

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

MNDY.OQ - Q1 2023 Monday.Com Ltd Earnings Call

EVENT DATE/TIME: MAY 15, 2023 / 12:30PM 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*

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

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

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

Kasthuri Gopalan Rangan *Goldman Sachs Group, Inc., 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 day. My name is Jean-Louis and I will be your conference operator today. At this time, I would like to welcome everyone to monday.com's First Quarter Fiscal Year 2023 Earnings Conference Call. I would like to turn the call over to monday.com's Director of Investor Relations, Mr. Byron Stephen. Please go ahead.

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

Hello, everyone, and thank you for joining us on today's conference call to discuss financial results for monday.com's first quarter fiscal year 2023. 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 first quarter 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 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.

Now let me turn the call over to Roy.

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

Thank you, Byron, and thank you, everyone, for joining us today. After a strong fiscal year of 2022, we are happy to say that we kept the momentum going with an exceptional Q1 in fiscal year 2023. Despite the persistent uncertainties in the macro environment, we continue to invest in our growth and profitability at scale, and we are seeing the results. Q1 revenue totaled \$162.3 million, an increase of 50% year-over-year.

We generated a record \$38.7 million in free cash flow during the quarter, and are well positioned in meeting our goal of positive free cash flow for the third straight year. Additionally, we are pleased to report that we are now guiding to positive non-GAAP operating profit for fiscal year 2023, 2 years ahead of expectations. Eliran will walk you through our guidance in more detail. Customers acquisition continued to be exceptionally strong, our fastest-growing customer segment remains the enterprise. Where we grew customers by 75% to 1,683 customers, marking a record number of quarterly net new enterprise customers.

Equally impressive has been the fast adoption and strong customer feedback of our Monday sales CRM product. Customers love Monday sales CRM as it's more customers an easy to use and transitional CRM tools. In Q1, we opened our Monday sales CRM to a selection of our existing customer base and the response has been tremendous. Total sales in CRM accounts accelerated to 5,441 accounts representing a record number of quarterly net new sales CRM accounts. We are incredibly pleased about all the recent business and product accomplishments this quarter and believe we are well positioned to deliver our goals for fiscal year 2023 and beyond.

Let me now turn it over to Eran to walk you through some of our recent innovation efforts.

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

Thank you, Roy. This quarter, we are excited to announce our plans for incorporating AI into our Work OS platform, which we already started implementing. The key components of our AI strategy includes increasing monday.com users efficiency, increasing our own internal efficiency and in the future, harnessing the power of our proprietary data spreading over 200 different business verticals.

This month, the first version of Monday AI assistant is going live with features such as automated data generation, e-mail composition and document summaries. All features, which will greatly increase the efficiency, speed and general experience of our users. In June, we are opening our platform to third-party developers to build AI apps on the monday.com Work OS, increasing collaboration and speedy innovation. These apps will be available on our Monday AI assistant infrastructure. Internally, too, we are focusing on using the Monday.com data to enhance our operations through AI, including automating parts of our sales operations, our customer experience and adding an AI layer to our in-house business intelligence tool, Big Brain.

Finally, we plan to harness our data to help future customers navigate the best ways to set up and maintain the most optimal workflows at automation as well as connect the right people to the right processes. This can significantly improve monday.com speed of adoption within companies and further enhance data-driven product development initiatives. This quarter, we are also delighted to kick off the first phase of Monday DB. As a reminder, Monday DB is a brand-new data infrastructure from the Monday Work OS platform. enabling bigger workflows, larger boards and dashboards, more robust development capabilities and improved overall performance, Monday DB is being released in multiple phases over the next year with each phase expected to boost performance and scale.

The first phase of Monday DB is focused on Monday boards. Now we're available to 30% of accounts Monday DB 1.0 is already having a big effect on board performance in all times, especially on large and complex boards. Monday DB 1.0 loads boards with thousands of items within a matter of seconds, allowing customers to work with bigger, more complex workflows than ever. We expect money to be 1.0 to be rolled out to all customers by the end of Q2. In addition to our innovation efforts, we continue to make strides in accelerating our efforts in building our apps marketplace. This quarter, enterprise collaboration app provider the Database Group join us for an app accelerated project.

