Prepared Remarks
Stewart Butterfield, Chairman, Chief Executive Officer and Co-Founder

Before we begin, I want to take a moment to acknowledge the second human crisis we are living through right now - one that is not caused by a silent, unthinking virus but one that is caused by *us*. By people. By generations of systemic racism and white supremacy that now regularly manifests itself in violence, in poverty, and in the oppression of Black people. This is a crisis of our own making, not nature's, and it will take all of us to repair it, to demand that it is repaired. That's why it's important for me to highlight it now - because silence is a luxury we cannot afford.

I know we're here to talk about Slack, our business and our quarterly results, but from the company's perspective, that was something that needed to be said.

So now, moving on to the business side. Q1 was a phenomenal quarter, by most metrics one of the strongest ever for Slack:

- Revenue for the quarter was 202 million dollars, up 50% year on year.
- We added a record of over 90,000 net new free and paid organizations using Slack in the quarter, bringing the total to more than 750,000.
- We also added a record 12,000 net new Paid Customers in the quarter, bringing the total to more than 122,000.
- And finally, we continue to show leverage: non-GAAP operating margin improved 17 percentage points year-over-year.

Q1 was historic in its impact, both for Slack and for the world. We believe very strongly the impacts that the COVID crisis will have on the way we work are of generational magnitude and are just beginning to be felt. It's too soon to understand the impact with any precision, but it reinforces our conviction around this business and our long-term trajectory.

Today I want to cover three topics:
- First, I will start the call by providing more detail on the work from home surge and our plans to lead our customers through what we see as a permanent shift to a more fluid work environment.
- Second, I'll give an update on our three priorities for the rest of fiscal 2021: maintaining leadership in the enterprise, accelerating growth in SMB and self-serve, and growing usage of Slack for communication across organizational boundaries.
- I will finish by walking through how we plan to balance investing for growth vs profitability in what remains a very volatile macroeconomic backdrop

Beginning with the work from home surge. Q1 was simultaneously intense, productive, overwhelming and exciting for Slack. We went fully remote in early March and much of the working world followed over the next month.

The all-at-once shift to work from home concentrated multiple quarters of Slack adoption into a few weeks. Tens of thousands of new organizations and millions of new users adopted Slack, most of them trying Slack for the first time on our free plan. Existing Users also began to rely on Slack more - for our paid users, average time spent actively using Slack each day increased from just under 90 minutes at the end of Q4 to over 120 minutes per day at the end of Q1. Time spent connected to Slack also increased, from about 9 hours to well over 10 hours per day. We saw similar increases across all related metrics.

Slack is not specifically a tool for remote work. As a channel-based messaging platform, we improve communication to help organizations create alignment, become more productive, and ultimately become more agile, wherever their employees are.

And, unlike the many video-conferencing solutions in the market such as Zoom, RingCentral, Google Meet, Microsoft Teams, Amazon Chime, and BlueJeans, we aren't a digital substitute for physical, in-person meetings. Instead, Slack acts more like a digital office, a persistent place for users to connect and find information. Slack is a multiplier on the productivity of users and the value of their software wherever work is happening.

During this crisis, the work being done on Slack is diverse and in many cases inspiring. A great example of organizational agility is Frontline Foods, a grassroots organization that provides food from local restaurants to frontline workers and impacted communities. They have a network of hundreds of volunteers, who are organizing and communicating on Slack, they've delivered over 450,000 meals and partnered with more than 1,100 restaurants across dozens of cities in the United States. One of their founding organizers Frank Barbieri said what they've accomplished and at the speed they've done it, would not have been possible without Slack. He also said it's impossible to imagine a fully distributed team who had never worked together before and never even met in person, tackling critical real-time communications on any other platform.

As I talk to other CEOs, talk to our customers, review survey data, and just follow the news, it is clear to me that remote work will be a much bigger part of the working world moving forward. Business leaders everywhere are beginning to realize the potential financial, talent, and employee wellbeing benefits of offering a more fluid work environment - blending offices and remote work. They are also beginning to realize that in order to make this transition they need the right enabling technology. Email and legacy collaboration tools won't cut it. This reality will continue to catalyze adoption for the channel-based messaging platform category we created and for which we are the only enterprise grade offering.

Turning to the enterprise business, the first of our fiscal 2021 priorities, Q1 was another exceptional quarter. We finished the quarter with 963 customers spending more than $100,000 annually, up 49% versus the end of Q1 in our fiscal '20. New and expansion deals for the quarter demonstrate our growing breadth of penetration across industries. They include Centers for Medicaid and Medicare Services, the UK Ministry of Justice, Harvard University, Virgin Media, CISA - the Cyber Security and Infrastructure Security Agency, Recruit Holdings, West Japan Railway Company, and Credit Saison.

Over the last few quarters we have observed significant momentum in some of the largest and most security conscious companies in the world. These companies are standardizing on Slack because Slack is the only enterprise grade solution in the market.

