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MNDY.OQ - Q3 2024 Monday.Com Ltd Earnings Call

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## CORPORATE PARTICIPANTS

**Byron Stephen** *Monday.Com Ltd - Vice President, Investor Relations*

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Gili Naftalovich** *Goldman Sachs Group Inc - Analyst*

**Pinjalim Bora** *JPMorgan Chase & Co - Analyst*

**Brent Bracelin** *Piper Sandler & Co - Analyst*

**Ryan MacWilliams** *Barclays Investment Bank - Analyst*

**Brent Thill** *Jefferies Group LLC - Analyst*

**Jackson Ader** *KeyBanc Capital Markets - Analyst*

**Aleksandr Zukin** *Wolfe Research LLC - Analyst*

**Arjun Bhatia** *William Blair & Co LLC - Analyst*

**Michael Berg** *Wells Fargo Securities LLC - Analyst*

**Michael Funk** *Bank of America - Analyst*

**Derrick Wood** *TD Cowen - Analyst*

**DJ Hynes** *Canaccord Genuity Group Inc - Analyst*

**Steve Enders** *Citigroup Inc - Analyst*

**Scott Berg** *Needham & Company LLC - Analyst*

**Taylor McGinnis** *UBS Group AG - Analyst*

**Ittai Kidron** *Oppenheimer & Co Inc - Analyst*

## PRESENTATION

### Operator

Good day. My name is Desiree, and I'll be your conference operator today. At this time, I would like to welcome everyone to monday.com's third-quarter fiscal year 2024 earnings conference call.

I would like to turn the call over to monday.com's Vice President of Investor Relations, Mr. Byron Stephen. Please go ahead.

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### **Byron Stephen** - *Monday.Com Ltd - Vice President, Investor Relations*

Hello, everyone, and thank you for joining us on today's conference call to discuss the financial results for monday.com's third 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 third 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](http://ir.monday.com).

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

Additionally, non-GAAP financial measures will be discussed on the call. Reconciliations to the most directly comparable GAAP financial measures are available in the earnings release and the earnings presentation for today's call, which are posted on our Investor Relations website.

Now, let me turn the call over to Roy.

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

Thank you, Byron, and thank you, everyone, for joining us today. We're fresh off another strong quarter in Q3, highlighted by improving retention trends, strong financial performance and robust product development. This quarter also marked a significant milestone for monday.com as we surpassed \$1 billion in annual recurring revenue.

Reaching the \$1 billion ARR milestone is not just a number, it's a pivotal moment in our company's journey, and we are ready to build on that momentum. With a total addressable market of over \$100 billion growing 14% annually across four markets: work management, CRM, service management, and software development; there is a substantial opportunity ahead.

To drive our next stage growth, we remain committed to deepening and expanding our product offering and increasing our global presence. As the landscape of work evolves, we are determined to stay ahead of the curve by continuously investing in technology, exploring new markets, and fostering a culture of agility. monday.com is not just keeping pace with the industry, we are shaping its future.

Before I turn it over to Eran, I'd like to cover a few changes in our management team. First, we are pleased to announce the appointment of Adi Dar as Chief Operating Officer, with over 20 years of experience driving sustainable growth in global tech companies. Adi brings significant expertise to our executive team and has already made a strong impact since joining us a few months ago.

On a different note, we would like to share that our Chief Revenue Officer, Yoni Oshero, has informed us that he will depart the CRO role at the end of December. Since joining in 2017 as VP Global Sales and Marketing and becoming the CRO in 2022, Yoni has been instrumental in developing our sales and partner channels. During Yoni's tenure we have seen remarkable growth with ARR increasing from \$10 million to over \$1 billion. We are deeply grateful for his contribution and wish him all the best in his future endeavors. We are conducting a global search for Yoni's new successor, and he will continue to serve as an adviser until the CRO is appointed.

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

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

Thank you, Roy. I'm pleased to share highlights from our recent flagship user conference, Elevate, which took place in London, New York City and Sydney. This year's event was our largest ever with attendance doubling compared to last year. Thank you to all who joined us. For those who could not attend in person, we invite you to participate in Elevate Online on December 4.

Our Elevate Conference provide us with a platform to showcase our latest product innovations. This year we featured monday AI, which include no-code AI building blocks that customers can tailor to their specific business needs. We are excited to report initial strong adoption with a remarkable 150% increase in the use of AI blocks since Q2. Looking ahead, monday AI will be integrated throughout our entire product suite, enhancing functionality across the platform.

We also highlighted our second largest product, monday CRM, and our vision to expand its capabilities behind sales, fostering collaboration across various revenue teams. Upcoming features will include e-mail marketing functionality, enabling teams to manage their campaigns directly within monday CRM.

Additionally, we're excited to demo our latest product, monday service at Elevate. Although still in beta, monday service has shown promising cross-sell potential, and it's on track for release by the end of 2024.

