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Asana Inc.

Third Quarter Earnings Conference Call

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PRESENTATION

Operator

Welcome to the Asana Third Quarter Fiscal 2021 Earnings Conference Call.

At this time all participants are in a listen-only mode. After the speakers' presentation, there'll be a question-and-answer session. To ask a question during this session, you'll need to press star, one on your telephone. Please be advised that today's conference is being recorded. If you require any further assistance, please press star, zero.

I would now like to hand the conference over to your speaker today, Ms. Catherine Buan, Head of Investor Relations. Thank you. Please go ahead.

Catherine Buan

Good afternoon and thank you for joining us on today’s conference call to discuss the financial results for Asana’s Third Quarter Fiscal Year 2021.

With me on today’s call are Dustin Moskovitz, Asana’s Co-Founder and CEO; Tim Wan, the Company’s Chief Financial Officer; and Chris Farinacci, the Company’s Chief Operating Officer and Head of Business.

Today’s call will include forward-looking statements pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995, including, but not limited to, statements regarding our financial outlook, market position and growth opportunities. Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

Forward-looking statements represent our Management’s beliefs and assumptions only as of the date made. Information on factors that could affect the Company’s financial results is included in its filings with the SEC from time to time, including the section titled Risk Factors in the prospectus filed by the Company in connection with its direct listing.

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. A reconciliation between GAAP and non-GAAP financial measures and a discussion of the limitations of using non-GAAP measures versus their closest GAAP equivalent is available in our earnings release, which is posted on our Investor Relations webpage at investors.asana.com.

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

Dustin Moskovitz

Thanks, Catherine. Welcome, everybody, and good afternoon.

We had an excellent first quarter as a publicly traded company, and as you can see from the results, our business is fundamentally strong. In Q3, we added approximately 7,000 net new customers and reported revenue of $58.9 million, up 55% year-over-year. In addition, the number of customers spending $5,000 or more on an annualized basis was up 58% year-over-year, and revenue growth from those customers was up 80% year-over-year.

Last quarter, we mentioned that we saw short-term headwinds from COVID and long-term tailwinds. Now we feel like the short-term headwinds have diminished. Our churn rates have reverted to pre-COVID levels and markedly improved from their peak in April. Beyond COVID, we're seeing promising signs of continued durable growth in at least three trends. One, acceleration of new customer additions. Two, faster deployment in some of our existing customers. And three, some of our largest enterprise expansions to-date.

The success we've experienced in Q3 marks a moment in time that has grown from years of investment in our culture, our product, and our strategy, we are a mission-critical platform that enables the world's teams to work together effortlessly. In a world where there's a firehose of information, a proliferation of collaboration tools, and an increasingly distributed work environment, it's critical to have clarity about what's most important and what each team member should focus their attention on.

The pandemic and work from home has accelerated this need; and in fact, the collaboration market is expected to be a $32 billion market by 2023, according to IDC. We believe the world's 1.25 billion global information workers would benefit from a platform like Asana, and we've penetrated less than 3% of the employees in our own customer base.

Since this is a relatively new software category, let me explain how we view the landscape and where Asana fits in. Effective team collaboration requires the three Cs: content, which includes cloud storage and file sharing; communication, which includes chat and video conferencing; and coordination, which is where Asana is focused. Teams have invested heavily in technology for the first two, but in most cases they haven't invested in the Asana layer, the coordination layer, the third C. Coordination is about clearly answering the question, **who** is doing **what** by **when**? Historically, teams have had to resort to sticky notes, email, spreadsheets and status meetings to coordinate work. With Asana, they have a better solution.

Companies work best when everyone in the organization has clarity on the company's mission, its objectives, projects, and workflows needed to achieve those objectives, and who's responsible for each individual task. This enables every team member to achieve focus and flow and have clarity about how their work contributes to the organization's mission. When there's clarity, you spend less time coordinating work, more time actually doing work and quite simply are more productive.

Asana solves the problem of team coordination and gives teams clarity. The Asana Work Graph is the data model that makes this team coordination possible. It enables a complete, fully-connected, accurate and up-to-date map of work in your organization. The Asana Work Graph represents all of the units of work like tasks, ideas, goals, agenda items; information about that work like relevant conversations, files and status information; how it all fits together; and importantly, who's responsible for each piece. It's a living system of clarity for work that emerges in real time and expresses a team's past, present status and future plan.

This is one of our biggest competitive differentiators. So I'm going to spend a few minutes on this call and on the next couple of earnings calls talking about different aspects of the Asana Work Graph and the customer benefits it enables.

Today, let's double-click on multi-homing, which is a feature based on the Work Graph that enables teams to manage complex work in a simple and intuitive way. Multi-homing gives people the ability to host a single task in multiple projects at the same time. This feature is unique to Asana and is what allows Asana to serve as a single source of truth for customers working across projects, processes and functions.

For example, we used multihoming to prepare for this earnings call. We created an Asana task to finalize approvals for the earnings called script. That task had all the pertinent details for the call and served as our single source of truth. The task was simultaneously in several different projects, including Investor Relations, Communications, Legal review and in my personal My Tasks. This flexibility allows each of those constituents to manage the work within the normal context and workflows without needing to make their own individual copy of the task. Each time a team member multihomed a task, a cycle of chaos is averted.

Without multihoming, one of two things happens. So either you miss a unit of work and one of its relevant contexts and will fall through the cracks, or you waste time in email threads and meetings just to communicate status and reconcile changes. Multihoming gives customers' confidence that what they're seeing is the single source of truth across all teams.

You might think this is too subtle a track for customers to pick up on, but this is one of the "aha" moments that customers rave about.

