and we expect these headwinds to continue. The technology vertical continues to drag our overall growth dramatically. However, we see pockets of re-acceleration across some of our key verticals as noted in some of the significant wins and mentioned in the last two quarters. Also, we believe that our in-quarter net dollar retention rate and gross retention rates have stabilized and we're poised for moderate revenue reacceleration in the coming quarters. Therefore, we are tightening the fiscal year guidance range to be more conservative in the back half, but overall underlying trends continue to be stabilizing. In addition, we have made a great deal of progress on operating margins and improving our free cash flow through a disciplined approach to balancing growth and profitability.

I'll add just a few words of thanks before we go to Q&A. Thank you, Dustin, and thank you, Anne. And also a big thank you to our employees. It's been an incredibly fulfilling time at Asana. The company has grown so much in the nearly eight years I've been here and I feel fortunate to have had the opportunity to lead as CFO. I also want to thank the investment community and especially those of you who have been our shareholders over the last several years. I continue to be incredibly bullish about Asana's potential, so this hasn't been an easy decision to make. There's never been a greater need amongst enterprises for a solution like Asana and I believe the company is poised for even greater things in the years ahead.

Before I turn it over to the operator for Q&A, let me hand it over to Dustin for some closing comments.

Dustin Moskovitz

Chief Executive Officer, Co-Founder & Director, Asana, Inc.

Thanks, Tim. One thing I want to add to my formal comments is that I'm planning to enter into a 10b5-1 trading plan as early as September 5 to purchase up to 13.5 million shares of our Class A common stock. The plan is subject to the required cooling-off period. I'm entering into this new plan because I continue to personally believe Asana shares are undervalued given the size and relatively low penetration of the work management market. And I trust in the path we've charted ahead to be the leader in the category, while delivering value to our investors.

Catherine Buan

Head-Investor Relations, Asana, Inc.

Thank you, Dustin. Before I open it up to Q&A, I wanted to note that Mr. Moskovitz's plan is separate from the company's ongoing share repurchase program, and his statements regarding his trading plan to purchase shares of our Class A common stock may be considered forward-looking statements that are subject to risks and uncertainties, including that his trading plan may be modified, suspended or terminated by him at any time. There can be no assurance that the price and volume parameters of his trading plan will result in purchases of our shares of our Class A common stock, in line with his expectations in such forward-looking statements.

And with that, operator, we are ready for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question will come from the line of Taylor McGinnis with UBS.

Taylor McGinnis
Analyst, UBS Securities LLC

Q

Hi, thanks so much for taking my questions. Just the first one. So, you talked about seeing stabilization and expansion rates in the quarter and being through the worst of the renewal optimization. But it also sounds like upside might have been a little bit lighter due to some deal delays. So, can you just offer what gives you confidence in the acceleration implied in 4Q based on what you're seeing at the start of 3Q? Is that just a function of retention rates improving and starting to maybe see an inflection in revenue growth amongst technology companies? Or do you need to see an acceleration in other verticals or an improvement in net upsells? Thank you so much.

Tim M. Wan
Chief Financial Officer & Head-Finance, Asana, Inc.

A

Hey, Taylor, this is Tim. Yeah, I wanted to just say the – what we had talked about even in our kind of previous earnings call is really kind of getting past these bigger renewals that we knew about that would likely be downgrades. And I feel like we are past that now and that will be a tailwind and essentially kind of the stabilization point that we needed to reaccelerate the business. Some of the deals and I would say that we had hoped to close in Q2 have moved into Q3. They haven't fallen out of the pipeline. We expect the team and the businesses to essentially close those deals in Q3. So, we're encouraged by the pipeline, but a lot of it is really just the bottoming out of our gross renewal rate.

Taylor McGinnis
Analyst, UBS Securities LLC

Q

Great. Thank you. And then maybe Dustin, one for you would just be you talked a lot about innovation around Asana and AI and what you guys are doing there as well as it relates to some tinkering around pricing and packaging. So, can you just maybe talk about when those changes could be a bigger driver of growth down the line and some of the customer feedback that you've heard that's driving those decisions? Thank you.

Dustin Moskovitz
Chief Executive Officer, Co-Founder & Director, Asana, Inc.

A

Yeah. So, I think you're referring to, in the last earnings call, I was talking about the possibility of consumption-based revenue around, what we called in that call, custom workflows. This time we're introducing a new term AI Studio, which is the same idea, but this is really a new package that customers will be able to purchase starting in Q4 that will give them the ability to build those custom workflows.

