Asana

FY24 Q2 Earnings | Prepared Remarks

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Catherine Buan

Good afternoon, and thank you for joining us on today's conference call to discuss the financial results for Asana's second quarter fiscal year 2024. With me on today's call are Dustin Moskovitz, Asana's Co-Founder and CEO; Anne Raimondi, our Chief Operating Officer and Head of Business; and Tim Wan, our Chief Financial Officer.

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

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

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

Dustin Moskovitz

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

We reported Q2 results, beating the top and bottom line expectations.

- Q2 revenues grew 20% year over year, as we continue to close large deals in the enterprise segment. Non-GAAP operating margins improved 40 percentage points year over year, while we attained positive free cash flow in the quarter at $14.6 million.
- Our growth continues to be fueled by some of the largest and most strategic companies in the world choosing Asana. In Q2 we closed and expanded deals across industries such as manufacturing, professional services, healthcare, logistics, media, and financial services.
- Our most strategic customers are modernizing the way they work, and they are turning to Asana for work management at scale. And as we look toward the next generation of work management and implement AI even further, these relationships will be increasingly valuable.
- Even with continued macro headwinds and heightened budget scrutiny in the enterprise, sentiment seems to be stabilizing. Customers are looking for ways to consolidate their vendors, getting more ROI out of everything they're doing, and they're turning to Asana. Asana can help to achieve their goals and objectives more efficiently and faster than ever before. In fact, we have seen an increase in multi-year commitments both year over year and sequentially, in the quarter.
- In Q2, we made great progress on improving our non-GAAP operating margins. We expect significant improvement in non-GAAP operating margin year-over-year for the full year, as we focus on operational efficiency and growth, which Tim will talk about more.
- In the first half of the year, we have been working through the macro headwinds, and we continue to focus on our enterprise playbook, improving sales execution, and building substantial enterprise leadership, most recently announcing the arrival of our new Chief Revenue Officer, Ed McDonnell.

I'd be remiss to start with anything but artificial intelligence, given the opportunity it presents for Asana and our customers. So let me jump right in:

In short, I'm extremely excited. I've been deeply involved and passionate about AI for a very long time. Asana has the good fortune of sharing a backyard with many of the leaders in AI including companies like Anthropic and OpenAI. And I personally have been embedded in this community, and working with these companies since their founding days as an early supporter of both OpenAI and Anthropic.

AI really entered the zeitgeist, and captured people's imaginations in November of last year with the launch of ChatGPT. But as the novelty for some has worn out, so has their enthusiasm. My view is that people aren't thinking big enough and are underestimating how quickly the foundation models themselves will improve.

I believe chatbots are just demos, not really the end game. The real potential of AI is going to manifest when it gets deeply integrated into other software, making it possible for end users to get great results without themselves becoming prompt engineers, and for developers to radically accelerate their productivity.

There's also a lot of skepticism around AI that I understand and acknowledge. Many folks have rightly called out the "hallucination" or "black box" problems. Folks just don't trust that AI is providing accurate or useful guidance all the time. They want to be able to trust they're getting good recommendations, which means they need to understand the thinking process and assumptions that underlie them. Encountering the now infamous hallucinations erodes trust, especially when you can't trace how the AI came up with it in the first place.

We've been architecting the Asana's Work Graph® data model for over a decade, and we believe it will become increasingly valuable in this AI-powered future thanks to what it allows us to achieve with Asana Intelligence. The Work Graph ensures that you have a single source of truth for work data, structured in a way that is scalable and maps to how work actually gets done inside organizations.

With the Work Graph, data is connected across the whole enterprise – work, functions, teams, and people. And this data connection is powerful because it captures the sum and the parts – AI can use the underlying pieces of the work to more accurately draw conclusions at multiple levels of altitude. And with the Asana Work Graph®, we believe we are best positioned in the work management category to solve the "black box" problem because we can show its work and unpack its assumptions from facts and analysis of the work across all teams at all levels of granularity.

Here's a tangible example. Let's say a company is preparing for a global product launch, and multiple teams across R&D, marketing, product marketing, and sales are involved. They each have their own projects and work streams that support the overall launch effort and each lives in one portfolio of work in Asana. Asana Intelligence will be able to analyze all elements of the work supporting the product launch and flag key risks and bottlenecks using granular information from supporting tasks. Before, these hidden blockers would have been a blindspot for the organization and would have taken many conversations to uncover. But now with the Work Graph and AI, this can be surfaced immediately, and Asana Intelligence will help show its work by pointing to how it came to that conclusion based on the work data and the work relationships at its disposal. Asana will highlight where and how this unseen but critical dependency will impact launch timelines, visually.

