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Asana Inc.

Fourth Quarter and Fiscal Year 2021Earnings Conference Call

March 10, 2021

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PRESENTATION

Operator

Welcome to the Asana Fourth Quarter and Fiscal Year 2021 Earnings Call.

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

Catherine Buan

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

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

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

Forward-looking statements represent our Management's beliefs and assumptions only as of the date made. Information on factors that could affect the Company's financial results is included in its filings with the SEC from time to time, including the section titled Risk Factors in the quarterly report on Form 10-Q filed by the Company for the quarter ended October 31, 2020.

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

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

Dustin Moskovitz

Thanks, Catherine, and thank you to everyone for joining us today for our Q4 and Fiscal Year 2021 Earnings Call.

We're very excited about our results for the year. There were several highlights. We closed off the Fiscal Year with a growth rate of 59% and our business is as strong as ever. Also, we now have over 93,000 paying customers and over 1.5 million paid users as of Fiscal Year-end, and customers spending $50,000 or more grew 92% year-over-year.

We had strong momentum in large customers and had a record quarter for expansion within our very largest. In fact, revenue from our current top 10 customers more than tripled in Q4 versus the previous year.

We completed our direct listing on September 30 and we were the first to accomplish this remotely. We also held our Vision for the Future of Asana event a few months ago, showing the world what work will look like when we achieve the full potential of Asana and the Asana Work Graph Data Model. Over 24,000 people have watched it.

The successes from the year are thanks to the hard work and resiliency of our team and their commitment to our customers' success. These results reflect the increasing demand for work management and the global need for team clarity. Most of the world's 1.25 billion knowledge workers struggle to coordinate work across their teams. They still rely on status meetings, spreadsheets and sticky notes to answer basic questions such as who's doing what by when.

The pandemic and shift to distributed work further exposed the pain of work coordination. We recently published our annual Anatomy of Work Index, an independent study of 13,000 knowledge workers. The study quantified what many of us know intuitively: teams are working hard on things that aren't having impact. The study revealed that 60% of time is spent on work about work rather than work itself; 26% of deadlines are missed, and seven in 10 people experienced burnout in the last year.

Teams that lack clarity experience a cycle of chaos: works falls through the cracks and teams scramble to figure out what to do. This results in wasted effort and missed opportunities. Effective teams have the three C's of collaboration: content, communications and coordination. Those teams have invested in content and communication technologies such as file sharing, messaging and videoconferencing, but still rely on status meetings and spreadsheets for coordination.

Asana is the platform for team coordination, gives teams time back by bringing structure and clarity to their work. Team coordination is a universal need, and Asana is well-positioned to capitalize on this secular trend. With 1.5 million paid users, Asana is a market leader, and yet we're less than 3% penetrated in our existing customer base. Simply put, our market opportunity is massive.

To provide the best platform for team coordination, we built a proprietary data model, the Asana Work Graph. The Work Graph is a complete, fully connected, accurate and up-to-date map of the work in an organization. It's what sets us apart from other companies in the market, and it's what enables Asana to provide clarity at every level of an organization, regardless of the size, structure and complexity. The Work Graph Data Model enables our three key differentiators.

First, individuals cite Asana's ease of use and how it maximizes personal productivity and focus. The consumer ratings show up on G2, an independent review site where Asana was named the most highly rated Company in the recent project management grid.

Second, teams cite the ease of staying organized while coordinating complex, cross-team work, thanks to things such as multihoming, a feature uniquely enabled by the Work Graph and used by over 97% of our customers spending $5,000 or over.

Third, executives praise the real-time visibility that Asana provides into the status of their goals and strategic initiatives. This is possible because goals, portfolios, projects and tasks are all connected thanks to the Work Graph. We're the only solution that can provide clarity to the individual, teams and executives based on a shared source of truth. Customers rave about this, and the Work Graph is what makes it work.

Last quarter, I described task multihoming as one of the most pervasively used features that illustrates one of the benefits of the Work Graph. Multihoming gives people the ability to host a single task and multiple projects at the same time. An individual task is often relevant in multiple projects or process workflows. With multihoming, you can share a single source of truth for one task and all of those contacts, even across multiple teams and departments. The Work Graph mirrors the natural flow of work. As a reminder, the alternative to this is a container model, which forces you to keep information about one task siloed in a single context.

The next layer of the Asana Work Graph is portfolios. Portfolios are collections of projects, giving you the ability to see all the work related to a strategic initiative, along with a snapshot view of their current status. Multihoming shows up again here, because a single project can be included in many portfolios, so customers have flexibility to accurately map how work is happening and organize the most helpful views for their workflows, portfolios built on all three of our key differentiators.

First, they make Asana easier to adopt by providing new users to a work space, as well as new employees to an organization, a guide to help them learn about and navigate each initiative. They help maximize personal productivity, because anyone can create their own portfolio of projects to represent and personally manage work they care about. For example, your personal portfolio might be called My Projects.