For example, Vox Media says, "Before Asana, it was like the Wild West in Fox Media. Information didn't flow smoothly between teams with key details and deadlines lost in email and chat. Now with Asana, we can add a task like a legal review for a client campaign to multiple projects with just a click. This way, the legal team, for example, doesn't have to sift through all the other campaign work. They have a board that consolidates all of their review tasks in one place. When they complete the review, the update is automatically synced across all the projects."

Multihoming is so powerful it's used by 97% of our customers that spend $5,000 or more on an annualized basis. And the volume is remarkable -- customers have multihomed hundreds of millions of Asana tasks. This is just one of the unique capabilities enabled by the Asana Work Graph.

From an R&D perspective, we're investing aggressively in the Asana Work Graph and the features it enables. This year, we released more than 130 new features including approvals, status, goals, dashboards, platform integration, Zoom, JIRA, Slack, Microsoft Teams, Tableau, Power BI and more.

We're also moving quickly towards our product vision and becoming the navigation system for organizations, which we described at our Future of Asana event last quarter. Some of those product investment areas include these areas.

First, the Asana Work Graph visualizations and reporting. This will give team's real time data and insights across their organization.

Second, the Asana Workflow Store and Builder. This will democratize workflow creation and automation and enable best practice sharing across teams and organizations.

Next, Goals. We're expanding our Goals product to allow organizations to manage all their org, team and individual goals for every employee in the company. This enables customers to map their Work Graph top to bottom, aligning work from the atomic level of detailed tasks all the way up to the highest-level objectives of the organization.

In addition, two weeks ago, we previewed some of the themes around our enterprise platform. We're building out even more enterprise platform capabilities, including enhanced admin controls, permissions, licensing, security and integration to serve the world's largest companies. Stay tuned for new product announcements in these areas and more over the next several quarters.

Now I'm going to turn it over to Chris to talk about Q3 from an operational perspective and share more details on how our customers are using Asana.

Chris Farinacci

Thanks, Dustin.

We're very excited about our performance in Q3 with top line revenue growth of 55% year-over-year, led by revenue from customers with over $5,000 in annual spend, which is up 80% year-over-year. In Q3, we again saw notable improvements across many of our key metrics, including record top of funnel traffic and signups, accelerated incremental paying customers, and expanding deal sizes. Let me discuss each in a little more detail.

As you might remember from Q2, our top of funnel volume in signups was elevated due to work from home; and it not only remained elevated but even expanded in Q3.

We also accelerated the number of new paying customers in the quarter, adding approximately 7,000 to reach over 89,000 total paying customers to date. The increase in new paying customers in Q3 was almost as large as the volume in both Q1 and Q2 combined.

Third, we saw a move to bigger deals across the board. In particular, we saw traction in large enterprises, and our large deal trends reflected this. We saw the number of customers expending more than $50,000 with us annually increase 104% year-over-year, with the corresponding revenue contribution more than doubling, and we saw very strong growth in very large enterprises in Q3.

We're continuing to invest in our enterprise offering. Last month we unveiled new and expanded integrations with Microsoft Teams, Slack, JIRA and Zoom Video, reinforcing our unique role enabling enterprise work orchestration. In Q3, we saw customer wins broadly across industry verticals. Let me talk about a few notable wins.

Asurion, a leading provider of electronic device insurance with 300 million customers worldwide, has been an Asana customer for over two years. In Q3, Asurion upgraded to our enterprise solution for our enterprise grade security and strong integration capabilities, and expanded to more departments across the organization, including HR, the B2B revenue division, retail, and their IT architecture team.

VSP, a leading provider of access to eyecare and eyewear to their 94 million members around the world, chose Asana as their enterprise solution bringing together marketing teams from five lines of business into a single platform. With Asana, what used to be a manual process combining email, SharePoint Spreadsheets and JIRA will now be automated. VSP chose Asana because they needed an organization-wide solution that could replace email with an automated approval process, be customized for the business workflows, and provide strategic visibility across the organization for leadership.

Zoom Video, a leading provider of video first unified communications, began using Asana in mid-2019 to help manage their work. In Q3, Zoom expanded their use of Asana to more teams across the business. Now they can see project progress in real time and ensure responsibilities are clear, which is critical when you're moving as fast as Zoom is to serve their growing customer base.

Education everywhere has been hit hard by COVID-19, and the bigger the school, the harder it can be to stay aligned and responsive to change. At the **University of California, Santa Cruz**, Asana is becoming the backbone for a number of administrative units, supporting their teleworking experience and empowering employees to organize their work, delegate responsibility and drive accountability. For example, the Office of Research is using Asana to run some of its COVID-19 testing operations, and the procurement department is actioning inbound requests and approvals in Asana to streamline the process with other departments.

I also want to highlight that four of our biggest customer expansions in the quarter were with Fortune 50 companies. This included expanding one of our largest customers to tens of thousands of seats.

As you can see, while our enterprise motion is still in its early stages, we're clearly starting to see our strategy bear fruit. We're helping some of the most visionary companies in both traditional as well as disruptive industries and expanding rapidly around the world. Our growth levers remain intact, and we are progressing successfully: 1) acquiring new customers, 2) customer expansion, 3) cross company use cases and 4) product innovation.

In September, I shared with you some of the opportunities in front of us to drive future growth. I'd like to revisit these growth drivers through the lens of what we saw in Q3. I'll start with new customer acquisition.

We remain focused on acquiring new customers through word of mouth, marketing and our self-serve product. This is a fast growing emerging category, with the vast majority of global information workers without work management tools and suffering from lack of clarity. For new teams, Asana is fundamentally a broad horizontal product. We see customer use cases within and across virtually all functions and departments and often including collaboration externally with suppliers, partners and customers. As you heard from Dustin, in Q3, we added approximately 7,000 net new customers.

