05-Sep-2023

Asana, Inc. (ASAN)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by and welcome to Asana's Second Quarter Fiscal Year 2024 Earnings Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] I would now like to hand the call over to Catherine Buan, Head of Investor Relations. 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 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 Form 10-K and quarterly report on Form 10-Q for additional information on risks, uncertainties and assumptions that may cause actual results to differ materially from those set forth in such statements.

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

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

Dustin Moskovitz

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

Thank you, Catherine, and thank you all for joining us on the call today. We reported Q2 results within 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 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've seen an increase in multiyear 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've 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 CRO, 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 in capturing people's imaginations in November of last year with the launch of ChatGPT. But as the novelty for some has worn out so is their enthusiasm. My view is that people aren't thinking big enough and they're underestimating how quickly the foundation models themselves will improve. I believe chat bots are just demos, they're not really the endgame. And 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 of the time. They want to be able to trust that 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 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 it's 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 and multiple levels of altitude. And with the Asana Work Graph, we believe we're 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 and 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 blind spot 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 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's 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 200,000 seats and company-wide deployments, and our enterprise customers agree. As Asana adoption grows across the enterprise, the value we provide increases.

In the cross-functional nature of the Work Graph data model is even more important with AI because information silos isolate contexts that could otherwise be used. Even if you use AI to find the context in another silo, you have to infer how they're 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 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 drive greater clarity and accountability and Ask Asana Anything that maximizes impact. Further down the product roadmap, we're also planning features such as goal-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 3 in New York City. This will be our most exciting customer event of the year with 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 scores powered by the Work Graph and AI, designed to assess organization's potential for innovation both now and in the future.

The Work Innovation Score highlights our customer's innovation potential, allowing them to clearly identify strengths and overcome obstacles. This unique offering in our market and it's only offered by Asana, extremely popular, especially with our largest and most strategic customers. So we're excited to include even more customers in the program. We look forward to seeing you in New York City on October 3.

In closing, in spite of significant headwinds, we've 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.

Now, I'll turn it over to Anne.

Anne Raimondi

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

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 is often offset by removing seats that were downsized as part of a budget pullback.

Conversely, as we approach the anniversary at the beginning of this trend, we expect to benefit from any rebound in future quarters. Top of funnel demand was stable versus 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're 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's allowing us to land large deals. Our enterprise customers representing organizations with over 2,000 employees continue to be our fastest growing customer segment, and this segment is further diversifying. Approximately 80% of the net new $100,000 plus 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 multiyear 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 multimillion-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 three phases. This is a very significant win on many fronts, in particular how successfully we can execute on a top-down value-based sales motion.

Also, I'm very excited about another net new customer, one of the largest professional services companies in the world based in the UK, with over 12,000 employees worldwide. Their CMO was looking for a centralized global platform to ensure a consistent brand experience across markets and channels. It's a multiyear 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 is another multiyear 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 six-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 six months. They are 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 two-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 in 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 in 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 the leading platform for change in this new revolution of technology.

In summary, we're seeing more multiyear 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 more about on October 3, 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 CMO, 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 over $100,000 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 M. Wan

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

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.

Onto our Q2 results, Q2 revenues came in at $162.5 million, up 20% year-over-year. Revenue from customer spending $5,000 or more on an annualized basis grew 24% year-over-year. This cohort represented 74% of our revenues in Q2, up from 72% 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% 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%. Among customers spending $5,000 or more, our dollar-based net retention rate was over 110%. And among customers spending $100,000 or more, our dollar-based net retention rate was over 125%. As a reminder, our dollar-based net retention rate is a trailing four-quarter average calculation and thus a lagging indicator.

We continue to see stable logo churn rate 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 will speak specifically to the 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 $0.04.

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 yea-ago quarter. 86% of our RPO will be recognized over the next 12 months. That current portion of RPO grew 26% from the year-ago quarter.