Second, like task multihoming, project portfolio multihoming helps facilitate cross-functional work. Projects can be included in multiple parent portfolios, which allows different teams to organize and track projects using their own taxonomy. For example, R&D teams might create portfolios that represent the way work is grouped within program teams, whereas product marketing might want to bundle projects into related releases. Perhaps, they would additionally organize them according to customer value themes. There’s no need to choose. This flexibility is enabled by the Work Graph. In a container model for portfolio management, all the cross-functional teams are forced to compromise on a single way to organize the work.

Finally, as I mentioned above, they are a key way that work at the task and project level connect to the higher level strategic initiatives. This gives leaders throughout the company, including executives, an easy, real-time way to see how work is progressing at a high level.

Now we’ve introduced nested portfolios, meaning a portfolio can be included inside another portfolio, or multiple other portfolios. These layers nesting are key to how we make Asana easy to adopt, while also being able to scale organically to support larger customers. Asana lets you start small with a simple structure of single projects. You can then progressively add powerful layers that bring structured organization and reporting over time. It’s a simple, elegant on-ramp to as much sophistication that a customer might need to do their work.

In contrast, container models leave employees in large organizations lost, swimming in a sea of silent projects. As an example, I know many of you also follow important companies like Twitter, and are familiar with their strategic objectives. More and more of our customers are turning to our capabilities within portfolios to drive cross-functional alignment as they grow rapidly in scale. Twitter chose Asana Enterprise in Q4 as their work management platform for their experience team, which includes design, research, product and engineering. They standardized on Asana to bring those cross-functional teams and leadership together in one place to manage product road mapping, content creation and inbound requests. Another benefit they’re excited about is being able to connect technical and non-technical teams who previously struggled to collaborate, using the Asana Jira integration.

Listening to our customers has been the cornerstone to our product strategy. We’re constantly expanding and deepening the strength of our platform. We’ve been launching new features and capabilities for customers at a rapid pace.

Before I hand it off to Chris, I just want to make sure I highlight that this year, we were ranked the top best place to work by Inc., Glassdoor, Built in NY and Fortune, including landing at #1 Best Workplace in the Bay Area for the fourth consecutive year. Our culture is integral to our business success, and part of how we create a great culture is using Asana to ensure that everyone has real-time clarity about what’s expected of them and how their work fits into our higher level goals. This year, as our revenue grew rapidly at 59%, we succeeded in scaling our culture as well, and building an environment where our team can thrive as they create value for our customers.

With that, I’ll hand it off to Chris.

Christopher Farinacci

Thanks, Dustin.

We had a great fourth quarter. We finished the year really strong, and even accelerated revenue to 57% growth in Q4 as we exited the Fiscal Year. Highlights from the quarter's business performance included a few things.

First, growth in new paying customers to over 93,000, and record level top-of-funnel volumes. Second, strong expansion within our customer base. We now have more than 1.5 million paid users; net retention rate for customers spending $5,000 or more with us annually was 125%, and for customers spending $50,000 or more with us, was more than 140%. Third, some big wins and strong momentum in Enterprise. The number of customers spending $50,000 or more with us annually grew 92% year-over-year, and our largest customer deployment in terms of paid users grew five times the size of our largest customer at the end of the prior year.

We saw broad customer traction in Q4 across industries and departments, from high growth leaders to enterprise digital transformation, and across global regions. Here's just five of the many examples.

DANONE, the leading dairy and plant beverage and specialized nutrition company, headquartered in Paris, selected Asana's enterprise solution in Q4 as their standard for project and work management, so Asana takes DANONE from supply chain to finance to quality and food safety, now have the visibility they need to collaborate effectively, drive project ownership and further strengthen their commitment to bringing healthy food to as many people as possible.

Spotify, a leading provider of digital music and podcasts, first, again, using Asana in 2015. Usage has steadily spread across the company over the years, and in Q4, they significantly expanded their use of Asana's enterprise solution as teams looked to improve how they collaborate, manage projects and run business processes. Now teams across the world are managing everything, from the latest podcast ad campaign to engineering roadmaps, to regional marketing and sales activities in Japan in Asana.

Gojek, a "super app" that provides millions of users across Southeast Asia with on-demand access to more than 20 services, such as rides, upgraded to Asana's enterprise solution for the entire company in Q4. They chose our enterprise offering to further enhance security and user management controls, while also providing Gojek's executive team with the support and visibility needed to accomplish their key business objectives.

Hotmart, a leading platform for digital producers and one of Brazil's leading startups chose to go wall-to-wall with Asana's business solution for its 1,000+ employees in Q4. Now teams across the company are managing their projects and work in one place, from finance to marketing to business strategy and operations, to talent acquisition.