We continue to see a large expansion opportunity in our existing base of now over 89,000 paying customers. Our direct sales team is armed with department-specific solution for our customers. We continue to see strong traction in marketing and creative, sales and account management, and strategy and operations teams, as well as in product and design, and HR and IT teams. We believe we have the right strategy, the best solutions, and now is the time to ramp up our sales capabilities and invest in marketing to take advantage of the $32 billion market opportunity.

Third, we see a large, incremental opportunity to support company-wide use cases, starting with our recent launch of integrated Goals and OKR management. As we power the Asana Work Graph within companies, Asana is uniquely suited to empower companywide clarity and engagement use cases.

Internationally, we're expanding both our footprint and our product reach. In Q3, we opened an office in Singapore to expand our footprint in Asia and ultimately to be closer to our fast-growing ASEAN customer base. We will also be announcing support for more languages and localizations in the coming months.

Finally, we continue to innovate and expand our market leading offering to bring the Asana solution to more teams and increasingly larger enterprises and organizations. Our product and go-to-market strategies work hand in hand to meet the increasing customer demands for work management solutions and drive our long-term growth.

Now I'll turn it over to Tim to go through our financial results.

Tim Wan

Thanks, Chris, and thank you to everyone for joining our call today. I know that earnings season can be an endurance test, and we appreciate your time and support.

It was a great quarter across the board. Revenue in Q3 was $58.9 million, up 55% year-over-year and up 13% quarter-over-quarter, led by 80% year-over-year growth from our customers $5,000 and over.

We added approximately 7,000 net new paying customers in the quarter and now have over 89,000 paying customers. We now have 8,938 customers spending $5,000 or more with us on an annualized basis, up 58% year-over-year. We saw even stronger growth in our larger customers. We now have 318 customers spending $50,000 or more with us on an annualized basis, up 104% year-over-year.

Subscriptions of $5,000 and over on an annualized basis represented 59% of our revenues in Q3 compared to 51% of our revenue in the year-ago quarter. Please note this represents all customers $5,000 and over including customers over $50,000.

In Q3, our overall dollar base net retention rate was again over 115%, consistent with Q2. As a reminder, our dollar based net retention rate is a trailing four quarter average calculation. For customers spending $5,000 or more with us on an annualized basis, the dollar based net retention rate was over 125%, also consistent with Q2. For customers spending $50,000 or more with us on an annualized basis, it was over 140%, again consistent with Q2.

Before turning to expense items and profitability, I would like to point out that I will just be discussing non-GAAP results in the balance of my remarks.

Gross margins came in at 88%, up from 87% in Q2 and 86% in the year-ago quarter. We're proud of our best-in-class software gross margins, driven primarily by our leading architecture.

R&D was $28.2 million or 48% of revenue. We have five broad areas of focus and we're investing heavily to continue innovating at a high velocity.

Sales and marketing was $45.6 million or 77% of revenue. We have nearly doubled our sales team over the last year, because we are confident as demand for work management continues to move mainstream.

G&A was $15.1 million or 26% of revenue, reflecting both increased public company costs as well as building out our infrastructure for scale.

As a result, total non-GAAP operating loss was $37.3 million. Operating loss margin came in at 63%. Non-GAAP net loss was $38.3 million and non-GAAP loss per share was $0.34.

Total cash and marketable securities balances at the end of Q3 were approximately $424 million. Free cash flow is defined as net cash from operating activities, less cash used for property and equipment and capitalized software costs, excluding non-recurring items such as the direct listing fees and expenses and the build out of our San Francisco office. In Q3, free cash flow was negative $19.5 million.

Our total Q3 deferred revenue was $90.1 million, up 56% year-over-year and up 20% sequentially. As you will see on our balance sheet, $88.9 million of deferred revenue was in current liabilities, while $1.3 million, which represents long-term deferred, was included in other liabilities. The $15.1 million incremental deferred revenue that we added from Q2 to Q3 was driven by a variety of factors including strong sales execution, larger deals, and net new customer adds. In addition, in Q3 of last year, we had a price change and allowed customers to lock-in existing prices and renew earlier, which elevated renewals and deferred revenue in Q3.

As you think about deferred revenue in Q4, it's important to note that we expect the usual seasonal trends associated with the holidays and fewer working days. Please note, we consider revenue growth to be the best leading indicator for the health of our business. While we do recognize that Investors look at other metrics such as RPO, deferred revenue, and calculated billings, we do not consider these metrics to be good leading indicators for our business trends. With our bottoms-up model, we engage new users with a low friction entry point package, and a material portion of our revenue base is on monthly contracts.

Looking ahead to Q4, we are raising guidance for the next quarter and for the year.:

For the fourth quarter of Fiscal Year 2021 we expect the following.

- Revenue of $62 million to $63 million, representing 43% to 45% year-over-year of growth.
- We expect non-GAAP loss from operations of $42.5 million to $39.5 million and
- non-GAAP net loss per share of $0.27 to $0.25
- assuming basic and diluted weighted average shares outstanding of approximately 158 million.

For the full Fiscal Year 2021 we now expect the following:

- Revenue of $220.6 million to $221.6 million, representing 55% year-over-year year growth.
- We expect non-GAAP operating loss of $130.8 million to $127.8 million and
- non-GAAP net loss per share of $1.24 to $1.21
- assuming basic and diluted weighted average shares outstanding of approximately 106 million.

Longer term, we believe that we can execute on our growth strategy and that our best in class gross margins will provide the leverage and flexibility to invest into the large market opportunity. We believe this investment will provide durable and sustainable long-term growth.

Now I would like to turn the call back over to the Operator for Q&A. Operator?

