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MNDY.OQ - Q2 2026 monday.com Ltd. Earnings Call

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PRESENTATION

Operator

Good day. My name is Desiree and I will be your conference operator today. At this time, I would like to welcome everyone to monday.com's second quarter fiscal year 2026 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.

Byron Stephen - *monday.com Ltd. - Vice President 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 2026. Joining me today are Roy Mann and Eran Zinman co-CEOs of monday.com; Eliran Glazer, monday.com's CFO; and Casey George, monday.com's CRO.

We released our results for the first quarter of fiscal year 2026 earlier today. You can find our quarterly shareholder letter, along with the investor presentation and a replay of today's webcast under the News and Events section of our IR website at ir.monday.com.

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

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

Now let me turn the call over to Roy.

Roy Mann - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

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

Over the past nine months, monday.com has undergone the most meaningful strategic shift in our history. We moved from building software that helps people manage work to building software that does the work with people and AI agents operating together in a single unified workspace. That shift changed our product, our strategy, and how we serve our customers. It also required us to change ourselves.

On July 22, we reduced our global workforce by approximately 20%. It was the hardest decision we have made since founding the company. The people who left were talented colleagues who build something we are proud of, and we are grateful for everything they contributed. We are also certain it was the right call.

Our focus is not to protect where we are, but to position us for where we are going. Most of the savings will be reinvested in the people, products, and AI. What changes is how we operate with fewer management layers, smaller teams, and real decision-making authority and a go-to-market model built around the deeper customer partnership that AI deployment demands.

Our Q2 results reflect the strength of the business we are building from. Q2 revenue grew 22% year-over-year, while Q2 non-GAAP operating margin expanded to 17%. The record net additions of 100,000-plus and 500,000-plus customers in Q2 reflects the continued strength of our upmarket motions. Larger customers continue to be an important driver of our business, and we remain focused on deepening these relationships as we expand our AI capabilities.

In July, we crossed $1.5 billion in ARR, a milestone that reflects the durability of our core business, even as we reshape the company around AI. More telling than any single metric is that AI product adoption continues to accelerate and customers' response to our new direction continued to exceed our expectations.

I'll now turn it over to Eran to bring that progress to life.

Eran Zinman - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Thank you, Roy.

The clearest evidence that our strategy is working is what we're seeing in AI adoption. AI ARR doubled from Q1 to Q2 and now represents 17% of net new ARR added in the quarter. This is a meaningful signal, not because the absolute number is large yet, but because the rate of change tells us customers are actively choosing our AI capabilities, not simply inheriting them.

Equally encouraging is the early reception to our new seat and credit pricing model launched in May. The adoption has been strong out of the gate, and customers are engaging deeply enough with our AI product to invest beyond the default package. Pricing models only work when customers see value worth paying for. We are beginning to see that.

We are sharpening our focus on monday service and monday CRM. Each addresses a distinct buyer, a distinct set of workflows, and a distinct AI opportunity. Going forward, each will operate with its own dedicated product development, its own go-to-market motion, and its own investment roadmap. We believe that giving each product the focus and accountability is the fastest path to category leadership in both CRM and service management.

Taken together, these moves reflect the same logic as our organizational restructuring. Fewer things, more focus, done with greater conviction. We're not trying to win every category, but we're building an AI workspace for teams with focused products where we can genuinely lead in removing the complexity that was slowing us down.

With that, I'll 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. Today, I'll review our second quarter fiscal year 2026 results in detail and provide updated fiscal year 2026 guidance.

As Roy mentioned, we have had a strong start to 2026. Total revenue in Q2 came in at $365 million, up 22% from the year ago quarter. Our overall NDR was 109% in Q2. As we move through the back half of fiscal year 2026, we may see some modest pressure on NDR as we lay prior pricing actions taken in fiscal years 2024 and 2025. As a reminder, our NDR is a trailing four quarter weighted average calculation.