The event focused on introducing several potential new apps and supercharging adaptive its first monday.com app, unlimited sale items which has quickly become a customer favorite. Working with the large enterprise asset providers such as (inaudible) and up fire will allow us to build a strong foundation and take our marketplace at the next level. With that, let me turn it back over to Roy.

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

Thank you, Eran. We continue to make progress on our ESG efforts and leading publications are taking notice. Monday.com emergency response team recently received an honorable mention in the corporate social responsibility category of Fast Company's 2023 world-changing ideas list. This prestigious list honors initiatives that use companies' platforms and power to help advance change either internally for the community or for the world at large. To read more about our emergency response teams effort and all of our ESG initiatives please see our recent published 2022 ESG report.

None of our achievements this quarter would have been possible without our amazing monday.com team. We continue to invest in our people with recent opening of the new APAC headquarters in Sydney and increased our overall head count in the quarter to 1,582 employees. We are grateful to all our employees for their hard work and their contribution to the strong start to fiscal 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 first quarter fiscal 2022 results in detail and provide updated guidance. We started the year exceptionally strong. Total revenue in Q1 came in at \$162.3 million up 50% from the year ago quarter. Excluding the impact of foreign exchange, revenue grew 51% year-over-year. As expected, our overall net dollar retention rate declined slightly in Q1, reflecting slower enterprise customer seat expansion amid the challenging macroeconomic environment.

We continue to expect moderate pressure on NDR throughout fiscal year 2023. As a reminder, our NDR is a trailing 4-quarter weighted average calculation. For the remainder of the financial metrics disclosed unless otherwise noted, I will be referencing our non-GAAP financial measures. We have provided a reconciliation of GAAP to non-GAAP financials in our earnings release. First quarter gross margin was 90%. In the medium to long term, we continue to expect gross margin to remain in the high 80s range.

Research and development expense was \$28.5 million or 18% of revenue, in line with Q1 2022. We plan to continue investing significantly in R&D in fiscal year '23 as we build out our product suite and scale our Work OS platform, both horizontally and vertically. Sales and marketing expense was \$102.7 million or 63% of revenue compared to 100% in Q1 2022. G&A expense was \$16.8 million or 10% of revenue compared to 11% in Q1 2022. Net income was \$7.2 million, up from a loss of \$43.2 million in Q1 '22, diluted net income per share was \$0.14 based on [50.8 million] fully diluted shares outstanding.

As Roy mentioned, total employee headcount was 1,582, an increase of 33 employees since Q4 2022. We expect to continue hiring throughout fiscal 2023 with a focus on our R&D and product team as we build out our platform and product suite. Moving on to the balance sheet and cash flow. We ended the quarter with \$935.6 million in cash and cash equivalents, up from \$885.9 million at the end of Q4 2022. Free cash flow for Q1 was \$38.7 million, and free cash flow margin as defined as free cash flow as a percentage of revenue was 24%.

We now expect to report positive free cash flow on a consistent quarterly basis moving forward and to achieve our third consecutive year of being free cash flow positive in fiscal 2023. Free cash flow is defined as net cash from operating activities, less cash used for property and equipment and capitalized software costs. Now let's turn to our updated outlook for fiscal year 2023. For the second quarter of fiscal year 2023, we expect our revenue to be in the range of \$168 million to \$170 million, representing growth of 36% to 37% year-over-year.

We expect non-GAAP operating income of \$2 million to \$4 million and an operating margin of 1% to 2%. For the full year 2023, we now expect revenue to be in the range of \$702 million to \$706 million, representing growth of 35% to 36% year-over-year. We expect full year non-GAAP operating income of \$8 million to \$12 million and an operating margin of approximately 1%. I'll now turn it over to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Kash Rangan of Goldman Sachs.

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

Congratulations on these fantastic results. I always get to -- good to see Monday results on a Monday. A question for you is if you look at the packaging of the Monday percent of packaging or Monday based on individual percentage you have the CRM application right now. What other applications do you foresee coming down the research and development organization? And where do you draw the line between what Monday does versus leaving it to the third parties to build applications on top of the platform.