As we expand our product offerings and support our customers' growth, we are committed to building a robust platform for scalable work. With Elevate, we announced the next iteration of mondayDB is now live. mondayDB 2.0 is all about scale and allows boards with up to 100,000 items and linked items and a dashboard with 0.5 million items.

Lastly, we are pleased to report that monday work management continues to gain significant traction with enterprise customers. In Q3, our second largest customer, increased their seat count from 25,000 to 60,000 as part of their initiative to simplify and consolidate the technology stack. This represents a remarkable 24-fold increase in their seat count since 2022.

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

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

Thank you, Eran, and thank you to everyone for joining our call. Q3 was another strong quarter for monday.com, with solid revenue growth and profitability and improving retention. We are pleased that fiscal year '24 is on target to be above our base case guidance outlined at our December Investor Day.

Having surpassed \$1 billion in ARR, we are now focused on leveraging our momentum to advance into the next stage of growth for the company. Total revenue in Q3 '24 came in at \$251 million, up 33% from the year-ago quarter. Overall, NDR increased to 111% in Q3 '24. We expect NDR to be stable through the end of the year. As a reminder, our NDR is 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.

Third-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 \$43 million in Q3 '24 or 17% of revenue, compared to 15% in Q3 '23. Sales and marketing expense was \$130.3 million in Q3 '24 or 52% of revenue, compared to 54% in Q3 '23. General and administrative expense was \$21.4 million in Q3 '24 or 9% of revenue, compared to 8% in Q3 '23.

Net income was \$45 million in Q3 '24, up from \$33 million in Q3 '23. Diluted net income per share was \$0.85 in Q3 '24 based on 52.6 million fully diluted shares outstanding.

Total employee head count was 2,305, an increase of 195 employees since Q2 '24. We expect to increase head count by mid-30% in fiscal year '24, with 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 \$1.34 billion in cash and cash equivalents, up from \$1.29 billion at the end of Q4.

Free cash flow for Q3 '24 was \$82.4 million, and free cash flow margin as defined as free cash flow as a percentage of revenue was 33%. It should be noted that free cash flow for the quarter was impacted by a onetime net cash incentive of approximately \$11 million for our new London office rental agreement. 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 fourth quarter of fiscal year 2024, we expect our revenue to be in the range of \$260 million to \$262 million, representing growth of 28% to 29% year over year. We expect a non-GAAP operating income of \$29 million to \$31 million and an operating margin of 11% to 12%. We expect free cash flow of \$63 million to \$66 million and free cash flow margin of 24% to 25%.

For the full year 2024, we expect revenue to be in the range of \$964 million to \$966 million, representing growth of approximately 32% year over year. We expect full year non-GAAP operating income of \$121 million to \$123 million and an operating margin of 12% to 13%. We expect full year free cash flow of \$286 million to \$289 million and free cash flow margin of approximately 30%.

Let me now turn it over to the operator for your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Gili Naftalovich, Goldman Sachs.

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**Gili Naftalovich** - *Goldman Sachs Group Inc - Analyst*

Hey, team. It's Gili on for Kash. Congrats on reaching the \$1 billion run rate mark. Two questions, if I may.

As we see your larger cohort supporting an inflection in NRR, we see a softening of your net new customer adds. Can you share how Monday's engagement with customers is evolving, and whether you're seeing any changes in the broader demand or competitive environment?

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

Yeah. Hi, Gili, it's Eran. First of all, as we mentioned, we see good retention results. Our NRR is improving and also our gross retention is at record level historically. So overall, we see better retention with small and larger customers.

We do see a little bit less customer adds, but that's part of our price increase and part of our strategy that we focus not just on SMBs, but also on large enterprises. So overall, if I take everything, we see demand to be steady, pretty similar to what we saw on previous quarters in terms of retention of customers and also in adding new customers.

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

Gili, this is Eliran. Maybe I will add one more thing, is that with the new product that we introduced, service, we see also with CRM and service, you see cross sales in between our existing customers and new customers that continue to add additional potential momentum to our sales.

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**Gili Naftalovich** - *Goldman Sachs Group Inc - Analyst*

Perfect. Thanks. And when we think about your growth initiatives that you just mentioned as well as the hiring uptick that we saw in this quarter and what we're expecting in 4Q, how are you thinking about that expansion versus larger new land, especially in the backdrop of the second largest customer that you saw an expansion there?

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

Hey, Gili. So this is Eran again. So the fact that we hired more salespeople is basically because we see a lot of demand and a lot of opportunity within our own customer base. So it makes sense building towards growth for 2025. So we're pretty confident on that and our plans for 2025 as well.

And again, like as we grow, more revenues coming from existing customers as they upgrade, buying more products and adding more seats. But our acquisition engine and bringing the customers remains a very strong part of the business. And we're investing a lot into that and growing that as well. So I would say that both in expanding existing customers and acquiring new customers, it's according to our original plan. And demand in the market looks very stable.

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**Operator**

Pinjalim Bora, JPMorgan.

