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Asana

First Quarter and Fiscal Year 2022 Earnings Call

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PRESENTATION

Operator

Good afternoon and thank you for attending the Asana First Quarter and Fiscal Year 2022 Earnings Call. My name is Amber and I will be your moderator for today's call.

All lines will be muted during the presentation portion of the call with a question-and-answer session at the end.

I now have the pleasure of handing the conference over to our host, Catherine Buan, Head of Investor Relations at Asana.

Catherine, please proceed.

Catherine Buan

Good afternoon and thank you for joining us on today's conference call to discuss the financial results of Asana's first quarter Fiscal 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 financial outlook, 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 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.

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

Dustin Moskovitz

Thank you Catherine and thank you to everyone on the call today.

We're pleased to report another record first quarter led by strong growth across our major markets and significant traction in Enterprise. Revenue grew 57% year-over-year, beating the top end of our guidance range. Importantly, we had record-breaking events on several fronts. Our largest customer scaled to a new high with now over 100,000 seats. We also set a new record with our largest land deal in Company history. This leading payment service company is a net new customer with 3,000 Enterprise seats and an annual contract value, or ACV, of well over $0.5 million.

I also want to note an important Asana milestone in Q1. For the first time, our ARR surpassed $0.5 billion. We're seeing bigger and faster expansions in our largest customers. Comparing the total ARR from our top 100 customers a year ago, the total ARR from our current top 100 customers, it grew 75% year-over-year. All of our top 100 customers have over 1,000 seats or more on Asana.

Geographically, revenue in the U.S. grew faster than overall growth, at 61% year-over-year, which we believe can be a leading indicator for demand worldwide. Our revenue mix of the Business and Enterprise tiers continues to climb, now representing over 64% of total revenue. While we acknowledge the overall macroeconomic environment today, and Tim will touch on our plans more in a moment, these metrics and customer wins are strong proof points for a durable Asana growth profile.

The near constant change of the last two years underscores the need for more clarity in alignment and a platform that keeps teams focused and connected with each other and their goals. Asana's unique product strategy, its navigation system for cross-team coordination and clarity, is meeting this demand. As you can see from our Q1 results, companies are continuing to recognize Asana as an essential platform and partner for these modern work challenges.

Further demonstrating Asana's value is the June 7 Employee Impact Suite product launch. This launch addresses one of the most important concerns of leaders everywhere: how do I bring my teams together and keep them focused and productive? Leaders across the enterprise love these capabilities because their distributed teams can connect to and focus on the most important work.

For example, with My Goals, managers are empowered to macro-manage their teams by aligning them around key objectives and the work needed to achieve them in one interface, no matter where they are in the world. The new automatic progress rollouts give executives and teams a real-time look into the status of that work. They can identify roadblocks and make decisions more quickly with no manual work-about work needed from their teams.

One remarkable trend that continued this quarter is the success of our Goals product. Asana Goals continues to drive an increasing amount of wall-to-wall deals and medium-sized enterprises. Customers such as Benevity and Lucid are great examples. Companies that care deeply about driving sustainable employee engagement, which translates to higher productivity, have made Asana their work platform of choice.

Another thing to note is that Asana Partners is expanding our ecosystem in support of consolidated technology stack. Users do less contact switching and have more time for the work that matters. This expansion includes a reimagined Google Drive integration, linking Google Docs, Sheets, and Slides to tasks with file comment notifications directly in Asana, minimizing tool switching.

Asana for Google Chat and Spaces converts unstructured conversations or messages into actionable Asana tasks without leaving Google Chat. A brand-new Sigma integration powers creative work by converting stickies into Asana tasks without leaving brainstorming sessions in big Jamboards. This launch continues the momentum of our strong Fiscal Year 2023 product cycle.

Our Asana Flow launch in February democratized the power to build workflows. Workflow Builder is simple to use without requiring technical expertise yet powerful enough to support end-to-end cross-team workflows for organizations of all sizes. Our customer base continues to be fanatical about this launch. In just 90 days, 145,000 Rules have been created with particularly high adoption across our top 100 domains. More than 40% of our $50,000 customers tried Workflow Builder within two weeks of the launch, leaving a large runway for expanding across the base.

I also want to mention another launch in June. We're looking forward to the first Asana ESG report later this month. Our Company was purpose-built for sustainability from day one, and we're excited to share our metrics broadly and how ESG will be further integrated into our operations going forward.

Looking ahead, digital transformation will continue to be a priority for organizations. Asana helps drive meaningful and vast productivity gains, which we know leaders are seeking intently. With high inflation and rising capital costs, leaders say they have even more appreciation for the efficiency Asana achieves within their businesses. Asana is perfectly suited during times like these as we help customers better adapt and improve along the way.

We remain committed to building a comprehensive work management platform, capable of serving organizations of all sizes around the world. We believe in our long-term strategy and are confident in the fundamentals of our business. Our investment is paying off with strong momentum in the enterprise, and we'll continue to invest strategically in this growth while balancing our commitment to making significant progress towards free cash flow in the coming year.

