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Asana, Inc. (ASAN)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good evening and thank you for attending today's Asana Fourth Quarter and Fiscal Year 2022 Earnings Call. My name is Alina, and I will be your moderator. All lines will be muted during the presentation portion of the call, with an opportunity for questions and answers at the end. [Operator Instructions]

I would now like to pass the conference over to our host, Catherine Buan, Head of Investor Relations at Asana. Please go ahead.

Catherine Buan

Head-Investor Relations, Asana, Inc.

Good afternoon and thank you for joining us on today's conference call to discuss the financial results for Asana's fourth quarter and fiscal year 2022. With me on today's call are Dustin Moskovitz, Asana's Co-Founder and CEO; Tim Wan, our Chief Financial Officer; and Anne Raimondi, our Chief Operating Officer and Head of Business.

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 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. I'm excited to talk about our business results, but wish I didn't have to do it against the backdrop of the humanitarian crisis in Ukraine. Our thoughts are with all those who are personally impacted by the situation in the region. We had a strong Q4, which capped off a great fiscal year. I continue to be really proud of our team, our mission-driven culture and what we've achieved together. As you can see from our results, our product-led strategy and execution drove accelerated revenue growth to 67% year-over-year versus 59% last fiscal year.

We saw continued strength in the enterprise with 340 customers spending \$100,000 or more on an annualized basis. Those with the biggest investments also significantly increased their footprint, with the dollar-based net retention of this cohort much higher than the \$50,000 or more cohort in Q4. For example, our largest customer is now spending well into eight figures, with more than 50,000 paying seats and growing. Their continued investment speaks to the power of the Asana Work Graph, our proprietary technology that enables cross-functional teams to work together at a global scale.

Customer adoption is at record levels with well over 2 million paid users. We partner closely with our customers to help them succeed at their missions and co-create our product roadmap through channels like Asana's Voice of the Customer program. Speaking of products, we launched more than 200 features last year, a rate of more than 4 features every week. We also have a large and rapidly growing Asana Together community, now representing more than 3,800 Asana Ambassadors around the world.

Our talent and culture is what makes these results possible. I'm proud to share that Asana has grown to over 1,600 employees and earned a record of 16 total workplace awards in 2021, with 3 awards ranking us at number one. These included Fortune's Best Workplaces in the Bay Area, in Tech and for Millennials. We're entering the new year with incredible momentum, and as companies look to drive their most critical initiatives, they are increasingly turning to us.

While others are building suites of collaboration products for small teams, our strategy is different. We're a pure-play work management company committed to leading the category in building the most comprehensive platform capable of serving organizations of all sizes around the world. Teams are organized functionally, but most work gets done cross-functional. That's also where the greatest opportunity is for reducing friction and increasing impact.

Asana is a great platform for cross-teamwork, thanks to our ability to serve as a system of record across different projects. This is one of our big differentiators and the key to supporting large, complex organizations. The larger the team and more cross-functional the use case is, the faster Asana can expand. These trends give us the confidence to invest aggressively, particularly in the enterprise. We're initiating top line guidance for Q1

representing 50% growth year-over-year. We're also initiating fiscal 2023 revenue guidance at 40% growth year-over-year at the midpoint of the guidance range.

As we enter fiscal year 2023, we have a strong product cycle ahead. We'll continue to focus heavily on our Enterprise Work Graph, improving on and expanding the functionality required by the largest and most complex organizations. We're already off to a fast start to the year, launching products out of the gate. On February 15, we introduced Asana Flow, a suite of new features purpose-built to enable workflow automation across an entire organization.

It used to be that only IT or system administrators could build workflows. We democratized that power with Workflow Builder, a point-and-click tool that makes it easy for every knowledge worker to create automated workflows. Importantly, you can also add everyday apps like Slack, Adobe Creative Cloud, Salesforce and Zoom right into your workflows, plus two new additions to the Asana Partners network, Miro and Jotform. This means Asana can serve as the connective tissue across existing best-of-breed collaboration tools.

Our customer base is already fanatical about this launch. We had a combined 12,000 people register for a recent Learn-a-thon and live Asana Flow demo, and in only three weeks, 200,000 users have tried Workflow Builder with 42,000 rules created. Our redesigned Template Library is where you can save, share and reuse your most successful workflows. It also features industry-approved templates made in collaboration with leading organizations around the globe. This year, we'll build on this launch with part of our roadmap dedicated to adding more partners and more capabilities.

Our next big product moment is Asana's Employee Impact Suite in Q2, which will give leaders a blueprint for how to better leverage the power of their people. We'll be announcing several product enhancements to help employees operate with clarity of purpose, do their most impactful work and feel valued for their contributions. These enhancements will help them find flow and limit distractions, and keep them in sync with their team members. Our investments in creating high-level clarity also means building on the adoption and capabilities of features like Reporting and Goals and the ability to better track the time spent on the work done in support of these goals.

We're seeing incredible early adoption of our Goals product by existing customers like Benevity and Xero. These companies care deeply about employee engagement, and as a result, have chosen to go wall-to-wall with Asana as their work platform of choice. You'll see even more enhancements to Goals functionality to better support larger enterprise companies over time. What ties this all together is an emphasis on helping large organizations get clarity around their Work Graph and simplify workflows, something Asana is uniquely capable of doing.

In addition to the functionality that helps those teams organize, we're investing in all the other things important to large enterprises too, like in making Asana accessible to all employees, improving our compliance capabilities, adding integrations for Data Loss Prevention and eDiscovery, and scalability. We'll also be increasing the depth and breadth of the core Asana platform by expanding our IT partner ecosystem. I want to wrap up by saying that this virtually untapped market opportunity for work management and our differentiated ability to deliver value gives us increased confidence in investing further in the enterprise. We're still in early innings and we're investing to win.

