08-Mar-2023

Asana, Inc. (ASAN)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for attending today's Asana Fourth Quarter and Fiscal Year 2023 Earnings Call. My name is Danielle and I'll be the moderator for today's call. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. [Operator Instructions]

It is now my pleasure to pass the conference over to our host Catherine Buan, Head of Investor Relations. Catherine, you may proceed.

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 fourth quarter and fiscal year 2023. 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 webpage 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. Despite a challenging year, we finished our fiscal 2023 with strong growth, driven by our continued success serving enterprise customers and meaningful progress towards profitability.

Q4 revenues grew 34% year-over-year and fiscal year revenue grew 45% year-over-year. This growth was fueled by some of the largest companies in the world, who are Asana customers and represent industries such as media, automotive, professional services, manufacturing, healthcare, transportation, logistics, telecommunications and financial services.

During the fiscal year, we closed deals with three of the world's largest automotive manufacturers, four of the largest telecommunications and internet service providers, several large professional services companies, five of the largest media conglomerates, a top-five shipping and logistics company, and six financial services firms.

Overall, 8 out of the top 10 tech companies are Asana customers and 80% of the Fortune 100 use Asana. And in a moment, Anne will share more of our specific Q4 wins.

When you segment our customer base by those with more than 2,000 employees, an even more precise look at our enterprise penetration, we have well over 1,500 enterprise customers. Our seat penetration in most of these accounts is significant, but still in the single-digit percentages on average. So, there is a large opportunity for future growth.

Some of the most strategic companies in the world are partnering with Asana to define what work management at scale looks like. We have several Asana customers who have over 10,000 paying seats. We now have more than 139,000 paying customers as demand for our work management solution continues to increase.

Customers with over $100,000 annualized spend grew 49% year over year. As these customers continue to grow with Asana their dollar net retention rate continues at a very strong pace at over 135%. Revenue from this cohort grew 80% for the fiscal year and represents about a quarter of our total revenue.

Despite more budget scrutiny in enterprises, our win rates remain strong. We are winning more consolidation deals and are seeing an increase in large multiyear commitments, as customers grow their investment in Asana.

In Q4, the momentum in our non-GAAP operating margins turned the corner and we expect to continue positive momentum over the next several quarters. We expect to drive significant improvement in non-GAAP operating margin this coming year as we focus on operational efficiency and growth, which Tim will talk about more.

As we look towards fiscal 2024, we're focusing even more on our go-to-market strategies. We'll be scaling our winning playbook across the entire sales organization, increasing operational excellence and discipline, and ensuring we have proven enterprise talent to lead.

While we expect the current challenging macroeconomic environment to continue for the near term, we're encouraged by the way the longer term trends are playing out. The need for digital transformation isn't going anywhere. Customers are making multiyear commitments with Asana as they look to disrupt the status quo and get measurable ROI and time to value for their investments. And when companies want to consolidate their spend on work management, we are winning.

We're fortunate to serve and learn from some of the most innovative organizations in the world. Working with companies across major sports leagues, financial services, media, multinational consumer goods, and manufacturing has also given us unique insights into potential growth opportunities in the areas where we need to evolve in the coming years. I'm excited that Asana has reached a stage where these investments can be leveraged to create value across many more large enterprise customers.

Core to serving these customers is the way our product has evolved as well. We believe Asana has the most scalable architecture and data model and can support the most users, the largest volume of work, and incredibly complex workflows. The Asana platform is quickly becoming the work management solution of choice for large organizations looking to transform the way they work. There are four areas where we've seen recent traction in the enterprise: Goals, cross-functional collaboration, compliance, and integrations.

Asana Goals was already the number one goal product, according to the G2 Enterprise Objectives and Key Results software market. The vast majority of our $100,000 or more customers use Goals and over 90% of the ones that do connect them to work. Companies are moving goal management from standalone OKR vendors into Asana, and CIOs are recognizing our product as a consolidation opportunity.

Our customers continue to realize value from Asana's cross-functional capabilities, which allow people from multiple teams to work together seamlessly. In order to run their business processes, cross-functional collaboration is not a thing businesses do, it's everything they do. Asana is a critical platform that allows companies to work the way things get done. As we have mentioned before, virtually all of our customers use Asana cross functionally.

If you look at the nature of the work within each customer, the majority of their work in Asana is cross-functional collaboration, in contrast to other applications that track single projects for single teams. This number is even higher for customers spending more than $100,000. We see an even higher proportion of this cross-functional collaboration in the features we've built as we've moved up-market, including Goals and Portfolios.

For compliance, our newly launched HIPAA offering is enabling customers to bring more of their patient care management workflows into Asana. We have dozens of customers using our HIPAA solution just four months after its release, and we continue to see opportunities open up in healthcare and healthcare insurance related deals.

We're also seeing traction as more and more companies build integrations with Asana. Integrations help customers make better use of existing investments and improve the productivity and quality of work across their applications. These include HubSpot, Rules integrations with Gmail, PagerDuty, and Twilio. Salesforce for Goals is our first out-of-the-box integration for Asana Goals and it was just rolled out to customers this quarter.

We're already seeing an over 50% increase in Salesforce integration from our top-100 customers. When work happens in Salesforce, the progress of linked goals in Asana is automatically updated, making it easier to monitor impact and make informed decisions.

On March 28, we will be hosting our first event of the year, Asana Forward. This virtual program will feature cutting-edge research and real-life insights from Asana customers Amazon Web Services, Zoom, T-Mobile, Live Nation, and Morningstar. Attendees will hear why these companies chose work management software and how they're doing change management, supporting new revenue streams, and using IT to drive process excellence.

