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MNDY.OQ - Q1 2024 Monday.Com Ltd Earnings Call

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## PRESENTATION

### Operator

Thank you for standing by. My name is Mark, and I will be your conference operator today. At this time, I would like to welcome everyone to the monday.com First Quarter Fiscal Year 2024 Earnings Conference Call. (Operator Instructions) I would now like to turn the call over to Byron Stephen, Vice President of Investor Relations. Please go ahead.

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### 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 first quarter fiscal year 2024. Joining me today are Roy Mann and Eran Zinman, co-CEOs of monday.com; and Eliran Glazer, monday.com's CFO. We released our results for the first quarter of fiscal 2024 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](http://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 today. 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 the Investor Relations website.

Now let me turn the call over to Roy.

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

Thank you, Byron, and thank you, everyone, for joining us today. Following an exceptional year of growth and progress, we are pleased to report that 2024 is off to another strong start. In the first quarter, monday.com showcased outstanding business and financial performance, highlighted by increasing adoption of our new products, robust revenue growth and record level free cash flow. Underlying product demand remains strong across all business segments. Despite lingering macroeconomic uncertainties, customers continue to build on the Work OS platform due to our ability to streamline workflows, enhance collaboration and drive efficiency, ultimately empowering organizations to adapt and thrive in challenging environments.

One of the key drivers behind our remarkable Q1 performance was the adjustments made to our pricing model. As a reminder, our pricing model structure is being rolled out in waves. For new monday customers and those billed monthly, new pricing took effect in Q1, while other customers will see updated pricing upon renewal. So far, the results from our new pricing structure have exceeded our initial projections, underscoring the strong value proposition of our product. We are particularly pleased with the initial churn that overall gross retention reached an all-time high in Q1, continuing its upward momentum over the past year.

Let me now turn it over to Eran to walk you through some of our product highlights.

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

Thank you, Roy. In Q1, our vision of becoming the go-to work platform for businesses took a significant step forward with the opening of monday sales CRM and monday dev to all customers. The response has been incredibly positive, with both products showing accelerating account growth in Q1. In addition, we remain on schedule to launch the new monday service product in late 2024.

Looking ahead, we are committed to further investment and promotion of all our current and upcoming products to address the needs of customers of all types and sizes. Our mission to empower anyone with the ability to harness AI continues to make progress. Building upon a successful launch of our AI system, we recently introduced enhanced AI capabilities, including AI automations, smart columns and AI-powered templates. These new features enable customers to leverage the power of AI throughout our Work OS platform, unlocking significant business value and seamlessly integrating AI into their daily workflows.

Looking ahead, we remain steadfast in our commitment to driving growth at scale, delivering value to our customers and shaping the future of work through innovation and excellence. Our focus on product innovation, customer success and operational efficiency will continue to drive momentum and position us for success in 2024 and beyond.

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

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

Thank you, Eran, and thank you, everyone, for joining our call. Today, I'll review our first quarter fiscal 2024 results in detail and provide updated guidance. Fiscal year '24 is off to another strong start. Total revenue in Q1 '24 came in at \$216.9 million, up 34% from the year ago quarter. Our overall net dollar retention rate was stable in Q1 '24 at 110%, reflecting the recent pricing updates and strong down-market demand for our work operating system products. We currently anticipate reported NDR to remain stable throughout fiscal year '24, with an expected small improvement by the end of the year. As a reminder, our net dollar retention is a trailing 4 quarter weighted average calculation.

In Q1, we updated our list prices to better align with the increased value provided by our Work OS platform and product suite to our customers. These adjustments have outperformed our initial forecast and we now anticipate that we generate approximately \$25 million in revenue for 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. 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 \$34.8 million in Q1 '24 or 16% of revenue compared to 18% in Q1 '23. Sales and marketing expense was \$120.8 million in Q1 '24 or 56% of revenue compared to 63% in Q1 '23. G&A expense was \$17.6 million in Q1 '24 or 8% of revenue compared to 10% in Q1 '23.

Net income was \$31.7 million in Q1 '24, up from \$7.2 million in Q1 '23. Diluted net income per share was \$0.61 in Q1 '24 based on 52 million fully diluted shares outstanding.

Total employee head count was 1,987, an increase of 133 employees since Q4 '23. We expect to ramp throughout fiscal year '24 with continued focus on our R&D, product and sales teams as we build out our platform and product suite.

