

Prepared Remarks

Q4 2021 Earnings Call | February 23, 2022

monday.com Ltd. (NasdaqGS:MNDY)

Byron Stephen
Director of Investor Relations

Good day everyone, and thank you for joining us on today's conference call to discuss the financial results for monday.com's fourth quarter and fiscal year 2021. Joining me today are Roy Mann and Eran Zinman, co-CEOs of monday.com and Eliran Glazer, monday.com's CFO.

We released our results for the fourth quarter and fiscal year 2021 earlier today. 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 will 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 will 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 are 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

Thanks Byron, and thank you everyone for joining us today.

We had another great quarter at monday.com and ended fiscal year 2021 exceptionally strong. During the past quarter, revenue grew by 91% compared to the fourth quarter of 2020. We are again seeing strong revenue growth across all verticals, customer segments and geographies, with over half of our revenue coming from outside the U.S.

Let me discuss three main factors that drove our strong top line performance.
First, we remain highly focused on acquiring new customers. In 2021 we added 38,000 net new customers, bringing our total customer count to 152,000, representing 34% growth from the prior year.

Second, we are seeing great momentum with large customers. In Q4, the total number of customers with more than $50,000 in annual recurring revenue was 793, up 200% from a year ago.

The enterprise tier remains our fastest growing customer tier. New accounts with 100+ users are now more inclined to take the enterprise tier as a default, as we continue to add more value to the tier.

During the last quarter, we enhanced the enterprise tier by adding several new administrative and security features including content directory, audit log, and encryption key enhancements. These improvements will allow enterprise customers to manage and grow their business with confidence and ease, while making their data more secure than ever.

Third, we continue to see strong expansion within our existing customer base. Once customers adopt the Work OS platform and realize its value, their usage often grows organically, expanding across use cases and departments.

In Q4, net dollar retention for customers with more than 10 users improved to over 135%. Customers with more than 10 users now account for 72% of ARR, up from 63% a year ago.

Overall net dollar retention rate for all customers improved to over 120%. As a reminder, our net dollar retention rate is a trailing four quarter weighted average calculation.

Our continued net dollar retention rate improvements are further proof of our ability to deliver strong ROI and a great user experience for our customers.

Let me now turn it over to Eran to walk you through some exciting product announcements.

Eran Zinman

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

Thank you Roy.

We continue to take our product innovation to new heights, as we give our customers more capabilities to easily create software applications and work management tools that suit their needs.

Our mission is to allow anyone to run the core of their business on monday.com. That's why we are so excited to announce today that we are expanding from one product into a product suite that will further push our mission forward. Going forward, our users will be able to switch between products within their Work OS platform so they can unify work across their organization.

These new products expand and augment our go-to-market strategy, and create additional entry points for new customers to our platform. It is a great way for us to reach new audiences and to explore new markets.

This quarter, we are thrilled to announce two new standalone products to the monday ecosystem, monday WorkForms and monday Canvas. These products continue our vision to cater to the "beginning of work" – when teams first begin their projects, processes, and workflows.

Let me first touch on monday WorkForms, which we launched in beta this past quarter. Forms are the beginning of so many workflows. People understand that they need to collect information with forms, even before they know exactly what they're going to do with it later.

We created monday WorkForms to capture data and collect feedback, with built in conditions and data insights. WorkForms can be used for inventory tracking, order management, surveys and much more.

With monday WorkForms, users can create personalized forms for their business with a no-code form builder allowing users to easily set conditions to get the right information, and reduce the back and forth. monday WorkForms can easily embed any form to your website, launch in an email, and you can instantly share the link with all stakeholders to see results, faster. Once a form is completed, users can visualize and analyze data all in one place and generate shareable reports.

Let me turn it back over to Roy to discuss monday Canvas.

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

Thanks Eran.

In addition to monday WorkForms, we are pleased to announce the launch of monday Canvas. Ideas and innovation often begin in an unstructured space, and digital whiteboards have become the go-to tool for brainstorming and collaborating together.

monday Canvas provides users with real-time collaboration in a visual way on an infinite canvas that is full of brainstorming, editing features and templates for any use case. In monday Canvas, users can add sticky notes, do free drawings, create diagrams and user flows using shape and connectors, and add text using text blocks. monday Canvas will help teams to collaborate, brainstorm, and manage work together with more business impact.

We are super excited about these new products and you can signup and use them on workforms.com and canvas.monday.com

Let me now touch on the continued success of monday workdocs which is out of beta and available to 100% of our customers. It's amazing to see how much our customers love monday workdocs. Over 60,000 customers are using monday workdocs for a range of use cases and industries, such as marketing, operations, CRM, and more. monday workdocs remains one of the fastest adoptions of a building block we ever had. With

customers having created over 800,000 workdocs to date.

