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MNDY.OQ - Q2 2024 Monday.Com Ltd Earnings Call

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PRESENTATION

Operator

I would like to welcome everyone to the monday.com second-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.

Byron Stephen - *Monday.Com Ltd - Director of Investor Relations*

Hello, everyone, and thank you for joining us on today's conference call to discuss the financial results for monday.com's second quarter fiscal year 2024.

Joining me today are Roy Mann and Eran Zinman, Co-CEOs of monday.com; and Eliran Glazer, monday.com CFO. We released our results for the second 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 & Events section of our IR website at ir.monday.com.

Certain statements made on the call today will be forward-looking statements, which reflect management's best judgment based on currently available information. These statements involve risks and uncertainties that may cause actual results to differ from our expectations. Please refer to our earnings release for more information on the specific factors that could 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-Chief Executive Officer, Co-Founder, Director*

Thank you, Byron, and thank you, everyone, for joining us today.

Since our debut in Nasdaq three years ago, we have made significant progress in realizing our vision of becoming the platform to run the core of all work for customers. In that time, we have transitioned from a single product offering to a true platform with multiple products. This transition and our strong execution have allowed us to nearly double our customer base, triple annual recurring revenue, and increase our largest customer seat count tenfold.

Our impressive growth trajectory aside, monday.com's unique strength lies in our ability to achieve this expansion while driving operational efficiency. This quarter, we achieved a record non-GAAP operating profit, and notably, attained GAAP operating profitability for the first time in the company's history. Our investment in the enterprise go-to-market and platform infrastructure through mondayDB continued to yield promising results.

In December 2023, we announced a significant increase in our largest seat count growing over threefold to 25,000. This quarter, we are pleased to announce another significant milestone our largest seat count has more than tripled once again to reach 80,000 seats.

Beginning with the finance and product teams to address multiple use cases, this multinational healthcare company rapidly extended its monday usage to encompass additional teams within the organization. Impressed by our Work OS's ease of use and customization capabilities, the company made a strategic decision to expand monday work management across the entire organization to address all work and project management needs.

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

Eran Zinman - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Thank you, Roy. Our efforts to enhance our underlying architecture with mondayDB remains on schedule and reached another exciting milestone in Q2 with the launch of mondayDB 2.0. MondayDB 2.0 will elevate scalability, enabling customers to manage boards with up to 100,000 items and linked items, and dashboards with up to 500,000 items, significantly inventing their work capabilities. AI continues to be a top priority, and we are actively integrating it across all areas of monday.

In mid-2023, we deployed a third-party GenAI chatbot for managing customer service tickets, yielding impressive results. The chatbot has resolved around 50% of customer service tickets automatically.

The initial success has led to a significant increase in chat ticket volume and reduced our reliance on external support for ticket management, as customers benefit from the chatbot's quick and accurate responses. We expect this trend to continue through 2025 and beyond. And GenAI further enhances our efficiency in meeting customer needs.

Additionally, we are using GenAI to improve the user experience through advanced automation and test management collaboration. In Q2, we introduced the new GenAI features to the monday platform, including auto-generated action items, threat summaries, and enhanced text extraction

capabilities. We continue to make significant progress in enhancing and expanding our product suite. Monday CRM has been a major success, and it continues to exceed expectations, expanding to over 20,000 accounts since its launch in '22.

In Q2, we introduced several new features, including e-mail engagement tracking and timeline reminders to further enhance its functionality.

For Monday work management, we are focused on addressing the needs of larger accounts. In Q2, we launched our portfolio solution for enterprise work management, which has already shown strong initial adoption. Monday dev continued to resonate with customers by offering a comprehensive suite of tools for managing their development process.

This quarter, we introduced roving tracker, which enables users to visualize company, track progress and focus on key commitments. And finally, our latest product, Monday Service is now on beta and is scheduled for full release by the end of 2024. We remain highly enthusiastic about its potential.

In closing, we are less than a month away from the kickoff or annual conference, Elevate. Elevate is a must-attend event for Monday.com passionate customers and anyone excited about tech. This year's Elevate will take place in London, New York City, and Sydney over the coming months. Please join us live or online as we will share our vision, strategy, and product road map, allowing you to gain deeper insights into our product and future plans.

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

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Thank you, Eran, and thank you to everyone for joining our call.

Before I walk you through our second-quarter results in detail, let me first give you a brief update on pricing. Our new pricing structure that was introduced in Q1 '24 continues to yield positive results and has now been extended to approximately 40% of our customer base. We maintain our forecast of a \$25 million in revenue benefit from this new pricing structure for fiscal year '24, with projected total revenue benefit of \$75 million to \$80 million from fiscal year '24 to fiscal year '26.

We delivered strong results in Q2, marked by robust revenue growth and enhanced profitability. These results highlight our effective execution and the demand of our work operating system products across companies of all sizes.

