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Asana, Inc. (ASAN)

Q3 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for attending today's Asana Q3 Fiscal Year 2023 Earnings Call. My name is Bethany, I will be the moderator for today's call. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. [Operator Instructions]

I would now like to pass the conference over to our host, Catherine Buan. Please go ahead.

Catherine Buan

Head-Investor Relations, Asana, Inc.

Hi. Good afternoon and thank you for joining us on today's conference call to discuss the financial results of Asana's third 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 expectations regarding free cash flow, our financial outlook, strategic plans, our market position and growth opportunities. Forward-looking statements involve risks, uncertainties, and assumptions that may cause our actual results to be materially different from those expressed or implied by the forward-looking statements. Please refer to our filings with the SEC, including our most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q for additional information on risks, uncertainties and assumptions that may cause actual results to differ materially from those set forth in such statements.

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

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

Dustin Moskovitz

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

Thank you, Catherine, and thank you to everyone for joining us on the call today. As you saw in the earnings release, Asana reported strong Q3 revenue growth and notable operating margin improvement in the quarter. Revenue in the quarter grew 41% year-over-year, or 43% when adjusted for foreign currency. Operating income was over $11 million better than expectations, a credit to our revenue outperformance as well as our continuing focus on managing our expenses.

We had 493 customers spending $100,000 or more in the annualized GAAP revenue, up 78% year-over-year, and continue to be the work management solution of choice at some of the world's leading enterprises. In addition, our largest deployment has now reached over 150,000 paying seats, further widening our significant lead in enterprise deployments. Our enterprise business is growing more rapidly than our overall growth rate, continuing to become a larger portion of our business over time. And the net retention rate of our customers spending $100,000 or more continues to be very strong at over 140%.

Anne will talk more in a moment about some of these large customers who represent some of the world's leading companies and best-known brands.

Looking back to fiscal 2021, we had accelerated revenue growth year-over-year, so we ramped up heavily in the second half of fiscal year 2022 to increase capacity for what we believed could potentially be an even bigger year in fiscal 2023. But last spring, the macroeconomic environment started to turn on our international business. So in Q2, we slowed head count growth, started pacing investments in lower ROI geographies, and started taking significant measures to manage spend. By September, those conditions became even more challenging, including for our US business.

Based on all of these factors, we made the difficult decision last month to reduce the size of our overall organization by 9%. We also adjusted our full-year outlook to capture these impacts. Our current expectation is that these factors will persist through the fourth quarter and into the next fiscal year.

While the macroeconomic trends have been dynamic, it hasn't changed the size of our market opportunity and our product strategy. Asana's work management platform is now a strategic choice as organizations look to successfully navigate these uncertain times.

I've been on the road recently meeting with customers. We're fortunate to work with some of the most innovative companies in the world; companies that have successfully deployed Asana to tens of thousands of users. This scale and their perspective has given us unique insights into how enterprise organizations are thinking about their current and future software needs.

With that, there's three things to note. First of all, while buying decisions are being considered carefully by the C-suite during this macroeconomic cycle, they're still investing in solutions that help them do more with their tech stack, offer time to value and focus employees on work that matters. This is a long-term tailwind that will likely continue in the years to come.

Second, we're seeing a similar strategy in more traditional industries where there's real urgency to digitally transform and disrupt the old ways of working. Companies in automotive, financial services, professional services, healthcare, manufacturing and shipping and transportation are automating their workflows with Asana. We're even seeing cross-pollination from organization to organization as Asana advocates take on roles at new companies. A few years ago, the term work management didn't even exist; and today, it's approaching the mainstream.

And third, especially in this macroeconomic climate and during the season of annual planning, we're repeatedly hearing how critical it is for leaders to have visibility and accountability. This helps to ensure that the work delivers on business priorities. When work is connected to goals in Asana, it creates a dynamic constellation of where things are successfully aligned and where the hotspots are. With this bird's eye view, leaders can take action, pivot quickly, and be more competitive.

Asana is honored to be recently recognized for our goal-oriented approach that drives greater enterprise adoption. The Forrester Wave™: Collaboration Work Management Tools, Q4 2022 evaluation has named Asana a Leader in its assessment of the top 13 vendors in the market. The new report specifically calls out our strategic differentiation in two areas. First, for how our Work Graph data model connects information, people, and objectives that drive work through the organization. And second, for how our goal management structure helps organizations connect disparate teams with a common focus. Asana's recognition as a leader in the Forrester Wave follows its #1 ranking in the G2 Grid® Report for Objectives and Key Results (OKR) providing strong, customer review-based validation of product and competitive differentiation.

Early data from our recent Q3 enterprise product announcements has been strong. We're seeing higher quality leads with larger customers at later stages in the funnel. Companies are moving goal management from standalone OKR vendors into Asana, and CIOs are recognizing our product as consolidation opportunity of key goals and work management.

One of our customers has been celebrated for its rapid growth after quickly and successfully shifting strategies. The need for this kind of agility is why they made a Q3 move from their standalone OKR solution to Asana, where they can connect the work that matters to company goals. Some of the big enhancements to goals that we introduced this year have been driving adoption.

For example, since launching Goals with Universal Reporting last quarter, we've seen goal creation has almost doubled in each customer year-over-year across our $100,000 or more cohort.

Our newly HIPAA-compliant offering opened new doors this past quarter with companies that store, consume, and transmit personal health information. And even though it was just released, we've already closed multiple deals across healthcare and insurance around the world. Our HIPAA offering will enable them to bring more of their patient care management workflows into Asana.

And we've seen large customers in Australia and Japan migrate their work data into our new regional data centers, a testament to their continued usage of and investment in Asana.