Catherine Buan

Operator, before you're queuing up the questions, I just wanted to jump in.

First of all, thank you, everybody, for joining us today.

I'm going to try to keep the Q&A at a good pace. So if everybody on the polling system could try to keep their questions to, well, one question. If it's a couple questions layered in, that's okay, too. But just anything you can do to help us keep a good pace for the question-and-answer session. Thanks.

Operator

As a reminder, to ask a question, you will need to press star, one in your telephone.

Your first question comes from the line of Alex Zukin from RBC. Your line is open.

Alex Zukin

Hi, guys. Thanks for taking my question first. And also, congratulations on a great report, first report as public company. That's a great thing to see.

So the first one, maybe just for you, Dustin: if you think about the kinds of conversations that you're having with C level executives at the moment when the world is clearly thinking about restacking for a more—for a new normal workplace, give us the tenor of those conversations.

As you think about it from the context, you mentioned 3% penetration in your existing customer base on a user basis. Where does that go over the next couple years? And what's the main way when you think about unlocking that kind of potential, how do you think about it?

Dustin Moskovitz

Yes, I'll start this off, and then I think Chris can probably add some more color.

I'll just point out our customers are in a number of different positions. It depends a bit, which industry they're in, in terms of whether they're being aggressive about expansion and hiring, or more conservative. But generally we're seeing the same sort of positive reaction we've seen to existing deployments in prior years, too.

Asana was built to be a great customer experience and something where the initial teams could be successful and really enjoy using the product, and then get the good word out to their peers and other teams and departments.

That's still generally the sentiment we get when we talk to C level executives is they're hearing from their teams, they're getting a lot of value and they'd like to expand that value proposition to other parts of the company.

Then in terms of the 3% penetration, it's really just a reflection of the massive opportunity that's left in a lot of our customers. In terms of where it goes in the long run, we obviously we hope to wall to wall in all of our customers. We hope it goes to 100%. I don't know what pace that'll be. Again, it's different in different customers and depends on the size. So in some of the smaller enterprises that figure may be a much higher ratio of employees and may represent entire departments or divisions. In very, very large organizations like the Fortune 5, it may be a smaller figure. It may take us more years to get the whole organization.

Anything you would like to add, Chris?

Chris Farinacci

Yes, sure. So maybe I can add some value to your question just in terms of where we're seeing that value and that traction in those conversations.

Generally the conversations we're having are consistent with conversations we've had in the past in terms of the business imperative for basically real time clarity and alignment and accountability in companies. That's just sort of been amplified in this more globally distributed world over the last couple of quarters.

It's broad and horizontal; but where we're seeing the traction the most is in marketing and creative teams, sales and account management, and strategy and operation teams where we already have departmental solutions. We're also seeing strong traction in other areas that are adjacent, like product design, HR and IT. So that's sort of a use case where the traction is.

Then maybe more broadly, and I mentioned this in my remarks a little bit earlier, we're seeing the traction broadly across industry verticals, particularly in Q3. I mentioned some new examples of wins and expansions in Q3: Asurion, an insurance company, VSP in healthcare, Zoom in tech, and UC Santa Cruz in education, just to give you a feel for the sort of the diversity of demand.

Alex Zukin

That's perfect. Maybe just as a follow-up, Tim, as I think about—obviously we're all going to want to talk about the enterprise numbers, and the enterprise strength in the quarter that you saw was quite robust. Walk us through the headwind or the—maybe not the headwinds but the lack, what you're seeing from the SMB customer base. The dollar based net expansion was pretty strong as we've gotten through maybe the height of the pandemic, hopefully.

Talk to us about retention. And particularly as we come out of it next year, hopefully, how should we think about those comparables, particularly on the SMB side of the business?

Tim Wan

Yes, I think there's a couple of ways you can look at it. I think Dustin kind of alluded to this in the prepared remarks, where we certainly are seeing churn diminish versus their peak back in kind of towards the tail end of Q1 and part of Q2. I think we're also being prudent in terms of, hey, we are living in a world where there's a second surge, and we do note that the net expansion rate is a four quarter rolling average. So you can kind of expect some of the cohorts to work their way through over the next couple of quarters.

But certainly the customers that are staying and thriving and expanding with us, even in a pandemic, likely are going to only continue to get stronger. So in some ways, we do think we're going to come out of this with a much stronger customer base over time. But there's probably still a couple of quarters to kind of work through the cohorts.

I'll let Chris and Dustin kind of talk about some of the macro secular tailwinds that we're seeing in terms of the customers.

Dustin Moskovitz

Yes, I can add some color.

I think you asked specifically about SMB. So just building on what Tim said, although we don't breakout our business for SMBs, what I can tell you is that the revenue growth rate for customers spending less than $5,000 with us on an annualized basis accelerated in Q3 versus the growth rate in Q2. But more broadly, I'd emphasize what Tim said in terms of—I'd emphasize the strength in the quarter was primarily driven by secular trends in the growing business imperative for work management that's been ongoing. That's where we think the primary focus for demand and what's driving businesses.

I think some of the recovery over time can help sort of with a little bit of an additive layer. But it's the secular trends that are really driving the business.

Catherine Buan

Great. Next question, Operator.

Operator

Your next question comes from the line of Brent Bracelin from Piper Sandler. Your line is open.

Brent Bracelin

Good afternoon and thanks for the questions here. One for Dustin and a follow-up for Tim.

Dustin, love to get your view on this whole Salesforce-Slack deal. I appreciate that Asana is agnostic to all the video messaging channels. You've announced several new integrations. But that said, what is your view on Salesforce-Slack, and how may that or may that not impact your business going forward?

Dustin Moskovitz

Yes. Great. Thanks for the question.