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**Pinjalim Bora** - *JPMorgan Chase & Co - Analyst*

Great. Thank you for taking the questions. It seems like you're seeing half of paying customers for service come from cross-sell. And I think the product is still in beta, right? So do you think service might have a much bigger cross-sell opportunity versus CRM and that you might actually realize it faster than CRM?

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

Yeah, hi. It's Roy. So we do see a great opportunity to cross-sell with service. It is, like you mentioned, still in beta and very early stage. So like it's not something we see as a significant part of our, let's say, revenue next year. But we do see it as a huge growth potential going forward. Too soon to tell how it will measure up compared to CRM.

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**Pinjalim Bora** - *JPMorgan Chase & Co - Analyst*

Okay. Understood. I wanted to ask you on net retention as well, just as a follow-up. It seems like you're seeing an uptick, but it seems like the uptick is largely in the large customer segments.

Maybe talk about how much of that is due seat unlocks from mondayDB versus cross-sell? And maybe broadly, Eliran, has that metric turned the corner as we look into the next several quarters?

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

Yeah. Hi, Pinjalim, it's Eliran. So again, we are pleased with our NDR. It increased to 111%, which is ahead of our expectations. And I think that we expect it to be largely stable in Q4.

To your question if it's going to be a turning point going into next year, so we foresee opportunity for continued improvement in fiscal year 2025. This is the result of the fact that we continue to go up market, potentially, the impact of the price increase around 100 to 200 basis points. And I would say it's also broad-based across all customers with gross retention also getting to record high.

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**Pinjalim Bora** - *JPMorgan Chase & Co - Analyst*

Understood. Thank you very much.

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**Operator**

Brent Bracelin, Piper Sandler.

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**Brent Bracelin** - Piper Sandler & Co - Analyst

Thank you. Good morning. I wanted to touch base on service again. What are the key kind of product milestones you're looking for that product to hit in order to GA? I know it's been a pretty successful beta. But what are the key last parameters that you'd like to see before that's released?

And then one quick follow-up on guidance.

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

Yeah. So, hi, Brent, this is Eran. So like Eliran mentioned, we're very excited about monday service. It feels like there's a huge opportunity there, especially cross-selling that product to existing customers. Because of that and because we see them and also from our larger customers, we just want to make sure that, one, the product is mature enough so that it can scale within our existing customers, not just the smaller ones but also the midmarket enterprise customers.

And then there's a bunch of features that we're planning to finalize before the official launch. One of them is the customer portal where people can create tickets, and also some AI functionality that we added into the product. We feel that we're pretty close to launching the full release of that product. And the feedback from customers is very good.

So overall, we're very excited. There seems to be strong demand in terms of go-to market, and also a great reception from customers who already use the product.

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**Brent Bracelin** - Piper Sandler & Co - Analyst

Helpful. And then, Eliran, the guidance here have been pretty consistent all year, 28% to 30% forward outlook here for four consecutive quarters now. How would you frame just the demand going into kind of year-end here?

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

So demand development -- hey, Brent, it's Eliran. As Eran said, demand development has been very stable. It's broad-based. We still see strong momentum coming from SMB and continue to move up market. I would expect it to be getting slightly better going into next year based on what we heard from other companies. But there are still some signs of choppiness in some segments.

So I would say -- I don't want to tell you that there's going to be a dramatic change going into next year, but it's going to be a combination of we see strong momentum on our business, but there is some choppiness in market.

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**Brent Bracelin** - Piper Sandler & Co - Analyst

Helpful color. Thank you.

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**Operator**

Ryan MacWilliams, Barclays.

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**Ryan MacWilliams** - Barclays Investment Bank - Analyst

Hey, guys. Thanks for the question. Just a follow-up on Brent's question. As we think about our models for next year and building up to our estimates for 2025, any early insight into the things to think about maybe as we continue all of the price increase into next year? Maybe should we look at 4Q as a reasonable starting point? Just any bread crumbs we can use for our models for next year growth.

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

Hi. This is Eliran. so we will give our fiscal year '25 guidance as part of next year earnings call. But we remain optimistic that with monday service, with the price increase that we did, with the cross-sell opportunities, with the fact that momentum continues to be good, we are going to see some potential upside also next year.

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**Ryan MacWilliams** - Barclays Investment Bank - Analyst

Excellent. And then you guys have seen really strong product development with the new product line releases. But any thoughts on M&A here? Like, would it make sense to maybe acquire some bolt-on AI capabilities? Just wanted to see if your thought process has changed around that at this point.

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

Yeah. Hi, Ryan, this is Eran. So yes, definitely, we have an M&A team. We're constantly monitoring the market and looking for opportunities. Once we find the right one, we'll definitely try to explore that opportunity. But given the cash reserves that we have and the opportunity that we have as a company, we're definitely looking into that as well.

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**Operator**

Brent Thill, Jefferies.