Now I'll turn it over to Anne.

Anne Raimondi

Thanks, Dustin.

As you've already heard from Dustin, it was a great first quarter. Our investments in the Enterprise segment are paying off as we set new records with bigger lands and faster expansions. We now have 390 customers spending over $100,000, and these larger deals represent our fastest-growing customer cohort, up 127%.

We're also consistently closing strong wins in the mid-market, where I would note in particular, we are seeing an uptick in wall-to-wall deals. Across medium-sized companies and divisions of Enterprise organizations, our differentiated Goals product, which seamlessly ladders individual tasks, team projects, and cross-functional portfolios up to company goals with automated status reports is helping us close more strategic opportunities.

Looking at our performance by geography, revenue from the U.S. grew 61% year-over-year, accounting for 59% of our total revenue, while international grew 52%, accounting for 41% of revenue. If it wasn't for our exposure in Ukraine and Russia, and foreign exchange impacts, the growth rate of our international business would be 1 to 2 percentage points higher.

We saw strength in our core markets and our channel strategy, which is still in its early stages of growth, is seeing some notable large wins as we build our presence in new countries. Lastly, we have a healthy pipeline and strong engagement with our large customers.

As I look across our customer base, I see three major trends: bigger expansions often driven by strategic cross-functional use cases, larger lands, and broad cross-industry adoption.

The first and most pronounced trend is our larger, faster expansion within our largest customers. A number of big global brands are seeing steep user adoption curves of up to 2% week-over-week growth in some cases. As you know, we have some of the largest deployments in the category, and we are just getting started. Our largest deployment has grown again and is now over 100,000 seats.

Asana is used heavily across several operational units, including managing their most strategic global accounts and designing and scaling some of their fast-growing cloud businesses. Another example from Q1 is a company called Octopus Energy, which is using transformative technology to make renewable energy the norm and end global reliance on fossil fuels. They are wall-to-wall with Asana and use our platform to streamline all of their strategic workflows across teams.

Our success across various impact organizations is very important to our mission, which brings me to yet another important organization called Jobs for the Future. They went wall-to-wall with Asana in a multiyear contract. Jobs for the Future helps to provide a stronger supply of qualified prospects to fill jobs and develop more equitable advancement for people. It's an important effort as employers across the nation struggle to find people with the right skills, and Asana will help them scale quickly and effectively.

Lastly, this quarter, one of the world's largest telecommunications companies continued to expand rapidly and virally as the demand across users surpassed their previous contracts. One of the major drivers of these expansions is another trend we are seeing. More and more customers have scaled complex, strategic, and cross-functional workloads. They need high impact and high return on investment fast, and Asana can help them with this. As these organizations shift and accommodate the ever-changing market environment, they need even more agility.

Zoom and Okta are great examples, where Asana is the company-approved platform for work management. It's how they work every day. As a corporate-approved vendor, Asana is growing across their operations and business teams and is the way most employees manage their most important work.

The second trend we're seeing is larger net new land deals where the companies are realizing the strategic benefit of the capabilities enabled by the Work Graph. As Dustin mentioned, a large high-profile financial payments company represented the largest land in Asana Company's history. Importantly, Asana's Workflow Builder was a key contributor in closing the strategic net new deal. The CEO of this firm called Asana exceptionally well-implemented and broadly useful. It's always great to see customers give us a shout out in a public forum.

Everbridge, a global leader in critical event management and national public safety software solutions, was another exciting net new land deal. They saw the value of Asana and initiated a multiyear contract to help them automate operational workflows and increase visibility into projects.

The third trend we're seeing is broad cross-industry demand in the enterprise. We continue to see significant expansions across financial services, telecommunications, automotive, manufacturing, consumer retail, technology, and professional services, amongst others.

On the topic of strategic partners, it's clear that our progress with HIPAA compliance opens exciting new opportunities. I'm proud to announce our partnership with Align Technology, a global medical device company and distributor to tens of thousands of doctors' offices. Real-time patient information and high-touch practice communication is an enormous opportunity for maximizing volume and revenue.

This solution, Asana Smiles for Align marks an important development in Asana's history as we look to bring a broader HIPAA-compliant offering to other customers later this year. Asana not only helps teams work together effortlessly; it also helps companies work together with their partners and customers effortlessly.

It's still early to see how the current environment will ultimately impact our customers. Within the current dynamics, leaders are reconsidering how they're allocating resources, and more than ever, they need increased productivity across the organization no matter what people are working on.

These times shine a brighter light on the value Asana has always delivered and the pain points we solve, the Work Management platform that shows who is doing what by when, and visibility into how this work is connected to larger goals. Organizations will lean into our category because they need more clarity, agility, and efficiency. We are-well positioned in a market like this as companies look to do more with less.

