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MNDY.OQ - Q4 2023 Monday.Com Ltd Earnings Call

EVENT DATE/TIME: FEBRUARY 12, 2024 / 1:30PM GMT

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PRESENTATION

Operator

Good morning, and welcome to the monday.com Fourth Quarter Fiscal Year 2023 Earnings Conference Call. Today's conference is being recorded. (Operator Instructions)

At this time, I would like to turn the conference over to Byron Stephen, Director of Investor Relations. 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 the financial results for monday.com's fourth quarter and fiscal year 2023. Joining me today are Roy Mann and Eran Zinman, co-CEOs of monday.com and Eliran Glazer, monday.com's CFO. We released our results for the fourth quarter and fiscal year 2023 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 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. As we reflect on our recent Elevate World Tour, including our first ever Investor Day, we are filled with an incredible sense of energy and purpose as we embark on 2024. The events were a resounding success, bringing together customers, analysts and investors from around the world.

Our Elevate World Tour provided us with an opportunity to connect with our users, demo our latest AI and CRM product advancements and gather valuable feedback. The enthusiasm and engagement displayed in our attendance were truly inspiring, reaffirming our commitment to delivering innovative products that empower teams to achieve their full potential. Furthermore, the additions of our first ever Investor Day was a significant milestone.

It allowed us to showcase our progress, present our vision for the future and highlight our expected financial performance in the coming years. The positive response we received from the investment community fuels our motivation and drives us to reach new heights in the years ahead.

Now turning to our business results for the year. 2023 was a year of incredible growth and progress at monday.com. Despite the prevailing global economic and due to political uncertainties, we exceeded all expectations. Revenue of fiscal year 2023 grew a remarkable 41% driven by strong customer acquisition and expansion, especially with our larger accounts. In addition to a strong top line, we continue to see improving efficiency and reported record annual non-GAAP operating margin and free cash flow.

Our commitment to innovation played a key role in the success of 2023. Over the past year, we launched new capabilities and deliver hundreds of new features, including MondayAI and Monday Workflows. We also elevated our mobile experience and enhanced our security, data protection and permission settings. Let me now turn it over to Eran to walk you through some additional product highlights.

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

Thank you, Roy. In 2023, we upgraded our infrastructure with MondayDB, which boosted Board performance by 5x. MondayDB continues to exceed expectations and remains on schedule. We are now entering the Phase 2.0 with a focus on the most complex work scenarios, allowing customers to build and manage workflows at scale without being limited by performance constraints.

This quarter, we're excited to announce the launch of Monday code. Monday code provides a secure serverless environment within the worklist platform where developers can host and run apps with Monday security and compliance standards built in. With Monday code, developers can now avoid the heavy lifting associated with setting up and managing production servers and more easily create apps for our marketplace.

Let me now turn to pricing. Following several months of extensive testing, we recently introduced an updated pricing model ahead of schedule. As part of the rollout, we notified our customers that we'll be updating these prices across our product suite. Our customers are at the heart of everything we do, and we're heavily invested in providing the best-in-class Work OS platforms and products.

We believe that our products have evolved to provide even greater benefits and meet the ever-changing needs of our customers. The updated pricing model reflects the value and quality that our products deliver ensuring that our customers receive the best possible return on their investment. As we enter 2024, we are more energized than ever to continue innovating and pushing the boundaries of what is possible.

Our focus remains on enhancing our Work OS platform and product suite, expanding our enterprise presence and delivering on parallel value to our customers. Looking ahead, we are well positioned to build our achievements and continue our upward trajectory with a strong customer base

and focus on innovation and a resilient business model. monday.com is poised for sustained growth and success in the coming years. With that, I'll now turn it over to Eliran to cover our financial and guidance.

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

Thank you, Eran, and thank you to everyone for joining our call. Today, I'll review our fourth quarter and fiscal 2023 results in detail and provide initial 2024 guidance. As Roy highlighted, Q4 '23 was a strong finish to an exceptional year. Total revenue in Q4 '23 came in at \$202.6 million, up 35% from a year ago quarter.

Revenue for fiscal year '23 was \$729.7 million, up 41% from the prior year. Our overall net dollar retention rate declined slightly in Q4 '23 to 110%, reflecting continued macroeconomic headwinds. We currently anticipate reported NDR to begin to recover in the second half of fiscal year '24. As a reminder, our net dollar retention rate is a trailing 4-quarter weighted average calculation.

