

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

MNDY.OQ - Q4 2022 Monday.Com Ltd Earnings Call

EVENT DATE/TIME: FEBRUARY 13, 2023 / 1:30PM GMT

CORPORATE PARTICIPANTS

Byron Stephen *monday.com Ltd. - Director of IR*

Eliran Glazer *monday.com Ltd. - CFO*

Eran Zinman *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Roy Mann *monday.com Ltd. - Co-Founder, Co-CEO & Director*

CONFERENCE CALL PARTICIPANTS

Andrew Lodovico DeGasperi *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Arjun Rohit Bhatia *William Blair & Company L.L.C., Research Division - Co-Group Head of the Technology, Media, and Communications Sector & Analyst*

Brent Alan Bracelin *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Brent John Thill *Jefferies LLC, Research Division - Equity Analyst*

David E. Hynes *Canaccord Genuity Corp., Research Division - Analyst*

Frederick Lee *Crédit Suisse AG, Research Division - MD & Head of SMID software*

George Michael Iwanyc *Oppenheimer & Co. Inc., Research Division - Associate*

Ivan Philip Feinseth *Tigress Financial Partners LLC, Research Division - Director of Research*

Jackson Edmund Ader *SVB Securities - MD of Technology Equity Research*

James Derrick Wood *Cowen and Company, LLC, Research Division - MD of TMT - Software & Senior Software Analyst*

Jason Vincent Celino *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Kasthuri Gopalan Rangan *Goldman Sachs Group, Inc., Research Division - Analyst*

Pinjalim Bora *JPMorgan Chase & Co, Research Division - Analyst*

Robert Edward Simmons *D.A. Davidson & Co., Research Division - Senior VP & Research Analyst*

Scott Randolph Berg *Needham & Company, LLC, Research Division - Senior Analyst*

Shebly Seyrafi *FBN Securities, Inc., Research Division - MD*

Steven Lester Enders *Citigroup Inc., Research Division - Research Analyst*

PRESENTATION

Operator

Good morning or good afternoon, and welcome to the monday.com Fourth Quarter Fiscal Year 2022 Earnings Conference Call. My name is Adam, and I'll be your operator today. (Operator Instructions)

I will now hand the floor over to Byron Stephen to begin. So Byron, please go ahead when you are ready.

Byron Stephen - *monday.com Ltd. - Director of IR*

Hello, everyone, and thank you for joining us on today's conference call to discuss the financial results for monday.com fourth quarter and fiscal year 2022. Joining me today are Roy Mann and Eran Zinman, co-CEOs of monday.com and Eliran Glazer, monday.com CFO. We released our results for the fourth quarter and fiscal year 2022 earlier today. You can find our quarterly shareholder letter, along with our investor presentation, 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 the 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 on the investor presentation for today's call, which are posted on our Investor Relations website.

Now let me turn the call over to Roy.

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

Thanks, Byron, and thank you, everyone, for joining us today. Fiscal year 2022 was a year of significant accomplishments at monday.com. We finished the year more energized than ever with strong financial results, improved efficiency and continued product innovation. We put this progress on display at our Elevate 2022 world tour where we had the opportunity to meet with customers and partners in person. We also announced plans to launch monday DB, which will upgrade our infrastructure, drive faster board performance and provide even more flexibility. Monday DB will enhance the way Work OS engine run and store data, ensure that our platform is schemaless, completely flexible and built for infinite scale supporting a 100 times larger ports.

Q4 capped off an amazing year with strong revenue growth and free cash flow expansion. We finished the quarter with \$150 million in revenue, \$30 million in free cash flow and achieved positive adjusted operating profit for the first time. New customer demand trends also continues to be strong. In FY 2022, we added 34,000 net new customers to monday.com family. Our fastest-growing customer segments remained enterprise where we grew customers by 86% to 1,474 customers.

While we are seeing healthy new customer demand, we continue to see competitors significantly reduce their performance marketing efforts. As a result, we have been able to build market share and improve overall customer acquisition efficiency. Our results demonstrate that monday.com continue to drive growth and profitability at scale. Since inception, the company has now generated more than \$5 in ARR for every \$1 in cash burnt. Regardless of macro uncertainties, we believe we are well positioned for the road ahead.

Let me now turn it over to Eran to walk you through some of our business highlights for the year.

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Thank you, Roy. Fiscal year 2022 was another year of phenomenal growth at money.com both financially and business-wise. We ended the year with \$519 million in revenue, up 68% year-over-year, improved overall efficiency and achieved positive free cash flow for the second year in a row. Fiscal year 2022 was also a transformational year for our product. We've received incredible feedback on our new Work OS product suite, particularly on monday sales CRM. As a reminder, CRM has only been made available to new customers, and we finished 2022 with 2,458 new monday sales CRM accounts. The fast adoption and strong customer feedback of monday sales CRM has been amazing. Customers tell us they love monday sales CRM as it's more customizable and easier to use than any traditional CRM tools. As we begin to slowly roll out monday sales CRM to our existing customers, we remain focused on adding more powerful features and functionality to make it the best CRM in the industry.