As we look to fiscal year 2024, we'll continue to build out Asana's Work Graph as a critical navigation system for companies. I'm excited alongside customers to share much more on how the power of collective intelligence will accelerate organizations during our next marketing event in Q1. This means our customers get data-backed insights as well as turn-by-turn directions that help them address real business challenges.

In the shorter term, we're specifically focused on helping leaders across operations move faster and continuing to build for the enterprise at scale. Asana gives strategy and ops a single source of truth to track requests across email, chat, documents, and other frequently used applications. They're able to maximize efficiency and pivot work to achieve critical organizational goals. We're also giving IT the needed roles-based guardrails to scale up onboarding and manage faster and more successful deployments.

Before I hand it over to Anne, I want to again acknowledge that we're making decisive moves to improve our margin profile. With over $545 million in cash, we believe we're fully funded to execute on the current strategy and achieve free cash flow positive by the end of calendar 2024. We're not satisfied with our performance and we'll be focused on driving growth and enhancing our global go-to-market execution. I believe Asana is uniquely positioned to help companies through these current challenges, and we'll continue to invest conscientiously, while maintaining our leadership and product innovation.

Now, I'll turn it over to Anne.

Anne Raimondi

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

Thanks, Dustin. As Dustin mentioned, we noticed increasing pressures on our customers at the end of September, when the budget tightening and longer deal cycles became more apparent in the US. The macroenvironment was having an impact on some of our customers' ability to increase headcount. As a result, some of our expansion activities slowed, especially in mid-market and smaller accounts. By the end of the quarter, we made the hard decision to restructure and realign our business. Despite the macro backdrop, we continue to see thousands of organizations and large enterprises realizing the value of work management and choosing Asana.

While the SMB and very small business markets are softer, we continue to see strong traction in the enterprise organizations and larger deployments. The category is large and we are still in the early innings, so the competitive dynamics in the market are unchanged. At the same time, the number of multiyear deals went up sequentially and on an annualized basis. More customers are making longer-term commitments with Asana.

I spend most of my time with our teams and our customers, and this is what I'm hearing. There's increased scrutiny on deals globally. Executives want higher and faster ROI from their investments. There's increased participation of executives in deal and work management investments are being elevated to the CIO/CFO level more than they have ever been.

During the dynamic macroeconomic periods like now, organizations are looking to be able to set goals and increase accountability across their business and to make quick resourcing decisions as things shift. The buying environment is more measured but budget impacts vary across industries and Asana is well-positioned in these conversations.

In the third quarter, we continue to gain traction in healthcare. Norton Healthcare, the hospital and health care system that has 340 locations throughout Kentucky and Southern Indiana expanded their use of Asana in Q3. My favorite use case of theirs is how they onboard new physician providers in Asana year round.

Previously, they managed this complex process manually and important documentation like medical certifications and licenses was easily lost in long e-mail threads. Today, they run this whole process in Asana via a purpose-built workflow that includes a checklist of every step to ensure it's done accurately and successfully. You could liken this workflow to onboarding a whole new business unit to a company. This is not only made the process much more efficient so they can scale quickly, but also helps them automate steps and save cost.

As Dustin mentioned, the HIPAA compliance announcement this fall is opening doors even further. The product has only been available for over a month and we have already closed a number of HIPAA-compliant deals.

Macroeconomic factors and currency fluctuations have driven up costs, but several industries have benefited and are accelerating the speed at which they deploy their capital into digital transformation. For example, we've seen major Japanese manufacturing companies investing in digital transformation to secure competitive advantage, enhance operations and processes with a focus on the supply chain and improve profitability through better management with cross-functional visibility. For Asana to be used like this in both innovation centers and core manufacturing departments, it's a testament to our product's deep value and flexibility.

Sonder, a leading next-generation hospitality company that operates in over 40 cities across 10 countries, uses Asana to make decisions rapidly and adapt quickly to changing factors. They use Asana across the entire company, from property managers, to maintenance teams, to the strategic initiative team, and upgraded to our enterprise solution this quarter for the enhanced security functionality.

Another innovative customer using Asana to help manage their supply chain is HelloFresh, the world's leading meal kit provider. Headquartered in Germany and serving 17 countries, HelloFresh's strategic procurement and ingredient development teams use Asana to manage their ingredient-sourcing and inventory workflows. Their old way of working wasn't efficient or scalable. Now, HelloFresh is able to more quickly develop and launch new seasonal recipes that meet their customers' preferences across 30 different recipes offered each week.

In Q3, we continued to see companies in media and financial services expand with us. These are just a few examples of leading companies who are choosing Asana because the Work Graph is the most scalable platform, connects schools to the work across the organization and provides quick, measurable business ROI. We are continuing to see broad cross-industry adoption with significant traction in Fortune 100 customers, of which 80% use Asana.

These successes are just the beginning and we have a lot of work ahead. The key to success for us is to continually improve our ability to address our customers' needs and drive growth across our large customer base. We're making strategic changes in our organization to better realign resources for long-term high-leverage growth. Our key areas of focus include: taking our success with our largest customers and making it a replicable, scalable process across our entire go-to market motion; serving our smaller customers in a more scalable way by further leveraging our product-led capabilities; maximizing data from product-led motion to better support the sales-led process and customer lifecycle; and bringing in new leadership to elevate our enterprise success to the next level.

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

Tim M. Wan

Chief Financial Officer, Asana, Inc.

