

Prepared Remarks

Q3 2021 Earnings Call

November 10, 2021

monday.com Ltd. (NasdaqGS:MNDY)

Byron Stephen

Director of Investor Relations

Thank you. Good day everyone, and welcome to monday.com's third quarter 2021 earnings conference call. Joining me today are Roy Mann and Eran Zinman, co-CEOs of monday.com and Eliran Glazer, monday.com's CFO.

Earlier today we released our results for the third quarter. Our earnings materials are available on our investor relations website at ir.monday.com. There you will find the investor presentation that accompanies our prepared remarks and a replay of today's webcast under the News and Events section.

Certain statements made on the call today may be forward-looking statements which reflect management's best judgment based on currently available information. These statements involve risks and uncertainties that may cause actual results to differ from our expectations. Please refer to our earnings release for more information on the specific factors that could cause actual results to differ materially from our forward-looking statements.

Additionally, non-GAAP financial measures may be discussed on the call. Reconciliations to the most directly comparable GAAP financial measures are available in the earnings release and the earnings presentation for today's call, which is posted on our Investor Relations website.

With that, let me turn the call over to Roy.

Roy Mann

Co- Founder & Co-Chief Executive Officer of monday.com

Thank you, Byron, and welcome to the monday.com team. Thank you to everyone for joining us today.

During our first earnings call, we were thrilled to introduce many of you to monday.com and to share with you our thoughts on the company and the large opportunity ahead of us. Going forward, we will focus these calls on our most recent performance and our future expectations. We invite those of you who are still just getting to know monday.com and our Work OS platform to visit our company and investor relations websites where we have many videos and lots of other content that should be helpful in understanding our company and our business.

Now let me briefly talk to you about Q3, which was another strong quarter of growth. Even more organizations used monday.com to create software that fits their needs. Revenue grew 95% year-over-year to $83 million, as we continue to drive growth through the acquisition of new customers and increase adoption and expansion within our existing customer base.

As mentioned previously, upmarket growth is one of our top priorities. I'm pleased to report that our expansion into the enterprise space continues to gain momentum. We ended the third quarter with 613 enterprise customers, up 231% from 185 in the third quarter of 2020.

Additionally, we continue to expand within our existing customer base. Our net dollar retention rate increased in the third quarter, a result of our ability to continue to deliver strong ROI and a great customer experience. Net dollar retention for customers with more than 10 users improved to over 130%, and our net dollar retention rate for all customers improved to over 115%. As a reminder, our net dollar retention rate is a trailing four quarter weighted average calculation.

Because of these outstanding results and our continued upward trajectory, we are raising guidance for the remainder of the year. For full year revenue we are increasing guidance to a range of $300 million to $301 million, representing 86% growth for the year. Eliran will provide you with more details on our third quarter results along with full updated guidance.

I'll now turn it over to Eran to give you some further highlights from Q3.

Eran Zinman
Co- Founder & Co-Chief Executive Officer of monday.com

Thank you Roy.

As we continue to take our product innovation to new heights, we give our customers more capabilities to easily build their perfect no-code, low-code work software. In Q3, we experienced a strong start to our new monday workdocs. launched new capabilities with My Work and introduced one of the first 2D work management apps in the Quest store at Meta's recent "Connect" event.

Let me first touch on monday workdocs. In Q3, we launched workdocs, giving our customers the ability to manage their work, ideas, and data in an unstructured way. These are more flexible ways to onboard and adopt our platform, adding a new customer entry point.

To date, our customers are using monday workdocs for a range of use cases and industries, such as marketing, operations, CRM, and more. More than 40,000 existing customers are already using monday workdocs, with many using monday workdocs for core, complex workflows. Since our launch, our customers have created more than 300,000 workdocs on monday.com.

It's amazing to see how much our customers love monday workdocs, and in line with our mission, we wanted to provide our customers with even more freedom to adjust monday workdocs to their business's needs. That's why we launched the capability to create layouts with monday workdocs. Layouts allow customers to create any kind of template with live data for their monday workdocs, such as a CRM contact page, a deal page, a marketing campaign overview, and much more.

Our no-code automations and integrations are used by the majority of our customers - 100% of our enterprise accounts use them, while 88% use more than 50 different automations. Over the past year, our customers have automated over 900 million actions using our platform.

Starting this quarter, we introduce the dynamic workflow builder enabling our customers to easily create, without code, any kind of new automation or integration, no matter how complex they need it to be. Customers can now mix and match actions and triggers, without limits on the numbers of actions and triggers involved. Developers can add their own no-code automations and integrations to create even more applications for our customers. Our dynamic workflow builder will completely take our automations and integrations to the next level, giving even more power to customers and developers.

We're excited to announce today the launch of "My Work", a place for customers and organizations to centralize all items -- whether it's deals, campaigns, tasks or anything else -- associated with their account. This mega-table gives individuals within teams the ability to gather customized data across all business units. We believe My Work is another step in giving organizations the resources to improve operational efficiency and productivity.

Let me turn it back over to Roy to further discuss our expanding ecosystem.

Roy Mann
Co- Founder & Co-Chief Executive Officer of monday.com

Thanks Eran.

We made steady progress during the quarter in growing our ecosystem and expanding our global footprint. During the third quarter we signed a new global alliance agreement with Tata Consultancy Services, a leading global IT services, consulting and business solutions organization. TCS and monday.com will work together to innovate digital workflow and automation solutions, transforming workplace collaboration while ensuring regulatory compliance.