Total revenue Q2 '24 came in at \$236.1 million, up 34% from the year ago quarter. Our overall net dollar retention rate was stable in Q2 '24 at 110%, reflecting the recent pricing updates and strong demand for our work operating system products. We continue to 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 NDRs trailing four quarter weighted average calculation.

For the remainder of the financial metrics disclosed, unless otherwise noted, I will be referencing non-GAAP financial measures. We have provided a reconciliation of GAAP to non-GAAP financials in our earnings release.

Second-quarter gross margin was 91%. In the medium to long term, we continue to expect gross margin to remain in the high 80s range. Research and development expense was \$36.9 million in Q2 '24 or 16% of revenue compared to 16% in Q2 '23.

Sales and marketing expense was \$120.7 million in Q2 '24 or 51% of revenue compared to 56% and in Q2 '23. G&A expense was \$18.2 million in Q2 '24 or 8% of revenue compared to 8% of revenue in Q2 '23. Net income was \$49.3 million in Q2 '24, up from \$21 million in Q2 '23. Diluted net income per share was \$0.94 in Q2 '24, based on 52.2 million fully diluted shares outstanding.

Total employee headcount was 2,110 employees, an increase of 122 employees since Q1 '24. We expect to ramp throughout 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 \$1.3 billion in cash and cash equivalents, up from \$1.1 billion at the end of Q4 '23. In Q2 '24, free cash flow was \$50.8 million, and free cash flow margin, as defined as free cash flow as a percentage of revenue, was 22%. Free cash flow is defined as net cash from operating activities less cash used for property and equipment and capitalized software costs.

Now let's turn to our updated outlook for fiscal year 2024. For the third quarter of fiscal year 2024, we expect our revenue to be in the range of \$243 million to \$247 million, representing growth of 28% to 31% year over year. We expect non-GAAP operating income of \$19 million to \$23 million, and an operating margin of 8% to 9%. We expect free cash flow of \$70 million to \$74 million, and free cash flow margin of 29% to 30%.

For the full year '24, we expect revenue to be in the range of \$956 million to \$961 million, representing growth of 31% to 32% year over year. We expect full-year non-GAAP operating income of \$100 million to \$105 million, and an operating margin of 10% to 11%. We expect full year free cash flow of \$270 million to \$275 million, and free cash flow margin of 28% to 29%.

Let me now hand over to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Brent Bracelin, Piper Sandler.

Brent Bracelin - Piper Sandler - Analyst

Good morning and Thank you for taking the questions here. I wanted to touch base on the large customer cohort. You added a record number of 100,000 customers this quarter from a net add perspective. The net expansion metrics actually improved here despite some macro headwinds. So can you just talk through what seems to be resonating in this environment that's still challenged with the larger customers, why they're turning to Monday, would be super helpful. Thanks.

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yes, Brent, this is Eran. So yes, we continue to see strong traction in our larger accounts. A lot of them are just accounts we already have on the platform to continue to expand and grow and increase the number of users. Some of it is software consolidation, but a lot of it is just natural growth and more usage of Monday within their own company. So that's continued to trend and looks fairly healthy, even given the environment right now. So that's basically what contributed to the increase in the 50,000 and 100,000, and also their NDR.

Brent Bracelin - Piper Sandler - Analyst

Helpful color there. As a follow-up, Eran, I know you talked about kind of trying to still wanting to reinvest in the business. Op margins came in here better than expected in the quarter. Is that improvement tied to some of those customer -- or cost savings that you referenced using GenAI? Or are there other factors that contribute to margin outperformance here in the first half?

Eiran Glazer - Monday.Com Ltd - Chief Financial Officer

Hey, Brent. It's Eiran. Sure, so I would say some of it is related to the fact that we are using GenAI in customer success. So we don't need x amount of people like we used to in the past.

In addition to that, we are always speaking about efficient growth. So on one hand, while we are behind on hiring this quarter, we have some ambitious plan on hiring, as well as our spend on the performance marketing that is related the BigBrain system that we have, then this is something that we always monitor. But as part of our efficient growth, we kind of look at our cost as well not only on the top line, and this is the result of some of the things that I mentioned.

Operator

Jackson Ader, KeyBanc Capital Markets.

Jackson Ader - *KeyBanc Capital Markets - Analyst*

Thank for taking my questions, guys. First one is on usage and utilization, maybe between the different customer segments. So what does utilization look like for your down the middle, small and medium-sized business customer versus maybe some of your largest customers? Not -- it doesn't have to be the 80,000 seat, but like the large customers versus SMB utilization.

Roy Mann - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Hi. This is Roy. So you mean utilization in terms of like their seat count versus their usage of it or use cases?

Jackson Ader - *KeyBanc Capital Markets - Analyst*

Yeah. Yeah, like you've got 100 people and 70 of them really use it every day and, I don't know, 30 kind of check in every once in a while. Like utilization of the product, meaning like how often they're using it. And I guess like if there's any measure of depth to how they're using it as well.