Thank you, Anne. Q3 revenues came in at $141.4 million, up 41% year-over-year. This puts us at an annualized quarterly revenue run rate of $566 million. Revenue from the US grew 47% year-over-year, accounting for 61% of our total revenue. International grew 33% year-over-year, accounting for 39% of our revenue. Currency impacted our international growth rate by roughly 500 basis points and the overall revenue growth rate by about 200 basis points. International growth would have been 38% year-over-year and total revenue growth would have been 43% year-over-year without the impact of currency.

Revenue from customers spending $5,000 or more on an annualized basis grew 52% year-over-year. This cohort represented 73% of our revenue in Q3, up from 68% in the year-ago quarter. We have 18,700 customers spending $5,000 or more on an annualized basis, up 32% year-over-year. Our largest customers remain our fastest growing cohort. We have 493 customers spending $100,000 or more on an annualized basis and the customer cohort is growing at 78% year-over-year. We believe this metric is a good proxy for our enterprise business. As a reminder, we define these customers' cohort based on 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 128%. And among customers spending $100,000 or more, our dollar-based net retention rate was over 140%. As a reminder, our dollar-based net retention rate is a trailing four-quarter average calculation.

We continue to see stable churn rates across the cohorts and low churn in our large accounts, demonstrating the value we deliver for our enterprise customers. However, as Anne mentioned, we did see customers pausing growth or hiring more slowly, and the expansion in our business slowed as a result. We expect our overall dollar-based net retention rates to trend lower during this economic cycle.

As I turn to expense items and profitability, I would like to point out that I will be discussing non-GAAP results in the balance of my remarks. Gross margins came in at 89.6% from 90.7% in the year-ago quarter. Research and development was $50.2 million, or 36% of revenue. We continue investing to win and fuel innovation in our proprietary technology, which will help us deliver on our vision. Sales and marketing was $98.5 million, or 70% of revenue. And G&A was $30.6 million, or 22% of revenue.

Operating loss was $52.6 million, and operating loss margin was 37%. The improvement in our operating margin demonstrates our ability to drive more efficient growth and manage our operating expenses with increased discipline. Net loss was $52.4 million, and our net loss per share was $0.26.

Last month, we reduced our global head count by approximately 9% as part of a restructuring designed to better manage the business with a balance towards growth and profitability. This reduction will result in a non-recurring restructuring charge of $9 million to $11 million, which will be excluded from our future non-GAAP results. We expect the charges to be incurred primarily in the fourth quarter of fiscal 2023 and our restructuring efforts to ultimately result in annualized savings of roughly $40 million for the company going forward.

Moving on to the balance sheet and cash flow. Cash and marketable securities at the end of Q3 were approximately $545.4 million. Our remaining performance obligations, or RPO, was $271.6 million, up 43% from the year-ago quarter. 86% of our RPO will be recognized over the next 12 months. That current portion of RPO grew 43% from the year-ago quarter. Total deferred revenue at the end of Q3 was $214.8 million, up 39% year-over-year.

While we don't normally comment on calculated billings*, since currency fluctuations continue to have an impact this quarter, I want to call out that currency impacted calculated billings growth by over 400 basis points, and thus, 31% when adjusted for the FX impact. Our free cash flow is defined as net cash from operating activities less cash used in property and equipment and capitalized software costs excluding non-recurring items. In Q3, free cash flow was negative $48.5 million or negative 34% on a margin basis.

Moving on to our outlook. For Q4 fiscal 2023, we expect revenues of $144 million to $146 million, representing growth rates of 30% year-over-year at the midpoint. We expect non-GAAP loss from operations of $60 million to $57 million, and we expect net loss per share of $0.28 to $0.27 assuming basic and diluted weighted average shares outstanding of approximately $215 million.

For the full fiscal 2023, we expect the revenues to be in the range of $541 million to $543 million, representing a growth rate of 43% year-over-year. We expect FX to negatively impact our full-year growth by approximately 200 basis points. Excluding the currency impact, our growth would have been 45% year-over-year. We expect non-GAAP loss from operations of $230 million to $227 million. And we expect net loss per share of $1.15 to $1.14, assuming basic and diluted weighted average shares outstanding of approximately 200 million.

We're being very measured with our guidance with several factors in mind. Our outlook assumes that currency doesn't change, and macroeconomic factors will continue to drive a more tempered buying environment and increased scrutiny on purchase decisions. And we assume this persists into the next fiscal year. Despite the uncertainty with the macroeconomic environment, we still expect to be free cash flow positive before the end of calendar 2024 while balancing growth and profitability.

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

Dustin Moskovitz

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

Before we go to questions, I wanted to summarize by noting, like many of our peers, we're operating in a very challenging macroeconomic environment, so we're actively managing to mitigate the impacts to the bottom line and taking the opportunity to elevate and further build our enterprise business. While we are de-risking for the short term, I continue to focus on the long-term opportunity.

When I meet with customers, I recognize that we have a unique perspective collaborating with some of the largest and most innovative companies in the world, including the 80% of the Fortune 100. I'm further reminded that work management is an enormous and underpenetrated market. The underlying business trends remain intact, and I'm excited about Asana's position.

Catherine Buan
Head-Investor Relations, Asana, Inc.

Thank you, Dustin. And with that, I'll turn it back to the operator for the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from the line of Andrew DeGasperi with Berenberg. Please go ahead.

Andrew DeGasperi
Analyst, Berenberg Capital Markets LLC

Q

Thanks for taking my question. I guess, we're clearly seeing similar kind of weakness across most software categories. I was just wondering in the conversation that you have with investors, is there anything that they're telling you differently in terms of work management and how they prioritize it relative to other software categories?

