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Asana, Inc. (ASAN)

Q1 2025 Earnings Call

CORPORATE PARTICIPANTS

Catherine Buan
Head-Investor Relations, Asana, Inc.

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

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

Tim M. Wan
Chief Financial Officer, Asana, Inc.

OTHER PARTICIPANTS

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

Joshua Baer
Analyst, Morgan Stanley & Co. LLC

George Iwanyc
Analyst, Oppenheimer & Co., Inc.

Michael J. Funk
Analyst, BofA Securities, Inc.

Brent A. Bracelin
Analyst, Piper Sandler & Co.

Taylor McGinnis
Analyst, UBS Securities LLC

Jackson E. Ader
Analyst, KeyBanc Capital Markets, Inc.

Patrick Walravens
Analyst, Citizens JMP Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to Asana's First Quarter 2025 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.
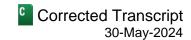
I would now like to hand the conference over to Catherine Buan, Head of Investor Relations. Please go ahead.

Catherine Buan
Head-Investor Relations, Asana, Inc.

Good afternoon and thank you for joining us on today's conference call to discuss the financial results for Asana's first 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 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, and 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 web page 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 as we continue to execute on our enterprise go-to-market strategy and make progress on Asana AI. I'll go through a few of the highlights from the quarter and then jump into how I see the AI landscape evolving. Q1 revenues grew 13% year-over-year with revenue from our largest customers growing even faster than that. And non-GAAP operating margins improved 5 percentage points year-over-year. Our growth continues to be fueled by some of the largest and the most strategic companies in the world who are partnering with Asana and redefining how they work. It's been a solid start to the year and we continue to focus on our enterprise playbook, sales productivity and building our enterprise muscle.

Now, I want to get to what's top of mind for me. AI is a disruptive force that will dramatically reshape all of software. Rigid software categories like ITSM, CRM, you can go down the list, they're all designed for an earlier paradigm. AI is transforming the way we manage work, the way we execute work, and the way we think about how to work. Everyone's mental model for how work gets done today needs to be rethought.

Let me start with how folks currently think about our category, collaborative work management. What used to be about helping humans coordinate work at scale has expanded to enabling humans and AI to collaborate and achieve extraordinary things together. At Asana, we believe the future of work is humans and AI collaborating side by side with AI teammates taking on and completing increasingly complex tasks and workflows. There is incredible enthusiasm for AI in the enterprise and rightfully so. But most of what's been released today are copilots and assistants. AI that's meant to help personal productivity, summarize and generate text and look up information. These are useful, but they're asking a lot of users to decide to change their existing behaviors and in many cases involve a new chat application with its own learning curve.

We're just starting to scratch the surface of what's possible when thinking of the AI less as an assistant and more as a teammate. Today, AI can take on individual tasks and assist in completing workflow steps. And as we go forward, AI will own more and more complexity. From taking on individual tasks to assisting with individual projects and workflows, to eventually overseeing entire portfolios of work, helping you balance the workload, avoid missing deadlines and keep the team aligned around shared clarity.

But there's still a trust issue in the enterprise. In fact, our Work Innovation Lab found that 53% of executives are concerned people will make decisions using unreliable information from generative AI. We've all seen confabulating chatbots, and this doesn't breed confidence in the workplace. So there are a few key problems customers are grappling with. How can we trust AI? How do we ensure humans are in the loop and held accountable? And then how do we scale AI at work from just an assistant to a teammate, so it's not just completing discrete tasks? Instead, AI could be taking on bigger bodies of work and taking responsibility for higher level goals.

What gives me so much confidence that the Work Graph is the ideal structure to overcome these hurdles and scale AI with confidence. Asana understands how work and workflows map the goals and can break it down in ways both humans and AI can understand and action. We capture the relevant context without the digital exhaust that exists in other collaboration tools that focus more on documents or chat or the scaling and visibility issues you see with our peers and work management.

A helpful analogy is thinking of Asana and the Work Graph as a form of digital scaffolding. Said another way we have the necessary structure. We understand the relationships between people, work and workflows, and that means we direct AI to consider exactly the right context, not try to decipher what is signal from all the data in your enterprise. With this understanding, AI can begin to provide intelligent assistance, automate tasks, and even act as an agent or teammate driving work forward. Imagine an AI teammate that's the most organized, knowledgeable, effective and encouraging project manager that you've ever worked with, helping you figure out the best way to plan and accomplish your work and even doing a lot of the work themselves rather than assigning it all to others.

Our platform is also where the actual collaboration between humans and AI will happen. By deeply integrating AI capabilities into the tools teams already use to manage and execute work, we're creating the ideal environment for humans and machines to work together seamlessly. With Asana, AI teammates appear right in the flow of work, not in a separate tool. And as we build this future, Asana's focus on how work is structured will be a key advantage. We know which context to look at, and we don't try to look at all possible data, which is how you easily end up with errors. I like to say that language models confabulate when they try to give you an answer based on what's in the training data, but they're vastly more accurate when asked to give you an answer based on what's in the context window.
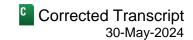
Our strategic advantage is being able to identify the most important context well because it's explicitly identified by the relationships between the tasks, projects, portfolios, goals and people in the Work Graph. This context and high signal to noise ratio will allow the AI we develop to deliver insights and automation with a level of precision and impact that scattered, noisy data simply can't match. Let's think about this in the context of common workflows our customers rely on Asana for every day.