The Work Graph makes how work gets done in your organization highly legible to the AI, but it is also going to make the AI's underlying assumptions to its conclusions legible to your organization and the people within it. This is critical for key enterprise requirements like permissions, access control, and accountability. Asana Intelligence, powered by the Work Graph, will serve as a shared map that helps align human intention with AI guidance as they work together to achieve a customer's goals.

We believe Asana is the only Work Management platform built for enterprise-scale with proven capabilities of scaling to 200 thousand seats, and company-wide deployments, and our enterprise customers agree. As Asana adoption grows across the enterprise, the value we provide increases. And the cross-functional nature of the Work Graph data model is even more important with AI, because information silos isolate context that could otherwise be used. Even if you use AI to find the context in another silo, you have to infer how they are *connected*, whereas the relationship is explicit in the work graph data model. AI gives us yet another way of giving customers increasing returns to scale in their Asana adoption.

In sum, Asana will capitalize on an enterprise's Work Graph to deliver a more useful, accurate, and insightful user experience at every level, especially the executive level.

AI is the ultimate accelerant of one of Asana's core value propositions, which is to help companies thrive by connecting company-wide goals to the strategic initiatives, departments, teams, and work needed to achieve them. We see ourselves as creating entirely new software interfaces between teams of humans working together and the powerful AI models that make getting their work done easier. This is the core of our innovation focus right now.

We've already announced a slew of new AI features that are currently in beta that help individuals and teams improve their productivity, like Writing Assistant, Instant Summaries, and Work Organizer. Other features in beta include Health Checks, that drives greater clarity and accountability, and Ask Asana Anything, that maximizes impact.

Further down the product roadmap, we are also planning features such as Goals-Based Resource Management and AI-assisted Smart Workflows. And we're just getting started. You'll see us unveil an exciting new lineup of innovation at our Work Innovation Summit on October 3rd in New York City. This will be our most exciting customer event of the year, with a visionary keynote, luminary speakers, industry leaders across operations, IT, and marketing, as well as a special investor session to talk more about our product plans, go to market initiatives, and financial outlook.

We'll also be hosting customers at our Work Innovation Center where we'll share their Work Innovation Score – a cutting-edge benchmark developed by industry-leading experts. The Score is powered by the Work Graph and AI, designed to assess organizations' potential for innovation, both now and in the future. The Work Innovation Score highlights our customers' innovation potential, allowing them to clearly identify strengths and overcome obstacles. This is a unique offering in the market and is only offered by Asana. It is extremely popular – especially with our largest and most strategic customers. We're excited to include even more customers in the program.

We look forward to seeing you in New York City on October 3rd.

In closing, in spite of significant headwinds, we have made measurable progress in the first half of the fiscal year. We continue to see traction with some of the largest companies in the world and look forward to partnering with these companies as we look toward the future product roadmap.

And now I'll turn it over to Anne-

Anne Raimondi

Thanks, Dustin.

The story in Q2 was really about continued enterprise growth and building our enterprise leadership bench. We've talked about our strategy for moving upmarket, and we are working and executing on this plan.

That said, I know the macro situation is still top of mind, so let me address that upfront.

Overall the sentiment in our customer base has remained the same versus last quarter. While it hasn't yet improved, it also has not gotten worse. Budgets continue to be scrutinized, seats are being optimized, and decisions for expansion are being pushed out. But as customers continue to optimize budgets, we are also getting positive competitive signals, where customers are consolidating, removing incumbents, and choosing Asana.

I also want to talk about net retention rate trends. As the de facto choice for some of the largest tech companies in the world, Asana has likely seen disproportionate exposure to any pullback in that vertical, which is about 30% of our business. Importantly, much of this has been less seat expansion as opposed to anything else and that remained a factor this quarter. For example, in some cases even when a customer was choosing to expand into new use cases and departments, this was often offset by removing seats that were downsized as a part of a budget pullback. Conversely, as we approach the anniversary of the beginning of this trend, we expect to benefit from any rebound in future quarters.

Top of funnel demand was stable vs last quarter and our pipeline continues to build. The US grew 22% year over year while international grew 18%. If I split off EMEA separately – EMEA had a particularly solid quarter, reporting the fastest growth across our major regions. Our new leadership and regional model in EMEA are in place, and we are getting increased traction. We closed several of our largest net new deals in EMEA as a result of our improved execution.

Growth in our Business and Enterprise tiers led overall growth at 32% year over year and represents 73% of our revenue. We believe this is a good proxy for our traction within larger customers. Asana goals, portfolios and reporting are key differentiators for us. Adoption has continued to be strong, and these investments are leading to consolidation wins. Our top down use-case and value selling is resonating and it is allowing us to land large deals.