As Roy mentioned, our strong growth continues to be led by enterprise customers. This quarter, we are particularly excited to announce that one of the world's leading banks recently adopted monday.com. With a goal to move away from multiple work management and legacy communication tools, monday.com proved to be the best fit for the company. To date, over 1,000 users across multiple teams have adopted monday.com and we are seeing the power of our Work OS enabling collaboration and efficiency.

We also made significant progress in expanding our marketplace. In fiscal year 2022, we increased the number of marketplace apps to 217, including 61 monetized apps. As we look to accelerate efforts in building out the marketplace, we are excited to announce a new partnership with Appfire,

the world's largest enterprise collaboration app provider with a track record of creating easy-to-use, powerful and reliable apps for the world's most reputable tech companies, Appfire will allow us to build on our strong foundation and take our marketplace to the next level.

With that, let me now turn it back over to Roy.

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

Thank you, Eran. As we turn our attention to the next fiscal year, we are highly confident in meeting our goals, and there's a lot we plan to accomplish. In FY '23, we will be focused on remaining the market leader in work management space. To accomplish this, we will continue to give our users exceptional customer experience with easy-to-use and intuitive products. We plan to enhance our upmarket efforts through building and scaling our platform and product suite and expanding existing channels that will allow us to build market share. We expect to accomplish all this while being committed to improving efficiency and delivering positive free cash flow for the third straight year.

In closing, Eran and I want to thank the entire monday.com team for your amazing work in making 2022 to our most successful year yet. Now it's full steam ahead into an exciting 2023.

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

Eliran Glazer - *monday.com Ltd. - CFO*

Thank you, Roy, and thank you to everyone for joining our call. Today, I'll review our fourth quarter and full year 2022 results in detail and provide initial fiscal year 2023 guidance. We finished fiscal year 2022 exceptionally strong. Total revenue in Q4 2022 came in at \$149.9 million, up 57% from the year ago quarter and at \$519 million in fiscal year 2022, up 68% from the prior year. Excluding the impact of foreign exchange, revenue grew 60% year-over-year in Q4 2022 and 71% year-over-year in fiscal year 2022.

Our overall net dollar retention rate remained steady in Q4 2022, reflecting our focus on the organization with the highest expansion potential and continued resilience through a more challenging macroeconomy environment. We experienced a decline in net dollar retention for our largest customers, reflecting slower seat expansion in the upmarket. As a reminder, our net dollar retention is the trailing fourth quarter weighted average calculation.

For the remainder of the financial metrics disclosed unless otherwise noted, I will be reflecting non-GAAP financial measures. We have provided a reconciliation of GAAP to non-GAAP financials in our earnings release. Fourth quarter gross margin was 90%. In the medium to long term, we continue to expand gross margin to remain in the high 80% range. Research and development expense was \$24.7 million in Q4 2022 or 16% of revenue, in line with the year ago quarter, and \$94.1 million in fiscal year 2022 or 18% of revenue, up from 17% in the prior year. We plan to invest significantly in R&D in fiscal year '23 as we build out our product suite and scale our Work Operating System platform, both horizontally and vertically.

Sales and marketing expense was \$80.9 million in Q4 2022 or 54% of revenue, compared to 73% in the year-ago quarter, and \$358.6 million in fiscal year '22 or 69% of revenue, compared to 79% in the prior year. G&A expense was \$15 million in Q4 2022 or 10% of revenue compared to 12% in the year ago quarter and \$57.3 million in fiscal year 2022 or 11% of revenue, in line with the prior year.

Net income was \$22.2 million in Q4 2022, and the loss of \$33.4 million in fiscal year '22. Diluted net income per share was \$0.44 in Q4 2022 and negative \$0.73 in fiscal year 2022 based on 50.4 million and 45.8 million fully diluted shares outstanding, respectively. Total employee headcount was 1,549, a decline of 3 employees since Q3 2022. Looking to next year, as we build our platform and product suite, we expect to continue hiring for our R&D and Product teams.

Moving on to the balance sheet and cash flow. We ended the quarter with \$885.9 million in cash and cash equivalents, up from \$852.6 million at the end of Q3 2022. In Q4 2022, adjusted free cash flow was \$29.7 million and adjusted free cash flow margin as defined as adjusted free cash flow as a percentage of revenue was 20%. In fiscal year 2022, adjusted free cash flow was \$8.1 million and adjusted free cash flow margin was 2%.

Fiscal year 2022 marks our second consecutive year being adjusted free cash flow positive and we anticipate to be adjusted free cash flow positive in fiscal year 2023. Adjusted free cash flow is defined as net cash from operating activities, less cash used for property and equipment and capitalized software costs, excluding nonrecurring items.