I think we're still seeing incredibly great engagement from the customers in the pilot and they all want to proceed, and I have huge hopes for how far that goes. I'm hoping to be here next year talking about the pilot customers now doing hundreds or even thousands of workflows in Asana. But it's still pretty early to be able to quantify it. What I do know is sales will have something to sell in Q4 and I expect some amount of revenue from that, but not material revenue. And then, the hope is that's building pretty quickly into the early quarters of next year when we see some of those early customers start to get into enough volume that they're also triggering the incremental consumption revenue.

So, I think it will start by buying a package, probably including some professional services and that will begin in Q4. And then, next year, I'm hoping it becomes material revenue and we'll just know more and more as we go along with the pilot customers and can see what they look like later in the funnel and that will give us the ability to quantify it better for guidance.

Operator: Our next question will come from the line of Josh Baer with Morgan Stanley.

Josh Baer
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. And Tim, it's been great working with you and good luck in the next chapter. Wanted to ask about the deals that were pushed. Any sense for why they were pushed, how big they were, how many, and what gives you confidence that they'll close next quarter?

Anne Raimondi
Chief Operating Officer & Head-Business, Asana, Inc.

A

Hi, Josh, it's Anne. Thanks so much for your question. So, what we saw in the selling environment was – especially for larger deals and larger organizations, is the decision-making cycle has been elongated, but things are relatively stable compared to last quarter in terms of sentiment. While a number of these deals did push out of the quarter, we actually saw a good percentage of them closed in August and the rest are remaining in pipeline.

So, a lot of our focus as a team really is on big deal conversion rates in this environment, and so that's what we're swarming around the teams that are working on the largest deals, both the ones that got pushed into the quarter and the ones that we're working through in this quarter. So, that's where our focus really is making sure those large deals have the right resources to get them across the finish line.

Josh Baer
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thanks, Anne. And maybe for Tim or Dustin, just wondering if there's any more context as far as the CFO transition, any more color you could provide as far as the timing and the change? Thank you.

Dustin Moskovitz
Chief Executive Officer, Co-Founder & Director, Asana, Inc.

A

This is Dustin, and Tim should speak up, too. But I think it's easy to look at something like this and think it's in reactions like what's happening right now. But the reality is, this is a much longer conversation that Tim and I have been having and just trying to figure out the right time for him to make a transition because he wanted to take some time off and then also think about maybe one last big career move before retirement.

And so, we've been talking about this for a while. Don't love how the timing ended up, but I think it's pretty much a coincidence and it just ended up being how it worked out after talking about it for a while. Really sad to see him go. But also, as I said, it's bittersweet because we're also getting the opportunity to work with a really talented new CFO in Sona. And I know from experience you lose something important when somebody with Tim's experience walks out the door. But it's also just a chance to kind of shake things up and see things with new eyes.

Tim M. Wan
Chief Financial Officer & Head-Finance, Asana, Inc.

A

Yeah. Hey, Josh, this is Tim. Yeah, there was, like Dustin mentioned, this was a very long conversation, and I had wanted to – I've been here for almost eight years and it was really an opportunity to take some time off, reset, refresh my mind and think about what's next. I love this company. I love the people I work with every day. I love the problems that we solve and honestly, it was incredibly difficult decision.

Operator: Our next question comes from the line of George Iwanyc with Oppenheimer.

George Iwanyc
Analyst, Oppenheimer & Co., Inc.

Q

Thank you for taking my question. And Tim, I also wish you the best with what's ahead. Anne, maybe just starting with the technology vertical. Can you give us a little bit of color there? Have you reached a point of stability with most of your customers there and maybe put that in perspective of what you're seeing from a logo churn standpoint as well?

Anne Raimondi
Chief Operating Officer & Head-Business, Asana, Inc.

A

Yeah. Thanks, George. Happy to dive in a little bit more on tech. While tech was a drag on growth for us this quarter, I do want to just pause and reiterate that tech continues to be super important to us for a number of reasons. It's where we partner with some of the most innovative companies in the world to build our products. We mentioned earlier we're the platform of choice for the two largest LLM companies and we expanded with them this quarter as well as we continue to work really closely with them as we build out our AI solutions. So, our ability to partner with technology companies who are innovators and early adopters really helps us to continue to differentiate our product and really shape where the category is going.