Our 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 million to $23 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 $0.11 to $0.10, assuming basic and diluted weighted average shares outstanding of approximately 221 million.

For the full fiscal year 2024, we expect revenue to be in the range of $642 million to $648 million, representing a growth rate of 17% to 18% year-over-year. We expect non-GAAP loss from operations of $93 million to $85 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 $0.42 to $0.39, 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 have made, and I'm optimistic about our future.

Over the next 18 to 24 months, we anticipate incremental growth will be driven by first: 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; second, new capabilities driven by advances in AI; and third, our new packaging strategy, which we will talk more about on October 3. We look forward to seeing you all in New York on October 3, 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.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Andrew DeGasperi of Berenberg.

Andrew DeGasperi
Analyst, Berenberg Capital Markets LLC

Q

Thanks for taking my question. Maybe first on the largest land deal that you've won this quarter, can you maybe elaborate what went in – in terms of the discussions with that customer, what stood out in terms of Asana and what they found important? And just generally, do you think this can replicate itself out going forward?

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

A

Hi, Andrew. It's Anne. Thanks so much for your question. Yes, happy to share a little bit more insight on that deal. Really, the customer was looking for an opportunity to grow with one partner over multiple years. They cared a lot about reducing tech sprawl, they wanted to replace at least seven existing applications that they had seen used across many of their departments. In particular, this company had acquired a lot of other companies, and so being able to consolidate all in one platform was really important.

They're looking to increase collaboration and standardization and really ultimately deliver products faster. And so, we are really excited to work with them and all the different departments are a part of the RFP process.

Ultimately, our view on where AI is going, how we can scale our security, and the fact that we had already successfully deployed up to 200,000 employees in our largest account really helped secure that. So, we're looking forward to doing more of those, especially where CIOs are driving the decision-making process across the organization.

Andrew DeGasperi
Analyst, Berenberg Capital Markets LLC

Q

Thanks. And then maybe on EMEA, can you lay out a little bit what wasn't working there, at least what is working better right now? I mean, what changes did you implement besides obviously the new leadership there? And could you replicate that change to other regions as well?

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

A

Yes. So, we are really excited about the new leadership in EMEA. I think a few things. Certainly with the leadership, there's also a focus on larger deals and really ensuring that we've got repeatability and discipline around the large deal pipeline and large deal close rates. And then we've aligned both our corporate and enterprise teams by region under the new leadership, so that was a change that was made. We had previously sort of centralized leadership around – for our corporate segment, but now it's aligned by our largest markets.

So, we're excited to see that momentum. It certainly contributed to the two large lands that I mentioned before, one with a professional services organization with 12,000 employees and one with a healthcare manufacturing firm with 9,000 employees, so excited to see more of that. And we do believe that is something that is replicable. We're seeing some great signs in Japan, which is another strategic market where we've got a great new leader onboard as well.

Operator: Thank you. Our next question comes from the line of Steve Enders of Citi.

Steven Enders
Analyst, Citigroup Global Markets, Inc.

Q

Okay, great. Thanks for taking the questions here. I want to ask on the consolidation activity that you saw and the really good win there. I guess, how much of an increase have you seen in those consolidation opportunities with maybe some of the choppy macro that [ph] you can coin out (29:47)? And I guess as we think about further large deal activity, how should we think about what the pipeline looks like for those opportunities going into the second half of the year?

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

A

Yeah. Thank you so much, Steve. What we are seeing in this environment, as there's more scrutiny both by CIOs and CFOs on budget spend, that the interest in opportunities to consolidate is increasing, and we have seen that across the last several quarters. In particular, as they evaluate where they have different investments already and where they can improve them going forward, and in particular for us, the ability to bring that all onto one platform and benefit from increased collaboration on the platform, that is what's driving the consolidation consideration.

And then I do think the focus on security and scale is really important, as CIOs in particular are looking to consolidate. So, we are also seeing that for some legacy applications at existing customer accounts, there is active evaluation of how those might be replaced by Asana. So, definitely in our pipeline, we're seeing more opportunities that are focused specifically on consolidation.