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

A

Hey, Andrew. It's Anne. Thanks so much for that question. I'll tell you that what we're seeing is certainly more increased scrutiny on spending on technology overall. Executives want higher and faster ROI from their investments. What we're really seeing is more just a pause on the decision making versus deprioritization of the category, just as they evaluate where they're going to make those investments.

In these periods what we're excited about though and positive about is executives are looking to be able to set goals and increase accountability across their business. As Dustin mentioned, goals in particular is really resonating. So the fact that we've been increasing our investment there has been helpful in these conversations, because they are looking to get faster decision making rolled out through the company as they're facing these changes. But overall, I would say, mostly, what we're seeing is more a pause in decision making than anything.

Andrew DeGasperi
Analyst, Berenberg Capital Markets LLC

Q

That's helpful. And then, maybe on the restructuring, I was just wondering, what does that translate in terms of the timeline to breakeven, I guess, from a profitability point of view, from a free cash flow point of view, is there anything you can comment on that?

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

A

Yeah, Andrew, as I commented on the call, no change in terms of timeline from a go-forward basis, the savings from the restructuring was about $40 million on a go forward basis. But we're holding and committed to delivering free cash flow before the end of calendar 2024.

Operator: Thank you. Our next question comes from the line of Ittai Kidron with Oppenheimer. Please go ahead.

Ittai Kidron
Analyst, Oppenheimer & Co. Inc.

Q

Thanks. Hey, guys. I guess, I want to go into the head count reduction. Can you give me a little bit more color on how this 9% spreads across the functions? And I guess, the associated question with this, how do I think about how this cut catches up to you? Meaning, clearly, there's some sales functions that are part of this as well. And how do I think about the capacity loss or the points of growth in a quarter growth eliminated through this as we think about fiscal 2024?

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

A

Yeah. Thanks. I'll start off. This is Dustin. So just thinking about where we reduce roles, a lot of how we structured our hiring plan for fiscal 2023, we frontloaded quite a lot of hiring, especially in sales and marketing, and especially, in talent acquisition, to help us do the frontloaded hiring. And so – and then we had an ambitious plan for R&D as well, but we had it more paced throughout the year and we ended up really moderating and then pausing hiring fairly early in the year.

So when we came to think about the risk, we really looked at it primarily through the lens of sort of unwinding the over-investment we made in the first two categories, and really, rightsizing it to the amount of demand we were seeing in the market. And so I feel comfortable with the staffing we have now and the people that we have in these roles are ramped and ready for fiscal year 2024 and able to serve our best customers. And anything you want to add to that, Anne?

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

A

Yeah. On the sales side, in particular, I'll just add that that as we did the restructuring, we were really focused on better aligning our teams with where we see growth, which is in enterprise. So with a softening in SMB due to the macro conditions, we made adjustments there to ensure we could increase efficiency and productivity, and really make sure that the team we have here can be set up to be successful. So some other things, in particular, we're doing are increasing our focus on delivering scaled and efficient programs for those smaller customers without sacrificing the quality of their experience. But a lot of the focus is ensuring we're well-staffed for enterprise growth.

Ittai Kidron
Analyst, Oppenheimer & Co. Inc.

Q

Okay. Maybe as a follow-up, Dustin, what is it that you need to see for you to feel comfortable re-accelerating hiring again? Like, what is the key KPI that you're watching for? Because I'm pretty sure, I mean, clearly, you don't want to be behind, right? So the tricky part is to try and put your finger on what would be the right thing to look for to get the green light to go ahead a little bit more aggressively. Can you give us some insight as to what it is that you're looking forward to make that decision?

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

A

Yeah. That's a great question and certainly one top of mind. I think that a lot of what we're looking at is really macro signal and signal from customers in the conversation. So, Anne talked about some of our best customers, they haven't deprioritized digital transformation, but they do have things a little bit on pause. They themselves are – in many cases, are just reacting to changing macro landscape for themselves and trying to re-evaluate and get their footing again and decide – regain confidence to start increasing their deployments.

And so to some extent, you will be seeing that happen. So having the customers get back into a place of wanting to expand their deployments more rapidly. And I think, in turn, they will be looking to changes in the market, obviously changes in interest rates, and changes in their own customer demand.

Now, that said, a lot of our customers are still growing. We would have loved to have had even more growth this quarter, but it's still quite a lot of growth. And so another thing that could happen is just that that growth continues and we grow into our OpEx footprint, and then that would be more of a sort of gradual turn back towards investing and hiring again on our side. And so, yeah, it might be quite acute or it might be more gradual. And I think in both cases – well, in the first case, it will depend on changes in the macroenvironment, which I do think could happen quickly, but they might not. And then, in the second case, just the sort of re-evolving of the customer relationships and category growth.

Operator: Thank you. Our next question comes from the line of Alex Zukin with Wolfe Research. Please go ahead.

Allan Verkhovski
Analyst, Wolfe Research LLC

Q

Hey, there. This is Allan Verkhovski on for Alex Zukin. Thanks for taking the question. I really appreciated the color that you guys provided with respect to the impacts you're seeing from the macro. Can you just dive into the trends you saw on a per month basis through November around expansion trends, free-to-paid conversions, and just general top-of-funnel activity? I think that'd be really helpful.

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

A

Hey. This is Tim. I would say, like, where we had talked about in Q2 about the macro impact in Europe. And I would say, starting kind of in September, maybe towards the end of September, we started seeing some of those same trends and same conversations happening – same conversations happening in the US.

I think what I'm really encouraged about is, when we go deep into the data, one of the things that's really continues to be strong is, if you look at our $5,000 customer, that revenue base continues to grow at a very healthy clip. You look at our logo retention, our logo retention is stable, and we continue to have high NRR for our customers that are above $50,000 or $100,000.