Roy Mann - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Yeah. So we have a lot of different measurements, obviously, and we see ourselves as a core tool. We go after core use cases, meaning like it managed the core of work, and we see really high engagement across our customer base.

Having said that, like being part of the flywheel motion, what we see is that you have a team using a core use case with runs really the core of what they do, and then they invite other people that are helping them or connecting to them. And the flywheel motion means that, over time, they will start creating their own core use case and then we scale there.

So we have two tiers, if you like, of types of customers, the ones who are like in the main use case and the ones who are kind of like more invited and part of others' workflow, and that's how we grow over time.

Jackson Ader - *KeyBanc Capital Markets - Analyst*

Okay. All right. Great. And then actually staying kind of on the product side. For mondayDB, can we -- could you guys just put the scalability in context? 100,000 items on board, 500,000 on a dashboard sounds like a lot. But can you compare that maybe to what those statistics look like under mondayDB 1.0 and then maybe even prior to mondayDB being rolled out last year?

Eran Zinman - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Yeah. Jackson, this is Eran. So compared to mondayDB 1.0, that's a 10x from the limits we had before in the prior version. And the number of items will continue to scale in future releases. So it is a significant growth, both in terms of boards and dashboards. And in future releases, we're going to have another kind of significant stats in terms of scale of what the board is going to contain.

Operator

Alex Zukin, Wolfe Research.

Alex Zukin - *Wolfe Research - Analyst*

Hey, guys. Thanks for taking my questions and congrats. Maybe just help us -- give us a flavor for kind of the demand environment, the linearity of the quarter and particularly the large deal cadence, which was, again, quite extraordinary. Maybe how did it compare to last quarter? How do they compare to your expectations? And how to think through, again, in this kind of dicey macro environment that we seem to be in for this year?

Eliran Glazer - *Monday.Com Ltd - Chief Financial Officer*

Sure. Hey, Alex. This is Eliran. So with regards to demand, a few things that I would like to highlight. So SMB, the strength of monday and it continues to perform very well.

In terms of what we see, demand environment in general in terms of macro is inconsistent and choppy. We also saw it from other companies that mentioned it. But the fact that despite persistent macro challenges, we see the demand steady across all segments. This is something that is very encouraging for us. And in addition to that, maybe to provide the KPI to demonstrate this strength is our growth retention is record levels. But we are still seeing some cautious spend environment with many other customers.

So all in all, pretty consistent with what we saw in the past. It's not getting any better, but it's not getting any worse. And we maintain our strength in SMBs and across all segments.

Eran Zinman - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

And maybe, Alex --

Alex Zukin - *Wolfe Research - Analyst*

Sorry. Yeah, go ahead.

Eran Zinman - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Just you also asked about the large deal that we closed, so maybe -- this is Eran. To maybe just to give you some more color on this, it's a European-based multinational healthcare company. They're actually an existing customer of monday since about 2020, four years now. They started -- the first use case was mostly focused on finance and R&D, managed workforce and projects. And then we expanded.

Now it's being used across procurement, design, internal ticketing management. And basically, last year, kind of end of last year, but closed now, they made a decision to consolidate on monday, and kind of basically standardize the whole company on the platform. So that's large accounts, but it's a very healthy expansion and long kind of use case over the years and happy partners of them since 2020.

Alex Zukin - Wolfe Research - Analyst

Perfect. And maybe just as a follow-up, on the CRM sales net customer adds going forward, it's been about 4,000 now a quarter the past two. Is this the right way to think about it going forward? And given the launch of DB -- 2.0 version of mondayDB, is it fair to think that we should start to see that [ASRPC] go a little higher on the sales side as well?

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yes, I think -- this is Eran again. So I think it's a fair assessment to say that's more that's going to be the pace. Most of the growth is still coming from existing users. So it's less of a case of mondayDB making a huge impact on numbers, it's mostly customer, acquisition of new customers that kind of generate and kind of help this number grow.

Roy Mann - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yeah. And -- it's Roy. If we're talking about the CRM product, like we see a nice growth and we're always going upmarket and improving our capabilities there. So we do expect us to be able to get bigger pie, let's say, for CRM.

Operator

Arjun Bhatia, William Blair.

Arjun Bhatia - William Blair - Analyst

Perfect. Thank you and congrats guys on the kind of strong quarter here. Maybe I wanted to ask about the service management product build-out. It seems like your infill data with that and maybe now you have a little bit of a better idea of what it looks like at launch.

So what is your sense of how that product will differentiate versus competitive products in the market now that you have some feedback from customers? And how quickly it might scale and get adoption out of the gate compared to some of the other solutions you've launched like CRM and dev?

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yeah. Thanks, Arjun, this is Eran. So first of all, we launched monday ServiceNow in beta. We already have a few dozens of customers using it and paying for the product. Look, it's very early days to say compared to -- how this will compare to monday CRM or monday dev. What we can share is that the feedback is very positive from customers, a lot of excitement.