HubSpot, a leading CRM platform that provides software and support for scaling companies, has been using Asana across some of its marketing and sales operation teams for some time. In Q4, they upgraded to our Enterprise solution and expanded their use to more teams within these functions, as well as to other teams like finance and HR. I credit our exceptional business performance in Q4, and in our Fiscal Year 2021, to first and foremost, the immense business value we provide to our customers, our differentiated product offering, our resilient hybrid business model and talented go-to-market team, and to the overall accelerating business imperatives of the market.

Looking forward to our Fiscal Year 2022 and beyond, there are three major areas where we are focused: acquiring new customers; customer expansion in our base; and Enterprise momentum. To give some color, first I'll start with new customer acquisition. This is a fast-growing emerging category with the vast, vast majority of 1.25 billion global information workers without work management tools and suffering from lack of clarity. For new teams, Asana is fundamentally a broad, horizontal product. We see customer use cases within and across virtually all functions and departments, and often including collaboration externally, with suppliers, partners and customers.

We remain focused on acquiring new customers, building upon our record top-of-funnel demand from Q4 with a blended, paid organic and product-led growth approach. Over the course of this year, we are executing one of the largest new market expansion initiatives to-date. We're planning to expand language availability for Asana from six to 13 languages over the course of the year, to make Asana accessible to a significantly larger portion of the world's teams.

Second, we are focused on customer expansion. We continue to see a large expansion opportunity in our existing base of now over 93,000 paying customers. This year, we are expanding our direct sales teams in Asia, Europe and North America. We're building on the strong departmental traction we see in marketing and creative, sales, and strategy and operation teams, as well as other teams like product design, HR and IT teams.

This year, we are particularly focused on providing best in class solutions for key cross-team workflows, for example, global campaigns, product launches and creative development. These are workflows we uniquely address, and which bring more teams into Asana.

Third, our last area of focus is Enterprise, building on the tremendous Enterprise adoption and momentum of last year. This year, we are investing significantly in our Enterprise platform. Major investment areas include: Work Graph visualizations and reporting; advanced administrative controls and broader compliance support; building out our technology and services partner ecosystem; and Integrated Goals Management and cross-company use cases.

This year, we are also continuing to grow and scale our Enterprise sales organization. We have now brought in general managers in each region, with enterprise leadership backgrounds from companies such as Salesforce, Qualtrics, LinkedIn and NetSuite. We are investing heavily in our Enterprise capabilities, and while we are still very much in the early days of this market, our Enterprise motion and momentum is beginning to build. Asana is uniquely suited to scale as a trusted partner and provider of real-time clarity and alignment in and across large enterprises.

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

Timothy Wan

Thank you, everyone, for joining us today. We are very excited to report another great quarter with strong results across the board.

Q4 revenue accelerated from last quarter to $68.4 million, up 57% year-over-year, driven by continuing strength from our customers spending $5,000 or more on an annualized basis. I'm also encouraged by the fact that we have maintained 55% plus revenue growth rate during each of the quarters throughout this difficult year. It demonstrates the category tailwind and the resiliency of our business model.

We added over 4,000 net new customers, and now have over 93,000 paying customers, representing a 24% year-over-year increase. We have 10,174 customers spending $5,000 or more on an annualized basis, up 55% year-over-year.

Growth in larger customers is even stronger. We have 397 customers spending $50,000 or more on an annualized basis, up 92% year-over-year.

Revenue from customers $5,000 or more represented 62% of our revenue in Q4, compared to 54% in the year-ago quarter. This segment of our business grew 81%. This further demonstrates our success with our land and expand strategy.

Our overall dollar-based net retention rate was over 115%. As a reminder, our dollar-based net retention rate is a trailing four-quarter average calculation. Among customers spending $5,000 or more, our dollar-based net retention rate was 125%, and among customers spending $50,000 or more, our dollar-based net retention rate was, again, over 140%.

Before turning 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 88%, up from 87% in the year-ago quarter. R&D was $30.6 million or 45% of revenue. We continue to invest heavily to fuel innovation at a high velocity. Sales and marketing was $49.2 million or 72% of revenue. We are continuing to invest in both our self-serve and direct sales motion. G&A was $15.4 million or 23% of revenue. Operating loss was $34.8 million, and operating loss margin was 51%. Net loss was $35 million, and our loss per share was $0.22.

Now onto our Fiscal Year highlights; Fiscal Year revenue was $227 million, up 59% year-over-year. We added over 18,000 net new paying customers for the full year. We also added 3,600 customers spending $5,000 or more on an annualized basis. This is an increase of 55% year-over-year. Finally, we added 190 customers spending $50,000 or more on an annualized basis. This represents an increase of 92% year-over-year.

Moving on to the balance sheet and cash flow; cash and marketable securities and long-term investments at the end of Q4 were approximately $405 million. Our free cash flow is defined as net cash from operating activities, less cash used in property and equipment and capitalized software costs, excluding nonrecurring items such as direct listing fees and the build-out of our San Francisco office. In Q4, free cash flow was negative $17.5 million. We also ended the Fiscal Year with 1,080 employees.

We're very proud of the achievements and the business momentum during this unprecedented year.

