ASANA, INC. (ASAN)

HIGH GROWTH OPPORTUNITY

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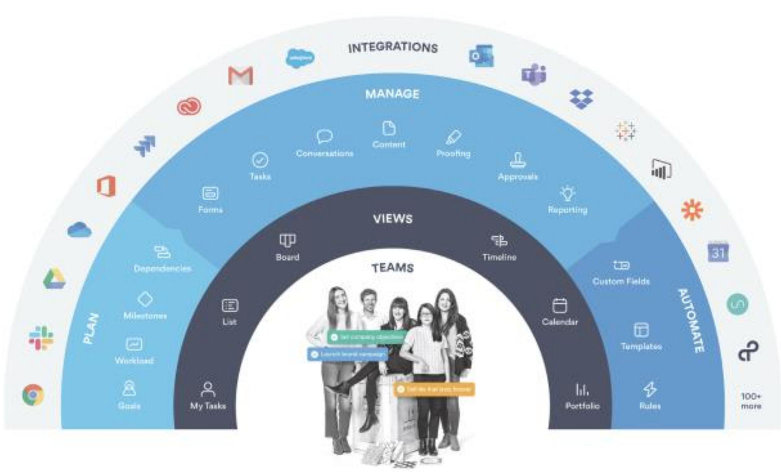
COMPANY OVERVIEW5

Asana is a business-to-business (B2B) software-as-a-service (SaaS) company that specializes in work management. Co-founded by Dustin Moskovitz, who also helped found Facebook, Asana's mission is to help teams around the world become more efficient and give all team members more clarity about the work that they are doing. Asana is currently being used by over 33% of Fortune 500 companies and are still growing. Asana's software includes the "Work Graph" which allows team leaders to delegate tasks, connects employees together to complete these tasks, and allows entirely different departments to collaborate together such as HR and Finance. Asana's system is also horizontally integrated with a variety of other platforms like Gmail and Slack.

THESIS

We are long on ASAN and its future growth in the expanding work management industry. Using a comparable companies analysis, we value Asana at 20.3x - 21.2x P/S with a target price of $28.91-29.32, representing an upside of 32%. We believe that Asana will reach this price target as they are growing rapidly while also trading at a lower multiple than similar companies like Atlassian. While similar work management companies trade at a median P/S of 20.3x, Asana only trades at 15.4x. As workplaces continue to work from home and employers search for new ways to manage employees, Asana's rapid top line growth, which was ~80% in FY19, looks poised to continue as they continue reinvesting in Sales & Marketing (S&M) and Research & Development (R&D).



PRICE:
US $21.95
(Reflects price on 11/2/20)

TARGET:
US $29.00

Anton Krasnov
Investment Analyst, Global Investment Society
akrasnov@usc.edu

Ethan Fu
Investment Analyst, Global Investment Society
ethanfu@usc.edu

Annalise Stevenson
Investment Analyst, Global Investment Society
annaliss@usc.edu

Juan Valderrama
Research Assistant, Global Investment Society
jvalderr@usc.edu

Taylor Abernathy
Research Assistant, Global Investment Society
tabernat@usc.edu

Maggie Kaczmarczyk
Research Assistant, Global Investment Society
kaczmarc@usc.edu

SUMMARY

Annual Rev. (mil)	$181.28
52-week high low	$21.40 - $29.96
Shares out. (mil)	154
Market Cap. (mil)	3,418
Price/Sale	18.64
EV/EBITDA	-24.92
Current Ratio	3.1

The great part about this business is that there is an extreme network effect when teams get accustomed to using Asana. This increases the likelihood that customers will continue to use Asana. Like most B2B software companies, Asana is currently losing money as they are reinvesting for growth. Most of their operating expenses are in sales, marketing, and research & development as they are hiring many more software developers and sales teams. With their hybrid self-service/direct sales motion, Asana utilizes their land-and-expand strategy where one team member uses Asana and recommends it to another. Before long, Asana is able to spread virally within a company and the direct sales team can focus on unifying the entire corporation under Asana's software. Asana compares favorably to other work management software companies like Atlassian, whose tools like Jira and Trello also help employees organize their tasks more efficiently. Asana is just at the beginning of their growth story, and with this new virtual workplace, companies like Asana stand to benefit considerably as employees learn to work together from different locations around the world.