Steven Enders
Analyst, Citigroup Global Markets, Inc.
Q

Okay. That's helpful. And then maybe just on the outlook, and I guess what you are seeing in the macro, I guess, what part, changed versus maybe what you were seeing last quarter? Or is it just things got a little bit worse on the tech side than maybe you're originally expecting when you gave the guide 90 days ago? Or just how should we think about what's incrementally changed in the outlook here?

Tim M. Wan
Chief Financial Officer & Head-Finance, Asana, Inc.
A

Yeah, I would say, couple of things. I think we continue to see, one, headwinds. And I think a lot of that headwinds does reside within our tech segment. And we have to work through – as you know, many of these tech companies had layoffs. And we do need to work through their renewals over the next 6 to 9 months. So I would say that's one.

Two, we also have sales leadership changes right now. And I want to just provide ample time and some air cover for the team to make the necessary changes to reaccelerate and build their team out. So, I would say it's really those two things.

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

And if I could just add on to that maybe, I think part of the way we think about it just in terms of how we were thinking 90 days ago, I think we knew there would be headwinds, particularly in the tech orgs. And it hasn't improved yet, but we're not saying it's gotten worse. We just see the sort of continuation of that budget scrutiny.

Operator: Thank you. Our next question comes from the line of George Iwanyc of Oppenheimer.

George Iwanyc
Analyst, Oppenheimer & Co., Inc.
Q

Thank you for taking my question. Maybe, Dustin, you started off with AI and gave us some perspective on that. And maybe digging deeper into the AI topic, how do you feel Asana can best differentiate with AI? And then when you look at rolling out the products, how should we think about the ability to monetize it?

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

Yeah, sure. Happy to talk about that. And of course, I also want to remind everyone about the event that we're hosting in October, where we'll go pretty deep on both of those topics. So, first of all, so how we differentiate. So I think the thing that's really unique about Asana is our Work Graph data model. So, we've always had an AI in mind as we architected that data model over the past decade, and we think it only becomes even more valuable in this AI-powered future.

So the Work Graph is really ensuring that you have a single source of truth for work data, and it's structured in a way that's scalable and it maps how work is actually organized inside our customers. And so with the Work Graph, that is connected across the entire enterprise: work, functions, teams, and people, without having to duplicate pieces of information. And having that data connection is really powerful, because it captures the sum and the parts. So AI can use the underlying pieces of the work to accurately draw conclusions at multiple levels of altitude.

And so part of what that gives us is I think we're best positioned in the work management category to solve this kind of black box problem that you sometimes hear about with AI, because we can really show the work and unpack the assumptions from facts and analyses of the work across teams at all levels of granularity.

And we've seen that reflected with our customers, too, when we show them the AI features in the beta, they say, hey, this is really bringing the Work Graph to life for me and really helping make it clear why all these connections are valuable. So we think that will be a virtuous cycle there in terms of our ability to differentiate in the market, both with our core value proposition and sort of data model differentiation and to make the AI functionality itself better.

So, Work Graph makes how work in front of the organization legible to the AI, but it also makes the AI more legible to your organization. And so customers really love this idea of like the human and the AI are working together. So there's always a human in the loop.

In terms of monetization, no – not a lot of specifics to give, but we are going to talk more about our packaging changes when we do the investor event in October. And a lot of that is about really accelerating the enterprise on-ramp. But we've also been very thoughtful about how we organize AI within those packages.

And I've said before that I don't think AI is really one thing. It's not just a single line item in those packages. There's some AI in each of them. And as the functionality gets more complex and as what – the sort of computerized work we're doing under the hood gets more expensive and complex, those types of features show up in the higher enterprise packages.

I know we've also had questions in the past, too, about an add-on. I don't think the sort of initial launch is going to involve that, but it is something that we're thinking about may show up in the future. Certainly paying attention to how a lot of the other enterprise products are starting to monetize, and we want to learn from what works and doesn't there.