Now let's turn to our outlook for fiscal year 2023. For the first quarter of fiscal year 2023, we expect our revenue to be in the range of \$154 million to \$156 million, representing growth of 42% to 44% year-over-year. We expect a non-GAAP operating loss of \$19 million to \$17 million and a negative operating margin of 13% to 12%. For the full year 2023, we expect revenue to be in the range of \$688 million to \$693 million, representing growth of 33% to 34% year-over-year. We expect a full year non-GAAP operating loss of \$36 million to \$32 million and a negative operating margin of approximately 5%.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Kash Rangan from Goldman Sachs.

Moving on. Our next question is from Pinjalim Bora from JPMorgan.

Pinjalim Bora - JPMorgan Chase & Co, Research Division - Analyst

Okay. Congrats on the quarter. It seems like a good one. I wanted to understand the guidance a bit. Eliran, if you could tease out maybe the assumptions behind the guidance, do you expect expansions to kind of continue to deteriorate or your logo growth kind of slow. Are you assuming the macro kind of to stay the same or take a step down trying to understand if you're baking in a little bit of more conservatism than usual for this year.

Eliran Glazer - monday.com Ltd. - CFO

Pinjalim, it's Eliran. So thank you for the question. So what we took into account for guidance. So we always take into account the latest trends that we are seeing. So as we said, there is some challenging macroeconomic conditions without pressure on [NDR]. But on the other side, we see a consisted top of funnel demand. Now the reason why NDR is flowing is the fact that you see less of the (inaudible) on their budget.

So we took it into account as part of the guidance that we provided for the year. In addition to that, we are seeing improving overall efficiency and the fact that we're also generating cash also took into account as part of the guidance. So we feel comfortable with what we provided a number that we can achieve.

Pinjalim Bora - JPMorgan Chase & Co, Research Division - Analyst

Okay. Understood. On the CRM customer growth seems pretty interesting, really solid. Want to ask you, I mean it seems like almost 12% to 13% of your new -- total new customers added in the year with CRM. I want to understand what's kind of the typical size of customers that you're landing CRM with. And if you're seeing any kind of interesting expansion characteristics with those as they kind of understand how to expand monday beyond CRM.

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. Pinjalim, this is Eran. So as I mentioned previously, right now, the CRM product is mostly offered to new customers. We didn't offer to existing customers. And in terms of new customers, we get a mixture both SMBs but also midsized and larger organization adopting the product. We're very happy and excited with the results. The momentum is created with that product and also the feedback that we get from customers. And we kind of predict this momentum to continue into next year. So right now, we get a healthy mixture of both small- and medium-sized customers into the pipeline.

Operator

The next question is from Brent Bracelin from Piper Sandler.

Brent Alan Bracelin - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

My question really is around monday sales CRM, monday marketer that showed up on G2 is the 2 -- one of the fastest-growing new products in categories. Can you just talk a little bit about the momentum you're seeing in marketer as well as sales? And what's really driving that? Is there a price point that seems to be residing with customers? And then talk a little bit about when you plan to roll that out to existing customers. I know that was only for new customers only, when do you roll it out to existing.

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. Thanks, Brent. This is Eran. Thanks for the question. So we mentioned previously that about 60% of the new paying customers are CRM customers, but the remaining 50% are split between the marketer and the (inaudible). So definitely, we highlighted the CRM because they have the most momentum, but also the 2 other products also have great momentum that we're seeing. In terms of releasing those products to existing customers. We plan to do it -- like at the end of H1, the midyear this year. And just to your comment about the G2 rating, I think this shows exactly our strategy that because those products have built on top of the Work OS platform, they already pretty mature to offer a lot of advanced features, and we're able to compete in each 1 of those markets and achieve high rating within customers, which is perfectly kind of what we expected and a big part of our strategy as we build those products.

Operator

The next question is from Steve Enders from Citi.

Steven Lester Enders - *Citigroup Inc., Research Division - Research Analyst*

Okay. Great. I guess I'm going to ask a little bit on the outlook on the EBIT line and the strong upside we saw there in the quarter. I guess how should we think about the kind of puts and takes of where you're investing in incremental OpEx and maybe where there might have been a little bit of a pullback from what you're expecting in 4Q? And I guess, similarly for the outlook, is there a pause in maybe some investments that you're making on the headcount side or just anything that we should be thinking about as we think about the EBIT outlook for the year.

Eliran Glazer - *monday.com Ltd. - CFO*

Steve, it's Eliran. So with regard to the first quarter, we provided operating profit mostly driven by the fact that we beat on the revenue side, we saw a lower S&M spend due to the fact that it costs us less to acquire customers. It can be because of some of the competition or the competitors that we stated pulled back. And we believe this is an opportunity for us actually to take market share and to grab land.

Some of the hirings that we wanted to do in Q4 were delayed to next year, we would like to focus on hiring people for engineering and product. This is an area that we will continue to invest -- and in addition, in Q4, as part of your year-end audit, there is always kind of reversal of some of the approvals that you are doing throughout the year. Nevertheless, I would like to emphasize that from our perspective, we are going now into Q1. We will continue to invest still in an efficient manner.

