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Asana, Inc. (ASAN)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone, and welcome to Asana's Third Quarter Fiscal Year 2025 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there would be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

Now, I'll pass the call over to the Head of Investor Relations, Catherine Buan. Please proceed.

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 third quarter fiscal year 2025. 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 Sonalee Parekh, our Chief Financial Officer.

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

In addition, during today's call, we will 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. This quarter marks a transformative moment for Asana. With the launch of AI Studio, we're officially entering a new era as a multiproduct company. This represents more than just a new revenue stream. It's an entirely new way to create value for customers as AI transforms how work gets done. We believe AI Studio has the potential to eclipse our current revenue scale over time.

The early momentum has been exciting, with significant customer demand across various sectors, including media, financial services, manufacturing, healthcare, professional services, and technology. We're seeing customers experience meaningful productivity gains as they integrate AI directly into their everyday workflows, where it can drive measurable impact at scale.

Beyond these product achievements, we delivered a solid quarter, exceeding our guidance on top and bottom line, highlighted by stability across the board and pockets of acceleration in our most strategic areas.

Total revenues were up over 10% year-over-year, above our guidance and reflecting stabilization of the growth rate versus last quarter. As you know, our tech vertical has been disproportionately impacted by the macro, and our efforts to diversify more broadly into a diverse array of industry verticals are paying off. Non-tech verticals grew faster than overall growth and were up 15% year-over-year, a slight acceleration from last quarter and accounted for over two-thirds of our business. Some of our fastest-growing verticals this quarter included manufacturing and energy, consumer retail and media.

Customer growth showed improving trends. Our Core customer base, as well as our $100,000-and-over customers grew 11% and 18% respectively, both accelerating over last quarter. Retention is also a good story, with stability in gross retention and an uptick in our in-quarter NRR across all customer cohorts. Non-GAAP operating margins improved year-over-year, from an operating loss margin of 6% to an operating loss margin of 4%, as we continue to progress towards non-GAAP profitability.

During the quarter, we continued to execute on our enterprise strategy. We accelerated growth in key verticals, and we marked a significant milestone as we established ourselves as a multiproduct company.

Now let me turn to our progress with customers and the momentum we're seeing with AI Studio. In October, we hosted our Work Innovation Summit in New York, which was a landmark event for Asana. As our largest and most strategic executive event to date, we hosted nearly 1,000 attendees, representing almost 4x growth in attendance since our inaugural Work Innovation Summit a year ago. The major announcement at this event was, of course, AI Studio, an AI-powered workflow builder that empowers teams to design any workflow, embed AI agents without code, and deploy these workflows where their teams are already working. The enthusiasm was palpable, with lines of customers stretching around the room, eager to learn about potential use cases and engage with our team of workflow specialists.

AI Studio leverages our unique Work Graph to deliver AI capabilities exactly where teams work, providing the essential context and structure that AI needs to be effective. Unlike standalone chatbots, with AI Studio, teams can seamlessly coordinate work between humans and AI teammates within their existing workflows, all powered by our deep understanding of the relationships between people, work, and processes.

The key thing to understand about AI Studio is that these are not chatbots. You don't talk to them. These are workflows with AI agents embedded within them that are automatically initiated in reaction to things people are doing, like filling out forms or changing task statuses.

While other AI studios focus on creating agents that are expected to take on a wide variety of tasks and autonomously execute plans, Asana gives you a way to outline an explicit step-by-step workflow that includes pieces that are completed by AI, while being heavily anchored by the human intention from start to finish. This ensures consistent, high-quality results.

It also doesn't require the end user to adopt new behavior with some new AI tool. The AI capabilities are automatically initiated based on the smart workflow that the program manager created. AI Studio is not only elevating Asana's profile at customer meetings, it's unlocking exciting new use cases. It's being leveraged for translating global communications across dozens of languages to autonomously executing complex work requests, to automating creative asset production and more. It also marks a significant milestone as our first product with consumption-based pricing.

Let me walk through that new pricing and how we believe it will drive incremental revenue opportunities. First, there will be a recurring platform fee which includes an initial allocation of credits for variable consumption that's enough to execute hundreds or thousands of workflows per month depending on the use case. When customers identify high-ROI use cases that exceed the base allocation, they can seamlessly scale with additional credit tranches. While we expect most customers to only pay the platform fee, we're already seeing strong evidence from our early access customers that many will scale beyond the base allocation as they discover transformative AI use cases.

What's especially powerful about our consumption-based model is that revenue potential isn't tied to seat-based licensing. We're finding that just a small number of activated workflow builders can create a large amount of value on their own, in contrast with traditional seat-based models, where we need entire teams on board before we can add a lot of value. This fundamentally changes the economics of customer expansion.

AI Studio is also very sticky. Once embedded in critical workflows, it becomes an essential part of our customers' operations, driving both adoption and consumption. This stickiness, combined with the consumption-based model, creates a powerful dynamic. We expect AI Studio revenue from some customers to exceed their Core seat-based license revenue in the near-term, a pattern we believe could extend across our customer base in the medium-term.

The initial adoption and feedback from early access customers have been extremely encouraging. We've already sold paid AI Studio packages to industry leaders in technology, cybersecurity, and financial services. One of our largest enterprise customers moved straight to purchase shortly after seeing the product, bypassing our pilot phase entirely.

It's only been available for weeks, but the momentum within our top 100 customers is remarkable. Each week, we enable a significant number of large customers on AI Studio. We're also seeing strong demand in the mid-market, which is leading us to accelerate our strategy to accommodate them sooner than initially planned.