Now, moving onto Fiscal Year '22, for Q1 Fiscal Year '22, we expect revenues of $69.5 million to $70.5 million, representing growth rates of 46% to 48%; non-GAAP loss from operations of $44 million to $42 million; loss per share of $0.27 to $0.26, assuming basic and diluted weighted average shares outstanding of approximately $161 million.

Now looking out to full Fiscal Year '22, we expect revenue to be $309 million to $314 million, representing a growth rate of 36% to 38% year-over-year. Given the large market opportunity, we will continue to invest for growth to maintain our leadership position. We expect full-year non-GAAP operating margins to be flat to slightly up from Fiscal Year '21. Longer-term, we believe that we can execute on our growth strategy, and that our best in class gross margins will provide the leverage and flexibility to invest into the enormous market opportunity. We believe this investment will provide durable and sustainable growth as we pursue this large market opportunity with the best in class product.

Operator, let's open up the line for questions.

Operator

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

Brent Thill

Thank you, good afternoon.

I'm curious if you could just characterize the overall demand environment and how your customers are behaving as we go through the lifting of this pandemic. I think Dustin, many are asking, how does this change the Company's approach as we return to the office? Does anything change, or is this just too powerful of a tailwind that we're going to continue to see that type of momentum that you're putting up? Thank you.

Dustin Moskovitz

Yes, thanks for the question.

I'll start off by saying, even before COVID started, I think that our growth was being driven by a long-term secular tailwind and momentum in the category. Clarity is really difficult for teams even when they're in a regular office environment, and there's just been a rising tide of the business imperative for clarity and alignment.

I would also just point out, even in the pre-COVID times, when you have large companies, they're typically working in distributed ways a lot of the times; they're working across offices that they might have all over the world, they might have people in the field that are checking in remotely. You had some elements of distributed there. But even when a team is working together, literally face-to-face, Asana is a very useful solution for achieving clarity.

Post-COVID, I think we're going to see some companies return to those dynamics and be mostly back in the office. We're clearly going to see a lot more companies choose to be fully remote or remote first, and we'll have everything in between. I think in all of those contexts, Asana is going to play an important role in driving clarity and alignment. We're really well-suited to the moment, but also the growth that's really being driven by those longer-term trends.

Brent Thill

Great. Just a quick follow-up for Tim, 4,000 paying clients; I think you were running between 5,000 and 7,000 the last two quarters. Is there anything to read into that, or are you just getting larger transaction albeit a smaller number—anything to read in on that number for the quarter?

Timothy Wan

Yes, I don't think there's anything to read in onto that number, other than the fact that, I think that our fluctuations quarter-over-quarter and Q4, we do have a hybrid model where there's a very strong self-serve part of the business. During the holidays, you may see a little bit softer in terms of new customer adds. But I think, what we've talked about is, taking a look at the total customer base from—the growth from an overall basis. We grew our total customer about 24%, 25%, year-on-year.

Operator

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

Ittai Kidron

Thanks, guys, great numbers.

Chris, I wanted to dig a little bit into your Enterprise focus heading into next year. Can you talk about the quarter, salespeople motion (phon), how much are you investing in it, how do we think about the expansion of that base next year? In what way—can you remind us the motion of how you move from self-serve into a little bit more of an involved sales process in order to drive deeper and broader adoption?

Christopher Farinacci

Yes, sure. Thanks for the question, Ittai.

Enterprise last year into this year, last year we built a really strong foundation, investing in regional go-to-market leadership and Enterprise infrastructure to support our success in the Enterprise. As we mentioned, we saw really strong Enterprise adoption momentum last year, particularly in the second half of the year. We brought in those GMs in each of the regions, in each of the key regions that we focus in, with enterprise leadership backgrounds from companies like Salesforce and Qualtrics and LinkedIn and so forth. This year, the plan is to continue to grow and scale our Enterprise sales organization, as well as invest in the Enterprise platform.

Just to give you a little bit more color on that, on the platform side, we're making major investments in some product areas like Work Graph visualization reporting, advanced administrative controls and broader compliance, building out our technology and services partner ecosystem and continuing to invest in integrated goals management and some of those cross-company use cases. Then on the business side, we're growing and scaling our direct and Enterprise sales teams in Asia, Europe and North America, and we've got the GMs in place. We believe we're uniquely suited to scale as a trusted partner and provider of clarity to whole organizations.

We'll continue to scale on the Enterprise, and we're really encouraged by the momentum coming out of this last year.

Ittai Kidron

That's great. Maybe as a follow-up, you've also talked about expanding the number of languages; I think it was from six to 13, if I got that right. Can you give us, perhaps, some math on what is the population, or what part of the global knowledge worker base you'll be able to peel off with this addition?

Christopher Farinacci

Yes, I can give you some of that and we can follow-up with some of the details. We're expanding languages availability as you said, from six to 13. This is to make Asana accessible to a significantly larger portion of the world's teams, as you mentioned, and expand our TAM. These languages are all focused in Europe and Asia, and we'll be doing it, rolling over the course of the year.