And now, I'll turn it over to Anne.

Anne Raimondi

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

Thanks, Dustin. I want to join you in congratulating our teams for accelerating growth during a period of dramatic change in the world and in our market. We achieved some amazing milestones this past year. Asana is now available in 13 major languages, meaning our product is now accessible to the majority of the world's population in their native language. We've opened new offices in Paris, Singapore and Chicago to better reach and serve our customers, growing our customer-facing teams around the world.

Our significant top of funnel investment paid off with new records in both web traffic and sign-ups. We hosted thousands of attendees from all over the globe at our Focus & Flow and Scale events, generating significant pipeline while increasing our ability to reach larger customers and build relationships with executives. The tremendous traction we made in some of our most strategic investments has proven that we not only have the right products, we also have the right focus and strategy.

The number of customers spending \$50,000 or more was up 125% in Q4, and as Dustin mentioned, the number of customers spending \$100,000 or more was 340 in Q4. We've been closing seven-figure deals and we are still early. We've accomplished so much and are still just getting started. Fiscal year 2023 will see our largest top of funnel investment ever and a focus on solving our customers' most strategic cross-functional needs as we grow and scale the value we deliver them.

Let's talk about some of the customer wins in Q4. We've won big deals across all industries, including banking, media, retail, healthcare and telecom. This quarter, one of the largest banks in Canada consolidated on Asana to increase their operating agility, to improve cross-functional work across wealth management, marketing and sales, and to eliminate the time-consuming back and forth of emails, messages, and spreadsheets to coordinate work in their venture division.

One of the largest global media and marketing conglomerates signed a multi-year contract for Asana's enterprise solution and added 1,000 seats. Their agencies around the world use Asana to manage their clients' media and marketing campaigns, grow their businesses, and gain market share. Many of our expansions are also accelerating.

One of our largest this quarter was with Morningstar, a global investment research company. They first began using Asana's enterprise solution to streamline global marketing campaigns and manage strategy and global accounts. After realizing quick efficiency gains in just two quarters, they more than tripled their seats to bring other departments throughout the business into Asana. It was the ability to scale, eliminate silos and orchestrate work across different lines of business that won this account.

Next, I'm sure many of you binge-watched a show or two over these past two years. I definitely did. This quarter, one of the world's leading streaming services upgraded from our business to enterprise solution. Their studio and production divisions rely on Asana to help with real-time team support, so they can hit their production deadlines and ambitious subscriber goals. With this upgrade, their corporate teams will now also be able to utilize Asana to manage their work.

T-Mobile, the industry leader in 5G, is known for their unwavering obsession with offering the best possible service experience. To do this, teams need to be on the same page, which is why they chose to expand their use of Asana's enterprise solution last quarter. Now, their emerging products and digital teams can collaborate cross-functionally in one platform to develop strategies and business plans for consumer markets, co-create digital products for emerging markets, and deliver digital technology programs for business and government.

Another inspiring impact customer who upgraded to Asana's enterprise solution this quarter was Bombas, the basics apparel company with a mission to help those experiencing homelessness. My family has a few favorite Bombas styles including their Pride Collection and Princess Collection. At Bombas, they donate a product for every one sold and have donated more than 60 million items to more than 3,500 community organizations and shelters to-date. A number of Bombas teams use Asana to manage internal projects and communicate requests, progress, and updates within the platform. This allows for easy cross-functional collaboration and connection.

We also saw success with channel partners in some of our fastest-growing international geographies. PChome is now the leading integrated e-commerce service group in Taiwan, providing e-commerce, FinTech and web portal services. They chose Asana's business solution this quarter to manage product development. They were initially looking for a tool for their IT and engineering team to manage their fast-paced product development cycle. But with the help of our local partner Master Concept, they decided to also bring in their marketing, customer service and operations teams into Asana as well, so everyone would have a system of record for the development process to help launch products faster.

Not only are we adding big customers, but we're also helping customers serve their own customers faster. This quarter, we're launching a strategic partnership with one of our existing customers, a major global medical device company, to bring a new HIPAA-compliant workflow solution to the healthcare industry. Instead of relying on manual processes and disconnected systems across their vast network, they are using Asana to power a workflow that connects processes and teams to real-time updates to improve operational efficiency and customer care.

With Asana, they seek to serve more customers, support them in growing their business and create consistent experiences for those receiving treatment. By solving this pain point for their global network of organizations, we have the opportunity to reach hundreds of thousands of offices worldwide over the life of this partnership. This partnership is just the beginning and one example of how the Asana platform can support coordination at scale across many industries and organization types from franchises to supply chains and much more.

We're also excited to announce that to further support Asana's enterprise advancements, a broader HIPAA offering will soon expand to other customers in the healthcare industry later this year. As Dustin said, the major fiscal 2022 wins we had with customers like Warner Music, ViacomCBS and the largest automotive manufacturer in the world give us increased confidence to invest further in the enterprise. In fiscal 2023, this will include: making our biggest investment increase ever in pipeline build to support lead generation, sales development reps, account-based marketing and customer engagement programs.

We will be focusing on our sales infrastructure, solution selling, customer success and everything that supports customer expansions, all major levers for adoption and expansion. Our global enterprise go-to-market sales organization, especially quota carrying sales head count, will grow faster than overall head count, and we will be expanding our ecosystem of technology partners, channel partners and co-selling networks.

Another example of a successful partnership has been Vimeo. In fact, just yesterday, Asana and Vimeo were named a Top 3 Joint Venture among Fast Company's annual list of the World's Most Innovative Companies. In conclusion, we are investing to win, especially in the enterprise. We're growing adoption and expansion with our product-led strategy, and we're going to market focused on customer success and adoption.

And with that, I'll pass it to Tim.

Tim M. Wan

Head-Finance & Chief Financial Officer, Asana, Inc.