One of the things that really resonates compared to other players in the market, again, is the flexibility, kind of similar to CRM and dev products. But I think specifically for Service, it kind of -- the effect of this is even more significant to our customers because they want to automate a lot of the processes within the IT service management product, and they want to have more customability on how they catch data and how the process workflows. So this is exactly where monday shines.

The feedback is very positive. People want to use this in addition to other products they're already using with monday. So it looks very promising. But again, early days. We're going to have a full towards the end of the year, and then we'll get more traction and we'll be able to share more numbers.

Arjun Bhatia - *William Blair - Analyst*

Okay. Perfect. That's helpful. And then I think you talked about in the shareholder letter, the work management portfolio product. Can you just expand on what that product does a little bit, how customers would use it in conjunction with the core work management solution? Why it's important for enterprises and then on the economic side of the equation? How do you price a solution like this? And how should we think about the upsell? Sorry, a lot of questions in there, but you get the gist of it.

Roy Mann - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Yeah, sure. It's Roy here. So portfolio management is essentially a way to manage like 1,000 projects, let's say. A lot of projects together. So until now, Monday was amazing at managing really complex projects with different workflows across the organization. And this is a step-up for us in terms of the volume of projects, even super complex ones, but give a high-level overview and management of massive projects even to management.

And essentially, it's a building block for us towards managing massive organizations' complete project portfolio and its entire hierarchy. And so this allows us essentially to go upmarket, to have larger customers depend on us and like really manage the core of their entire project operations.

Operator

Ryan MacWilliams, Barclays.

Ryan MacWilliams - *Barclays - Analyst*

Hi, guys. Thanks for taking my questions. I thought it was interesting how you added GenAI to your customer service efforts. And while interactions doubled, you were still able to reduce 30% of your external customer service account. Any learnings here as it relates to the upcoming launch of your Monday Service product?

Eran Zinman - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Can you repeat the last part of the question, about the --

Ryan MacWilliams - *Barclays - Analyst*

Yeah, just like how did this -- how do this customer service experience in GenAI relate to your upcoming launch of Monday Service? Like anything you can bring over to the new product?

Eran Zinman - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Yeah. Thanks, Ryan, it's Eran. Yeah, it's completely separate. So basically, we kind of built and used some third-party tools to automate some of our external customer support, that means supporting our own customers. And that's regardless of building Monday Service.

In regards to Monday Service, definitely, we're going to have AI capabilities within the product and it's a good experience for us to kind of experiment on ourselves and saving costs and seeing the benefit of that. But that's going to be kind of more of a future release of that product.

The initial term of Monday Service will won't have a lot of kind of capabilities in the first version. But later on, we're going to release future versions with more AI capabilities. But it's definitely a good experience for us and definitely a huge cost saver for us as a company.

Ryan MacWilliams - Barclays - Analyst

I appreciate that color. And then just on the pricing impact, how are conversations, customer conversations been so far around contract renewal? Like are you capturing the pricing benefit you expected? And then how can we think about the contribution to net retention firm pricing this year? Thanks.

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Hey, Ryan. It's Eliran. So just by way of a reminder, we are on target and consistent with what we communicated in Q1. New pricing structure already rolled out to 40% of the customers. So this stage, obviously, we said that it's going to be until the H1 of next year because this is a rolling forecast. This is a rolling forecast of 12 months.

So all in all, conversations are going well. With regards to enterprise accounts, obviously, because there are big accounts, there is some negotiation in the way we kind of increase prices. But all in all, reaction is good and continue to evolve.

Operator

Derrick Wood, TD Cowen.

Derrick Wood - TD Cowen - Analyst

Great, thanks. I'll add my congratulations. As you're driving some of the strongest growth in the SaaS market, from a competitive standpoint, would you say that win rates against core competitors have gone up? Or do you say you're tapping into new budgets you've never been in before and competing against different vendors? Just wondering how you talk about the strength of your competitive positioning.

Roy Mann - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Hi. It's Roy here. So for one, I feel like we're still doing super strong on the performance marketing end. Because we have great visibilities into the return all our campaigns, we know where to put the money and see the returns. And I think like that's something we can do way better. And we still gain a larger share of the market because of that on the new side.

On the other hand, really, we're still like fitting this with the greenfield space. We see most of our deals were not up against competitors. But in some areas, we do. And where we win, we win a lot because of the platform and our capabilities and the fact that companies see they can rely on us in the future as well in a lot of other things they can do. So yeah, so on all fronts, we see our future as positive competitively.

Derrick Wood - TD Cowen - Analyst

Great. And maybe just to touch on that greenfield aspect. I mean we've heard that your new AI-powered templates are really helping to drive greater user adoption and just making it a lot easier to spin up new use cases on the platform. Can you talk about how your new AI technology is helping drive higher adoption and maybe expansion rate?