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

It's Roy here. So that's a great question of where are we taking the capabilities of the platform forward towards their growth. So our strategy now is to focus this year on the core products that we have, like CRM is doing amazingly well, and we're pushing on that. We're doubling down on what we're really good at, which is project and work management and there we go also out of beta, and that's great momentum there. Going forward, when we're looking into where we are going into and where we are not, we're seeing Monday going into areas where it is very highly differentiated across the organization, like meaning that the customers will know exactly which product to take.

And we're not going down in specific vertical areas, the long tail. And this is something we're going to leave for the community to fill as it's like -- and we're building out within the company, teams that focus on each specific product and taking it to be best-in-class.

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

And I have a follow-up for Eran. If you can expand on the generative AI capabilities and what kind of large language models are you guys -- you take advantage of is it your own model? And what is the future product strategy for generative AI on the Monday platform? That's it for me.

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

Yes. Thanks, Kash. Thanks for the question. So when we think about AI, and we mentioned that briefly in our intro, -- so we think about different aspects. One are already capabilities that we added into the product. So a lot of the things that you can do now with Monday could be automated using AI whether it's creating content, meaning generating documents within the platform, generating tasks. So all that can be done using the AI. Also, another aspect is to make the platform work for you. So automation, formula, all those things that are considered to be low code. We also enable with AI to further automate that. So that's one aspect.

The second aspect is making our own company more efficient, optimizing sales processes, customer success and so on. So I think that in the long term, has the potential to improve margins and to improve the company efficiency. But if I think about long term, monday has a very unique data set. If you think about it, we have customers across so many verticals, and they all use monday in different ways. And over time, we generate so many ways of how customers work with monday, how to leverage the platform. So it's really a unique data set.

And going forward, we're thinking about adding capabilities that allow customers that are new to the platform or want to explore more opportunities through the platform to generate for them different ways to work. So I think that's going to be a big game changer for us as a company. In terms of vendors, we use multiple vendors, not one specific. We didn't build the AI capabilities themselves ourselves, but we're using different vendors and teach the AI using our unique data set.

Operator

Your next question comes from the line of Pinjalim Bora of JPMorgan.

Unidentified Analyst

This is Noah on from Pinjalim. Congrats on a great quarter. I just wanted to touch a little bit about the Monday DB infrastructure upgrade. Could you maybe just provide some context as to what the customer feedback has been since rolling that out? And just any more color around it would be really helpful. And I also have a quick follow-up.

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

Yes. Thanks, Pinjalim, this is Eran. So first of all, we're very excited with the progress of MondayDB. Over our schedule in terms of releasing that to our users, it's now open to 30% I would say that, generally speaking, from the customers that's already open for them, reactions are super positive, especially for the larger customers who have large boards. They used to experience high load times for their boards and content, that dramatically improved with the new Monday DB and reactions are super positive.

Our plan going forward is to further release this first version Monday DB 1.0 to all of our customers by the end of Q2. And again, this is ahead of plan. We initially thought about releasing by the end of the year. But just to remind you, this is just version 1.0. Further, throughout the year, we're going to release additional version with further improvement. So a lot of exciting things are happening. But overall, very happy with the gradual release so far. Reactions are super positive and there's a lot of things that will happen going forward.

Unidentified Analyst

And then just for a quick follow-up. What are some of the levers you're pulling to drive the strong guidance on margins?

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

(inaudible) Eliran. So when we are looking at guidance, what drove the bit was we did \$7 million more on the revenue side. On the expenses side, we had \$5 million less of expenses due to improved operating of the marketing expenses as well as less consultants than we anticipated. In addition, we had some additional OpEx savings across multiple operating expenses like headcount in fact that we were below plan, slightly. Travel and other operating expenses that we achieved from savings. And when we look into guidance, we always take into account the latest trends that we are seeing. So obviously, we are looking at currently the challenging macroeconomic conditions that probably are going to continue to apply some moderate pressure on NDR.

So we're looking at around 110% overall NDR for our population and around 115 to 120 for 10-plus users (inaudible) While saying this, we're also seeing a consistent top of funnel demand and strengthening customer growth that will drive further growth into the future. So overall efficiency and cash generation is looking good. And obviously, with CRM and development, this is something that we also anticipate will contribute to the growth of the business. So we took all of this into account when we did the guidance for the year.