So in the short run, I think the main thing you'll see is that it's helping up-tier customers through the packages is the main monetization advantage, as well as highlighting the differentiation of Asana in the first place that we win more deals.

George Iwanyc
Analyst, Oppenheimer & Co., Inc.

Q

All right. And maybe just Tim, quickly following up on that, when you think about investing and hiring with the AI productization and ongoing enterprise investment, how should we think about the near to moderate term plans?

Tim M. Wan
Chief Financial Officer & Head-Finance, Asana, Inc.

A

Yeah, we've made really substantial progress on our operating margin, but we're taking a very balanced approach in terms of how we're investing and how we're trying to get to profitability. So, at a macro level, we're going to continue to invest in AI. That's one. Two, and to the degree that we see improvements in productivity and efficiency across our sales and marketing organizations, we'll be able – we'll feel more confident pouring more investment in that area.

Operator: Thank you. Our next question comes from the line of Jackson Ader of MoffettNathanson.

Jackson E. Ader
Analyst, MoffettNathanson LLC

Q

Great. Thanks, guys. Thanks for taking our questions. Dustin, you've mentioned earlier in the call some of the other AI winners that are kind of your neighbors in the Bay Area. And I think, some of the early winners, at least from an investor standpoint, seem to be some of the largest technology and some of the largest software companies out there that are kind of publicly investable. And I'm curious how you see Asana fitting into the AI landscape among some of these tech giants, I guess, for lack of a better term.

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

A

Thanks. So I think there's a couple different ways to think about that. So earlier, I was really talking about the foundation model builders primarily, so OpenAI and Anthropic. And our relationship to them is we're customers, so we're adding value on top of their underlying infrastructure they're doing. We're very grateful they've made a huge CapEx investment that we get to leverage just in terms of marginal API fees. And so we're really building on their platform.

And I guess I'm not totally sure who you mean by the other large public companies. I mean, certainly, NVIDIA is very different kind of company, and then it's very different, I think a lot of the public stocks that have taken off, they're the cloud compute providers. So again, we're kind of customers in their stack. But I think that Asana will be part of a sort of second generation of value creation that's really figuring out how to integrate those services into existing workflows, where I think they can be a lot more powerful.

So, what people are familiar with right now is basically these open-ended chat applications where you can kind of ask anything you want, and that's very powerful and very flexible. But most people in the world really want to be kind of shown what works best. And particularly, in something like work management, we're finding that the kinds of requests we're making to the API are highly structured, highly templatized. We're also educating the user about what kind of questions work best. Often they sort of start with very generic, what should I know about this project or something very open-ended. It's much better to get specific.

And so the more we're able to provide people with some templatized options and some multi-step workflows that help lead them to the most powerful value, the more I think people will actually be able to get value from those underlying platforms. So I think of us as a sort of value creation on top of those underlying foundations.

Jackson E. Ader
Analyst, MoffettNathanson LLC

Q

Okay. Okay, great. That's helpful. And then, the follow-up is either for, I guess, Tim or Anne, whoever wants to take it. But the low end weakness, do you think it maybe had more to do with the fact that since Asana is moving resources upmarket, that kind of competition is filling the void left behind? Or is there something also happening in budgets or something on the macro sense in the low end that's not holding up as well as maybe some enterprise budgets? Thank you.

Tim M. Wan
Chief Financial Officer & Head-Finance, Asana, Inc.

A

No, great question. I think, one, I would say, I think the way you characterized that, we did redeploy a lot of our investments away from the lower end of the market and focus those investments towards the upper end is one of the reasons where kind of like our less than $5,000 customer – revenue from that customer cohort is growing slower than customers with more than $5,000. So I would say that's one.