Moving on to the balance sheet and cash flow. We ended the quarter with \$1.22 billion in cash and cash equivalents, up from \$1.12 billion at the end of Q4 '23. In Q1 '24, free cash flow was a record of \$89.9 million and free cash flow margin as defined as free cash flow as a percentage of revenue was 41%. 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 updated outlook for fiscal year 2024. For the second quarter of fiscal year 2024, we expect our revenue to be in the range of \$226 million to \$230 million, representing growth of 29% to 31% year-over-year. We expect non-GAAP operating income of \$17 million to \$21 million, and an operating margin of 8% to 9%. We expect free cash flow of \$47 million to \$51 million and free cash flow margin of 21% to 22%.

For the full year 2024, we expect revenue to be in the range of \$942 million to \$948 million, representing growth of 29% to 30% year-over-year. We expect full year non-GAAP operating income of \$77 million to \$83 million, and an operating margin of 8% to 9%. We expect full year free cash flow of \$238 million to \$244 million and free cash flow margin of 25% to 26%.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of Pinjalim Bora with JPMorgan.

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

Great. Congrats on a pretty solid quarter here. I wanted to ask you on the CRM and dev side. The traction there is palpable. It seems like you're adding more CRM and dev accounts in Q1, more than that of Q4 or even a year ago, that too in a very tough SMB environment. Help us understand what is driving that. Are people kind of consolidating on monday for these functional use cases, saving them money overall? Are these accounts new accounts largely or are you seeing existing accounts at CRM and dev? And how should we think about the contribution for these products for this year?

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

Pinjalim, this is Eran. So yes, we see great traction both for our CRM product and dev product. I think it's a combination of -- traditionally, Q1 is a strong quarter for us in terms of customer acquisition. So I think that drove some of the increase in terms of net new customers. In addition to that, the products are open to all customers. So we've seen more cross-sell from existing customers.

And I would say that in both of monday dev and monday CRM, we're also climbing and acquiring larger and larger customers over time. So obviously, a lot of SMBs, and we see still strong demand from SMBs across all products, but also adding more features and functionality. And over time, we'll be able to bring larger and larger customers to use those products.

So I think it's a combination of multiple factors. But overall we're very happy with the progress with both of those products and the traction we see from our customers.

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

Yes. Understood. One question for Eliran -- sorry, were you saying something?

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

Yes. Sure. (inaudible), Pinjalim.

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

Okay. Another question for Eliran. Eliran, you took up the pricing assumption. Trying to understand from the new customers, did you see any kind of a benefit from pricing in Q1? And I'm trying to understand the NDR commentary. I think last time you said that the NDR will uptick in the second half. Now it seems like you're talking about more of a small uptick in -- at the end of the year. But pricing seems like it's doing well. So I'm trying to understand if -- and you're taking the overall guidance up and flowing through the beat for Q1. So I'm trying to understand the NDR commentary versus kind of the pricing benefits you're seeing.

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

Pinjalim, sure. It's Eliran. So just maybe to mention that the majority of the NDR improvement for fiscal year '24 is related to pricing. And because we initiated the new pricing in February, it was mostly for the monthly ones that actually benefit from the price increase. And the rest of the annual contracts are going to be throughout 2024. So we believe that still yet to be seen what would be the impact as these customers continue to renew the annual subscribers. So that is why we kind of took an approach with regard to the NDR. Potentially the uptick is going to be later throughout this year.

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**Operator**

Your next question comes from the line of Brent Bracelin with Piper Sandler.

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

I wanted to start out with the improvement you saw in gross retention, despite a pretty challenging macro here and some of the pricing updates. What's driving the improvement in retention given some challenges that you'd typically expect here? Is it just tied to some of these workflows that

you're embedded that people are seeing good value out of? Walk me through the improvement in the retention that you're seeing and what's driving that.

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

Sure. Brent, it's Eliran. So there are a few reasons for the improvement. One is we continue to go upmarket with larger accounts and larger customers. So this is a more stabilized kind of customers with a better profile. The second thing, I would assume that the price increase that we did, potentially the customers that used to be the ones that did not decide they would like to continue to be customers of monday probably churned, and we remained with, again, better customers on the platforms.

