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Asana, Inc. (ASAN)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and thank you for joining the Asana First Quarter Fiscal Year 2024 Earnings Call. My name is Kate and I will be the moderator for today's call. All lines will be muted during the presentation portion of the call, with an opportunity for questions and answers at the end.

I would now like to pass the call over to our host, Catherine Buan. You may 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 first quarter fiscal year 2024. With me on today's call are Dustin Moskovitz, Asana's Co-Founder and CEO; Anne Raimondi, our Chief Operating Officer and Head of Business; and Tim Wan, our Chief Financial Officer.

Today's call will include forward-looking statements, including statements regarding our expectations for free cash flow, our financial outlook, strategic plans, 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, 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 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. Asana had a good first quarter. Q1 revenues grew 26% year-over-year, customers over $100,000 grew faster at 31%, and non-GAAP operating margins had a 30-percentage-point improvement year-over-year.

Our growth continues to be fueled by some of the largest and most strategic companies in the world. In Q1, we closed and expanded some of our largest deals across industries such as media, professional services, healthcare, logistics, and financial services.

Our largest deployment is now at 200,000 paid seats. We're really excited about this partnership and how much impact we've had across their organization. And this is still the beginning of what's possible here. As far as we know, this is the largest deployment of collaborative work management from any provider.

Our strategic customers are partnering with Asana to define what work management at scale looks like. These partnerships will be particularly critical, as we move to the next generation of work management, which I'll talk more about in a moment.

Despite more budget scrutiny in enterprises, our win rates remain strong. We continue to see an increase in multiyear commitments year-over-year.

In Q1, we made great progress on improving our non-GAAP operating margins. We expect to build on this momentum and drive significant improvement in non-GAAP operating margin this year, as we focus on operational efficiency and growth, which Tim will talk about more.

It's been a good start to the year and we continue to focus on our enterprise playbook, improving sales productivity and bringing on enterprise leadership.

I know that artificial intelligence is top of mind for everyone, so let me start with that topic. I have been personally passionate about the short and long-term opportunities, as well as the complex implications to society. In fact, through the foundation that was started by my wife and I, we've been studying the risks and opportunities around advanced AI for years. Furthermore, some of the top AI companies are Asana customers and partners. So as you can imagine, my interest level and involvement is both deep and broad.

At Asana, we've been laying our AI foundation and building blocks for the past 15 years, recently powering some of our features with machine learning. The more recent and rapid developments in AI play into Asana's core strengths. AI can now significantly accelerate our ability to achieve our mission of helping humanity thrive by enabling the world's teams to work together effortlessly. The large language models fit even better into our vision than I imagined, and the evolving dynamics around AI highlight the benefits of the Asana Work Graph®. We're moving quickly to realize the possibilities.

With the Asana Work Graph, we already have the most complete picture of work in organizations, giving us the ability to help our customers drive business outcomes. The Work Graph is also the underlying technology that makes it easy for us to facilitate human-to-AI collaboration. This means AI can join our customers' teams with the confidence that Asana will keep data secure and available.

Quality of data is essential. Our data model provides a single source of truth and connects all of the units of work to higher level portfolios and goals. These connections are especially important to ensure the accuracy and usefulness of Asana AI recommendations. It helps AI understand organizations so the recommendations are clear, actionable and continuous, while the structured nature of the Work Graph enables teams to ensure the reliability, accuracy, and traceability of generative output.

Customers are eager to use AI to make better decisions and maximize impact. Asana is adopting the best of AI capabilities for them, so that it's easy to start making use of these exciting new technologies with the security, data, and privacy they expect. In other words, we, Asana, can become our customers' AI strategy.

Starting today, I'm pleased to formally announce Asana Intelligence. With Asana Intelligence, AI has officially joined your organization to help you work together more effectively and efficiently. In fact, many of our AI capabilities are already in the hands of our customers. These include machine-learning-powered productivity enhancers such as priority inbox and priority tasks, designed to help you discover and focus your attention on the most relevant work, including what's high priority or blocking.

To further support team efficiency, Asana now surfaces a personalized list of recommended projects for you to join. We also shipped smart rules suggestions where Asana suggests rules to automate and save time on repeat actions. Admins have the ability to enable or disable these capabilities from the admin console in Asana, based on organizational preferences.

In addition to what we've already shipped, we also have new large language model features in closed beta powered by OpenAI. With the Work Graph and large language models now supercharging each other, we can move even faster and offer an even deeper level of functionality. Asana was built for this moment.

Our vision is for Asana Intelligence to give people automatic recommendations that help them identify risks, make the right decisions faster and more often, and drive business outcomes such as goals-based resource management.