In resource planning today, you can ask Asana's AI to determine the bottlenecks and key staffing risks by project, portfolio or goal. AI can also apply decision making principles with judgment to route work to the right team. In the future, AI will understand the complexity of each project, predict potential roadblocks and proactively suggest the best team composition to ensure success. That team would be made up of human and AI teammates working together.

For goal management, today's Asana AI can assist in writing goals based on best practices, help identify which teams are the best suited to take on the work and actually identify which work in the organization would be best to link to that goal. In the future, AI will analyze the Work Graph to identify which initiatives are driving the most progress toward key results and suggest course corrections for those that are off track.

Today, for product launches, PMOs can use AI to recognize where other teammates need to be added, where decisions need to be made, and ask Asana's AI to review work and assign approval tasks. You can have Asana AI complete work now, like having it help edit and draft creative briefs. As work gets done today, AI will create accurate real-time status reporting on goals, portfolios and projects based on the exact format your team prefers.

What's next? AI will take on increasingly complicated portions of the work and handoffs associated with the successful launch, all while keeping human teammates accountable in the loop. That's just thinking about the

transformation of common workflows our customers rely on us for today. The opportunity here is so much bigger. We now have the ability to customize and personalize workflows effortlessly and can do this in infinite ways. This level of customization is hard to even grok because it was so out of reach before. There will be a significant amount of value creation as a large swath of enterprise workflows are reinvented with AI, and rigid software categories of the past are reshaped. This is where we're focused, and I believe we're uniquely positioned to win.

And our experience isn't that we simply automate the work. It's that we can do more, move faster, and raise the bar on quality. Like we see in all paradigm shifts in technology, people translate workflows from the previous paradigm into the new paradigm before they realize this is incredibly limiting. The opportunity is to transform. Google and Meta built the best ads businesses in history by creating products only possible in the Internet age, adapting ad units to new form factors, and building auction-based pricing with dynamic ad placement. This radically new and profitable model is analogous to the moment we're in.

Let me give a concrete example. Right now, people think about automatically translating their marketing content to suit different verticals with AI. But maybe in the near future, your marketing landing page is selected from a thousand possibilities. They could be pre-customized by Asana AI workflows based on what will be the best possible match to the viewer because customizing to this degree is worth the inference cost, and Asana can make it easy. Or maybe vendor selection is done by AIs running sophisticated RFPs instead of people doing marketing pages and asking questions. And here's where elevating the quality and automated customization translates into increasing velocity and revenue for customers.

I've more conviction than ever that the entire SaaS landscape is ripe for a dramatic upheaval, and Asana's well positioned to capture the opportunity it presents, to disrupt old software categories and be the digital scaffolding for humans and AI working together on any workflow that helps achieve their objectives.

And we expect our business will expand, too. We believe AI will drive revenue growth for us in three key ways. First, it already enhances the value we deliver in our work management functionality, like with our Smart Summary and Smart Status features. We don't package the AI parts of our core features as a separate SKU because we understand AI functionality is simply table stakes for participation in SaaS at this point. However, we believe the differentiated value provided by AI plus the Asana Work Graph makes us more competitive and increases our pricing power. It's motivating customers to migrate to our new packages. And at the same time, AI is enabling us to introduce new, powerful use cases that can be sold independently. So the second way we expect it will drive revenue growth is via license-based add-ons and we have specific ones we're developing now.

On top of that, like we've suggested in the past, there might be more usage-based AI revenue in the future as well. And over the past few months, we've gained conviction on that, specifically in the context of custom workflows. We're working on a private beta with select customers, and we intend to expand more broadly to our enterprise customers as the year continues. I'll reiterate again how incredible this opportunity is in front of us and how well positioned we are to capture the AI opportunity in the enterprise. We believe that with AI and the Work Graph, we'll further penetrate our existing market opportunity, and with AI-enabled features like custom workflows, we'll increase our TAM and expand into new markets.

We moved early on AI. The Work Graph provides the ideal structure and scaffolding for AI to be effective. We're the number one AI work management platform, and we're just getting started. We look forward to sharing more details at our Work Innovation Summit in San Francisco on June 5 and later this year in October in New York City.

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

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

Thanks, Dustin. To further your point, our biggest, most innovative customers are focusing on AI as well. The Asana Work Graph is the scaffolding that combined with AI makes work even more effective. As a result, our AI road map is a top request for executive briefings. We are well positioned to be the solution for many of the questions that are pervasive in this early stage of AI adoption.

We started to roll out our new AI workflow capabilities to a select group of customers who are reinventing how they work today, and the early feedback has been nothing short of jaw-dropping. In fact, the last few weeks I've been meeting with customers in Tokyo, New York and across EMEA, and their response has been amazing. They see massive potential for these AI teammates to drive productivity, fuel innovation and deliver better results. As one customer said, Asana's AI capabilities have the potential to help us realize our vision of becoming an AI-powered workforce.

Now, let's transition to our Q1 performance. We had a solid finish to the quarter, despite ongoing budget scrutiny and other headwinds. Today, we believe that we have better predictability in our business, a strengthening pipeline, and we are starting the year better positioned to serve our customers throughout the entire customer life cycle, enhancing our ability to partner and grow together.