The third thing is what Eran mentioned earlier. I believe that the new products that we are launch -- that we launched, CRM, dev, are now continuing to gain traction within existing customer base, and therefore, they contribute to the fact that we are more stabilized with our customers. So I think all of the above is actually creating a better profile of the retention on monday platform.

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

And then my quick follow-up here is around linearity. Just given the macro uncertainty, what was the linearity you saw in kind of the quarter? It sounds like Q2 is off to a pretty healthy start too. So any color on month-to-month linearity surprised either way?

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

Sure. So I think a few comments. We believe that the current macro economy will remain choppy by the end of the year. It's not -- it doesn't mean that it's going to get any better, but it doesn't mean that it's going to get any worse. I think that we, post our Q1 successful pricing adjustment, we have more confidence on the results that we presented when we did the Investor Day back in December, the best case scenario.

So all in all, in terms of linearity, we see a positive momentum throughout the year, also impacted by strong performance and the price increase in Q1. Yet to be seen how it's going to be with the annual subscribers, but overall positive momentum throughout the year. And this is why we increased guidance and improved margins.

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**Operator**

Your next question comes from the line of Jackson Ader with KeyBanc Capital Markets.

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**Jackson Edmund Ader** - *KeyBanc Capital Markets Inc., Research Division - MD of Software Equity Research*

The first one is maybe on customer acquisition costs. Non-GAAP sales and marketing ticked down in terms of the growth rate relative to the last couple of quarters. So just curious what you're seeing in the performance marketing channel from some of your competitors either up or down market.

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

It's Roy. So what we see in performance marketing, I think the most -- the biggest influence in Q1 is that we always boost marketing spend in Q1. It's like something we've done over the years, and Q1 here wasn't different. But also, we do see more competition in some areas, some have pulled in, then pulled back. And so I think it made us like stay within the same boundaries we feel comfortable with. We didn't chase them or downgraded. But -- so there is slightly more competition this quarter than before.

**Jackson Edmund Ader** - *KeyBanc Capital Markets Inc., Research Division - MD of Software Equity Research*

Okay. All right. Great. That makes sense. And then I'm curious on the CRM and the dev tools. Does one of them end up lending itself to better cross-sell or upsell with work management than the other?

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

Yes, I can take it. Jackson, it's Eran. So we didn't see any -- one of those tools perform better compared to the other one, both in terms of CRM and dev. We see good traction in customers adding more products over time. Same goes from work management itself. We see customers starting to use CRM and dev, I'll say, roughly in the same ratio. So we don't see any significant change.

I will say that we're very encouraged from the fact customers are trying more products over time. And again, now the products are rolled out to the entire population, and we have more opportunity to do cross-sell. And over time, we hope that we'll be able to land bigger and bigger deals in both of those products like we've done with work management in the past.

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

I can add. It's Roy. That we do see a different behavior within larger and smaller customers, whereas smaller customers tend to adopt more quickly. Other products and larger ones requires like more time or effort.

**Operator**

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

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

Perfect. Nice job here on a strong start to the year. Maybe if I can start with just the competitive environment. Certainly, you had really strong Q1 results. It seems like pricing is contributing to that, but core demand also seems strong. And what we're hearing from other software vendors is that the SMB market is certainly a little bit choppy.

So I'm curious how you're thinking of the shift in competitive dynamics in the industry. I think you've been taking share over the last several quarters, but when you look out at your competitors, how has behavior changed? Are customers consolidating more? Talk us through some of the trends that you're seeing that's enabling the growth here.

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

Yes. Sure. Arjun, it's Eliran. So maybe I will start with SMBs. As you know, since we reported monday, SMB continue to be very strong segment. It's around 45% of our total ARR. And we continue to invest significantly in performance marketing always in Q1 alongside mid-market and enterprise to maintain this.

In addition, I think that what we mentioned earlier, the new product are resonating well with SMB customers, both CRM and dev, together with the features and functionalities that we are introducing to the market. Also, we were encouraged by the fact that when we did the pricing adjustment, we didn't see a reaction that was overstated, but actually better than what we anticipated. So it's also kind of we gained confidence in the SMB segment.

And one thing that our peers -- you mentioned in terms of competition, our peers mentioned in the past that they are focusing more on -- sorry, on upmarket enterprise account, and I think which allows us to focus even more on SMBs and gain market share. So all in all, in terms of competition, I feel we are in a very good place with regards to SMBs, and we have no major concerns versus the other periods.