The first step, health check, is currently in beta and makes it much faster to assemble a project status update. With the click of a button, Asana AI automatically writes your first draft, highlighting progress, risks, and ways for you to improve toward hitting your goals, and even surfacing information that you might have otherwise missed. Again, the key input is the Work Graph and how it connects units of work, information about that work, and the people responsible.

Next, we're focusing on helping teams improve productivity and achieve more together. Our vision is to build self-optimized workflows where Asana will give you an automated plan based on the goal you're trying to achieve, all tailored to your relevant function or industry. Today, we offer in beta instant summaries that transcribe and summarize action items from meetings, tasks and common threads, multi-home suggestions that add valuable structure, plus a writing assistant to help you compose more compelling, simplified, and clear responses.

Many of you are already familiar with how ChatGPT answers questions and assist with tasks. Similarly, one of Asana's intelligent solutions powered by OpenAI helped us create ask Asana anything, also in beta, which lets you ask questions like, where are the blockers in this project, and get instant answers. Work organizer, also in beta, lets you start work faster by auto-generating custom fields so you can easily bring structure to unstructured projects and report on the status of work.

Again, it's the structure of the Work Graph that allows us to seamlessly integrate AI into customer workflows, so its recommendations are in service of your goals, include important context, and have real benefits, rather than merely delivering an assistant on the side.

We'll continue to use AI to serve our customers more effectively, by helping them achieve their goals and deliver on their missions faster, with the choice and control over how and when AI is used. The VP of Technology Operations from Benevity said, and I quote, "I'm incredibly excited about our participation in the Asana Intelligence beta and the possibilities it will unlock for our teams at Benevity. These capabilities will enable us to work more efficiently than ever, allowing us to better fulfill our mission of powering purpose-driven business." We'll share more about Asana's AI products and vision in the coming months, including at the Investor Day on October 3, as part of our fall customer event in New York City.

In the short and long run, we're committed to AI safety and transparency, both in practice and within our product, and to giving our customers choice and control over how and when AI is used in Asana. At Asana, we don't just see a future powered by AI. We see a future where AI and human ingenuity combine to radically improve the lives of individuals and how teams work together, unleashing the full potential to every business and organization. That's the future we're building together. One feature, one team, and one step at a time.

Now, I'll turn it over to Anne.

Anne Raimondi

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

Thanks, Dustin. AI is impacting knowledge work first and our customers are turning to us to help make AI a reality for them. Our AI roadmap is quickly becoming a top request for executive briefings and customer meetings, and our intent is for our customers to leverage Asana AI capabilities to achieve their goals and objectives more efficiently and faster than ever before.

We're also already using AI to increase our own efficiency at Asana, both within our own product and by using complementary tools. For our paid ad campaigns, we've been using AI voices to generate international voice-overs. This library of voices takes one script and scales it into multiple languages and markets in a few days. Historically, this process would have taken weeks. This change has accelerated our go-to-market timelines and reduced our creative production budget significantly.

We're also using AI to serve our global customers more quickly. Customer support can now send automated replies to customers in supported languages, meaning that what used to take about 48 hours can now be addressed in an instant. Our translation cost is now a fraction of what it was. And we have more AI initiatives ahead to help assist our customers better and faster and make our teams even more effective.

Turning to our business, the macro headwinds continued to impact our expansions and created longer sales cycles in Q1. We expect to see similarities throughout fiscal year 2024. The good news is that pockets of the market have stabilized. For example, top-of-funnel demand and our free-to-paid conversion rate remained steady in the first quarter. Engagement with our product remains high. And we continue to focus on outbounding to build and strengthen our enterprise capabilities. We're making good progress with more work to do.

Collaborative work management is at an inflection point. Customers are viewing Asana as a platform and a system of record for all of their work, and the purchasing decisions have moved up the chain. CIOs and CEOs are telling us they need Asana for cross-functional use cases, not just marketing or ops or HR, but for connecting systems of work across their entire organization. Our ability to scale makes Asana top of mind for the strategic procurement committees and our 200,000-seat deployment is a great proofpoint for that.

Our Goals product continues to be strategically differentiated, and is reaching new levels of traction within the buying committee, and the addition of AI can take this functionality to the next level.

Our enterprise customers, which we define as organizations with over 2,000 employees, continue to be our fastest-growing customer segment. And this segment is further diversifying, 70% of our top 20 Q1 deals were in non-tech sectors. Customers are anchoring on long-term investments, and we are involved in many multiyear deals and consolidation conversations. We're also seeing some seven-figure opportunities emerge as various industries accelerate their efforts in digital transformation, which may now be further accelerated with AI.