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**Brent Thill** - Jefferies Group LLC - Analyst

Thanks. With Yoni's leaving, can you just talk through the transition? And ultimately, in past sales transition, it takes some time to settle in. What gives you confidence maybe this isn't as big of a turbulence? Or perhaps it is, but give us a sense of how you're going to manage that?

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

Yeah, Brent. So this is Eran. So basically, Yoni will stay in his role until the end of the year. And then he will remain in the company as an adviser until we find a replacement for CRO. We're pretty confident that we'll be able to find a new CRO of the company in the near future. We're looking for candidates across the globe, and there's a lot of great talent out there.

And we're doing an orderly transition plan. We've got everything covered and got great management as part of our leadership -- and leadership in our CRO organization. So we're pretty confident that things will remain stable, and we have ambitious plans for 2025.

**Brent Thill** - *Jefferies Group LLC - Analyst*

Great. And then can you just give us a quick update on the CRM traction? What mile markers are you proud of? And what's kind of the next chapter as we head into next year that you're excited to cross with CRM? thanks.

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

Yeah, hi. It's Roy. So within CRM, we are always looking to like scale it up a notch in terms of the sizes of business we're approaching. Part of it is like scaling the infrastructure like we announced to support large data sets, and also adding AI to many areas that really facilitate and make sales process much faster and robust. So we're super excited about CRM, it remains a very strong growth area for us, and keep investing in it.

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**Brent Thill** - *Jefferies Group LLC - Analyst*

Thanks.

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**Operator**

Jackson Ader, KeyBanc Capital Markets.

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**Jackson Ader** - *KeyBanc Capital Markets - Analyst*

Great. Thanks for taking our questions. The first one is on the sales rep motion. Can we just kind of go over what that typical motion looks like? Are they trying to sell into net new high-level purchasers? Is it rounding up kind of disparate teams that might be using monday across an organization and bringing them all together? And then I'm just curious like how this role might change with the leadership changes in that organization?

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

Yeah. Jason, this is Eran. So very broadly, in general, the way our sales organization is built is that we have different teams that focus on different go-to-market, meaning SMB, mid-market and enterprise customers.

And then within each one of those segments, we have the AEs and AMs. AEs focus on acquiring and converting new businesses that sign up or have interest in using platforms; and AMs, which is the most significant part of our sale organization, are focused on expanding the customers.

What they usually do is either expand an existing use case or find new buyers within the organization to sell them additional use cases or additional products. We're planning to scale that.

As part of the CRM transition, I think this also presents an opportunity. We're also going up market and definitely opportunity to expand that motion. We're going to bring more seasoned sales reps, and perhaps, leadership that have expertise in getting into the enterprise segment as well. So all in all, this is how the team is built, and we're planning to scale that and invest more heavily into larger accounts.

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**Jackson Ader** - *KeyBanc Capital Markets - Analyst*

Okay. All right. Great. Understood. And then my second question is actually also on go-to-market, but it's more in down-market, that kind of the funnel on the low end.

But has there been any impact from your pricing increases on maybe the -- has there been a commensurate increase in performance marketing spend to try and land those customers in the funnel, given that now you've got an increased lifetime customer value, you assume from the higher prices? But I'm curious how that impacts the performance marketing spend. Thank you.

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

Hi. It's Roy. Our performance marketing, like always, is driven by results. And we did a test before the pricing and after. And obviously, what you see is less pure number of customers, but higher quality ones that has more potential to scale upwards. And this is in line with the strategy we have in the sales team and like the whole company is geared towards like taking our sweet spot, if you like, higher.

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**Jackson Ader** - *KeyBanc Capital Markets - Analyst*

Okay, Roy. Thank you.

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**Operator**

Alex Zukin, Wolfe Research.

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**Aleksandr Zukin** - *Wolfe Research LLC - Analyst*

Hey, guys. Maybe just the very large customer expansion. Can you talk a bit about what they adopted? Was there a consolidation motion with respect to that? And maybe just the pipeline for those types of deals as you kind of go into the end of the year? And then I have a quick follow-up.

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

Yeah. Hi, Alex, this is Eran. So this company has grown a lot since 2023, over 24x increase. Just until recently they had 25,000 seats, and now we have this additional upgrade.

What basically happened is they got more departments using the product across the team. We now have departments from consulting, infrastructure, finance, operations, and also the sales team. So all in all, it's become a very significant tool within the company.

And also more room to grow. The physique is great. And if you add that to the other large customers that we announced in the previous quarter, we see great traction in terms of not just landing larger accounts, but also extending them over time. So we see more and more of those deployments that land within our platform.

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**Aleksandr Zukin** - *Wolfe Research LLC - Analyst*

Perfect. And then maybe just with the management changes, what does Adi bring to the table that you didn't have before? And maybe why was that the right time after this addition? And as you think about Yoni's replacement, how important is kind of larger enterprise sales experience with respect to that?

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

Yeah. This is Eran. So first of all, we're very excited for Adi to join. I think it brings experience in two ways.