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

Perfect. Very helpful. And then the other one, you launched several new kind of AI capabilities this quarter. I read about some of them in the shareholder letter. But when you think about the impact I know it's still early, but the impact that AI is having in your customer base, I'm curious how you're seeing adoption and the usage of those capabilities.

And then Roy or Eran, when you think out longer term, how much do you think these new capabilities are going to make it easier for users and customers to build on top of monday? And what do you think that does from just a user adoption as you think out over the next year or 2 here?

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

It's Roy. So we just rolled out the initial phase of our AI building blocks like we talked about in the Investor Day. And we see great initial results from that because people actually use it to build new workflows. And they really harness the power of AI to do a lot of stuff they would normally do themselves.

Regarding to your question about platform adoption, I think like AI plays 2 parts. One is giving people, our customers more capabilities and making them stickier and increasing automations, and a lot of things they can now do with the platform, but also adopt the platform itself and do a lot of like, let's say, harder tasks for them like creating formulas, like building boards, connecting things and also suggesting things they might do. So that's like another direction we're always pushing towards. So yes on both.

And like in the next year or so, we expect the adoption to increase dramatically and that our customer base will adopt all those capabilities.

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**Operator**

Your next question comes from the line of Kash Rangan with Goldman Sachs.

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

Roy, Eran and Eliran, congratulations on the quarter. Very few companies have been able to put up the kind of numbers that you have in this Q1, so really kudos to you guys.

My question is in regards to the move upmarket or the enterprise, I mean, it's very rare to see companies move this effectively and rapidly upmarket and maintain the [dominance]. When I look at your 50,000-plus customers, 100,000 plus customers, the net new ARR growth is phenomenal, the revenue growth there is phenomenal, while you still continue to maintain your pace in the lower end of the market.

So the question is, what are the new -- what are the products that are being taken up by the larger enterprise customers? Are there deployment differences in what they're consuming and the potential for more revenue within the installed base? Because it just looks like it's just getting started in the upmarket motion, so, 50,000, 100,000, and changes you're making to go more deliberately (inaudible) market.

Also one for Eliran, sorry. Your net expansion rates in the 50,000 cohort looks very solid. As your business really tilts more and more towards the 50,000 plus cohort, shouldn't this be an encouraging sign for overall net expansion rates improving for the company in the quarters ahead?

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

Yes. Kash, this is Eran. So look, I think -- in terms of CRM and dev, it's mostly SMBs now. And I think with work management, we really were able to -- and it's a huge challenge. It's a great product that is suitable for SMBs, but also can scale for the enterprise customers. And we managed to do that. It was a very focused effort from our side and very important for us. And we actually -- this is how we built the company, so we can hear the voice and the feedback from both the SMBs and the larger enterprises. And we're going to do and apply the same secret sauce to our CRM and dev products, because we understand how important it is, not just to scale upmarket, but also to keep that traction of our SMB customers, is such an important funnel for us.

So basically, this is how we think about these new products, and we're applying the same methodology that we've done to work management. And overall, adding that product suite really helps also scale into the enterprise because they can use multiple products and deploy multiple products at the same time, which really contribute towards our NDR in the larger customers. So that's how we see it in terms of the multiproduct.

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

And maybe I will follow up on Eran, Kash, to your next question. So maybe just to add, we continue to invest in the platform itself and add more capabilities in order to support the scale of the enterprise customers. Just as a reminder, mondayDB is going to continue to develop and evolve, again, to help us scale with larger customers. We are adding additional features and functionalities like add-ons, all kinds of functionalities that will be more suitable for the enterprise customers that some of our peers already have. So this is an area of investment.

Now to your question, we continue to go upmarket and what it means to us. So I think, for us, Kash, we are consistent with the fact that we are saying, look, we are servicing all of the segments. We care about the SMBs. We care about the mid-market because we think there is a huge opportunity there. But we also want to make sure that we go upmarket because this is a more, in terms of retention, stickiness and larger and larger deals, I think this is something that we would like also to see coming in the next few quarters.