But I do think the conversations that we're seeing, the types of engagement that we're having is while the pipeline isn't going away, I think many of our customers are just, like, taking a beat and saying, hey, what's going on in the market? Everyone is trying to right-size their own cost structure, trying to understand their own outlook based on the macroenvironment. But we do expect many of these customers to re-engage over the next few months and create opportunity for us.

Allan Verkhovski
Analyst, Wolfe Research LLC

Q

Okay. Got it. And then just as a follow-up to that point, like, for the disaggregates, the expansion business and the net new business. I would assume expansion deals are a little easier to get over the line in this environment, but that's kind of an inconsistent thought depending on other SaaS providers in the space. So what are you hearing from your reps about these areas? And how does that affect your strategy for next year?

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

A

Maybe I'll start. I mean, it's a little of both – and it depends on the segment. So probably, in the smaller segments, SMB and midmarket, maybe a little more pressure against conversion and jumping into something new, a new category they haven't been spending on before, but not too dramatic. And then, expansion more at the enterprise customers, it's not even necessarily that they aren't expanding, but maybe they're just being a little more modest about it. There are a couple of cases where customers were taking some of the roles that were eliminated had licensed seats and they simply repurposed them to actually expand usage in other parts of the company.

And so in some sense, they were expanding. It just wasn't necessarily translating into dollars for us. And then, similarly, all of the currency headwind really shows up of what turns out to be negative renewals even if the seats are still there. And we're still heavily driven based on those trends and just on seat expansion. So I don't think there's anything that stands out too much. When I think of where our internal forecasts were most of it was in those more modest expansions relative to what we were hoping for.

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

A

Yeah. the only thing that I'll add to that is our champions are still quite engaged with us on those expansions. And so a lot of the focus in the discussions really is where can we make the highest impact and deliver the highest ROI and in the shortest amount of time. So some of it is just re-evaluating together where we expand the deployment and which cross-functional use cases.

Operator: Thank you. Our next question is from the line of Steve Enders with Citi. Please go ahead.

Steven Enders
Analyst, Citigroup Global Markets, Inc.

Q

I want to ask on the expansion within that largest customer now expanding up to 150,000 seats. I guess, just wondering – as we think about that account, what were kind of the incremental either use cases or areas that you were beginning to see that expansion take place in? And I guess, how should we think about kind of the further scalability that you could capture within that account there?

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

A

Yeah. Thanks so much for that question. I think what we're actually seeing in that account is expansion across many different divisions and departments. It's a large global organization. And so we are deployed in across many functions, many business units. And what we're seeing that drives that growth is that it's really how many of the organizations work and how they onboard new employees, how they train their employees, how they deploy their end customers. And so they're codifying essentially how they intend collaboration to work within the organization.

So it's not so much sort of one specific use case, but rather that we are now part of the stack of collaboration in that organization. And we're excited to see that, because that really is a playbook that we feel we can replicate in a lot of our large enterprise customers that are starting to see that similar behavior where it's across multiple departments, it's across multiple divisions, and it's really facilitating those cross-team initiatives that are so critical right now.

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

A

I just want to jump in to add to the question about future potential. I think this is really sort of indicative of a few of our large customers where, again, they're the – in this environment, the company wants to have more control over the pace of deployment and how spend happens. But underneath that, there's quite a lot of organic demand in this account and others, and they're almost being held back from adoption, so that the company can pace in an intentional, controlled way. And that's fine. We'll work with them, but we're excited to embrace that sort of latent demand and work with them when they're back into a place of spending more budget to embrace it and license it.

Steven Enders
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Okay, that's helpful. And then, you made a comment in there around – well, in the prepared remarks about kind of taking the lessons you're learning from the largest customers and trying to apply that to kind of the rest of the go-to-market strategy to drive enterprise adoption. I guess, what are kind of the key things that you've learned so far and kind of what are the things that you can control that can drive that expansion notion into other large potential accounts here?

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

A

Yeah. Two great lessons. One plays off of what I was just saying. These companies want to really control how Asana is deployed and be able to automatically manage thousands of accounts at a time and have that synced up with other things they're doing with the organization. So integrate it with their other ways of managing people and licenses, be able to have a lot of great visibility into how people are using the product and what kind of value they're getting. And so we're translating that straight into the kinds of views we give in our admin console, how we talk to the customer directly and what kind of data we're able to sort of provide from them ad hoc.

And then, the second big thing that we really piloted with this larger customer is more customized in product education. So being able to really speak their language, have the assets that teach them how to use Asana in that company culture really at the ready. And that can really accelerate adoption, and that's something we're excited to bring to other large customers.

Operator: Thank you. Our next question comes from the line of Brent Thill with Jefferies. Please go ahead.

Brent Thill
Analyst, Jefferies LLC

Q

Dustin, investors want a faster path to profitability, but we know you have to balance the long-term and the potential to take share could be greater in a downturn. So I'm just curious how you're thinking about weighing the short term versus the long term and how you're thinking through that desire from investors to make the quick turn here?

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

A

Well, yeah, as Tim said, we're still committed to the timeline that we provided last quarter, so I think that's really the overarching picture – we need to balance it. In the short run, I always have heartburn around the category changing and moving on without us, but I'm also just cognizant of the fact that if the customer demand isn't there, then it's easy to spend the money inefficiently.