As Eran mentioned, we have recently revised our release prices to accurately reflect the enhanced value of our work operating system platform and product suite for our customers. We expect that this price adjustment will contribute an estimate of \$15 million to \$20 million of revenue in fiscal year '24.

For the remainder of the financial metrics disclosed unless otherwise noted, I will be referencing non-GAAP financial measures. We have provided a reconciliation of GAAP to non-GAAP financials in our earnings release. Fourth 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 \$33.3 million in Q4 '23 or 16% of revenue, in line with the year-ago quarter and \$117.8 million in fiscal year '23 or 16% of revenue, down from 18% in the prior year.

We plan to increase investment in R&D for the foreseeable future as we build out our product suite and scale our work operating system platform, both horizontally and vertically. Sales and marketing expense was \$110 million in Q4 '23 or 54% of revenue in line with the year ago quarter and \$413 million in fiscal year '23 or 57% of revenue compared to 69% in the prior year.

G&A expense was \$17.3 million in Q4 '23 or 9% of revenue compared to 10% in the year ago quarter and \$63 million in fiscal year '23 or 9% of revenue compared to 11% in the prior year. Net income was \$33.7 million in Q4 '23, up from \$22.2 million in Q4 '22 and \$94.9 million in fiscal year '23 up from a loss of \$33.4 million in fiscal year '22. Diluted net income per share was \$0.65 in Q4 '23 and \$1.85 in fiscal year '23 based on \$51.6 million and \$51.2 million fully diluted shares outstanding, respectively.

Total employee headcount was 1,854, an increase of 110 employees since Q3 '23. We expect to ramp hiring in fiscal year '24, with a continued focus on our R&D product and sales team as we build out our platform and product suite. Moving on to the balance sheet and cash flow. We ended the quarter with \$1.12 billion in cash and cash equivalents, up from \$1.05 billion at the end of Q3 '23.

In Q4 '23, free cash flow was \$55.4 million, and free cash flow margin as defined as free cash flow as a percentage of revenue was 27%. In fiscal year '23, free cash flow was \$204.9 million and free cash flow margin was 28%. 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 2024. For the first quarter of fiscal year we expect our revenue to be in the range of \$207 million to \$211 million, representing growth of 28% to 30% year-over-year. We expect non-GAAP operating income of \$8 million to \$12 million and an operating margin of 4% to 6%. We expect free cash flow of \$56 million to \$60 million and free cash flow margin of 27% to 29%.

For the full year 2024, we expect revenue to be in the range of \$926 million to \$932 million, representing growth of 27% to 28% year-over-year. We expect full year non-GAAP operating income of \$58 million to \$64 million and an operating margin of 6% to 7%. We expect full year free cash flow of \$200 million to \$206 million and free cash flow margin of approximately 22%. I'll now turn it over to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Kash Rangan at Goldman Sachs.

Kasthuri Gopalan Rangan - *Goldman Sachs Group, Inc., Research Division - Head of Software Coverage*

Thank you so much Roy, Eran and Eliran for giving us all the details. Two quick ones. One is when you look at the growth algorithm you talked about 27 points of growth, but I look at customers with 10-plus uses as a general proxy that has grown about 20%, and then you have net expansion rate, 110%. So just that base logic alone should give you pretty decent level of growth. When I dig underneath the numbers, as everybody did, the 50,000 plus ARR customers, it's growing faster, 56% and 100,000 growing even faster. So help us understand how you constructed the guidance in light of the SKU and the metrics that suggest that the underlying business is healthier than the guidance seem to suggest.

And also net expansion rates, you said second half of '24, you expect an improvement I'm wondering if you can add a little bit more commentary on what you saw in the quarter that gives you the confidence that you can see some improvement.

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

Kash, it's Eliran. So thank you for the question. So with regards to our guidance philosophy, this has not materially changed. We're focused on providing always prudent, achievable and responsible guidance. based on the latest data that we have. We mentioned the price increase. So it's still early days, and it's going to be staged throughout the year.