And I think this year with the price increase and everything that we are introducing to the market, by the end of the year, after we roll out most of the price increase and to see what will be the reaction of the bigger and larger customers, we'll have more confidence on -- and have better visibility on the future years. But this is a journey. So currently, the direction looks very good. But again, we have to see how it progressed throughout the year.

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

Congratulate, Eliran, on growth and free cash flow margins. That's phenomenal.

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**Operator**

Your next question comes from the line of DJ Hynes with Canaccord Genuity.

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

I'll echo everyone else's sentiments, congrats. It's a great quarter. Eran, maybe I can start with you just in terms of progress with the development of the service product offering, I think it's on track there. And I guess, broadly, anything you're seeing in the base in terms of usage patterns or any other observations that make you more or less confident in the direction of product development?

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

Yes. DJ, this is Eran. So yes, we're very excited (inaudible) service. We're going to launch it towards the end of the year, end of 2024. We already have an alpha version. We are talking with a few customers that are now trying the product. And overall, like the reaction is very positive. I can also mention we -- I think we mentioned this briefly in the Investor Day, but there's a lot of demand from our customer base towards monday service, a lot of excitement. And I can share that the initial feedback from customers is very encouraging. So really excited for this.

But obviously, it's a new product. It's going to take time to gain traction and momentum. But like I said, we're very excited for the release of that. And I think that's another step towards our vision of managing the core of work. I feel that service, whether it's IT or HR requests, or any other form of in-company ticketing system, is such an important part of that vision. So that's why we're very excited for that product release.

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

Yes, makes sense. And then, Eliran, a follow-up for you. I think last quarter you told us 20% of the base is monthly, 80% is annual. That 80% where the price increases kind of coming on a rolling basis. Is there anything we should think about in terms of linearity of the renewal pool, just in terms of tactically kind of where those price increases might impact the model as we look over the next 4 quarters?

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

DJ, it's a great question actually, yes. So we believe we're going to complete the rollout of the new pricing for the annual subscribers by H1 of next year. So think about the next 12 months from now because we introduced it on late February, now they are getting into -- upon renewal, we're going to see. So probably the next 12 months to 15 months, this is when it's going to be completed.

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**Operator**

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

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

Great. And congrats on a good quarter, guys. The -- last quarter, you guys talked about softness in late December and into January with less seat expansion and still some seat downgrades happening. It sounded like things got better through the quarter. Can you just comment on what you saw improved in February and March? And I guess, since you're halfway through Q2 now, how demand trends have tracked quarter-to-date so far?

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

Yes, Derrick, I can start. This is Eran, and if anyone wants to follow up. So yes, I think previous quarter, we just were starting the year, we were kind of rolling out the price increase, and I think there was a lot of uncertainty about the sector that, like we mentioned in the previous earnings call, it was the first time we ever raised prices for our base -- for our customer base.

I think what changed is 2 things. One, we thought that price increase was -- the reception for that from a customer base was very positive. We were even encouraged by the feedback. And overall, we saw a lower churn profile, less downgrades than we expected, and great feedback from customers. So I think that was very encouraging. In addition to that, we saw great demand from all segments, including SMB in Q1, and overall strong momentum in the business. And I think that's what tells us to be more optimistic towards the end of the year and seeing great momentum building up throughout the year. I think that was fundamentally changed.

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

Yes. Maybe I would just add. This is Eliran, that the market is still inconsistent and choppy, but we feel like the momentum for us is relatively good and encouraged by what Eran said to the rest of the year.

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

Great. And maybe for Eliran. Would you be able to quantify the benefit from price increases in the quarter? And remind us, I guess you said \$25 million tailwind this year. Is that -- what was the previous assumption?

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

So the previous assumption was between \$50 million to \$20 million. Just as a reminder, this is revenue. Revenue is the derivative of the ARR. So if you take -- very -- by and large, you get the ARR throughout the year and the revenue is recognized on a monthly basis. This is something we increase the numbers. We feel now this is the contribution of the price increase because much of the effect of the annual renewals is going to be either throughout the second part of the year or next year because of the fact that you get 1 divided by 12 of this contract when they are renewed. So we feel the \$25 million is pretty solid number.

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**Operator**

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

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

It sounds like SMB is fine, so that was good to hear. I guess when you think about the upper end of the mid-market and large enterprise, can you just expand on what you're seeing? I know you're beginning to see some larger seat counts and bigger enterprise spend. Are these enhancements to the underlying platform helping you scale up and win some of these larger enterprise? Can you give us a sense of what's happening there?