Forbes, the global media, branding and technology company that reaches over 140 million people worldwide each month across all of its platforms, is digitizing legacy operations across their marketing, video, social, and HR teams with Asana. In the last quarter, Asana expanded to their editorial newsroom, where the team will now manage the cross-team, end-to-end workflows responsible for all content that appears on forbes.com and in print. They've also upgraded to our enterprise solution this quarter, moving away from manual operations and towards automation that makes it easier to scale.

Maersk, a global logistics leader operating in more than 130 countries, has expanded their partnership with Asana, trusting Asana to help lead their digital transformation. They've standardized their warehouse and distribution implementation process, which gets customers onboarded and set up in Maersk warehouses around the world to handle their products. Asana is used to coordinate and manage work across more than seven cross-functional teams and provides robust reporting into key data points such as project status, delivery timelines, and critical pathing. As a result, Maersk is targeting to reduce their onboarding timelines and increase on-time launch rate, while reducing the service cost.

And we are seeing expansions broadly across several diverse industries, as we continue to expand beyond our leadership in the tech industry.

New Balance, a leading sporting goods manufacturing company, is a new customer this quarter. In an effort to consolidate the technology used by their global marketing teams, Asana was selected as the strategic platform they'll use to build best-in-class operations as part of their digital transformation to modernize their tech stack at New Balance. Managing over 400 assets per day, the team needed a centralized tool to eliminate collaboration gaps. Asana's flexibility and customization helped the team create standard operating processes that increase adoption and scale across their global team. Lastly, Asana will give everyone more visibility into OKRs and the status of strategic initiatives, something they didn't have before.

Navan, the all-in-one travel, corporate card, and expense management super app, recently signed a net new 500-seat deal with Asana. They'll be rolling Asana out across their marketing, customer service, operations, product, engineering, and HR teams as they consolidate their technology investments and look to scale the adoption of work management to eliminate silos and facilitate better cross-functional partnerships.

As tech organizations continue to choose Asana over competitors, it's clear that Asana is the only choice for enterprises.

We're seeing continued success in the financial services industry and the healthcare and biotech verticals as well. A hospital and healthcare customer expanded their use of Asana by another 1,000 employees in Q1 and is now a $1-million ARR customer. They started using Asana to onboard new physician providers and have seen extensive value from automating previously manual processes and reducing inaccuracies by consolidating information in a central organized place.

The company will now expand their Asana usage to manage talent acquisition and community and event management. This digital transformation is a crucial step for scaling, which we're seeing more and more with Asana's growth within the healthcare industry.

As you can see, we've already helped to digitally transform dozens of our largest customers. We believe digital transformation will pale as an opportunity for Asana in comparison to intelligence transformation, and we're preparing to be a leading platform for change in this new revolution of technology.

In summary, we are seeing more multiyear deals, winning on vendor consolidation decisions, and continuing to diversify our enterprise success across more and more industries.

My continued focus for the year is to better serve our enterprise and strategic customers. These customers are looking for long-term partnerships that can grow and scale with them. You can see our efforts from the growth of these accounts. Our strategic accounts as a cohort grew over 50% year-over-year. We are partnering with them on our product roadmap and pricing and packaging. We are beta-testing some strategic pricing and package updates with select customers that will help Asana usage accelerate across their organizations.

Over the quarter, we've added great new leaders with enterprise experience from DocuSign, Cisco, and Salesforce, who have many initiatives in place to accelerate our upmarket growth. We'll continue to improve our sales enablement capabilities and lead generation initiatives targeted at enterprise accounts. We're creating a repeatable playbook to scale enterprise accounts to become $100,000-plus customers, and we're improving on our customer success strategy to scalably serve more customers.

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

Tim M. Wan

Head of Finance, Asana, Inc.

Thank you, Anne. Q1 revenues came in at $152.4 million, up 26% year-over-year. Revenue from the US grew 31% year-over-year, accounting for 61% of our total revenue. International grew 20% year-over-year, accounting for 39% of our revenue.

Revenue from customers spending $5,000 or more on an annualized basis grew 32% year-over-year. This cohort represented 73% of our revenues in Q1, up from 70% in the year-ago quarter.

We have 19,864 customers spending $5,000 or more on an annualized basis. Our largest customers remain our fastest-growing cohort. We have 510 customers spending $100,000 or more on an annualized basis and this customer cohort grew at 31% year-over-year.

As a reminder, we define these customers cohort based on annualized GAAP revenues in a given quarter.