By geography, EMEA and Japan led revenue growth, and overall international revenue grew 14.5% year-over-year. The EMEA team continues to execute well with strong leadership and a more seasoned sales team. This is a great leading indicator for North America, where the step-up in leadership happened about one year later.
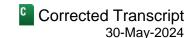
As we mentioned previously, we expect dollar-based net retention to bottom in Q2, at or slightly below 100% for the overall number, and stabilize starting in Q3. Specifically, there are still some seat adjustments that we need to lap, especially in the US. As Dustin mentioned on a previous call, in order to get to reacceleration, you need to first go through stabilization. The good news is that we are seeing good signs of the stability across new bookings and our average contract value. We believe we are well poised for reacceleration in the second half of the year.

Now, turning to customer dynamics in Q1. Our enterprise customers continue to expand. They are making long-term investments in Asana, and this is reflected in multiyear deals and consolidation decisions. We closed deals in key verticals such as manufacturing, retail and professional services and are even seeing tech companies expand. We had several deals across the manufacturing sector.

Suzuki, a leading Japanese manufacturer, expanded its use of Asana this quarter to drive further operational efficiency and digital transformation. It was initially adopted by the IT team and later deployed to the overseas automotive sales department for remote work during COVID-19. Asana is now used by over 1,000 employees across sales, IT, legal and engine design to manage their work and strategic projects. And they're seeing great results. For example, one team has already reduced overtime hours by 35%.

Also, one of the largest digital communications companies in the world expanded their use of our enterprise solution this quarter in their go-to-market operations division to manage the global transformation of their sales force in preparation for AI. Our reporting capabilities were key differentiator that led to this deal and will give leaders visibility into progress towards their go-to-market transformation goals.

And we continue to see ongoing success in the retail and CPG space. A premium footwear brand, renowned for their cutting-edge technology, went wall to wall and uptiered to our enterprise solution. One of my favorite

examples of how they rely on our platform is to manage new store openings, pop-up stores and workplace projects with more than 10 other departments.

We're also making progress in financial services. Notably, Sumitomo Mitsui Trust Bank, the Japanese financial services firm with thousands of employees, expanded with us this quarter.

Finally, one of the leading tourism and economic development organizations in EMEA expanded their use of Asana this quarter to manage strategic projects aligned to their goal to double the size of their economy within the next 10 years. We believe that digital transformation is just the first step in the AI transformation opportunity, and we believe we are the leader in AI collaborative work management and we have more work to do.

Throughout this year, we are focusing on a number of initiatives to further strengthen our execution. First, we continue to hire quota carrying sales reps as we see the opportunities grow and accelerate with AI. Second, we remain steadfast on accelerating our pipeline and enhancing the efficiency of our outbound prospecting. We're not just aiming to increase the pace at which we operate, but also to deepen our engagement with our customers. Third, leveraging AI internally. We are improving the seller experience and efficiency by leveraging AI. For example, we're using our own Asana AI for outbound workflows such as customizing customer outreach.

In summary, our strategy is designed to drive AR growth, improve efficiency, and build stronger relationships with our customers. 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.
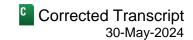
And with that, I'll hand it over to Tim.

Tim M. Wan
Chief Financial Officer, Asana, Inc.

Thank you, Anne. Q1 revenues came in at $172.4 million, up 13% year-over-year. We have 22,162 core customers or customers spending $5,000 or more on an annualized basis. Revenue from core customer grew 15% year-over-year. This cohort represented 74% of our revenues in Q1, up from 73% in the year ago quarter. We have 607 customers spending $100,000 or more on an annualized basis, and this customer cohort grew at 19% year-over-year. As a reminder, we define these customer cohorts based on annualized GAAP revenues in a given quarter. I want to give you some color on $100,000 customer progress since customer count based on GAAP revenues is a lagging indicator and does not capture the progress we have made.

On an ARR basis, we added over 30 $100,000 customers in Q1 versus over 20 in the year ago quarter. Our overall dollar-based net retention rate was 100%. Our dollar-based net retention rate for our core customer was 102%. And among customers spending $100,000 or more, our dollar-based net retention rate was 108%. As a reminder, our dollar-based net retention rate is a trailing four quarter average calculation and thus a lagging indicator. We continue to see stable logo churn rates overall and low churn in our largest accounts. I'll speak specifically to our outlook regarding this in a moment.

As I turn to expense items and profitability, I would like to point out that I will be discussing non-GAAP results in the balance of my remarks. Gross margins came in at 89.8%. Research and development was $55 million or 32% of revenue. Sales and marketing was $88.6 million or 51% of revenue. G&A was $27.1 million or 16% of revenue. Operating loss was $15.8 million and our operating loss margin was 9%, representing a 5 percentage point improvement versus a year ago. The improvement in our operating margin demonstrates our ability to take a balanced approach to growth and profitability. Net loss was $13.3 million and our net loss per share was $0.06.

Moving on to the balance sheet and cash flow. Cash and marketable securities at the end of Q1 were approximately $524.3 million. Our remaining performance obligations or RPO was $380 million, up 14% from the year ago quarter. 86% of RPO will be recognized over the next 12 months. That current portion of RPO grew 15% from the year ago quarter. Our total ending Q1 deferred revenue was $297.1 million, up 13% year-over-year. Q1 free cash flow was negative $4.3 million or negative 2% on a margin basis, an improvement from negative 11% from the year ago quarter.

Moving to guidance for Q2 fiscal 2025, we expect revenues of $177 million to $178 million, representing growth of 9% to 10% year-over-year. We expect non-GAAP loss from operations of $23 million to $21 million, representing an operating margin of negative 12% at the midpoint of guidance. And we expect net loss per share of $0.09 to $0.08, assuming basic and diluted weighted average shares outstanding of approximately $230 million

For the full fiscal year 2025, we expect revenue to be in the range of $719 million to $724 million, representing a growth rate of 10% to 11% year-over-year. We expect non-GAAP loss from operations of $59 million to $55 million, representing an operating margin of negative 8% at the midpoint of guidance. We expect to be free cash flow positive for the full year, and we expect net loss per share of $0.21 to $0.19, assuming basic and diluted weighted average shares outstanding of approximately $231 million.