I don't have the exact math on how much of the TAM it opens, but it's particularly focused on languages and countries and markets specifically in Europe and Asia that are the next bets beyond the languages and markets we focus on today.

Operator

Your next question comes from the line of Rob Oliver from Baird. Your line is open.

Robert Oliver

Great, thank you guys very much for taking my questions.

First of all, one for you Chris; you mentioned in one of your references, on a wait on the integrations, which was a technical and nontechnical win with the new Jira integration. I was wondering if you could provide some color on those integrations which you guys had announced earlier in the quarter, and maybe some of the use cases you're seeing around there, particularly because some of them are viewed as your competitors. I would be curious to hear a little bit more about how you're seeing those integrations play out.

Christopher Farinacci

Yes, sure. The strategic integrations we announced in the second half of last year were largely with players like Microsoft, Google, Slack, Zoom, Adobe, Jira from Atlassian and Salesforce, most of those companies of which we're pretty strong partners with.

In terms of some of the use cases, I'll just maybe highlight a couple from some of the customers I mentioned earlier in the prepared remarks. Dustin mentioned Twitter as an example where their experience team, which is largely their R&D, design, product teams, are using Asana to manage things like product road mapping and content creation. There, the integration with Jira is pretty typical of what we see, where we're connecting technical and nontechnical teams through that integration. We'll tend to see that in a lot of cases where the boundary between developers and broader teams, and the broader teams are wanting to manage cross-functional use cases with Asana, things like product roadmaps, product launches, sprint planning, and they want to integrate with core development on the Jira side to enable those cross-functional use cases.

Then there's a number of other customers I mentioned; maybe I'll just mention one or two more, in the prepared remarks. Most of these involve various integrations that we talked about. Let's see, HubSpot's a good example of a company where we started in marketing and sales operations and then expanded, in Q4, to Enterprise, to include not just more sales and marketing teams, but to include finance and HR teams as well. Across those customers, you'll find some level of at least one, if not multiple of those integrations in all those customers.

Robert Oliver

That's great, thanks.

Dustin, one follow-up for you, really appreciate the color, Chris. You mentioned, I think, the use by R&D teams, and it does sound as if this opportunity is expanding nicely outside the marketing department for you guys. When you look at those large Enterprise customers, which, I think you guys said grew 3x in the quarter, which is pretty astonishing, what are the patterns that you're discerning there as, I imagine you sitting at the top of the Work Graph looking down into Asana. What are the patterns you're seeing that excite you about particular use cases? Thank you guys very much.

Christopher Farinacci

Do you want to start, Dustin? Yes.

Dustin Moskovitz

I'll just start off by saying I think a lot of the growth in those customers is really characterized by just being strong, organic, viral, really being driven by internal champions starting to use Asana on a particular team and spreading it to the teams adjacent to them. Chris is probably a better person to speak to exactly the departments and use cases we're seeing that.

Christopher Farinacci

Yes, so maybe just answer that exactly—and as I think you might know, our direct sales team is really focused on those—it's primarily segmented by departments, functions and departments where we're seeing the most traction. Building on that traction from last year, in the second half of the year, it's largely in marketing and creative, sales and account management, strategy and operations teams, but we also see broader engagement in product design, HR and IT teams.

Then going into this year, we're particularly focused on providing best in class workflows and best in class solutions for particular cross-team workflows that we see as we uniquely address, and which bring more teams into Asana. Some examples specifically are global campaign management, product launches and creative development processes, as an example.

Operator

Your next question comes from the line of Mark Murphy from J.P. Morgan. Your line is open.

Matthew Cos

Hi, good afternoon, this is Matt Cos (phon) on behalf of Mark Murphy. Can you comment on any rollup of competitors among your customers, especially as you've seen success at the Enterprise recently?

Christopher Farinacci

Yes. From a competitive landscape perspective, and I'll just remind everyone, this is a huge greenfield opportunity, so most information workers, the vast, vast majority of the world's information workers don't have work management tools yet. That's why the business imperative of this category is accelerating.

With that, I think you're asking about the competitive landscape and if it's changed. Our primary competitor remains—it hasn't changed much at all in Q4. Our primary competitor remains the status quo of spreadsheets, emails, meetings; in most deals, that's who we're competing with. Then when we do compete, we don't tend to see any particular competitor more than we have in the past.

Matthew Cos

Thanks.

Then a quick one for Tim; gross margin, it's up nicely for Fiscal '21. How should we think about that going forward?

Dustin Moskovitz

Yes, I mean, we're pretty much—I would say we're, kind of best in class gross margins, and I think you should expect the business to stay at this level.

Operator

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

Stanley Zlotsky

Perfect, thank you so much, guys, and congratulations on a very strong quarter.