Let me give you some examples of the transformative potential we're seeing. A leading outdoor advertiser has already created AI-powered workflows across their organization, demonstrating the broad capability of our solution. The impact has been substantial. Their creative team has reduced manual work in request intake by 60%, achieving time savings of 15 hours per request, while decreasing overall request processing time by 69%.

Another example is a mid-market customer that specializes in helping small online businesses grow. Despite already having a wall-to-wall deployment of 700 seats, they're demonstrating how AI Studio can drive significant new value independently of seat count. They've implemented two AI-powered workflows in their IT operations, intelligent ticket prioritization and automated FAQ responses, with over 4,500 workflow executions in just their first month, and now there are over 20,000 workflow executions.

What's particularly powerful about this example is how small IT team is creating leverage across their entire organization. Even with full seat penetration, their consumption-based AI usage represents a substantial new revenue opportunity as they continue to expand their AI-powered workflows. This illustrates our thesis that AI Studio's revenue potential isn't constrained by traditional seat-based metrics, but rather by the value it delivers through automated workflows. We anticipate their rapid adoption will lead to a meaningful expansion of new use cases across their business, which will deliver considerably more value for the customer and substantial new revenue for Asana.

A few of our early customers have shared compelling ROI data from their AI Studio workflows. From our initial qualified examples, customers are saving one hour of work for every $0.01 to $0.05 in cost, including our margin on top of the LLM cost. These early customer examples demonstrate how AI Studio is fundamentally reshaping the value we can deliver for our customers and the growth potential of Asana. As a top analyst at one of the leading research firms said, AI Studio puts Asana at the cutting-edge when it comes to AI in the collaborative work management space. None of Asana's competitors come close.

The launch of AI Studio is part of our broader vision to better serve our customers by evolving Asana from a seat-based pricing model to a flexible, value-aligned approach. To summarize, our pricing will include a combination of seat-based pricing, persona-targeted add-ons, and third, consumption-based pricing from AI Studio. As we scale AI Studio and future add-ons, we expect to see these value-based products take on a larger proportion of our revenue mix compared to our Core seat-based license. We believe this approach will reduce friction for seat expansion, while allowing customers to pay for the specific value they receive.

While we're excited about the early success of the AI Studio and our strategic shifts, we're just getting started. We're scaling our enablement efforts throughout Q4 to support broader adoption. We're now preparing for the general availability launch of AI Studio by the end of Q1 fiscal 2026, which we expect will further accelerate adoption and cement our position as the leader in AI-powered work management.

As we look towards Q4 and fiscal 2026, our primary focus will be on improving our financial efficiency while maintaining strategic investments in growth. We'll reaccelerate growth by investing in our highest-impact areas: elevating customer success through deeper engagement in mission-critical use cases that span across departments and organizations; winning new customers, especially in our key verticals such as manufacturing, consumer retail, healthcare, and now government, with our recent commitment to FedRAMP; accelerating revenue growth with new add-ons and services. This cross-sell will help expansion as well as stickiness.

I'll also reiterate that we're committed to sustained positive free cash flow by the end of Q4. We'll achieve this by further optimizing our investment allocations across all of our operations, which Sonalee will talk about more in a moment.

And with that, I'll turn things over to Anne.

Anne Raimondi

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

Thanks, Dustin. As Dustin mentioned, our success with the Work Innovation Summit programs in New York and around the world is an important milestone in our journey upmarket. With almost 1,000 attendees, including customers, partners, investors, analysts, and press in New York alone, it was the most successful event in Asana's history so far.

The event showcased our commitment to innovation and our ability to deliver cutting-edge solutions that meet the evolving needs of modern enterprises. In addition to our AI Studio announcement, we unveiled new innovations like our new strategy map, a powerful visualization of the Work Graph, which shows how all of the work happening inside an organization ladders up and contributes to companywide goals. We also unveiled our new view-only licenses to expose even more team members to the power of Asana. And finally, we introduced new executive reporting and request tracking and work intake capabilities, which strengthens a use case that one-third of our Asana customers rely on us to power.

We received significant media coverage on our launch of AI Studio, new thought leadership from our Work Innovation Lab, and our innovative approach to embedding AI directly into workflows where the work happens.

Building on this success, we brought the Work Innovation Summit experience to Europe in November, with events in London and Frankfurt, where we saw huge enthusiasm for AI Studio and all of our latest innovation from our customers. I'm constantly inspired by how our platform is transforming work for global enterprises.

For instance, the Chief Marketing Officer from a leading European technology company shared how Asana helps ensure their teams stay strategically aligned on initiatives that drive measurable business outcome. They also highlighted Asana as the only AI vendor they trust and have approved for deployment, citing our approach to transparency and our work with multiple LLMs that aligns with European data security requirements. This type of validation reinforces why these events are critical to our upmarket strategy, allowing us to engage with enterprise decision-makers, drive pipeline, and strengthen relationships with our key customers across different regions.

Turning to Q3, we believe that our execution machine is now coming online. As Dustin mentioned, verticals such as manufacturing and energy, consumer retail, and media saw an uptick in growth, and non-tech led overall growth, up 15% year-over-year. Also, our in-quarter NRR up-ticked this quarter across all of our major cohorts, while gross retention has remained stable.