Our dollar-based net retention rates were lower driven by lower expansion and downgrades, but remained healthy across every cohort. Our overall dollar-based net-retention rate was over 110%. Among customers spending $5,000 or more, our dollar-based net-retention rate was over 115%. And among customers spending $100,000 or more, our dollar-based net-retention rate was over 130%. As a reminder, our dollar-based net retention rate is a trailing four-quarter average calculation.

We continue to see stable logo churn rates overall and low churn in our largest accounts, demonstrating the value we deliver for our enterprise customers. Companies remain mindful of the near-term economic challenges, and we expect our overall dollar-based net retention rates to trend lower, particularly in the lower end of the market.

As I turn to expense items and profitability, I would like to point out that I will be discussing non-GAAP results in the balance of my remarks. Keep in mind, non-GAAP results exclude stock-based compensation and one-time costs related to restructuring. Gross margins came in at 90.5%. Research and development was $51.8 million or 34% of revenue. Sales and marketing was $81.5 million or 53% of revenue, an improvement from 69% a year ago. G&A was $26.9 million, or 18% of revenue, an improvement from 31% a year ago.

Operating loss was $22.3 million, and our operating loss margin was 15%, representing a 30-percentage-point margin improvement versus a year ago. The improvement in our operating margin demonstrates our ability to drive more efficient growth and manage our operating expenses with increased discipline. Net loss was $18.5 million and our net loss per share was $0.09.

Moving on to the balance sheet and cash flow. Cash and marketable securities at the end of Q1 were approximately $523.5 million. Our remaining performance obligations or RPO was $332.1 million, up 33% from the year-ago quarter; 86% of RPO will be recognized over the next 12 months. That current portion of RPO grew 30% from the year-ago quarter.

Our total ending Q1 deferred revenue was $263.9 million, up 31% year-over-year. Our free cash flow is defined as net cash from operating activities, less cash used in property and equipment and capitalized software costs, excluding non-recurring items such as costs related to restructuring. Q1 free cash flow was negative $16.6 million, or negative 11% on a margin basis, an improvement from negative 35% from the year-ago quarter.

Moving to guidance for Q2 fiscal 2024, we expect revenues of $157.5 million to $158.5 million, representing growth rate of 17% year-over-year. We expect non-GAAP loss from operations of $26 million to $24 million, representing an operating margin of negative 16% at the midpoint of guidance, a measurable improvement from the same year-ago period. And we expect net loss per share of $0.12 to $0.11, assuming basic and diluted weighted average shares outstanding of approximately 218 million.

For the full fiscal 2024, we expect revenues to be in the range of $640 million to $648 million, representing a growth rate of 17% to 18% year-over-year. We expect non-GAAP loss from operations of $120 million to $110 million, representing an operating margin of negative 18% at the midpoint of guidance, down from negative 38% in fiscal year 2023. And we expect net loss per share of $0.55 to $0.50, assuming basic and diluted weighted average shares outstanding of approximately 219 million.

Our guidance assumes that macroeconomic continues to create headwinds in fiscal year 2024. We are committed to maintaining a disciplined and balanced approach to optimizing costs and improving efficiency and profitability. We will continue to invest in future growth opportunities like AI, which we expect will drive long-term value. We remain committed to reaching positive free cash flow before the end of calendar 2024 and have increased confidence in our ability to drive meaningful improvements in the coming year.

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

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

I'm very excited about the product development we have in flight. Customers are eager to adopt AI to help them work more effectively and efficiently, and Asana will adopt the best of AI capabilities for them. Intelligence transformation is the second wave of digital transformation, and this time, it's a tsunami.

The work management market is an enormous underpenetrated market that I believe we're well-positioned to lead, especially given our underlying connected architecture. We have adequate investment and plenty of runway to do what we need to do. Asana with the power of AI can introduce our product to more users, address more use cases, and create more value for our customers.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question will be from the line of Andrew DeGasperi with Berenberg. Your line is now open.

Andrew DeGasperi
Analyst, Berenberg Capital Markets LLC

Q

Thanks for taking my question. I guess first, Dustin, in terms of the AI potential, I know that you've been working on it with Work Graph for a while. But I'm just wondering, in terms of the change in customer behavior that could occur as they adopt more AI tools, are you in any way concerned that certain end markets could be impacting Asana in terms of seat count, again, from a long-term perspective?

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

A

Hey, Andrew, this is Dustin. Just so I understand, you mean like because of like job replacements? Or what are you getting at here?

Andrew DeGasperi
Analyst, Berenberg Capital Markets LLC

Q

Yes. Yeah, more like a, let's say, some end markets like high tech or things like that could do some disruption in their employment trends and things like that.