Thank you, Anne. Q4 revenue growth represented continued momentum in the business. Revenues were \$111.9 million, up 64% year-over-year. This puts us at an annualized quarterly run rate of \$448 million. Revenue from customers spending \$5,000 or more annualized grew 82% year-over-year. This cohort represented 69% of our revenues in Q4, up from 62% in the year-ago quarter.

We now have over 119,000 paying customers at the end of Q4, up 5,000 in the quarter. This represents a 28% year-over-year increase. We have 15,437 customers spending \$5,000 or more on an annualized basis, up 52% year-over-year. And growth in our larger customers is even stronger. We now have 894 customers spending \$50,000 or more on an annualized basis, up 125% year-over-year. And as Dustin and Anne mentioned, we have 340 customers spending \$100,000 or more on an annualized basis as of Q4.

As a reminder, we define these customer cohorts based on annualized GAAP revenues in a given quarter. Our dollar-based net retention rates remained strong across every cohort. Overall dollar-based net retention rate was 120% (sic) [over 120%] (00:17:13). Among customers spending \$5,000 or more, our dollar-based net retention rate was over 130%, and 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%, improved from 88.2% in the year-ago quarter. Research and development was \$37.7 million or 34% of revenue. We continue to invest heavily to fuel innovation on our proprietary technology, the Work Graph.

Sales and marketing was \$75.6 million or 68% of revenue, reflecting the investments in growth for both our self-serve and sales-led motion. For example, our customer-facing teams grew faster than our overall company head count growth in Q4. G&A was \$31.3 million or 28% of revenue. Operating loss was \$43.9 million and operating loss margin was 39%. Net loss was \$46.9 million and our net loss per share was \$0.25.

Now, on to the full fiscal year highlights. Fiscal year revenue growth accelerated to 67% year-over-year to \$378.4 million. About 42% of our revenue came from outside the United States. Both US and international revenue growth for the year was 67% year-over-year. We added over 26,000 net new paying customers during the year. We also added over 5,000 customers spending \$5,000 or more on an annualized basis during the year, and we added almost 500 customers spending \$50,000 or more on an annualized basis during the year.

Importantly, our unit economics remained strong throughout the year. Our net expansion rates across all segments increased. Sales and marketing payback was less than 15 months at the end of fiscal year 2022. Please refer to our SEC filings for the calculation. With strong gross margins and compelling unit economics, we feel confident in our ability to continue to invest further in durable long-term growth.

Moving on to the balance sheet and cash flow, cash and marketable securities, including long-term investments, at the end of Q4 were approximately \$315 million. Our remaining performance obligations or RPO was \$218.1 million, up 78% from one year ago. 85% of our RPO will be recognized over the next 12 months, which grew 70% from the year-ago quarter.

Our free cash flow is defined as net cash used in operating activities, less cash used in property and equipment and capitalized software costs, excluding non-recurring items such as the build-out of our San Francisco office. In Q4, free cash flow was negative \$41.2 million, reflecting our investment in growth and rapid onboarding of new

head count during the quarter. We also ended the fiscal year with over 1,600 employees. We are very proud of the business momentum, especially our success with very large-scale deployments at great referenceable accounts and the velocity innovation of this year.

Now, moving on to our fiscal year 2023 outlook, for Q1 fiscal year 2023, we expect revenues of \$114.5 million to \$115.5 million, representing growth rates of 49% to 51% year-over-year. We expect non-GAAP loss from operations of \$68 million to \$66 million. And we expect net loss per share of \$0.36 to \$0.35 assuming basic and diluted weighted average shares outstanding of approximately 189 million.

For the full fiscal year 2023, we expect revenues to be \$527 million to \$531 million, representing a growth rate of 39% to 40% for the full year. In terms of the shape of the quarterly progression, we expect to see a more traditional enterprise sales seasonality with our sales capacity ramping towards the second half of the year, as our mix continues to evolve towards a sales-led motion.

Given the large untapped opportunity ahead and along with the successes we've seen in fiscal year 2022 with the Work Graph scaling to 25,000 and 50,000 seats and beyond, we are increasing our investments to expand the functionality required by large and complex enterprises and further investments in our go-to-market motion in the form of increasing our sales capacity and customer-facing teams to support adoption and expansion within many of our larger enterprise customers.

We expect full-year non-GAAP operating loss margins to be in the mid-40% range for fiscal year 2023. We believe the investments we are making in fiscal year 2023 reflect our ambition to be the category leader and our drive towards durable long-term growth.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from Alex Zukin with Wolfe Research. Please proceed.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Hey, guys. Thanks for taking the question. Look, I think the – congratulations on the quarter. Obviously, a very strong result and a great guide. I would say the question that I'm going to get most of all tomorrow is if we look at the incremental operating margins of the business and the investment profile that you're thinking about as we look at next year, unpack for us, maybe both Dustin and Tim, like what are – where are the primary areas of investment and focus and how are we going to see the ROI on those investments? Is it going to be more enterprise lands, faster expands, because you seem to be doing really well landing the enterprise customers today? So, what isn't there yet that you want to make sure and take this year to invest in to get to and how should investors think about that?

Dustin Moskowitz

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

A

Yeah. That's a great question, and I think you framed it really well. So, I think the big picture is the category is maturing really quickly. But our view is it's still really early days and vast majority of teams out there are still on the status quo of spreadsheets and email. And so, we're excited to continue investing to build out our differentiated vision and reach more of the market. So, I'll go through – there's really two big areas we're making the largest investments. I'll talk about the R&D side first, and then maybe hand off to Anne actually to sort of double click on go-to-market.