Another indicator I look at is multiyear deals. We had another record number of multiyear deals as customers make longer-term investments with Asana. Our customers are increasingly looking to us as their strategic advisor on AI transformation. What sets us apart is our unique approach: transparency in how AI is deployed, structured workflows that integrate AI directly into existing processes, and the quality of the output, thanks to the power of our Work Graph data model. Our compatibility with multiple LLMs, our enterprise-grade security, and privacy controls position us as a trusted partner for organizations with strict internal AI guidelines. This is especially differentiated compared to point solutions that lack the structured content needed to glean critical business insights, require end users to adopt new tools or behaviors that are disconnected from their existing workflows or lack data transparency and privacy controls.

Most importantly, AI has proven to be a powerful way to gain executive mindshare, and these executive conversations are leading to longer-term partnerships, as evidenced by our significant increase in multiyear deals this quarter.

Now, turning to customer wins in Q3. Our multiyear deals and expansions are pointing to the types of longer-term partnerships we are forming with large, strategic enterprises. Within the manufacturing and automotive industry, KW Automotive, the market leader in customized suspension solutions for race cars and road vehicles, selected Asana to be the platform to manage all of their work. They will use Asana to monitor and report on the company's goals, manage resources and monitor workloads, and drive better collaboration and communication between teams.

In the consumer retail vertical, a leading premium footwear and apparel brand that you all know and probably wear yourself, uses Asana across their company. And this quarter, they expanded their use to manage new store openings, pop-up stores, and workplace projects with more than 10 other departments.

We also had a key win in the healthcare industry. A leading managed healthcare services company expanded its use of Asana within its Medicaid segment this quarter, increasing their TCV to well over $1 million.

And we continue to see growth within the cybersecurity industry as well. CrowdStrike expanded their use of Asana this quarter. They have been an Asana customer for several years and signed another multiyear agreement. And 1Password, the leader in extended access management, chose Asana for their work management needs because of our ability to scale and flexibility to meet their unique needs. This was a competitive replacement onto our enterprise-grade platform.

And around the globe, we are also seeing great wins. In Japan, for example, NTT East Japan, one of the most prominent telecommunications companies in the world, expanded its use of Asana. This was a channel deal executed through our local partner to support NTT's digital transformation. Also, one of the largest shipping companies in the world headquartered in Japan upgraded to our enterprise tier and expanded its use across their technical development and systems development divisions this quarter.

As you can see, we continue to expand and build deeper relationships with some of the largest and most strategic companies in the world, and we will continue to build on these successes.

Today, we're focused on several key initiatives that will help us develop and transform our business. First, building on excitement around AI products to improve account engagement and adoption. Second, focusing on strategic industry verticals to further diversify our business. Third, investing in a more consistent post-sales experience to improve retention and drive expansions. And last, improving our velocity by further streamlining sales processes. In fact, we recently rolled out a new seller experience initiative, with Asana, of course, across seven global locations, which introduces enhanced deal execution capabilities and simplified sales processes to help our sales teams be more effective. The initial response has been strong, with the majority of our account executives and managers already trained on these new capabilities. We're seeing early signs that these improvements are helping accelerate our business in key segments.

In summary, our strategies are designed to drive expansions in both seats and now cross-sell, deepen our customer relationships, improve retention, and ultimately grow ARR. And with AI joining the team, we can deliver even greater value to our customers. We're excited about the path ahead and confident in our ability to execute on these initiatives.

And with that, I'll hand it over to Sonalee.

Sonalee Elizabeth Parekh

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

Thank you, Anne. Thank you, Dustin. And thank you to the entire Asana team for such a warm welcome. In my first 90 days, I've immersed myself into the business and built critical partnerships across the organization. Here are some initial observations.

As a daily user of Asana, I have experienced firsthand the power of the platform. By aligning my team's work with the overall goals of the company and strengthening the coordination and engagement with my team, I have been able to free up a significant amount of my time from manual work, which is leading to more impactful work. I hear this same feedback from the many customers I have had the chance to speak with thus far. Our value proposition is clear, and the benefits our customers are realizing from using Asana are significant and demonstrable.

The pace of innovation at Asana is rapid and focused. The combination of new features and targeted use cases being introduced in the Core platform and the launch of AI Studio unlocks new TAM, increases the value proposition and stickiness of our offering. Our investments in go-to-market and our transition upmarket are beginning to pay off and are positioning us well to capitalize on the large and growing market opportunity in front of us. We are just starting to scratch the surface with respect to channel-led growth, traction in key verticals, and becoming a multiproduct company.

Asana has the ability to reaccelerate growth while both materially expanding operating margins and scaling free cash flow. I am confident in this, given the operating leverage I see to drive efficiency and increase productivity of spend throughout the business. I'll share more in a moment on the initial levers we are targeting to expand margins.

Let me highlight the financial results for the third quarter, and then comment more on outlook and plan. Q3 revenues came in at $183.9 million, up 10% year-over-year. We have 23,609 Core customers, or customers spending $5,000 or more on an annualized basis. Revenues from Core customers grew 11% year-over-year. This cohort represented 75% of our revenue in Q3, up from 74% in the year-ago quarter. We have 683 customers spending $100,000 or more on an annualized basis, and this customer cohort grew at 18% year-over-year. As a reminder, we define these customer cohorts based on annualized GAAP revenues in a given quarter.