And with regards to overall EBIT that you were asking, we are currently consistent with our original plan to reach profitability bar before 2025 sustainable and with regards to free cash flow, we said that we are going to be free cash flow for the entire year, not only in H2.

Steven Lester Enders - Citigroup Inc., Research Division - Research Analyst

Okay. Perfect. That's helpful context there. I do want to ask on the marketplace side and the new relationship with Appfire. I guess how do you kind of view the marketplace opportunity evolving moving forward? And how do you think about outside partners and third parties building applications and use cases versus kind of what you would build in-house.

Roy Mann - monday.com Ltd. - Co-Founder, Co-CEO & Director

Thank you. It's Roy. So we really care about the marketplace being a huge growth engine for us. We want to invest a lot in partners joining us. Appfire is a great partner to have. And our vision here is to build a very large and robust ecosystem around us. And the way we're doing it, I think is unique is that we're opening the platform up completely. Just as an example, application developers can create now first-class citizens within the platform. It's not something that is second grade or like hidden, okay? So they can really build on top of the platform like we do, and we really open up completely. And I think they feel that and they feel that we are a great partner to build upon.

Operator

We have a question from Kash Rangan from Goldman Sachs.

Kasthuri Gopalan Rangan - Goldman Sachs Group, Inc., Research Division - Analyst

Congratulations on the quarter. Terrific for team. Curious to get to your perspective on monday DB, I know that it's going to be rolled out in 2024. Was the initiative based on any specific customer feedback or is it something that you're doing more proactively. What are the kinds of customers that you hope to land with monday DB, the enhancements you're putting in through that you could not otherwise previously get? And also with this partnership initiative where you're opening up the platform for partners to develop kinds of applications, new kinds of applications. What is your goal here? Is it the long tail of apps that you don't have the resources development that you hope the partners can get you into new markets? Or is it new geographies? Or is it just to open up the platform even more to existing customers so they can exploit and new capabilities more. Curious to get your take on what you want to accomplish with the opening up of the platform initiative.

Roy Mann - monday.com Ltd. - Co-Founder, Co-CEO & Director

Kash, it's Roy. Thank you for the question. So monday DB is something that is in the core of our infrastructure like we are. We've always highlighted how being schemaless and how we build the platform on top of a solid backbone that enable our customers to build whatever they want. Monday DB is the next phase of that. We want to make it more scalable. And like a lot of customers tell us we're doing like -- they can do flip flops with monday. They can do whatever they want. It's magic. And I think we're monday DB comes in, it takes that magic in a scalable way and allows to build like way bigger applications on top of us. And that opens up the door for larger installment -- like different use cases that require like millions of (inaudible) that you think -- it opens the door for larger customers in many ways. But again, it's like an infrastructure to move us to the next level.

Regarding the marketplace, what we think is that, first of all, when we started it, we just wanted to open it up to everyone and see what they do. And they surprise us all the time with what they do. And I think you named 2 of the great points, like 1 is obviously the long-term solving a lot of

problems we would not get to for our customers. And another thing is go-to-market, like [main] market add those solutions and bring us more audience.

And I think a third thing, which is very important is the fact that our customers choose us when we win the deals because they see that they can build the future on monday. Even if they don't know exactly what they need to build now, they know that whatever they want to, they never hit a wall because the platform is open and they can always take a partner to build whatever they want, they can connect bespoke software and a lot of those stuff. So in that respect, it's also super important for us.

Operator

The next question is from Jackson Ader from SVB MoffettNathanson.

Jackson Edmund Ader - *SVB Securities - MD of Technology Equity Research*

The first one is on the commentary on the net dollar retention rate and specifically in the high end that kind of \$50,000 and above. What is kind of driving the weakness there? Is it just people not expanding upon their annual renewals as much as you thought. Is there any downshift in terms of the number of seats at some of your customers? Just interested in those dynamics?

Eliran Glazer - *monday.com Ltd. - CFO*

Jackson, it's Eliran. So as a reminder, with the enterprise accounts, we are coming off historical highs, what we see is basically, I think this is something that we started seeing also last year, larger customers become more cautious with their budget. It's mostly seeing a slowdown in expansion of seat. So on one hand, we see a very healthy traffic of new customers, new logos, that's actually buying monday software. But on the other hand, you see the amount of expansion within existing customer base mainly the big one is less than what you used to see in the past. We believe it's current [macro] uncertainty that has been driving most of this behavior.

But on the other hand, the positive is that overall NDR remains steady at 120%. The growth churn has held up well. And we're still seeing, as I said, solid new customers demand. We would say that by the end of this year, we expect additional probably decline due to mostly to the macroeconomy headwind.

Jackson Edmund Ader - *SVB Securities - MD of Technology Equity Research*

Okay. And actually, if we just stick a little bit on that theme, but maybe geographically speaking, Europe has held up maybe better than what we expected, just dropping in the revenue mix by only 1% year-over-year. I'm just curious, in that geography, what you guys are seeing and maybe whether it's kind of out or underperformed your expectations in '22 and what we should be thinking about for '23?