We also partnered with Hootsuite and Semrush, who have built apps on the monday marketplace, to help deepen the value for customers using monday.com for marketing operations. Partnering with our customers is key to molding our platform's future together.

Lastly, we expanded our workforce presence with additional offices in Tokyo and Sao Paulo. We will continue to invest in growing our ecosystem and workforce in order to serve the over one billion global knowledge workers.

Now, let me turn it back to Eran to discuss our operating highlights.

Eran Zinman

Co- Founder & Co-Chief Executive Officer of monday.com

Thanks Roy. We had another outstanding quarter in terms of customer wins and expansions. These were broad-based across industry verticals, with major companies including Jamf, eBay, Cegedim and Outbrain.

Let me briefly speak about Jamf and how their usage of our Work OS continues to evolve. Jamf is the world's leader in Apple Enterprise Management, helping more than 57,000 companies, schools, and government organizations around the world manage and secure more than 25 million Apple devices. Jamf's marketing team has been using the monday.com Work OS to increase collaboration and efficiency since 2019. Recently they have added many more groups - such as product, engineering project management and sales enablement to the platform - allowing their 2,000 employees to work more closely together. This is another example of how monday.com can help high-growth global companies and we're very happy to be part of their growth and success.

Our exceptional third quarter results are further proof that our customers are seeing the value of using our Work OS. With the platform's no-code capabilities, customers can adapt each building block to build software applications and tools that fit their desired use case and evolving needs.

Creating a great user experience is at the core of how our company operates, which was recently on display at Elevate, our flagship customer conference. At this year's Elevate we were able to help even more customers reimagine the way that they work - with over 52,000 registrants from over 100 countries - over three times the number of registrants from last year.

Additionally, we continue to make investments in our people and leading publications are taking notice. During this past quarter, monday.com was recognized by Fortune magazine as one of the "Best Small to Medium Workplaces" along with one of the "Best Places to Work for Millennials".

I am extremely proud of our employees and where our company has come in a short amount of time. The opportunity ahead of us is huge. We believe that we are at the intersection of a number of work trends -- no-code, low-code, massive digitization and remote work, that positions our Work OS to become the market leader in our category.

I'll now turn it over to Eliran to cover our financials and guidance.

Eliran Glazer

Chief Financial Officer of monday.com

Thank you, Eran and thank you to everyone for joining our call.

Today, I'll review our third quarter fiscal 2021 results in detail and provide updated guidance for the fourth quarter and full year fiscal 2021.

We were extremely pleased with the results for the quarter, which demonstrated continued high growth at scale across all fronts. As Roy mentioned, total revenue in the third quarter came in at $83 million, up 95% year over year, led by large expansions within our existing customer base and acquisition of new customers.

We continue to execute against an ambitious hiring plan. For Q3, we ended the quarter with close to 950 employees globally. This represents an increase of more than 50% from a year ago, with the majority of additions coming from R&D and sales & marketing. We plan to continue to make substantial investments in these categories for the foreseeable future.

For the remainder of the financial metrics disclosed, unless otherwise noted, I will be referencing non-GAAP financial measures. We have provided a reconciliation of GAAP to non-GAAP financials in our earnings release.

Gross margin came in at 90.2%, up from 87.1% in the year-ago quarter. Research and development expense was $14.3 million or 17% of revenue compared to 22% in the year ago quarter. We will continue to invest purposefully as we position monday.com to drive durable growth and win in our large addressable markets. While we continue to invest significantly in R&D, the pace of our revenue growth has outpaced the investment growth.

Sales and marketing expense was $61 million or 73% of revenue compared to 128% in the year-ago quarter. The improvement was driven primarily by continued efficiencies as we continue to scale our sales and marketing spend to focus on customers with 10+ users and enterprise customers. Similar to R&D, the pace of our revenue growth has outpaced the investment growth.

G&A expense was $9.1 million or 11% of revenue, compared to 9% in the year ago quarter reflecting increased costs of being a public company. Operating loss was $9.4 million, and operating loss margin improved to negative 11%. Net loss was $11.4 million and loss per share was negative $0.26.

Moving on to the balance sheet and cash flow. We ended the quarter with approximately $876.2 million in cash and cash equivalents. Net cash provided by operating activities was $3.8 million in the quarter.

Adjusted free cash flow was $2.9 million and was driven by strong collections stemming from our continued strong billings. Adjusted free cash flow is defined as net cash from operating activities, less cash used for property and equipment and capitalized software costs, excluding non-recurring items such as costs related to the build out of our corporate headquarter office in Tel-Aviv.

Now turning to our outlook for the fourth quarter and the full year 2021.

For the fourth quarter of fiscal year 2021 we expect our revenue to be in the range of $87 million to $88 million representing growth of 74% to 75% year-over-year. We expect a non-GAAP operating loss of $23 million to $22 million.

For the full year 2021, we are raising guidance and now expect revenues to be in the range of $300 million to $301 million representing growth of 86% to 87% year-over-year.

We expect a full year non-GAAP operating loss of $65 million to $64 million and a negative operating margin of 22% to 21%.

As our guidance indicates, we expect to end 2021 on a very positive note and enter 2022 with strong momentum. We plan to introduce guidance for 2022 on our next earnings call.

With that, now let me turn it over to the operator for questions.