Our overall dollar-based net retention rate was 96%. Our dollar-based net retention rate for our Core customers was 98%. And among customers spending $100,000 or more, our dollar-based net retention rate was 99%. As a reminder, our dollar-based net retention rate is a trailing four-quarter average calculation, and thus a lagging indicator. However, it's important to highlight the in-quarter trends as we go through this transition. Our in-quarter dollar-based net retention rates are stabilizing and Q3 dollar-based net retention rates were slightly better than Q2.

As I turn to expense items and profitability, I would like to point out that I will be discussing non-GAAP results in the balance of my remarks. Gross margins came in at 89%. Research and development was $54.9 million or 30% of revenue. Sales and marketing was $88.7 million or 48% of revenue. G&A was $28.5 million or 16% of revenue. Operating loss was $7.6 million and our operating loss margin was 4%. Net loss was $4.8 million and our net loss per share was $0.02.

Moving on to the balance sheet and cash flow. Cash and marketable securities at the end of Q3 were approximately $455.3 million. Our remaining performance obligations, or RPO, was $405.7 million, up 21% from the year-ago quarter. This is a reacceleration from last quarter driven by multiyear deals. 82% of RPO will be recognized over the next 12 months. That current portion of RPO also reaccelerated and grew 17% from the year-ago quarter. Our total ending Q3 deferred revenue was $282.1 million, up 10% year-over-year.

Q3 free cash flow was negative $18.2 million or negative $10% on a margin basis. We expect positive free cash flow in Q4.

We repurchased $55 million of our shares in Q3 at an average price of $12.23 per share and have $75 million remaining in our authorization. This has been a great ROI for us. We remain committed to investing in our growth and managing dilution while returning excess capital to shareholders via share repurchases.

Moving to guidance. For Q4 fiscal 2025, we expect revenues of $187.5 million to $188.5 million, representing 10% growth year-over-year. We expect non-GAAP loss from operations of $6.5 million to $5.5 million, representing an operating margin of negative 3%. And we expect non-GAAP net loss per share of $0.02 to $0.01, assuming basic and diluted weighted average shares outstanding of approximately 229 million.

For the full fiscal year 2025, we now expect revenues to be in the range of $723 million to $724 million, representing a growth rate of 11% year-over-year; non-GAAP loss from operations of $46 million to $45 million, representing an operating margin of negative 6%; and non-GAAP net loss per share of $0.15 to $0.14, assuming basic and diluted weighted average shares outstanding of approximately 229 million.

While the macro continues to be a headwind to sales cycles, and in the tech sector in particular, we believe the investments we have made in the platform and our go-to-market motion are leading to stabilization in our revenue growth and early signs of the potential to reaccelerate growth. We see that with our in-quarter NRR improvement, growth in our $100,000-and-above and Core customer segments, pipeline and early adoption of AI Studio, and traction with the channel.

While we are still in the midst of our planning and are heads-down executing to drive a strong finish to fiscal year 2025, for next year, we will be focusing on revenue growth and material operating margin expansion on both a GAAP and non-GAAP basis.

Anne shared some of the levers for growth acceleration. The areas I am seeing thus far to drive efficiency and productivity benefits include, one, NRR expansion. It is much more profitable to keep a customer than acquire a new one. And the investments we are making in improving the user experience, including onboarding, pricing and packaging, and new features will help drive improvement in both gross retention and the ability to expand with our customers over time.

Two, in R&D. Our investments in R&D have enabled us to deliver enterprise-grade capabilities years ahead of the competition and differentiate through the Asana Work Graph, scalability, and enterprise readiness. That said, we have an opportunity to optimize resources by geographic locations such as Warsaw and Reykjavik, where there is tremendous talent. In addition, we have the opportunity to consolidate AI into the Core product, allowing us to capitalize on the opportunity with AI Studio without significant new R&D head count.

Three, in sales and marketing. We have the opportunity to leverage our existing resources and accelerate growth. We are focusing on the routes to market and marketing channels that maximize efficient growth.

Four, in G&A, we can drive more automation throughout the functions and grow and scale G&A head count in lower-cost geographies. In addition, there is a large opportunity to reduce our non-head count spend by optimizing and rationalizing third-party and discretionary spend.

Dustin, Anne, and I are focused on building and executing on a long-term plan that allows Asana to reaccelerate growth while materially expanding profitability. A key principle of this will be to grow revenue significantly higher than operating expenses, while reducing dilution. I look forward to sharing more next quarter on our fiscal 2026 plan.

And with that, operator, we are ready for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you so much. [Operator Instructions] And it comes from the line of Josh Baer with Morgan Stanley. Please proceed.

Josh Baer
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks for the question. And welcome, Sonalee. Thanks for all the commentary on leverage into next year. Want to come back to AI Studio, though, and the business model there with the platform fee, consumption credits. All that's really exciting. Appreciate how that's going to change the economics of customer expansion. So I'm wondering what your expectations are on seat growth and that trend for existing customers. On the one hand, is there a potential for headwinds to seat growth just from all the value from AI and AI Studio? On the other hand, is there an opportunity as that opens up new use cases for broader expansion? Thanks.

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

A

Hey, this is Dustin. Thanks for the question. Definitely something we're thinking a lot about. But I think that the headwinds part of this doesn't manifest for a while longer, like the initial use cases we're seeing are often sort of net new things that they weren't doing in Asana before, or in a couple cases, things that they were using contractors for that wouldn't have had Asana licenses. So, it feels incremental. Additionally, we still have quite a lot of under-penetration in our existing customer base. So, even if there are changes to head count overall, that doesn't mean we're out of expansion opportunities on the seat side or that – yeah, or that that results in removing an Asana license.