As you can see from our guidance and commentary, we are clearly seeing early signs of stability and are well poised for moderate acceleration in the second half. Based on some of the early signs in the business and positive feedback from strategic customers, we are frontloading our investments this year to capture the AI opportunity as reflected in our Q2 operating income guidance. That said, we're still maintaining our full year operating income guidance and also expect to be free cash flow positive for the full year.

As you heard from Dustin, we're excited about the opportunity ahead and believe that AI will dramatically alter the software landscape. Asana is in a strong position to deliver a tremendous amount of value for our customers because of the Asana Work Graph. And looking further ahead, adding revenue streams in the form of license-based add-ons and consumption-based revenue will align with where the market is heading. Any AI consumption-based or add-on revenue has not been factored into our fiscal year 2025 guidance. And to the degree that we have any, it will likely be immaterial this fiscal year. We will continue to iterate and work with our customers to roll out these features over time and share more with you over the coming months and future earnings call.

With that operator, we are ready for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Rob Oliver with Baird.

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

Q

Great. Good afternoon. Thank you very much for taking my questions. Dustin, I have a question for you. Really appreciate your perspective on this incredible moment we're in here with generative AI. And the potential paradigm shift that you laid out sort of away from traditional siloed application software categories is extremely interesting. And I'd love to hear a little bit more on that and whether you're hearing that today or any indications of usage trending that way from some of the most sophisticated Asana customers that are sort of the thought leaders on the Asana platform. And then I had a follow-up for Anne.

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

A

Yeah, I'm trying to connect the question to the words I used. I may have missed conveyed it a little bit. But what I think is true is that the way that these workflows happen will change quite dramatically. And I think as a result, which borders exist between which categories will change as well. So, for example, a lot of ITSM right now is sort of oriented around large numbers of humans taking tickets and figuring out how to respond to them. And if we move to a world where the vast majority of responses are fully automated and handled with the end user immediately, I think that will change the emphasis on where that software lives and where the value creation is.

In terms of what our customers are doing now, so I was talking basically about the future of AI driven workflows in Asana, and I mentioned that we're also working in a closed beta with a few select customers, but it's still very early. I don't think anyone has replaced an entire category of software yet like that, but that's what I see coming in the future, just because the potential is so dramatic. But a lot of what we've learned as well is it's really hard to learn exactly how these things manifest until you're actually doing it. So we put the new functionality in front of customers, and we might suggest a particular use case for it, but almost immediately they're sort of brainstorming 10 or 20 others, literally sometimes pulling in their colleagues and saying like, hey, can you imagine what you can do with this. And I think there's going to be quite a lot of discovery and innovation there. And so part of the point I was making is I think that the – where we've been recently, people kind of view AI entirely by analogy. It'll be like the same workflow, but now it'll be done in a partially automated way. And I think that's unnecessarily limited way of looking at the world.

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

Q

That's helpful. Thank you. And then Anne, my follow-up is for you. Just, I think coming up in our conversations and I assume others as well is feeling of being overwhelmed or confusion from some enterprise buyers relative to all of the different AI offerings that are out there and every application vendor coming with an AI offering. And I'd be curious, as you and Ed go to market, continue to kind of ramp up the enterprise playbook and build that muscle, what are some of the ways that you guys are getting in front of the right executives and differentiating your offering amongst a sea of other application vendors out there touting their AI opportunity? And that – I guess that question would be particularly germane to customers that might be new to Asana on the enterprise side. Thank you.

Anne Raimondi

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

A

Yeah, thanks, Rob. That's a great question because there is a lot out there. I think the things that are helping us differentiate is really we've been focusing a lot on ensuring that we are bringing a strategy to especially CIOs. Our Work Innovation Lab published original research on the topics facing CIOs today, including AI, and 77% of IT leaders are saying they are the ones responsible for AI. So part of our approach is bringing both this original research unique approach to AI and then showing CIOs what's possible. So we recently had our customer advisory board sessions with CIOs both in Europe and in the US. And just by showing what's already possible in Asana, as Dustin just said, it's really generating these ideas around what's already possible today and what will be possible tomorrow. And so our focus on going upmarket and really reaching the C-level decision makers is also starting to pay off because many of them just want a trusted partner to lay out a strategy together on how to approach AI. And so they are excited about also just our security and safety and how we've built AI into Asana. So, that's where I think we're the most excited about in these conversations is just the executive level engagement and then their eyes lighting up when they're seeing what they can already do in Asana. And as Dustin said, it just generates, 10 to 20 more ideas. And so these pilots that we're running are really critical for us to be able to show them the value so quickly. And we're excited to share more about what's happening there. So that's going to come at the Work Innovation Summit, both in San Francisco next week and then in the fall in New York in October.

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

George Iwanyc

Analyst, Oppenheimer & Co., Inc.

Q

Thank you for taking my question. Dustin staying on the AI topic, kind of digging into your comments with respect to the discovery and innovation process, can you maybe tie into how you're using the AI internally to how you're kind of adjusting both the product road map and the go-to-market road map on the enterprise side.