Those attending will also learn first-hand about Collaborative Intelligence, the next phase of Asana's proprietary technology, the Work Graph. Just as Asana led the way in defining the work management category, we're taking the next step to shape the future of work.

Before I close, I want to mention some of the industry recognition Asana has recently been given. In Okta's most recent Businesses at Work Report for 2022, Asana is the fastest-growing app in our category among the top-50 most popular apps on the Okta platform.

Also, Asana was named as a Leader in The Forrester Wave Collaborative Work Management Tools Q4 2022 report. The report specifically differentiated Asana for how our Work Graph data model connects information, people, and objectives that drive work through the organization, and how our goal management structure helps organizations connect disparate teams with a common focus.

Asana was also recognized as a top 100 in Glassdoor's Best Places to Work Award for the fourth time. And by Newsweek in cooperation with Plant-A Insights Group, Asana was awarded one of America's Greatest Workplaces for Diversity 2023.

I also want to highlight the release today of our fourth-annual Anatomy of Work Global Index, an in-depth analysis into how work has evolved during this time of rapid volatility. Conducted by GlobalWebIndex on behalf of Asana, the 2023 Anatomy of Work Global Index surveyed the behaviors and attitudes of more than 9,000 knowledge workers across the United States, the UK, Australia, France, Germany, and Japan to understand the impact of cross-functional collaboration, including what's working and what's not.

The report highlights that successful cross-functional collaboration helps organizations tackle challenges more effectively, leading to more revenue growth and adaptability for business and how clear goals contribute to business success by boosting collaboration, innovation, and employee engagement. This report is another example of how Asana continues to serve as a thought partner to our customers on the future of work.

There are three things I want to reiterate before handing it over to Anne. First, we're building a long-term sustainable business, focused on both growth and profitability. In Q4, we improved our non-GAAP operating margin by over 14 percentage points year-over-year. And as you can see from our guidance, we're expecting to improve our non-GAAP operating margin by 19 percentage points for the full fiscal year in 2024. This would be a 50% improvement versus fiscal year 2023 through a combination of efficient investment and growth.

Second, we're planning for pricing and packaging opportunities in the future to better match price to value for our enterprise customers. This is another area where larger deployments help us understand where we can evolve and add more value. We also expect this work to generate better leads for seat expansion and new opportunities in the future to upsell using add-ons.

And third, as I mentioned before, we are launching Collaborative Intelligence, the next phase of Asana's proprietary technology, the Work Graph. Our virtual event will be on March 28, featuring Amazon Web Services, Zoom, T-Mobile, Live Nation and Morningstar.

In fiscal 2024, we're aligning our actions to optimize for serving enterprises well, which will be our key driver of growth, new use cases within existing customers and use cases that drive new lands. We've already been making progress in this direction and are now well positioned to become the category leader, with consistently high reviews from users and analysts, and the largest existing deployments in enterprise.

The future of work is every organization working from a shared system of clarity and accountability, built on the Asana Work Graph. Our strategy is focused on bringing that future to life.

Now, I'll turn it over to Anne.

Anne Raimondi

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

Thanks, Dustin. The macro headwinds continue to impact our expansions and created longer sales cycles in Q4 and will continue to impact us going into fiscal year 2024. Top-of-funnel demand remained stable in the fourth quarter. Our free-to-paid conversion rate was also stable and helped feed our total customer number. We added 4,000 customers in Q4, consistent with the previous quarter.

The softness in Q4 was somewhat offset by overachievement in our enterprise and strategic accounts. Our largest customers really tell the story of the kind of value and ROI Asana delivers and how much potential opportunity there is in the market. We have invested heavily in our enterprise products over the years and we will further build our organizational go-to-market muscle in fiscal year 2024 for the growth opportunity ahead. We expect to see those investments fully materialize by the end of this year.

Beyond the macro headwinds, I also believe that this is an important time for us to be building for longer term success. There are areas where I know we can do even better. We have identified additional opportunities for execution improvement, especially ramping sales reps, and increasing productivity across the field and sales operations. We also recently reorganized territories and teams and rolled out new messaging in order to better position us for the next few years. And there is still more work to be done to execute consistently and broadly in all regions around the world.

When I look back, we had some significant highlights and momentum that will carry our business forward. Looking at our largest customers, they continue to grow with us for multiple years. There are a number of strategic use cases that drive these long-term investments.

Digital transformation projects are our largest. One of the world's largest consumer and industrial electronics manufacturers and IT service providers has been undergoing a company-wide digital transformation. Asana is being used by thousands of users across their transformation office, designers, marketing, business planning, and business systems project teams to gain more visibility and clarity into their cross-functional working processes so they can execute and make business decisions faster.

Another strong use case for Asana is global client and campaign management. One of the world's largest global consulting firms signed a global MSA which cements Asana as the worldwide work management provider of choice for every office.

Also, Asana Goals has proven to be a significant differentiator in the market, so setting and tracking goals across teams in the organization is a very compelling use case. In fact, a revolutionary carbon transformation company is using Asana Goals to help achieve their mission to eliminate global emissions and build a fossil-free future. And as Dustin shared, the vast majority of our cohort of customers with $100,000 or more annualized spend use Asana Goals and connect them to work.

Many of these long-term investments are multiyear agreements of which we have started to see more of. Another theme this quarter was vendor consolidation. As organizations look to simplify and streamline their vendors, Asana is winning vendor consolidation decisions.

One of the largest marketing and advertising agencies in the world had a significant expansion with Asana in Q4. They signed a multiyear contract for our enterprise solution expanding to 13,000 seats across 13 agencies. Their agencies around the world use Asana as part of a strategic initiative to more effectively manage their clients' media and marketing campaigns to help grow their businesses and gain market share.