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

A

I think a lot's happening with AI, and I think sort of change is inevitable. It's hard to predict exactly how that change is going to play out. Certainly in the next few years, I would not place a bet on there being fewer knowledge workers in tech companies. I think the flip side of that argument is that each of them are going to become a lot more leveraged. In fact, using things like Asana Intelligence inside Asana is part of how they'll become more leveraged, so it's actually going to be even more valuable to have people working inside those organizations.

Longer run, things could change, but I feel confident that we could adjust our pricing model to meet that change because, really, our pricing is about the value that we're delivering to customers. And so if the value we're delivering to customers is actually helping them scale their workforces further, get more from the same number of people, then that means we're providing more value and should be able to monetize more of it. Maybe that will mean that we need to have very different pricing per seats or maybe we'll have consumption-based pricing, but I'm not concerned that it means that our business shrinks.

Andrew DeGasperi
Analyst, Berenberg Capital Markets LLC

Q

That's helpful. And then maybe, Tim, in terms of the macro impact you mentioned, I guess in terms of your framework for the guidance, you mentioned headwinds. You expect them to continue. Do you think things get worse? I know you mentioned some pockets of the market are stabilizing. I guess, are you assuming a status quo going forward?

Tim M. Wan
Head of Finance, Asana, Inc.

A

Yeah. I mean, I think it's a similar philosophy to kind of how we guided last quarter as well as the year. I don't see a lot of downside in the guidance, but I think it's still too early to bake in any upside at this point. I think it's a little bit of touch and go, and we'll monitor the situation as we go. But like I said, we feel good about the guidance. We feel good about the bottom line. We feel good about delivering on the free cash flow time line that we committed to.

Operator: Thank you. We would like to ask at this time that anybody in the queue limit themselves to one question. The next question will be from Brent Thill with Jefferies. You may proceed.

Q

Hi. Thanks. This is Joe on for Brent Thill. Just one more question on the macro. I mean, you mentioned that there were areas where things stabilized. Just wondering if you could maybe dig in a little bit more there? And any color by geo or vertical? And then second on AI, if you could maybe touch on monetization and timing of when it could start to make a revenue impact? Thank you.

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

A

Want to take the first part?

Tim M. Wan
Head of Finance, Asana, Inc.

A

So in terms of what we've seen just from a stabilization standpoint, what I would say is it really depends on the segment. I think some of the names that Anne mentioned and that we mentioned on the script, those are great names. And many of those are not in tech. I think the segment in tech is still kind of working itself out, and I think we'll continue to see some pressure there. But kind of given the customer lands, the expansion that we saw, we feel really good about the traction that we're seeing in other pockets that's non-tech-related.

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

A

And I'll take the question about pricing, and I think the question is really like what's the potential for revenue uplift. So I think one way I think about this is that AI is not really one thing. It's really going to show up in a bunch of different ways in our product, because we're really weaving it into the very architecture of workflow and the Work Graph. So, there are opportunities both to support adoption, and to drive seat growth, as well as incremental revenue growth in ASP.

The stuff that helps adoption, a lot of it we'll probably give away, because it's providing more value to our customers and helping us really get the long-term revenue opportunity, so we'll really be balancing that ASP and seat growth. And then there are other things that are going to be part of our existing functionality in higher-priced tiers, for example, things that enhance goals will naturally be part of the business and enterprise tiers because that's where the Goals functionality lives.

And then I do think at some point, we'll have functionality that becomes part of an add-on. Again, for the prior answer potentially with consumption-based pricing, we're actively thinking through a plan for that, but it'll depend on where customers see a lot of value in practice, as well as what ends up being expensive to provide. So in terms of like timing, to your question, the thing that will happen first will kind of be incentivizing more customers to move into the up-tiers in order to get that additional functionality.

Second, I'm hoping for a lot more seat growth because the adoption is going well with AI-powered features. And then probably third will be adding a SKU or adding an add-on to sort of directly package some of the AI stuff. And I think that's the order in which I think things will play out.

But one thing is for certain, there's been a lot of eagerness here, especially from our enterprise customers. So, we've been really pleased with the response to the beta so far and we know that there is just massive potential here to drive the business because of how much value that we're able to provide on top of the Work Graph. But it's really upside to our model. We don't have any specific expectations that we've baked into the guidance.

Q

Thank you.

Operator: Thank you. The next question is from the line of George Iwanyc with Oppenheimer. Your line is now open.

George Iwanyc
Analyst, Oppenheimer & Co., Inc.