Dustin Moskovitz

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

A

Sure. I always struggle a little bit with these questions because AI for us is really more than one thing. So there are a number of features that we have in product already and have been part of our road map and we talked about at last year's Work Innovation Summit and have been delivering. And so a lot of that lives next to functionality that we use day in and day out. So things like Smart Summaries or being able to use Smart Answers to sort of ask questions of the current product that you're looking at. And so that just ends up being part of our normal workflow and part of customer workflows as well.

The part that I was speaking to that feels a little bit newer are these custom AI workflows, and in a lot of ways, it is a continuation of a road map we've been working on for 10 years. It's been kind of magical for me actually to sort of feel like the language models are just sort of like this missing keystone in our existing workflow builder because we already have integrations to a lot of the other tools that enterprises are using. We already have the sort of RPA-style workflow automation. We already have a very powerful templating engine. And now we have this additional ability to take some of the steps and actually do part of the work, what we refer to as actually assigning work to an AI teammate. And so that is a really important development and opens up a lot of possibilities for us. But it's not actually this giant new effort on our road map because it's really combining with all these other building blocks we have.

And in terms of how we're using it internally, we're basically taking a lot of our existing workflows that have partial automation or are partially templated, and we're taking individual steps in turning them into LLM workflows. And so that is working really well because in a lot of cases, frankly, we had hacked around it. We had sort of API-driven scripts that we were running in the background to kind of move things along in various parts of the product. And now we can just kind of do it all inside Asana, inside our UI entirely with user-built workflows. It doesn't require IT to come in and do it. And so a lot of what's happening is we're spreading the knowledge internally about how to do that and how to think about it in context of the work you're already doing.

And to sort of follow on to the question that Anne answered earlier, I think, our advantage is exactly that, maybe not with brand-new customers to Asana but for our existing enterprise deployments. We're not saying, hey, do something completely new in Asana. We're saying take your existing workflows, we'll make them better. We'll take steps that your team is currently doing. And not necessarily take it all the way from start to finish. I think the best AI results are really a collaboration between the AI and humans, but we can give you a really strong first draft or we can give you many drafts or we can give you a bunch of translations into a bunch of different languages or into a bunch of different user personas. And that can just really accelerate things and help people think bigger and deliver higher-quality results. So that's a lot of what I'm seeing now. But I'm not trying to describe this sort of radical shift in our strategy. I really see it as an opportunity to capitalize on something we've been working on for a long time.

George Iwanyc
Analyst, Oppenheimer & Co., Inc.

Q

Thank you. And then Anne as a follow-up, kind of digging into your number two priority with accelerating the pipeline, can you kind of parse that out with what you're seeing on the enterprise side versus the SMB side.

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

A

Yeah, definitely. So, on pipeline, pipeline grew year-over-year and we've been consistently hitting or exceeding internal targets both inbound and outbound in every region and across every pipeline source, so are really bullish about seeing those results. And it's really a strong partnership between our sales and marketing teams. I mentioned just the focus on our Work Innovation Lab's original research, but that's also combined with the executive events we've been running with the Work Innovation Summits around the world and then our executive briefings through our Work Innovation Center. So, it's all coming together to enable us to reach C-level decision makers, and that's been incredibly helpful in terms of building that enterprise pipeline.
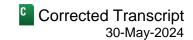
We also in Q1 saw strength in our SMB segment. So, we saw double-digit year-over-year growth in new ARR there, as well as improvement in our negative rate. We saw strength in SMB customer acquisition, as well as in our sales-assisted SMB motion. So, we're also pleased to see that while our focus absolutely has been continuing to grow upmarket in enterprise, the stability and improvement in the lower end of the market is also an early positive signal for our business as well.

Operator: Our next question comes from the line of Brent Bracelin with Piper Sandler.

Brent A. Bracelin
Analyst, Piper Sandler & Co.

Q

Thank you. Good afternoon. Tim, maybe we'll start with you. Obviously, growth has been challenged here for the last couple of years. You talked about actually seeing some expansion, seat expansion within tech, demand stabilization. Walk us through what you're seeing maybe by industry segment. Do you think the worst of the

headwinds in that tech vertical that I know has been a big vertical for you are now behind you? Any color there by vertical certainly would be helpful. And then I have one quick follow-up.

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yeah. I would say, when we look at our net expansion rate, the thing that we're starting to see overall across all the segments are now things have started to stabilize. And what was really driving the initial drop in our gross renewals and net expansion rate was primarily driven by a lot of the layoffs related to tech. And I think what we're seeing just from a early Q2 standpoint and even the Q1 results, things have started to stabilize. And so, I think we're really encouraged by that. The other thing I would point to is the pipeline comment that Anne made, the fact that we – the pipeline grew year-over-year and it's not just coming from tech, it's really coming from across a number of different industries. And I think work management is continuing to grow as a category. So, I think it's really that combination.

Brent A. Bracelin
Analyst, Piper Sandler & Co.

Q

Thanks for the color. And then, Dustin, for you, this concept that AI is going to live inside of these project management planning tools, assigning work to humans and AI assistants certainly sounds intriguing, but we've kind of been waiting for AI to show up at the application layer for a while. Even Microsoft, I think 95% of the AI revenue of Microsoft is still on the Azure infrastructure as a service side, seeing very little adoption of AI in app layer. What's your best guess on when we'll start to see more meaningful adoption of AI in the Asana application layer? Do you think this is going to be a groundswell of interest a year from now? Is it two years out? What's your best guess on how this is implemented? I know AI is not one thing, but as you think about a more meaningful adoption within the installed base, how long do you think it's going to take? Thanks.
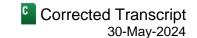

Dustin Moskovitz
Chief Executive Officer, Co-Founder & Director, Asana, Inc.