Operator

Your next question comes from the line of Jackson Ader of SVB

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

The first one is, I think, on the continued growth. If you had to think about what -- is there -- has there been a change in the competitive environment that's allowed you to maybe win more deals from legacy competitors? Is it the same story that we've seen other competitors start to receive in their investments? Like can you rank order some of the things that are causing the outperformance on the top line?

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

Yes. Jackson, this is Eran. So no, I don't think we can pinpoint 1 specific factor. But I would say the fact that monday offering is so broad, it's not exposed to one specific sector. Also, just to remind you, 70% of our customers are non-tech only 30% are tech. I think we have very high stability in our customer base. Also, we continue to see very strong demand. And we doubled down our marketing. We still have been very bullish and there is more demand than ever before. And I think the quality of customers that are joining us right now is even higher than before because given what's happening in the economy, everybody is searching for solution are really kind of putting a lot of effort into that.

So I think all those things combined create a great environment of opportunity for us as a company, and we'll continue to invest I think also the success we've seen with the CRM and now with the debt product and continued innovation in our products really help scaling customers and acquiring new ones.

Eliran Glazer - monday.com Ltd. - CFO

Maybe Jackson this is Eliran. Just add to what Eran said. In prior quarters, you mentioned big brain and our ability to actually look at every campaign and see the returns while others pool back, we actually doubled down our investment so we continue with this playbook of monday. When we see good returns, we continue to invest. And this is something we believe is providing us with differentiation versus our competition.

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

Okay. All right. Great. And then the follow-up is, I guess, more conceptual. When you guys talk about focusing on the core product and kind of letting the third party develop the vertical-specific applications like going deep in their own vertical. I'm curious how that actually works. So what happens if somebody goes really deep on a specific vertical? And then are you guys then maybe subject to having to maintain or develop capabilities on top of this industry-specific stuff that maybe you didn't plan on. And so your product road map kind of gets out of, I don't know, like out over your skis. I'm just curious how that -- how that will work maybe 2 years from now.

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

It's Roy. So that's a great question. Actually, because monday is a platform, a true platform and an open one, everyone can develop whatever they need. So whatever like builders want to build they never hit the wall because it's all open. They can develop their own missing capabilities for that vertical. And that's why we're also opening it up for them. So essentially, it's never going to limit us.

What it will do is provide a lot of very wide feedback on where we should take the platform. And those capabilities that we offer developers are also the same ones that we ourselves are developing our own products. So we are completely aligned with our ecosystem and so it's one road map and like just helps us speed up in those long tails that we would probably not go into anyway.

Operator

Your next question comes from the line of Arjun Bhatia of William Blair.

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

Maybe I just wanted to circle back on the product solutions. It seems like CRM is doing really well. It looks like you double the -- more than double the customer base since last quarter. What are you seeing with the other product solutions, it looks like? I think there's 2 or 3 other ones at least that are in market. I would love to hear how progress on those are going? And as you roll those out, what does that do for vendor consolidation at your customers? Is that something that can increase as those get introduced to the market?

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

Yes, Arjun, this is Roy. Thanks for the question. So as we mentioned during the call, so CRM is doing really well also that product is gaining a lot of momentum. We actually just announced it out of beta. So this is another product we're very excited about. We already seen great signs of very good momentum in terms of acquiring customers. The project management, we actually kind of remain that work management. It's a broader category. Again, this is the bread and butter of monday. We'll continue to double down that adding more features and capabilities.

And in terms of marketing, we're actually consolidating that into the work management as it's much more of a vertical of work management. And going forward, we plan to release more kind of horizontal or large products like that. So overall, when we look at the overall strategy of packaging the platform into products and adding more deep features and capabilities, we're very pleased with the progress and how it's going. And already now, we've seen signs of our ability to cross-sell those products and having customers with multiple products being sold to them, whether it's upfront or after the initial purchase of one product. So I think going forward, this has a lot of upside baked into our model.

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

Perfect. And then one for Eliran. I noticed the commentary that NRR is going to be pressured a little bit more. Is it fair to say that a lot of the traction that you're seeing is coming on the new customer side? And would love to hear some color on where -- if that's the case where some of those new customers are coming from. Does that tend to be displacements? Or are you seeing expansion into new customer segments? Any color there would be helpful.