And so, we feel that's also quite important to our growth in the developing verticals such as manufacturing, energy, retail and consumer, transportation and healthcare, our non-tech sector actually had good mid-teens growth this quarter. And some of that partnership with technology organizations is important to these non-tech customers because the leading organizations really care about implementing the best solution that's available that they can securely and innovatively scale with. So we're – we will – we saw stability, I think we mentioned in terms of where retention and renewals are. I think we'll continue to partner with technology companies, but the diversification outside of tech is one of our main focus areas and we're pleased to see some early signs and positive indicators in those sectors.

George Iwanyc
Analyst, Oppenheimer & Co., Inc.

Q

Okay. And just following up on that with respect to logo churn and then maybe give us a sense of where you are with the sales initiatives across the four points that you're highlighting?

Anne Raimondi
Chief Operating Officer & Head-Business, Asana, Inc.

A

Yeah. The focus areas that we mentioned, investing in more consistent post-sales, including services, we're seeing that services are incredibly important for larger deals, in particular, migration and deployment. And so those services either provided by us or our growing partner ecosystem, I mentioned improving velocity. That's really important, especially with the bigger deals, so further streamlining our sales processes and system. In particular, we're also excited about the energy and interest in AI products, especially from our largest customers. So, it gives us an opportunity actually to have a different conversation, in particular with AI councils or people within a CIO organization that are leading AI initiatives and kind of opens up new avenues for us. So, while it's early and we're piloting the positive feedback from our largest and most important customers has been great and we're excited to bring that to more of our customers when we go GA.

And then just reiterate my earlier point, focusing on strategic industry verticals to really diversify our business. So, we're working hard on all those fronts and continue to be excited that the most important for us is that our global revenue leadership team is in place and working really well together.

Operator: Our next question will come from the line of Alex Zukin with Wolfe Research.

Richard Magnus
Analyst, Wolfe Research Securities

Q

Hey, guys. This is Rich Magnus on for Alex. Can you talk more about how the competitive landscape has evolved over the last 12 months? And separately, can you give us some more color on how to think about billings trends over the next two quarters? Thanks.

Dustin Moskovitz
Chief Executive Officer, Co-Founder & Director, Asana, Inc.

A

Yeah. This is Dustin, not going to be surprised to hear this, we haven't seen a whole lot of change in the competitive landscape in recent months. We're in a lot of the consolidation deals and we're seeing customers hesitate to make a decision either way. And so, I think that's sort of directionally what our competitors are seeing as well, who are in those deals. Anne, do you want to take the second half of that? So, the question was just like, what is giving us confidence about billings in the next two quarters? Is that fair?

Richard Magnus
Analyst, Wolfe Research Securities

Q

Yeah, for sure.

Dustin Moskovitz
Chief Executive Officer, Co-Founder & Director, Asana, Inc.

A

Yeah.

Anne Raimondi
Chief Operating Officer & Head-Business, Asana, Inc.

A

Yeah. I think what's giving us confidence is just the continued improvement on across our revenue operations and execution. I think some of the things we're also seeing early signs of, we've been investing a lot in enablement and ramping new reps. That's been a big initiative. I mentioned earlier just investment in streamlining our processes and that's both operational processes, but also systems. Just making sure frankly that more of our rep time is spent strategically with customers and prospects and then just consistency around being able to close the larger deals. So, I think as that work continues and we're seeing that in across all of our regions.

Maybe I'll also dig in a little bit deeper, this quarter, some of the areas and regions that we saw good consistent growth were actually outside of the US. So, by geography, EMEA and Japan led our revenue growth and grew about 12% year-over-year. And so, those teams continue to execute really well, especially on larger deals. Those leadership teams have been in place a bit longer than our Americas team. So, those are good leading indicators that North America, where our general managers has been in place for two quarters and has been really working with the team there will be able to sort of see that in the coming quarters.

Richard Magnus
Analyst, Wolfe Research Securities

Q

Thanks, guys.

Operator: Our next question will come from the line of Michael Funk with Bank of America.

Michael J. Funk
Analyst, BofA Securities, Inc.