And so the easiest place to turn up and down the throttle there is with programmatic marketing spend. And just from a math basis, we know that the payback is getting longer and the immediate ROI you get on that is changing and we should react to that. So we're relatively well aligned when the market's ready to grow, when our customers are ready to grow, that's the right time for us to be spending more aggressively. But there are also things that play out over longer cycles, like how our product roadmap works. And so there it's more of a judgment call on what's the right pace. But you can see that we've been getting leverage throughout this year in R&D as a percent of revenue. And I think that will continue.

And we'll just be looking at exactly what is the shape of that trend line and when do we have a little more capacity to reinvest there and reinvest in head count and programmatic spends elsewhere in the company.

Brent Thill
Analyst, Jefferies LLC
Q

Quick follow-up for Tim. Is there a way to split SMB versus enterprise as a mix, just a ballpark, I think, through that allocation of revenue to each of those buckets?

Operator: Our next question comes from the line of Josh Baer with Morgan Stanley. Please go ahead.

Sophie Lee
Analyst, Morgan Stanley
Q

Hi. Thanks for taking my question. This is Sophie Lee on for Josh Baer. I guess, my question is, when you say you expect NRR to be continued to be pressured going forward, what kind of churn and expansion dynamics are you kind of thinking about? Are those more related to less seat expansions? Or are you implying more lower dollar expansions as customers downgrade to cheaper plans? Just curious what you're thinking about there?

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

Yeah. Let me try to answer Brent's question first. I think I was on mute and then I'll jump back into this churn question. Brent, your question about how to think about the two segments of the business, I would look at our business like the sub-$5,000 as one part of our business and the above $5,000 as another part of the business.

And if you look at that, if you break up our sub-$5,000 business, it grew at about 18% year-on-year and our $5,000 cohort grew north of 50%. And that cohort also has much stronger NRR than the sub $5,000. And that's been the way we've been running the business and like how do we move these $5,000 customers up into $25,000, $50,000, $100,000. And that's really been the motion that we're focused on and will continue to invest in.

Now back to the churn question or the net expansion rate question, I would probably prioritize it as one, we're not seeing logo churn. Logo churn is actually quite stable, so customers are not churning off Asana, that's one. Two, there's probably some component, but I think it's relatively small of downgrades, meaning some customers have pre-bought into thinking that they would grow into a certain size, and given the macroenvironment, they've decided to downgrade during their renewal. So we see some of that.

I think the bigger impact primarily has been kind of the expansion rates. And the expansion rate is just a combination of customers taking a pause right now, given the macro, to try to understand how fast they want to grow their head count, how much hiring they want to do over the next 12 to 24 months, and just have a lot more certainty around their own business before making that investment.

So as I mentioned earlier, the pipeline hasn't changed. The conversations are still happening. But I would say, we did see some noticeable pause in some deals where customers are trying to reflect on their own plans before moving forward.

Sophie Lee
Analyst, Morgan Stanley

Q

Sounds good. And a quick follow-up, what are the incentives for customers to sign on to a multi-year deal despite a more challenging budgetary environment?

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

A

I would say most of these larger deals are negotiated. So there's some combination of pricing that gets discussed, if customers are willing to move into a multi-year deal. And then, the other lever for customers – and especially in this environment, I think customers are looking for this. And it impacts billing as they're asking for different payment terms, a different structure in terms of how the timing of which they'll pay us. So those are generally the two things that I would say that customers are kind of looking at. And we did actually saw a noticeable increase in our multi-year deals this quarter versus last quarter, which is really encouraging as well.

Operator: Thank you. Our next question comes from the line of Brent Bracelin with Piper Sandler. Please go ahead.

Brent A. Bracelin
Analyst, Piper Sandler & Co.

Q

Good afternoon. Maybe I'll start here with a question for Anne or Tim here on the industry vertical breakout. We've seen several software companies that have gained popularity with digital natives and tech and Internet names that are really starting to see their growth being pressured. And so from an industry vertical perspective, what portion of the revenue today is tied to tech, Internet, software? And the pause that you're talking about here, is it predominantly in just tech? Or are you seeing the pause in both the tech Internet space and other areas as well? Any thoughts there would be helpful.

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

A

Yeah. Brent, thanks for that question. We have been traditionally very strong in tech, but it's the plurality not necessarily the majority globally. So certainly some of what we're seeing comes from what's happening to our tech customers as they pause hiring or in some cases had layoffs. But as we continue to broaden across industries, we're definitely seeing strong fit with media, automotive, financial services, along with professional services, healthcare, consumer goods and retail.

So consistent themes in those verticals are the desire for speed in their digital transformation initiative and being able to respond quickly in this macro. We really feel like our value proposition well-suited to these companies that are looking at transformation to better compete and drive efficiency. So yes, tech, we're seeing that. But as we diversify across verticals, really seeing some of those other industries actually embrace transformation more quickly.

Brent A. Bracelin
Analyst, Piper Sandler & Co.

Q

Got it. So it sounds like they're really pause in tech. But in these other areas that you talked about, there isn't a pause that you're flagging at this point.

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

A

I guess, it's really hard to answer that in a blanket way. I think when we were talking about our Q2 results, we were talking about some similar dynamics in Europe, which was a blend of industries. And then, this time like tech is a factor. But that is where a lot of these pauses are. But again, in some cases, those customers are deploying more aggressively and we're still signing new multi-year deals, and going wall to wall in those customers.

And in some non-tech cases, there's a pause. And my mental model on the economy is that it's sort of hitting the sectors in waves. I'm a little reluctant to say the whole problem is tech and then next quarter, it's a different sector that's kind of feeling the impact. So it's really a mix. But that said, I think in America, it's a larger plurality, still not the majority and it's more represented in our very largest customers.