Coupa, the platform transforming the way businesses manage their spend, signed a multiyear agreement for our enterprise solution in Q4. Across Coupa, customer-facing teams, marketing, IT, business operations, finance and engineering rely on Asana to manage large strategic projects tied to company goals as well as their daily work. Eric Tan, CIO at Coupa said, we consolidated on Asana recognizing the importance of building a common platform for our employees and customer communities to work together to drive meaningful results.

One of the world's most recognized brands in short-term vacation rental platforms chose our enterprise solution via a strategic, multiyear agreement as their foundational collaboration platform in their consolidated tech stack. This will enable the organization to create a consistent method for managing workflows across the business and to have a system of record for all work in the organization. This consolidation onto Asana will help them drive efficiencies now that the company is remote-first. Plus, it will improve accountability and alignment across the company so employees can focus their energy and effort on innovation and delivering the best experience for their customers.

And we're seeing expansions broadly across several diverse industries, as we continue to expand beyond our leadership in the tech industry. We're seeing continued growth within the financial services industry. For example, one of the world's largest European exchanges significantly expanded their use of Asana in Q4 to thousands of seats. Asana is now heavily used within their product, data, engineering, analytics, and machine learning teams to manage their roadmaps and project execution. We were the only work management platform that met their stringent security and compliance requirements.

For those of you that love pizza, we saw a great expansion with PizzaExpress, the British multinational pizza restaurant and food retail chain with 360 locations across the UK and 100 overseas in Europe, in Q4. They began using Asana in Q2 within their innovation team and will now be implementing Asana across all of their operations, including front-line employees, to drive growth in the business.

In summary, we are seeing more multiyear deals, winning more vendor consolidation decisions and continuing to diversify our enterprise success across more and more industries. All this said, we can do more. Looking forward, we have a number of big initiatives in fiscal year 2024.

First, our strategic accounts initiative. The goal of this initiative is to ensure that we are focused on our most leveraged account opportunities. We've already reviewed our top accounts by region to identify where our investments would be highly leveraged, and with this initiative, we can focus even further on our account management, customer success, and R&D resources where we will likely see growth opportunities and high ROI.

These accounts represent some of the largest names in technology, telecom, professional services, retail, manufacturing, consumer goods, media, and financial services. And we've already seen some proof of success. Our enterprise customers, which we define as organizations with over 2,000 employees, was our fastest growing customer segment.

Second, my goal is to increase average productivity per sales rep by 20% by the end of the second half of fiscal year 2024. We'll continue to improve our sales enablement capabilities and lead generation initiatives targeted at enterprise accounts. We'll also be elevating our sales playbook to focus primarily on high ROI workflows, quick time to value use cases, digital transformation, Goals and Reporting and ensuring that customers understand and experience that Asana is a must-have.

Third, we will further build our enterprise leadership bench strength. In EMEA, Sanj Bhayro has recently joined as our new General Manager of EMEA. We also brought on board Shannon Sullivan Duffy as our new Chief Marketing Officer. And Neeracha Taychakhoonavudh has joined us as our new Head of Global Customer Experience.

Together, these new leaders have over 70 years of combined experience in enterprise sales and marketing management and scaling fast-growing businesses from companies such as Salesforce and Oracle. We're also actively recruiting for a new Chief Revenue Officer who will help lead and accelerate our move further up-market.

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

Tim M. Wan

Chief Financial Officer, Asana, Inc.

Thank you, Anne. Q4 revenues came in at $150.2 million, up 34% year-over-year. Revenue from the US grew 40% year-over-year, accounting for 61% of our total revenue. International grew 26% year-over-year, accounting for 39% of our revenue. Currency impacted our international growth rate by roughly 300 basis points and the overall growth rate by about 100 basis points. International growth would have been 29% year-over-year and total revenue growth would have been 35% year-over-year without the impact of currency.

Revenue from customers spending $5,000 or more on an annualized basis grew 42% year-over-year. This cohort represented 73% of our revenues in Q4, up from 69% in the year-ago quarter. We have 19,432 customers spending $5,000 or more on an annualized basis, up 26% year-over-year. Our largest customers remain our fastest-growing cohort. We have 506 customers spending $100,000 or more on an annualized basis and the customer cohort is growing at 49% year-over-year.

As a reminder, we define these customer cohorts based on annualized GAAP revenues in a given quarter. Our dollar-based net retention rates were lower, but remained healthy across every cohort. Our overall dollar-based net-retention rate was over 115%.

Among customers spending $5,000 or more, our dollar-based net-retention rate was over 120%. And among customers spending $100,000 or more, our dollar-based net-retention rate was over 135%. As a reminder, our dollar-based net retention rate is a trailing four-quarter average calculation.

We continue to see stable gross churn rates overall and across the cohorts and low churn in our large accounts, demonstrating the value we deliver for our enterprise customers. However, we expect our overall dollar-based net retention rates to trend lower as companies remain mindful of the near-term economic challenges.

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. Keep in mind, non-GAAP results exclude stock-based compensation and the one-time restructuring costs that we incurred in Q4.

Gross margins came in at 90.5%. Research and development was $51.6 million or 34% of revenue. Sales and marketing was $93.2 million or 62% of revenue. G&A was $28.6 million or 19% of revenue, an improvement from 28% a year ago.

Operating loss was $37.4 million and the operating loss margin was 25%, representing a 14 percentage point improvement versus a year ago. The improvement in our operating margin demonstrates our ability to drive more efficient growth and manage our operating expenses with increased discipline. Net loss was $33.2 million and our net loss per share was $0.15.