One is scaling, building large organizations. He had experience managing a very big organization with a lot of people, a lot of departments with complexity. And I think his expertise and knowledge can really help us scale the organization, not just in terms of management, but also in terms of processes, business processes, strategic processes that we have. So definitely, we already see great impact from that. That's definitely very helpful.

Also, we have a lot of technology expertise in different domains, but he really understands technology, understands the SaaS business, and he knows how to leverage and increase also sales org, and he brings a lot of expertise around those areas as well. So all in all, I think he will bring a lot to the table and will help us scale the company past this point.

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

Yeah. Hi. It's Roy. I can add that we -- Adi is someone we rely on a lot during this transition period and he helps us across the company.

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

There was a second part, this is Eliran, there was a second part of the question, I'll remind you, one about the CRO, how important it is to have experience in going up market.

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

Yeah. So definitely, in terms of the new CRO that we're looking for, we're looking for somebody that will help us go through this transition that we're going through as a company. We're investing a lot into that. And as part of that, Yoni has been busy transitioning the sales team. And in this new role, we also look to, as always, continue that momentum. We already made a lot of progress, great progress on that front. I'm sure that once we find the right person to join the company, he or she will help us complete this transition.

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**Aleksandr Zukin** - *Wolfe Research LLC - Analyst*

Perfect.

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**Operator**

Arjun Bhatia, William Blair.

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**Arjun Bhatia** - *William Blair & Co LLC - Analyst*

Hey, guys. I wanted to go back to monday CRM for a bit. I think you announced some pretty interesting new capabilities at Elevate. It sounds like there's campaign management capabilities that are going to be now built in-house.

Can you talk a little bit about what your long-term ambitions are for monday CRM? And could we, in the future, expect this to become a full-on kind of sales and marketing suite that lives inside monday? And if so, how do you think about kind of the build versus buy versus partner motion for CRM in particular?

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

Hi. It's Roy. So CRM is essentially built on monday work OS, which gives us amazing capabilities in terms of flexibilities and the complexity it can manage, and also the connectivity to the rest of the organization. So I think this is something that our customers really appreciate and want; the connectivity across the organization, being able to build things connectively with other departments.

And those additions we mentioned, kind of connected to that as well and add more wholeness to the CRM suite that we see ourselves building over time.

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**Arjun Bhatia** - *William Blair & Co LLC - Analyst*

Okay. Understood. And then if I can just turn to the quarter for a second. Certainly, 32% growth is very strong. I think when I look at the sequential growth from Q2 to Q3, it looks a little bit lighter than we've seen historically. So can you just touch a little bit on what happened this quarter? What trends you saw in the business and whether there's any timing elements from the move up market that we should consider as we're just thinking about the financials this quarter and going forward?

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

Sure, Arjun. This is Eliran. First of all, we are pleased with Q3 performance. We are still a Rule of 50 company. We had an exceptional performance in Q2. It sets a high bar for Q3. And if you think about what we presented even in the Investor Day, we are going to be above our expectation in fiscal year '24.

Nevertheless, in Q3, we saw some continued choppiness in the macro, including pure enterprise customers, if you look at the total heads, which was impacted in part by slower hiring in sales. As I said, we had a very strong Q2, an outlier, and a slower-than-expected growth in Monday Dev as we pivot to focus on developers. So I would say all of the above created some light September, but we're seeing already strong momentum in October.

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**Arjun Bhatia** - *William Blair & Co LLC - Analyst*

Okay. Got it. That's helpful. Thank you, Eliran.

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**Operator**

Michael Berg, Wells Fargo Securities.

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**Michael Berg** - *Wells Fargo Securities LLC - Analyst*

Hi. Thank you for taking the questions. Congrats on the quarter. I wanted to turn back to pricing real quick. There hasn't been much of an update in the last couple of quarters on contribution from pricing. Is there any incremental color there from the potential contribution in the quarter or for the year or in the quarter, whether it be quantitative or directional?

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

Yeah. So this is Eran. So just a quick update on pricing. The new pricing remains on target to be fully rolled out by July of 2025. So we're still kind of in the middle of the process.

So far, it's been rolled out to about 50% of our customers. We see about 30% impact -- \$30 million, sorry, impact for fiscal 2024. And total impact from the price increase will be about \$80 million between fiscal '24 and fiscal year '26. So those are kind of the updated figures.

But just to give you some more color, we are going really well with the price increase. Reception from customers is good. We don't see any kind of negative feedback. So we continue to roll out the pricing as we planned.

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**Michael Berg** - Wells Fargo Securities LLC - Analyst

Helpful. And then a quick follow-up on service. It looks like it's expected to be GA here in Q4. We had heard through the grapevine that there might have been some delays. Anything to point to there? Any color versus potentially prior expectations around GA? Obviously, the feedback is incredibly strong from the ecosystem as well as from Elevate. So anything to help point us in the right direction there would be helpful. Thanks.