For the remainder of the financial metrics disclosed, unless otherwise noted, I'll 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 89% compared to 90% in the year ago quarter. Research and development expense was $83 million in Q2, or 23% of revenue, up from 20% in a year ago quarter. Sales and marketing expense was $149.4 million in Q2, or 41% of revenue, compared to 47% in the year ago quarter. General and administrative expense was $30.7 million in Q2, or 8% of revenue, compared to 9% in the year ago quarter.

Operating income was $61.1 million in Q2, up from $45.1 million from the year ago quarter, and operating margin was 17%, up from 15% in the year ago quarter. Operating margin in Q2 had an approximately 210 basis points negative FX impact, mainly from the appreciation of the Israeli shekel compared to the US dollars.

Net income was $65.5 million in Q2, compared to $58.3 million from the year ago quarter. Diluted net income per share was $1.48 in Q2, based on 44.4 million fully diluted shares outstanding.

Total employee headcount was 3,169, a decrease of 42 employees since Q1 2026. We expect headcount to be down approximately 20% at the end of fiscal year 2026.

Moving on to the balance sheet and cash flow. We ended the quarter with $1.070 billion in cash equivalents, and marketable securities, compared to $1.210 billion at the end of Q1 2026, reflecting $182 million of share repurchase executed during the quarter. As of the end of Q2, the entire $870 million authorization was utilized, and no shares are available for future share repurchase under the program.

Adjusted free cash flow for Q2 was $52.3 million, and adjusted free cash flow margin was 14%. Adjusted free cash flow is defined as net cash from operating activities, less cash used for property and equipment and capitalized software cost, plus cost associated with the build-out of our corporate headquarters.

Let's now turn it to our updated outlook for fiscal year 2026. For the third quarter of fiscal year 2026, we expect our revenue to be in the range of $368 million to $370 million, representing growth of 16% to 17% year-over-year. We expect non-GAAP operating income of $57 million to $59 million, with an operating margin of approximately 16%, assuming a negative FX impact of 100 to 200 basis points.

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For the full year 2026, we expect revenue to be in the range of $1.466 billion to $1.474 billion, representing growth of 19% to 20% year-over-year. We expect full year non-GAAP operating income of $230 million to $234 million, with an operating margin of approximately 16%, which assumes a negative FX impact of 100 to 200 basis points. We expect full year adjusted free cash flow of $280 million to $290 million, with adjusted free cash flow margin of 19% to 20%, which assume a negative FX impact of 100 to 200 basis points.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ryan MacWilliams, Wells Fargo.

Ryan MacWilliams - *Wells Fargo Securities LLC - Equity Analyst*

AI and up-market seem to be doing well, new adds down-market seems to be less strong. How would you characterize overall what you're seeing in your current demand environment?

Eran Zinman - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Hi, Ryan. This is Eran. So I would say those are two separate things. One, in terms of AI, we see very good adoption across all segments, down market and up market. We're very encouraged from the adoption, the reception of the new features that we added, the capabilities, and also with our new pricing model.

When it comes to the overall depreciation maybe between the down market and the up market, it's pretty much the same since we started the year. We don't see any meaningful change in demand environments, pretty much as we expected and guided for. Our teams continue to execute well, and we continue to see very strong growth in our up-market motion. So overall, we're very encouraged from the AI adoption across all segments, and the rest is behaving as expected in the beginning of the year.

Casey George - *monday.com Ltd. - Chief Revenue Officer*

Ryan, this is Casey. I'll add a couple of things. We're seeing record net adds in our 100,000 and 500,000 cohort of customers. So this is an affirming data point that all the things we're doing to move up market is working. We're also seeing where clients are looking for help to embrace some of these AI solutions. This is where we're really leaning in with our best resources, getting behind our highest value opportunities.

The other data point I think that's very interesting, our gross retention is also at historical highs. All these things together land for a very compelling enterprise upmarket motion.

Ryan MacWilliams - *Wells Fargo Securities LLC - Equity Analyst*

Eliran, would love to hear how you thought about guiding into the full year in this evolving environment. Did you take any additional conservatism in either the 3Q guide or the full-year guide compared to last quarter's or previously?