Q

Yeah, hi. Thank you for the questions this evening. And Tim, thank you again for all the help with the company. So, a couple, if I could, you mentioned a couple of times that some deals stalled in the pipeline during the quarter. Can you be more specific about where in the pipeline they stalled? Presumably you have metrics on deal closure rate certainty as you're closer to the end of the pipeline of the deal versus the beginning. So, any additional color or commentary there would be appreciated.

Anne Raimondi
Chief Operating Officer & Head-Business, Asana, Inc.

A

Sure. Happy to add some more commentary. As our focus has been on moving upmarket and working with larger enterprise customers, we are seeing more back-end loading in the quarter on the larger deals. I think that's sort of just a natural evolution of our focus upmarket. And so what we saw in those deals was that they sort of flipped from the end of Q2, as I mentioned, into Q3. But again, we're seeing signals that we're able to close those in Q3. So, a lot of that is just the pattern that we're seeing as we work with larger deals and larger enterprise customers and part of that is strengthening our muscle to be able to close those in-quarter and that's the focus for us.

Michael J. Funk
Analyst, BofA Securities, Inc.

Q

Okay. And then, I think investor focus and stock reaction aftermarket with primarily the 3Q guide and the greater weighting on 4Q now, I think the implied for 4Q sequential dollar step-up would be one of the larger moves in the last couple of years. So, what concrete breakdown of the factors can you give us to give us confidence in that 4Q revenue step-up, whether that is your forecast for less seat churn, large deal go-lives that you have towards the end of pipeline, anything to help people get more confidence in the back end loading for the year would be appreciated.

Tim M. Wan
Chief Financial Officer & Head-Finance, Asana, Inc.

A

Yeah. Hey, Michael, this is Tim. I think there's really two points. One, as I mentioned, we know what the renewal base looks like. And many of the larger renewals and downgrades that we had to lap have already happened. And we feel really confident around the base and the rates that we're going into the quarter with, with respect to renewal. So, we view that less of a headwind. So that's one.

Two, a good majority of the deals that did move from Q2 and Q3 have already closed. The pipeline continues to be healthy and I feel like we have really good visibility in terms of the dials and the levers converting those deals. So, it's really a combination of just like, A, lapping some of the more difficult renewals which we have and two, kind of what we're going into the quarter with. So, if we close those deals in Q3, generally the GAAP revenue you'll see will impact Q4, so.

Operator: Our next question will come from the line of Brent Thill with Jefferies.

Brent Thill
Analyst, Jefferies LLC

Q

Tim, congrats on the eight-year run and looking forward to the next chapter. Dustin, you're not alone in terms of what's happening in the software industry. It feels like many are taking down guide, or seeing things pushed out. I guess, from your perspective, what do you think is going on, if you had to take a look at a 40,000-foot level, is it consuming what customers have? Is it AI stall? Is there a blend of things that you're seeing? What do you think is actually causing this stall out across the industry?

Dustin Moskovitz
Chief Executive Officer, Co-Founder & Director, Asana, Inc.

A

Yeah, there are few big trends, obviously, I think that especially what we're seeing in tech is still, kind of, the unwinding of the overhiring and overspending that we saw at the beginning of the pandemic. And it's the same thing we're doing with our own internal IT budgets, is we're just being incredibly judicious about starting new vendor relationships. We're trying to consolidate vendors, we're actively deprovisioning seats, and all of that is just about budget control.

And additionally, I think, IT and procurement is taking the opportunity to try and consolidate, and choose the vendors that they're going to bet on for the long run. But at the same time, they're trying to do that within a constrained, both dollar, and sort of, energy environment internally. And it takes a little bit of change management to do that consolidation, and to push it through, and to make those big decisions that they're going to live with for a while. And so, they just have like a little bit less capacity to do that. And then, that all couples with what I think is massive uncertainty in the economic environment. And then, also, just with how AI is going to play out.

So, we've been talking a lot about this idea lately that the coming wave of AI transformation is even bigger than what people have been calling digital transformation for the past 10 years. And I think that some enterprises are trying to figure out whether and where it may actually leapfrog their digital transformation. And it would actually be, kind of, a waste of time to invest in a technology that's just going to be, sort of, obsoleted by something else in one year or two years.

So that's a pretty difficult environment to make decisions. But again, we are often faced with those same sorts of decisions ourselves internally, and end up doing proof of concepts of things, and then, pulling back, and trying another vendor. Trying to solve things in Asana or not in Asana. And so, I'm very sympathetic. And strategically, what we're trying to do is, meet the customers in the moment, and provide a solution that can be part of their digital transformation continuity, and the answer to AI transformation for them by embedding AI Studio – by delivering AI Studio, and giving them the opportunity to embed AI directly in the workflows where they already live.