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

Yeah. So this is Eran. So there's no delay. Basically we planned to roll out at the end of the year, and this is largely when we release the full version. Just to remind you, it's already available for customers in beta, with great reception and feedback when they used the product.

So around the end of the year, beginning of next year, January, we'll announce the product to be GA, and then kind of open it up for our entire customer base. But the product is up and running and there's great feedback from customers, so it's pretty much on schedule.

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**Michael Berg** - Wells Fargo Securities LLC - Analyst

Thank you.

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**Operator**

Mike Funk, Bank of America.

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**Michael Funk** - Bank of America - Analyst

Yeah. Thank you for the questions. Just quick one, thinking about the revenue growth trajectory and the factors that go into that. We did see either a flattening or a decline in the customer net additions across CRM and dev this quarter. You mentioned the price impact of \$30 million for '24, a slight uptick from what you had before. And then not expecting a lot of contribution from service next year.

So maybe just help me think through those factors and how they're going to impact revenue growth, if I'm missing anything. And if maybe we are hitting a point when law of large numbers is catching up to us in terms of maintaining 30%-plus.

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

Hi, it's Eliran. So as we said in prior quarters, as part of the price increase, we said that we expect high single digits ahead of new customers compared to prior year. However, the ACV and the land is bigger. And this is something when we already finished the last year with 225,000 customers, obviously, in terms of percentage are going to be slightly lower than what you have seen in the past.

With regards to service, strong momentum, we expect it to continue to next year. This is in line with what we saw with CRM. Great adoption between our customers -- sorry, among our customers. So this is something that we think will contribute to next year.

And price increase, as Eran mentioned, we continue to contribute by between 2024 and 2026 around \$80 million. So nothing much has changed from what we have seen in the past other than what I mentioned earlier with regards to enterprise net adds in Q3, as well as some softness in dev.

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

And also, hi, it's Roy, I can add that, like you mentioned, like size, so we have a very large amount of existing customers. And a large portion of our sales team is focused on increasing adoption within existing customers and also a product road map geared towards growth within existing customer, if that helps.

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**Michael Funk** - *Bank of America - Analyst*

Okay. And just to confirm that my notes are correct, the \$30 million impact for fiscal '24 from price, that was an increase from \$25 million previously?

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

Yes, \$25 million to \$30 million, correct.

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**Michael Funk** - *Bank of America - Analyst*

Great. Okay, thank you all very much.

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**Operator**

Derrick Wood, TD Cowen.

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**Derrick Wood** - *TD Cowen - Analyst*

Thanks, guys. So you've been pushing up market pretty aggressively in recent quarters. And I'm just wondering if this is having any impact to deal cycle time frames. I imagine, as you start doing more multi-thousand seat deals, there's more buyers involved and a longer sales cycle.

So just wondering if perhaps there's a little more seasonality coming into the model because of these bigger deals and perhaps a little less activity in Q3 and a little more of a flush of activity in Q4? Is that the right way to be thinking about it? And any comment of how you're seeing pipelines of large 1,000-seat-plus deals heading into Q4?

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

Yeah. Derrick, it's Eliran. So as I mentioned earlier, we came on a very strong -- we came on the back of a very strong Q2. And obviously, Q3, you have July and August which are traditionally months of vacations in Europe and potentially in the US. But I don't want to kind of provide this as a seasonality kind of dramatic change that we have seen.

As I said, potentially with the fact that there is some still macro headwinds to a certain extent in some areas of the market, the macro is still choppy, potentially, this has contributed to some of the fact that we saw less enterprise customer adds. And as I mentioned also, the Monday dev that was more soft than we anticipated. But again, looking at October, we are seeing still momentum very positive. And I don't want to tell you that this was a strong seasonality trend in Q3.

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**Derrick Wood** - *TD Cowen - Analyst*

Got it. And then maybe just to touch on just the competitive landscape. I mean, I guess as you've pushed into new product areas, more up market, there was some stats in the past on, like greenfield percentage of deals. Like has that changed much as your market positioning has evolved?

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

Hi. It's Roy. So I think as we push towards larger deals, we see more competition on deals. If you look at the average, I'm not sure if it's changed or not, but definitely within CRM, we are competing against other players. But while a lot of new adoption comes from greenfield still, but they are comparing us to competitors.

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**Derrick Wood** - *TD Cowen - Analyst*

Yaah. That makes sense. Okay, thank you.

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**Operator**

DJ Hynes, Canaccord.

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**DJ Hynes** - *Canaccord Genuity Group Inc - Analyst*

Hey, guys. Thanks for taking the questions. Any updates on the partner ecosystem, especially as you go further upmarket, growth there, contribution of the business, your ability to monetize that activity? And any trends emerging that are worth calling out?

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

Yeah. Hi, DJ, this is Eran. So no major update, but we continue to see great momentum with our partner ecosystem. What we see over time is more and more partners are also delivering services to our customers, not just helping them with the implementation, but also help them customize the platform even more.