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Eliran Glazer - *monday.com Ltd. - Chief Financial Officer*

Hey, Ryan. Eliran. First, our guidance does not assume any rebound in performance marketing or top-of-funnel activity. This is in line with what we said in the past, and we've planned the year based on the current condition. With growth driven by mainly upmarket and enterprise customer expansion, as Casey mentioned, AI adoption, which is really encouraging, and also disciplined investment and efficiency, taking advantage of some AI capabilities internally.

We also mentioned in the remarks that NDR is going to be around 108%, this we took into account, and ad count growth is going to be down 20% when you compared to the end of 2025, the number. These are the things that we took into account.

Operator

Arjun Bhatia, William Blair.

Unidentified Participant

This is [Alinda Li] on for Arjun Bhatia. Customers with more than 100,000 ARR grew 37%, and customers with more than 500,000 ARR grew 68%. What factors are driving the acceleration at the high end of the customer base, and what distinguishes these customers from the broader customer cohort here?

Casey George - *monday.com Ltd. - Chief Revenue Officer*

Thank you for your question. This is Casey George. So what we were seeing upmarket, first of all, for monday, it's pretty fertile ground. We're still early in our upmarket motion, so we continue to grow and get into customers that we're traditionally not a part of. That's one element. We obviously see expansion with our customers, so we land small and then grow pretty quickly.

The other thing we see is around vendor rationalization. So more and more customers are looking to consolidate vendors, and we play pretty well there as well.

And then the last thing is around AI. Most customers want to have context around their AI solutions, and so they're deploying on platforms, and obviously we think we're well-positioned for customers who want to embrace AI to deploy on our platform and get help where needed from our resources. So those are some of the things we're seeing as we move upmarket.

Unidentified Participant

Awesome. And what trends are you seeing in the sales cycle? Are customers exhibiting any kind of increased budget sensitivity or taking longer to finalize purchasing decisions?

Casey George - *monday.com Ltd. - Chief Revenue Officer*

We haven't seen anything material as it relates to sales cycles. I would say, though, when you move upmarket, you get exposed to their buying cycles, and traditionally they are a little bit elongated, but we're landing larger as well. I'm pretty pleased with how the sales organization's executing at this point. Again, no real material change other than just being exposed to buying cycles of larger customers.

Operator

Scott Berg, Needham.

Scott Berg - *Needham & Company LLC - Analyst*

I wanted to follow up on what you've seen in the demand environment and maybe ask the question a little bit more directly. I guess, what's changed in your view in the demand environment for the last 90 days? Your updated revenue guidance is a little weaker than what we saw 90 days ago, and I think that was probably the heart of probably Ryan's question there, would love to understand what the smaller differences are here.

Eliran Glazer - *monday.com Ltd. - Chief Financial Officer*

Hi, Scott. It's Eliran. So the thing that has changed that we announced in July 22, we announced the risk in the organization, obviously there is a short-term impact throughout the risk that we took into account when we did the guidance. It also reflects the lapping of a period of strong growth, in some near-term NDR pressure that we have seen due to the pricing increase that is now lapping.

We are being responsible. We always try to be responsible. But we do have a strong conviction on the trajectory, the moderation of the guidance reflect our discipline in a moment of transition in the organization as we continue to move upmarket and also restructuring the organization.

Scott Berg - *Needham & Company LLC - Analyst*

And then from a follow-up question, as I look at your model this quarter and the last couple of quarters, your R&D expenses as a percentage of revenue have ticked up. Obviously, you all are going through a pretty big investment phase to try to put the platform and add more AI functionality. How long do you think the elevated R&D levels last?

I think one question some of us are trying to understand in some of the other companies we cover, along with Monday is this a level you feel like you have to continue to spend at, or is this a kind of a short-term dynamic, you think, just to, I guess, level set the platform to a new set of functionality?