But in R&D, we have a really strong product cycle ahead. So, we're going to continue to focus heavily on our Enterprise Work Graph, so improving on and expanding the functionality required by the largest and the most complex organizations. As you said, we're already quite successful with them, but there's a lot of cumulative needs across all the different organizations out there and more value that we can deliver to help them be even more successful. So, we already started off the year just a couple of weeks ago with our Asana Flow launch. And I mentioned in a lot of calls last year that that was one of the things I was most excited we are working towards building throughout the year, but there's a lot more to do.

So, a big part of our roadmap for fiscal year 2023 is dedicated to adding more capabilities to the Workflow Builder, further developing the Template Library and adding more partners to integrate with the workflows. And then, in Q2, we're launching our Employee Impact Suite. So, that's going to help everyone on a team get clarity of purpose, find focus and flow to do their work, and really feel recognized and valued for their contributions. And then, throughout the year, we're making more investments in creating high-level clarity. So, this is part of the way that Asana is most differentiated from other work management solutions. So, that really means building on the adoption and capabilities of features like reporting, goals and portfolios, and the ability to better track the time spent on the work done in support of those goals.

And in addition to the functionality that helps teams organize, we're also investing in all the other things important to large enterprises too such things like making Asana accessible to all employees, improving our compliance capabilities and adding integrations for Data Loss Prevention and eDiscovery and scalability to really be able to serve these very large deployments with tens of thousands of seats – tens of thousands of people working

together in one instance. And then finally, we'll also be increasing the depth and breadth of the core Asana platform by expanding our IT partner ecosystem. So, it really ties that all together from the product perspective with an emphasis on helping larger organizations get clarity around their Work Graph and simplify workflows.

Anne Raimondi

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

A

Yeah. And then, on the go-to-market side, we're excited to put more resources towards areas where we're already seeing strong performance and that enable us to reach and serve our customers faster. So, starting with our top of funnel, we're continuing to see strong performance in all regions. We're also making big investments in pipeline building, including scaling our global sales development teams and increasing account-based marketing and customer engagement programs. From a hiring standpoint, our quota carrying sales head count will grow faster than overall head count. And there, what we see is when our team is able to partner early with our larger customers, we're able to serve more of their employees and make a faster impact on their most strategic cross-team initiatives.

We're also investing a lot in customer success and post-sales programs, because in our larger customers, we're seeing a step function change in adoption and expansion. And this is because we're not only helping their teams adopt the Asana platform, we're also helping the organization codify and implement their best practices for cross-teamwork. So, this is the work many of our biggest customers are asking us to help them with, given our 10-plus years of experience, partnering with some of the world's most innovative teams. So, just this week, one of our Fortune 10 customers was seeking our advice on best practices for updating how their organization sets and manages goals across their enterprise, and we're just seeing that demand in a lot of our larger customers. And so, we're excited to invest in places where we're already seeing results.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Got it. Perfect. And then, maybe just as a follow-up, with a good a proportion of the revenue coming from international or outside of the US, any thoughts or incorporation into the guidance around headwinds if there are any out of Europe, Western or Eastern, and just in general, how do we think about the conservatism in the guide with respect to that?

Tim M. Wan

Head-Finance & Chief Financial Officer, Asana, Inc.

A

Hey, Alex. This is Tim. It's probably too early to fully assess the impact of the Ukraine crisis and the broader implications right now. Now, revenues from customers based in Ukraine and Russia are not a material part of our business. But again, it's really just difficult to predict both the short and long-term implications sitting here today. And I would say, like many of you on the call and other companies – I mean, we're monitoring the situation closely, the impact of the euro falling, increased gas prices, inflation, supply chain issues, and how companies and customers are thinking about their investments. It's certainly concerning. We're monitoring it. But it's not factored into our guidance at this point, and we're just going to monitor this like a hawk.

Alex Zukin

Analyst, Wolfe Research LLC

Q

Perfect. Thank you, guys.

Operator: Thank you, Alex. We have a question submitted by email. Please proceed.

Catherine Buan

Head-Investor Relations, Asana, Inc.

A

Hi. This is Catherine. I'm going to read a question from Rob Oliver at Baird. Strong billings this quarter. You guys rolled out a ton of enterprise-specific functionality at your Scale event in late 2021. I wanted to ask if those announcements drove larger deployments in the quarter and how they have impacted the enterprise expansion pipeline.

Anne Raimondi

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

A

Yeah, great. I'll go ahead and answer that. So, we're seeing more customers choosing enterprise, including some of our largest customers who upgraded in Q4, including one of the largest global sports apparel manufacturers, a Fortune 10 company and a global streaming service provider. So, the revenue combined from our business and enterprise tiers represents more than 60% of our revenue in fiscal year 2022, and the revenue from those two tiers grew over 100% year-over-year in fiscal year 2022. So, strong demand for our business and enterprise tiers.

Operator: Thank you. The next question comes from Steve Enders with KeyBanc. Please proceed.

Steve Enders

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks for taking the question. I think you mentioned in the prepared remarks that you saw record web traffic and new sign-ups coming under the platform. I guess, wondering how are you seeing paid conversion at this point, and how should we kind of think about the new customers potentially coming in going forward here?

Anne Raimondi

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

A

Yeah. So, the way we think about our top of funnel investments is really based on payback and the quality of the customers and lifetime value. So, we see – and given our strong product-led growth motion, many of our enterprise customers actually come in through that funnel, and then our sales teams identify them and work with them to expand. So, we invest based on seeing those results.

Steve Enders

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. That's helpful. And then, on Reporting and Goals, I think you mentioned in the remarks as well that you're seeing good adoption there. But I guess how are those driving customers up to higher price tiers at this point?