But then to your last point, yeah, it could also be a tailwind for seat expansion. A couple of the initial deals that we've seen have kind of taken that shape. We've talked in recent quarters about sales cycles lengthening, especially for the larger enterprises. And this could be a way to sort of unstick some of those conversations. You get both the AI Studio sale and the seat expansion.

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

A

Yeah. Josh, I'll just give a – it's Anne. I'll give an example. We – one of our customers that was part of our pilot program for AI Studio and had been implementing workflows and seeing the benefit already just did a three-year renewal with us with seat expansion. It's a combination of seeing the value they are already getting in AI Studio and seeing the incremental workflows that they want to roll out across their organization to even more teams. So, again, early, but that was a great example where a customer had seen direct value, and then as part of growing with us, committed to a significant number of incremental seats.

Sonalee Elizabeth Parekh
Chief Financial Officer & Head-Finance, Asana, Inc.

A

And if I can just add one thing...

Josh Baer
Analyst, Morgan Stanley & Co. LLC

Q

Thank you, both.

Sonalee Elizabeth Parekh
Chief Financial Officer & Head-Finance, Asana, Inc.

A

...oh, sorry, if I could just add one thing there. I think in terms of benefits, we also see AI Studio as being not just incremental but also helpful in terms of expansion and stickier customers. So, not only do you get the upsell, but you also get a stickier customer and a higher lifetime value.

Josh Baer
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: Thank you so much. Our next question comes from the line of Rob Oliver with Baird. Please proceed.

Rob Oliver
Analyst, Robert W. Baird & Co., Inc.

Q

Great, and thank you. Good afternoon. And also, Sonalee, welcome from me as well. My first question is for Dustin or Anne. I'd be curious if you guys could talk a little bit about you mentioned and, Dustin, some bold numbers relative to the opportunity for AI Studio versus the current seat-based business. So, clearly, some of the signs you're seeing are pretty exciting internally. Can you talk a little bit about if the – what the early drivers are of use cases internally? Are you seeing any benefit from, say, for example, the rollout of view only and the rollout of the AI Studio and workflow builder where it enables a broader subset of perhaps non-seat-based users to leverage Asana's AI technology? Any color there would be helpful. And then I had a follow-up for Sonalee.

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

A

Yeah. So, this is Dustin. The initial thing we're seeing is really customers are taking existing workflows and adding AI Studio automations to them. And so, that ends up being really sticky because it doesn't require a behavior change. You might have a workflow that starts with a form being filled out or perhaps an alert coming from a system you're integrated with. And then that triggers an AI interaction. And so, it doesn't require – unlike a chatbot, it doesn't require people to kind of come back to it, remember to use it again. It's just part of the existing workflow that that's sort of been lit up. So, a lot of the use cases have looked like that.

And then the thing that's exciting, it's sort of a hard thing to get at, but one of the things we saw when we were using it ourselves internally is there were just a few people in the organization that kind of got like the bug. They figured out that this was a power tool they could take to many different use cases and started activating many,

many different workflows. And the customers that are jumping out to me, can literally see them kind of pop out of the charts, have one of those people internally, somebody who tried it, had their eyes-light-up moment, found a powerful workflow, and then kept expanding.

So, one of the ones I mentioned earlier in the call did 4,500 workflow executions in their first month. Now, they're up to over 20,000. And the reason they had multiple ones is they're part of the pilot. So, they're sort of like further in the funnel than everybody who's joined since the Work Innovation Summit. And so, that's a really good sign because there's only a handful of companies that were in the pilot. And to see one really compounding their usage week-over-week, and finding more and more use cases, and getting into an amount of usage that's clearly beyond the platform fee is hopefully a sign of things to come for the others once they get into their second and third months.

So, really seeing that sort of viral activation with an individual customer and really seeing the leverage of it really only takes one builder or two builders to create a tremendous amount of value and results in a big incremental revenue opportunity for us. So, I do think view only will help in the long run to give us even more opportunities for that kind of value creation, but to some extent, you don't actually need a lot of the people in the organization to be involved in an AI workflow for it to be very valuable.

Rob Oliver

Analyst, Robert W. Baird & Co., Inc.

Q

That's very helpful. Thank you for that, Dustin. And then, Sonalee, just one for you, and I appreciate that we're going to get more detail on this headed into FY 2026, and appreciate you laying out some of the points of leverage that you see. One of the ones you mentioned was sales and marketing, and I'd just be curious for your initial perspective there. Asana's a company that, after hiring Ed and Anne, I think have been trying to move upmarket and do more at enterprise, nice, and then work with partners. I know you guys called out a nice partner-led win, I think it was in Japan or Asia as well. So, clearly, there's momentum there. Great logos, you guys have added.

On the other hand, there's a lot going on, and it now seems like the sales force may have to add a new skillset of selling consumption in addition to selling logos and seats. So, just curious just how you might think of that from a high level, knowing we'll get more detail next quarter. Thank you very much.

Sonalee Elizabeth Parekh

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

A

Yeah, thanks. And you're absolutely right. It's a bit early to sort of guide specifically, but I can speak to it in general terms. And it's a great question. We do believe we can achieve great traction from AI Studio by leveraging our existing resources and driving productivity benefits to scale AI Studio. And that's both from a go-to-market perspective, but I'm also – you didn't ask, but I'm going to also add in R&D perspective.