Eran Zinman - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Hi, Scott. This is Eran. Look, we invested heavily into R&D. Like Eran said, we're building into the future. We're making big changes to the platform. We don't see meaningful increase going forward, but definitely this remains a big investment for us.

As Eran said, we're in a moment of transition. We're building new motions, a lot of new capabilities. We're executing like never before. We'll continue to invest in R&D, but I don't think it will meaningfully going to go up significantly going forward.

Roy Mann - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Maybe, Scott, to add to what Eran said, by way of percentage of revenue, because the Israeli shekel has been getting very strong versus the US dollar, you'll also see it as some of the cost of R&D because the bulk of the R&D people are based in Israel.

Operator

Steve Enders, Citi.

Steven Enders - *Citi Infrastructure Investments LLC - Analyst*

Maybe just on the newly released plan and the rollout there to include the AI functionality, just maybe what have you seen so far in terms of how customers are adopting it and how their behavior is maybe changing as that rolls out?

Roy Mann - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Yeah. Hi, it's Roy. So we see two patterns that we expected, like existing customers and new customers. Both are adopting nicely with slight difference between the two. We also see something that is encouraging to us, that they top up and reach the end of their consumption buckets and then add more, which is, for me, the best indication that they get value and want more of it and are not just using what they have on the original plan.

Eran Zinman - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Yeah, maybe just to add to what Roy said. Before the changes in the product and the pricing, the only way customers could expand was to add more people and more seats. This is the first time since we added the new agent that we see customers expand not only on the seats for humans, but on AI consumption. And for us, this represent a new vector of growth that didn't exist before, which is part of why we believe so much in our strategy and why we believe so much this is a fundamental change in how the company will be able to grow going forward.

Steven Enders - *Citi Infrastructure Investments LLC - Analyst*

And maybe just on the Work OS side and the bit of a slowdown in terms of the expansion on that product set, just I guess what's maybe kind of happening within the product area across CRM or service or dev, and then what impact do you kind of expect the new management structure to have on that adoption curve moving forward?

Eran Zinman - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Look, part of the reason why we've done the reduction before is just to change the structure and to allow our teams to move faster. We want to give our teams more autonomy, reduce management layers, and part of it was to also allow CRM and service to execute faster. So reduce dependencies with other teams, give them more autonomy. They also add in a lot of agentic features to their own products.

Just work management essentially became the AI workspace for teams. So there we're moving with very high velocity, adding new capabilities for our customers. So overall, we feel more focused. We feel the teams are moving faster, making more significant changes to the product. We feel this is extremely important now in the time of transition.

Operator

Howard Ma, Guggenheim Securities.

Howard Ma - *Guggenheim Securities LLC - Equity Analyst*

Your AI ARR doubling quarter-on-quarter is encouraging, but I'm sure you guys have considered that there's still a lot of uncertainty out there in how monetization will ultimately play out. My question is, as you look ahead, do you think that the new mandatory AI pricing model, that that will be an absolute benefit, or does it come at the expense of lesser expansions? Is that something that you've baked in?

I imagine it's also introducing more buyer uncertainty. If it's working, it will force decisions against other alternatives, right? And if I put some numbers to it too, it should ultimately, if you can monetize AI, drive NRR stabilization. So if you could talk to that. I know there's a lot in there, if you could talk to if it ultimately will show up or when it should show up more in metrics like NRR.

Roy Mann - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Hi, this is Roy. It's still early days, okay? We're still experimenting a lot, I agree with you that there are a lot of new experiments also in the market, with the pricing and how this behaves.

Since we are in the early days, I can't tell you when this will stabilize or increase NRR. But what we do see from the very early numbers, what I mentioned is that customers do reach the end of their allotted quota, then they increase it and top up, which is, like Eran said, a new vector for us that exists. Again, still small numbers, really encouraging results, and we can't predict right now how it's going to play out in a year or so.

Howard Ma - *Guggenheim Securities LLC - Equity Analyst*

Okay. And I guess as a follow-up for Elron, I also want to ask about your guidance philosophy. Can you walk us through the decision not to pass through any of the Q2 upside to the full year? I imagine that's probably one scenario you considered. And if you ultimately believe AI adoption will be net additive, why not flow through at least part of the beat, even as a positive signal?