First of all, I just want to say congratulations to both of those companies. This is a huge moment for Stewart and for Marc and for their entire teams.

Just to reiterate a couple points, how we see the overall collaboration landscape, I mentioned in the prepared remarks, about the big three categories, the three C's. So the first is content, includes cloud storage and file sharing. Second is communication, includes chat and video conferencing. Then the third is coordination. That's where Asana is focused. Coordination's all about clearly answering the question, who's doing what and when.

From our point of view, in coordination, it's really important that we integrate well with the products in the other two categories. Slack, of course, is part of communications. It's no surprise, it's one of our best and most important integrations. In fact, it's something I use every day myself. We additionally have a great integration with Salesforce's CRM products. On top of that, we're mutual customers. So we use Salesforce CRM, they use Asana, and same with Slack. So we're really looking forward to just deepening our long existing relationship with the combined entity to build the future of work, and I think this is just building an even stronger partner for us for the future.

Brent Bracelin

Got it. That's helpful color there.

Then Tim, on the follow-up here, I know you mentioned we're not supposed to pay attention to calculated billings and other metrics. But it was very strong, up over 25% sequentially. Just trying to understand: if you think about the momentum there, was there a couple outsized deals that drove billings up so much this quarter? Any additional color you can provide on why you saw such a sharp jump in billings this quarter. Thanks.

Tim Wan

Great question. I would say we would—there's not any one thing I can point to that really drove that particular sequential jump. We have a bottoms-up business. But I did talk a little bit in my prepared remarks about the seasonality in Q3 related to billings and deferred revenue. One of the things that we did last year was we did have a price change in Q3, and allowed customers to lock in their prices and renew early. So there's kind of this natural, elevated deferred revenue or renewal cycle in Q3.

The way to think about it is probably take a little bit more of a muted approach to Q4 deferred. But really, it's really the secular tailwinds and the strength of the business that really drove kind of both the billings and deferred revenue growth.

Brent Bracelin

Helpful color. Thank you.

Catherine Buan

Great, thank you.

Operator

Our next question comes from the line of Ittai Kidron from Oppenheimer. Your line is open.

Ittai Kidron

Thanks. And again, guys, congrats on the first public quarter and great results. I have a couple of questions.

First, on the customer additions, clearly very strong number here. But can you tell us how much of this was potentially some catch-up from the previous two quarters? I would assume that some customers have kind of delayed decisions given COVID and perhaps have now felt a little bit more comfortable, I tried to kind of split up the true business activity versus some catch-up activity in there.

Then perhaps a question to Chris. Chris, you've talked about bigger deals in the quarter. You've talked about some of the corporate functions in which you're seeing a lot of traction on marketing and creative. Help me understand how much of this larger deal activity really reflects more than one corporate function constituency adopting you right off the bat versus a single one that you focus on, but just making a bigger step as the first step.

Dustin Moskovitz

Let me try to take that first question, Ittai.

What I would say in terms of our net customer add, we definitely saw strength in our top of funnel in both Q2 and Q3 during the whole COVID period. I think what's really changed is kind of the diminishing churn rates that we're seeing. Many of the customers that were impacted by COVID were either churned or paused their subscription at that period. I think that was the main impact in terms of our net adds.

Then I'll turn the call back to Chris for the other question.

Chris Farinacci

Sure. Thanks, Ittai.

To try answer your question, I'll just sort of remind everyone, at the highest level we have an intentionally hybrid self-serving direct sales business model, and that maps to the way customers adopt our product over time, where direct sales is built on top of that self-serve business. Self-serve of course maps to acquiring small, free, and paid teams in companies of all sizes. That sales-assisted motion corresponds to land and expand. So land typically is about establishing a champion, deploying a critical workflow, an initial team or two; and then expansion is typically about engaging with IT and decision makers to expand more broadly.

We don't really break out the revenue versus land versus expand, but what I can tell you is expansion is almost always about more than one function, to your question in cross functional. Land typically—a good portion of land typically gets into that. Maybe a good proxy for cross functional usage of Asana is that what Dustin talked about earlier with multihoming tasks where we start to see work that is shared virally across teams. That's really what drives the usage of Asana from one department to another.

Certainly, our sales specific business corresponds to cross functional and multi department, not all of it, but a good chunk of it. Mostly our expansion business is almost all focused on broader usage across companies.

Ittai Kidron

Got it. Excellent. Good stuff. Good luck, guys.

Chris Farinacci

Thanks.

Operator

Your next question comes from the line of Brent Thill from Jefferies. Your line is open.

Brent Thill

Tim, no one's going to have an endurance problem on our side if you keep putting up 55% growth.

I guess just as it relates to the digital component, it's 60% of your revenue. Many are asking, given you're such a digital mix, why the big need for these massive investments you're putting in? If you can just put it in context of how you're building the direct sales force for Asana and the other components, and in how you anticipate bringing this back to more of a natural balance of good growth with caring about the bottom line and profitability. Thank you.

Tim Wan

Yes, sure. Why don't I start and then, Chris, if you want to add on.

I'll talk a little bit about kind of how we think about leverage and how we think about growing the business long term. I think the most important thing for us is acquiring customers, landing with those customers, helping them be successful and having them expand over time. So we have 88% gross margins, which provides a lot of flexibility for us to build a great business. What we've seen with customers that are spending over $5,000 or $50,000 with us, that they naturally not only just expand with seats, but they also expand moving up the tiers from premium to business and then business to enterprise. So there's also a lot of ACV growth down the road for us, in addition to seats.

We think building the business is really about landing with customers. And the category is relatively new, with 1.2 billion knowledge workers, and we're barely penetrated into that opportunity. So for us, it's really about investing into the opportunity and driving growth and then building and creating leverage over the longer term.