Looking ahead, my top areas of focus include:

- Value-based selling. As the IDC study revealed, customers realized 225% return on investment in the first year they use Asana through increased productivity and faster workflows.

- Account-based marketing. Repeating our successful playbook in North America and doing it at scale around the globe. Our account-based selling enablement is starting to pick up and our value-based selling is getting stronger.

- Raising industry awareness. We saw a tremendous pickup of our third Anatomy of Work report. We reached a global audience of over one billion people with stories in the major business in consumer media. We believe we can win this category as the awareness grows and our unique capabilities meet customer needs, providing time to value in weeks, not years, and high, ongoing return on investment.

With that, I'll hand it over to Tim.

Tim Wan

Thank you, Anne.

Q1 revenue growth showed continued strength in the business. Revenues came in at $120.6 million, up 57% year-over-year. This puts us at an annualized quarterly revenue run rate of $483 million. As Dustin mentioned earlier, we reached a key milestone, surpassing $500 million ARR, with year-to-year growth rate similar to our GAAP revenue. This is not a metric we regularly disclose, but it's such an important milestone.

Revenue from customers spending $5,000 or more annualized grew 73% year-over-year. This cohort represented 70% of our revenues in Q1, up from 64% in the year-ago quarter. We now have over 126,000 paying customers at the end of Q1, up 7,000 in the quarter. This represents a 26% year-over-year increase. We have 16,689 customers spending $5,000 or more on an annualized basis, up 48% year-over-year, and growth in the larger customers is even stronger.

We now have 979 customers spending $50,000 or more on an annualized basis, up 102% year-over-year. As Anne mentioned, we have 390 customers spending $100,000 or more on an annualized basis, growing at 127% year-over-year. Our largest customers are our fastest-growing cohort. As a reminder, we define these customer cohorts based on our annualized GAAP revenue in a given quarter.

Our dollar-based net retention rates remained strong across every cohort. Our overall dollar-based net retention rate was over 120%. Among customers spending $5,000 or more, our dollar-based net retention rate was over 130%. Among customers spending $50,000 or more, our dollar-based net retention rate was over 145%. As a reminder, our dollar-based net retention rate is a trailing four-quarter average calculation.

Before turning 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 90%, the same as the year-ago quarter. Research and development was $43.1 million, or 36% of revenue. We continue to invest to fuel innovation on our proprietary technology and deliver on our vision.

Sales and marketing was $83.3 million, or 69% of revenue. We're investing in our Enterprise go-to-market motion, as well as building our sales infrastructure. We've front-loaded many of our customer-facing roles this year to build sales capacity for the second half and beyond. The unit economics for those investments remain unchanged. The payback period for the last 12 months is less than 15 months, consistent with last quarter and slightly better than a year-ago quarter.

G&A was $36.9 million, or 31% of revenue. G&A expense this quarter included a onetime $3.6 million tax accrual. Without the onetime expense, G&A would be 28% of revenue, consistent with last quarter. We are actively working to find more leverage in our cost structure and expect to see improvement in our operating margins in the back half of this year and the coming year. Operating loss was $54.7 million and operating loss margin was 45%. Net loss was $57.4 million and our net loss per share was $0.30.

Moving on to the balance sheet and cash flow. Cash and marketable securities including long-term investments at the end of Q1 were approximately $283 million. Our remaining performance obligations or RPO was $250.4 million, up 72% from a year-ago quarter; 87% of our RPO will be recognized over the next 12 months. That current portion of RPO grew 68% from the year-ago quarter.

Our free cash flow is defined as net cash used for operating activities less cash used in property and equipment and capitalized software costs, excluding nonrecurring items such as the build-out of our San Francisco office. In Q1, free cash flow was negative $42.2 million, reflecting our investments in growth and rapid onboarding of new headcount during the quarter.

Looking forward, we are actively managing our cash burn, and we're pacing our investments in a more measured way, given the macroeconomic backdrop. We are proud of the business momentum, especially as assessed with very large deployments at great iconic brands and the velocity innovation this year.

Now moving to our Fiscal 2023 outlook. For Q2 Fiscal 2023, we expect revenues of $127 million to $128 million, representing growth rates of 42% to 43% year-over-year. We expect non-GAAP loss from operations of $74 million to $72 million. We front-loaded our hiring for the customer-facing teams in the first half of this year. We expect net loss per share of $0.39 to $0.38, assuming basic and diluted weighted average shares outstanding of approximately $191 million.

For the full Fiscal Year 2023, we expect revenues to be $536 million to $540 million, representing a growth rate of 42% to 43% for the full year. In terms of the shape of the quarterly progression, we expect to see more traditional Enterprise sales seasonality with our sales capacity ramping towards the second half of the year as our mix continues to evolve towards sales-led motion. We continue to expect our operating loss margin to be in the mid-40s for the full fiscal year.