Eliran Glazer - *monday.com Ltd. - CFO*

So maybe just to take a step back, as a reminder, 70% of our customers are nontech and 30% is tech. So when you think about the softness in demand that we saw last year, it monthly was around tech. So when you think about Europe, we said that we see a more of -- less of an impact of what potentially others are seeing because of the level of exposure that we have. So I think that we don't see significant changes to what we saw in the past. It's relatively stable and actually getting into the new year, we see even some positive signs yet to be seen for the year -- remainder of the year.

Operator

The next question is from George Iwanyc from Oppenheimer.

George Michael Iwanyc - *Oppenheimer & Co. Inc., Research Division - Associate*

Congratulations on the results. Roy or Eran, maybe if you can give us some more color on the competitive space, you continue to add a solid number of new customers? Are these lands mostly new? And are you seeing displacement from other work management solutions or mostly from productivity tools.

Operator

Please, we have lost connection with the speaker team. Please standby while we reconnect them.

(technical difficulty)

Thank you for your patience, we are now reconnected with the speaker team.

George Michael Iwanyc - *Oppenheimer & Co. Inc., Research Division - Associate*

Roy or Eran, I basically was asking about the competitive environment. The pipeline generation you see? Is that mostly still greenfield? Or are you displacing other productivity tools or work management tools at this point?

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

It's Roy, sorry for the disconnect. So when we're looking into new customers that joined the platform, we still see it as greenfield also, the majority of the deals we do are not against any other competitor. And within the ones that we do compete with someone we win mostly because of our Work OS because they want the platform, they want the fact that they can do a lot of things with it towards the future.

George Michael Iwanyc - *Oppenheimer & Co. Inc., Research Division - Associate*

Okay. And Eliran, maybe digging into the hiring that you expect to do this year, how front loaded is that? And what things will you be monitoring to kind of judge the pace of future hiring in upcoming quarters?

Eliran Glazer - *monday.com Ltd. - CFO*

So George, just to relate to that, we are mostly focused on building out the platform and product offering. So the focus will be mostly on R&D and product. Different to prior year, we are going to hire probably around 10%, give or take based on our needs. It's not going to be necessarily front loaded. Maybe there is going to be slightly skewed towards H1. But overall, we are expecting more of a balanced hiring process throughout the year. And obviously, if we need to hire more, then we make a decision as we progress.

Operator

The next question comes from DJ Hynes from Canaccord.

David E. Hynes - *Canaccord Genuity Corp., Research Division - Analyst*

So maybe just building off that last line of thinking there, Eliran, I mean, in the shareholder letter in your prepared remarks, it said one of the focus areas this year was to expand the upmarket growth engine. You had a great slide in the deck that shows your efficiency metrics are hanging in there really well. Clearly, there's uncertainty out there. So just help us understand kind of how you're thinking about executing on the go-to-market side of things, hiring there? Kind of what are the key initiatives we should be watching for this year?

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. So in terms -- this is Eran. Thank you, DJ. So in terms of our go-to-market, we have a bunch of plans. So definitely, the new products are a great way to expand our go-to-market. The fact that we can now market specifically the CRM product, the product, the marketing product, just opens up monday to new audiences, a new type of buyer. And just as a reminder, once a customer starts using one of those products, they can expand to additional products and eventually get the whole company into the monday Work OS platform. So definitely, this is a big game changer for us in terms of our ability to go-to-market different kind of buyers, different personas within the organizations.

Also, this year, we're going to double down on our outbound motion to expand our channels, marketing channels, do some more B2B enterprise focused marketing. So all those efforts together will allow us to continue to execute. In addition to the great momentum we've already seen with performance marketing that we mentioned, given that most of the other players in the market have pulled back, we're able to achieve now a greater market share and greater efficiency. So combine all those things together, we see great momentum in terms of acquiring new customers.

Eliran Glazer - *monday.com Ltd. - CFO*

Maybe DJ, this is Eliran. Just to -- Sorry DJ, just to add to what Eran said. Last year, we hired increased the headcount in more than 50%, and we believe we are now well positioned to go to 2023 and beyond in terms of sales and marketing headcount with regards to going upmarket as well.

Operator

The next question is from Derrick Wood from Cowen & Company.

James Derrick Wood - *Cowen and Company, LLC, Research Division - MD of TMT - Software & Senior Software Analyst*

Great. Congratulations as well. I guess just a follow-up to that. You did hire your first-ever CRO in November. Just wanted to hear what the kind of impetus was to bring on a CRO and what changes you may be making on the go-to-market side.

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. Thanks, Derrick. This is Eran. So actually Yoni, our CRO is actually promoted from within the company. He was managing both the sales team and the marketing team, and we promoted him to be the CRO of the company, basically adding also the management of the customer success group and the customer support in addition to our partners group. So first of all, we're really proud of Yoni, he's been doing a phenomenal job. We basically in selves create a wholesale team from scratch and done a great job.