And then, you heard me in my prepared remarks call out there are many other opportunities that I've identified for operational efficiency across marketing program spend, even the way where our employees sit today, the high-cost/low-cost employee mix, contractor spend, salesforce productivity, and all of those things combined, I believe, can drive significant margin expansion as we look ahead. But as you said, more to follow when we provide full-year guidance at the end of the year.

Operator: Thank you. One moment for our next question. That comes from the line of Brent Bracelin with Piper Sandler. Please proceed.

Brent A. Bracelin
Analyst, Piper Sandler & Co.
Q

Thank you. Good afternoon. Anne, wanted to start with you here. The Q4 guide would mark the third straight quarter of 10% growth. That certainly implies stabilization in the business. Wanted to drill down into the non-tech part of the business where you're seeing some momentum here and improving growth. Can you frame the non-tech pipeline activity that you're seeing, and maybe provide a little color on the type of and profile of non-tech deals? Is this a broader number of smaller non-tech lands? Are you starting to see large enterprise non-tech lands? Walk us through what's driving the momentum there and stabilization overall. Thanks.

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

Yeah. Hi, Brent. Thanks for that question. Yeah, I think where we're seeing that traction in non-tech wins and growth is really the investments that we've been making in going deeper in verticals, in particular manufacturing, retail, healthcare, energy, and government. And so, a lot of that focus, it's both the larger enterprises and going deeper with them and building longer-term relationships. But all of that work also cascades into the mid-market. The more that we are really tailoring how customers in these verticals can get direct value quickly from Asana, like that has a halo effect down-market as well.

And then, we've shared that we are making investment and commitment to FedRAMP. I think that is going over really well, not just only with government, but also with agencies – not just the government agencies, but also with sectors that are heavily regulated. So, I think that's also going to have a great effect for financial services and our healthcare customers. So, all of that, we're going to continue to focus on. But it's really been those deep investments in the verticals, and the team in particular in our AMER region that's really been piloting and then expanding how we approach our vertical customers.

Brent A. Bracelin
Analyst, Piper Sandler & Co.
Q

Helpful color there. Sonalee, for you, I know it's early and really look forward to hearing more about the cost rationalization plan, but you do have a bogey here for Q4. Can you walk us through the path to positive free cash flow? I ask because there was an $18-million burn here in Q3 and I'm just trying to think through the rationalization and ability to get to positive free cash flow here in Q4.

Sonalee Elizabeth Parekh
Chief Financial Officer & Head-Finance, Asana, Inc.
A

Yeah, sure. So, as you saw, there was some positive movement on sales and marketing and R&D spend in the current quarter. And part of that actually was due to the timing of some of our hiring. But we do expect to get a continued benefit there again in terms of timing of hires, which is helpful. And then secondly, there are steps we've already started taking around some rationalization of spend, third-party spend, which you should see come into Q4. But what I would really urge you to do is, Q4, we've reiterated the positive free cash flow, but I think where you'll really start to see the meaningful improvements in operating margin and cash flow is as you look ahead to next year, where we'll provide more detail in March.

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

Yeah. And this is Dustin. I just wanted to add on to that. I mean, we're really looking at – free cash flow is always a little bit lumpy, so we're really looking at the progress on the operational leverage and how things trend from here into next year. So, feel good about Q4 but the real goal is to build up a margin through next year, not to just arrive at the free cash flow.

Operator: Thank you. One moment for our next question. That comes from the line of Steven Enders with Citi. Please proceed.

Steven Enders
Analyst, Citigroup Global Markets, Inc.

Q

Okay, great. Thanks for taking the questions here. I guess, I want to go back to AI Studio, but maybe ask more about how that maybe comes together from a model perspective. And I guess it sounds like it's maybe beginning to have an impact on revenue today. But can you just maybe help us think about what the timeline would potentially look like for monetization and how you're kind of thinking about that? And if maybe we're seeing any impacts to numbers today, either in RPO or some other of – some of the metrics here?

Sonalee Elizabeth Parekh
Chief Financial Officer & Head-Finance, Asana, Inc.

A

Hi. It's Sonalee here. So, you're absolutely right. At the moment, it's very, very small. Not material at all. But in terms of as we look forward, obviously, the growth will be substantial, but off of a very small base, so you won't really see any meaningful impact in Q4. But we're extremely encouraged by what we're seeing from a usage, engagement. Dustin and Anne both talked about the diversity of the use cases and early customer feedback on the benefits they're seeing and the ROI that they're driving. And I think more and more of our top customers are using it every day. And so, we're really encouraged. But to actually see it come through and be a meaningful contributor to revenue, that will take time.

And the only other thing I would call out is we see AI Studio as being a very big mitigating factor to some of the challenges we've seen in upsell in the current macro. And we see this as one of – the third leg of the upsell stool, so to speak, and not only will we see the benefits on upsell and cross-sell, but I'm going to come back to my point earlier about these customers likely to be much stickier, and again a factor in helping us not only stabilize but improve net retention over time.

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

A

And I just want to add on something there, too, of we've talked a little bit about early access versus general access. So, right now, the product is kind of in this in-between state of we've exposed it just to our enterprise customers and we're not really marketing it and we're not doing any sort of like outreach for it at all. We've just sort of got the select early adopters we thought could be most successful early. But we were honestly surprised, we found customers engaging that weren't part of that group. We thought it would be very focused on our largest customers, but we're seeing a lot of smaller ones engage and they can actually move a little quicker. And so, we shifted our strategy for Q4 to try and sort of bring more of what we plan to release in GA earlier so that we could actually start selling it to customers now.