Eliran Glazer - monday.com Ltd. - CFO

So with regards to India in general, as we said, we continue to see a slowdown in expansion of funnel compared to a year ago, larger customers, especially have become more cautious with their budgets. If you think about what happened in Q3 and Q4 of last year, and we believe it's going to persist by the end of this year as well. On the positive side, we believe that the NBR decline has been offset by strong customer acquisition. So the fact that we are actually seeing a very healthy top of funnel activity with the expansion into CRM and other use cases is going to bring, we believe, next year some recovery on that front.

It's important to say that growth retention has remained stable. And this is something that we are very much encouraged by and as part of going up market with enterprise accounts, we're also lending in larger customers from day one for expansion is probably going to be a bit more slower.

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

All right. Perfect. Congrats on the strong quarter it is.

Operator

Your next question comes from the line of Brent Bracelin.

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

Wanted to go back to the demand picture here. Clearly, I get we're in a challenging environment, but the strength of demand here is impressive here in the quarter in the outlook despite the moderating NDR. What's driving the optimism here for you guys here for the guide up for June and full year? Is it larger new lands are you really excited about the CRM cross-sell into the installed base, maybe a mix shift to higher tier pricing.

Just walk us through what's driving your near-term optimism with the caveat of the challenges you face.

Eliran Glazer - monday.com Ltd. - CFO

Brent, this is Eliran. So we are seeing strong customer demand of our Work OS platform and product basically around all customer segments. So this is not something that we can call out that is unique. It's across the board, having in mind the multiple use cases that we have. And again, the fact is 70% for our customers, and as they go so provides us with some strength. On the other hand, as we said, we continue to see a slow enterprise customer seat expansion, but this is mostly related to the challenging macro environment.

However, if you think about where we see the strength is the largest number of net new enterprise customers in the quarter came this quarter. This is the biggest. I think more than 200 customers were added this quarter. And if you think about the structure of the subscribers, 80% of our contracts are now annual versus almost 70% a year ago. So we are kind of became (inaudible) and more subscribers if you think about the profile which pay upfront. So I believe all of these things together with the additional add-ons and functionalities that we are adding Monday DB has mentioned earlier, is providing us with some positive view for the rest of the year, Q2 and fiscal year '23.

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

Helpful color there. It sounds like a pretty broad-based strength. Last question for me is just a follow-up on profitability. Clearly, surprised us here this quarter. On positive cash flow, guiding to profitability for the full year. You have over \$900 million in cash. The commentary suggests you're not done improving efficiencies internally. What do you do with all that cash?

Unidentified Company Representative

A million dollar, actually the \$935 million question. So what we are trying to do is, obviously, we are going to continue to invest in the business. Priority #1 is priority growth -- sorry, organic growth, reinvesting into growing the company. We have a lot of initiatives expanding the platform, the products, operations and obviously, a global reach to build the market share further. Verified is a very innovative company. So this is something we would like to continue, not only thinking about 2023, but also on the longer term 2024 and beyond.

We're also thinking about potentially when the market now is becoming more normal, potentially, there are going to be opportunities for an M&A. It can be small tuck-in acquisition, which is more like opportunistic or strategic and then we can also enhance or escalate our product road map. But this is not something that is going to be on the shorter term. But obviously, longer term, we're taking about nonorganic growth as well as organic growth.

Operator

Your next question comes from the line of Steve Enders of Citigroup.

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

Great. I guess I want to ask on the kind of customer feedback from CRM now that it's being sold and pushed back into the customer base. I mean, are you primarily seeing like net new CRM use cases coming from that? Or is there some level of converting customers over who may already be using some of the Monday platform for CRM like functionality there.

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

It's Roy. So we're seeing both. We're seeing that we are really well positioned for customers maturing from the long tail of CRM products for the smaller ones, the more rigid ones. And they see in Monday, the flexibility that they need to really operate their business and then they're maturing from an existing CRM. But the CRM space is also a huge area in digitization, a lot of customers are coming from literally nothing, and we're -- and they find us there.