Chris Farinacci

Yes, I don't have much to add. I'll just bring it back maybe to the business model. Again, it's an intentionally hybrid self-serve direct sales business model. Given the market opportunity and the rising business imperative, the reality is we're investing in growth for both, and one feeds the other. So in self-serve, acquire new customers. As Tim said the market is wide open. It’s in land grab mode. Most of the world doesn't yet have solutions. So for future growth, we're very focused on landing new and free paid teams in companies of all sizes. We're investing in marketing and top of funnel in our self-serve business there.

Again, on the sales-assisted side, that's all about the large expansion opportunity in our paying base. We shared some metrics on that. For example, in customers spending more than $50,000 with us annually, we more than doubled the revenue and that number of customers year-on-year in that segment. It's a good metric there. We're investing again to sort of roughly double the sales team to ensure global coverage for growth, particularly with quota-carrying reps, to take advantage of that opportunity.

Brent Thill

Thanks.

Operator

Your next question comes from the line of Stan Zlotsky from Morgan Stanley. Your line is open.

Stan Zlotsky

Sorry about that. I was on mute. Thank you so much for taking my questions, and congratulations on a very strong quarter.

Maybe a high level question from me: as you guys look at the world, and as the world really starts to settle into this new normal in 2021, how do you think Asana fits into the new patterns of collaboration that have emerged as a result? Then I have a quick follow up.

Dustin Moskovitz

Yes. I think you're partially referring to the trends towards more distributed work. I think that the thing I'd point out is just well before COVID came onto the scene, I think there was a rapidly increasing business imperative for increased clarity and alignment. Clarity is really difficult for teams to achieve even when they're working in an office environment, but it's particularly difficult with remote work.

I think going forward, we're going to see some companies continue, we’re going to see some companies return to the office, we’re going to see some companies decide to continue with remote distributed work, and we're going to see everything in between. Across that entire spectrum I think Asana has a really important role to play in terms of driving clarity for teams.

I think we're just really well suited to all of those different environments and that we're happy to help customers.

Stan Zlotsky

Perfect. That makes a lot of sense, Dustin.

Maybe just a follow-up for Tim. When we look at new customer acquisition that you guys saw in the quarter, obviously very impressive numbers on a net basis. Some people who are trying to ask that question, but as I think about it, right, there's actually kind of three levers to net new customer acquisition in your model. You have conversion of free usage to paid; you actually have just brand new, top of funnel acquisition; and then you have just your share improvement in gross churn.

As you think about those kind of three vectors, maybe stack rank them for us to help us understand what were the drivers of such an improvement in the quarter.

Tim Wan

Yes. I would say the improvement we definitely saw was on the logo churn basis, right. Because primarily most of the churn that were related to COVID for us and impacted industry like hospitality or retail and small businesses mostly happened in Q2. So we definitely saw improvement in logo churn. I would say if we go back and look at both our paid to free ratio, those have remained relatively strong and hasn't changed dramatically. Our acquisition channel continues to be really strong, just the top of the funnel.

I would say the main difference change between this quarter and probably last quarter and even part of Q1 is just the logo trend has improved.

Stan Zlotsky

Perfect. Thank you so much.

Tim Wan

Sure. Thank you.

Operator

Your next question comes from the line of Mark Murphy from JPMorgan. Your line is open.

Mark Murphy

Thank you. I'll add my congrats on a very solid start.

Tim, can you just help us to try to understand how much of the $15 million deferred revenue increase would you say was unusual or seasonal relating to that price increase? I understand you don't guide to it, but how does deferred revenue normally behave in Q4? Because, I don't think we have the historical to go back too far and try to ascertain that.

Tim Wan

Yes, I think if we look at deferred prior to this Q3, deferred has probably grown anywhere between $5 million and $10 million on a quarter-over-quarter basis. But I think in Q4 there's generally a little bit—it's a little bit more muted, primarily because we have the holidays of Thanksgiving and December.

I think you can take a more muted approach in terms of the growth rate from quarter-to quarter-sequentially and you should probably be fine.

Mark Murphy

I'm sorry. You're referring to 5% to 10% sequential, and then muting…

Tim Wan

Yes, $5 million to $10 million.

Mark Murphy

Five million dollars to $10 million. Okay.

And then, Dustin, I'm curious roughly what you saw in terms of paid user growth in Q3, if you're able to say. And just in your mind, what do you think is the optimal balance of paid user growth versus ARPU expansion going forward the next couple of years?

Dustin Moskovitz

I don't think that we typically break those out from a metrics number, but I definitely think that the revenue growth was a combination of those.

In terms of the balance, I don't know how to answer that very precisely. But we're definitely very interested both in driving seat expansion within our existing customers and capturing the opportunity we mentioned. We're only 3% penetrated into the employees of our existing customer base, so that's 97% seat expansion opportunity.

Then, we also think there's still a lot of opportunity to drive ARPU as well. I think that'll be part of the future. But I can't really give a prediction on the exact mix of them.

Mark Murphy

Thank you.

Tim Wan

Hi, Mark. Let me just comment on that deferred revenue.

I know many of you are really focused on our deferred revenue and calculated billings. But still a material portion of our revenue is still on monthly contract. So you won't see those in our deferred, but they certainly help and they help drive the business and they help our GAAP revenue. So just want to just make sure that you guys are aware of that as well.

Operator

Your next question comes from the line of Brad Zelnick from Credit Suisse. Your line is open.

Brad Zelnick

Great. Thanks so much and congrats on a great quarter.

Dustin, it's good to see that the business remains well-diversified with strength across several industries and functionally, in particular, the strength that you have in marketing departments. I don't know if this analogy resonates with you, but is it fair to think that Asana could become sort of the Atlassian of marketing? That said, along those lines, how do you think about the recent deal that Adobe made to acquire Workfront?