In terms of the strategic accounts expanding a little more modestly, I think it's fair to say that that trend is more concentrated in tech, and it's not something I expect to be ongoing. I think that they're mostly reacting in an acute sort of shocked way to what happened in the market and really in this particular timeframe.

Operator: Thank you. Our next question comes from the line of Jackson Ader with SVB Securities' MoffettNathanson. Please go ahead.

Jackson E. Ader
Analyst, MoffettNathanson LLC

Q

Great. Thanks for taking my questions, guys. First, Dustin, maybe on the over-hiring of talent acquisition and new sales that you were talking about. Outside of the macroenvironment, I'm just curious, do you feel like it was working and when things start to turn more positive in the macroenvironment, you feel like you have a good playbook just to spin that motion back up? Or is it more like you have some learnings that, say, I'm not really sure if that was the way to go anyway?

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

A

It's a complex hypothetical question. I think some things we're working, some things we revisited, as we always do when we're sort of executing in the wild. But for the most part, I think that the rising tide of the category was continuing and we were investing into that trend. And so that just in like the 20,000-foot view, I'd expect it to continue. I think it's still working. We're succeeding in our move up market to enterprise and especially just seeing a lot of learnings there on exactly how to make customers successful very, very quickly; and, again, reintegrating that straight into the product experience.

So all of that I think will be the strengths that we build on before we start hiring again. There's still quite a lot of Asanas here, quite a lot of customers growing. And it's a little hard for me to think about it because it almost sounds like, oh, we stopped the whole engine, which isn't the case. We're just taking a beat ourselves before we step on the gas again in the future.

Jackson E. Ader
Analyst, MoffettNathanson LLC

Q

Okay. All right. Got it. And then, as my follow-up, Tim, why wouldn't $40 million in annual savings bring the timing of the free cash flow breakeven – even if you don't want to put a date on it, shouldn't $40 million of annual savings bring the timeline in a little bit?

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

A

Yeah. I think a lot of this is really about trying to understand and assess what the macro is going to look like and the growth rate over the next two years. To the degree we grow faster, I absolutely believe that we'll be able to pull it in. But if the economy actually gets worse, and sitting here today, there are just like no signals that things will be better yet. I'd rather be more cautious and conservative as we continue to provide both guidance and outlook on kind of the financials.

Operator: Thank you. Our next question comes from the line of Jason Celino with KeyBanc Capital Markets. Please go ahead.

Jason Celino
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Thanks, everyone, for putting me in. I guess, just a couple Q4 guidance questions. I totally understand the macro challenges, and I think, Tim, in your prepared remarks, you said that you're assuming the environment to kind of remain the same for Q4. But when I look at the sequential growth, it's much less than what we found Q3. How conservative is this Q4? And are there any other factors that we might not be thinking about?

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

A

I would say we are being extremely thoughtful and conservative in terms of how we provided the Q4 guidance.

Jason Celino
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Perfect. I think let's leave it at that then. I'll pass it on.

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

A

Okay. Thank you.

Operator: Thank you. Our next question comes from the line of Robert Simmons with D.A. Davidson. Please go ahead.

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

Q

Hey, thanks for taking my question. So one of the things you mentioned in the script was maximizing data from the product-led motion. And I'm wondering if you could give us some more details on what that means, is that something along the lines of get them up and running quickly and that's sort of thing or is there more to it?

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

A

Yeah. Thanks so much for that question. I think we are excited about that on a number of fronts both in larger accounts, where there is team adoption across the board. And how do we get that information more quickly to our sales team with the context on which teams, what's the usage, how they're already collaborating with other teams and departments that are fully deployed. So certainly, product data in existing accounts as well as product data in new accounts and new sign-ups, how we can do a faster, more intelligent job with the scoring of that product usage early in their journey and pass those more quickly to sales to have really relevant and rich conversations early on.

A lot of times, what we see is if we can get customers set up early on and talk to them about the total potential of Asana, that growth is accelerated. So we just want to do more of that, leveraging the rich insights and data we have in our product platform.

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

Q

Got it. That makes sense. And then, on the HIPAA compliance, you've mentioned that it helped you close some deals. Was that important for Norton and then any color on that would be helpful.

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

A

Yeah. And we're excited about it because we're early in it. We've only had it for a month and it was important in Norton and a number of other deals. We had a nice expansion with a global healthcare customer as a result. So there's been a number of, I'll call it, smaller deployments within healthcare and healthcare technology organizations who've been excited for us to become HIPAA-compliant to really unlock more opportunities. We feel like we're early on that, but it's been really helpful, including Norton as well as a number of other global healthcare customers.

Operator: Thank you. Our next question comes from the line of Fred Lee with Credit Suisse. Please go ahead.

Q

Hi. This is Tim Jausovec on for Fred Lee. Thank you for taking my question. To what degree do you see achieving your calendar 2024 free cash flow target entirely within your control versus dependent on the macroeconomic environment, or differently, how broad is the range of macroeconomic scenarios under which you will achieve the target?

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

A

Hey. This is Dustin. I think that we feel comfortable, given the current macro context, that we can achieve free cash flow on the timeline we laid out, and that we're fully funded to achieve it importantly. But it's been a really volatile year, and there have been a lot of surprises. And there could be new things that happen in the future. And so it's really hard to promise that we have complete control over things because there's a lot that we're at the effect of.

I've been saying that I'm the CEO of the Asana company, but lately Jay Powell has been CEO of the stock price and a lot of the sort of business inputs. But that doesn't mean we can't react to things that change. And we're always behind the wheel. If new surprises show up, then we may have to make new decisions and reaction. But we still feel pretty good about being able to achieve that timeline.