We also recognize that there are significant dynamics in the macroeconomic environment. At the same time, you see from our record-setting events in the first quarter and strong growth in Enterprise, we are very excited about our growth opportunities. Our core strategy is unchanged, and we have a plan in place to manage our investments and prioritize our highest ROI initiatives. We are front-loading our investments in the first half of the year, and you should expect our operating margins in the second half to improve versus the first half of this year. We expect improvement in free cash flow margin in the coming year, but any upside (phon) to our revenue growth will be upside to this plan.

With that, I'll turn it back to the operator for questions.

Operator

Thank you. We will now begin the Q&A session.

Our first question comes from Andrew DeGasperi with Berenberg. Andrew, your line is now open.

Andrew DeGasperi

Thanks for taking my question.

I guess just on the guide, I know you previously mentioned that FX could have an impact and also that the macro environment you previously saw during COVID that it did interrupt some expansion deals. I was just wondering if you're, first of all, seeing anything from that perspective? Then maybe could you elaborate a little more on the impact from FX or if you're also baking in some conservatism based on what's going on.

Tim Wan

Yes. Hey Andrew, this is Tim. Maybe I'll talk about guidance first and how we thought about FX and then have Anne share with you her perspective on the current demand environment.

From the guidance perspective, we essentially assume that FX doesn't change from this point forward. Obviously, if FX continues to degrade, there's going to be some more—there could be additional risk. But at this point, we're essentially looking at—we built the guidance essentially off the existing FX rate and the data that we have today.

Anne Raimondi

Yes, I'll just follow up on that. In terms of demand, we continue to see healthy demand. In particular, we're seeing strong expansion as our customers are really focused on how they can do more with less increased productivity and engagement in this current environment. Our ability to deliver fast, measurable value, especially for senior leaders, most strategic initiatives, whether that's digital transformation, agile strategic planning, operationalizing their complex repeated workflows, that all continues to position us well as a priority investment. We definitely see that reflected in our customers $100,000 and over, which grew at 127% year-over-year.

Andrew DeGasperi

Thanks.

As a follow-up, in terms of the sales investments you're making, you mentioned the second half should show some better margin. Just curious to know if you have changed your plans in terms of the hiring levels that you were planning at the beginning of the year, maybe tied to the tighter labor markets, or is this essentially according to the plans you had set a few months ago?

Dustin Moskovitz

Hi. This is Dustin responding.

Tim mentioned we are being really thoughtful about how we make investments this year, and we have moderated the pace of our hiring, but that's coming off of really fast hiring so far this year. We had front-loaded quite a bit of the hiring, especially for those customer-facing roles with the plan that they would be ramping across the year. That part of the plan is still pretty much the case, and it’s even the case that we have quite a few pending starts from people that we've already hired.

That's part of why you don't necessarily see the improvement in free cash flow and operating margins in the next quarter, but we're expecting it later in the year. We have moderated the hiring pace relative to the beginning of the year, but it still represents a really fast growth for headcount overall.

Andrew DeGasperi

Thank you.

Operator

Thank you, Andrew.

Our next question comes from Rob Oliver with Baird. Rob, your line is now open.

Rob Oliver

Great, thank you, Operator. Thank you, guys, for taking my question. I appreciate it.

This is for Anne or Dustin, the first question. Late last year at the Scale event, you guys laid out a bunch of the Enterprise focus initiatives. Dustin, you mentioned a few of them, Goals, Workflow Builder. I know you mentioned that Workflow Builder I think was key towards the largest land with the payments company. Could you walk through the impact those have had on some of the enterprises? It certainly seems like you guys have tremendous momentum with large enterprises and I wanted to talk about some of the early reads on adoption and what they mean in terms of expansion with those customers.

Then I just had a quick follow-up as well. Thanks.

Anne Raimondi

Sure. Thanks, Rob.

Yes, definitely, the investments that we announced at Scale and the continued investments in Workflow Builder are really impacting our ability to move upmarket. In our conversations repeatedly with CIOs, with Chief Digital Transformation Officers, what we're hearing that they care a lot about are a number of things. They continue to care about ease-of-use and strong adoption, which we've always been really focused on.

Now they're also really focused on the ability to scale quickly to thousands of employees across different teams and complex cross-functional use cases. They see us standing out on that front. Then exec-level visibility and reporting. All those investments now are making it possible for us to have that exec-level engagement. These pair well with where we're strong and continuing to invest. On your point on Workflow Builder, what we are seeing is that conversion on that large land, but we're also seeing healthy expansion in the existing base because of Workflow Builder and then also tier upgrades as a result.

You said you had a follow-up, so we'd love to hear that.

Rob Oliver

Yes, that's super helpful. I appreciate the color, Anne, and the follow-up is for you.

Twice on the call, you've mentioned doing more with less. In previous software cycles, we've seen some vendor rationalization that has certainly hurt some vendors but favored others. You guys are in an early stage of a high-growth market, but investors are always concerned about competition, but at the same time, that could certainly benefit those that are aggressive.

I just wanted to get a sense for when you look at within your customer base. If you're seeing some of your competitors in there and whether some of the opportunities you're seeing for expansion are coming as folks start to consolidate around one vendor.