Lastly, we were proud to be named CRN's 2021 Tech Innovator Award Winner for office productivity software during the fourth quarter. This award reflects that our investments in research and development and our ability to hire top technical talent are paying off.
Let me now turn it back over to Eran to further discuss our expanding Work OS ecosystem.

Eran Zinman

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

Thanks Roy. We continue to grow and empower our strong partner ecosystem by allowing others to more easily operate and build on top of our Work OS platform.

Let me first touch on our app marketplace which continues to expand. We now have over 100 applications that have been developed on top of the Work OS platform.

In this quarter, we are pleased to announce that we have gone live with a new built-in payment solution for the apps marketplace. This new solution will enhance developers' abilities to monetize their applications. No longer will our marketplace partners and external developers need to develop and manage their own monetization system. It will also create a better overall experience for our users as they can now easily pay within the Work OS platform and manage their payments all in one place.

We are also excited to announce that we have expanded the partnership we have with KPMG and signed a Strategic Alliance Agreement with the firm. This alliance leverages the business insights of KPMG with the low-code/no-code technology of monday.com to build enterprise-grade solutions that empower KPMG member firms across the world to deliver strategic operating models to customers on top of an agile work operating system.

With the announcement of this alliance, monday.com joins a select network of leading technology and data companies working in alliance with KPMG to solve pressing business challenges and accelerate digital transformation. We are excited to grow together with KPMG as we continue to expand globally and push the boundaries of the way enterprises work.

Lastly, I'd like to briefly touch on our progress with the Digital Lift Initiative which we launched as part of our June 2021 IPO. As a reminder, the Digital Lift Initiative was established to further our mission of closing the digital divide between the for-profit sector and the nonprofit sector. For every dollar of revenue we earn, we have committed to donating up to one dollar worth of monday.com licenses to nonprofit teams. To date, monday.com has donated licenses worth over $7M of ARR to over 5,000 nonprofits in 52 countries.

For us, it is just the beginning. The Digital Lift Initiative is open to all nonprofits across the globe. We believe our commitment to ESG will play a larger role in shaping the future of monday.com, our values and our ecosystem in the coming years.

With that, 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 most recent financial results in detail and provide initial guidance for the first quarter and full year fiscal 2022.

We are extremely pleased with the way we finished the year. Total revenue in the fourth quarter came in at $96 million, up 91% from a year ago. This brought our fiscal year 2021 revenue to $308 million, an increase of 91% from the prior year. These results demonstrate our continued expansion within our existing customer base and acquisition of new larger customers.

We continue to execute against an ambitious hiring plan. We ended the year with 1,064 employees globally. This represents an increase of 51% from a year ago, with the majority of additions coming from R&D and sales & marketing. We continue to have ambitious goals for hiring 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 90.0%, up from 88.6% in the year-ago quarter. Research and development expense was $15.4 million or 16% of revenue. We will continue to invest significantly in R&D as we position monday.com to drive durable growth and win in our large addressable markets.

Sales and marketing expense was $69.4 million or 73% of revenue compared to 107% 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 enterprise customers and 10+ users which now account for 72% of ARR in Q4.

G&A expense was $11.1 million or 12% of revenue, compared to 10% in the year ago quarter reflecting increased costs of being a public company. Operating loss was $9.9 million, and operating margin improved to negative 10%. Net loss was $11.7 million and loss per share was negative $0.26.

Moving on to the balance sheet and cash flow. On a GAAP basis, we ended the quarter with approximately $886.8 million in cash and cash equivalents. Net cash provided by operating activities was $13.5 million in the quarter.

Adjusted free cash flow was $10.1 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.

We're very proud of the achievements during this exceptional year and look forward to carrying the business momentum into 2022. Now let's turn to our outlook for fiscal year 2022.

For the first quarter of fiscal year 2022 we expect our revenue to be in the range of $100 million to $102 million representing growth of 70% to 73% year-over-year. We expect a non-GAAP operating loss of $47 million to $45 million. This includes one-time Super Bowl advertising costs of $8 million.

For the full year 2022, we expect revenues to be in the range of $470 million to $475 million representing growth of 53% to 54% year-over-year.

We expect a full year non-GAAP operating loss of $147 million to $142 million and a negative operating margin of 31% to 30%.

With a large market opportunity and customers increasingly adopting the broader monday Work OS platform across their organization, we are committed to investing aggressively in our company. We will continue to prioritize growth which we believe is in the best interest of our shareholders, employees, and customers.

Let me now turn it over to the operator for questions.