Looking at the highlights from the full fiscal year. Fiscal year revenue grew 45% year-over-year to $547.2 million. We added almost 4,000 customers spending $5,000 or more on an annualized basis during the year. And we also added 166 customers spending $100,000 or more on an annualized basis during the year. Revenues from customers spending $100,000 or more on an annualized basis grew over 80% year-over-year. This cohort represented 25% of our revenues for the full year.

Moving on to the balance sheet and cash flow, cash and marketable securities at the end of Q4 were approximately $529.3 million. Our remaining performance obligations, or RPO, was $299.2 million, up 37% from the year-ago quarter. 84% of our RPO will be recognized over the next 12 months. That current portion of RPO grew 36% from the year-ago quarter. Total deferred revenue at the end of Q4 was $233.6 million, up 34% year-over-year.

Our free cash flow is defined as net cash from operating activities, less cash used in property and equipment and capitalized software costs, excluding the non-recurring items such as costs related to restructuring. In Q4, free cash flow was negative $26.5 million or negative 18% on a margin basis, an improvement from the negative 37% from the year-ago quarter. We ended the fiscal year with 1,782 employees.

Moving to guidance, for Q1 fiscal 2024, we expect revenues of $150 million to $151 million, representing growth rates of 24% to 25% year-over-year. We expect non-GAAP loss from operations of $40 million to $38 million, and we expect net loss per share of $0.19 to $0.18 assuming basic and diluted weighted average shares outstanding of approximately 215 million.

For the full fiscal year 2024, we expect revenue to be in a range of $638 million to $648 million, representing a growth rate of 17% to 18% year-over-year. We expect Non-GAAP loss from operations of $130 million to $120 million, operating margin of 19% at the midpoint of guidance, a 50% improvement from fiscal year 2023. And we expect net loss per share of $0.59 to $0.55, assuming basic and diluted weighted average shares outstanding of approximately 219 million.

Our guidance assumes the macro environment continues to create headwinds, especially in the first half of fiscal 2024. I'm also baking in some assumptions that our new leaders will need some time to execute on our strategies.

From an expense management standpoint, we implemented a number of initiatives to improve our operating margins, which you saw begin to manifest as early as Q4. First, we reduced our global head count as part of a restructuring designed to better prioritize our resources on moving up-market and improve operating efficiency for the long run. This reduction resulted in non-recurring restructuring charges of $9.3 million in Q4, which will be excluded from our non-GAAP results and free cash flow per our definition.

Second, we are continuing to evaluate every investment ensuring that we prioritize the highest ROI investments with shorter payback periods and aligning with our focus on moving up-market And third, we are continuing to evaluate our spend with every vendor, consolidating where there might be overlap and renegotiating our contracts to better match the value we are realizing with these providers. We expect these expense-related initiatives will drive measurable improvements in our operating margins in fiscal year 2024 and beyond.

Our guidance implies that operating expenses grow in the low-single digits or essentially stay flat to the previous year. Despite the uncertainty with the macro environment, we have increased confidence in our ability to be free cash flow positive before the end of calendar 2024, while balancing growth and profitability.

With that, I'll hand it back to Dustin, for some final remarks.

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 on March 9, 2023 to purchase up to 30 million shares of our Class A common stock, subject to the required cooling off period. I'm doing this because I personally believe Asana shares are undervalued, given the scale of the opportunity I see in front of us. The work management market is an enormous underpenetrated market that I believe we're well positioned to lead, especially in enterprise.

Working alongside some of the most strategic leaders in the respective industries gives us unique insights into their complex enterprise needs and various business models. This helps inform our product strategy and positions us well to understand the future of work and helps solve our customers' most critical challenges over the long-term.

Catherine Buan

Head-Investor Relations, Asana, Inc.

Thank you, Dustin. And before I open it up to Q&A, I want to note that Mr. Moskovitz's 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, and there can be no assurance that the price and volume parameters of his trading plan will result in purchases of shares of our Class A common stock, in line with his expectations in such forward-looking statements.

And with that, operator, we can open it up for Q&A.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] The first question comes from the line of Brent Thill of Jefferies. You may proceed.

Annick Baumann

Analyst, Jefferies International Ltd.

Q

This is Annick Baumann on for Brent Thill. Dustin, in the face of decelerating top line, which is undoubtedly macro-led, what continues to give you faith that you will ultimately win the enterprise and what is left to do to solidify that position?

Dustin Moskovitz

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

A

Yeah. Thanks for the question. There are a lot of things that I think are really positive signs for us. I think that the thing that I feel most excited about is just the strength of the really impressive customers that we have and how healthy those accounts are. So, even though, we've seen headwinds in the form of longer sales cycles that we talked about this quarter and last quarter, we know that there is still really high utilization even when the deals are stalled, we know those customers aren't going to competitors and we have a lot of signs from them that they intend to expand with us over time. And so, we feel really great about the places where we've landed already, especially in the Fortune 100 and other enterprises. And we think there is just a ton of room to expand there.

And we know that when we do see consolidation conversations and customers looking to really take the next step and commit to a partner, we're really well positioned. We often win those, thanks to the strength of the Work Graph and the way it facilitates cross-functional use cases, the fact that it's loved across many functions instead of specializing into one, and the credibility we have not just from having the existing deployments, but also from the high ratings we get from analysts that are focused on the enterprise segment.

Operator: Thank you. The next question comes from Jackson Ader of SVB. Please proceed.

Jackson E. Ader
Analyst, SVB MoffettNathanson

Q

Great. Thanks for taking my questions, guys. The first one, Anne, I think it was you that mentioned some opportunities on pricing and packaging, specifically in the enterprise. I'm sure these are like still in the works, but any kind of specifics you can give us, like ideas that are kind of bouncing around and also why just focus on the enterprise?