And with this change within the company, we believe this will allow for a better cooperation between the different teams, will drive greater efficiency, the team is working together and more optimized to go-to-market, the fact that you have such a wide look -- any -- starting from the marketing team all the way to the sales and partners just give so much energy to all the teams and much better collaboration. So we're already seeing the fruits of that, and I feel that going into 2023, this will even create greater efficiency within those teams.

James Derrick Wood - Cowen and Company, LLC, Research Division - MD of TMT - Software & Senior Software Analyst

Got it. That's helpful. And just maybe a follow-up. So it sounds like from a macro standpoint, you're not seeing a whole lot of headwind on the SMB side. It's mainly just from slower expansion activity in the upmarket customers. Why I guess -- why is it that you -- we've heard more pressure from SMB from other companies? Why is it that it sounds like you're seeing more stability on the SMB side.

Roy Mann - monday.com Ltd. - Co-Founder, Co-CEO & Director

That's -- it's Roy. It's really hard to say, but I feel that like SMBs want to consolidate and have a product that solves more problems for them. That's typically the case. And monday is obviously the tool of tools, and they can do so much with us. Having said that, the situation there is very stable, like you said, and we do see a very healthy top line demand as Eran mentioned, with our performance marketing and getting new customers to join monday.

Operator

(Operator Instructions) The next question is from Fred Lee from Credit Suisse.

Frederick Lee - Cr dit Suisse AG, Research Division - MD & Head of SMID software

Very nice quarter. I noticed R&D in dollar terms declined sequentially for the very first time. I was wondering if you could talk about how we should think about leverage going forward, especially as you add the features and roll out your into existing customers and investing in new products like on monday DB? And then if you could also share year-end headcount R&D.

Eliran Glazer - monday.com Ltd. - CFO

Yes. So with regards to R&D, Fred, it's Eliran. So the fourth quarter is 18% for the year, it's 16% for the fourth quarter. Reason why it's mainly due to the fact that we did some cost adjustments at the end of the year. There is the impact of the Israeli dollar shekel exchange rate because the dollar was strong. And on this front, in Israel with all the R&D based in Israel, you get benefits on the payroll, which is most of the cost for R&D.

And when you think about going into 2023 and 2024, we are in accordance with our long-term operating plan, which was around 22% to 24%. And we believe it's going to be on the lower side of it, around roughly 20%. We're never very significant in terms of R&D as a percentage of revenue, and this is pretty much the kind of the ballpark, I would assume that we will need to maintain.

Obviously, if we will need to invest further on the platforms and on monday DB, as we said, already took it into account. But if we feel or we see that we need more resources and more headcount than there is no -- we will obviously hire them.

Frederick Lee - Cr dit Suisse AG, Research Division - MD & Head of SMID software

And then also the year-end headcount, if you don't mind, in R&D?

Eliran Glazer - monday.com Ltd. - CFO

The year-end headcount, yes, the problem is north of 200. I don't remember the exact number.

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. But maybe just to add to Eliran, to give you a perspective, most of the -- both majority of the hiring for 2023 is going to be focused on R&D resources. For us, this is the main part of the business we've plan to expand next year and put most of the efforts and the budgeting to. So we're continuing -- and like always, we're going to deliver with very high execution also in 2023. We have got very big plans.

Operator

The next question comes from Brent Thill from Jefferies.

Brent John Thill - *Jefferies LLC, Research Division - Equity Analyst*

Just back on the guidance, I just wanted to better understand what you're embedding for the year in terms of macro or SMB churn. It's pretty drastic slowdown in growth. Is this just the old-fashioned conserves or are you baking in anything else to give yourself a little more of a room?

Eliran Glazer - *monday.com Ltd. - CFO*

Brent, it's Eliran. So we believe this is going to be pretty much the same macro economy condition that we see now, they will persist by the end of the year. We took it into account. We did also take into account the -- some slowdown we see on NDR from enterprise accounts. It's also baked into the numbers. Other than that, we believe that the guidance is consistent with what we see as of now and also with improving overall efficiency on one hand, but the challenging macro economy. So we feel this is a number that we can achieve.

Brent John Thill - *Jefferies LLC, Research Division - Equity Analyst*

And that enterprise slowdown, is that just as it relates to the macro having to hold on those customers slowing? Or is there something from an internal execution that you'd like to do better there?

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. This is Eran. Thanks, Brent. So I feel it's more about the macro environment and the fact that those enterprises are a bit more cautious going to 2023, maybe slowing down hiring. Just as a reminder, the way we charge customers is per user. So the fact that they might be slowing down hiring might have an effect here. But definitely, we're also seeing some optimism and some good momentum as we started the year. So I think there's some optimism making to that going forward.

Operator

The next question is from Arjun Bhatia from William Blair.

Arjun Rohit Bhatia - *William Blair & Company L.L.C., Research Division - Co-Group Head of the Technology, Media, and Communications Sector & Analyst*

So can you hear me? All right. Perfect.