Dustin Moskovitz

Sure. I think I would just start off by saying, I think we have a really broad base of customers, both across industries and geographies, but also across departments. Marketing is often the place where we land in the customer. So it's probably the—it's where we most often land, but it's the sort of plurality of landings, it's not the majority. One of the reasons for that is actually that marketing tends to work so much cross functionally.

I mentioned in the prepared remarks that we see 97% of our customers over $5,000, paying $5,000 or more on an annualized basis, are using multihoming, and we've seen hundreds of millions of multihoming tasks. We actually see that as a huge signal of the fact that our customers are using Asana cross functionally.

I think we can be really strong in marketing, but I think part of the reason for that is that marketing will work with all the other departments in the company as well. So we're really looking to be a horizontal solution for our customers.

Do you want to add anything there, Chris?

Chris Farinacci

Yes, and you also asked about Workfront, like you mentioned something like that.

I'd also add, as a former CMO for 10 years, exactly what Dustin said about the cross functional nature of marketing. It gets us into other teams and helps us spread virally. But I'd also say that unlike some other functions, marketing teams do not have systems of record for these business processes, right. So for events and campaigns and product launches and those kinds of things.

What we're doing with work management, there were no standard tools for that. So it's just super greenfield and it is a super exciting category. It is our strongest, even though we are very diverse, it tends to be, if you have to pick a starting point, probably where we see the most traction upfront at land.

Then I think you asked a question about the Workfront acquisition by Adobe. Yes, we see that as validation in two ways: validation of the category, that large cap tech companies are taking note of the business imperatives of the problem we solve and hearing it from their customers; and validation of the marketing segment. We just talked about it, but what a huge greenfield opportunity it is. I would just add in that our partnership with Adobe, and the integrations we provide, they're strong and driving a lot of traction with their customers right now.

Brad Zelnick

Thank you so much for that. Maybe, Chris, just one quick follow-up, or perhaps for you, Dustin.

You talked about a lot of the new features. I also took note of the press release Asana for the enterprise that you had out last month. But in particular, when I think about Goals that you've launched, I think it's now been several months. Can you maybe just double-click on that a little bit further, in terms of some of the early customer reception to the feature and how you view its potential to help drive greater seat expansion within an organization?

Chris Farinacci

Do you want me to take that, Dustin, or would you like to?

Dustin Moskovitz

Yes. I'll just start off by saying, so we launched Goals earlier this year, it's the first version of the product, and we've seen some great response from the initial customers. But this is really a multiyear product strategy for us. So we're going to be investing quite a bit more into Goals this year. I mentioned in the prepared remarks, we're going to be allowing organizations to manage all the org, team and individual goals for every employee in the company.

This is really about sort of manifesting the full vision for the Asana Work Graph and allowing customers to map their Work Graph top to bottom, and aligning work from the atomic level of detailed tasks all the way up to the highest level objectives of the organization. I think we've got a great sort of view on out there, but there's a lot more that we can do to fully manifest that vision and make sure that it's flexible enough to be adopted by the broad base of customers.

You want to add on Chris?

Brad Zelnick

Thank you.

Chris Farinacci

I think you've covered it well. Thanks.

Operator

Your next question comes from the line of Pat Walravens from JMP Securities. Your line is open.

Patrick Walravens

Great. Thank you. Let me add my congratulations and also kudos to whomever coined the phrase in your script on multihoming when you said the cycle of chaos is averted. Those are six great words.

Okay, so Dustin, when you think about the TAM, I think one question Investors have is it seems like in this market, in the coordination space, you often have competitors that coexist in the same customer. I mean, this is a funny example, a question before me, I think we mentioned Adobe and Adobe bought Marketo. Before, Marketo was a reference customer for Smartsheets. Now they bought Workfront. So obviously they're going to have to figure that out. But my sense is this sort of thing occurs a lot.

I’d just love to hear big picture themes in terms of does that mean that the TAM is actually maybe smaller and the 3% is actually a bigger number. How does it play out?

Chris Farinacci

This is Chris. Why don’t I take a stab, and then, Dustin, add anything you want.

If I understand you correctly your question’s really about the TAM. So it all starts with like the number of—the amount of information of workers, information workers in the world that don't have a solution yet. Again, like the vast, vast, vast north of 90% information workers in the world don't yet have solutions. They're doing this manually. So the way they're trying to get clarity for their teams and align their teams is with spreadsheets, meetings and sticky notes and email threads.

That’s I think why the business imperative for the need for clarity and alignment real time of who's doing what/when is just growing at a time when no one's ever really had it before, other than manually. I think that’s overall what's driving the opportunity and what has us so excited. It's true at the individual level, in companies, it's true for kind of all business processes across companies. It's true where all that work execution connects to the strategies and issues and goals at the management layer. Ultimately, that's a lot of white space, right.

On the customer acquisition side, it's just a huge opportunity for us. Sure, there are certain segments in that where we see more traction than not. But it's still so horizontal, the demand and the interest and the teams that we're acquiring today and on the customer expansion side. In our pay base, we are less than 3% penetrated, so 97% of the addressable employees are still there. That's without really getting into this wall to wall type thing, which is the third leg of our growth strategy and relatively new for us.

We've begun to see some broader wall to wall deployments in small and mid-sized companies. But it's early days. Examples and names you might recognize are like Quora; Mirror, which was recently acquired by Lululemon; and Epitaph Records and AppsFlyer and so on.

It is a huge opportunity. I think that's why the rise of the business imperative, combined with this huge opportunity that's largely untapped and never been solved right before, is why I think you see so much interest in the category.