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

Yes. Brent, this is Eran. So yes, definitely, in addition to the SMB segment, we continue to see good momentum with the larger enterprises. So obviously, we had that big deal that we announced 2 quarters ago. But we still see great deals building up in the pipeline and, hopefully, will convert into more of such enterprise opportunities. But overall, the enterprise pipeline looks very healthy, and hoping for more big deals like that coming up in 2024.

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

And when you think about the kind of the infrastructure that you're putting in, whether it's go-to market, the platform scalability, just give us an example of what you're doing to get ready. I guess many have kind of cited, is this the same strategy that Salesforce saw when they started small, went large, and ultimately large became bigger than small. Are you seeing something similar to their pathway? What's giving you confidence that you can make that move?

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

Yes. So again, I don't know the details of what Salesforce has done, but we've been working very hard on our infrastructure to support it. Obviously, we've talked about mondayDB, but this is going to be a flagship project for us as a company. And we continue to roll out minor versions and we

have some major version coming up. Also, we make a lot of improvements to the platform, not just in terms of features and functionality, but also in terms of security and governance and permissions.

It's an ongoing work for us and we talk with customers consistently and keep improving the platform. And also we improve our go-to market and the way we navigate ourselves within organization and reaching decision-makers. So all in all, if I could bind anything -- everything I said, working on the infrastructure, working on the product, working on the go-to market and our sales team. And we're very optimistic in our ability to continue and scale in the enterprise segment.

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**Operator**

Your next question comes from the line of George Iwanyc with Oppenheimer.

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

Congrats on the strong results. You continue to steadily add to your channel and partner programs. Can you give us some color on the impact that this is having on your deal pipeline and on the CRM and dev momentum as well?

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

This is Roy. So yes, we're very proud of the partner channels we have. We have great partners, and we are continuing to add more. We are more -- like we are with the entire organization, with the partners, we're also focused on going upmarket and deepening what partners do with our customers, like more services, helping them scale, giving consultancy and so on, essentially supporting us in regions we don't have sales, but also in the regions we do operate ourselves. And we see that as a great thing going forward we invest more in.

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

Maybe just to add to what Roy said, we have a robust partner network now with over 180 channel partners with some of the top world SIs, like Accenture, Hitachi, KPMG. And we're also building a lot of ISVs on our marketplace. So this is an area of investment that will continue to generate ARR and potential opportunities for us.

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

And Eliran, maybe can you give us some color on how the international markets are behaving on a relative basis?

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

Sure. So George, for us, it's pretty stable. If you think about our business, around 50% is coming from North America, I believe 52% coming from the U.S. and Canada. We are seeing very strong momentum in Europe. And in places where we don't have sales organizations, we operate, to your prior question, with partners. The momentum is good and relatively stable in terms of international expansion.

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**Operator**

Your next question comes from the line of Michael Berg with Wells Fargo Securities.

**Michael H. Berg** - Wells Fargo Securities, LLC, Research Division - Associate Equity Analyst

Congrats on the success in the quarter. I wanted to ask what your -- what you feel is allowing you to see success in this choppy macro, in particular with SMBs. Is there anything in particular about your product or go-to-market or even just like the increased breadth of the offering now that's allowing you to see this incremental success relative to many of the other SMB software vendors in this market?

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

It's Roy here. So we feel very strong with SMBs as we saw that -- because monday is a platform and you can do a lot of things with, we see that they really rely on us in these times and kind of add more use cases and see the true value of the platform.

And so that's why we keep seeing that they are very stable throughout this last period, while we're also very strong in acquiring new ones. As Eliran mentioned, we see like less competition in general because like other players have chosen to go upmarket and we're really pushing on performance marketing and really understanding how to reach those customers on growing scale. So it's a very good market for us.

**Michael H. Berg** - Wells Fargo Securities, LLC, Research Division - Associate Equity Analyst

Makes sense. And then one quick follow-up. Free cash flow had a really nice performance in the quarter and you raised that outlook fairly nicely for the rest of the year. Anything in particular driving the strength in free cash flow dynamics relative to where you were expecting at the beginning of the year?