A couple questions from my end, first one on international growth. Obviously, as Ittai mentioned, the expansion from six languages to 13 languages will be important. But how are you thinking about the support from a go-to-market perspective as far as really attacking the international opportunity in the coming year? Then I have a quick follow-up.

Christopher Farinacci

Sure. This is Chris again, let me give you a little color on that. From a direct sales perspective in these international markets, we're really focused on key markets to win. Outside of North America, in Europe for example, we have a hub based in Dublin and field offices in London, Munich and Paris, which are our largest markets. In Asia, we have hubs in Japan and Australia, and now a field office in Singapore. Those are our key markets that we focus on coming out of the year, and then these new languages will turn on new markets over time, over the course of the year as well. They're primarily all languages focused in the next sweet spots in Europe and Asia.

Then implied in that, I think, is how is international growth going? It's pretty balanced. We're seeing pretty strong, similar growth in both North America and our core international markets. I don't know if you had anything to add, Tim?

Timothy Wan

No, I think that's exactly right.

Stanley Zlotsky

That's very helpful, thank you.

A follow-up question; if we look at, essentially, how much you are making per paying user, and if we look at it at the end of this year versus at the end of '20, it looks like that went up by about 25%, 26% year-on-year, which is obviously very impressive. When you combine it with the overall growth of your customer base, that's how you get to your overall growth at the Company.

But specifically on the per paying user increase, what's driving that? Is it more just customers moving up into the Enterprise, or anything else along those lines? Thank you.

Timothy Wan

Yes, so I think there's two things happening. One, both natural adoption, the bottoms-up natural adoption of small teams getting more of their team members onto the platform. That's one way how we increase the ACV on a per-customer basis.

Then the next lever is really around the features and functionalities of both the Business and Enterprise. When customers generally start in a premium SKU, they can move up the value chain into both Business and Enterprise where have higher ASPs.

Christopher Farinacci

Yes, I might just add—this is Chris, I might just add one thing and where we are on that evolution, of moving up tier. In Q4, it was the first quarter that over 50% of revenues came from a combination of the Business and Enterprise peers, and that's up from 42% the prior year. It gives you a little mathematical flavor to how that's going.

Operator

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

Brent Bracelin

Thank you and good afternoon here.

I guess my question here for Dustin, perhaps we'll take a step back and get your view, just on the broader opportunity; Asana exits the year with 1.5 million paid users. That compares to, I think, Microsoft Office 365 with commercial paid users of over 250 million. My question here is, as you think about the broader seat opportunity for this work coordination layer, is there something unique about coordination that would apply to just a smaller subset of these paid users that Microsoft have? I know work happens beyond Microsoft and Salesforce and Workday and lots of different applications, but just trying to get a sense of, given so much success that Microsoft has seen in that productivity space, is there anything unique about these coordination apps that might be suited for a smaller subset of the market? Or would it address the full gamut of use cases that Microsoft's addressing today with Office 365?

Dustin Moskovitz

When we think about the overall collaboration landscape, we tend to talk about it in terms of the three C's, so content, communications and coordination. We're really a coordination layer, so answering the key question, who's doing what by when. For the overall collaboration market, I think Microsoft would agree with us, that the addressable market, in the long run, is much larger, even in their 250 million. We think of it as 1.25 billion knowledge workers globally.

Content and communications, those categories have been around a lot longer, so they're further adopted. Really, I think about Office 365 as mostly in the content category, and then Teams is a little bit more in the communication. There's still an enormous greenfield opportunity to reach the rest of the TAM in all three categories, but coordination is the most nascent.

There's still just a very small percentage of teams using anything in the formal coordination category, but they are doing work management. They're doing it with spreadsheets and with long email threads, and with in-person meetings. It's happening but they're not using purpose-built tools for it, so I think there's a big opportunity for all of those knowledge workers to really cut down on work about work, and accelerate their productivity by adopting work management, so that's really the long run opportunity, is the big market.

Brent Bracelin

Got it, helpful color there. Then a follow-up for Tim here on the Q1 outlook. Guidance here is about 10% above what we thought it would be here, so you're looking at close to 47% growth in Q1. What's giving you confidence in the guide-up here? Is the momentum that you saw exiting the year spilling over into the new year; just any additional color on what looks like a pretty meaningful guide-up here for Q1 would be helpful. Thanks.

Timothy Wan

Yes, sure. I think it's really a combination of what Dustin and Chris mentioned on the call, in terms of the growth drivers for our Fiscal Year and the momentum that we saw out of Q4, just in terms of the new customer adds that we're seeing, the expansion that we're seeing within the existing customer base as well as the momentum we're seeing with our Enterprise motion. All those things make us feel really good about both the guidance and the outlook for this year.

Operator

Your next question comes from the line of Yao Chu from Credit Suisse. Your line is open.

Yao Chu

Hi there, congrats on a strong close to the year and thank you for taking my question.