Eliran Glazer - *monday.com Ltd. - Chief Financial Officer*

Hi, Howard. As I mentioned earlier, with regards to the philosophy, it hasn't changed. A few things we took into account, I said earlier. We're observing the near-term cost of the 20% workforce, and this is something that we had to take into account there is going to be a short-term impact.

And we did not want to layer an aggressive top-line rate on top of the execution risk that hasn't fully played out yet. We said it at the beginning of the year also with regards to the top of funnel, that we took it into account. We prefer to underpromise and overdeliver through a transition, this is a big transition for us, than raise revenue guidance now with some uncertainties we still have throughout the year.

Operator

Derrick Wood, TD Cowen.

Derrick Wood - *Cowen and Company LLC - Analyst*

I guess first on the go-to-market side, could you just give us a sense as to how much change you've made on the direct sales side of the house? How are the go-to-market playbooks going to change, and how you think about any disruption risk or how long it'll take under any kind of new strategies?

Casey George - *monday.com Ltd. - Chief Revenue Officer*

Yeah, thank you for your question. So consistent with what we've been doing for the past year, we've been aligning our resources, our best resources upmarket, to capture what we think is a significant opportunity. And this is playing out, as I mentioned, in some of the record net adds with 100,000 and 500,000 customers.

As I mentioned earlier, we're also seeing where clients need help. They need help to deploy some of these purpose-built apps, AI apps, agents, to go solve real business problems. So we're going to accelerate the Forward Deployed Engineer model we have to capture this opportunity and again, align our best resources behind our highest value opportunities.

So as it relates to what we're doing upmarket, this is just a continuation with some acceleration. We're also training the sales team as we go. So there's not some big training event that has to happen. We've been training the sales team, and we think they're pretty fluent already with the AI story, so this is just incremental to what they're doing today. We're well-positioned, and we're going to continue to invest upmarket, supported by our FDE motion.

Derrick Wood - *Cowen and Company LLC - Analyst*

Great. Helpful. And then just on the 20% headcount cut, you're raising operating margins a couple hundred basis points. You say you're going to reinvest in that. Can you just double-click on exactly where you want to reinvest, how we should think about the margin trajectory next year in light of all this, and maybe any early thoughts on top-line growth trends for next year as well?

Eliran Glazer - *monday.com Ltd. - Chief Financial Officer*

Hi, Derrick. It's Eliran. So we said that the annualized cost saving from a growth perspective is expected to be $100 million. We said we are going to invest the vast majority of it into talent, products, AI, obviously. There is a lot of cost related to AI. So this is something that will reduce obviously the savings.

With regards to operating margin, we expect it to expand next year. We already raised it for fiscal year 2026. This is only because we have partial year benefit of the restructuring, but we expect it to continue to growing into 2027.

And with regards to top-line growth, once we complete the restructure, together with the expansion of AI and the training of the salespeople, we expect it's also going to impact positively on our top line next year.

Operator

Raimo Lenschow, Barclays.

Raimo Lenschow - *Barclays Services Corp - Analyst*

Can I go back to on the guidance side? You talked about the short-term risk from the changes and the pricing coming off. I mean, the pricing coming off, you kind of should have known, that's not new.

More on short-term risk on the headcount change. It's maybe for Casey then. Did you change anything in terms of how you approach it, or was it just the overall risk to the organization? Or did you just have some resource reallocations that needed to be happened, so you have less sales capacity, et cetera?

Eliran Glazer - *monday.com Ltd. - Chief Financial Officer*

Hey, Ryan. So basically, when you do a change like this in our organization, it's a big transition, and we don't know what would be the impact on the short term across the organization. So we wanted to be more responsible in the way we looked at it throughout the year. We wanted to be cautious on how we accelerated expectations. Therefore, we thought it's the right thing to assume a certain impact on our numbers, and that is why the bit that we did in Q2 did not flow throughout the rest of the year.