Roy Mann - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Hi. So it's still early days to know the exact impact of it. We see great positive feedback from customers using it. And it is, like you said, with -- it's a lot of power because we built it on top of the platform. It's totally integrated into it in a way that you can build where you want. Like we showcased in the demo we did in Investor Day, essentially can build any AI work, integrate AI into any workflow you want. And it's superpowerful and we see people building great things with it. And going into the future, we expect great things from this.

Operator

Pinjalim Bora, JPMorgan.

Pinjalim Bora - JPMorgan - Analyst

Great. Hey. Thanks for taking my questions and congrats on a solid quarter here. One question on guidance/macro, I guess. It seems like you're raising the full-year guide by more than the Q2 beat, and you're not raising the pricing benefit for the year. So trying to understand what gives you confidence in this macro to essentially raise the core guide? Is that the large deal dynamics that you're seeing? Is that mainly because of the gross retention improving? Any color helps.

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Yes. Pinjalim, it's Eliran. So as you know, first of all, we didn't adjust our pricing estimates since Q1 earnings. So it remains \$25 million for the year, fiscal year '24. And just as a reminder, by fiscal year '26, we're looking at around \$75 million to \$80 million.

We follow the same playbook that we always do based on what we know today, based on the data that we have, the sentiment. We obviously account for the sentiment in the market. We provide our guidance. Nothing has changed in terms of philosophy, but we do encouraged by the fact that top of funnel is still very healthy. The fact that we achieved a large customer that is proving our use cases is becoming more perceived by our customers.

So all of the above, in accordance of what we know today, provide us with the confidence that we can achieve the numbers that we provided this guidance.

Pinjalim Bora - JPMorgan - Analyst

Got it. Very helpful. Thank you. And one follow-up. Maybe talk about the pricing environment in general in this market. One of your competitors lowered prices, while almost everyone seems like raised prices. Do you see any pressure in the pricing dynamics in the market, especially among the enterprise customers? Or do you think people are looking beyond list prices for monday and kind of focusing on ROI?

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Yeah. Eran, do you want to?

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yeah, I can take it. Hi, Pinjalim, it's Eran. So look, the price increase reception went really well from our customers, specifically in the enterprise segment. Very receptive. Again, it's literally the first time we've raised prices for existing customers. So given all the value that we added to the platform, they received it really well.

I would say that in the EBITDA that we've done before and also we see now, some -- a little bit of impact on customers that are very, very small businesses. I mean individual users or companies of two or three people. So that might impact the total customer account.

But we anticipated this and we kind of planned that this will happen. And we think that it kind of correlates with our focus to go upmarket and focus on teams and kind of larger mid-market and as customers. That's pretty much in line. But apart from that, like we see no impact on our existing customer base and definitely not the enterprise segment.

Operator

[Catherine Ing], Goldman Sachs.

Gili Naftalovich - *Goldman Sachs - Analyst*

Hi. It's Gili Naftalovich on for Kash. Thank you for taking my question. You had impressive internal metrics regarding the implementation of GenAI services, and also mentioning the rollout of new functionality to customers on the platform. How you have seen over the last few quarters shaping your view on the technology and how it's going to be incorporated, both in the broader software ecosystem and Monday, in particular?

Eliran, curious to hear how you're thinking about this in terms of its ability to maybe change customers' propensity to pay or the need for the number of subscriptions a customer opt into. And I have a follow-up.

Eran Zinman - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Yeah, sure. So yeah, look, definitely, the technology is real, and we've already seen some great benefits from adding features. I think so far, we mostly were focused on adding platform abilities in terms of AI, meaning allowing our customers the same flexibility and allow them to integrate AI workflows into their existing work streams.

Kind of the next phase for us right now is to add AI capabilities into our product suite. So add specific AI features to CRM. Obviously, Monday Service is going to benefit from AI features. So right now, our kind of future focus is adding more AI capabilities to the products themselves.

But again, we're working on both fronts. And the feedback is good. It takes time for people to adopt those features definitely. But the ones that do, we hear great feedback.

Eliran Glazer - *Monday.Com Ltd - Chief Financial Officer*

Yeah. Maybe to follow up, Gili, to your question from customers. I think that the big question with AI is always about unitization. So obviously, we saw the infrastructure companies as well as the hardware are benefiting from the fact that there is an AI kind of boom.

But I think we are now focusing on, as Eran said, adding value. To monetize this, we will have a few options in the future, either as part of an add-on or to add a feature or a functionality to our existing solutions. But nothing -- I mean, we didn't account for this, this year. I think in this year, we are looking mostly at the development and the contribution to retention and adoption of the platform by our customers.

Gili Naftalovich - *Goldman Sachs - Analyst*

Perfect. Thanks. And how is the adoption curve this year? I mean shaping your view on pricing go-to-market more broadly, particularly as you look to the GA of Monday service and future products. Should we expect this to follow the same curve in the sense that it will be released to new customers before existing? Or are you guys taking a different approach?