Dustin Moskovitz

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

A

Well, generally, I think the larger the customer, the more value they're going to get out of trying to achieve clarity at – what we call the top of the pyramid of clarity. So, thinking about larger portfolios of work or strategic initiatives. And Goals is literally about modeling your highest level objectives and mapping them to the work, and Reporting is about getting that high level clarity that's most useful to senior team leads or executives. And so, a lot of that functionality is just literally part of our business tier SKU. And so, really a part of an upgrade conversation. But I think sort of more qualitatively, it's part of what is exciting in any sort of sales cycle conversation when we're demoing the product and helping explain to potential customers how Asana is differentiated from competition.

Steve Enders

Analyst, KeyBanc Capital Markets, Inc.

Okay. That's very helpful. Thanks.

Q

Anne Raimondi

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

And so, one thing I'll also add to that – oh, sorry. I was just going to say something to add on to that is it's also – those features are also helping us drive wall-to-wall in our upper mid-market customers. And so, one of the fastest growing community platforms – it's 1,000 seats and they're going to double in size this year as a company or more and every employee gets an instance of Asana. It's just how they do work. So, those are leading not only to upgrades in terms of the tiers, but adoption across an entire company.

A

Steve Enders

Analyst, KeyBanc Capital Markets, Inc.

Just a quick follow-up on that last comment you had about wall-to-wall adoption. I guess how prevalent is that becoming at this point and how should we kind of think about the increasing mix of those conversations versus maybe a year ago?

Q

Anne Raimondi

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

Yeah. We are seeing that much more prevalent, especially in our upper mid-market customers, which really we see as – these high-growth companies are the future enterprise customers. And so, with the functionality that we just talked about and the investments in workflow and the investments in security and scalability, we are seeing many more conversations about wall-to-wall and companies wanting a way that all their employees do work together.

A

Dustin Moskowitz

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

And this is Dustin. One thing I always like to add color on this too is even in the larger enterprise customers, what we often see is a division or a business unit is using Asana wall-to-wall, so using it cross-functionally. This is often a subsidiary with its own brand inside a larger conglomerate, maybe came in through an acquisition. And so, yeah, the mid-market is where we see it most literally. But then, if you look a little closer at enterprise customers, they also often look like that. And I'd also just tie this back to the prior question about web traffic, because it can be a little deceiving to look at that just as a funnel into new logos showing up, new customers, because it's often actually generating sort of new lands for us inside a large enterprise. And so, that's also part of how we see the ROI of those investments.

A

Steve Enders

Analyst, KeyBanc Capital Markets, Inc.

Okay, perfect. That's very helpful. Thanks for taking the questions.

Q

Operator: Thank you, Steve. The next question comes from Mark Murphy with JPMorgan. Please proceed.

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

Oh, yes. Thank you very much. Tim, you commented that you expect more traditional enterprise sales seasonality toward the second half of the year. And I was wondering, when you say more, do you mean more than other companies or do you mean more than you saw last year? I'm just trying to understand if you mean it's going to be a little more back-end loaded in terms of bookings patterns this year.

Tim M. Wan

Head-Finance & Chief Financial Officer, Asana, Inc.

A

Yeah. What I meant, Mark, was more than what we've historically saw at Asana, primarily because of all the incremental sales capacity we ended up at the end of the quarter in Q4 and then new adds in terms of the new capacity that we're building in the first half, as well as building the infrastructure to support those salespeople. So, you can kind of compare it relative to how we – where our investments were for our sales-led motion last year to where it's going on a go-forward basis.

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

Okay, understood. And Dustin, how is the usage and the actual engagement of the Asana product trending when you see employees begin to return to the office? For instance, I don't know what the typical usage looks like, but say if someone is using the app for 20 minutes per day when they're remote, are you able to track how does that change at all when they return to the office?

Dustin Moskowitz

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

A

I haven't explicitly looked at session time, but I've seen some of the – just frequency metrics like how often people log in, and those look totally unchanged. I'm not sure how acutely you'd be able to see something like that though, since people are returning to office on different timelines around the world. But even aside from that, I wouldn't expect to see a change, because work management was something that was a rising category even before remote work hit. And we really see Asana as an essential platform to use whether you're working in a distributed way or from an office.

And even when you're working from an office, you're often also working in a distributed way because a lot of our customers work across many offices. Even before the pandemic, Asana had, I think, 13 locations all over the world. And so, even though in each of those locations we're working in an office, we're still having to collaborate in a distributed way. And even within one building, you're working across floors or working across one large floor plate, still very useful to have a shared source of truth in a database like Asana.

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: Thank you, Mark. The next question comes from George Iwanyc with Oppenheimer. Please proceed.

George Iwanyc

Analyst, Oppenheimer & Co., Inc.

Q

Thank you for taking my question. Dustin, maybe you could provide some more color on Flow and the Workflow Builder. With the customers that have already launched, I know it's early, but have you noticed anything different in the way that they're using Asana?

Dustin Moskovitz

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

A

Yeah. It's still a little too early for that. Hopefully, at the next earnings call, we can bring some great anecdotes. I did – in the prepared remarks, I mentioned that there have been over 200,000 individual people who have tried the Workflow Builder and about 50,000 rules that they created with it. So, that's a really great start. We've seen a lot of excitement from customers who want to learn more. So, there's been a ton of – thousands of people signing up for our webinars to learn about it and reaching out to their customer success reps and sales reps.

And there's clearly a lot of excitement around it and the next few months will be about helping users really get the most value. Internally, I can tell you that that we've started adopting it in earnest and have been able to use it to really streamline our most complex workflows that involve multiple groups around the company that need to have shared context, especially around things like product launches where there are just all these many different constituents within the company, and we want to make sure that we have really high fidelity processes that always execute correctly to get all of them in the loop at the right time.

George Iwanyc

Analyst, Oppenheimer & Co., Inc.

Q

All right. And then, maybe in the context of the new capabilities that you're adding in the wall-to-wall expansion, can you give us a bit of an update on the competitive environment? Are you seeing any displacements going on or are you seeing any price changing?