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

Yes, sure. So Michael, in terms of kind of the variance between free cash flow and operating profit. So I would say 50% is related to strong cash collection from the SMBs as we see strong top-of-funnel activity. The price uplift, as a reminder, we -- it was mostly the monthly ones in February and some upmarket contracts. Around 20% of this is related to interest income, due to the healthy balance sheet that we have.

And I would say around 30% is related to normal timing of expenses. Just as a reminder, we expect free cash flow margin to come down in Q2 due to seasonality as we pay bonuses, this is -- price -- sorry, salary increases are being paid in Q2 as well as the head count that we hired in Q1 also going to be fully onboarded in Q2.

But overall, we feel very comfortable with what we said, to generate \$1 billion of free cash flow over the period of 2023 to 2026, and striving to get 25% annual free cash flow margin, as we said.

**Operator**

Your next question comes from the line of Steve Enders with Citi.

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

Okay. Great. And congrats on the results, pretty impressive given the macro, it seems like we're seeing out there. I guess maybe just to start, I want to ask on the CRM side, and now that that's kind of like fully rolled out or able to be sold into the base, how are you kind of viewing the opportunity to drive that and maybe potentially converting customers who are already using monday as a CRM into that solution set? Like do you view that as kind of being the real bulk of the opportunity? Or kind of like what are the catalysts to potentially convert some of those customers over into using the full-blown CRM solution from you?

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

Yes, Steven, this is Eran. So I'll answer into 2. I think with the smaller accounts, the SMBs, it's going to be easier. Some of them are not using a CRM. So it was an easy adoption for us. The other, we're also working on a bunch of migration tools. So I think for the smaller customers, we're seeing faster adoption, it's going to be easier.

For the larger ones, it's a bit more complicated. It's not just seen -- we haven't (inaudible) product. We need to talk with the decision makers. So that's kind of another we're working on, on reaching different functions within the organization and doing more top-down selling to those accounts. And obviously, we also need to mature the price a little bit in order to support it.

So I can say that we've seen already great cross-sell from SMBs. And over time, we'll see more and more of the large organizations adopting full-blown CRM or monday dev.

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

Okay. Great. That's helpful context. And then I guess maybe on the pricing side and some of the customer behavior that you're seeing, I guess, maybe how is the -- is there a difference between maybe what you're hearing from -- or what you're seeing from the monthly customers versus some of the annuals as they're beginning to come up on renewal and now that you have a couple of months of data here?

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

Yes. So this is Eran again. So yes, overall, like we're very -- the results are pretty solid, we're very happy with the churn profile. We haven't seen much increase in terms of churn. Same goes for downgrades. So obviously, the monthlies are most impacted because they can make a decision to leave at any given time basically. And we ran our own model and we thought the results are even better than we expected.

So for us, it adds a lot of confidence. And we even expect the annual accounts to behave even in a better way because they're a little bit less price sensitive. So all in all, in terms of churn, downgrades, we don't see any major impact, and we see accounts continue and upgrade their accounts, even the ones that obviously got their price increase. So overall, very encouraged from the results.

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**Operator**

Your next question comes from the line of Mike Funk with Bank of America.

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**Michael J. Funk** - *BofA Securities, Research Division - VP in Equity Research*

Yes. Thank you for the question, and good to see reports of weakness were greatly exaggerated in the quarter. So happy to see that. A couple of questions if I could. So first, on competitive deals, where you do see them, love to get some insight from you on whether or not you're winning more of the competitive deals. And if you are, what you think the differentiator is to drive success with those.

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

It's Roy here. So I think like we see great traction within the competitors when we do compete on larger deals, we see that we are able to compete very well. And we are working hard on our road map to even close all gaps that we have against competitors. So I think we're in a really great place with work management compared to competitors within the enterprise space.

And the CRM and dev, like Eran said, we -- it's still early days compared to the other very large competitors out there, but we do see great traction more on the SMB side and compete on those fronts really well, SMB to small mid-market.

**Michael J. Funk** - *BofA Securities, Research Division - VP in Equity Research*

That's helpful. And the second one is actually multipart and relates to price and then churn. So first, how should we think about pricing going forward? Do you plan on having predictable annual price increases or will it be more ad hoc? And then as you do get more cross-sell, can you walk us through how conceptually or quantitatively you think about that benefiting churn? And then the 2 pieces together, price and churn, how does that factor into the growth algorithm longer term?