So we're really seeing both and it's a really exciting market for us as it opens the door for a lot of other opportunities, CRM is really very widely used in different scenarios within large customers.

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

Okay. Got you. That's helpful context there. And then I guess on the competitive outlook and kind of what you're seeing out there in the marketing world. How should we think about like where we are in terms of the cost per ad at this time? And has there been kind of any change in the environment out there in the past quarter versus maybe we're seeing in the back half of last year?

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

Yes. I would say we're still seeing the cost per ad and media is still way cheaper than it was a year ago. And I think it stabilizes now compared to a quarter ago, it's not dropping anymore. But that still puts us in a very good place, and we're still gaining market share compared to, let's say, last year. So for us, it's a really good space, and it's a very -- it's one that the costs are moderate and very good as well, like Eran mentioned before, like the customers we're gaining now are also ones that really are looking for solutions.

It's not a nice to have for them. They really are looking for them if they're to put their money in there. So they're like better customers on average than we would have seen like a year ago.

Operator

Your next question comes from the line of Jason Delino of KeyBanc Capital Markets.

Unidentified Analyst

Great. This is Devin on for Jason today. Maybe just one from us. I wanted to double click on the strong enterprise customer net add of 200, really nice acceleration there. I just want to ask, are you seeing more opportunities in the marketplace just because you have more products, for example, the Monday beta? Or is it just attributed to the strong go-to-market team execution there that drove the acceleration?

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

Thanks for the question. This is Eran. So I don't think it's specifically related to Monday CRM or Beta thing. I think it's more about our continued momentum and our investment in the enterprise tier. We keep adding features and capabilities. keeps scaling our sales team and partners team.

So I think that's the result of our investment. And we'll continue to invest and accelerate that part of the business. So I think that's kind of our focus has been as a company for the last few years, and we continue to double down on that.

Operator

Your next question comes from the line of Brent Thill of Jefferies.

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

Just if you could double-click on the enterprise strength. And ultimately, what you're doing to help build out that go-to-market to continue the impressive penetration out market?

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

Yes, Brent, this is Eran. So I think pretty much what I said about a continued demand. I think Money DB is definitely something that we see that will help to accelerate our ability to not just acquire enterprise customers, but also to scale them. And we also see a trend where we see enterprise customers land bigger on initial deals, meaning customers upfront are buying bigger licenses and seats. So I think that's another very positive trend that we've seen. Maybe put a little bit of pressure on NDR, but overall, a very good trend that we've seen. And again, we continue to develop a lot of -- apart from NABB, a lot of features around security, admin, permission, we just this release a bunch of features. So I think all that investment really drives the enterprise growth.

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

And just real quick in terms of your assumptions in the back half of the year, I think you beat Q1 by roughly \$7 million, but you raised your guidance more than double that beat. So it seems that your visibility and your confidence level is pretty high. Can you just speak to the factors that you're taking into account on the back half of your guidance?

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

Overall, Brent, it's Eliran. Overall, we took into account the fact that basically we had a strong Q1, so it's going to impact the rest of the year. So we definitely kind of account for that when we provided the guidance for the year. As I mentioned earlier, although we had some moderator -- top of the rate pressure on NDR, we assume that we are going to continue to see positive around 110 overall India for entire customers and around 120 for the 50,000 NBR.

So if we will continue to see the top of funnel demand, and we continue to see strong new customer growth, as we've seen together with the efficiencies, the overall efficiency and cash generation, we believe this is something that provides us with some positive view on the rest of the year. So this is something that allows us to make this guidance.

Operator

Your next question comes from the line of Scott Berg of Needham.

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

Apologies for the background noise here. I want to start off talking about other applications on the Monday Work OS with the success of your CRM solution. Can you envision the world maybe year 3, 4 years from now that you've built other prepackaged applications versus users just using the form platform?

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

Scott, this is Roy. Can you just repeat the last part of the question, sorry, there was some noise.

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

Yes. No. Just how do you think about building other kind of prebuild applications on the Monday Work OS? You've had success with CRM, but outside of having to be a free form platform that customers can build themselves on top of, how do you think about just adding other kind of rebuilt applications?