Two, obviously, I think the collaborative work management category is still very much greenfield and there's just a lot of runway. So, it's not necessarily winner take all across all of these segments. So, to the degree that we move upmarket and other players end up staying in the lower end of the market, I think that's a very likely outcome in the long term.

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

Alex Zukin
Analyst, Wolfe Research LLC

Q

Thank you guys for taking the question. Maybe just the first one, Dustin, for you, I'll ask is, it's kind of a similar question on the AI front. But I guess if we step back for a second and we think about where and how you think people, specifically customers, are going to actually pay for the AI functionality that you're introducing for the way that you're positioned and how investors in Asana are going to benefit from the investments and the experience that you have, is it more?

And also in the context of like availability of DPUs, when you're launching the product functionality, when do you expect folks to actually be able to see the ROI from it? Like, just conceptually, what are people willing to pay for, not willing to pay for, at least in the conversations – introductory conversations you're having. And when would you expect like your ability to actually deliver this product to market in a way that enables the ultimate monetization opportunity, and on also the impact on retention that it's likely to have.

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

A

Yeah, thanks for the question. I think it's a little difficult to answer because I don't really think of it as binary in that way. So it's not a feature we're launching and delivering, but a sort of unfolding of our roadmap. And in a lot of ways, it's already begun because we already have customers in the private beta. We'll be launching into a much more open beta alongside our events in October with some of the functionality. But we also have teams working on what's next and putting more customers into the beta features beyond that and we're also talking about our roadmap with customers when we're briefing them and it's part of the purchase decisions they're making when they think about what partner they're going to want for the long run. A lot of it has to do with who can differentiate on that AI vision. And I think it's helping us now and it will continue to help us more. I think the October event is a particularly big moment for us to tell the story, especially in a visual way. It's hard to get across on these earnings calls.

And so, I think it will – we'll just like continue to build. Again, just in terms of like a packaging moment, I think it will present itself most in terms of customers uptiering to get the more advanced AI functionality. There may even be a benefit from free to premium. We've kind of debated that internally, but haven't really modeled anything. And so, it'll happen in pieces and get better and better rather than being a single moment where there's an inflection in revenue.

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

A

Hey, Alex.

Alex Zukin
Analyst, Wolfe Research LLC

Q

Okay. And then...

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

A

This is – oh, sorry. Are you asking about customer feedback as well? So I just wanted to add a couple of things...

Alex Zukin
Analyst, Wolfe Research LLC

Q

[ph] Sure (44:51).

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

A

...in terms of what we're hearing from customers. In the conversations with CIOs at our largest customers, whether that's a global live events company or the leading vacation rental platform in the world, what they're telling us is, first and foremost, they're excited to have a strategic partner to help them build out their AI strategy because right now it does feel overwhelming the number of choices out there. And so, things that they care about are data specifically, where it comes from, how it's used. They care very much about security and they care a lot about transparency in how AI is deployed.

And so, for work management in particular, it's very straightforward for them to see how AI will accelerate what they're already trying to do, whether that's in projects or portfolios or connecting that work to goals. And so, more than anything, our conversations really are starting to be how we can help them really figure out their AI strategy and then be able to deploy it in Asana. So we're really excited about the early feedback and the desire for customers to help us shape the roadmap and how engaged they are. So just wanted to share a little bit more of that color.

Alex Zukin
Analyst, Wolfe Research LLC

Q

That's super helpful. And then maybe Tim, similarly open-ended question for you on the numbers. Again, if we look at some of the commentary, it suggests that multiyear deals were strong, enterprise [ph] traction (46:12) continues to be really positive.

So, I'm trying to square that with the forward-looking metrics. Like if we look at billings, it's kind of in the low teens growth this quarter, CRPO bookings kind of similarly in that low teens kind of dimension. So, look, is there anything that that's kind of one-time in nature specifically that we should be paying attention to? Because your guidance for Q4 kind of implies you're exiting the year just over double-digit growth. The Street has you doing something a lot better than that for next year. So, given the commentary you made around the six to nine months of kind of still having that renewal headwind within these large tech companies, like when should we see kind of the turn happen? Is that a Q1 phenomenon, Q2? Like how do we think about that?