Q

Thank you for taking my question. Anne, earlier in the year, you were targeting a 20% increase in sales productivity by the end of the year. Can you give us a sense of where you stand right now and how you feel about that target?

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

A

Hey, George, thanks so much for the question. Yeah, we've been really focused on building and scaling our enterprise selling infrastructure. So this quarter, something that I'm very pleased with is we've added strong leadership to our sales operations and enablement teams, and have been really focused on consistently delivering data tools and training to the field that is needed to repeatably and predictably land and expand in our larger accounts.

The addition of strong enterprise sales leaders in our top-priority markets in Japan, in DACH, in UKI is also strengthening our operational rigor, so we're continuing to focus on that. But Q1 really was about investing in the right leadership and then making sure we're prioritizing the right things that will pay off throughout the year.

George Iwanyc
Analyst, Oppenheimer & Co., Inc.

Q

Thank you.

Operator: Thank you. The next question is from the line of Steve Enders with Citi. Your line is now open.

Steven Enders
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Great. Thanks for taking the question here. I guess I just want to ask the profitability drivers in the quarter here. I know it's particularly strong here. So, I guess what were the biggest areas of upside that led to that? And I guess how should we think about what that looks like going forward? And if there was any maybe shifting in expenses that moves for the rest of the year here?

Tim M. Wan
Head of Finance, Asana, Inc.

A

Yeah. I think in terms of just kind of highlighting any potential shifts, Dustin mentioned this, and I hope you all can make it, that we'll have both the customer as well as an investor event in Q3 in October, and that will have a slight bump in our marketing expense.

But really, the drivers of kind of the profitability is really just the team and the company just being much more mindful around our resources, the things that we work on, the things that are most important and the things that have the highest ROI. And sometimes that's not doing certain things and sometimes it's really doubling down on things that we think will scale over time. So, maybe some of the employees that are on the call, I really just want to congratulate them on their hard work, because it's not any one person that can deliver that type of savings.

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

A

And likewise, I'd just like to add some praise for Tim and the rest of the company planning team. I think they've just been really disciplined and diligent about looking for opportunities to save wherever we can and just being that much more intentional about every incremental investment. I think all of that has added up to a good outcome here.

Operator: Thank you. The next question is from the line of Jackson Ader with SVB. Your line is now open.

Jackson E. Ader
Analyst, MoffettNathanson LLC

Q

Great. Thanks for taking our questions. Dustin, the discussion around the potential to change the revenue model, if needed. Just curious, do you have good enough data now or – either on your ROI or the value that you create for your customers to be able to even kind of credibly say, this is the value we're driving and we take a certain percentage of that currently? And how do you measure it?

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

A

Yeah. It's a really complex question, because I would say we do have data like that, including reports that have been run by third parties like IDC that are kind of looking at what is the kind of work about work that we're helping eliminate or make faster, what kind of meetings we're saving, how much time we save whenever something gets automated in the product. But that's not the type of proof that would be relevant in this imagined future. So, I think we'll have to play that by ear if we're really playing out into a different revenue model.

And I just want to be clear that, like, that's not something we're moving to do right now, and that's not something that I think is a likely future in the next few years.

Operator: Thank you. The next question is from the line of Alex Zukin with Wolfe Research. Your line is now open.

Ethan Locke
Analyst, Wolfe Research LLC

Q

Hey, this is Ethan on for Alex. Thanks for taking my question. Dustin or Tim, I guess, can you talk just a little bit about kind of what the shape of the demand environment looked like throughout the quarter? And then, like as we're like a month into the second quarter now, as we think about like the guidance both for 2Q and how you're thinking about the rest of the year, like what trends have you seen, I guess, in the first month of April in terms of buying behavior, customer conversations like being stabilized, gotten better or worse? And just as you think about the last two months of this quarter, just like what kind of assumptions are you seeing there? Thank you.

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

A

Hi, Ethan, it's Anne. I can answer the question about buying behavior and what we're seeing in customer conversations. We're actually seeing really good, steady pipeline builds in all of our regions. I think, if anything, things have stabilized for many of our customers. Some of the things that we do see as promising are more consolidation conversations, more multiyear agreements.

A good customer example is a leading biotech company signed a three-year deal with us to standardize work practices across their organization, and this really enables them to move more quickly and consistently to bring products to market around the world. And so, I do think we're seeing very positive conversations. And in our most strategic accounts, as well as in those industries outside of tech where the decision-making does lead to longer deal cycles, because people are probably more measured in how they're making their investments. But that also means like once we close those deals, they have greater longevity and durability.