Eliran Glazer - *Monday.Com Ltd - Chief Financial Officer*

Gili, it's Eliran. We're using the same approach. As I said, monetization will come later. Maybe it will be -- not maybe, it will be part of the total offering. But in terms of changing the pricing due to AI, it's still early days and I think not now.

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yeah. But I think maybe to -- you asked Monday Service, the rollout. So specifically about that, we're probably going to follow the same path. That means go to a kit with the new product. But again, judging from what we're already seeing in terms of demand from our own customer base, I think there's also going to be a strong cross-sell opportunity there with Monday Service.

So again, it's very early days, so it's really hard to determine. But in terms of people searching for such products online and also our own customer base, I think we're going to benefit from both.

Operator

Michael Berg, Wells Fargo.

Michael Berg - Wells Fargo - Analyst

Hi. Congrats on the quarter. Thanks for taking my question. I wanted to touch on cash flow for a second. It looked like cash in the quarter wasn't quite as robust as operating margins, but the implied rest of your outlook looks incredibly showing, in particular in Q3, but Q4 remains a little bit low implied. Anything to point to on seasonality or timing of free cash flow, and maybe how to think about that beyond this year? And then I have a follow-up.

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Yeah, sure. So with regards to free cash flow, we mentioned in the past that there is some seasonality. For example, in Q2, this is the month -- or the quarter where you pay the salary increases or you pay commission for the salespeople vacation days and all of the above. So this is something that is usually traditionally more expensive in terms of free cash flow.

Q3 and Q4, I would say there is some seasonality mostly related to the fact that there are sometimes one-time events. But other than that, with the exception of Q2, which is more seasonality wise and some Q4 that we paid some commission for the salespeople, this is basically the behavior of the free cash flow.

I would mention one thing that as part of our moving to new offices in London, we get the benefit of \$11 million cash incentive related from the prior landlord. So this is something that obviously we took into account as part of our annual estimate. So this is something that I would say it's a one-off, the \$11 million that we are getting.

But all in all, we see the fact that, basically, our operating profit and free cash flow are getting more closer in terms of the numbers -- in terms -- percentage wise.

Michael Berg - Wells Fargo - Analyst

Helpful. So to be clear, the \$10 million of the incremental free cash flow raised on the incentives, and then does that also explore the pickup in CapEx?

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Yeah, pickup in CapEx is related to the fact that as we grow in terms of number of people, we added 123 people and we exceeded 2,100 employees. Yes, we invest in offices to accommodate for all these people. So this is the increase in CapEx.

Michael Berg - Wells Fargo - Analyst

Helpful. And then a quick follow-up. So with service coming out later this year, you had three strong new products over the past, we call it, 18, 24 months. Nothing has been announced beyond that. So how could we think about new products or how you're thinking about new products or areas to focus on beyond Service from here?

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yeah. This is Eran. So right now, we don't expect to add new products in the, I would say, coming future. We're very much focused on going deep for each one. That means we're going to focus on CRM, dev, work management, obviously, and service. And going deep means adding more functionality. Maybe we're going to have like subproduct within those kind of mini products suite. But not going to open -- we're not going to open more product lines in the upcoming future.

Operator

Michael Funk, Bank of America.

Michael Funk - BofA Global Research - Analyst

Great. Thank you for the questions this morning. I think you briefly mentioned earlier that part of what you're seeing is consolidation. A small part of your growth, but still seeing it. Anything to call out on your product advantage or reason customers are consolidating onto Monday, or maybe why they're moving away from competitor products?

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yeah. Hi, Mike. This is Eran. I see the main reason what we've seen -- it's not huge numbers, but it's definitely a little bit green that customer can only do it on Monday, mainly because it can do many things because of its flexibility.

I think where other products don't have this ability is where they kind of build for one purpose. And then if you want to add more use cases or want to had kind of consolidate other products, it's almost impossible technically to do it. And with Monday, a lot of our customers managed to it and kind of consolidate different products they're using into the platform. So just with the nature of the flexibility, it allows our customers to do more and more of that consolidation.

Michael Funk - BofA Global Research - Analyst

Thank you for that. Just to comment on the macro. I know you mentioned you are in some macro impact, but an interesting quarter with some other software companies highlighting a real slowdown end of quarter and demand. So love to hear your thoughts on maybe a seeing less macro impact. And then if there's been any shift in incentives, sales force compensation you've implemented to maybe to address some of the weak metric -- macro.

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Hey, Mike. It's Eliran. So maybe as we said earlier, the demand environment in general is still a bit inconsistent and choppy. But for us, we understand in the past. So despite macro challenges, we see a steady demand across all segments. SMB is an area of strengthen in us, but also mid-market and enterprise continue to grow in a very nice way.