Tim M. Wan
Chief Financial Officer & Head-Finance, Asana, Inc.

A

Yeah, I think – no, it's a great question, Alex. I think one, I just for clarity, I just want to say, while we're encouraged by the multi – the number of multiyear deals, they do – they are still a minority, a small percentage of our total billings. So that's one. Two, I would say, certainly, I think, we continue to see kind of the same environment that we're operating in in the first half of the year and the environment not getting materially better or worse right now.

So, to the degree that with our net expansion rate, I do think it's going to take another two to potentially three quarters for all the renewals to work themselves out so that we have an easier comp after that. And then I also, obviously, we have new sales leadership coming on and we want to just make sure that there's adequate room for the leaders to kind of make the necessary changes as we go upmarket.

Operator: Thank you. Our next question comes from the line of Josh Baer of Morgan Stanley.

Josh Baer
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you for the question. I wanted to ask one on the net retention rates. And Tim, just kind of thinking to some of your comments on some areas not as strong as they hoped and sort of taking another two to three quarters to get easier comps. Just wondering what gives you confidence that that retention rate can remain above 100%, just kind of looking at some of the trend lines and deceleration that we've been seeing?

Tim M. Wan
Chief Financial Officer & Head-Finance, Asana, Inc.

A

Yeah. So, I would say, Josh, that the thing we looked at obviously is a combination of both the downgrades and the expansion. And that's where most of the compression has really come from in our net expansion rate. On that, companies aren't expanding as fast as they had during prior years and that companies that were planning to grow ultimately ended up doing layoffs and having to readjust their renewals with us.

So I do think like those things need to work themselves out and that over time. The one encouraging sign I would say is that when we look at logo churn, especially in our large customers and across the base, essentially those have remained unchanged. So the companies that are using us are staying with us while they are downgrading or expanding less right now. I do expect them to, over time, as the economy gets better, to hire, deploy more seats and as we add more functionality into our different packages, have them kind of move up into these kind of more advanced packages that will be offering in us later this year.

Josh Baer
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Got it. And then kind of related since that's backward-looking, I was hoping you could give a little bit of color on the linearity through the quarter, but then also into August as well on what you're seeing as far as demand trend?

Tim M. Wan
Chief Financial Officer & Head-Finance, Asana, Inc.

A

Yeah. I mean, I think, in terms of just kind of like how the quarter shook out this last quarter, I would say no different than what we saw in Q1 and Q4 of last – the Q4 of last year. That, generally, the first couple of months is a little bit slower. And then, kind of deals being somewhat in the most of the larger deals being somewhat in the last month of the quarter. And I think, August, traditionally for us, there are some seasonality primarily because EMEA is a slower month, they're generally on vacation. But I think when we look at the pipeline and when we look at how we enter the quarter, I think we feel pretty good about how the quarter is shaping up right now.

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

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

Q

Hey, thanks for taking the question. I was wondering if you could give a little more color on the net retention number. Was it closer to 105% or to 110%? And then how did it trend over the quarter end so far in 3Q?

Tim M. Wan
Chief Financial Officer & Head-Finance, Asana, Inc.

A

I think what we – yeah, I think what we disclosed is I was over 105%. So, last quarter I think – I believe we said it was over 110%. So you can you can imagine kind of the data point and the trend lines of that, why we would change, why we would drop the disclosure from 110% to 105%.

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

Q

Okay. And then, I guess, two things. I mean, have you seen any change so far in 3Q? And also, could you get some color on what you've seen on that number kind of inside and outside of tech?

Tim M. Wan
Chief Financial Officer & Head-Finance, Asana, Inc.

A

I think it's certainly stronger outside of tech. And I would say, similar to the commentary that we made about the different segment, I would say, the headwinds -we've seen headwinds in obviously tech and non-tech, but I would say it's definitely more pronounced in the tech segment.