And then we would like to make sure that we understand what would be the impact throughout the year. With regard to demand that we already took into account, nothing has changed much from what we saw in Q4 of last year, still some headwinds in the macroeconomic environment, and we assume this will continue also in Q1 and Q2. So this is with regards to guidance.

With regards to your question on NDR. So when thinking about NDR, it's -- we are looking at the trailing 12 months as well as the weighted average. Just as a reminder, we report weighted average. So as I mentioned with regards to guidance, we are still seeing lingering macro headwinds, where customers are still cautious in the spend.

We said that we expect it to stabilize in the second quarter of 2024. However, it's important to mention that the overall growth retention has had even a small improvement. And longer term, we remain optimistic with an updated pricing model and further scaling MondayDB and the product suite that is going to be showing an uptick at the second half of the year.

Operator

We'll move to our next question from Pinjalim Bora at JPMorgan.

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

Eliran. Maybe digging in a little bit more on the pricing side. You said 15% to 20% in the Analyst Day, you were talking about 10 and you've materially kind of changed the timing of the price increase release. So maybe help us understand what are the assumptions that you're making to get to that 15% to 20% in terms of churn, maybe you're assuming more of the existing to come in the second half of the year, maybe dig in a little bit more.

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

Yes, Pinjalim, it's Eran. I'll start with regarding to the roll out of the price change, and I'll hand it over to Eliran to talk about the assumptions for the rest of the year. So overall, our initial plan also when we presented during the Investor Day was throughout the new updated pricing model around June towards H2, beginning of H2. And we actually managed to finish our AB testing sooner than that, and we were already internal of our technical stack. So we decided to make it, I would say, 3 or 4 months earlier than we initially thought. So we thought kind of mid-June, and it's now starting to roll out to existing customers. So it's like 3, 4 months has started in terms of the process.

Again, this is the first time we've ever done a price increase to our existing base. We -- in the past, we've gone into new customers. So we also try to be cautious here and we're still learning. I would say that so far from what we see reaction from customers were good. We didn't see anything we didn't expect. Everything was in line with our model. So we remain very optimistic.

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

Yes. And maybe to continue on what Eran is saying with regards to the assumption on the numbers, because we advanced it in a quarter, we assume that there's going to be an impact of around 15% to 75% of what we said on the Investor Day. So if you take the \$10 million, this is roughly between 15% to 20%. And I think one of the things that you even mentioned in, I believe, in your coverage when we introduced it in the Investor Day, we don't know to anticipate the churn. So just as a reminder, 80% of our customers are annual subscribers, 20% are monthly. And we assume -- we took into account certain assumptions. Currently, it's going to be something that we are going to see effectively in 16th of January -- sorry, February when it kicked in. So we took some assumptions with regard to possible scenarios, and that is what we baked into the numbers.

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

Yes. Understood. One question for Roy and I'll see the floor. We have recently heard from some of your customers that Monday is becoming kind of an orchestration engine rather than just a work management platform. Somebody was saying that Monday is a layer between Workday and Jira. Another person orchestrating a manufacturer orchestrating between different number of their systems. Do you see Monday becoming that orchestration there facilitating kind of business workflow across multiple systems in an environment?

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

It's Roy. So thank you for the question. Yes, that's part of how we see the platform. We worked a lot into creating the workflow tool and integrations and automation. So definitely, we see cross-company workflows, handling also orchestration between many other tools. But we also see Monday as a platform that kind of trickles through areas that you don't have software or you couldn't have specific software and complete any workflow you want.

So other than us creating products for core needs of the organization that they do know. Okay? We wanted to also fit into areas where you just need an extra input or another process in place and then obviously connect any other tool you want in your stack to work together.

Operator

We'll go next to Brent Bracelin at Piper Sandler.

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

I had 2 quick ones, if I could. Number one, if I look at the number of Monday Dev net new ads that actually accelerated on a quarter-over-quarter basis in Q4. Could you talk a little bit about kind of what drove the momentum there, a little surprise and acceleration at this point. But -- and then I have a one quick follow-up.

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

Brent, this is Eran. So overall, we continue to improve the product and also improve our go-to-market. As we've mentioned, over time, we open our multiproduct suite to more and more customers, and we're now finalizing the final batch of it. It should be over by the end of Q1. So as more of our users are exposed to our multiproduct and we improved the acquisition engine and improve the features. We've seen that acceleration. We shared some of the data during the Investor Day, but overall, we continue to see good momentum with all products.