Thank you, guys, very much.

Anne Raimondi

Yes. I would say overall, we still feel like it's early in work management, but some things that we're particularly excited about with our customers is that these early indicators that we are their platform of choice, whether that's Okta and Zoom. They're essentially if they've pockets of other technology in the organizations, they're moving off of those and on to Asana. Probably more importantly, they're choosing Asana for all their employees and their most important cross-functional use cases. I think we, overall, feel that that's early, but it's really positive signs for us that when those decisions are being made, they are moving on to Asana.

Dustin Moskovitz

I'll just add, like Anne said, we don't see this a whole lot but the product strategy is designed to help us succeed when it does happen because we do think that's somewhere in the future and maybe will be hastened by the economic conditions, but Asana was designed to be from the bottoms up, to serve individuals, teams, and executives across the entire organization and especially to work well for cross-functional workflows.

So often when you're in a consolidation conversation, they're evaluating tools that were more specialized for particular departments or particular use cases or workflows and so the teams that are from that department might prefer that tool but Asana is the only one that can kind of be the crowd favorite across multiple teams, and then especially when they're working together. If it's an operations team or product organization or go-to-market organization and they're working across departments, then Asana really shines, so we feel really well set up for that future.

Rob Oliver

Okay that makes great sense. Thank you, guys, very much. Appreciate it.

Operator

Thank you, Rob.

Our next question comes from Alex Zukin with Wolfe Research. Alex, your line is now open.

Alex Zukin

Hey guys, thanks for the question.

Maybe first one just for you, Tim or Dustin. Given the headlines, maybe just remind us of your exposure into software-based industries or tech. Given all the headlines with layoffs or hiring pauses, what's the right way to think about the growth headwind from that on your business over the course of the year?

And then, look, I appreciate the construct in the context of improving efficiency, but I think over the last two quarters, the free cash flow burn is pretty high at $40 million. I know you're not guiding to it, but at least at a high level, what's the right way to think about cash flow progression this year just given the construct of the balance sheet? You clearly have enough money to go for a long time, but it would appear if you were to operate at these levels, you'd have to contemplate a capital raise at some point in the future. So just level set those two elements for us, if you will.

Dustin Moskovitz

Yes. I'll start with the question about software exposure, and then Tim can talk about cash flows.

We do have a lot of great customers in the software industry, but we also have really broad-based customers, both regionally and across industries. I think as with use cases, there's maybe a plurality in software but it doesn't represent like an enormous part of the revenue pie. When you look at who those accounts are individually, they're among the very strongest of the software companies. A lot of them literally have billions on their cash balance sheets. They may, like us, decide to moderate their spend in various ways, but the expansion opportunity within those accounts is so enormous that it outweighs anything that might happen in terms of slowing headcount on the margin.

We just still have so much room to grow within the existing employee bases that we still feel pretty good about it. That doesn't apply to everybody, so as you get down into more of the SMB part of the market, there may be a little more exposure there, but as we've been talking about, more and more of our business is coming from the larger accounts coming from the Business and Enterprise tiers over time. That becomes less of a problem for us in terms of how it affects the overall accounting as we go further.

Tim Wan

Yes, and Alex, just on the cash flow and operating margins, I think what you'll see from us is that, one, we care deeply about profitability, and we have a plan to manage both the burn and improve the operating margins. I would—the comment earlier I made around looking at the business as first half and second half, the measure that we'll put in place, the efficiency metrics that we're going to be looking at that you should expect to see improvement in the second half of this year, and then probably more measurable improvement next year. I think we're trying to do everything we can. We do have a strong balance sheet with almost $300 million on the balance sheet, but we want to extend our runway and create as much optionality as possible.

Operator

Thank you, Alex.

Our next question comes from George Iwanyc with Oppenheimer. George, your line is now open.

George Iwanyc

Thank you for taking my question.

Dustin, following up on your software exposure answer. Can you give us a sense if there's been any change in churn rates with either SMB customers, mid-market, or the larger customers?

Dustin Moskovitz

I don't think we're seeing anything particularly material just yet. We're certainly cautious about the future, given the macroeconomic situation. Just as a comparison, in March 2020, things dropped off a cliff. I think there was a few weeks where the revenue actually moved backwards. That was pretty bad. I do want to call attention, again, to the currency headwinds and the war. That does affect retention revenue just in a mathematical way. Even if the seats are there and the customers are there, they're going to renew with fewer dollars just because of the currency exchange rate.

We do see a little bit of that, and we've quantified it a little bit in the prepared remarks, but so far, haven't really seen customers shutting down yet or choosing to cut costs by cutting us on out of their software stack, and don't really have the early indicators that would make us think that would happen. But again, we're paying attention to the macro situation.

George Iwanyc

Thank you.