A

Yeah. So that's a big sweeping question. So I'll give you a big sweeping answer. To your point, it's not one thing. I mean, we have quite a lot of usage of our existing AI functionality already. That said, we packaged in only in our new packages, so it's not available to all customers. And there's some subset of customers that aren't ready to use AI at all and they're just like haven't gotten to that place in their corporate security posture. It's not that they're using other products. They're just not using anything. And so there is still somewhat of a – sort of Geoffrey Moore style adoption curve here and I think we're still in the early adopter part of it.

Part of the reason I'm excited about the add-ons that we're talking about for AI in the consumption based model is, I think, it will allow us to match that reality and focus on just the early adopters and giving them a great experience and letting them lean in – so, I'm involved with Anthropic a lot and we share board room with OpenAI. And I talked to the labs and that's kind of what I see on their side as well, as there's a few customers that are generating a lot of activity and sort of figuring it out and figuring out what else they can do in their business. And I think with custom AI workflows, we're going to focus on that and then we'll be able to tell that story and tell about the transformative impact it's having and use that to get the next set.

Additionally, just in terms of adoption overall, an observation I have is that the places where people agree there's been real AI creation already are where it's integrated very closely into existing workflows. So, I think the two best examples are GitHub Copilot for development and then also, various kinds of support ticketing. And I don't think it's a coincidence there. I think what they share is that they're not asking these broad employee bases to learn prompt engineering, to learn how to engage with these chat apps, and importantly, to sort of like learn how to

repeat a workflow with these chatbots because even when you have something like custom GPTs, you still kind of end up having to do this iterative, okay, I'm giving you the documents we care about, I'm giving you the prompts, we're taking the first step, now we're taking the second step. It's just really high friction and onerous. And it's a hard habit to start and a hard habit to break. Whereas with the existing functionality we have where it's getting most adopted, it is just appearing in context of something you're already trying to do, like writing a status summary or you're in a task thread and a lot of activity has happened and you want to like summarize what's happened.

And I'm really excited about – I've talked in previous earnings calls about this idea of sort of push versus pull AI. We're increasingly getting to a place where we're deciding to run the AI and just sort of delivering you the content. So, that's showing up for project summaries. Now we deliver them to your notification inbox and to your email. And so that is just like a sort of different mental model for adoption. It's not that the end users have to decide this thing is giving me a ton of value. And so now I'm going to change my habits and adopt this new tool and become a prompt engineer. It's that the application vendor, in this case Asana, is deciding how AI can amplify the value that you're getting.

And for the functionality that we've deployed so far, that doesn't show up as a separate revenue line for us because we think all CWM products are going to have to do this. But it does amplify the value of the product offerings and especially the differentiated product offerings like Smart Status that benefit from having work connected to higher level goals. And so we're seeing more interest in sort of choosing Asana and betting on it as the platform for the long run. And we're also seeing it drive more value appreciation in our uptiers. And I'm excited, one of the things we're doing at the Work Innovation Summit is we're talking about what I think of as sort of upper pyramid of clarity, AI value, so things that benefit more portfolios and goals, and that's going to be a place where I think we're going to be much more differentiated from the rest of the market. And where we have the ability to do something that other people can't, that's when I think it will create more of a sort of unique pricing opportunities. We talked about resource planning as a big one there. And yeah, so really excited to be able to deploy that to market.

So, I think I would just re-characterize it a little bit as the early adopters are adopting now and because it's not just one thing they're adopting, you kind of have to break it down into what's working well and what isn't. And yeah, there's the push versus pull concept as well, so what is the user deciding to initiate, what's the application deciding to initiate. And so I think where you're going to see the most impressive adoption, it will be companies like Asana that are figuring out how to integrate it into existing workflows and existing applications, rather than getting people to adopt an entirely new platform.

Operator: Our next question comes from the line of Jackson Ader with KeyBanc Capital Markets.
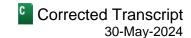

Jackson E. Ader   Q
Analyst, KeyBanc Capital Markets, Inc.

Hey, guys. Thanks for taking our questions, guys. I guess the first one is actually following up on what I think is kind of some really ambitious talking points from the company and from you Dustin about workflow automation across the enterprise and disparate applications and business functions in Asana kind of working across this line. But I have a two-parter for that. Number one, do you think that the core work management or collaboration tool, the core Asana needs to reach some sort of critical mass within an enterprise for then the customer to grant your AI technology access to the systems of records that you will need in order to derive value for them?

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

Sorry, just to clarify by systems of record, you mean other than Asana's – the system of record, integrations?
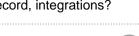
Jackson E. Ader
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. ERP, CRM, HR.

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

A

So, I think just like at the highest level, no, I don't think you need critical mass. You need a team that is interested in that workflow. But there are a number of different ways to address like privacy or security concerns. Like, we don't necessarily need kind of like carte blanche access to a tool like that. We can kind of do what we already do today with integrations, which is we're basically making a call out for a specific record and that service is returning it to us. And I think the bigger friction there is just like how hard it is to set up an integration and necessarily whether the customer thinks that's worth it or they've invested enough in Asana. So I guess it just doesn't resonate as a problem we're facing. But also I think there's quite a lot of work you can get done using just Asana as the system of record. So most of the built-in functionality I've been talking about doesn't need access to an external tool because it's actually helping you with the collaborative work management part of things.