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

Perfect. And then obviously, I know you've been trying to focus on larger enterprise customers. We saw a record number of those net new 50,000 cohort customers you talked about the big deal. Could you just walk us through the pipeline of large deals going into next year? Is that going to continue to be an area of strength? Or is that more seasonal that you'd expect to happen more in Q4?

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

Brent. It's Eran again. So definitely, we continue to see good momentum in our pipelines. So during the Investor Day, we mentioned accounted over 25,000 seats, but we continue to see other opportunities like that in -- some are smaller, some are larger, but definitely a very good momentum in the pipeline. So we expect it to be throughout the year, not just concentrated in Q4.

Operator

We'll move next to Steve Enders at Citi.

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

Okay. Maybe just to start on the Elevate World Tour. I guess, what has been the feedback that you had from customers on some of the newer products newer initiatives. And what was kind of the most excitement around for some of those newer solutions that you have coming out?

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

Yes, Steven, this is Eran. So overall, the feedback from customers were really good. There was a mixture of customers that use Monday Work Management and CRM and Dev. And I think the places where we saw the best feedback was around going deep on our platform, both in terms of scale and performance, but also a lot of nuance features that we have in the road map and definitely around security that allows them to increase the usage.

Overall, the feedback was good and also we got great feedback on other (inaudible). I think just seeing the variety of use cases really open the mind of our customers of what they can achieve more out of Elevate. And we continue to -- plan to continue and do this event annually going forward and scale the event as well.

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

And then maybe just on the free cash flow guidance for the year. How should we be thinking about, I guess, seasonality of that and looking at the 1Q strength in particular? Are there any factors that we should be keeping in mind there and kind of any assumptions on maybe some of the early renewal activity from price increases coming into the quarter?

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

Sure, Steve. It's Eliran. So with regards to free cash flow, I would say that the second quarter and the fourth quarter, this is the time when we pay bonuses. In Q2, we pay bonuses for the employees and for the quota carrying people. And in Q4, we are paying bonuses for the sales quota carrying people. So you would see probably a slightly decline if you compare it to Q1. Overall, because 80% of our customers are on an annual contract and 20% or monthly, this is something that contributes to the scale and the strength of the free cash flow.

On the other hand, this allows us also to continue to invest. So potentially, there are going to be quarters that we are going to see opportunities, it might open an opportunity to invest. Therefore, there might be some seasonality. But other than what I said, it's pretty much stable throughout the year.

Operator

We'll go next to Arjun Bhatia at William Blair.

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

I'd like to ask on the new products, it looks like we're set to roll those out to the entire customer base in Q1 here. Can you just give us a sense of how you're expecting contribution and cross-sell from those solutions to take place throughout the year? And then maybe one on the go-to-market as it relates to those. Do you anticipate, at least as you get into the enterprise that there might be an overlay sales team or specialist sales teams that are just focused on selling CRM and Dev or the whole suite versus maybe just focusing entirely on work management, I guess, how do you see the go-to-market evolving as these products go out to the entire customer base here?

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

Arjun. It's Roy. So I'll answer the first part of the pricing and how it looks like throughout the year. So the way we model it, we see that we have monthly, then yearly. So the monthly will be first in the first like a month or so. And then throughout the year, as the renewal rate comes for yearly customers, they will renew.

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

Yes. And I think you specifically asked about the cross-sell between the [mutual] products. So the -- just regards to the price increase, it was mostly for work management, we increased the price of the other products.

Throughout the year, we shared in the previous quarters that -- we see a large amount of cross-sell being done between the products, and we continue to see such momentum also in Q4 and going to Q1. So again, like it's hard to model because it's still small numbers, but we do expect this to be substantial going forward.

Regarding the sales team architecture, should so definitely -- we're going to see teams specializing in each one of those products. So right now, it's more of like one team during the sales process, but we're starting to have more people specialized in selling CRM and Monday Dev. And over time, we're going to see those teams scaling as we scale the revenue for each one of those products.

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

Okay. Perfect. That's helpful. And then maybe one on the actual -- how the growth impact line change. I know this year, it actually ended up being a pretty -- a very strong year from a new customer adds perspective. And with the price increase flaring in this year, how do you anticipate the growth trajectory you might get impacted between new -- net new customer adds versus expansion versus expansions with existing customers?