So it's not related to the fact that we implemented a new compensation. This is very early days of this implementation. But hopefully, over time, we are going to see the benefits of that as we continue to kind of figure it between segments and the way we compensate our salespeople for each segment.

I would say it's also related to the fact that our gross retention is at record levels. Although we see cautious spend environment, we are encouraged the fact that customers are unlocking the value from monday platform as we continue to add more value and more features and functionalities.

Operator

DJ Hynes, Canaccord Genuity.

DJ Hynes - Canaccord Genuity - Analyst

Hey, guys. Congrats on a nice quarter here and to the results. Just one for me. Eran, I want to ask you a high-level question around R&D spend. I mean you guys clearly continue to innovate quickly, but when I look at your business compared to, say, somebody like Atlassian, right, which maybe they're not the best comp given the unique P&L. But you guys spent quite a bit less on R&D. Can you just talk about that product development efficiency, what drives it? And how we should think about trends in R&D spend over time?

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yeah. Hi, DJ. It's Eran. So unfortunately, from my own experience, spending more R&D doesn't always correlate to more execution. So I wish this was the case. Being efficient in terms of R&D developers, product and designers is all the goal of us, and it's very important for us. Often, what we found is sometimes having less people on the team makes it the more efficient, as opposed to having a lot of people on the team.

And you've seen our execution over the years. We always believe in high-velocity execution. We drive to make an impact with our product teams and given then a lot of the ownership. We're very proud in how we manage our R&D team and execution.

In terms of the percentage of spend, it might go up a little bit in terms of -- maybe Eliran can add more calls on this. But we're keen to keep our efficiency, and even more than that, we're keen to continue and execute as we scale the company.

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Yeah. It's Eliran. Maybe DJ, just to add that in terms of R&D, we always want to hire -- this is the number one priority of hiring, bringing resources to monday. But the flip side of it, you compare it to Atlassian, there is always like if you look at MSN and R&D, I would look at them together because it's also important to understand the other divisions as well, where we were able to reduce cost as percentage of revenue.

In terms of other companies, sometimes it can be the other way around. So I think that all in all, investment in R&D is a top priority of us, and we continue to be efficient. But definitely this is something that we would like to highlight.

Operator

Steve Enders, Citibank.

Steven Enders - Citi - Analyst

Okay, great. Thanks for taking the questions here. I guess maybe just to start, I want to ask about the, I guess, annual customers coming up for renewal and the impact of the price increases are having into that base. I guess is there a way to frame kind of how those conversations are trending? And how much of the price increase is being adopted today versus maybe that driving a discussion to drive more adoption, and maybe the price increase will come in kind of later, or in fact, will come in later down the line?

Eliran Glazer - Monday.Com Ltd - Chief Financial Officer

Yeah, sure. Steve, it's Eliran. So in terms of price increase, we already communicated to, I would say, around 40% for our customers. The price increase, just as a reminder, we ended last year with 225,000 customers, significantly higher than some of our peers. And on that front, we also would like to mention that we anticipate total customer account growth around -- to grow this year, high-single digits.

The fact that we basically implemented the price increase, obviously, the ones that were kind of small users or students or small companies that didn't see the value, we would have expected churn. So now we are focused on more high-value customers.

With regards to the enterprise customers, obviously, they are in a higher tier. So there is -- there are negotiations going on. Reception was very well, but it's important to mention the things that I highlighted as part of us continue to onboard the price increase.

Steven Enders - Citi - Analyst

Okay. That's helpful context there. And then I guess maybe we can think about the impact of metrics. I mean the 50,000, 100,000 adds came in pretty solid. I guess, how much of that is attributable to the price increases coming in here? And how should we think about the trends on those ads throughout the rest of the year?

Eran Zinman - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Yeah. Hi, Steven. It's Eran. So I don't think it's had almost any impact on the growth in terms of the 50,000 and 100,000. Those conversations things longer. We expect kind of the first of the price increase to finish by the end of Q3 of next year. I think that's where most of the enterprise accounts, definitely above 50,000, where we're new and will benefit from the price increase for those accounts. So it will take another kind of full year to do the full cycle for those enterprise customers.

Operator

Scott Berg, Needham & Company.

Scott Berg - Needham & Company - Analyst

Hi, everyone. Really nice quarter here. I had a question on the [EDK CTL], certainly more than the last largest customer size of 25,000 we heard last year. But as you think about a deal that size, is that customer fundamentally purchasing anything different in terms of your functionality relative to maybe some -- maybe another customer at 500 or 1,000? Thanks.

Roy Mann - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Hi. It's Roy here. So -- sorry about that. So essentially, they're not using us for anything materially different, just at scale. So they did take us on the work management ticket and managing projects and portfolios and workflows across the organization. They understand our road map. They are with us for a long time.

And essentially, when you reach those scales, there are things that are needed from the platform like, let's say, different user management and other such governance features, which we do have. And so -- and working on all the time. So the product -- the core product is the same, but the, let's say, management around is a bit different, and we have been working on those things for a long time as well.