So the diversification outside of tech is an area we've been really focused on and seeing really promising results in. Ultimately, we think those wins are great for us because they are innovative companies in industries where other companies will look to what they purchase in work management. And so we think that's a really important investment on our part, given where we are in the category development.

Operator: The next question is from the line of Jason Celino with KeyBanc. Your line is now open.

Jason Celino
Analyst, KeyBanc Capital Markets, Inc.
Q

Hey, great. Thanks for taking my question. In the script, Anne mentioned seeing some seven-figure deals, those opportunities start to emerge. It sounds pretty encouraging. Just curious of those opportunities, are those mostly enterprises without work management platforms looking to deploy into a single vendor? Or are those expansions of your existing customers? Thanks.

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

Yes. We're actually seeing both. We are seeing ones where it is RFP-based picking one vendor where there's no existing solutions, or if there are, it's really, really fragmented, and the CIO office is making a decision to pick one partner. So we are engaged in more of those, as well as ones that are expansion deals where we've had strong deployments on a departmental level and then we are now partnering with a centralized buyer to expand.

So the Navan example that I mentioned is going wall to wall, our portfolios and OKR products, in particular, were the reason that they chose us. And as part of that consolidation, eliminated other products that, again, weren't widely adopted but still were displacing any existing tools.

Operator: The next question is from the line of Josh Baer with Morgan Stanley. Your line is now open.

Josh Baer
Analyst, Morgan Stanley & Co. LLC
Q

Great. Thanks for the question. For Dustin, you talked about the potential for Asana to become your customers' AI strategy, which is a really interesting concept and opportunity. I guess thinking longer-term, do you see knowledge workers using a single, core AI tool for all things AI? Or is there a scenario where workers would use AI embedded within all the different apps and workflows? And then related, where Asana does sit alongside Office 365, what are some of the reasons why you see Asana as that core customer AI strategy versus Microsoft's Office or other co-pilots? Thank you.

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

Yeah. Thanks for the question. That's a great one. So just stepping back, we still see overall collaboration software as being about like three major swim lanes. So there's the content tools like Office 365, communication tools like Zoom and Slack and email, and then collaborative work management, which is all about managing work in progress, answering who's doing what by when.

And I don't mean to position Asana as, like, the one tool that is going to sort of swallow all three of those and become the only part of your AI strategy, but I do think that companies are looking at how are they going to go through what is effectively a second wave of digital transformation, how are they going to integrate this into their workflows and how will they use it to help teams day by day get their work done. And I think that Asana can be an easy sort of out-of-box way to do that especially if they're an existing customer, just like it's a big part of the puzzle if you're trying to do the first wave of digital transformation of getting people to collaborate digitally instead of relying on meetings and whiteboards and sort of the analog ways of doing things.

So I think in the future, Asana will be the hub that's sort of coordinating the work across these systems. But you are likely to go into a document editor or a creative tool like Adobe Creative Cloud when you're trying to produce a large piece of content, and I'm sure that they will have their own sort of specialized AI tools within that. So it's more of a yes-and there.

In terms of why us, I think that the Work Graph really amplifies the power of AI, especially for large enterprises by creating data reliability, accuracy and traceability. So without a Work Graph, the intelligence and AI is inhibited by siloed organizations, tools and projects, that means results are always going to be inferior because it can't make connections across teams in the organization and ends up relying on duplicate or still data, and there's no real notion of version control or traceability. So you end up with sort of inferior inputs to the AI, and therefore, inferior results.

So all of that really ties back to how the Work Graph connects work from goals, all the way to work execution and resourcing, and that makes it easy for AI to gather and explain all the decision-relevant information.

Asana is also the only platform that really enables cross-team, cross-functional coordination without duplication of work, and so that's really important for having that complete, high-quality data. And I've said before, you get increasing returns to scale in deploying Asana, and I think AI is making that more true than ever. So you want as much of the relevant content to be connected in the system, even if some of it was created using a partner vendor like Office 365, but Asana helps the AI see how it all really fits together for the work in progress.

And then finally, because the Work Graph is kept up-to-date real time, you can trust it for insights and suggestions. So it's the richest data set for understanding work. And so really, it becomes an essential foundation for integrating machine intelligence that enables humans and AIs to work together to accomplish an organization's goals.

And I'll just also say, I mean, we've been thinking about this a really long time. And I think that also sort of gives us a differentiated ability to deliver for customers and help them sort of jumpstart their journey in this intelligence revolution, and it's helped us sort of design the vision, the architecture of the product, so that we have the right building blocks that we can now deploy in combination with these language models to deliver a lot of value quickly.