And then additionally, when you're doing something like Anne talked about, we've been implementing sales development outreach for Asana, that requires access to like our marketing materials and like knowing how to speak Asana to sort of customize the message. But it doesn't really – well, I guess we do still want to – we want to look up the customer information. So it does a little bit, but that – those are our tools anyway. And like, yeah, I guess I should just leave it where I started off. Like, I don't think that's a real problem we face.

Jackson E. Ader
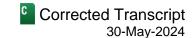*Analyst, KeyBanc Capital Markets, Inc.*

Q

Yeah, that's fine. Okay. And then just a quick follow-up. So like if I think about the same in addition to Asana, like those same kind of systems of record, your CRM, ERP, blah, blah, blah. They are also developing their AI tools or copilots, right, or like – and when I think of workflow automation tools, right, I think about – of a different software company who is also trying to get into AI and workflow automation across the enterprise. So, I'm just curious like, what is the big 10,000 foot reason why Asana would be better positioned than maybe some of those larger companies – those larger systems of record companies in being AI winner?

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

A

Well, the same reasons we always are. I'm worried that something got projected onto what I said. I don't think we're entering the CRM category right now. What I do think is going to happen is all of SaaS is going to be transformed. And so who is the dominant player in CRM a couple of years from now? Maybe it's Asana or yeah, maybe it's another dedicated vendor that was agile in the right way and embraced the technologies. I do think we have a lot of advantages in terms of having connectivity through the layers of the Work Graph, in terms of supporting cross-functional work. And it continues to be the case that the most valuable work is done cross-functionally. And so, again, we are seeing in practice where customers want to develop and build with Asana. And it isn't necessarily CRM. I just think that is a category that is going to be ripe for disruption.

And I think that the thing I do see is you can create such dramatically different results when you rebuild the workflow using AI that your priorities about – what you care about change. And so if you're getting a dramatically

better response rate and your business development reps have much higher productivity than maybe the other things that you thought that was a requirement for that category sort of fall by the wayside and it's more about where you can successfully implement and adopt and get the results that you want. And there I think Asana is just really well positioned to be early in the market and be able to not just address a single software category like that, but be a solution that you can use across teams and for cross-functional work.

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

Joshua Baer
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks for the question, which is for Dustin. Wanted to come back to something that you mentioned earlier around OpenAI and Anthropic. Just wondering how does your early involvement and your relationships and investments in those companies give Asana an advantage? If you could just expand a little bit. How does your involvement really informs your strategies at Asana? Thanks.

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

A

Yeah. So I think one of the themes on this call has just been the amount of confusion there is in the market and how hard it is to decide where to kind of commit and invest and make choices for the future. And so, there's just a huge advantage in sort of having direct communication with those teams. And we're mutual customers. And so, as we do with our customers, they're sort of previewing the road map with us. They're giving us early access to tools. Sometimes we get early access to the frontier models and sort of get the beta tests on. And so that saves us a lot in terms of sort of knowing where things are going to converge in the future, where we should invest in our platform versus maybe where we're going to get a capability from the labs themselves and maybe that will be better. And also, we've learned a lot about what it means to work with multiple at once. And I think that's just been really helpful for us to be able to build in a way that allows us to switch between them and even in some cases use both in a single workflow.

And so a lot is just about being able to have that sort of early access to a little bit of the future when everything is moving so quickly and developing so quickly and just having really high-bandwidth communication with those teams. I think I probably know, like, 15 or 20 individual employees in Anthropic now and – yeah. And there's quite a lot more connections here with the whole company. So yeah, it's really just about having those close relationships and being here where all that activity is happening and being able to just stand a little taller and see a little further.
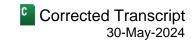

Joshua Baer
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you very much.

Operator: Our next question comes from the line of Michael Funk with Bank of America.

Michael J. Funk
Analyst, BofA Securities, Inc.

Q

Yeah. Thank you for the questions tonight. So first one is higher level. A number of software companies have talked about sequential enterprise demand weakness this quarter or calendar Q1 versus calendar 4Q. And if I heard your comments correctly, what you're experiencing is markedly different and more positive. I think I heard

you talk about a solid finish to the quarter, stabilizing or stable churn rates and strong pipeline. So if I heard that correct, to what do you attribute the relative strength? Is it the product? Is it relatively low penetration? I think it would be helpful to put a finer point on that, just given how the market's responded recently to some of the other company commentary.

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

Yeah, Michael, thanks for that question. I do think for us, unlike a year ago, we're now seeing customers are planning to invest, especially in AI. And AI, in particular, is also a potential driver of consolidation in our space because they see the benefit of having all of work management on one platform to really accelerate the benefits that would then accrue from AI on top of those workflows. And so we really see – we've always been strong in having relationships with customers around digital transformation. We feel like digital transformation is the first step and precursor to AI transformation. And so, they're responding enthusiastically as we are showing them what's already in the product and what's coming. So I think that's actually what we're seeing in terms of – in the demand environment.

And then as far as consolidations go, we're also just seeing that directly with customers. A hardware manufacturing company that we work closely with expanded to a three-year contract this quarter. They replaced two other redundant tools, really be driven out of the CIO's organization. So the CIO wanted to drive business value by managing all of their road maps, their projects, their product launches and their marketing workflows all in Asana, and that's giving their leadership team visibility and control across their most critical initiative. And so, I think it's that confluence of CIOs are looking to streamline and simplify their tech investments. Work management is emerging as a category that they're paying a lot of attention to. You add on top of that wanting to embrace AI in a strategic way. And so, I think we're seeing that all come together in our customers.