We're also starting to see more partners specialize in each one of our specific products, so more partners that focus on CRM, more partners that focus on dev products. And I'm sure as we launch monday service, we're going to add more partners that have expertise in that.

But overall, we continue to see great momentum with the partner ecosystem. It remains a significant part of our revenue composition and in terms of helping larger customers onboard and use the platform.

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**DJ Hynes** - *Canaccord Genuity Group Inc - Analyst*

Got it. And then maybe a follow-up on service. Just based on the beta usage you've seen to date, how much of the demand has been for internal ticketing use cases versus customer-facing support? And do you see that kind of evolving over time with public availability here on the horizon?

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

Yes. So maybe -- this is Eran. So maybe important to emphasize, we don't just see IT service. What we've seen currently from different use cases that we have, we see, obviously, IT service, but we see a lot of ticketing around HR, around operations, all the way to finance, marketing teams and customer support, internal customer support ticketing.

Currently, we don't plan to position monday service as an outside-facing support platform, but mostly within the company. But given the current use cases, it's very broad across the company, not just for IT, but across almost any department.

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**DJ Hynes** - *Canaccord Genuity Group Inc - Analyst*

Okay, got it. Thank you, guys. Appreciate the color.

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**Operator**

Steve Enders, Citi.

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**Steve Enders** - *Citigroup Inc - Analyst*

Okay. Great. Thanks for taking questions here. I guess I just want to ask on some of the choppiness that you're seeing and some of the impacts that you saw this quarter. I guess, maybe, how is that being accounted for in the Q4 outlook? Is there maybe some incremental conservatism that's being baked in or accounted for here? Just can you also think about maybe some of the moving pieces that you're kind of incorporating in the outlook?

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

Yeah. Steve, hi, it's Eliran. So I think I spoke about this earlier, but I will repeat. I mean, no, we continue to see steady demand across our business segments and its consistent growth rate. As we said, gross retention is at record levels. But there is some cautious spend environment with many of our customers. And in Q3, we saw some continued choppiness in the macro.

So again, we saw enterprise. Although it's the fastest-growing segment that we have, we saw fewer enterprise customer adds in Q3. As I said, it was impacted in part by slower hiring in sales and on the back of a very strong Q2. So I don't want to tell you that we baked conservatism. As we always said, when we provide guidance, we try to do it in a prudent way based on all the information that we know in the quarter. And we account for all the things that we know today.

In addition, the company is growing and becoming more mature, and we wanted to make sure that we are providing the most accurate guidance possible while maintaining strong conviction in meeting our estimates.

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**Steve Enders** - *Citigroup Inc - Analyst*

Okay. Perfect. That's helpful context there. And then, I guess just following up on that, I think you said the sales hires is maybe a little bit slower. I guess, I just want to clarify that comment. And I guess, secondly, just how are you guys thinking about future sales headcount growth and maybe how that should kind of layer into the hiring plans going into next year?

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

Just, Steven, the last part of the question about hiring? You broke up a little.

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**Steve Enders** - *Citigroup Inc - Analyst*

Yeah. Just how you're thinking about future sales headcount adds and I guess the case of that as we head into '25.

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

Pace of hiring. So Steve, this is Eliran, I will take it. So as we said, sales hiring was slower than what we anticipated, but we expect it to rebound in Q4. And we plan to ramp up hiring for sales quota carriers in Q4 and in fiscal year '25. The areas of investment will continue to be product R&D and go-to-market.

Worth mentioning that, if we look at the evolution of the business, with all the changes that we are doing in the CRO, so obviously, Eran mentioned earlier, we're going to hire people in the segment of account management, enterprise to continue to deepen within existing customer base. But momentum will continue to be strong across hiring.

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**Steve Enders** - *Citigroup Inc - Analyst*

Okay, perfect. Thanks for taking the questions.

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**Operator**

Scott Berg, Needham.

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**Scott Berg** - *Needham & Company LLC - Analyst*

Hi, everyone. Thanks for taking me questions. First one I wanted to jump on was your R&D spend took kind of an abnormal increase quarter over quarter, especially relative to historical seasonality between Q2 and Q3. Can you help us maybe unpack and understand what's driving the big R&D increase? Is there a specific product or something else in the strategy? Or is it just general hiring for R&D?

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

Yeah, hi, Scott. It's Eliran. So over the last few quarters, we continue to say that an area of investment for us is going to be R&D and product. Having in mind everything that we are doing, innovation is in the core of everything we do on Monday, introducing new product, investing in existing products, MondayDB, AI capabilities, features and functionalities.

All of these things require talent, and this is something that we continue to do proactively. So we had strong overall hiring plans in Q3, and particularly for product and R&D, and as well as operations. So all of that is contributing to the fact that R&D is becoming more significant quarter over quarter.

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**Scott Berg** - *Needham & Company LLC - Analyst*

Helpful, Eliran. And then as you think about your sales and marketing hiring, you've talked a couple of times how that was a little bit behind in the third quarter. Do you catch up on the hiring there in the fourth quarter? Or is this going to be an item that persists into maybe early '25?