Our enterprise customers representing organizations with over two thousand employees, continue to be our fastest growing customer segment. And this segment is further diversifying. Approximately 80% of the net new $100k+ customers in Q2 were in non-tech sectors. Executives are planning long term about how to invest in work management capabilities, and this is driving multi-year commitments for us. And there is not a single enterprise customer that isn't asking us about AI and automations in Asana. We believe our AI roadmap will help to further drive adoption and expansion within customers.

We are seeing new lands and **expansions broadly across several diverse industries**.

- First, we set a new record with our largest "land" deal in Asana history. **One of the largest multinational cybersecurity companies chose Asana in a multi-million dollar consolidation win.** During the RFP process they evaluated multiple work management apps that they were using across the company based on several factors. The company will be methodically ripping out legacy apps and replacing them with Asana across the organization over 3 phases. This was a very significant win on many fronts, in particular how successfully we can execute on a top down, value based sales motion.
- Also, I am very excited about another net new customer, **one of the largest professional services companies in the world based in the UK**, with over 12 thousand employees worldwide. Their CMO was looking for a centralized global platform to ensure a consistent brand experience across markets and channels. It's a multi-year deployment that represents a great deal of potential.
- In addition, **a large healthcare manufacturing company** headquartered in Switzerland with over 9,000 employees is expanding with Asana and replacing a legacy incumbent. The company has grown significantly through acquisitions and will make Asana available to employees globally. This was another multi-year, strategic deal.
- We signed several deals this quarter with manufacturing companies, one of the larger deals was with **Fujitsu**, one of the largest IT companies in the world.

We're also seeing continued success in the financial services industry.

- We had a 6-figure early renewal and expansion with **a large financial services firm** in the consumer credit space after they saw significant value from Asana in their marketing and strategic planning functions in just 6 months. They're bringing more teams onto our enterprise platform to manage everything from OKRs to project plans so they can make informed decisions about their strategic initiatives to improve goal attainment.

- We also had an expansion with the subsidiary of **a major US insurance company** for a 2-year prepaid contract. The company uses Asana to manage developing new products to enter new industries. Security and governance are very important to them, so Asana Enterprise capabilities were among the reasons we won.

You may or may not know, but Asana is very very popular across the sports business. We closed deals this quarter with **one of the English Premier League's most highly decorated football clubs**, as well as with the **New York Islanders**, and the **NCAA**.

And importantly, we continue to win in the **healthcare and biotech vertical** as well, with **two six-figure deals in the US**. As you know we announced HIPAA compliance about a year ago and have been gaining momentum in this vertical supported by our compliance and security offerings.

As you can see, we've already helped dozens of our largest customers with their digital transformation initiatives. We believe digital transformation is an enormous secular trend, but the Intelligence Transformation with AI has the potential to be an even larger opportunity for Asana, and we're preparing to be a leading platform for change in this new revolution of technology.

In summary, we are seeing more multi-year deals (up both sequentially and year-over-year), winning on vendor consolidation decisions, and are continuing to diversify our enterprise success across more and more industries. But we have more work to do.

Looking to the second half and the beginning of next year, we continue to focus on

- Improving expansion rates through customer success programs and initiatives
- Deepening our partnerships with our strategic accounts

- Rolling out new packaging, which we will talk about more on October 3rd
- And enterprise leadership

We are thrilled to welcome Ed McDonnell as our new chief revenue officer. He is most recently from Salesforce and spent 10 years there scaling the Marketing Cloud and multiple vertical businesses from $100 million to a $3.5 billion business today. He also has experience from Eloqua, McGraw Financial, and Thomson Reuters. He has a remarkable track record and deep experience leading and scaling some of the most well-known enterprise software businesses.

With Ed, Shannon Duffy, our Chief Marketing Officer, and Neeracha Taychakhoonavudh, our Chief Customer Officer, and the rest of our go to market team, we are focused on elevating our sales motion for the next phase of growth. We are improving our sales enablement capabilities and lead generation initiatives targeted at enterprise accounts. We are creating a repeatable playbook to scale enterprise accounts to become $100,000 or more customers and beyond. We are improving on our customer success strategy to scalably serve more customers.

Importantly, we can focus on better serving our most strategic customers. These long term partnerships play a critical role in our product roadmap and our vision to strategically serve large scale customers which we believe will help us further drive growth.

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

Tim Wan

Thank you Anne.

While I'm pleased with our high level results, some of the underlying drivers were not as strong as we had hoped. We continue to see headwinds from a macro standpoint and in our technology segment, and you see that especially in our net dollar retention rate metrics. We also have more work to do as we develop our enterprise go-to-market muscle and continue transitioning upmarket. Meanwhile the performance at the low end of the market is dragging down overall growth. On the other hand, I am really proud of the efforts the team put in to manage costs and improve efficiency. We have made substantial progress on improving our operating margin and delivered our first positive free cash flow quarter since going public.

