



Prepared Remarks

Q2 2022 Earnings Call | Aug 8, 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 second 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 second quarter fiscal year 2022 earlier today. This quarter we have introduced a new shareholder letter with our results and commentary for the quarter. You can find the shareholder letter along with our investor presentation that accompanies our prepared remarks and a replay of today's webcast under the News and Events section of our IR website at ir.monday.com.

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 second quarter earnings call.

It's been one year since our IPO, and monday.com continues to grow: our total revenue in Q2 was \$123.7 million, up 75% from Q2 of last year. We continue to move upmarket at a fast pace, growing our enterprise customer base to more than 1,000 customers this quarter, while maintaining our best-in-industry net dollar retention rates.

We continue to see strong growth across all customer segments, with enterprise customers leading the way. In the second quarter of fiscal 2022, we finished with 1,160 enterprise customers, a 147% year-over-year increase.

The second quarter saw significant improvements in our operating margin as we continue to make our business more efficient. Since the company was founded, we've generated approximately \$4 in recurring revenue for every dollar we burned. The secret behind our efficiency is BigBrain analytics.

If you've ever visited our offices, you've seen dashboards on nearly every wall displaying insights from BigBrain, our in-house business intelligence tool. BigBrain collects over 200 million events a day, which informs each of our marketing campaigns and every interaction we have with our customers. By measuring everything, we empower our employees to make efficient, data-driven decisions – optimizing for cash flow and maximizing efficiency.

Another key part of our long-term strategy is expansion of our product offering. This past quarter, we announced our new Work OS product suite, and we've already seen impressive adoption. Within two months, we have had over 1,000 new paying accounts sign up with our new Work OS products.

Our new end-to-end products are tailored by vertical, and built on top of monday.com Work OS – including [monday projects](#), [monday sales CRM](#), [monday dev](#), and [monday marketer](#). Customers can now switch between products within their Work OS platform so they can unify work across their organizations.

We're committed to being best-in-class in every one of our products' categories, and we're confident we can achieve that thanks to the flexible and unique infrastructure of our Work OS. These new products expand and elevate our go-to-market strategy, and create additional entry points for new customers to our platform.

Let me now turn it over to Eran to walk you through how customers are using monday.com to run their businesses better.

Eran Zinman

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

Thank you Roy.

monday.com is core to our customers' business successes. We're proud of the efficiency they're reaching with the Work OS platform. With a customer base of more than 152,000, in over 200 countries and 200 industries, our customers span thousands of diverse use cases. We've pulled a handful of examples to give you a sense of that range.

Renault Group recently signed up with monday.com and now uses the Work OS platform to share and manage the communication activities of its brands around the world. They're using the platform to increase their communication function's collaboration and efficiency across 39 countries.

As part of their goal to innovate the property industry, Savills turned to monday.com to execute impactful marketing campaigns across their global markets. Our implementation consultants are partnering with Savills to standardize their marketing processes, minimize wasted time, and align faster decisions with their KPIs and OKRs.

Lastly, in a [Total Economic Impact \(TEI\) study](#) released in March, Forrester studied Motorola’s use of monday.com for its global internal creative agency. The report showed that Motorola had significant cost savings along with increases in overall productivity, producing an overall return on investment of 346%. Reading this report was really thrilling. We built monday.com as a unifying workspace that increases operational efficiency and productivity, and it’s amazing to see that in action.

Our dedicated product alignment team works on meeting the complex needs of our increasing enterprise customer base. This past quarter, we prioritized making our platform even more resilient and reliable, with less platform friction and more customizable administrative permissions. We improved our platform infrastructure and database; strengthened our board stability by 75%; improved our board load times by over 15%; expanded our multi-region architecture; and made our core building blocks wow-worthy, with hundreds of fixes and improvements across boards, dashboards, and docs.

In addition to those platform improvements, we prioritized the granular, customizable security and administration features that our customers need – including editing permissions by subitem and item-specific viewing permissions. These new features have helped us maintain our best-in-industry retention rates and enabled higher ARR.

Finally, every quarter our customer success managers help hundreds of customers reach their business goals and add measurable value to the company.

For example, in Q2 one of our customer success managers worked with a large consumer goods customer to maintain 100% of the monday.com licenses of remaining employees during layoffs. Her efforts resulted in a more than 65% jump in average monthly active paying users and high satisfaction with the platform.

At the same time, we’re improving the way we communicate with customers around the platform. We started rolling out support over chat as well as an “Email to CEO” feature, which allows users to directly send us their feedback. Both initiatives have shown us where our platform can grow while increasing customer engagement.

Let me now turn it back over to Roy.

Roy Mann

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

Thank you, Eran.