INDUSTRY

Asana presents themselves as a valuable new competitor in the project management sector, a fairly new yet quickly growing industry valued at ~$4.2 billion with a CAGR of 11.7% to 2027. Asana's main competitors in the sector include Atlassian, Smartsheet, and Monday.com. While most of these tools have similar features, Asana's proprietary "Work Graph" forms their "Work Network", a system that interconnects different departments together to work collaboratively. In terms of revenue, Asana is in the middle, with revenues of ~$140 million. Atlassian has revenues of $1.6 billion, while Monday.com has $120 million and Smartsheet has $90 million. In terms of market share, Asana currently holds around 3% market share, and is poised to only capture more in the future. (*Figure 1, Industry Market Share*).

Asana has captured over a third of Fortune 500 companies already. In a market where clients do not tend to switch services often, client acquisition is extremely important. Their product presence at these Fortune 500 companies not only gives them a larger client base, but also boosts their reputation as a service. Their customer acquisition tactics are extremely effective as well, focusing on direct sales by growing within a company. Through Asana's differences, they stand out in a highly competitive industry.

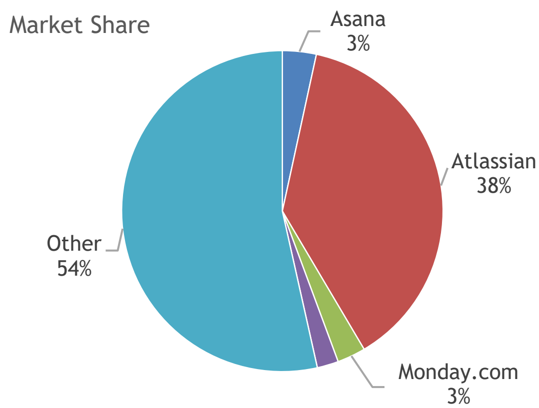


Figure 1, Industry Market Share

EXTERNAL FACTORS

The Coronavirus has caused many corporations to rethink their operations structure, especially with the magnitude of evidence that suggests that office work is not mandatory for success. While working at home provides many benefits, including cost cutting, greater flexibility, and time saved, it also provides new challenges. Many of these challenges are organizational and are exactly the ones that work management firms like Asana aim to solve. Asana's software and proprietary methods not only allow employees to more efficiently and effectively communicate amongst themselves, but also helps maintain focus, especially in a time where face to face communication is becoming less and less common. Even beyond the timeframe of the Coronavirus pandemic, an increasingly globalized world promises further demand for work management software. Asana gives the opportunity for corporations to share ideas and developments seamlessly, while working with colleagues around the world, and without the issues of corporate bureaucracy.

FINANCIAL ANALYSIS

Asana's position as a growing B2B SaaS firm provides it significant space for growth within the work-management space. This space is currently valued at ~$23B and is expected to reach ~$32B in 2023 according to IDC research. Asana's current market share of ~.62% illustrates this vast amount of growth potential. ASANA has demonstrated rapid growth in its top line numbers in both quarterly and annual performance metrics. Revenues were $76.8 million and $142.6 million for FY 19 and FY 20, respectively, an increase of 86% YoY. For the three months ending on April 30th 2020, quarterly revenues grew to $47.7 million, up 71% from 2019 ($28.0 million). Their FY21 Q2 revenue of $52M grew 57.42% while their FY21 H1 revenue of $99.7M grew 63.3% YoY (*Figure 2*).