Scott Berg - *Needham & Company - Analyst*

Understood. Helpful. And then Eliran, your gross margins, they were an all-time high in the quarter. Greater than 90%. Should we assume that they're going to remain greater than 20% -- or excuse me, greater than 90% going forward, especially with how you've been able to reduce some of those customer service costs through the GenAI technologies?

Eliran Glazer - *Monday.Com Ltd - Chief Financial Officer*

Hi, Scott. It's Eliran. So I think as we mentioned in our script, it's going to be high 80s. Like the 91% is an outlier to a certain extent, timing spending. I would say, high 80s is probably the number to look at.

Operator

Taylor McGinnis, UBS.

Taylor McGinnis - *UBS - Analyst*

Yeah. Hi. Thanks for taking my questions. The first one is that you saw a stabilization to an inflection this quarter an NRR with those larger customers. And I think that was a little earlier than expected, but you reiterated the stable NRR guide and then slight improvement in 4Q.

So can you just comment on what's driving some of that conservatism despite recent trends and the uplift from price? Anything to be mindful of in the half in terms of renewal or gross retention or sources of that prudent?

Eliran Glazer - *Monday.Com Ltd - Chief Financial Officer*

Sure. Hi, Taylor. It's Eliran. So just by rough expectations, they are not -- didn't change from Q1. So we expect reported NDR to be largely stable throughout fiscal year '24. As a reminder, just to remind you, we are reporting the weighted average of the last four quarters.

So if you see an uptick due to price increase or to consolidations on our platform of larger customers on the trailing 12 months aspect, the impact on the reported NDR is going to be delayed a bit. So this is why we kind of said that we expect the impact when we exit fiscal year '24 going into 2025. And long term, we expect overall NDR to be between [110 to 150], as we said in the past.

Taylor McGinnis - *UBS - Analyst*

Great. And then just as a follow-up. So it seems like CRM customer growth is trending really nicely and they're scaling well. So can you help us quantify maybe how that might be contributing to growth this year? Are we getting to the point where these could be more than just the one to two-point contributor? Any help as we think about that in this year.

Eran Zinman - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Yeah. Hi, Taylor. It's Eran. So look, again, it's pretty early days for us. Although both are growing really well, and we showed some numbers in the Investor Day about CRM, and continue to grow really well above our expectations, but still it's relatively low in terms of percentage compared to our total revenue count.

But given the high growth rate, over time, we expect this to become more and more material part of our revenue, internal percentages. But again, right now, it's still early days in terms of growth and relative size.

Operator

Rob Oliver, Baird.

Robert Oliver - *Baird - Analyst*

Great. Thank you. Good morning. Thanks for taking my questions. First one is on sales ramp. I know you guys referenced in your prepared remarks or in response to a question that most of your wins generally are still greenfield.

But I'd be curious to know what you're seeing in terms of early trends on sales CRM, is that still a filling that void in the market at the low to mid-range where traditional CRM hasn't historically served? Or as you move upmarket, are you starting to see some bump-up against some competitors and some potential competitive displacements?

Roy Mann - *Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director*

Yeah. Hi, it's Roy. So I would still say we're like 50% greenfield in CRM. It's like a largely growing segment, okay, and we're like mostly growing, I think, in accounts in the SMB space. But we're going upmarket into the mid-market as well.

And yes, on 50%, we do see other CRMs, which we compete against. And what the -- I think what makes us succeed and be in a really good sweet spot is, on one hand, our customability and the fact that we're really good at trading any workflow you want around CRM, obviously, if you have projects involved as well in the sales process or after that. So that's where we shine. And CRMs, in general, needs a lot of customization. That's what customers really want.

And on the other hand, we're seeing great success in the performance marketing side. So we're able to capture a large -- like a great deal of the market demand.

Robert Oliver - *Baird - Analyst*

Great. That's helpful. Thank you. And then just a quick question on your partner network, which continues to have impressive numbers. Can you talk a little bit about the role that partners are playing, particularly as you move upmarket and bring more of a multiproduct solution to customers? Are you seeing partners buy-in and sent an opportunity?

I mean you mentioned customization necessary in CRM, that's obviously great for the customer. It could also be a source of consult for the partners as well. So just wondering what you're seeing there as you move up market. Thank you.

Roy Mann - Monday.Com Ltd - Co-Chief Executive Officer, Co-Founder, Director

Cool. So yeah, partners are a significant part of our go-to-market, and we're gradually seeing and driving actually towards partners giving more and more services to our customers and helping them adopt. We're even having a nice evolution in the partner space to larger partners, doing more professional services to customers creating deeper integrations and implementations of monday. And that's like an area we keep investing in.

Operator

Seeing as there are no more questions in the queue. That concludes our question and answers. That also concludes this call. Thank you for joining. You may now disconnect.

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