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

A

Hi, Jackson, thanks so much for your question. Yeah, the updates we're exploring are really focused on aligning value for our customers and they're deeply informed by both existing enterprise customers as well as prospects we're speaking with and market analysis. Our priorities – as you might imagine, we are exploring a whole number of options. I think Dustin mentioned add-ons. But really what we're thinking about there is making sure that our enterprise customer needs are met and we're delivering for them and they're realizing value as they scale and grow with us. And so, that's why we're focusing on that particular segment. Our current pricing and packaging plans have evolved over the years specifically for the existing base and with the growth in enterprise, that's why we're laser focused on pricing and packaging for those customers.

Jackson E. Ader
Analyst, SVB MoffettNathanson

Q

Okay. Great. Thanks. And then a quick follow-up. So, actually, just on those, like the multiyear deals that you sign with these Fortune 100 companies, do the contracts – do they have like minimum seat ramps that go up through the multi-years? Is it adoption-based or are they buying like a big pool of seats where they might create some shelfware? I'm just curious how those multiyear deals are layered in.

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yeah. Hey, Jackson. This is Tim. I would say, the common theme that we see across these multiyear consolidation plays is, one, the fact that these customers want to consolidate on a scalable enterprise platform. So in many cases, we are being deployed and they're lowering their spend across some of the other work management players. So, that's one. Two, given the macro, most companies are being very mindful of how many seats they buy. So, they are buying up to their usage. So, these are all very healthy accounts. Now, to the degree that companies are growing, many times what we see is that they do ask for tranches on how they buy the next set of seats. So, it does give them some flexibility to move up with some price certainty.

Operator: Thank you. And the next question comes from the line of Alex Zukin of Wolfe Research. Please proceed.

Alex Zukin
Analyst, Wolfe Research LLC

Q

Hey, guys. Can you hear me okay? Guys, can you hear me?

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yes.

Alex Zukin
Analyst, Wolfe Research LLC

Q

So, maybe just a few for me. One kind of generative AI question, which is par for the course right now for most investors, and then one financial one. Dustin, I guess, long term, when we've kind of talked about visions for Asana, I think one of the visions you've always had is that ultimately Asana, based on the corpus of knowledge and interactions and cross-functional data that you have, when an individual comes to work, they could kind of ask your platform, what's the next – what should I do today, right? And then it assigns – it could assign theoretically those next actions.

What's the right way to think about unlocking the value of generative AI in the Asana product, platform, vision? And how do you see this evolving? How do you monetize this? Is it just table stakes that every work management vendor has? Would love to kind of get your thoughts on that, and then I'll ask a couple of math questions.

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

A

Yeah. Great question. Obviously, it's a really exciting time in AI. We've been following really closely. I also like to point out we're really close to the OpenAI team in particular. We share a board member in Adam D'Angelo and the CEO, Sam Altman, actually led our Series C a few years back. So, we've been able to talk to them about the best ways to leverage GPT in Asana and how they think about the future.

And to your question about leveraging the unique value of the Work Graph, just to step back, there is a sort of larger arc AI story for us that involves multiple kinds of technology, not just the ChatGPT style language models. And we've been working with machine learning for a while now. We actually have some data-driven experiences in the product today and we're continuing to build on that direction. We are also prototyping things internally with the language models and have a lot of exciting ideas there.

In terms of the generative stuff, I actually think that the exact use case you gave, I think you might be able to use language models for that. I think the other machine learning approaches may be better suited and we'll try both. But I do think that there's a lot of other possibilities with generative models, like summarizing long threads for you, writing up status updates, trying to just aggregate all the information in a project and pull out the highlights, summarizing meeting transcripts. We're already seeing a lot of that from other SaaS products already, and we're students of the space. So, we'll incorporate the best ideas.

But I think whether or not, for the use case you suggested of really understanding the corpus of data, the structure of data, what's important to that particular end user, I think whether you're using a language model or another AI approach, the structure inherent in the Work Graph and just the information that users are putting into our system just give us a leg up. We have more data for those models to read and understand and create insights and help direct users to the most important work. So, I think the Work Graph actually ends up being an advantage, but definitely expect to see AI used across a variety of products.

Alex Zukin
Analyst, Wolfe Research LLC

Q

That's awesome. I'll put in the joke about no more TPS report.

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

A

Exactly. No more hand-written ones anyway.

Operator: Thank you. The next question comes from Andrew DeGasperi of Berenberg. Please proceed.

Andrew DeGasperi
Analyst, Berenberg Capital Markets LLC

Q

Thanks for taking my question. Just maybe back to the sales reorganization or, the changes you're making in the sales motion. Can you let us know what led you to do this kind of drastic shift? What did you learn over the last year or two since you've ticked off on the enterprise side? And then, generally, how would this reflect in the next few quarters in terms of the growth? I know you're baking in some conservatism in the guidance, and just wondering how should we think about this proceeding as we move through the year.

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

A

Hi, Andrew. It's Anne. Thanks so much for that question. So, the way we're thinking about it is we're really focused on building and scaling our enterprise selling infrastructure. So, we rapidly added to the sales team last fiscal year. And now, we're frankly ensuring that all the operational systems and enablement support is scaling to meet that investment. And really, what I'm laser focused on is to make sure our enterprise sales reps' time is focused on landing and expanding with the right customers and delivering fast, measurable business value. And we're doing that much more consistently and repeatedly in every market. So, that's the focus that you'll see that we are committed to. And that's also the focus as we bring on great new sales leaders around the world. And then, I think Tim will share a little bit more about the second part of your question.

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Hey, Andrew, just adding on to Anne, I think Dustin mentioned this in the script. We do have over 1,500 enterprise customers. And when we look at the data, customers that are spending more than $100,000 with us, their net expansion rate this last quarter was over 135%. And when we peel back the onion and look at the data, those expansions aren't just through up-tiering. Many of those, the vast majority of that growth and expansion is through seats and getting more deployment and across the company. So, that gives us a lot of confidence in terms of the strategy that we're moving forward with. So, that's one.