Anne, following up on your comments about the value-based selling and the success you're having in the mid-market with large customers. Can you give us a sense of the pricing leverage that you have right now and kind of whether there's a lot of discounting going on when you're having these larger deals and your ability to maybe get stronger pricing?

Anne Raimondi

Yes. I think what we've tended to do with the mid-market and larger accounts is definitely create structures where there's predictable billing for them and total cost of ownership, and making sure that from, as Dustin mentioned earlier, our priority really is on expansion of paid seats in these accounts because we really see that the stronger the adoption and the more employees that are using Asana, the faster that companies are realizing value. We tend to—depending on if it's a multiyear deal, we'll structure it primarily to make sure that customers have predictability in budget, but it's really focused on adoption, expansion, and growth.

George Iwanyc

Thank you.

Operator

Thank you.

Our next question comes from Pinjalim Bora with J.P. Morgan. Pinjalim, you line is now open.

Pinjalim Bora

Hey, thanks for taking my question.

Dustin or for Anne, one question on—you kind of caught my attention on your comment about adoption curves. I think you were saying it’s growing at about 2% week-over-week. I want to ask you from a product standpoint, would you say you have reached an inflection point at this time in terms of satisfying the major enterprise IT checklist around security, governance, and other requirements that's allowing these customers to expand with Asana, wall-to-wall up to 100,000 seats at this point?

Anne Raimondi

Thanks for your question.

Yes, we’re certainly seeing that all the investments we've made over the last year-and-a-half on partnering with CIOs and Heads of IT on what is required from a security and scalability standpoint is paying off. That is allowing for that faster expansion. We continue to work really closely with our customers to make sure we're meeting their needs. In particular, now with these larger accounts, what we're partnering with customers on is actually managing the complex workflows at scale, being able to do things faster, making sure provisioning and security continue to be there across these complex global companies. But I do think the investments from the last 1.5 years have unlocked opportunities to partner much more closely at the VP, IT, CIO level.

Pinjalim Bora

Understood.

One quick follow-up. Seems like you're seeing good amount of demand, but if I have to play the devil's advocate, I guess given the macro drumbeat of potential slowdown, are you not seeing any strains in the sale cycles in terms of kind of deal pushouts or increasing level of customer scrutiny or any change in the top of funnel in the various theaters globally?

Anne Raimondi

Currently, we have not seen changes there. As Dustin and Tim both mentioned, we pay close attention to that. I think the good news for us is in our existing customer base, in the vast majority of our mid-market and Enterprise accounts, there continues to be a lot of room for growth. What we find is as adoption increases and customers are seeing value, that is not preventing them from growing with us. They're actually seeing that it helps them with productivity and doing more with less in this environment. I think that's where we see a lot of potential and continued growth is also in our expansion opportunities.

Dustin Moskovitz

Just to tie those questions together a little bit, what Anne had said was that we see 2% week-over-week growth in some of our very best customers. That's effectively a situation where, yes, we've satisfied the needs of IT at that customer, not necessarily for all possible customers, and they're sort of letting the organic growth of the product go unfettered. We're also, of course, helping and helping them use workflows and adopt new use cases.

When employees are actually kind of provisioning the product for themselves and finding use cases for it, it's a pretty different thing for IT to come in and take that out of their hands. Even when they're thinking about budgets, I think it's a pretty strong signal to them that the employees are getting something very useful out of this. Then we have our own research and the case studies from those organizations and others that can prove it for them mathematically.

In an environment like this, we switched to a little more value selling of Asana as a way to get more productivity, get more engagement from your employees, and be able to leverage your capital to greater impact. That's still a message that resonates with customers.

Pinjalim Bora

Understood. Thank you very much.

Operator

Thank you, Pinjalim.

Our next question comes from Pat Walravens with JMP Group. Pat, your line is now open.

Patrick Walravens

Great. Thank you.

Tim, I think this one’s for you, which is, if I remember right, last quarter you guided to Fiscal '23 operating margins in the mid-40s, negative. If you look at '24, the consensus I think is negative 32, so let's just say the low 30s. Is that still the right way for investors to think about the operating model? If not, how would you like us to think about it?

Tim Wan

Yes. I think you should 100% expect us to improve our operating margin and free cash flow margin in Fiscal Year '24. I think it will take some time for us, as we measure the investments that we're making this year. As the headcount that we added in the first half of this year come online with added capacity towards the end of the year, I think all those things will come into play.

I think what you're seeing from us is we're putting a plan together. We have a plan to manage our cash burn, to pace our investments. Really, what I would say is, we're really focused on those areas where we've seen success and that we're confident about the ROI and pulling back on those areas where we're less confident or it's been more speculative.

I think that's a fine way to think about it, but obviously, we want to be in a position where we're beating consensus, Pat, quite honestly. Hopefully, we'll deliver the kind of results that's going to make everybody happy.

Patrick Walravens

Great.

As a follow-up, is the tightening financing environment for private companies helping you in any ways? Are you seeing more interesting private companies running low on cash and calling you to sell to you? Are you seeing less crazy behavior maybe from private competitors? I'm just wondering if there's a positive side to any of this.