Raimo Lenschow - *Barclays Services Corp - Analyst*

Yeah. Okay, perfect. No change to how do you sell, it's just like more just overall disruption?

Eliran Glazer - *monday.com Ltd. - Chief Financial Officer*

Correct.

Operator

Brent Thill, Jefferies.

Brent Thill - *Jefferies LLC - Analyst*

I just wanted to follow up on Raimo's question. I guess, are you making changes on the go-to-market where you're reducing the go-to-market team in a material way? Again, I think it wasn't very clear to his question what is actually going on in the go-to-market

Casey George - *monday.com Ltd. - Chief Revenue Officer*

Yeah. The restructure of the go-to-market organization was primarily focused around non-quota carriers and down-market resources. And we believe this will afford us the opportunity to accelerate our investment up-market, which includes our new forward deployed engineer model, and obviously continuing to grow our sales resources up-market, meaning mid-market into enterprise. So we expect our headcount for that cohort of our sales team to grow for the year.

And then the other thing I'll mention is we do see an opportunity for us to leverage our incredible ecosystem of partners to support us down-market, which is a much more efficient sale.

Brent Thill - *Jefferies LLC - Analyst*

Okay. And then on deferred revenue, it hasn't been down in the last nine quarters. It was down sequentially. What's driving that?

Eliran Glazer - *monday.com Ltd. - Chief Financial Officer*

Hi, Brent, it's Eliran. We're looking at RPO as the metric that we use to show the strength of the business and the health of the business. And this is the measurement that we refer.

With regards to calculated billings, we said in the past that this is not an imperfect measure for monday due to the fact that we don't recognize it on an accrual basis, but on a cash basis.

Operator

Elizabeth Porter, Morgan Stanley.

Elizabeth Porter - *Morgan Stanley - Analyst*

I just wanted to double-click on the NDR. You mentioned stepping down a little bit as you lap the pricing and previously suggested the 108% could represent a floor. Just wanted to get a sense for what gives you the confidence in that level today, and where do you see more upside from stabilization expanding, kind of AI, multi-product adoption? Or is there any risk on a downside pressure from seat growth in this smaller customer trend remaining under pressure?

Eliran Glazer - *monday.com Ltd. - Chief Financial Officer*

Thank you, Elizabeth. It's Eliran. As we said, for FY 2026, we expect NDR to be 108% due to the fact that tier upgrades and multi-product expansion has been slightly below our original expectations. But we are encouraged on the flip side of it, we're encouraged by the growth retention that is at historical highs. We're seeing a very good momentum on the retention side and expansion up-market, as Casey mentioned before.

We are still seeing a double-digit seat growth year-over-year in enterprise. This is, we believe, will offset some of the negative impact that we are seeing from the lapping of the price increase that we took into account in 2024 and 2025.

Elizabeth Porter - *Morgan Stanley - Analyst*

Great. Just as a follow-up, on the AI ARR doubling sequentially, can you just help us break down where that acceleration is coming from? I know you have some products like monday vibe, AI Blocks, and sidekick. You also mentioned that customers are starting to buy more of the credit packs. Has that monetization started to come through at all, when do we think that that could start to maybe move the needle a little bit more?

Eran Zinman - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Yeah. Hi, Elizabeth. This is Eran. So first of all, I'd say it's amazing to see that the focus on our strategy in building those new capabilities is starting to pay off. We see customers not only adopting like a one-time, one-off AI usage, but consistently using AI capabilities, increasing their spend, and just putting them as part of their workflow. We're very encouraged to that.

The adoption becomes much deeper in terms of how customers adopt AI. Mostly its customers adopting AI. Some of it is customers expanding, just the rate of change quarter-over-quarter is very encouraging. The usage patterns are very encouraging, the value that we get, and the feedback is also very encouraging. So we're very happy with this trajectory.

