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Prepared Remarks

Q1 2022 Earnings Call | May 16, 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 first quarter fiscal year 2022. 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 first quarter fiscal year 2022 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. Good day everyone and welcome to our Q1 2022 earnings call.

Our first quarter revenue grew 84% to a record $108.5 million. This is an exciting milestone for us, as it represents our first $100 million revenue quarter as a company. We continue to see strong demand for our product with our sales teams driving new logo acquisition and strong expansion within our existing customer base during the quarter.

50% of the Fortune 500 use our platform, up from 38% a year ago. To address the needs of our customers in the enterprise segment, we are investing in creating more value for these customers, including in security, governance and compliance requirements.

Because we see enterprise customers as an important, growing segment of our business, we are releasing our Net Dollar Retention Rate for enterprise customers with more than $50,000 in ARR and their percentage of our total ARR. In Q1, the total number of these customers was 960, up 187% from a year ago.

These Enterprise customers with more than $50,000 ARR now represent 22% of our total ARR.

As we continue to go up market, more customers are increasing their adoption and usage of monday.com across their organizations. In Q1, the net dollar retention rate for customers over $50,000 in ARR was above 150%. This high NDR reflects our potential to continue to expand among large customers. Please refer to our Q1 investor presentation for historical comparisons for these metrics.

Among customers with more than 10 users, net dollar retention rate is above 135%. And among all customers the net dollar retention rate was over 125%. As a reminder, our net dollar retention rate is a trailing four quarter weighted average calculation.

In the first quarter we increased sales and marketing spend by approximately $50M, up 84% from Q1-21. These sales and marketing efforts accelerated our acquisition of new customers, while keeping the same marketing efficiency metrics. We've also been very successful in meeting our aggressive talent recruitment targets. We believe that these efforts have great potential to grow our business over time as also our strong net dollar retention rate indicates.

As we expand our customer base, we continue to invest in and grow our partner ecosystem to serve our customers. This quarter, we are excited to announce we have signed an authorized reseller agreement with SHI International, one of North America's largest IT solutions providers. This partnership will help us work with and sell to more public, state and local agencies and federal agencies in the United States.

Our customers span industries and use cases, and they use monday.com to run complex operations around the world. Recently, we partnered with Vogue for the Met Gala's first-ever branded content software partnership. Using our platform, the Met Gala's set designer managed decor workflows for fashion's biggest night of the year.

Let me now turn it over to Eran to walk you through how we plan to better serve our larger customers.

Eran Zinman

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

Thank you Roy.

This quarter, we are excited to announce the launch of our new Work OS product suite with four new products, each with their own unique pricing models. These new products represent an exciting new evolution of our product solutions, based on the momentum and success we've seen among our customers.

We are stepping up our product solutions to become four new, end-to-end products: monday projects, monday dev, monday marketer, and monday sales CRM. Marketing and creative teams use monday marketer to manage marketing and creative processes all in one place. Product, design and R&D teams can plan, execute and collaborate to deliver better products, faster using monday dev. Project managers use monday projects to run, manage and track projects and portfolios. And sales teams use monday sales CRM to manage all aspects of their sales cycle.

Work OS products are complete end-to-end products built on top of monday.com Work OS. They are designed to completely and comprehensively address the needs of a specific use case and live within the entire Work OS ecosystem with seamless integrations and connectivity.

Customers can add more products at any time or move data between products. That way, when customers purchase one of our new products, they also get the same flexibility, connectivity, and ease-of-use that they know and love from monday.com.

Those new products will allow us to better address growth within our existing accounts and capture new markets. With products we are better positioned to compete & win deals against vertical tools in specific markets. We plan to gradually increase the rate of accounts with access to the products, with the goal to fully launch them to all our accounts later this year.

Let me now turn it back over to Roy.

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

Thank you, Eran.

To close, it's amazing to see the progress we've made in a short period of time.
Our growth efforts in Q1 placed us on a new growth trajectory breaking the 100M revenue per quarter milestone, our market-leading retention rate, and focus on our enterprise segment continues to drive our product focus and vision.

We're proud of the work we've made to evolve monday.com from a single product company to a multiple product company. Two of the reasons we've been able to do this include 1) the work and continued dedication of our amazing team across the globe; 2) our flexible architecture, which has allowed us to execute extremely quickly and with high quality to meet the growing needs of our customers. This emphasis on agile and quick execution at a high-level has enabled us to continue to meet the needs of customers across verticals, with 70% of our customers coming from non-tech industries.

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 Roy and thank you to everyone for joining our call.

Today, I'll review our first quarter results in detail and provide an updated guidance for the second quarter and full year 2022.

We continue to deliver strong growth driven by customers increasingly adopting the broader monday Work OS platform across their organization. As Roy mentioned, revenue surpassed $100 million for the first time ever this past quarter. Total revenue came in at $108.5 million in the first quarter, up 84% from a year ago. Growing and scaling the company remains our top priority.

With a large and growing market opportunity in front of us and with most deals still being greenfield, we executed on an ambitious hiring plan this quarter and remain committed to investing in top-tier talent to scale the company. We ended the first quarter with 1,284 employees globally, representing an increase of 220 employees, our largest headcount growth quarter on record. Over half of the added headcount during the past year is attributable to increases in client facing roles.

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.

First quarter gross margin was 89%. In the medium to long term, we continue to expect gross margin to remain in the high 80 percent range.

Research and development expense was $19.2 million or 18% of revenue. We will continue to invest significantly in R&D as we build out our product offerings and scale our Work OS platform both horizontally and vertically.

Sales and marketing expense was $108.6 million or 100% of revenue compared to 100% in the year ago quarter. This includes one-time Super Bowl advertising costs of $11 million during the quarter. As mentioned above, we accelerated our hiring of employees during the quarter reflecting our ability to attract some of the best talent to scale the business. As we have front-loaded certain expenses which have driven our growth, we anticipate sales and marketing expense as a percentage of revenue to come down to low 80% by the end of the year.

G&A expense was $12.4 million or 11% of revenue, compared to 10% in the year ago quarter reflecting increased costs since becoming a public company. Operating loss was $43.8 million, and operating margin was negative 40%. Net loss was $43.2 million and loss per share was negative $0.96.

It is important to note that as we scale the company, we remain focused on improving operating margins and capital efficiency. We anticipate that operating margins will improve throughout the year and into FY23.

Moving on to the balance sheet and cash flow. We ended the quarter with approximately $849.6 million in cash and cash equivalents. Net cash used in operating activities was $12.9 million in the quarter.

Adjusted free cash flow was negative $16.2 million reflecting the additional investments made during the quarter. 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.

Now let's turn to our updated outlook for fiscal year 2022.

For the second quarter of fiscal year 2022, we expect our revenue to be in the range of $117 million to $119 million representing growth of 66% to 69% year-over-year. We expect a non-GAAP operating loss of $35 million to $33 million.

For the full year 2022, we now expect revenue to be in the range of $488 million to $492 million representing growth of 58% to 60% year-over-year. We expect a full year non-GAAP operating loss of $139 million to $135 million and a negative operating margin of 28% to 27%.

Looking ahead, we will continue to invest in growth with a strong focus on driving business efficiency. With that, let me now turn it over to the operator for questions.

Thank you

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