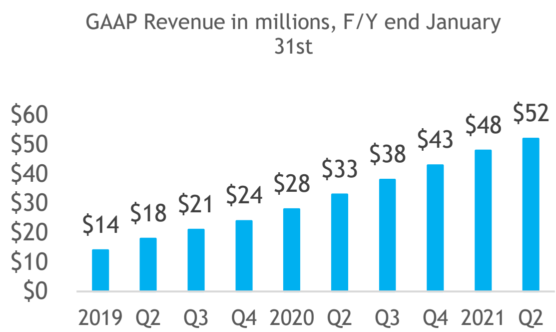


Figure 2, GAAP Revenue

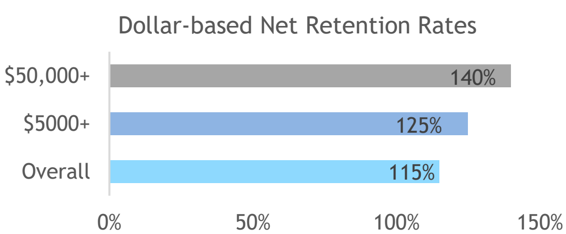


Figure 3, Retention Rates

While these are significant levels of top line growth, they do illustrate a slowing growth rate when compared to the previous year. These rates and the expected FY21 revenue growth of 50.76% all fall short of the FY20 YoY. As the company noted in their FY21 Q2 earnings call, this slowdown is largely due to COVID19 economic impacts particularly within the hospitality and travel sectors. This can also be seen in their drop in gross margin from 82% in FY19 and 86.1% in FY20 to 65.4% in FY21 H1. Operating losses have grown significantly by 111.5% which is largely due to a correlated doubling in sales and marketing expenses to increase their market penetration. This depicts the company's growth expectations for both the top and bottom end of their sales funnel. Since 2015 Asana has grown from less than 2,000 customers to over 82,000 customers as of September 2020. Of Asana's 82,000 paying users, 7,933 spend over $5,000 per year and 283 pay over $50,000 per year.

These two pricing segments grew by 65% and 160% respectively. Not only are these high-income segments growing rapidly, they both have positive dollar based net retention rates of 125% for greater than $5,000 and 140% for greater than $50,000 (*Figure 3*). The company's overall dollar based net retention rate is also positive at 115%. Each segment having a positive dollar based net retention rate is an important indicator to illustrate the net growth of their current consumer base which is a large part of their business development strategy. When customers decide to incorporate Asana into their business, they tend to not only stay with Asana, but in fact use them even more. This allows them to expand not just to new users, but also grow from within.

REVENUE BREAKDOWN

Asana has experienced substantial revenue growth in the past year. Its 2019 fiscal year revenue was $76.8mm and in 2020 it grew to $142.6mm, yielding an overall growth in revenue of 86%. This overall increase in revenue was due to a shift in Asana's sales mix toward the higher priced subscription options, as well as an expansion of total customer base, and an increase in sales from current customers. To further increase revenue, Asana will need to expand its customer base and expand its service plans, as well as enhancing their product features and offerings. 41% of revenue generated in 2020 came from outside the United States, indicating that there is opportunity to grow domestically. A majority of Asana's revenue comes from selling subscriptions to their cloud-based platform in different tiers: Premium, Business, and Enterprise. Revenue from subscriptions made up 42% of total revenue during Q1 2020, whereas it only represented 11% of total revenue in Q1 2019. Asana has also experienced an increase in larger subscription package purchases of over $5,000, with 54% of Q1 2020 as compared to 43% in Q1 2019. CapitalIQ currently lists Asana as being top-rated with regard to revenue when compared to comparable companies' revenue. As Asana generates most of its revenue from expanding its customer base, their growing customer retention rates of 110% and 120% in 2019 and 2020 respectively are promising for future revenue growth projections.