And then two, in terms of the guidance, I think I mentioned this on the call, I think we're still seeing kind of there is a lot of macro uncertainty. The Fed is still likely to raise rates. There's geopolitical issues kind of about. So, I think we're trying to be really thoughtful in the first half being continued to see challenges and that our customers, especially in the short term, will be very mindful of their spend.

We've also baked in some time, for our leadership changes to ramp up and for the strategies to take hold. So to the degree that there will be out-performance, I think it will come from the enterprise that businesses start releasing their budget and being much more thoughtful about investments. So, my approach, I think, if you ask me about guidances, I don't think there is a lot of downside to the guidance and I would just not model or just be cautious on not having a lot of upside in the model this early in the year.

Andrew DeGasperi
Analyst, Berenberg Capital Markets LLC

Q

That's helpful. And just on a math question that Alex didn't get to ask, in terms of the OpEx rising low-single digits, ihow should we think about it, should it be R&D really kind of growing a little bit faster overall and you're just taking a cut to sales and marketing? How should we think about the moving parts on that?

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yeah. I think R&D as a percent of revenue will be relatively flat, and I wouldn't say sales and marketing is a cut. I think the way to think about it is really a reallocation of where those resources were in prior years or even last year, where we're still focused on the SMB, and we're redirecting many of those resources towards moving up-market. So, I think you'll continue to see leverage, like you saw this last quarter in sales and marketing, and you'll continue to see leverage in G&A. And then, I would expect R&D to be relatively flat on a year-over-year basis.

Operator: Thank you. The next question comes from Rob Oliver of Baird. Please proceed.

Rob Oliver
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thank you, guys. Can you hear me okay?

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

A

Yes.

Rob Oliver
Analyst, Robert W. Baird & Co., Inc.

Q

Hello. Good evening. Yeah. Great. Hi. Thanks. Thanks so much, guys. So, a question, Dustin, for you or for Anne. It sounds as if the consolidation play is a nice change for you guys relative to last quarter and I know that, Anne, you had mentioned last quarter that you guys were engaging more at the C level. So, can you talk a little bit more about those vendor consolidation wins you guys have had? Are they seat expansion that's coming at the expense of other vendors as people kind of do the same thing that Tim mentioned he's doing, which is rationalizing vendors? And are these C level decisions, are they influenced by sort of the bottoms-up strength that you guys have with users? Talk a little bit more about those consolidation wins, and then I just had a quick follow up. Thanks.

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

A

Yeah. Hi, Rob. Thanks so much for your question. So, yes, we're seeing consolidation wins for Asana, especially as CIOs are looking to drive consistency across their organizations and reduce the total number of applications that they're supporting. So, a couple of factors in our favor specifically are our proven ability to scale to over 150,000 seats and growing, and then the power of our Work Graph architecture which really allows these organizations to consolidate multiple divisions or functions. And to your point, it's really driven by the strong usage and the love for the product that exists in the organization.

A few other things that we've been seeing. Our Goals product enables executives to connect the company's top priorities to all the work that's necessary to achieve those priorities. And so, they can do that all in Asana. The majority of our $100,000-plus customers are using Goals and 90-plus percent of those are using Goals connected to the underlying work. So, we're seeing that in this environment be especially valuable and impactful.

Rob Oliver
Analyst, Robert W. Baird & Co., Inc.

Q

Great. That's helpful. Thanks, Anne. I appreciate that. And then, Tim, just one for you. Really appreciate the color around your thoughts relative to the cadence of the guidance through the year with Q1, obviously, being strong. But it sounds like you're giving yourself some room there on the ramp with some of the new managers. How is head count relative to where you think it needs to be on that guidance, both sales head count and general head count within the firm? Thank you.

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yeah. Just from a head count perspective, we're pretty comfortable with where we're at right now. As we look throughout the year, we'll be looking for signs where we can invest. So, to the degree that pipeline is stronger than our expectation, productivity is increasing, deal cycle time is decreasing, all those things will inform us on how fast we want to grow our heads. But at this point, I think we're fairly comfortable with what we have. We want to demonstrate leverage in the business. Even if you look at our guidance, our operating margins are going to improve by about 50% year-on-year. So, those are all the progress that we want to make sure that we're delivering and we'll be very mindful throughout the year.

Operator: Thank you. The next question comes from Brent Bracelin of Piper Sandler. Please proceed.

Brent A. Bracelin
Analyst, Piper Sandler & Co.

Q

Good afternoon. I guess, love to see the focus on the enterprise and some of these multiyear deals. Maybe for Anne or Tim, on the NRR, even with some of the multiyear deals, that NRR rate did downtick. It's a little bit lagging, because it's trailing 12 months, but it did downtick. How much of that slowdown there is tied to just the macro slowing the pace of expansions across the base of, it sounds like, 1,500 enterprises? Or are you also seeing a drag or seat contraction with some of the broader layoffs that we're seeing in the tech space? Just trying to parse out what those drags are you're seeing. I understand it's still very healthy. But in period certainly down-ticked and would love to have a better explanation on what's contributing to that downtick in NRR.

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yeah, sure. Hey. This is Tim, Brent. So, I would say that the color I would add to that is the NRR downtick is driven really by two things. It's really driven by expansions being lower than historic, primarily because companies aren't hiring as fast. And then the other piece is some downgrades within some of our customers particularly in tech, who many of you know, have had layoffs. But when I look at the logo churn, those remain healthy, especially around our $50,000 and $100,000 customers. There's virtually zero churn or logo churn within those customer base.