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

It's Roy. So we've [abridged to that,] of course, like the price increase. So we can say like we didn't see any material change to the ARR we get from the price increase. And we -- obviously, it's a shift to -- but there was obviously a small change in conversion in the number of customers we get, but that's like mostly smaller customers. So overall, we see that as a very positive effect long term as well.

Operator

We will take our next question from DJ Hynes at Canaccord.

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

Maybe just building on the threat around go-to-market strategy. Can you talk about how you're thinking through the strategy with product bundles? I'm just curious, as the portfolio continues to expand, where do you see the most linkage between solutions? What might that look like? When could you do something on this front? Any color there would be interesting.

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

Yes, DJ. It's Eran. So right now, we don't offer any bundles yet to our customers. They can buy each product individually and then over time, purchase other products as well. But going forward, we're definitely going to offer bundles to our customers. Bear in mind that we also have Monday WorkCanvas and WorkForms in addition to CRM, Dev and Work Management. So going forward, we're going to offer bundles maybe with a little bit of a discount if you take 2 or 3 products and maybe offer that as like one solution.

So for example, for companies focused on Dev, we might offer Monday Dev. And in addition to that, Monday works management to manage the project as part of manage just the Devs team. So that's something we're probably going to start rolling out. This year, again, we'll [abridged] that, and we're going to see bit from our sales team. But definitely something that we're going to roll out in the next year -- in this year, sorry.

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

Okay. Yes. Understood. And then as you look at your nearly 2,300 customers that spend \$50,000 plus per year. And how many of those would you say there's a centralized buying center versus maybe still a dependence on departmental level decisioning? I'm just trying to think about at what point or level of spend do customers start thinking about strategies for standardizing around Monday and kind of what you can do to move that effort forward?

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

Yes. It's Eran again. So I would say it's mixed. Part of it is kind of more top-down decision where the company kind of buys Monday throughout not the whole company, but it's like a management decision and some of it is more department based or VP based in a specific region within the company. But we're seeing a shift. We're seeing the shift where more and more Monday become a significant platform within the company, driven by management. So definitely, there's a shift towards that.

Operator

We'll go next to Derrick Wood at TD Cowen.

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

Great. At the Analyst Day, you guys guided for a base case of high 20%, low 30% in the medium term. And maybe it's not the right way to look at it. But if I take the price increase impact out, you're guiding for around 25%. So it had below that kind of base case.

Just wondering if you'd flag anything in terms of maybe bringing that down. Maybe if you could comment on the SMB part of the market. Other companies have flagged incremental pressure there. And could you just comment on kind of what you're seeing in the Middle East given the war?

Eliran Glazer - monday.com Ltd. - CFO

Yes. So, it's Eliran. With regards to the guidance, we said that mostly what's going -- there were 2 scenarios that we focused on. There was the base case scenario. And there was the lower case scenario. And the thing that we focused on was the NDR. We said based on the behavior of the NDR, we're going to kind of see what model fit better throughout the year.

I think now we feel that it's something in between. NDR, as we said, it's going to probably stabilize at H2 of this year, and we took it into account as part of our guidance. So we embedded into the numbers. And this is the main reason for us to kind of assume this guidance. With regards to the Middle East war, we didn't see any impact on our numbers. We are a global company. So nothing that -- worth calling out until now. Since it's actually began -- begun, we actually didn't see anything. And hopefully, we're going to continue to see no impact on our business.

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

Great. Helpful color. And I'm curious if you guys have pricing going up, I guess, this week for your -- for existing customers. I know this is the first time you've done that, but you can often see pull-forward dynamics where people want to buy, lock in seat expansion before pricing goes up. Would you expect any kind of pull forward in Q1? I'm just curious what you're seeing in terms of buying behavior right now.

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

Yes, Derrick, it's Eran. So far, as we said, it's starting to roll out next week, i.e., taking into effect. So far in terms of churn and downgrade, we saw some numbers pretty much in line with our expectations.

Within -- the reaction from customers were overall good. We didn't get any negative reactions. Overall reception of customers was good. Again, this is the first time we've ever done it, not just as a public company but ever. So we feel -- we also want to be cautious and be aware that we're not aware to the whole dynamic of how this will roll out. So maybe being more -- a bit more cautious here as a company.