Dustin Moskovitz

This is Dustin.

I think that stuff can happen. Everything's happened so quickly in the market that I don't necessarily think you'd see those changes right away. I did get an e-mail this morning about a company interested in being acquired. I expect to see more of that, but I think it's still early days to see how the cycle really plays out. I do think in an environment like this, it's good to have a lot of cash on the balance sheet. We talk a lot about our sort of public comps, but there is a long tail of other smaller private competitors. So yes, there may be a future where they're less competitive and that leaves more of a market for the larger players.

Operator

Thank you.

Our next question comes from Josh Baer with Morgan Stanley. Josh, your line is now open.

Joshua Baer

Great, thanks for the question.

Just wanted to ask the growth investment macro question a different way. I think previously some of the commentary around the investment philosophy was that it might take diminishing returns on investments to pull back and see more leverage.

My question is just is the moderation in hiring and commentary on back half improvement in margins, is that reflecting any diminishing returns on investments? Or is it just a prudent, and maybe welcome, reaction to the market's focus on path to profitability given the macro environment?

Tim Wan

Yes. Hey Josh, this is Tim.

I would say it's certainly the uncertainty in the macroeconomic environment that's causing us to pause and just reassess the hurdle rates that we want to have around the kinds of investments that's going to have a longer payback. We have such amazing runways across a lot of different opportunities. I think we just really want to be thoughtful around ensuring that the payback is there, and the payback is there on a timely basis.

Dustin Moskovitz

I just want to add, I'll reiterate a lot of it is about the uncertainty. I think there's just a wider range of possibilities for what kind of payback we'll get in the second half. We don't know what will happen, but it's not definitely negative.

Also, I'll just point again at the currency headwinds. They don't create diminishing returns, but they create less returns in a sort of mathematical way. That's just something we have to acknowledge. Even if we're not on a different part of the curve, we still have to think about LTD and paybacks and sort of make a new decision based on that. Then you have the additional heightened focus on cash flows and operating margins. Those all sort of point in the same direction.

Operator

Thank you.

Our next question comes from Rishi Jaluria with RBC. Rishi, your line is now open.

Rishi Jaluria

Wonderful. Thank you. This is Rishi Jaluria.

Two questions I wanted to ask, I think both macro in nature. Number one, I just want to understand, I know you're not seeing any real slowdown or changes in customer behavior but I think uncertain environment and seems to be consensus at this point that we'll hit some sort of a recession in the near term.

Just how do you think about maybe what will happen with sales cycles and everything because this is a very low-touch sales process, easy to implement. You saw a lot of those customers put it on pause early during COVID when there was a lot of uncertainty out there. Is there any reason to think, in other words, history won't repeat itself here and what we saw in the early stages of COVID won't happen if there is in fact a slowdown?

Then I've got a follow-up.

Dustin Moskovitz

Well, again, I think we do want to acknowledge there's some uncertainty in general, and so we don't really know what will happen. I think there's a possible world where the uncertainty itself is sort of looming large at the beginning of the cycle, but even if things trend negatively, if there's sort of definitiveness around it and people can sort of make models that they believe in, then I still think that they can move forward with confidence on software purchases. Especially again, if they're going to help improve productivity and help improve efficiency, that's something they may even be more interested in.

That was part of what happened with COVID, is there was a sort of shock element in March, April. Then we saw a very strong demand at the top of the funnel. Part of that was the move to distributed work as well, but I think part of it was just the need to do digital transformation faster. I think that we're still part of that long-arc trend.

Anne Raimondi

Yes. The other thing I would add is our investments over the last couple of years in moving up market, are also helping tremendously because the investment in our account team, customer success, partnering with more senior level executives within these customers ensures that we continue to be a priority. More and more in the conversations, it is driven by the top-level strategic initiative that C-level execs have for their organization, which in this current environment really does focus on productivity and employee engagement.

Dustin Moskovitz

I just want to add one more thing. Just lessons from COVID, again, the positive growth for us was still very strong, but we got hurt on retention because our customers were going out of business. Even though tech is very volatile right now, I think that's more a reflection of the uncertainty including among investors.

In a recession, I think I would still expect tech to be pretty strong. The real problem is how the recession impacts all of the other industries. The thing that I think about more with macro is what happens if customers literally shut down across industries if we have a recession or especially a lengthy economic downturn. The demand part, the positive growth is the part that I still feel pretty confident about.

Rishi Jaluria

All right. Great. Thank you, and (audio interference).

Dustin Moskovitz

I think we may have lost you.

Operator

Our next question comes from Brent Bracelin with Piper Sandler. Brent, your line is now open.

Brent Bracelin

Thanks for taking the question here.

Dustin, maybe I'll start with you. You, over the last couple of years, have invested in Asana, both through a convertible note and then acquiring shares on the open market. I guess, what is your own appetite to invest in Asana, maybe long-term, near-term? Would love to better understand your kind of views on the business and relative to what you've done in the past couple of years? Thanks.