So, in the short term, companies are kind of hunkering down a bit in terms of their spend, but they're still deploying more seats. And to the degree that some of the companies that may have over-hired and have had layoffs, we do see downgrades with that customer cohort. But when we look at the data, the logo churn is healthy. And for those companies that haven't had layoffs, some of these consolidation plays, those are all seat expansions.

Brent A. Bracelin
Analyst, Piper Sandler & Co.

Q

Great. My last follow-up here is for Dustin. Now that ChatGPT has an API released, how quickly do you plan to test and trial and embrace some of these LLMs and AI transformers out there? Thanks.

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

A

Yeah, this is Dustin. Definitely intend to test them right away. We've been prototyping things, but I don't have anything to announce in terms of when we'll have customer availability on any of that.

Operator: Thank you. The next question is from Alex Zukin of Wolfe Research. Please proceed.

Alex Zukin
Analyst, Wolfe Research LLC

Q

Hey, guys. So on those math questions I promised, I guess, first around the NRR, Tim, with the commentary about customers in tech verticals kind of downshifting or right-sizing, how long do you expect those trends to last? And the key question being, given it's a trailing four-quarter metric, it's exiting the year clearly lower than 115% in aggregate. Where is the confidence interval around where it troughs? And when do you feel like you're going to be through the anniversarying of the primary cohorts that are downshifting? And then, I've got a quick follow-up on just the revenue breakout for $5,000 up and $5,000 below.

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yeah. Sure, Alex. When you kind of look at the NRR, I would say, we will see some continued compression, because it is a four-quarter trailing number. But I would expect Q3 and Q4 of this year to provide some better comps for us on that NRR, because it's kind of Q3 and Q4 was when we started to see a lot more of the tech verticals start right-sizing and having more layoffs. So, that's kind of the timing in terms of the NRR, Alex.

Alex Zukin
Analyst, Wolfe Research LLC

Q

Got it. And then, I guess, to the comments that you've made around being a little bit more conservative in your assumptions and giving the new sales heads time to ramp, looking for a CRO, that all makes sense. Should we assume that for the year revenue from the customers that are spending over $5,000, does that go into the high-70s as a percentage of total? Because when you model it out, it still looks like even that cohort is going to dip to the low-20s percent growth. So, just help us a little bit understand of what's happening there. And again, when that could start to bottom?

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yeah, great question, Alex. I think you're referring to the number being in the low-20s, right? So, the way to think about it is, we're going to focus much more on the $50,000 and $100,000 cohort customers and pushing for much more moving up-market than even just like slightly above $5,000 or the $5,000 to $10,000. So, I do think, in aggregate, the $5,000 and above will continue to trend north as a percentage of our revenue, probably closer to like between 78% and 80% as a percent of our total revenue over time. But the focus is moving even more up-market towards $100,000 type of customers.

Operator: Thank you. The next question comes from George Iwanyc of Oppenheimer. Please proceed.

George Iwanyc
Analyst, Oppenheimer & Co., Inc.

Q

Thank you for taking my question. Anne, maybe following up on your comments on Goals. Can you give us a sense of what you're seeing from Workflow Builder and automation and how that's helping with the consolidation activity you're seeing?

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

A

Yeah, George. Thanks so much for that question. Maybe a good way to answer that is just an example with a customer that did consolidate. So, a leading global vacation rental platform consolidated last quarter on Asana to really enable every employee to have a single consistent place to collaborate and drive improved productivity and execution, and they've gone remote first. So, the rules, the automation, the workflows are really helping to make sure that there is no more siloed work for them, that there is improved accountability. And it's also providing more time for their teams to focus on innovation and improving customer experience for their millions of global customers. And in fact, they have a dedicated center of excellence and an internal team partnering with our account team to really make sure they're making the most of every aspect of Asana.

So, we see those features all coming together. And now, since their entire organization is on Asana, the ability to then implement and connect all of their company goals down all the way through the organization to an individual level, so employees can come in and know exactly what matters and how their work connects to their company goals. And that's especially important for this organization, again, because all – employees are completely distributed around the world. And so, they're all just collaborating through technology and through Asana with one another.

George Iwanyc
Analyst, Oppenheimer & Co., Inc.

Q

And following up on that, with all the sales changes you're making, can you give us some perspective on what you're doing with the channel and system integrators?

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

A

Yeah, absolutely. So, the way that we think about channel and then partners overall is, because our focus is on growing with enterprise customers in our priority markets, we really want to ensure we're building those relationships in a really strategic way. So, for enterprise customers, strong partnerships with SIs and service partners actually are important, as well as our deep partnerships with best-of-breed software companies, those are really important for our enterprise customers. With our channel partners, we really see them as important to helping us extend our reach in markets where we're still early and don't have our sales teams on the ground. So, that's the way that we're approaching not just our channel strategy, but our overall partner strategy.

Operator: Thank you. The next question comes from Robert Simmons of D.A. Davidson. Please proceed.

Robert Simmons
Analyst, D.A. Davidson & Co.

Q

Hey. Thanks for taking my questions. First, I was wondering, could you give us a little bit of a preview on what Collaborative Intelligence is, or is that too early for that?

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

A

Yeah, absolutely. We're really excited about the event coming up. We've made a lot of progress over the years in getting our customers to put their projects and portfolios and workflows into Asana, and Collaborative Intelligence is really about aggregating the information that we see across those and giving leaders and executives more of that top-down view on how work is progressing. So, it really enables them to identify collaboration hotspots and make better, faster, data-driven decisions. So, really excited about that, and we've been talking about AI a lot today. This is kind of like Asana intelligence, a different version of AI, but it's also Collaborative Intelligence, because really everyone is inputting their own view of the Work Graph, but we're able to provide views and insights that really take all those bits of information and put them into more of a coherent story.