As we said on absolute numbers, it's still small, but for us it's more about the trend, the vectors that we're seeing, and the fact we have much more room to grow given those changes. We're very encouraged by that, and we see great momentum.

Operator

Alex Zukin, Wolfe Research.

Unidentified Participant

This is [Ivan] here for Alex. Can you unpack a little bit sort of the downmarket demand environment and overall performance? In the past, you've talked about sort of no-touch and touch segments within mid-market and SMB, and our understanding was that after Q1, you expected a bit of an uptick into Q from the touch segment because that's sort of seasonally stronger. How have these two parts of downmarket performed relative to your expectations, especially in the context of total sort of sequential net new ARR being a little bit weaker than in the past?

Eran Zinman - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Yeah. Hi, this is Eran. So look, we have nothing new to report regarding paid search. The top-of-funnel environment remains volatile, but pretty much in line with our expectation. And we continue to manage performance marketing cautiously. Obviously, if we see an opportunity to expand, we will do that, but currently it is pretty much in line with our expectations.

Operator

Taylor McGinnis, UBS.

Taylor McGinnis - *UBS AG - Analyst*

Maybe first one is, if I look at net new ARR from CRM, dev, and service, it was a bit softer than what we have seen in past quarters. So could you just share some of the drivers behind that in the quarter?

As a second part to that, it looks like AI is moving in the right direction. With the focus amongst your customers on AI and maybe that being a priority, I am curious if that is causing disruption elsewhere. As they are adopting it, how is that impacting appetite to expand seats and acquire additional modules elsewhere?

Eran Zinman - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Yeah. Hi, Taylor, this is Eran. Look, the slowdown affects two dynamics. One, we have softer conditions in the down market, like I just mentioned. New product adoption is more concentrated. And we are doing a little bit shift in terms of the go-to-market towards more enterprise sales and up-market motion. Also, of course, our AI pivot is significant. The products themselves are changing, adding new capabilities, adding agentic capabilities to their own products. So there is some near-term headwinds.

Look, the way we see it throughout the whole company and not just specifically for the product, we believe what our investors are looking for is for us to make the right decisions, towards the future, to make the right calls for the trajectory of the company. We are not trying to optimize the short term.

So we feel we're doing all the right things, building new capabilities, improving the products, improving the platform. It's more a thing of a timing than a trajectory. As our AI capabilities embedded across our new products and our enterprise motion, we expect those products to re-accelerate going forward.

Taylor McGinnis - *UBS AG - Analyst*

Perfect. And then, second one is just on the AI products. It looks like by my math, maybe that's around 1% of ARR today, but you've seen good momentum the last two quarters. So any sense on where you think that could go in one to two years as a percentage of ARR? And what do you think is going to be the most needle-moving products or credit adoption that drives that?

Eran Zinman - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Yeah. As we mentioned, the AI ARR is doubling quarter-over-quarter for some quarters already. It represent currently 17% of our net new ARR, and even more encouraging the revenue is the actual adoption and the feedback we get from customers. So it's accelerating, it's real. It's growing up really nicely. We're very happy with the trajectory.

And look, obviously, we want to be confident and as much as we'll be able to share going forward, we will. We continue the migration to seats plus credits pricing model. We see deep consumption patterns and, as Casey mentioned, we're changing our go-to-market to support it as well. And we also plan to add more AI capabilities. So obviously as this will grow over time, we'll be able to disclose more details. But again, what we look at is not the absolute number, but rather the trajectory, and the speed of growth that we've seen so far.

Operator

Billy Fitzsimmons, Piper Sandler.

Billy Fitzsimmons - *Piper Jaffray Inc - Senior Research Analyst*

I'll maybe ask a little more directly than one of the prior questions. As we think about the expense structure of the business with the 20% reduction in the workforce, can you just help us think about the most impacted roles at monday by OpEx line versus parts of the business you're maybe protecting or continuing to invest in?

Based on the prior answers, it sounds like you're continuing to invest heavily in R&D, and those teams are moving faster because of agentic coding tools and new processes. What about on the sales and marketing line? It sounds like the guide was partially due to expected disruption there, but it seems like there's kind of two things here, new sales processes around product changes, and then the headcount changes.