Q

Thank you.

Operator: Thank you. Our next question comes from the line of Patrick Walravens with JMP Securities. Please go ahead.

Patrick Walravens
Analyst, JMP Securities LLC

Q

Oh, great. Thanks. So, look, very big picture maybe for Dustin, but if anyone else wants to chime in. If you take a current stockholder today and we look forward three years, how do we win and what would make us lose?

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

A

So from a stockholder perspective, it's the business succeeding – obviously achieving the free cash flow milestone, but also achieving a lot of top line growth. And the way we win is by moving up market and being the category leader, especially in enterprises. And again, we're talking a lot about the sort of blended overall growth rates for the business. But when you look underneath the hood, there are a lot of signs of strength in the larger segments, we still have 140% net dollar retention across our very largest customers.

We have very large individual deployments, including 150,000 seats. We're in the leader circle from Forrester – 2.5 million paying seats, so we see that we're deploying very quickly into these organizations, into the greenfield opportunity that is the work management category. And so that's continuing is the way to success. There's a lot of ways that competitors might monetize differently in the short run or specialize into different niches. But the

Asana strategy is to be the leading pure play work management platform for enterprises. And I think we're on a great path there. And that's how we win. I'll leave it at that.

Patrick Walravens
Analyst, JMP Securities LLC

Q

What do you think is the most likely way you end up losing?

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

A

Well, the common advice is not to focus on the wall, which is not there. But the most common way to lose – I am worried about other macro surprises. And we're definitely keeping an eye on the war, on inflation, on the situation in China – we think that's least absorbed into the global economy right now. And those will affect everybody. But if they slow us down, then that can have an asymmetric impact on us versus the rest of the field, and might advantage certain players in certain ways. So we'll see what happens. And that's really the primary thing I think about.

We have a lot of opportunities to capitalize on in terms of further widening our lead in terms of our product differentiation, and making it clear to the market. And I'm not satisfied with how clear it is right now. I think it's very clear to our large customers, because they're living it and getting the value proposition and experiencing the increasing returns to scale. But we need to be able to replay that story for investors and for new customers and for analysts. And we're getting better at it all the time but there's a long way to go there. And our competitors have a vested interest in trying to minimize those differences. And so that's part of the game as well. But I feel confident in our ability to succeed in that way.

Operator: Thank you. Our next question comes from the line of Rob Oliver with Baird. Please go ahead.

Rob Oliver
Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Great. Thanks. Good afternoon, guys. Thanks for squeezing me in here. Anne, my question is for you and I have a follow-up for Tim. You talked in your prepared remarks, Anne, about the elevation of the buying decision to the CEO/CIO level. And I know Dustin said there's no change in the competitive landscape. But when you get up to that level, you're in the turf of some big incumbent legacy companies that have solutions that are trying to compete with you guys very actively.

So how, if at all, does the strategy change? I mean, clearly, scalability is not an issue. Product is not an issue. You guys have the best. But maybe we get into an environment where maybe the best doesn't win, how does the strategy change when you're competing in some of those larger incumbents?

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

A

Yeah. Thanks so much for that question, Rob. I think what we've been seeing is certainly in this environment, CIOs, CFOs are part of the decision-making process for all sort of technology investment. To your question on how we think about it if there's incumbent technology, I think what our teams are still doing is really focusing deeply on understanding our customers' most pressing business problems and how Asana can differentially solve those problems, because in the end that's where they want to make the investment.

A lot of the execs also recognize that those are not being adopted even if they're available. So in the end, the adoption of the technology and then the ROI on that is what they're focused on. And there's just in this environment just greater scrutiny to double-check that investment and tie it to KPIs. And so that's what a lot of our team is focused on, is making sure we understand that upfront, making sure we align on the KPIs, and then most importantly, delivering on those as we deploy and move forward with them.

Rob Oliver
Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Okay. Great. Yeah. That's helpful. You want to help a CIO and CFO avoid the decision to buy shelfware that their users don't want when they want you guys. That makes a lot of sense.

Tim, a follow-up for you. Dustin alluded to marketing budgets earlier and clearly the marketing budget is a big line item for you guys. As you guys push more into enterprise successfully, albeit with the pause that you guys have talked about here. Does that give you more leverage on that line item in terms of less focus on that SMB customer or that freemium branding that maybe you had needed to do earlier on? Thank you.

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

A

I do think as we move up market, we'll generally get more leverage in the business, I'd agree on marketing, but also on R&D and really across all functions. So that's a big part of why we're doing it. But I do think marketing still has a really important role to play in reaching enterprises, including in our existing deployments. I mentioned that we have a lot of organic growth that sometimes the company is holding back. But some of the way that organic growth happens is supported by our marketing efforts as well. So I think we get similar amounts of ROI in enterprise through some of that spend.

And then I'd also just point out that the world's a big place and we have different levels of category maturity and Asana presence in the market in different countries. And we'll need to apply marketing dollars in different ways to build that awareness in places where we're less deployed or less present.

Operator: Thank you. That concludes the question-and-answer session. I would like to pass the conference back to Catherine Buan for any closing remarks.

Catherine Buan
Head-Investor Relations, Asana, Inc.

Yes. Just want to thank everyone for joining the call today. We know it's a busy week, and we really appreciate your time and you covering Asana. As always, please feel free to call me if you have any follow-up questions. And we will be out at the various conferences, so we look forward to seeing you on the road. Thanks very much.

Operator: That concludes today's conference call. I hope you all enjoy the rest of your day. You may now disconnect your lines.

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*Calculated Billings
We define calculated billings as total revenue plus the changes in deferred revenue in the period.