Michael J. Funk
Analyst, BofA Securities, Inc.

Yeah. Thank you for that comment.

Tim M. Wan
Chief Financial Officer, Asana, Inc.

And the only thing I would add. This is Tim.

Michael J. Funk
Analyst, BofA Securities, Inc.

Oh, I'm sorry.

Tim M. Wan
Chief Financial Officer, Asana, Inc.

The only thing I would add is the investments that we've also made in our go-to-market leadership. That's been extremely beneficial in terms of moving the teams up and focusing them on the enterprise market.

Michael J. Funk
Analyst, BofA Securities, Inc.

And that was also the comment earlier about the strength in the EMEA or international relative to the US and presumably productivity improving and hopefully migrating to North America later this year?

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

A

Yeah, absolutely. And thanks, Tim. Kudos to the team, yes. We've been seeing real strength in EMEA. That's where, in each market, we now have seasoned enterprise leadership. We're also seeing that globally as we've been investing in new leadership in sales enablement and field readiness, operations, as well as the new global leader for sales development. That's also helping to drive that consistency in performance in the enterprise. So we're excited to see more of that come in North America. Our General Manager for North America joined at the beginning of the fiscal year and we're really excited to see the momentum that he's driving.

Operator: Our next question comes from the line of Taylor McGinnis with UBS.

Taylor McGinnis
Analyst, UBS Securities LLC

Q

Yeah. Hi. Thanks so much for taking my questions. So the first one is, you talked about NRR going down in 2Q. But given that's a trailing 12-month metric, I know it can be a little noisy. So, I'm just wondering, can you give us color on how the renewal base in 2Q compares to what we've seen in past quarters in terms of size and churn risk. And then secondly, as we think about, like, the renewal rates that you're seeing in 2Q versus previous quarters, is the expectation that those will be similar, better, tougher? Like, any more, I guess, color in terms of some of, like, the quarterly dynamics? Thanks.

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yeah, I think we mentioned on the call, Taylor, we specifically pointed that we still have some tough renewals going into Q2 and that we're very well aware of those customers. But coming out of Q2, we expect our gross renewal rate, as well as our NRR to pretty much stabilize. And to the degree that expansion continues to happen, pipeline continues to build, we think those things will reaccelerate. If I compare kind of the slope of the curve of where things are today versus where they were a year ago, things last year was definitely on a downward slope, both our NRR and our GRR. And when I look back now, it's at the kind of the last two, three quarters, things are much more stable and have essentially, I would say, almost flat line on a renewal basis.

Taylor McGinnis
Analyst, UBS Securities LLC

Q

Okay. Thanks...

Tim M. Wan
Chief Financial Officer, Asana, Inc.

A

Yeah.

Taylor McGinnis
Analyst, UBS Securities LLC

Q

Perfect. And then my second question is just in terms of the new like pricing and packaging and obviously like AI ties into this. But can you just give like an update in terms of the uptick that you're seeing there, if any, and how that could be a growth driver in the back half of this year? Thanks.

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

A

Yeah, Taylor, I'll answer that question. So we're definitely continuing to see really encouraging signals that the new tiers are driving higher. Enterprise uptiering and contributing to a larger volume of enterprise deals in our pipeline versus historical. As of the end of Q1, we almost doubled the number of customers who adopted our new packaging compared to Q4. And since the launch of the new packages, customers uptiering to our new enterprise packages, comprised approximately 40% of our total enterprise tier ARR expansion. So early positive signals, and we're moving as quickly as possible to get customers into these new plans.

Operator: Our last question will come from the line of Patrick Walravens with Citizens JMP.

Patrick Walravens
Analyst, Citizens JMP Securities LLC

Q

Great. Thanks for taking my question. So I know there's been a lot of discussion about AI on the call. I just wanted to drill down on one point. So there have been concerns about AI driving more seat compression. I just wanted to ask, as you put more AI tools in the hands of Asana customers, is that a line that gets crossed at a certain point or does it actually make it more appealing for customers to put more behind Asana? How do you think about that? Thanks.

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

A

All right. Yeah. So, part of that I think is unknown, but the two big things that I'd go back to there, one, we still have a lot of seat expansion opportunity in our existing customers. So, unless they're already wall to wall, I think on balance, this is a reason to expand further. And then the other is, I think that moving or adding the consumption based revenue line gives us some future proofing there because it's really aligning price to value on what they're getting out of the functionality rather than sort of fixating on the seats. So I think if that becomes a bigger trend, then we would move more in that direction. And this is setting us up well to be agile. But in the next few years, again, given what I said about the early adopter curve and the way these technologies are adopted, I don't think that's particularly relevant to the model or something that we're seeing impacting some deals.

Patrick Walravens
Analyst, Citizens JMP Securities LLC

Q

Okay, thanks.

Operator: That concludes today's question-and-answer session. I'd like to turn the call back to Catherine Buan for closing remarks.

Catherine Buan
Head-Investor Relations, Asana, Inc.

Thank you again for joining us today. I know it was a really busy day in earnings and we appreciate your time. Looking forward to seeing you on the road this quarter, we will be at all the conferences in San Francisco and New York. And of course, please join us in San Francisco on Wednesday, June 5 for the Work Innovation Summit. You can register with us at ir@asana.com and looking forward to seeing you on Wednesday. Thank you.

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