Robert Simmons
Analyst, D.A. Davidson & Co.

Q

Got it. That makes sense. And then, kind of reading between the lines between some of your comments, would it be fair to characterize the quarter as a bit weaker on the SMB side, but actually pretty solid for your larger accounts customers, relatively speaking?

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yes. Yeah, Robert. I think that's a fair statement.

Operator: Thank you. The next question comes from Steve Enders of Citi. Please proceed.

Steven Enders
Analyst, Citigroup Global Markets, Inc.

Q

All right. Great. Thanks for taking the questions here. I want to dig in a little bit about some of the comments on the go-to-market side, talking about trying to drive 20% better rep productivity through the year. So, I guess, how are you thinking about the biggest levers that you can pull to be able to achieve that and the changes being made on that front? And then, for Tim, how are you contemplating the productivity changes in the guide and the outlook here?

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

A

Yeah, thanks so much, I appreciate you asking that and on productivity specifically. So, there's a couple of factors contributing to sales productivity. The first is about a quarter of our sales team is still ramping. And the second is that the reduction in force we implemented in November did impact productivity as managers and teams adjusted to those changes. So, our focus now really is on investing in several areas. Certainly, the infrastructure, the tools and training needed to deliver repeatable and predictable lands and expands, especially in our larger accounts. So, that's a lot about enablement. It's also about our partnership internally with our enterprise technology team, investments in RevOps.

So, it's all of that geared towards our enterprise selling motion. And we're excited about the early traction on that front, but know that we have a lot of work to do. So, those are the areas that we are really focusing on.

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yeah. In terms of the guide, I would say, in Anne's comments, I'm not sure if you all heard it, but we really talked about that 20% ramping at the end. So, you can think of it as we're making progress throughout the year. But I would say, to the degree that the reps productivity – we hit that 20% early in the year, that would probably be upside to the model.

Steven Enders
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Perfect. That's helpful. Thanks for taking the question.

Operator: Thank you. The next question comes from Fred Lee of Credit Suisse. Please proceed.

Fred Lee
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey. Good afternoon. It's very encouraging to see the significant increase in incremental margins in the quarter and also implied in the guide. Tim, you talked about evaluating every investment to prioritize high ROI investments with shorter payback periods. Can you tell us a little bit about some of those high priority investments that make the cut and some of the projects that take a backseat? Thank you.

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yeah. I think at a very high level, it's really looking at our customer base and where we have penetration, and the size of their employee base and where we think we can really make progress with those accounts versus smaller accounts where you may be capped at in terms of the number of employees. So even when you break out the NRR, you can really see the difference between the downgrade and the churn and the smaller paying customers, the SMB and the VSB, and then the higher paying accounts, which many of the enterprise customers, where you don't see logo churn and you really see more seat expansion. So, I would say, that's an area where we've done a lot of focus and kind of shifted both our marketing spend and our sales capacity and trying to move more up-market.

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

A

And this is Dustin. I would just add, there is also a regional angle to this. So, we have different sort of CAC payback and LTV by country. And we focused a little more on where we already have strength in the market and where the market is just a stronger economy and more buying power. And so, we've shifted some of our attention more into our Tier 1, Tier 2 markets and less in emerging markets.

Fred Lee
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you for the color. Appreciate it.

Operator: Thank you. The next question comes from Jason Celino of KeyBanc Capital Markets. Please proceed.

Jason Celino
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Thanks for fitting me in. Just one question and maybe I'll just ask it plainly, but it sounds like you've built in some conservatism on the revenue guidance. How should we think about the conservatism or the aggressiveness of the operating margin framework given so much improvement you're expecting? Thanks.

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

I would say, we're committed to delivering free cash flow before the end of calendar 2024. We've made vast improvements in terms of the operating margin guide. And hopefully, we'll continue to under-promise and over-deliver for you guys. And that's kind of how I would characterize the guidance.

Operator: Thank you. And our last question comes from the line of Shebly Seyrafi of FBN Securities. Please proceed.

Shebly Seyrafi
Analyst, FBN Securities, Inc.

Q

Yes. Thank you very much. So, can you talk about the linearity during the quarter? I noticed that receivables grew by 39% sequentially, much more than 6% revenue growth. How was January like versus December? And how is February, which also passed, how was it versus January?

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yeah. December is an odd one to compare to primarily because of the holidays. But we certainly had a very solid finish to the fiscal year. And I would tell you we're encouraged by what we're seeing right now with the conversations we're having with customers in February.

Shebly Seyrafi
Analyst, FBN Securities, Inc.

Q

Okay. And also, your seat growth was, according to my model, like 30%. Am I in the right ballpark? That was much more than your customer growth. And importantly, in my model at least, your price per seat was flat year-to-year. And I'm wondering whether you're modeling flat, up, or down in 2024 for price per seat.

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yeah, I would say, your model's not too far off in terms of seat. I think we've talked on the call and even with what we've done in person meetings that the focus is seat deployment and getting as many seats as possible within these large enterprises. And that, over time, we view price as just another lever for growth and moving those customers up as we deliver more value. So, you're not too far off in terms of how you're thinking about the business and how you should model it.

Operator: Thank you. And with that, we will conclude our question-and-answer session of today's call. I would now like to hand the call back over to the management team for closing remarks.

Catherine Buan

Head-Investor Relations, Asana, Inc.

Thanks so much. Just a final thank you to everybody joining the call today. I know it's a busy season. We look forward to seeing you out on the road this quarter and thanks again.

Operator: And with that, we will conclude today's call. Thank you for participating and you may now disconnect your line.