But overall, so far, the signals look good. And I think after Q1, we'll have a better kind of understanding of the dynamic and how this will roll out throughout the year -- rest of the year.

Eliran Glazer - monday.com Ltd. - CFO

Yes, this is Eliran. Maybe I will add that it takes a while for you to layer into the model simply because they're effective when the agreements are signed upon renewals. And that happens over the course of time for the annual multiyear agreements or annual contracts. So this is why we are not really -- can't anticipate all the behavior but as Eran said, so far, signs are good.

Operator

We'll move next to Brent Thill at Jefferies.

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

When you look at the results relative to your guide. Q4 was the lowest magnitude beat you've had as a public company. And I'm just curious, was there anything in Q4 that didn't meet your expectations or are we just simply going through a cycle of -- you're still [beating,] but the magnitude is coming down, and that's kind of what you're anticipating in the guide. I think everyone is trying to kind of reconcile what happened in Q4 and then obviously it seems like that's leading in to the more conservative guide for this year?

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

Brent. It's Eliran. Yes, I would say it's the latter. It's -- the macroeconomic headwinds are still -- do still exist. They didn't change from what we have seen in the past. I think customers are still cautious with their spend. And that is why probably there was an impact on our Q4 results, also going into this macroeconomic situation also going into the beginning of this year.

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

Okay. And just real quick on the Q1 margin guide. You exited at 10%, you're guiding 4% to 6%. Is this just a heavier upfront load? Or is there anything changing here as it relates to trajectory of margin?

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

Sure. So when we did the Investor Day, we said that our #1 focus for 2024 is going to be increasing top line throughout investment. There is some seasonality, obviously, because Q1, you always put more on the performance marketing because this impacts the entire year. But we said that the focus is going to be on top line, and we are not going to improve our operating margin in the way we did in the past. So I would have expected to improve, but it's just in line with what we have said.

Operator

We'll go next to George Iwanyc at Oppenheimer.

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

So with the continued strong adoption of Dev and sales CRM, are you seeing any changes to the way you're landing both with new customers and then on the competitive landscape.

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

Yes. George, this is Eran. So Look, obviously, when we land with CRM and Dev, we see different competitors as opposed to work management. I would say that still 50% of the deals so far that we signed CRM and Dev, we didn't compete with anybody. I would say the rest of the 50% people will consider Monday compared to other players. And in terms of work management, it pretty much remained the same. I would 70% say, greenfield and then the rest, we see some competition. So there is a little bit more competition in CRM and Dev, but still we see other -- but as I mentioned, we see other players that we compete against in those strategic products.

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

And just following up on that. Can you give us maybe some color on the work you're doing on the services side? And do you have any feedback on how the timing of that launch could go forward this year?

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

Yes. So we continue to build a Monday service and plan to launch it on schedule, H2 this year. So far, we have a bunch of customers in Beta. Feedback so far is really good. And as I've mentioned, like we had our users -- a lot of our users are already using Monday to manage some aspects of ITSM and service within the company. So we talk with them, we learn from them. And there's going to -- sets the set of features that we're going to launch as part of the first version.

Operator

We'll go next to Taylor McGinnis at UBS.

Taylor Anne McGinnis - *UBS Investment Bank, Research Division - Equity Research Analyst for Software*

On NDR, Can you comment on the performance of the quarterly number and what you saw? So was there a stabilization with the 3Q numbers such that we can begin to see NDR trough? Or are you still seeing pockets of incremental weakness in the macro? And if so, what does that look like?

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

So it's Eliran. By large, we're still seeing it stabilizing pretty flat of what we have seen in prior monthly trailing 12 months. Obviously, with the impact of price increase and potentially all the additional products and add-ons that we are adding to our customers and incremental value, we expect it, as I said, to get better in H2 of this year.

Operator

Our next question comes from Jason Celino at KeyBanc Capital Markets.

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

Great. One question on linearity. Curious what you saw in terms of top-of-funnel demand and conversion exiting the quarter? And then anything in the first few weeks, if you're willing to provide?