But just in terms of timing, I think Sonalee is absolutely correct. It's not going to show up in revenue in Q4. I hope at the next earnings call we'll have some other kinds of stats for you about the forward-looking commitments that we'll have signed by then. But yeah, I think Q1 is when I hope that it'll really start adding to the growth rate. And I'm also excited because, as an add-on, it will kind of flow straight through to NRR and should be a huge tailwind for all next year, building quarter-over-quarter.

So, yeah, Q4, I want to soften expectations on it sort of showing up in any of our top line numbers, and I think that's reflected in our guidance. But we're really learning quite a lot week-over-week about how much demand there is, how high the willingness to pay is, and we've been surprised in good directions. And so, I think with another 12 weeks of those learnings, we should be able to have a much more calibrated model ourselves for guidance and be able to give you more details about that timing and the exact trajectory.

Steven Enders
Analyst, Citigroup Global Markets, Inc.

Q

Okay, perfect. No, that's great to hear and helpful context there. I guess if I could squeeze one more in here. And just on net retention, good to hear it stabilize in-quarter. I guess, when should we maybe begin to see that impact some of the reported net retention numbers and begin to see that metric stabilize a little bit? And I guess if we kind of peel back the – some of the underlying metrics of net retention, I guess, what is it that's helping support that? Is it just kind of fewer down-sells on the tech side and kind of getting through that? Or are you starting to see a little bit more of an expansion initiatives support those metrics there? Thanks.

Sonalee Elizabeth Parekh
Chief Financial Officer & Head-Finance, Asana, Inc.

A

Yeah. So, I'll take that one. I think one point I would make, and you've heard us make this point before, we're lagging some tough comps. So, as those fall off, it becomes easier – sorry, lapping tough comps, so that over time that just shows improvement from those falling off. Then we've also made and talked about some post-sales investments which are starting to pay off and that should continue to drive improvement. And then of course, AI Studio over time, like going back to my point about it's upsell and cross-sell, and ultimately a tailwind to net retention.

And the other thing I would say is we've been talking about the non-tech, what we've seen there, which has been really encouraging, but also we've seen a stabilization in the tech vertical as well, which is about 15% of our business or so – or sorry, a third of our business or so. So, I think those all combined together will help to ultimately drive the overall net retention number up.

Operator: Thank you. One moment for our next question. That comes from the line of Michael Funk with Bank of America. Please proceed.

Michael J. Funk
Analyst, BofA Securities, Inc.

Q

Yeah. Thank you for the questions tonight. First one for you, Dustin, and thank you again for the details on AI Studio. And good to hear that it's going as well or better than expected. You mentioned some early learnings on power users and enterprises. And so, just wondering how these actual and projected usage trends are affecting your thoughts around pricing, token bucket size, and how you might ingest that over time, trying to kind of weigh in and balance profitability.

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

A

Sorry, I don't know if I'm getting the salience of your question. What – you're asking about like what margin where we're building into.

Michael J. Funk
Analyst, BofA Securities, Inc.

Q

Yeah. No, I mean, even prior to that, you had mentioned that the initial launch, you'd have buckets of credits that you could sell, the incremental tranche is for heavier users. But then later, you mentioned that you've seen power users at some specific early adopters and even internally. So, just wondering how that's influencing your thought about the sizing of those buckets and the pricing if you try to project usage patterns across your customers.

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

A

Well, I think generally the reason we designed the pricing system this way is I was really expecting a power law of distribution of how customers use workflows. So, some customers really stand out and maybe will be spending six figures on incremental consumption next year. And so for them, the bucket sizes are kind of irrelevant. I mean, they will be buying some number of tranches, but really will be calibrating to the overall volume.

The sort of unit size we're landing on right now is about $500, just to give you a sense of the increments and how big the tranches will be. But we really expect most customers, we really designed the platform fee in the included credits to really handle most customers. So, there was a question earlier about [ph] sales selling (00:51:48) consumption. I think they're mostly, in terms of the number of deals, going to be selling a sort of platform fee for an add-on. And then hopefully within each book, there will be some customers that are standing out and getting into the incremental credit conversations. And I think those will look like similar in sort of negotiated terms from other consumption-based businesses. So, looking out over a quarter or multiple quarters at a minimum commit and agreeing to a volume discount, things like that.

But we're not – this is sort of in contrast to, if you're using the labs, APIs directly and we're literally paying sort of ala carte metered costs, it doesn't really work like that. So, I don't think anything is inconsistent with how we built it. And really, I think all the assumptions were quite validated.

Michael J. Funk
Analyst, BofA Securities, Inc.

Q

Great.

[indiscernible] (00:52:44)

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

A

...oh, I just wanted to add, a reason we designed it was really based on the feedback from our pilot customers. We designed it so that we could both meet customers' desire to have budget predictability, but then also their enthusiasm and excitement to try, and not only try, but deploy AI Studio across many different diverse workflows. Our ability to allow customers to choose which LLMs to be able to transparently see what was working and the results that they were getting and then to be able to measure their ROI was well-matched to having a predictable platform price. And then for those customers that are seeing outsized value, then their willingness to pay and increase through tranches was then matched.

But as Dustin said, our anticipation is the vast majority of customers are going to get a ton of value just through the platform. And that – and then they can really predict the budget over – certainly over the next period of time. And that was something that they shared with us was lacking in other offerings that they were either considering or had already had negative experiences with.