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

Patrick Walravens
Analyst, JMP Securities LLC

Q

Oh, great. Thank you. Dustin, I know it's kind of off message, but I was intrigued when you commented that the AI functionality might help with the free to premium conversion. So, you guys really haven't talked about that for a while. Remind us how many free users are there and what is the size of that opportunity?

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

A

I don't have the free user base number offhand, but I don't want to over...

Patrick Walravens
Analyst, JMP Securities LLC

Q

I know, I know.

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

A

... emphasize here. I think the opportunity is small. I just think it's a bit of a wild card of like maybe it'll show up. We've paid attention to some other vendors that have more like a prosumer market. And seeing that some of their customers are empirically willing to upgrade even for sort of single player usage. So most of our free user base is individual, personal use cases, prosumer use cases.

And so, I think some of them might be more enticed by this than some of the other functionality that was more oriented around teams. I just think there's a little more that is valuable to specific individual end users even if they're not collaborating or if they're just collaborating a little bit. So that's the only reason I mentioned that. But I do think it's small, it could be nothing. I don't want that to end up in analyst models, to be honest.

Patrick Walravens
Analyst, JMP Securities LLC

Q

Yeah. Okay. A lot of us pay for ChatGPT, so it is kind of interesting. And then one...

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

A

Yes.

Patrick Walravens
Analyst, JMP Securities LLC

Q

...for you, Tim, just how should we think about the shape of free cash flow margins in the second half when you said not to expect necessarily another $15 million, but how do we think about that?

Tim M. Wan
Chief Financial Officer & Head-Finance, Asana, Inc.

A

Yeah, I think you should expect our free cash flow to be negative in the – for both Q3 and Q4. But we'll make improvements on a year-over-year basis and that the margin will improve from kind of Q1. I think Q2 was a quarter where we essentially had a large invoice in Q1 with one of our largest customers. We collected that cash in Q2. That certainly helped with our free cash flow. But we won't see that for another year, but it'll improve on a year-over-year basis.

Operator: Thank you. Our next question comes from the line of – our final question comes from the line of Brent Thill of Jefferies.

Brent Thill
Analyst, Jefferies LLC

Q

Dustin, impressive hire with Ed McDonnell coming in as CRO from Salesforce. Maybe if you could talk through your top aspirations out of the gate for him. And if you could speak to also any time we see new CROs come in, there tends to be a little wake turbulence that's felt. How impactful do you think that wake turbulence will be in the changes that you would like him to make?

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

A

I'm sorry. That word was weight turbulence?

Brent Thill
Analyst, Jefferies LLC

Q

Wake turbulence.

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

A

Wake. Okay. Yeah.

Brent Thill
Analyst, Jefferies LLC

Q

Sorry, sorry...

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

A

Yeah. Got it.

Brent Thill
Analyst, Jefferies LLC

Q

...for getting the airplane chatter on you.

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

A

Yeah. Well, Ed is a really seasoned executive and he's built a number of teams over his career and has seen, you know, where we're going. So, he's come in and really demonstrated the ability to make decisions quickly, inspire the team, and just like get the lay of the land really quickly. I was actually really impressed even before he started. He went really deep on the company, did a ton of research, and really got to know us. So he's able to sort of on board and hit the ground running and has just been sprinting ever since he got here and has already made a lot of progress. So, I feel really good about it right now. We're still only, I think, this week one month in. And so, there's still going to be a learning curve, but it's been really impressive so far. And so, optimistic about minimal wake turbulence.

Brent Thill
Analyst, Jefferies LLC

Q

Thanks.

Operator: Thank you. I would now like to turn the conference back to Catherine Buan for closing remarks. Madam.

Catherine Buan
Head-Investor Relations, Asana, Inc.

Thank you again for joining us today and making the time to hear our earnings results. We look forward to seeing you in New York on October 3.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.