Dustin Moskovitz

One thing I'll just add. We really emphasize that the Work Graph data model uniquely enables Asana to be very successful cross functionally. A corollary to that is customers actually get increasing returns to scale as they expand their Asana usage throughout the organization and have a more complete Work Graph. So we think that gives us a special kind of advantage as we expand within these customers, even if we may be running into some other alternatives and other teams.

Patrick Walravens

Okay, that was the core of it there. Thank you.

Operator

Your next question comes from the line of Alex Kurtz from KeyBanc. Your line is open.

Alex Kurtz

Yes, thanks. Thanks for taking the question.

Dustin, I just want to go back to your philosophy. If you could remind us on how the team thinks about price increases; when to do it, how to do it, and the flow year-to-year around that.

Then Tim, back to the earlier question about deferred revenue and kind of how price increases drives behavior in the prior periods before that goes into effect. Is that something we should be looking at more closely in our calculated billings projections?

Dustin Moskovitz

Yes, I'll start out.

Just on a philosophical basis, we think it makes sense to raise prices when we've made a stepwise change in the amount of value that we're providing to the customer experience. It typically comes after we've done quite a lot of investment into the product and released some new major features in whichever tier we're increasing, as well as just generally improve the customer experience across the board. I think that just points to relatively infrequently. But it's something that is likely to occur again in the future, but we don't have any specific timing to speak to right now.

Dustin Moskovitz

Yes, and in terms of the impact on deferred revenue, it's kind of—I think the seasonality did happen in Q3, and you should model and think about that as a Q3 just because we do have a cohort of customer where the renewals got pulled into Q3. But we will definitely—when prior to announcing any type of price increase, we generally give our customers time to adjust and reflect on whether they want to maintain. So you will have the same update when we notify our customers.

Alex Kurtz

Got it. All right. Thank you.

Operator

Your next question comes from the line of Zane Chrane from Bernstein Research. Your line is open.

Zane Chrane

Hi. Thanks for fitting me in. Really nice quarter.

I'm curious, what portion of your bookings this quarter came from direct sales versus self-service? Then how do you expect that to trend going forward?

Then secondly, the incremental revenue added in quarter, if I look at year-over-year growth in that metric, it's been pretty volatile. I think it was up double digits in Q1, down double digits for Q2, up 38% really impressively this quarter. Then, your guidance implies it's down 25% roughly at the high end of your guidance in Q4. What's driving the volatility in that metric? How should we think about that going forward? Thank you.

Dustin Moskovitz

Okay. I think what the first question was - let me just make sure I have it here - was the self-serve. I think I would say it hasn't changed dramatically. I think, Chris, kind of on the Investor Day, as well as kind of on our Q2 earnings call, talked a little bit about both the breakdown between our self-serve and sales-assisted business. Those have generally been in the 60-40 range, 60% being self-serve and 40% being sales-assisted, and sales-assisted nudging up and becoming a higher percentage over time.

Chris Farinacci

That's exactly right.

Zane Chrane

That’s helpful.

Dustin Moskovitz

You would probably have to walk me through your math in terms of how you're coming up with the implied growth rate, because I don't understand exactly the calculation. But we can take that offline. I’ll follow up with you directly.

Zane Chrane

Okay, sounds good. If I could just a quick follow-up.

How should we think about the maturity in terms of your enterprise sales build out? I know it's been a big priority for you guys and it seems to be yielding some results. So what inning are we in in terms of that enterprise sales build out? Thanks.

Chris Farinacci

Yes, so the enterprise business. Think of it as moving into the large expansion business and eventually wall to wall businesses, it's in early days. We're really encouraged by what we're seeing in early days. We shared a lot of that, so I won't revisit it too much. Maybe just add a little bit to it.

We are building out the offer, and we talked about that. Generalized, the enterprise offering is focused on providing deeper security and administrative controls and support that IT needs. We talked about some of the expansions of integrations, as well as business rules and admin controls in this quarter.

In terms of large deals, it's early innings with that, but we're starting to see it pay fruit. Two-thirds of the Fortune 500 are already free or paid customers. Some of the world's most valuable customers are some of our largest customers. In Q3, four of our biggest customer expansions were in the Fortune 50. But as we mentioned earlier, we're still only 3% penetrated in the addressable employee base. I would think of it like in those large accounts, we're seeing really strong traction, but it's very early innings still.

Zane Chrane

Got it. Sounds good. Thanks, gents. Happy Holidays.

Operator

Your final question comes from the line of Andrew DeGasperi from Berenberg. Your line is open.

Andrew DeGasperi

Thanks for taking my question. Just one to close it off.

I guess it would be the integrations you made with the communication layer like Slack, Zoom, and others. I was just curious, I know that's still in the early stages, but can you maybe share with us how many users have started using Asana with those tools?

Dustin Moskovitz

I don't think that we have a metric that we're able to share offhand on that. But maybe that's something we can try and set up for the next call.

I do think, like I said, Slack is our most used integration. I know that for sure. The communications integrations as a category are extremely popular. It's very common to using work management side by side with those; and again, it's something I use every day myself. But yes, in terms of actual quantitative stats, I don't have a lot to give you.

Chris Farinacci

Well, maybe something I could add. It's anecdotal, but it's helpful. Slack is the most popular, and Google Microsoft and Zoom are the next most popular of all our integration. I think that gives you a feel for how important communication with that—connection to that communication layer is.

Andrew DeGasperi

Great. Thank you.

Operator

There are no further questions at this time. Catherine Buan, I turn the call back over to you for some closing remarks.

Catherine Buan

Great. Thank you very much. Thank you, everyone, for joining us again today. As always, please feel free to reach out if you have any follow-up questions. We are looking forward to talking to you again soon. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.