On to our Q2 results:

- Q2 revenues came in at $162.5 million, up 20 percent year over year.
- Revenue from customers spending $5,000 or more on an annualized basis grew 24 percent year over year. This cohort represented 74 percent of our revenues in Q2, up from 72 percent in the year-ago quarter.
- We have 20,782 customers spending $5,000 or more on an annualized basis.
- We have 553 customers spending $100,000 or more on an annualized basis and this customer cohort grew at 20 percent year over year.
- As a reminder, we define these customer cohorts based on annualized GAAP revenues in a given quarter.
- Our dollar-based net retention rates were lower, driven by lower expansion and downgrades.
    - Our overall dollar-based net-retention rate was over 105 percent.
    - Among customers spending $5,000 or more, our dollar-based net-retention rate was over 110 percent.
    - And among customers spending $100,000 or more, our dollar-based net-retention rate was over 125 percent.
    - As a reminder, our dollar-based-net-retention-rate is a trailing 4 quarter average calculation and thus a lagging indicator.
- We continue to see stable logo churn rates overall and low churn in our largest accounts, demonstrating the value we deliver for our enterprise customers. Companies remain mindful of the near term economic challenges, and we therefore

expect our overall dollar-based net retention rates to trend lower, particularly in the lower end of the market. I'll speak specifically to that outlook in a moment.

As I turn to expense items and profitability, I would like to point out that I will be discussing non-GAAP results in the balance of my remarks. Keep in mind, non-GAAP results exclude stock based compensation and non-cash expenses related to impairment.

- Gross margins came in at 90.3%.
- Research and Development was $52.3 million, or 32% of revenue, an improvement from 37% a year ago.
- Sales and Marketing were $79.6 million, or 49% of revenue, an improvement from 70% a year ago.
- G&A was $25.1 million, or 15% of revenue, an improvement from 29% a year ago.
- Operating loss was $10.4 million, and our operating loss margin was 6%, representing a 40 percentage point margin improvement versus a year ago. The improvement in our operating margin demonstrates our ability to take a balanced approach to growth and profitability.
- Net loss was $8.4 million, and our net loss per share was 4 cents.

Moving on to the balance sheet and cash flow:

- Cash and marketable securities at the end of Q2 were approximately $537.5 million.
- Our remaining performance obligations, or RPO, was $333.4 million, up 27% from the year-ago quarter. 86% of RPO will be recognized over the next twelve months. That current portion of RPO grew 26% from the year-ago quarter.
- Our total ending Q2 deferred revenue was $261.1 million, up 24% year over year.
- Our free cash flow is defined as net cash from operating activities, less cash used in property and equipment and capitalized software costs, excluding non-recurring items such as costs related to restructuring. Q2 free cash flow was positive $14.6 million or 9% on a margin basis, an improvement from negative 31% from the year ago quarter.

Moving to guidance, for Q3 Fiscal 2024 we expect

- Revenues of $163.5 million to $164.5 million, representing growth of 16% year over year.
- We expect non-GAAP loss from operations of $25.0 million to $23.0 million, representing an operating margin of negative 15% at the midpoint of guidance, a measurable improvement from the same year ago period.
- And we expect net loss per share of 11 cents to 10 cents assuming basic and diluted weighted average shares outstanding of approximately 221 million.

For the full fiscal year 2024,

- We expect revenue to be in a range of $642.0 million to $648.0 million, representing a growth rate of 17% to 18% year over year.
- We expect Non-GAAP loss from operations of $93.0 million to $85.0 million, representing an operating margin of negative 14% at the midpoint of guidance, down from negative 38% in fiscal 2023. And we expect net loss per share of 42 cents to 39 cents assuming basic and diluted weighted average shares outstanding of approximately 219 million.

Our guidance assumes that there is no change in the current macroeconomic environment and that headwinds persist through the end of this year. We expect continued compression in our dollar based net retention rate, but we expect it will remain above 100%. We also have changes in leadership for our sales organization that may take time to manifest.

We are committed to maintaining a disciplined and balanced approach to optimizing costs and improving efficiency and profitability. We will continue to invest in future growth opportunities, like AI, which we expect will drive long-term value. While this quarter's free cash flow may not repeat next quarter we remain committed to delivering sustained positive free cash flow by the end of calendar 2024 and thereafter.

As we work towards reaching sustained free cash flow, we are encouraged by the progress we've made and I am optimistic about our future. Over the next 18-24 months we anticipate incremental growth will be driven by 1) economic recovery in the most impacted verticals, such as the tech sector, paired with improved execution on our go to market initiatives under our new leadership team, 2) new capabilities driven by advances in AI, and 3) our new packaging strategy, which we will talk about on October 3rd. We look forward to seeing you all in NYC on October 3rd where we will dive deeper into these topics during the investor session.

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

END