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

Sure. So Mike, this is Eliran. With regards to price increase, we try to make sure that when we increase price, we do it based on value that we provide to our customers. We added a lot of value throughout the last few years, and this is why we were only, for the first time, we increased the price for our existing customer base.

So I think we don't have a clear answer with regards to what would be the annual yet. But I think overall, we think it will be more tied to value-added -- value-adding rather than just having like the majority of it coming every year.

The second thing, with regards to cross-sell. So I think the combination of us opening the existing products of CRM, dev, together with the work management to existing customers, will allow us to see cross-sell opportunities with existing customer base and potentially with new customers. But it will take probably a few quarters to get a better understanding of the trend. And I think once we have this packaging of the different products alongside the fact that we are introducing additional features and functionalities, cost potentially is going to be with positive momentum, not necessarily having to be tied to a price increase.

**Operator**

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

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

Really nice quarter. I have 2 quick ones. The customer counts for CRM and dev are becoming meaningful at this point. How do you think about the types or size of customers that are actually buying that solution today? Are they still some of your smaller customers? Are you seeing some adoption in some of the maybe mid or enterprise customers that you're selling the core platform to?

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

It's Roy. So yes, like we do see CRM and dev play way more on the SMB and small, mid-market rather than the larger customers we have. We do see a very small, let's say, implementations within larger enterprises, but I think we have a very long road map on both products to reach those enterprise -- larger enterprises deployments on such products, if that helps.

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

Very helpful. And then, Eliran, you mentioned before contract terms have been pretty consistent. I believe it's 80% annual, 20% monthly. Are you seeing any real, I guess, changes on that one way or the other? I know historically, in times of maybe a little bit of economic pressure, customers will either switch to monthly or only buy monthly upfront to give some flexibility into their spending plans. Just don't know if you're seeing any changes there at all.

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

Scott, Eliran. No, I don't see any change to where we are now. Basically, we saw in the last few years, actually, we saw a transition from monthly to annually. I think the 80-20 kind of, by and large, this is something that is going to be very stable throughout the years. And I don't expect any material changes to that.

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**Operator**

Your next question comes from the line of Taylor McGinnis with UBS.

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

My first one is just going back to the impact from price potentially in 1Q, and maybe ask a different way. So Eliran, is it fair to assume that the uplift would have contributed less than \$6 million in 1Q if the contribution should scale throughout the year? Just trying to understand how we think about that trajectory.

And when you provide that \$25 million in uplift, just to clarify, is that the impact just from the installed base? Or does that include the year-over-year impact from potentially higher new customer lands as well too?

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

So maybe we'll start with the second question. With regard to the \$25 million, this is taking into account potentially some scenarios that we did for existing and new customers, modeling all kinds of scenarios. So this is taking everything into account.

With regards to your first question, if I understood it correctly, I think the contribution to a strong performance was, I would say, half, overall, the business, the healthy top of funnel and the fact that we had good momentum with existing customers. And half of it, I would say, was coming from the price increase. If the churn profile would have been worse than what we saw, potentially the numbers would have been lower. If this is -- if I understood correctly, what you asked.

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

Perfect. And then my second question is, is that now with CRM widely available this year, it seems like that could be a big opportunity for you guys. And I think if I look back last quarter, penetration of your total customer base was around 6%. So I guess, how are you just thinking about the trajectory of that business? Because it seems like this year could start to get to a scale that, it could add a couple of points to growth. So just out of the gate, would love to see -- would love just a little bit more color in terms of how you guys are thinking about penetration and the trajectory of that.

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

Yes. Taylor, this is Eran. So yes, I totally agree, like the cross-sell numbers were looking pretty solid and continue to perform really well, and for us, it just feels like the beginning of taking into our existing customer base. And bear in mind that also for new customers, we encourage them to buy more than just 1 product when they sign up. So there's a lot of potential with new customers as well.

We continue to promote the products in our platform and in our home page. And overall, we're very happy with the rate of adoption of this new products. And like we mentioned, we also plan to continue to go upmarket with our bigger customers. So all in all, I think this presents a big opportunity for our existing customer base and also for our new customers.

**Operator**

(Operator Instructions) There is no more question at this time. Ladies and gentlemen, that concludes today's call. Thank you all for joining, and you may now disconnect.

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