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

Yes. It's Roy. So we see very healthy top-of-funnel activity like -- we increased the marketing. We sell more leads, more pipeline generated. So it's all in line with what we expected.

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

Okay. Excellent. And then maybe as my quick follow-up, the environment for performance-based marketing, the pricing. I think it's kind of stabilized over the last several quarters. But when we think about the upcoming year, are you making any change here from what you saw in 2023?

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

Yes, Jason, this is Eran. So it's pretty much in line with what we saw last year's overall prices compared to the past are still lower but stabilizing, doesn't improve more than that. As Roy said, we saw very healthy so far pipeline generation and new customer sign-ups coming into 2024. So overall, pipeline is healthy. Cost of that pipeline is also healthy in line with what we saw last year. So efficiency more or less remains the same.

Operator

We'll go next to Ivan Feinseth at Tigress Financial Partners.

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

What do you see the functionality as being like the biggest driver of new customer adoption or customer increase use?

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

Yes, Ivan, this is Eran. So I wouldn't say it's much of a specific product functionality. I think it's a combination of our efficient performance marketing engine. And also our products are becoming more and more dominant. So our products would allow us to acquire customers from different parts within companies or the VP of Sales, the VP of R&D, work management, obviously. So that in addition to our existing performance marketing engine, just allow us to have a very healthy customer acquisition engine.

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

And what do you see, though, as the biggest use case is that new customers are signing up for or using it for?

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

It's Roy. So our biggest segment by far, is the work management, which is very varied. We have like very different use cases within work management, whereas in CRM and Dev, it's more focused on being more specific, more targeted, obviously. So -- and with that, our ability to target work management at the moment is very broad.

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

Then one last question. Where do you see the opportunity to roll out increasing AI functionality within in a lot of these products?

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

It's Roy again. So AI is a core part of the way we see the platform evolves. Like we've introduced like an Investor Day a few areas, we're launching AI in. And currently, we launched some of the few -- one building block in the automation segment, and we see great enthusiasm around it because we really allow our customers to build and kind of use AI on their own, how they want it in their workflow.

And we are also thinking about and doing -- adding AI into the core of service when we launched it and other products. So we're putting a lot of emphasis there as we think this is -- will allow us to grow a lot. And again, like democratize AI and give it to our customers.

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

Then one last question to kind of support the price increase. Where do you see the development of added value that will help easier your clients easier pay the price increase?

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

So Roy again. So like Eran mentioned, we've never done this before. So I think the feedback we got until now from customers is that they get it, like we've added so much value in the past few years to the platform without increasing the price.

And so I think it's -- we see acceptance of that change now. So I think it's behind us as well as always bringing more value to the platform. So we see wide acceptance of the new price.

Operator

We'll go next to Scott Berg at Needham & Company.

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

Two questions from me. First of all, with more proof points on the AI side with Monday AI, I guess how much more confident are you in the company's ability to actually monetize on the functionality in there just now that you've had more of a chance to get some feedback from customers.

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

So this is a great question. I think we are -- it's still ahead of us, like making pricing specific to AI, although we're thinking and working on it. I do think it will allow us to penetrate faster and get more market segment for the products that we include AI with. So I see a lot of upside there, but we're still working on monetizing the AI. And like automation as an example, we just launched it. So I think it's too much early days to -- and to say how impactful the pricing of that will be.

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

Got it. Helpful. And then my follow-up question is on your \$1 million customer cohorts that -- or excuse me, 100,000 customer cohorts that you're announcing. I know at the conference in the Analyst Day, you announced your largest customer, over at 25,000 seats. Historically, there's been a big focus on seat expansions and moving into some of these larger accounts. But as we think about that cohort going forward, how much of the growth there will be driven by customers expanding seats or adding additional functionality that they're going to be paying on top of the core user charges.

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

Yes. It's Eran. So I would say that the vast majority of growth is probably going to be by seat expansion, but also we'll be able to sell them more functionality. The new products, add-ons, we're preparing -- we're going to launch, so like extension modules.

But overall, those enterprise accounts tend to increase more in terms of seats and usage over time to as opposed to smaller businesses that it's hard for them to extend the amount of seats. So overall, like this cohort, we expect it to have better NDR, more seat expansion over time.

Operator

And that concludes the question-and-answer session and today's conference call. Thank you for your participation. You may now disconnect.

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