I have one for Chris or Tim, and I wanted to dig a bit into the go-to-market, specifically how you're thinking about leading into advertising and the efficacy of those dollars. You all have a formula that obviously has been working well to some degree, but the question is how that strategy may be impacted, given ongoing privacy and platform changes from the larger tech platforms, whether that be IDFA changes or Google's cookie deprecation.

How do you think about reallocating those dollars if needed? Is it more QCH within the bucket; help us understand that decision process, please?

Timothy Wan

Yes, that's a good question. I think one of the things—some of that remains to be seen, and we'll obviously optimize based on whatever regulatory environment we end up working in. But I think it's really important to note, one, that this is a greenfield opportunity. Two, we have over 30 million registered users, so we have a very large install base of free users that's already familiar with Asana and knows about us. I think, three, the tailwind, both in terms of the category and the need for teams to have alignment and clarity around their work.

Dustin Moskovitz

If I just add one point, which is our ad strategy is quite diversified, there are many different channels and many different regions for each of those channels. I think, any given month, one of the platform dynamics may change, but we still have all of those other channels we can easily reallocate dollars to if needed. But yes, I don't think there's any one thing that could totally disrupt that customer acquisition strategy.

Christopher Farinacci

Yes, and that's…

Yao Chu

Great color…

Christopher Farinacci

If you don't mind, I'll just add one more point on top of that, sorry, which is that our top-of-funnel strategy is a blended paid organic and product-led strategy. Organic and word of mouth is the strongest driver of growth, so that blended approach gives us some flexibility.

Yao Chu

Thank you so much for that key milestone there.

Just one quick follow-up for Tim on net retention rate; how should we think about that trending throughout the year? I think we've started to see a little bit of stability and possibly an inflection in small business. That 115 number used to be 120; should we be hopeful that that returns to that level?

Timothy Wan

Yes. I think the way to think about it, obviously, the number we report is a trailing four-quarter average, so there's probably still one or two more quarters of the cohorts from prior-year that we need to work through. I would say probably in the back half of the year that we would expect that number to pick up.

Operator

Your next question comes from the line of Andrew Delathier (phon) from Berenberg. Your line is open.

Andrew

Thanks for taking my question.

I just had a follow-up on the ACV per customer. I mean, it appears it grew quite significantly in Q4. I was just wondering, in terms of the trajectory going forward, should we expect that to continue to accelerate, or to hit a plateau at these levels?

Timothy Wan

Yes, that's a good question, Andrew. I think the way we think about the business is that the business needs to grow in a balanced way, so that's a combination of total customer growth. I think customer growth has been anywhere from into the high teens to the low 20s. That ACV, we would expect it to grow in a similar range next year as well. We don't want to over-rotate on any one area where, if our customer base hasn't grown, we only grow through ACV, but we want to see a balanced—we have pretty much a balanced approach to that.

Andrew

That's helpful. Then just a follow-up on the potential enhancements coming in the next 12 months; I'm just wondering, is there anything that you would flag that you're excited about for this year that we should be aware of coming in terms of timeline?

Dustin Moskovitz

Sorry, just to clarify, you mean calendar timeline, right, not our future timeline?

Andrew

Yes, correct.

Dustin Moskovitz

Okay, sorry. Yes, there are a number of big areas of investment that really match to our differentiators. The first differentiator is Asana is very easy to adopt, and it's designed to maximize personal productivity. We're actually doing a few key things this year that will really focus on that individual flow experience. Additionally, Asana is the best platform for cross-teamwork, and we talked about, on the call last quarter, a lot of our roadmap this year is focused on helping to visualize and report on the Asana Work Graph.

Then, we're also going to be investing in building out a workflow store, like we showed in the Future of Asana event, and a way to build those workflows. That's going to be really exciting. We're also investing further in the goals functionality that we launched also at the Future of Asana event over the summer. As we've been talking about, that's part of what helps drive upgrades to our more premium tiers, as well as expansions in large organizations.

Then finally, we're going to be investing a lot in the Enterprise platform, because Asana is uniquely capable of connecting work at the task and project level, up to higher level goals and initiatives. That really makes it really well-suited for executives and for really supporting the needs of an entire organization. That's going to look like more of the integration that Chris was talking about, more in terms of workflow automations, as well as serving the needs of IT in the form of enhanced administrative controls and compliance, and a slew of other features. I think those are really the three key legs of our stool this year.

Operator

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

Patrick Walravens

Oh, great. Let me add my congratulations. Dustin, I think my question's probably for you, which is, what is your vision, maybe a little longer-term here, in terms of what you can do by applying AI and machine learning to this platform? Maybe in particular, can you guys find a way to guide me in what I'm supposed to be doing next in my day, in terms of what the highest value action is for my time in any given moment?

Dustin Moskovitz

Yes, you basically nailed it. That's kind of the pitch. We've talked a lot about Asana as the map for the work in your organization. AI is really about being a navigation system for that map. At the individual level, yes, exactly, it's about helping prioritize your work, understand where you may be blocking your teammates, understanding what the highest leverage action is for you to take next. I sometimes describe this as almost a Spotify playlist-like experience where you come in every day and the system just says, "Here's the most important thing for you to work on. Here's what you should work on next." You don't have to think as much about all this sort of triage and organization.