Brent Thill
Analyst, Jefferies LLC

Q

Great. Quick one for Tim or Anne. About a year ago, Ed joined and took over on the sales side. Can you walk through the changes, kind of, how far you're in implementing some of those changes that he's made, or maybe they're fine tunes, I don't know how you would characterize his strategic actions. But if you can just give us a sense of kind of where you're at for that journey, having Ed on board since last August?

Anne Raimondi
Chief Operating Officer & Head-Business, Asana, Inc.

A

Yeah, I'm happy to cover that. So, yes, Ed, just crossed the one-year mark with us, and I would say the maybe most important things that he's been doing, we now have a global revenue leadership team in place, general managers in all of our most important regions, as well as new enterprise sales leaders in our top markets. So that's been also really important, Ed also brought on board a new head of global channel who's now been with us almost two quarters, has been also working really diligently with our post-sales teams, which is really important, both services, customer success, renewals teams across every region. And so I'd say that most important things have just been ensuring that we have the right team around the world and in all of our top markets.

I think some other focus areas have been really diving in on verticals, our most important verticals outside of technology. And so that's also where we're seeing good progress. And I would also say, just a really tight partnership with our global marketing team. So some of the things where we're seeing good signal that's helping us build the right kind of pipeline and the right relationships with director plus decision makers, and C-level decision makers is all our investments in our Work Innovation Summit. That pacing has been really strong this year. We brought that event to all of our markets.

We have our two most important events coming up in October and November. And just the, I think, the customer engagement and the volume of responses, and the ability to really have our global team meet our customers where they are as Dustin said, but also meet with prospects and decision makers who are looking at their medium to long-term AI investments. So, I think those are all result of the investment that I've been putting in place over the last year. And we're excited to see more to come.

Operator: Our next question comes from the line of Jackson Ader with KeyBanc Capital Markets.

Jackson E. Ader
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks for taking our questions, guys. Anne or Dustin, the first question for you, guys, on the impact of the tech sector, how much of the modest slope in the re-acceleration curve is, kind of, due to that sector subdued spending now? And then, how much do you think that the steepening of that curve could be used by tech coming back in the future as being one of the, I assume, an early adopter or frequent adopter of some of your AI innovations?

Dustin Moskovitz
Chief Executive Officer, Co-Founder & Director, Asana, Inc.

A

Not quite sure quite how to answer that. But I think we've been clear that the tech is a drag on overall growth. And so, we're seeing some segments that are growing faster than our overall growth rate right now, and looked like they're starting to re-accelerate. And so, if tech stopped being a drag, we would at least go up to those overall – to the growth rates of the better segments. And if it re-accelerated, yeah, that would be fantastic. We're certainly not modeling it that way and it's really hard to know the timing. But if AI transformation really takes off, and Asana is seen as the solution of choice for that, then that is definitely an excellent outcome for us.

Jackson E. Ader
Analyst, KeyBanc Capital Markets, Inc.

Q

Right. Okay. All right. Thank you. And then, Dustin, a couple of quick follow-ups on the 10b5-1, and I know I've asked this before, but I think it's just relevant again. Do you worry at all about, like your stepping in again and again at some point sends a counterproductive message to employees or the company around the operational and financial discipline? And then, second, is there anything that we should take away from the relative size of this plan that starts, couple of days from now versus the 30 million shares from last year?

Dustin Moskovitz
Chief Executive Officer, Co-Founder & Director, Asana, Inc.

A

The operational discipline thing would make more sense to me if I was funding the operations of the company, but I think it's pretty independent. Our commitment to discipline on free cash flow and building up margins, I don't think has changed much by me being a buyer in the market. In terms of the timing, I just wanted to point out, people often read into when I put the plans in market or even the days they're buying, and what's going on in the market or going on in the business, but actually have to plan like way in advance. And so, the company buying plan is very different. In fact, during the open window, it can be aggressive on a day-to-day basis.

But for me, I've got the cooling-off period, and then, it's sort of, set it and forget it on what the plan is. And historically, I've found it difficult to predict what the market was going to do to the stock, especially during all the uncertainty with inflation. And with everything that was happening, in the years before that.