So to be a little clearer in one of the answers to the earlier questions, quota-carrying sales reps at the high end haven't changed, right? You're continuing to make investments there, your headcount there is growing, right?

Casey George - *monday.com Ltd. - Chief Revenue Officer*

Correct. So from where I sit -- this is Casey George. From where I sit, we have the luxury of a lot of things to sell. My job is to make sure that we're all focused on the right things at the right time. And so our strategy is to get behind where we see the biggest opportunity, and that is really up-market.

As it relates to the resource action, we concentrated on a couple things in the organizations I mentioned earlier. We flattened the organization, one. Two, we focused down market where it's not as an efficient sell, where we think we can leverage partners more. It's non-QC roles, non-quota-carrying roles as well. So we got aligned around the right opportunity in front of us, and at this point, we're just going to continue what we're doing and driving value with those higher-end opportunities.

Billy Fitzsimmons - *Piper Jaffray Inc - Senior Research Analyst*

Makes sense. A quick one. Eliran, what are you assuming on FX for the full year guide for revenue?

Eliran Glazer - *monday.com Ltd. - Chief Financial Officer*

For revenue -- hi, Billy. It's Eliran. For revenue until now, we didn't report anything. It was below 100 basis points. Now we expect it to be around 100 to 110 basis points tailwind on the revenue side. But on the cost side, due to the fact that the Israeli shekel is very strong versus the US dollar, we expect between 100- to 200-basis point negative impact on the cost side.

Operator

Matt Bullock, Bank of America.

Matthew Bullock - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Sounds like there are obviously a lot of changes on the go-to-market and product development side to go after the CRM and service opportunity. Could you provide an update on the strategy for monday dev? Is that being de-emphasized at all or not so much?

Eran Zinman - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Yeah. So monday dev is still a product that we sell and offer. But definitely because of the changes in the dev environment where a lot of the way developers work have changed over the past year, obviously, this product got less focus.

We're kind of rethinking our strategy there. Maybe we need to add more capabilities. Maybe we need to change the trajectory of the product. It's still a product we support and sell. Definitely it got a different focus than CRM and service. Going forward, we might have different plans for that, but that's currently how it's used.

Matthew Bullock - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Got it. And not to beat a dead horse here, I wanted to follow up on the enterprise sales rep count, because that's been growing, I believe, consistently above 20% for the last years and even in the first quarter. The RIF wasn't concentrated in quota-carrying reps, and you're continuing to invest there. Would you expect that 20%-plus headcount growth for the enterprise sales reps to continue, or should we expect some deceleration there?

Eran Zinman - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Overall, we expect it to be flat.

Operator

Mark Schappel, Loop Capital Markets.

Mark Schappel - *Loop Capital Markets LLC - Analyst*

Regarding your forward deployed engineering initiative, could you just talk a little bit about how your FDEs are actually being deployed today? Are they primarily an implementation resource? Are they a sales enablement tool? Or are they just more part of the product delivery model?

Eran Zinman - *monday.com Ltd. - Co-Chief Executive Officer, Co-Founder, Director*

Yeah. Hi, Mark. This is Eran. So look, this is a very strategic change for us, because we see a change in the market. Customers want to adopt AI, but a lot of them don't know how to do it. They want assistance. They want the company to help them deploy products. And we see this as a very strategic change for the company.

Like Casey mentioned, it's a new motion. We're building the team. We have already a few initial successes of implementation with customers. We're planning to scale that significantly. I think this will lead eventually to us landing bigger deals, more enterprise contracts, have deeper relationship with our customers, and also approach buyers, more senior buyers in the management layer.

So it's a strategic shift for us. It's not going to be overnight. We have a large sales force, but we're committed to that. It's something that we feel is right for the company, it's right for the current environment in terms of AI, and we'll scale it as fast as we can, going forward.

Operator

There are no further questions at this time. Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.