Our marketplace and partnerships continue to be one of the largest growth drivers across our company, increasing our ability to serve any and all types of organizations. At the end of Q2, our partner ecosystem consisted of 177 active channel partners, 470 new referral partners and over 150 marketplace apps with 30 monetized apps showing meaningful traction.

Such strong product innovation, expanding ecosystem and consistent growth is only possible with our amazing team. We finished Q2 with nearly 1,500 monday.com employees around the world, and even as we grow, we maintain our culture and employee engagement levels. We see that not just from our internal surveys, but from the outside world as well, winning two major workplace awards this year with Fortune certifying monday.com as a Great Place to Work and Inc. recognizing us as one of the Best Workplaces of 2022.

With this success, we remain committed to aid nonprofits with digital transformation through our Digital Lift Initiative, including our commitment to donate 10% of our equity over time to the foundation. During the past quarter, we launched a Digital Lift product and opened applications for a [year-long grant](#) of up to \$100,000. In parallel, our Emergency Response Team partnered with organizations around the world to streamline their relief efforts. We leveraged the monday.com platform to support humanitarian and disaster relief efforts of NGOs on the ground, including initiatives in Durban, Ukraine, and more.

All in all, it's been a strong and impactful quarter – and we're excited to see what the next quarter brings.

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 second quarter results in detail and provide an updated guidance for the third quarter and full year 2022.

We delivered another strong quarter of growth driven by customers increasingly adopting the broader monday.com Work OS and our product suite across their organization. Total revenue came in at \$123.7 million in the second quarter, up 75% from the second quarter a year ago. Additionally, we saw significant margin expansion during the quarter, stemming from our platform-based, land-and-expand strategy and operational efficiencies.

We continue to see strong expansion within our existing customer base which is reflected in our best-in-industry retention rates. Our net dollar retention rate remained stable across all categories in the second quarter. Net dollar retention rate for customers with more than \$50,000 in ARR was over 150%, net dollar retention rate for customers with more than 10 users was over 135%, and our net dollar retention rate for all customers was over 125%. As a reminder, our net dollar retention rate is a trailing four quarter weighted average calculation.

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.

Second 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 \$24.0 million or 19% of revenue compared to 16% in the year ago quarter. We will continue to invest significantly in R&D throughout the remainder of the year as we build out our product suite and scale our Work OS platform both horizontally and vertically.

Sales and marketing expense was \$86.7 million or 70% of revenue compared to 79% in the year ago quarter. We anticipate sales and marketing expense as a percentage of revenue to remain at the low to mid 70% through the remainder of the year.

G&A expense was \$14.6 million or 12% of revenue, compared to 9% in the year ago quarter reflecting increased costs since becoming a public company. Operating loss was \$15.4 million, and operating margin was negative 12%. Net loss was \$14.9 million.

Total employee headcount was 1,489, an increase of 205 employees since Q1'22. We hired across all major functions, with over 60% of new hires in customer facing roles. We anticipate that the levels of hiring will slow in the second half of fiscal 2022.

Moving on to the balance sheet and cash flow. We ended the quarter with approximately \$834.6 million in cash and cash equivalents. Net cash used in operating activities was \$14.1 million in the quarter. Deferred revenue increased to \$177.9 million at the end of the second quarter, up from \$160.9 million at the end of the first quarter.

Adjusted free cash flow was negative \$19.3 million and included year-end bonus payments of \$6.6 million and an insurance payment of \$7.0 million. Adjusted free cash flow margin, as defined as adjusted free cash flow as a percentage of revenue, was negative 15.6%. 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 third quarter of fiscal year 2022, we expect our revenue to be in the range of \$130 million to \$131 million representing growth of 57% to 58% year-over-year. We expect a non-GAAP operating loss of \$25 million to \$24 million.

For the full year 2022, we now expect revenue to be in the range of \$498 million to \$502 million representing growth of 62% to 63% year-over-year. We expect a full year non-GAAP operating loss of \$112 million to \$108 million and a negative operating margin of 22% to 21%.

With the recent strengthening of the US dollar, we now expect FX to negatively impact our full year revenue growth estimates by approximately 300 basis points.

Given the concerns about the macro economy and the market, we have provided prudent yet achievable forward-looking guidance. It should be noted that we did see some softness in demand in Europe at the end of Q2. And while one month is not enough data to extrapolate a larger trend, we are closely monitoring the demand environment across all areas of our business and will be transparent with our investors about our expectations.

We clearly have momentum across all of the areas critical for us to drive sustained levels of high revenue growth over the long-term, including new customer acquisition, strong net dollar retention, and an expanding product suite. Our strategic focus remains on balancing healthy investment in the business with improving efficiency and profitability. We will continue to measure and monitor our returns and adjust investment levels as needed.

I'll now turn it over to the operator for your questions.

Thank you



Q2 2022 Earnings Call | Aug 8, 2022
monday.com Ltd. (NasdaqGS:MNDY)