And the reason I'm entering the market now is, I think, this is different. I think this is a point of stabilization, a low point, but a point of stabilization for the economy, and for the tech sector, and relatedly, for the Asana business. And even though I think there'll be some continued uncertainties, I just feel more confident that this is a time in the market when I can do this very slow process to declare my intentions way in advance and not end up getting, sort of, too rocked by exogenous factors.

But it's not something I plan to do again and again. The sizing, the number of shares is really a function of the price schedule. And, I mean, more made a decision around the amount of money. And I'll just say also – I found it interesting to put in plans, announce the sort of up-to number, and then, have people, sort of, anchor around that. I'll just emphasize, there is a price schedule, and I think what happened with the last plan had as much to do with, the prevailing market conditions as what my original intentions were.

So, pretty hard to give you a lot more detail than that without revealing enough information to be front run. But that's kind of where I'm at. I'm intrigued by this operational discipline thing, but that isn't really a primary lens I've had for thinking about it.

Operator: Our last question will come from the line of Patrick Walravens with Citizens JMP.

Patrick Walravens
Analyst, Citizens JMP Securities LLC

Q

Great. Thank you. So, bigger picture here, Dustin. How do you see this whole world of AI agents playing out? I mean, you guys have yours, and you have nine different features, I think, that are generally available, from one of your slides. Bret Taylor just launched Sierra. Benioff just announced Agentforce, and said that was going to be the highlight of Dreamforce. So, what should investors expect in terms of how these things are going to be differentiated and how do you see it playing out?

Dustin Moskovitz
Chief Executive Officer, Co-Founder & Director, Asana, Inc.

A

Yeah, I think, agent is an interesting term because it means a lot of different things to different people. One of the things that I've seen a lot of people try and deliver and try and buy is really almost the equivalent of like a humanoid, physical robot, just something that could theoretically be a drop-in replacement to an actual person you have in the org. We even had that cycle with BambooHR wanting to onboard them and have them be part of the HRIS system. And that, I think – as with humanoid robots, I think we're still a few years away from, at least. And in the meantime, our point of view is you want to focus AI on more specific jobs to be done. So, it's a little more analogous to the robots that Amazon uses in its factory warehouses that are specially designed for that purpose, and have more well-defined objectives, and sort of, rules of engagement.

And I think, that is how Asana agents are going to show up. You're going to be able to give them a specific workflow to go off of. Specific instructions for each step of that workflow, a predefined process and knowledge basis that give it the rules of the road. And I think that will make customers a lot more successful because they'll be able to deploy it in exactly the places where it's possible to be productive without worrying about things kind of going off the rails. Or say, a customer chat agent that offers refund you didn't intend, just being able to put these into much more, predefined workflows, I think is how customers are going to find the slope of productivity.

In terms of the specific competitors you mentioned, I think that agents will do sort of context relevant things, and so it'll matter a little more what the product is they're being introduced into. And I think Sierra, I don't know a whole ton about it, but I think they're coming at it more from the sort of Swiss Army Knife approach. And I think that it's going to be difficult to get that deployed in the short run.

Patrick Walravens
Analyst, Citizens JMP Securities LLC

Q

Awesome. Thank you. And Tim, if I could ask you a follow-up so, I mean it's been great working with you and looking forward to getting to do it again. But what do you think is the number one metric that investors should be looking at for Asana, – after you're gone, so, over the next year or two, what's the number one thing we should be focused on to see that this business is turning around?

Tim M. Wan
Chief Financial Officer & Head-Finance, Asana, Inc.

A

Yeah, I think the most important thing is seats. I think that's one of the North Star metric that we run the business on. The more seats we can deploy, the more value we can deliver across an organization. And as we add more SKUs in some of these AI functionality, I think we'll be able to really differentiate the product and demonstrate a lot more value where we'll have more pricing power over time.

Operator: That concludes today's question-and-answer session. I'd like to turn the call back to Catherine Buan for closing remarks.

Catherine Buan
Head-Investor Relations, Asana, Inc.

Thank you, so much for joining us today, and we look forward to see you on the road this quarter. We'll be at the Piper Sandler Conference, the Wolfe Conference, the Deutsche Bank Bus Tour, the KeyBanc Bus Tour. And those are just a few off the top of my head. Most of all, please join us on October 22nd in New York at our own Work Innovation Summit and we look forward to seeing you there. Thank you, again.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.