At the team level, we can similarly help optimize your workflows and help direct the work. If we understand what your goals are, what the next steps are between now and accomplishing the next goal, we can give you some guidance on perhaps who the work should be allocated to based on what we know about their skills and past experience, as well as their workload, and we can help unblock dependencies and figure out exactly what the fastest path is between your current state and reaching your goal.

Patrick Walravens

All right, that's super interesting. If I can ask sort of a follow-up; what's your philosophy about Asana getting back to work in central locations? Because on one hand, it ranks as such a great place to work and you guys use your own tool, and I'm just wondering, do you think it's important for people to be around each other?

Dustin Moskovitz

Well, I think that there's going to be a lot of experimentation in the post-COVID world. I think this has really spurred a lot of innovation; it's going to create a lot of different environments for our customers. The path we've chosen for Asana in the near-term is to return most of our employees to the office. Even before COVID, though, we did have some employees in remote roles. As I was mentioning before, we also have 11 offices all over the world, so even when our employees are working with their immediate team in an office, they're often communicating in a distributed way with their partners across the entire globe.

I think even though a lot of the time we'll be in the office, we still have elements of remote cultures and working in that distributed way.

Operator

Your next question comes from the line of Robert Simmons from RBC Capital Markets. Your line is open.

Robert Simmons

Hi, thanks for taking the questions.

First I was wondering if you could give us some color on the industry trends you saw over the year. Have you started to see the impacted industries start to come back?

Dustin Moskovitz

Yes, why don't I start, Tim, give…

Timothy Wan

Yes, sure.

Dustin Moskovitz

…some color. Yes, so what I would say first is our primary mechanism for go-to-market—I know some of your question's probably about COVID and the impacted industries, but our primary mechanism for go-to-market is functional and functional teams versus industry verticals. We've always been focused that way. You could sort of see, over the course of the year, the traction we've had in those different functions and those kinds of things.

Tim, I don't know if you want to comment?

Timothy Wan

Yes, I would say, certainly, I think in combination of Q1 and Q2, those industries, such as travel, hospitality, we did see them either downgrade or churn primarily because of the pandemic. But for us, I think what we've seen is—we haven't exactly seen any of those particularly come back and expand yet, but I think what we've seen is that there are other new companies, or small companies, that are coming in, or other companies trying different tools, related—primarily because of the pandemic because they need to get clarity and alignment.

I think it's probably more of a balanced view of both those that were impacted and the tailwind of the remote work and what we saw in the numbers.

Robert Simmons

Okay, all right. Then I guess, can you talk about, how commonly are you seeing your customers adopt the full (inaudible) clarity? Are you seeing that vision resonate with your customers?

Christopher Farinacci

Yes, this is Chris, I can answer that. Yes, we're starting to see it more and more. Our business model, as I think you all know, is very bottoms-up, so it starts with viral, self-serve adoption, team by team, and then we land and expand usually in a department or two, and then over time, we expand wall-to-wall or see consolidation. On that journey, those first two areas I described are going really strong. In terms of getting to wall-to-wall, we're starting to see that; I mean, it's early days, but we're definitely starting to see that, certainly in small and medium-sized companies.

In fact, a number of the customers I talked about in the prepared remarks, I'll just re-mention them, were actually wall-to-wall deployments. Gojek in Asia upgraded to Enterprise. Some of it was for the IT, security and user management controls, but a lot of it was to provide the executive team with the support and visibility they needed to connect key business objectives to the underlying work of the teams.

One other example in there was Hotmart, which is a leading Brazilian startup. They went wall-to-wall with their 1,000+ employees to connect everybody, from finance to marketing to strategy and ops and talent. Yes, that's a trend that we're starting to see. We're starting to get to wall-to-wall particularly in small and medium-sized companies.

Dustin Moskovitz

I would just add that—if you don't mind, just in terms of the top of the pyramid of clarity. One of the key features that we think of as really addressing that part of the clarity map is portfolios. That was part of why I did a deep dive earlier in the call. We were looking at usage of that and we saw that, among eligible customers, so the ones that are using the Business or Enterprise tiers, it's almost ubiquitously used. The vast majority of our customers that are spending more than $5,000 on an annual basis are using portfolios.

In fact, one of the reasons we mentioned it is we just recently added this new feature of nested portfolios, so being able to include one portfolio inside another. We launched that only six weeks ago, and we are surprised to see that more than half of the eligible customers are using that as well, already, so really seeing strong adoption of those top of the pyramid of clarity features.

Operator

There are no further questions at this time. I turn the call back over to Catherine.

Catherine Buan

All right, well, thank you, everybody, for joining us today, we really appreciate your time during a busy earnings season. We look forward to seeing you soon. Thanks.

Operator

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