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

Thanks, Scott. This is Ron. So Yes, definitely, we've seen success with CRM and Dev. Obviously, work management is a huge 1 for us years ago. Going forward, we're probably going to add a few more kind of core products to our product suite, might be HR, might be other categories we're going to double down on. So we're open on adding new products. We see a lot of opportunity within our own customer base. We see demand from our own customer base. So definitely, there's opportunity there and the results from CRM and also debt now are very encouraging. And like we mentioned, for the long tail, we're going to open it up for third-party vendors to extend our product suite.

But overall, if you kind of have me too envision Monday, 2, 3 years, I see a company offering a very strong product suite, maybe 4, 5, 6 potential products that are kind of core to the company in addition to a long offering of long-tail solutions from different kind of more nuanced vertical industries. So that's how kind of I envision the monday suite going forward.

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

Yes. It's Roy here. So I can add that -- we have a lot of visibility into what's working and what's not because like you said, like Monday is a platform, our customers are building whatever they want on top of us. And when we see something succeeds exceptionally, and identify use case and a penetration point. It's very -- it's much more clear to us where to start and what is the need that is out there. So we have great visibility into like the areas that we might go into next, some of them around mentioned.

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

Excellent. For my last question, I wanted to talk about traction within your partner ecosystem. You get plenty of commentary on the overall business right now in this general macro environment. Have you seen any changes specifically within your partner ecosystem in terms of how they're bringing you net new customers or new opportunities?

Unidentified Company Representative

Yes. Thanks, Scott. So overall, we see -- we continue to see great momentum with our partner ecosystem. They continue to extend our ability to sell across different regions. But also, I think, some trend that we've seen that is increasing is our ability to do professional services for our customers as we go upmarket with larger enterprises, I think the fact that our enterprises help onboard those customers and develop customized feature for them really help us scale our enterprise offering.

So we see great momentum with the partner ecosystem. It's a great extension of our ability to sell, and we continue to invest in that part of the business.

Operator

(Operator Instructions) Our next question comes from the line of George Iwanyc City of Oppenheimer.

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

Congrats on the strong results. Eran, maybe building in a little bit more color on your AI commentary. How do you see this changing the competitive landscape -- do you see this as a net positive? And how do you see it changing kind of the seat growth opportunity?

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

Roy. So we're super excited about AI because when you think about it, Monday has always been a place where customers -- we gave customers more power to build their own software, more power to run their own businesses and the way that they want to. And like AI is exactly that. Like it's a technology.

It's something that people want to harness and Monday is like in an area that we feel we're in a great place to offer that alongside everything else we do. So I do think it's too early to say like what competitive edge it will give us. But as a leader in this category, I feel like it's a great opportunity for us and definitely going to be like huge value for our customers and like we're super excited about it.

Operator

Your next question comes from the line of Derrick Wood of TD Cowen.

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

A lot of questions on the enterprise side, which is great to see. Maybe I'll take the other side of that and just ask about the SMB cohort. Just give us a sense for how that's trending? Has there been any change in churn rates, kind of what you're expecting through the year and kind of an update and focus at the lower end of the market.

Unidentified Company Representative

Yes. Thanks, Derrick. I think it's a great question because, obviously, we put a lot of focus on our enterprise segment. But I think if anything in the last few quarters, I think SMBs also showed their strength. I think the fact that we have a mixture of both enterprise but also SMBs as part of our business model really was a big benefit for us as a company. Surprisingly, SMB's net retention was pretty much stable given the current economy. We saw SMBs stabilizing on Monday, adding more solutions, unifying different tools into Monday. So I think that's a very interesting segment in the long term as well.

So if anything is just assure the fact that we need to double down not just in enterprise but also the SMBs like we've done throughout the year. And we see a lot of stability in that part of the business. Obviously, keep investing, but very, very interesting dynamic here

Operator

Our next question comes from the line of David Hynes of Canaccord.

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

Two quick ones on Monday DB. So with the phased approach to the rollout there, the 30% of accounts that are live -- did you start with your largest customers who would see the most benefit? Or how did that play out? And then second, Eran, I'd love to hear you talk a little bit about what V2 and V3 of that effort looks like? Like where will the focus be in future iterations of Monday DB?