Dustin Moskovitz

Yes. Thanks for the question, Brent.

I'm not able to really say in advance, whether I'll make more purchases on the open market, but I do want to take the opportunity just to talk about the process that I use when that does happen. I always make purchases through a 10b5-1 that would be put in place during an open trading window. Then I additionally go through a multi-month cooling-off period. You may have noticed not every public company CEO does that, but generally I think it's good practice and something that I would consistently do to buy stock on the open market.

That means that the process is, by nature, sort of a slower process, more deliberative, more deliberate. I make those decisions more about what I want to do over the long term and what I want my ownership stake to be. Whenever you see me buy or not buy in the open market, there's sometimes some speculation that, that's a reflection of maybe what I think about the business or the current stock price, but it's always a much slower decision than that. It's also, frankly, hard for me to anticipate the kind of volatility we've seen over the past two years.

I just want to send the message that, that's always really about me deciding to take a long-term position in the future long-term growth of the Company rather than a reaction to what's happening in the market that day.

Brent Bracelin

Helpful color.

Then maybe, Tim, just could you help me a little bit around the optics of revenue? Because if I look at the U.S. reported revenue, you actually added more revenue sequentially in Q1 of last year than you did this year, which at first glance made me a little nervous there might be some softness in the U.S., but then if I look at deferred revenue, really strong in Q1 CRPO backlog build here, well above what we were looking for for you.

Is there a disconnect between the timing or linearity in the quarter? Or did you see some softness in the transactional side of the business in the U.S.? Just trying to understand the optics relative to U.S. reported revenue, which looked a little weak, but really strong deferred in CRPO.

Tim Wan

Yes. I think the one thing that I think you'll continue to see from us as we continue to make progress and momentum on the Enterprise side, you'll see a little bit of lumpiness in the RPO number. We did close our largest transaction in the history of the Company with this expansion to 100,000 seats. That was approximately $20 million on our deferred. That certainly helped with the total RPO number.

I think what it really points to is the progress that we're making on the Enterprise side and the movement that we're seeing with some of our larger customers, and how they're expanding and continuing to do multiyear deals with us, especially in the RPO numbers.

Operator

Thank you.

Our next question comes from Robert Simmons with D.A. Davidson. Robert, your line is now open.

Robert Simmons

Hey, thanks for taking the question.

It looks like you had pretty good cost control in most areas, but looking at G&A, it nearly doubled year-over-year and it's over 30% of revenue. Other than the tax accrual, what's driving that? Then how will you drive over that line over time?

Tim Wan

Yes. No, great question.

Obviously, I think you want to net out the tax accrual, and I think if you net that out, then it's about 28% of revenue. I would say we've staffed up a G&A infrastructure to support a very large business. We've been growing headcount fairly aggressively over the last couple of years. We have a pretty large team to support that. I think what you're seeing now is you should expect G&A to moderate, and that we'll see a lot more leverage as we continue to grow the top line, really focus our efforts around building sales capacity, sales enablement, customer-facing teams, and that the infrastructure we put in place now can support a very large business.

Robert Simmons

Got it.

Then I think you guys really haven't returned much to the office yet, but your customers are. Can you talk to kind of what you're seeing there in terms of how that's helping or hurting your sales and your expansions? Then also, what are your internal plans for return to office?

Dustin Moskovitz

Yes. Thanks. We're actually doing the call from the office right now. We have pretty decent attendance right now. We're sort of in a ramp-up period as we head to a full return to office in September, at least in the Americas.

In terms of how that affects the business, this has come up across a few quarters, but our view is really that Asana is an essential tool for any teams, whether they're working together in an office or distributed or remote-first. Even when you have a Company like Asana that is planning to be office-centric, we still work across more than a dozen offices all around the world.

Even though the atomic teams can be in a room together, inevitably they're working cross-functionally in a remote-first way a lot of the time. Really everybody is kind of a little bit hybrid and there's really a spectrum there. Again, Asana was built for companies long before remote work became such a massive trend, long before COVID, and we really think that it's an essential tool for teams working in all sorts of environments. We haven't really seen any change in demand based on that.

Operator

Thank you.

That concludes today's question-and-answer session. I'll now hand the conference back over to Catherine for any closing remarks.

Catherine Buan

Great. Thank you, Amber.

Just want to say thank you to everyone for joining us today and making the time for the Asana earnings call. If you have any follow-up questions, as always, please feel free to reach out, and we look forward to seeing you on the road and at the conferences.

Thanks a lot.

Operator

That concludes today's Asana First Quarter and Fiscal Year 2022 Earnings Call. Thank you for your participation. You may now disconnect your line.

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*Annual Recurring Revenue ("ARR")
We define annual recurring revenue ("ARR") as the total number of customers on a paid subscription plan at a point in time, multiplied by their annualized subscription price for the Asana platform.