INCOME STATEMENT AND BALANCE SHEET HEALTH

Because Asana is a relatively new company, it is understandable that it still has negative EBITDA and Net Income. Between 2019 and 2020, Asana's EBITDA has decreased from -$49.1mm to -$118.1mm, and its Net Income has decreased from -$50.9mm to -$118.6mm. Both of these can be due to a substantial increase in SG&A as well as R&D, which is no surprise for a growing company like Asana. Currently, Asana is rated below average with regard to its overall credit health score. Their Return on Invested Capital (ROIC) is -27.16% compared to its peers averaging 5.31%. Additionally, their Total Asset Turnover (TAT) is relatively low at 0.27 compared to its peers at 0.84, along with their Interest Coverage ratio at -4.36 compared to its peers at 33.43. However, Asana's overall gross margin of 86.56% is top-rated compared to its peers, along with its Total Debt/Total Liabilities ratio of 80.93%. Overall, with regard to its solvency ratios, Asana has lots of room for improvement, however it is above average with regard to its liquidity. Despite Asana being somewhat subprime, their above average debt to liability ratios and gross margins prove that they are not at risk of experiencing solvency issues.

PRICE TARGET

Based on a public comparable company analysis with Atlassian, Smartsheet, and PagerDuty we derived a price range of $28.91-$29.32. Using the average comparable company P/Sales ratio of 21.2x, we were able to arrive at our price target range. We utilized a P/Sales multiple because SaaS companies usually have negative net income as well as EBITDA. Thus, with a P/Sales multiple, we are valuing these companies based on top-line growth which is important because companies like Asana invest heavily into S&M or R&D to grow revenues. Given Asana's rapid revenue growth from 2019 and 2020 along with its future growth projections, we are optimistic that Asana's stock price will rise to between $28.91 and $29.32 by the end of the fiscal year. Our 3 companies had an average P/Sales multiple of 21.2x and a median multiple of 20.3x. We then derived this range by using revenue projections from CapitalIQ for FY21.

Because Asana was a direct listing rather than a traditional IPO, we expect them to reach this price by February. Rather than having an investment bank underwrite the deal and issue new shares into the NYSE/NASDAQ like a traditional IPO, with a direct listing, companies like Asana list existing shares out into the marketplace for investors to trade. This leads to increased volatility in the early months of the stock trading as buyers and sellers have an increased impact on the stock movement as they determine a fair value range.

RISKS

Although Asana has an impressive customer base and high growth, it nevertheless faces risks that could hurt the stock in the short-term.

1. Increased competition without a distinct competitive advantage
2. Heavy debt load relative to cash flow ($333MM in debt versus $-150MM in EBITDA)
3. Direct sales motion might be negatively affected by COVID-19

Asana faces stark competition in the quickly growing industry from both direct competitors like Atlassian or Smartsheet and indirect competitors such as Google Suite or Microsoft Office. Asana does not have any distinct competitive advantage that stops another company from creating its own platform. Thus, it becomes a knife-fight for market share. There is also the issue on whether or not companies feel the need to pay for additional software in the first place. Software like the Google Suite and Microsoft Office is truly essential for any serious company, and with tools like Google Meet and the new, revamped Google workspace or Microsoft Teams, companies might feel like they don't need to spend the extra money to become more efficient.

Since Asana is reinvesting all of its money into S&M and R&D, it has an extremely negative EBITDA. However, they are also very highly levered with over $333MM in long-term debt. They elected to raise capital with debt rather than equity because it is cheaper, but that has led them to have an extremely high D/E at almost 600%, although this figure does not represent their debt situation accurately due to their negative EBITDA. Although Asana's unit economics are strong, if their growth ever slows down considerably or their margins shrink, they might not be able to repay their loans.

Most of Asana's revenue growth comes from their land-and-expand strategy where a few members of a team adopt Asana and recommend it to other employees. Eventually, Asana's sales team tries to get the whole company to adopt the platform. With COVID hamstringing many companies' financial resources and sales teams not being able to meet companies face to face, there could be a negative impact on Asana's top-line growth in the short term.

CONCLUSION

While Asana Inc. may be a smaller and newer player in the SaaS work management space, they provide an amazing opportunity to buy into a company that is poised to grow exponentially in the future. Asana has formulated a recipe for growth and success with their innovative marketing strategies. Their emphasis on research and development shows their commitment to building a better product than their competitors. Additionally, their proven and experienced leadership will guide them forward, even throughout a pandemic and a changing corporate environment. Because of these factors, we believe that Asana is a strong Buy as its stock continues to mature.