And we're also just personally deeply connected to the AI labs that are leading the way, including we share a board member in Adam D'Angelo, my foundation actually helped provide the initial funding for OpenAI in 2017, and Sam Altman happens to also be a key investor at Asana. So we're really excited about the future here and really, it's been a long time coming, but the Work Graph's kind of be able to create differentiated quality of output by ensuring a single source of truth across the levels work. And I think that's really why collaborative work management and the Work Graph within that is going to be a really key part of the future solution for customers.

Operator: The next question is from the line of Brent Bracelin with Piper Sandler. Your line is now open.

Q

Hi, everyone. This is Clarke on for Brent. Thanks for taking our questions here. So I just had one around these large language model features that you're testing in beta. Could you just share a little bit with us about how you're thinking about maintaining the integrity of governance, compliance, and trust capabilities as you layer in these sorts of features into the Asana platform? Just considering the needs of your large and enterprise customers. Thanks.

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

A

Is there a specific concern you have within that?

Q

No. Just – so just the general strategy that you have around kind of maintaining the capabilities for people to protect their data, considering the data needs of training these large language models. So, I just wanted a little bit more color on how Asana can actually go about actually maintaining the integrity of customer data.

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

A

Yeah. So first of all, I think it's just really important to be transparent about where intelligence is showing up in the products. So even before we deploy these products into the beta, we're communicating with the admins of these companies, giving them a chance to opt out before their employees have a seat in the first place. And then additionally, the commercial relationships that we established with the labs include protections against using customer data to go back and to train the model.

I think the future for enterprise and language models is that there's going to be a training data set. And then once the model is trained, the customer data won't be part of that unless it's part of fine-tuning the model, but then that would be owned by the vendor, by Asana in this case, and wouldn't be content that is effectively licensed back to the major labs.

I also think in the near future, customers are going to end up expressing a preference about which of the foundation models they want to use underneath because they have a point of view about what the compliance of the underlying cloud provider or the security capabilities of the underlying providers, so there's a stack here. But for example, if you're using Anthropic, it might be AWS as the cloud provider and Anthropic is providing the foundation model underneath, a customer might care about both of those choices.

So I think we'll end up providing a lot of choice for them, as well as just being transparent about where exactly the data is going, when, and then making sure contractually that it's only used in the ways that customers expect and Asana wants.

Operator: The next question will be from the line of Robert Simmons with D.A. Davidson. Your line is now open.

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

Q

Hey, thanks for taking the question. So I know you've been experimenting with some pricing and packaging changes. I wonder if you could give us any updates on how those are going, any specifics you can share? And then are you seeing any good results so far that you'd want to scale up and might be out sometime this year on the company line results?

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

A

Yeah. Robert, so our pricing and packaging updates are really focused on our enterprise customers. We've got two primary goals we're working towards. First is landing better, and then the second is creating an easier, more frictionless journey for them to grow with us from there. So, we're working very thoughtfully to align value and to more easily enable these customers to quickly add additional functions and use cases as they grow.

So we're early in our beta testing with selected customers and getting good feedback. We're ultimately looking forward to sharing more at our investor event in October, but working really hard right now to make final decisions based on customer feedback and based on where we see the most value for our customers.

Operator: The last question will be from the line of Patrick Walravens with JMP Securities. Your line is now open.

Patrick Walravens
Analyst, JMP Securities LLC

Q

Oh, great. Thank you. Tim, a couple of related questions for you. So just as we look at revenue, so the year-over-year growth of the 26% is one thing, but the sequential growth is like the lowest I think you've ever had. So if you could just comment on that a little bit and what's the right way to think about the right metric? But then on a more positive note, the CRPO growth is higher than the reported revenue growth. So, is that just the enterprise? But how do we think about that? Thank you.

Tim M. Wan
Head of Finance, Asana, Inc.

A

No, you're spot on. So we actually, in terms of multiyear deals, we saw an increase of 65% year-over-year in the number of multiyear deals. So Anne kind of mentioned this on the call as well. Just customers are starting to really commit to a work management platform, people, customers and larger enterprises are thinking about consolidating if they have multiple platforms within their company. So I think these are all encouraging signs.

Our guidance takes into account kind of the macro backdrop, but like I said, we feel really good about the guidance that we're providing both at the top line as well as the bottom line. So, hopefully that's helpful.

Operator: That concludes our question-and-answer session for today. I will now pass the call back over to Dustin for some closing remarks.

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

Yeah. Thanks. Just wanted to thank everyone on the call again for making the time to join today. And we're really looking forward to seeing you at both our customer event and the Investor Day in New York City on October 3. So, hope to see you there. Thanks, everyone.

Operator: That concludes today's call. Thank you for your participation.