Anne Raimondi

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

A

Yeah. I'll take that one. We're not really seeing a material change in competition, but rather an overall increase in awareness of and interest in work management. So, I think what we're seeing also is like our dedicated focus on innovating specifically in work management, the caliber of our customers and our ability to deliver and measure value quickly is what's kind of contributing to us being able to attract new customers, win those customers and then expand with the ones that we have.

George Iwanyc

Analyst, Oppenheimer & Co., Inc.

Q

Thank you.

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

Brent A. Bracelin

Analyst, Piper Sandler & Co.

Q

Good afternoon. My question here is really around just an evolution of the trends here on work management, which historically has been a departmental land. Encouraging to see more wall-to-wall. You guys are talking about more cross-functional being a driver here. Is the industry shifting here where you're seeing a bit of a tipping point towards wanting more of a cross-functional tool than we historically have seen or are those expansions happening faster? Any color around some of the wall-to-wall activity you're seeing and is the land profile changing here? Thanks.

Dustin Moskowitz

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

A

I think that it's always been more typical for Asana to land cross-functionally and certainly expand cross-functionally. So, I think since the beginning of the company, we've talked about the most common way we enter is through a marketing team, and then they're just immediately working with product and sales and legal on cross-functional workflows. I think it's accelerated over time, as we've built out more capabilities that service that exact need and have established ourselves as differentiated in being able to support cross-teamwork. We're also just seeing more awareness of work management. And so, as we move to larger deals, the topic is moving up higher in the org chart, in the strategic chain. So, we're talking to more CIOs and C-level executives who naturally have a cross-functional mindset to how they're going to deploy it. So, I think of it, yeah, as a long-term trend that is accelerating some.

Brent A. Bracelin

Analyst, Piper Sandler & Co.

Q

Great. So, it sounds the lands are similar, but expands seem to be accelerating. Helpful color there. Tim, my last question for you is just really around the aggressive investment plans for this year. It looks like OpEx growth will outpace revenue growth based on the guide. As you think just about the philosophy of operating leverage, is there a pull-forward of investment this year with the intent to drive maybe more leverage next year? Just trying to think through at what point would you start to – or be willing to show a little bit more leverage in the business model. Thanks.

Tim M. Wan

Head-Finance & Chief Financial Officer, Asana, Inc.

A

No. That's a great question. I think that's right, Brent, too that you would expect to see more leverage in the following year. One of the things I'm not sure we mentioned on the call was we did – I think we mentioned this. We accelerated growth and we actually grew faster this year than we grew last year. And then, when we look at the unit economics and our gross margins, gross margins being north of – about 90% and that our unit economics, both on payback and the unit economics on the larger deployments like the \$50,000 or the \$100,000, their net expansion rates being very healthy gives us a lot of confidence in our ability to continue to invest both on the product side as well as on the sales and marketing side to enable to unlock many of those customers. So, I think what you see is the model that we've shared maybe about a year-and-a-half ago at the – at our direct listing, how we think about the growth phase and the longer term model, those haven't changed. And how we define the growth phase is as long as we're growing at a healthy clip, that's kind of the sweet spot of what we're looking for, and that really hasn't changed.

Dustin Moskowitz

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

A

And two additional points I want to make there. So, in addition to revenue overall accelerating, when we look at our largest customers, so revenue from customers spending more than \$5,000 annually, that actually grew 90% in fiscal year 2022. So, that's growing even faster than revenue overall. And a lot of the head count that we're adding conceptually really needs to keep pace with that part of the growth, because it's a different motion to support those larger customers. And then additionally, on the sort of marketing side, we have really great analytics on the specific channels and markets that we're investing into to acquire new customers or acquire additional seats in existing customers. And so, that gives us a lot of confidence that we can further invest into those and expect to get the return, not necessarily immediately, but on looking out over the longer payback period, we have really high confidence. So, it's not like we're just sort of throwing money at billboards and Super Bowl ads. We're able to invest in really smart ways and have confidence that we're going to get that money back.

Brent A. Bracelin

Analyst, Piper Sandler & Co.

Q

Appreciate the color. Thank you.

Operator: Thank you, Brent. The next question comes from Andrew DeGasperi with Berenberg. Please proceed.

Andrew DeGasperi

Analyst, Berenberg Capital Markets LLC

Q

Thanks. Just have one on the partnerships. In particular, I know when you launched the channel partner program internationally, there was – the focus was expanding geographically. But I'm wondering if we were to fast-forward a few years from now, do you see the partner channel becoming a much more meaningful contributor to sales like we see in some of your larger software peers?

Anne Raimondi

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

A

Yeah. No, thanks for that question. And I think right now – and we definitely see this as both early and promising. It really is helping us reach customers in more geographies. We had mentioned our partner Master Concept in Taiwan and how they were able to help us with PChome and growing that account faster. In EMEA, we're seeing that same thing where we're able to bring on great partners and they are investing in the Asana business through dedicated resources and programs. I think we – so, those are all promising. And while we're still early, we do think medium to longer term, this is an important place for us to spend resources and bring on additional strategic partners, especially to help in the enterprise. But yeah, I would say it's very promising. We're excited to see how we can better reach and serve customers together, but we also know that it's a medium to long-term investment for us.

Andrew DeGasperi

Analyst, Berenberg Capital Markets LLC

Q

Thanks. That's helpful. And then, as a follow-up, on the eight-figure deal that you signed last year, I was just wondering if the pipeline that you're seeing for this year, is there potential to do more of that type over the next few quarters?

Anne Raimondi

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

A

Yeah. We are certainly very excited about that customer and the rate of growth. The more that we're working with these larger customers that are using us for their most strategic cross-team initiatives, we actually see faster expansion. So, there are a number of the larger seven-figure deal customers, as well as high growth ones that we're certainly partnering very closely with to be able to deliver more value and then realize that value.