I might congrats on a good quarter. I wanted to touch on the product verticalization efforts. I think you mentioned that a little bit in the shareholder letter, but I'm curious what your road map is on verticalization and maybe what role the partners can play there, if any, in helping to reach verticals where you may not have a presence right now?

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

Thank you. It's Roy. So we are relying a lot on the partners to both expand our marketplace offerings and also to provide a lot of services and help us with customers in territories we are not present in. And I think it's a great power that we have, that we have so many engaged partners just recently, a lot of them like 170 of them flowing to Israel. We had a large event here. And it was very exciting to see how they're going to build on us and really we shared with them the road map of the marketplace and how much they can do there. So it's really exciting.

Arjun Rohit Bhatia - *William Blair & Company L.L.C., Research Division - Co-Group Head of the Technology, Media, and Communications Sector & Analyst*

And maybe 1 follow-up for Eliran. As you think about just the sales and marketing spend, going into next year. Obviously, you're seeing efficiency there on customer acquisition. But how do you think about the trade-off between performance marketing and sales-led spend on the go-to-market side in 2023?

Eliran Glazer - *monday.com Ltd. - CFO*

Arjun. So the short answer is that it will be pretty much in the same ratio that we saw in the past. I would say around 30% is going to be performance marketing based on efficiency and around 70% is sales and partners. So this is kind of the ratio that we believe is going to continue also this year.

Operator

The next question is from Robert Simmons from D.A. Davidson.

Robert Edward Simmons - *D.A. Davidson & Co., Research Division - Senior VP & Research Analyst*

Nice quarter. I was looking at your retention number, specially in the large enterprises. And were you disclosed the fourth quarter number, can you talk about what you actually saw in the quarter itself in terms of how that trended in the summer quarter and then also the cement growth retention what you saw there?

Eliran Glazer - *monday.com Ltd. - CFO*

Robert, it's Eliran. So from an overall -- the NDR remains steady with -- for the entire population with 120%. And gross churn has held up well. We're still seeing solid new customer demand and overall sales keep growing. On the larger accounts, we saw a decline as I said at the beginning of the call, the reminder is that we come in off historical lines. We see larger customers that become more cautious with their budgets. They are more conscious with the level of spend. And we do see a slowdown in expansion of seats, mostly driven, we believe, by current macro uncertainty that is driving this behavior.

Robert Edward Simmons - *D.A. Davidson & Co., Research Division - Senior VP & Research Analyst*

Would it be possible to give any clarification on any of those factors or is that not?

Eliran Glazer - *monday.com Ltd. - CFO*

Can you repeat the question, please?

Robert Edward Simmons - *D.A. Davidson & Co., Research Division - Senior VP & Research Analyst*

Would it be possible to get a quantification on any of those factors in the quarter?

Eliran Glazer - *monday.com Ltd. - CFO*

Don't have it right now with me the quantities of each contribution. But to the NDR -- so the larger one would be the slowdown in expansions. So this is the main factor that drove the NDR. You can see that and they are of larger customers slow down more sharply than the other ones.

Operator

The next question is from Jason Celino from KeyBanc.

Jason Vincent Celino - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Very nice to see in the customer win at the major financial [introduction] in the prepared remarks. When we think about the slowdown in the seat expansions at the enterprise, has it been mainly limited to your [tech] exposure curious there.

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. Thanks, Jason. This is Eran. Yes, I would say the tech sector, again, like the thing that drives NDR hub is mostly a company spending means hiring more people, getting more people on board into the product. Definitely, the tech sector has suffered more, but just as a reminder, it's only 30% of our customers, the other 70% were less impacted, but it's something we are seeing across the board within companies. And again, it's hard to tell how much is that a large organization being more cautious and how much is that will stay with us going into 2023, but this is the current trend we're seeing.

Jason Vincent Celino - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Okay. Great. And if I were to kind of summarize the top of funnel trends. It sounds like things are still very strong. I'm curious on like the linearity that you saw in Q4, I guess how did that type of funnel look in December versus maybe early in the quarter?

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

It's Roy. So historically, we've seen that the first quarter is much stronger, people coming back from vacation in New Year's. And so this first quarter, we actually anticipated it will be less strong than it is. So we do see it as a very positive sign. We see a very strong demand and -- so that's like a super positive for us.

Operator

The next question is from Andrew DeGasperi from Berenberg.

Andrew Lodovico DeGasperi - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

I guess -- I know you talked a lot about the retention rate, and I know this being a 12-month trailing metric. I guess what I'm trying to get out is, is this metrics going to step down sequentially for the larger cohorts, the over 10 users?

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Andrew, this is Eran. Yes, we anticipate that it might go down in the larger accounts between 5% to 10% more this year. There is a lagging effect having in mind due to the trailing 12 months, and we are counting at weighted average. So obviously, the impact is going to be throughout the year. So I believe this is probably the trend that we are seeing.

Andrew Lodovico DeGaspero - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

And then secondly, on the sales and marketing savings, I know you mentioned performance marketing competitors pulling back. I just wanted to dig a little deeper in terms of who those competitors are. Are we talking about other collaboration work management platforms? Is it a bigger cohort of that?