Michael J. Funk
Analyst, BofA Securities, Inc.

Q

And one more, if I could, please. Hey, Sonalee, how are you doing?

Sonalee Elizabeth Parekh
Chief Financial Officer & Head-Finance, Asana, Inc.

A

I'm great.

Michael J. Funk
Analyst, BofA Securities, Inc.

Q

Good to talk to you again. You mentioned NRR improving during the quarter, and I heard the add-in comments on some of the reasons for the improvements. But do you believe the improvement is now sustainable, that we're on an upward trend? Or will there be some quarters maybe where some of those factors once again weigh on NRR on a quarterly basis?

Sonalee Elizabeth Parekh
Chief Financial Officer & Head-Finance, Asana, Inc.

A

Yeah. So, I think my comments around NRR, particularly in-quarter NRR, I do expect that to continue to improve, the in-quarter. The overall NRR, obviously that's a four-quarter trailing. So, if you look four quarters back, there are still some very high NRR numbers in there. As those come off, the overall NRR number should start to improve. But I think, yes, confident that the in-quarter NRR numbers should continue to improve. And that's because of all the reasons we've called out and AI Studio definitely being one of those.

Operator: Thank you. One moment for our next question. That comes from the line of Brent Thill with Jefferies. Please proceed.

Brent Thill
Analyst, Jefferies LLC

Q

Thanks, Dustin. Maybe if you could just give us your sense of what was happening over the next six to nine months in terms of the demand environment. It feels like things are getting better, routes are opening up. That seems a little better. And it seems like tech is starting to feel like it's come back a bit. I know you haven't commented, but can you just characterize what you're seeing also on the just tech-specific installed base and what you're seeing there?

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

A

Yeah. I don't think we're seeing as rosy a demand change as you're implying there. I think what we're seeing is mainly things feel stable. They've bottomed out. And depending on the maybe subsector, there's some areas of strength. But yeah, I don't know, I think on the macro side, I generally think there's a lot of volatility and it's going to be hard to predict. The Fed looks good now, but maybe there will be different inflation expectations over the next few months. So, I'm not really banking on the – a sort of like bullish year next year from a macro perspective. I think the strength we're signaling is really about the things we can control and being able to be in the market with multiple products.

Brent Thill
Analyst, Jefferies LLC
Q

And inside tech, how would you characterize that base?

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

Yeah. I mean, that's kind of what I was getting at with the subsectors. I mean, obviously, if you're an AI company, you're hiring quite rapidly and you have enormous budgets. And if you're maybe at the risk of being disrupted by an AI company, things are maybe harder. And I certainly think a lot of the sort of pre-public companies still seem like they're struggling with budget constraints. But that's just sort of, yeah, impression from talking to entrepreneurs mostly, rather than talking to customers, and not very much like a Silicon Valley sort of take on tech as well. But yeah, I don't quite see the RIP bad time signal yet.

Operator: Thank you. Our last question comes from the line of Lucky Schreiner with D.A. Davidson. Please proceed.

Lucky Schreiner
Analyst, D. A. Davidson & Co.
Q

Thanks for taking my questions. Congrats on the quarter and looking forward to working with you, Sonalee. I wanted to follow up on the macro question, actually. Last quarter, you called out a little bit of a tougher macro on longer sales cycles, but it sounds like that might be starting to flip a little bit. You mentioned the customers skipping their [ph] TLC (00:57:59) entirely. What's your sense on where sales cycles might be going? Is it fair to say that they're starting to contract a little bit more?

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

Yeah. It's Anne. I'll answer that question. Quarter-over-quarter, I think we're still seeing the sales cycles remain about the same. But for us, I think it's that we've got a better understanding of the landscape, definitely better pipeline inspection driven by our GMs and our sales management. And so – and certainly, we've focused a lot on improving our consistency and speed in deal closure, especially for our larger deals. So, I would say quarter-over-quarter, while we think that macro backdrop hasn't changed significantly, our go-to-market execution is definitely improving. And so, that's what we've been focusing on.

Lucky Schreiner
Analyst, D. A. Davidson & Co.
Q

Great. And then, Sonalee, I know it's early, but to the extent that you can say, of the three key areas you talked about for efficiencies, is there one that stands out as maybe the biggest opportunity for margin expansion?

Sonalee Elizabeth Parekh
Chief Financial Officer & Head-Finance, Asana, Inc.
A

I would say they're – it's quite evenly spread out. I think in terms of driving productivity, sales and marketing probably stands out more than anything. But as I said, we see opportunities, Dustin, Anne, and myself, across the board and we are going to be diving deep in all areas. So, watch this space.

Lucky Schreiner
Analyst, D. A. Davidson & Co.

Q

Got it. Thanks for taking my questions.

Operator: Thank you so much. And this concludes the Q&A session. And I will turn the call back to Dustin for his closing comments.

Dustin Moskovitz

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

Yeah. Just a real quick one here before we end the call. Just wanted to recognize that this is Catherine's last earning call with us, as she's moving on to another adventure. It's truly been a pleasure working with her over the past few years. So, thank you to Catherine for her many contributions.

Catherine Buan

Head-Investor Relations, Asana, Inc.

Thank you, everybody. Thank you so much, Dustin, and thanks to Anne, and thank you to Sonalee. It's a pleasure to be here, and an honor, absolute honor. The last 4.5 years have been wonderful. Thank you. And we'll hope to see you guys all soon on the road.

Operator: And thank you all who participated in today's program. And you may now disconnect.