Andrew DeGasperi

Analyst, Berenberg Capital Markets LLC

Q

Thanks.

Operator: Thank you, Andrew. The next question comes from Pat Walravens with JMP Securities. Please proceed.

Patrick Walravens

Analyst, JMP Securities LLC

Q

Oh, great. Thank you. And let me add my congratulations. So, I don't know if this is for Tim or Dustin, but – so, yes, revenue accelerated year-over-year and we could see why that would justify investments. But Tim, you know how we are. We look at the quarters. And if you look at the quarters, basically like calculated billings seems like a good place – a really clean place to look at it. The business accelerated for five quarters in a row from the beginning of 2021 to Q2 of this year or of 2022, and then seems to have decelerated the last two quarters. So, I'd just love to hear your thoughts and what key points you'd make to investors on why the acceleration and then deceleration.

Tim M. Wan

Head-Finance & Chief Financial Officer, Asana, Inc.

A

Yeah. It's a good question. I do think, obviously, there is a comp analysis that you can look at, because last year you're also comping against the prior year where COVID was much more rapid. But I would also point out that billings isn't necessarily the one metric we run the business on. We certainly look at the business across a number of different metrics, and I think GAAP revenue is probably a better indicator of how we think about our growth rate. Now, with that said, we are – as you can see, one of the things that we are focused on is building out our go-to-market around the enterprise motion, in that you would expect RPO as well as our CRPO to – as the one metric that you should be looking to over time where we're getting more enterprise traction, especially as we go beyond – as we do more longer term deals.

Patrick Walravens

Analyst, JMP Securities LLC

Q

Yeah. But revenue, again, was sort of higher at the beginning half of the year and then decelerating in the second half too, right? Is there something more fundamental going on than comps?

Tim M. Wan

Head-Finance & Chief Financial Officer, Asana, Inc.

A

No. There is also just the timing of large deals can change – part of why we don't focus on...

Dustin Moskowitz

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

A

The billings.

Tim M. Wan

Head-Finance & Chief Financial Officer, Asana, Inc.

A

...billings as much. But yeah, the comps versus the prior year and then just like which quarter particular deals happen to fall in, yeah.

Dustin Moskowitz

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

A

The lumpiness of the billings.

Tim M. Wan

Head-Finance & Chief Financial Officer, Asana, Inc.

A

Related to a larger deal.

Dustin Moskowitz

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

Yeah.

A

Tim M. Wan

Head-Finance & Chief Financial Officer, Asana, Inc.

Yeah.

A

Patrick Walravens

Analyst, JMP Securities LLC

Okay. All right, thank you.

Q

Operator: Thank you, Pat. The next question comes from Rishi Jaluria with RBC Capital Markets. Please proceed.

Richard Poland

Analyst, RBC Capital Markets LLC

Hi. This is Richard Poland on for Rishi. So, you mentioned some of the partnerships you guys have with the players in tangential areas of the collaboration landscape such as visual collaboration tools, whiteboarding tools. So, as you look forward, have you identified other collaboration categories that you think you can expand into long-term or just I guess more generally, how do you think about the broader market opportunity in collaboration software long-term?

Q

Dustin Moskowitz

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

Yeah. It really depends how long-term you're thinking. But for the foreseeable future, we really think of ourselves as pure-play work management. And so, when we think about the overall collaboration landscape, we divide it into three big areas. So, one is communications. So, it's going to be anything from Zoom and Slack to VoIP technologies and email, and then the content categories which would include document editors, the whiteboarding tools, specialized products like Adobe or Figma. And then, the third big category is work management.

A

And we really – collaboration software is obviously just really exciting writ large. But even work management itself is just such an enormous market opportunity and still feels just incredibly untapped. So, we think about the total addressable market as over 1 billion knowledge workers worldwide and still a vast majority of them are using the status quo of email, spreadsheets, long meetings, sticky notes on whiteboards or digital whiteboards. And so, we're really excited about staying focused on that opportunity and then partnering with the best-of-breed products in the other ones.

Richard Poland

Analyst, RBC Capital Markets LLC

Thank you. Very helpful. And this might be a little bit of a repetitive question, but you talked about the launch of Asana Flow last month, and it seemed to be some strong early engagement numbers and metrics. So, I guess just in terms of monetization strategy – I know the majority of these new features are in some of the more premium SKUs. So, do you expect something like that to drive some free to paid conversion or upgrade SKUs? And same question, I guess, as you look toward to the broader product roadmap such as the Employee Impact Suite you mentioned earlier.

Q

Dustin Moskowitz

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

Do you want to talk maybe about the pricing aspect?

A

Anne Raimondi

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

Yeah. We're excited that – in particular for the Flow launch, to get the most value out of the Workflow Builder, the Template Library, those are in our premium tiers. And so, I think the early response, we're very excited about both within the new customers who are joining our webinars, as well as we had a large over a 6,000-person community event of some of our most active evangelists.

A

So, again, as Dustin mentioned, it's early right now, but we're excited about the interest and momentum in customers and new customers trying the product, and then our sales teams are actively working with them to understand their needs and ideally get them into the right package to be able to solve their cross-team needs. So, that's overall how we're thinking about all the features that we launch, which is making them as accessible as possible, [ph] that's always going to be (00:53:36) part of our strategy, and then for those customers that have these cross-team strategic needs, making sure that they understand the value that are in our business and enterprise tiers and being able to move them up into those tiers when they're ready.

Dustin Moskowitz

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

And then, in addition to packaging, I would just also point out that workflows are really helpful for helping a customer adopt and stay retained with Asana. So, a lot of what we've built into the templates and what we're helping the first set of customers do with the Workflow Builder is really very quickly implement workflow streams that they were otherwise doing by sort of gluing together a set of features like the automation rules or forms or task templates or custom API scripts they were writing to integrate with some of the other apps in their toolkit. And so, this is really giving us a much faster way to deploy cross-functional use cases and workflows into new customers and help them just get started on a really good foot and expand faster.