Unidentified Company Representative

Yes. Thanks, DJ. So overall, when we started initially, we saw with the smaller accounts, but then we just opened up for different sizes of accounts. Some of the largest accounts were I would say the most eager to get Monday DB. So we actually rolled those accounts sooner. So now we have a mixture of both small accounts, but also very large accounts using Monday DB. The most gain was obviously in the larger accounts. Smaller accounts, business experienced much lag, but the larger ones did. So we saw most of the benefit over there. Version 1.0 is focused mainly on consuming data and viewing data where the next few versions are going to focus on different parts of the platform, for example, dashboards, they're going to be blazing and fast.

Going forward. We're going to offer more scaling opportunities. So that means larger debt assets. And I think those further assessments in the products will be a big game changer because it will just allow us to be significantly better than where we are today and offers significant different customers the ability to use Monday. So looking forward for the next version. I think the first step is always the hardest. And the next phase will be easier to implement.

Operator

Your next question comes from the line of Andrew DeGasperi of Berenberg.

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

I just had one question on the Monday debt platform you're planning to roll out. I know it's already accessible to existing customers, but just wondering being out of beta at this point? I mean, is it essentially live with all of -- with essentially everything that it would come with and then maybe could we touch on like in terms of the customer adoption? Could it be similar to Monday CRM in terms of how quickly you think that could ramp up?

Unidentified Company Representative

Yes. Thanks, Andrew. So yes, Monday debt is now out of beta. It doesn't mean that all the features that are out there is far from where we want to try to be. We have a lot of exciting features we plan to roll out. We just reached a place of stability and scale that we feel comfortable migrating money day out of beta. We've seen great momentum. That's 1 of the reasons why it was important for us to emphasize that. It's hard to compare to CRM because it's kind of earlier phase of the CRM, but we're very encouraged in seeing the momentum that we've seen in the product. And overall, when I look at both the CRM and the dev we're very pleased with the rate of adoption, with the feedback that we're getting.

And if the momentum keeps this way, this is a great win for us as a company.

Operator

Your next question comes from the line of Shelby Seyrafi of FBN Securities.

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

So I'm pretty impressed by your billings growth, which was 43%, up from 41% in Q4 and it came in 11% above consensus versus in line basically the prior 2 quarters. So what drove that strong billing speed? Was it pricing? Was it enterprise? Was it geo? Any other factors.

Eliran Glazer - monday.com Ltd. - CFO

So as a reminder, we said that billing is an imperfect measure of the underlying health of the business. It's a bit lumpy. We look at revenue growth, we look at the new customers. Nevertheless, with this strong new customer demand in Q1. The combination of 80% of the contracts are now annual paying upfront, also contributing for the fact that the bidding number has gone up. In addition, largest number of net new enterprise customers in the quarter, we added more than 200 enterprise customers the combination of these 2 drivers together with the strong top of funnel activity drove the billings upside.

Operator

Your next question comes from the line of Robert Simmons of D.A. Davidson.

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

So I was wondering, where have you seen the fastest uptake of sales CRM so far? Has there been a vertical or. A geography that's been the most receptive to it.

Unidentified Company Representative

Sorry, can you repeat the question?

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

Yes. Yes. I was wondering on sales CRM, where have you seen the most receptivity to it. Has there been certain verticals or geographies or any kind of color there would be helpful.

Unidentified Company Representative

Yes. Thanks, Robert. So I can't point on any specific segment or industry. I think that was pretty much across the board, different industries, different verticals, looking for a certain solution. I think what is surprising for us is that there's a good balance between customers looking for kind of their first version of CRM, but also a lot of customers migrating from existing solutions. They've been using a CRM for different reasons, to mention their sales operation. And now they wanted to kind of go to the next level and Monday CRM, including a large percentage -- so that was an interesting kind of insight into those customers.

We just now in the last quarter, started to open it up for our existing customers and going forward, we plan to offer that solution kind of more proactively. So there's also upside to that.

Operator

There are no further questions at this time. I'd like to turn the call back over to Byron for closing remarks.

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

Thank you for everyone for joining the call today, and hope you have a great rest of the day. Thank you.

Operator

This concludes today's conference call. You may now disconnect.

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.