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

It's Roy. So generally, when we say that, we mean the overall competition on the key words and on those ads. So we don't necessarily know who they are. We just see that we are getting more customers for less money.

Operator

The next question comes from Shebly Seyrafi from FBN Securities.

Shebly Seyrafi - *FBN Securities, Inc., Research Division - MD*

So it looks like you're going to be hiring in product and R&D in '23. Does that mean you're going to have lower sales and marketing headcount at the end of '23? Just talk about how you intend to invest in sales and marketing this year.

Eliran Glazer - *monday.com Ltd. - CFO*

Shebly, it's Eliran. So yes, we said that we are going to focus on product and R&D. It's not necessarily mean that we are going to have lower headcount with the sales and marketing. If we need to hire, there is going to be hiring there as well. Currently, we are continuing with the number that we have, but we see the bulk of the investment in R&D.

Shebly Seyrafi - *FBN Securities, Inc., Research Division - MD*

Okay. All right. And I just want to elaborate on the competitor pullbacks. You just answered it to a prior question. But just if you can elaborate on that. For example, do you have a number of competitors that you saw pullback? When did you see it if there was a time that was more noticeable? And what is your response? Are you going to be more aggressive now against your competition? And just describe how you might become more so.

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

Shebly, it's Roy. So yes, I'll elaborate more on that. So essentially, we bid on ads in Google and Facebook and YouTube in all those areas of performance marketing. And we see that we can get the same ad placements for lower costs. So that's essentially what we say when we say less competition. So like to be in first place, we need to pay way less. And then we get a lot more customers in because of that. And our approach is that -- we have

a big brand. We have our own measurement -- internal measurement tools that we've built that show us exactly the ROI on every dollar we spend on marketing. So we know what's working.

So if there is a campaign that is working less good, we'll lower the bid automatically almost. And so I think this is a competitive advantage we have over others where they needed to cut back as they just did, and we know what's working. And so what's happened is that we've even increased the budget we have for performance marketing in January and February because we know and we see what's working, and we have internal predictions to what we'll get out of it. So I think we're doing it super responsibly. We know exactly what the ROI is. And that's the strategy and what it's been up until now.

Operator

The next question comes from Scott Berg from Needham.

Scott Randolph Berg - *Needham & Company, LLC, Research Division - Senior Analyst*

I want to congrats on strong quarter. I guess I'll leave you with one in essence of time here. Given the success that you've had on the marketing side, and those numbers have actually trended down all year. I know after the large Super Bowl ad last year. It sounds like FX was a benefit in the quarter. I guess, why not step on marketing a little bit more if the cost of customer acquisition is actually coming down, you continue to have success there and the competitors are pulling away, why not take this opportunity to even capture more market?

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

Scott, it's Roy. So yes, we have been doing that up to the point that we are comfortable with the results. That's what BigBrain does. Like it shows us exactly how further we can step on the gas, and we have. So there isn't any point in extending it more, either there is no -- because we won't see the results that we want if we push it further. But we have and we have extended the marketing.

Eliran Glazer - *monday.com Ltd. - CFO*

Scott, just to add to what Roy said, from our perspective, this is what we are also going to look at this year. If we see opportunities -- continue to see the opportunities with efficiency, then we are not going to pull back. We're actually going to push on the gas in order to generate more leads and more growth for the business.

Operator

The final question today comes from Ivan Feinseth from Tigress Financial Partners.

Ivan Philip Feinseth - *Tigress Financial Partners LLC, Research Division - Director of Research*

Also, congratulations on the great quarter and great year. Can you give us some insight or discussion on some of your AI initiatives and potential AI integration capabilities onto your platform?

Roy Mann - *monday.com Ltd. - Co-Founder, Co-CEO & Director*

Ivan, it's Roy. So it's obviously been amazing, right, like such a huge change in such a short time in AI. And now that we see that like the barrier was lowered so much to create such powerful AI tools. What we naturally do at monday, we open up the platform and allow anyone to build on top of that. So we have already added many layers that enable anyone, including us, to build AI tools on top of monday. We'll soon have an AI Hackathon

where we'll invite anyone to build on top of the platform. And essentially, have a dedicated section within the marketplace for any AI tool that can benefit anyone. And I think that's like super exciting. And we'll see like long-tail solutions for specific industries and then it's like exciting.

Eran Zinman - *monday.com Ltd. - Co-Founder, Co-CEO, & Director*

Yes. And maybe just to add -- this is Eran, just to add more color. So one of the main building blocks that we have in the platform is our monday [Doc]. And there we already saw a lot of potential use cases for using AI to generate automatic content to summarize content within the board. So definitely, we saw some exciting POCs, and we plan to expand like we said, the platform and start with some off-the-shelf solutions to start with.

Operator

This concludes today's Q&A session, and does concludes today's call. We thank you very much for your attendance. You may now disconnect your lines.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All Rights Reserved.