A

Richard Poland

Analyst, RBC Capital Markets LLC

Got it. Thank you, guys.

Q

Operator: Thank you. The next question comes from Brent Thill with Jefferies. Please proceed.

Brent Thill

Analyst, Jefferies LLC

Good afternoon. Dustin and Tim, many investors are asking about the magnitude of your spend, and I know Brent's question – the Brents are thinking alike on this call on the questions. It's just when you think about how long you're willing to commit to that magnitude of a loss before you start to show some leverage, what is the – what's the trigger? What's going to trip the line, if you will, or the core to pull back a bit? You're significantly overspending relative to your peers. And so, we're getting a lot of questions on that. If you could address that. Thank you.

Q

Dustin Moskowitz

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

A

Yeah. Well, there are a couple of different ways I look at it. Again, the very big picture for me as a CEO is just where we are in the category of maturation. And so, we're investing to win, and we mean that quite literally. And so, when you think about this big market opportunity, I'm a little less focused on what the optics of the operating margin are in the short-run and more focused on how confident are we that we're going to get those investments back in the form of long-term revenue. And so, again, there we look at our efficiency metrics. So, we have the 90% gross margins. We look at the success with enterprise customers. We look at the sort of concrete channel and market efficiency for our marketing spend and where sales are succeeding.

And so, I think the things that will cause us to get leverage are more about hitting diminishing returns there such that those investments no longer look profitable on the margin, and then also slowing our growth trajectory, so that it makes less sense to invest ahead. Because when you're growing as fast as we are, you sort of quickly catch up to the scale of the spend. And if you don't, then you can sort of slow down on adding heads and grow into it. But if you're growing much slower, then you can't really sort of make that kind of rationale. So, I think that those are the two things that we would like to and you could look to for when we get leverage. But we do – maybe not in every quarter and every year, but over multi-year periods, we do trend towards more leverage.

Brent Thill

Analyst, Jefferies LLC

Q

Thanks, Dustin. Just for Tim, when you look at the biggest areas of spend this year, is there an easy way to bucket where this is all going? Is it across the board? Is it 70% to sales and marketing? How would you put broader categories around that?

Tim M. Wan

Head-Finance & Chief Financial Officer, Asana, Inc.

A

Yeah. I would say a big part of it is around our sales and marketing, and I would say it's a combination of demand gen, pipeline building, sales capacity, building up on the enterprise motion and the necessary support, so many of the customer-facing teams to support that part of the business. So, it's a lot of focus around reaching our enterprise customers, helping them adopt and helping them expand.

Brent Thill

Analyst, Jefferies LLC

Q

Great. Thanks.

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

Robert Simmons

Analyst, D.A. Davidson & Co.

Q

Hey. Thanks for taking the question. I was wondering, how much are you factoring in higher expenses from a return to relative normalcy post or semi-post-COVID?

Tim M. Wan

Head-Finance & Chief Financial Officer, Asana, Inc.

A

Yeah. We are – we haven't returned to the office yet. Some of us are actually doing this call in-person together. But we have included – made some assumptions of return to office around the back half of the year. So,

additional travel, additional spend related to being in the office together and being able to reach our customers, meet with them, help them be successful. So, I would say back half of the year.

Dustin Moskowitz

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

I want to nuance that a little bit. Return to office has a concrete definition internally.

A

Tim M. Wan

Head-Finance & Chief Financial Officer, Asana, Inc.

Yeah.

A

Dustin Moskowitz

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

We have several hundred people in the San Francisco office and then dozens of people in some of the other offices. But Tim means more like 90% or 100% of the workforce coming back.

A

Tim M. Wan

Head-Finance & Chief Financial Officer, Asana, Inc.

Yeah.

A

Dustin Moskowitz

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

And so, part of those expenses exists now and part of them may accelerate in the back half.

A

Robert Simmons

Analyst, D.A. Davidson & Co.

Got it. And then...

Q

Dustin Moskowitz

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

But you know...

A

Robert Simmons

Analyst, D.A. Davidson & Co.

Sorry. Finish.

Q

Dustin Moskowitz

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

I was just also going to say it's not quite so binary though, because we're paying rent on our offices anyway.

A

Tim M. Wan

Head-Finance & Chief Financial Officer, Asana, Inc.

Yeah.

A

Dustin Moskowitz

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

A

That's probably the largest sort of office expense. So, it's not like it totally flips. But yeah, travel and expenses and some of the costs of actually operating the building change.

Robert Simmons

Analyst, D.A. Davidson & Co.

Q

Got it. All right. And then, where do you think you're the most underpenetrated out in the market? Is it at a particular region? Are the industries? Is it specific parts of the enterprise like legal or sales or what are your thoughts there?

Dustin Moskowitz

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

A

There's a few different ways I could go with that. The first thing that comes to mind is it's just very highly regulated industries where we may not have the compliance requirements yet or they may just be the least – the sort of last-mover to adopt new technologies. That's where we're least penetrated. But we do have a lot of presence in a wide variety of industries, wide variety of regions and customer scale.

Robert Simmons

Analyst, D.A. Davidson & Co.

Q

Great. Thank you very much.

Operator: Thank you, Robert. That concludes the Q&A session. I would like to pass the conference back to Catherine Buan for additional remarks.

Catherine Buan

Head-Investor Relations, Asana, Inc.

Thanks so much, operator, and thank you very much everyone for joining us today. Looking forward to seeing you on the road this quarter and always appreciate your time. Thank you.

Operator: That concludes the Asana fourth quarter and fiscal year 2022 earnings call. Thank you for your participation. You may now disconnect your lines.

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