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

Yeah. So we expect it to rebound in Q4. Again, with all the changes that we are doing, obviously, we are looking at all the plans. And also, going into fiscal year '25, we would like to make sure that we will ramp up hiring for sales quota carriers.

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**Scott Berg** - *Needham & Company LLC - Analyst*

Great. Thanks for taking my questions.

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**Operator**

Taylor McGinnis, UBS.

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**Taylor McGinnis - UBS Group AG - Analyst**

The first one would just be in thinking about the \$5 million raised from price to the full year rev guide. Can you maybe provide a little bit more color on how much of the upside came from outperformance on price in 3Q versus what you are expecting for 4Q? And just the reason why I ask is you've mentioned some of like the macro choppiness. Just curious if some of like the sales hiring or that macro choppiness was a bottleneck to 3Q, and if there's any areas on that choppiness that you called in particular? Thanks.

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

Yeah. Taylor, it's Eliran. If you recall, when we did the price increase, it actually was launched at the end of February, early this year. And we said at the time that we don't know what would be the impact, what would be -- because this is the first time we do it, what would be the churn of the customers in accordance with the price increase. Overall it became better than what we anticipated.

For most customers, it has been largely a nonevent. Gross retention has been improved. So I would say that the \$5 million extra is the fact that the profile of the customers and the momentum is better than what we anticipated. So this was a good surprise for us.

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**Taylor McGinnis - UBS Group AG - Analyst**

Perfect. And then just as we think about the 1-point uptick in NRR, could you maybe like unpack that a little bit more? So was that largely due to price? Or are you seeing cross-sell or seat expansions actually drive some of that upside? Is this more work management stable?

And then, I know you're talking about expecting NRR to be stable and the outlook for 4Q. I think you made a comment earlier about seeing some good momentum in October, so is that just really prudence? Or anything to keep in mind there from a seasonal perspective? Thanks.

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

Yeah. So I think it's all of the above. All of the above, meaning, pricing contributed around 100 to 200 basis points to the reported NDR in Q3. We expect pricing, that will continue to positively contribute approximately 200 basis points for the reported NDR in fiscal year '24 as a whole. We said that it's going to be stable in Q4, around 111%. There is potentially some upside in next year; too early to say, but so far we're seeing good momentum going also into October.

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**Operator**

Ittai Kidron, Oppenheimer.

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**Ittai Kidron - Oppenheimer & Co Inc - Analyst**

Thanks. I made it. A couple of questions for me.

First, on dev, it's been somewhat underwhelming since you've announced it. Can you talk about from either future or go-to-market standpoint, what needs to change in the product for you to get a better and more consistent contribution here?

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

Yeah. Hi, Ittai, it's Eran. So first of all, we're happy with the progress with monday dev. It might not grow as fast as CRM, but the growth, we're very pleased with it. With monday dev, we're very focused on software developers. So it might be just a part that takes a little bit longer to scale compared to CRM, which is kind of more of a broad use case.

But we're kind of now in the -- we finalized the kind of refocusing of our go-to-market. We're adding specific features that are more tailored towards developers. It might be more slowdown in the net adds in the short term, but in the long term, we're pretty confident in the product. We see great feedback about using the product, great use cases, and retention of the customers to do that.

So overall we're happy with the progress, and we continue to invest into that product.

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**Ittai Kidron** - *Oppenheimer & Co Inc - Analyst*

That's great. And then for you, Roy, in your prepared remarks -- or I think it was Eran, I'm sorry, you talked about that AI blocks up quite significantly quarter over quarter. Can you talk about evolution here? How do we think about AI blocks?

First of all, how would this change, let's say, a year from now? And what do you expect it to do to customer pattern in the context of expansion and moving up price tiers? How do you see this impacting that?

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

Yeah. So yeah, the adoption -- we're very pleased with the adoption. Like I've mentioned, in terms of total AI actions, it grew for more than 250% compared to Q2. And the AI blocks grew 150% from Q2.

So overall, we see more and more customers adopt those blocks. People incorporate them into their automation. They create a lot of processes within the product that involves AI within that. And over time, we are planning to roll out the monetization tied with AI, where we're going to generate clear and efficient value for our customers.

So definitely, we're very happy to see the progress with the AI features, the adoption of AI features, and over time, we're going to add the ability to monetize that as well.

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**Ittai Kidron** - *Oppenheimer & Co Inc - Analyst*

Eran, is that a '25 time frame for monetization on AI?

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

Yeah, we don't have a specific date, but it might be in 2025, but we can't commit to that.

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

We're not modeling for that in the plan for '25.

**Ittai Kidron** - *Oppenheimer & Co Inc - Analyst*

Thank you, appreciate it. Thank you.

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**Operator**

Ladies and gentlemen, that concludes the question-and-answer session. Thank you all for joining. You may now disconnect.

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