The global investment firm Man Group, was able to swiftly transition to all-remote in less than two weeks with the help of Slack. As a financial services provider, company and client data security are top priorities. Slack's Enterprise Mobility Management meets the firm's security and compliance needs, giving them control over how their company data is used and accessed on mobile devices.

Another big win this quarter was adding Verizon as a new enterprise customer. Verizon will leverage Slack as a component of its Digital Workplace.

We won another enterprise-wide agreement with Amazon, across all of its businesses. In Q1, Amazon chose Slack because of our scalability, the strength of our platform, and the unique ability to securely and productively collaborate with customers and partners using shared channels.

We also expanded our strategic partnership with Amazon Web Services, which includes robust integrations between Slack and a number of AWS services, including AWS Chatbot, AWS Chime, AWS Sandstone, AWS CloudFormation, and AWS Key Management Services. Slack will also use AWS Chime to support our native calling capabilities. Finally, we're excited to announce that AWS is now Slack's preferred cloud provider.

It's exciting to see the progress and momentum across our enterprise business since I mentioned it as a focus area on our last call.

Moving on, our second fiscal ‘21 priority is accelerating the SMB self-serve business. Many organizations begin their Slack journey on our free plan. In the quarter we added over 90,000 net new organizations using Slack; more than we added in all of our last fiscal year. We also added 12,000 net new paid customers, more than any other quarter in the history of the company. I would love for us to be able to take credit for all of this, but obviously the global situation had an impact. However, we responded rapidly to the changing market dynamics: ramping up remote work consultations for our customers, accelerating the launch of a new user interface, and introducing a new onboarding experience. As a result, we saw improved rates of engagement for new free and paid teams added in the quarter.

That’s important because there are millions of organizations and tens of millions of users in the United States alone whose working lives are mediated by email and all of them would be better off using Slack. And, if they come to our website and download Slack we want them to be successful, to have that “a-ha” moment, and to get value from Slack as quickly as possible. This remains personally my biggest focus area, particularly because of the large number of organizations new to Slack who, if we do our job in showing them value, could become larger paid customers down the road. I’m pleased with the progress on our second fiscal ‘21 priority in the quarter, but there remains much more to do.

Our final top priority for this fiscal year is shared channels, which provides a secure, productive environment for our customers to communicate across organizational boundaries. Shared channels adoption accelerated in the quarter with over 41,000 paid customers now using shared channels, up from 32,000 at the end of Q4. We saw emerging network effects that drove growth in connected endpoints to over 250,000 in the quarter, up triple digits year over year. The breadth of use cases and ingenuity displayed by our customers in shared channels continues to surprise us, ranging from software vendors providing premium support, to food delivery companies coordinating with their restaurant partners.

Increasingly, shared channels are blending the power of Slack’s platform with external collaboration. Last week, Adobe released an updated Creative Cloud integration that will now allow users to share Creative Cloud assets, get notifications, and stay up to date on design projects in a shared channel. For our many joint customers planning marketing campaigns or developing new creative content with external partners this will be incredibly powerful.

And with all that we’re still just getting started. In Q1 we entered the pilot phase for multi-org shared channels, which will take shared channels from being a 1:1 connection between two collaborating organizations to a connection that can support as many as 20 distinct organizations, working together, securely, each with their own compliance settings, such as message retention policies.

For me personally, the experience has been kind of magical: I'm in a multi-org shared channel with the CEOs of 15 other SaaS companies, including Shopify, Twilio, Splunk, Atlassian, and Okta. In the channel we have helped each other navigate these unprecedented times. My CEO network is now in Slack, as is Allen's CFO network, and soon we had channels of communication created between the CMOs, who could discuss how they were thinking about pipeline generation in a world without field marketing, another for CHROs and heads of people who supported one another in working through benefits and policy changes, the challenges of recruiting and onboarding in a world where none of the participants have met face to face, and the same thing happened for IR lead and IT leaders, among others.

There is *no other way* these conversations can happen as effectively outside of Slack. Companies have poor alternatives when they want to collaborate outside their organization. If they use an email list, it's too disorganized and jumbled for meaningful conversation. If they use a consumer messaging service, they sacrifice security or compliance. Shared channels give all the benefits that our customers have gotten from channels —organizing information and creating context— but now for their external communication, in an environment that they control.

This capability is unique to Slack and takes advantage of our purpose-built architecture to handle the complex considerations required to connect different organizations, all while maintaining the enterprise grade security and scale that only Slack can provide. It's a big step forward for collaboration across organizations AND, at the same time, a big step forward in security and compliance.

Stay tuned for more on this very soon.

I'll conclude with some thoughts on how we plan to navigate and invest in the current environment. Our customer base looks a lot like the global economy, with nearly every segment, vertical and geography in the world represented. Accordingly, as Allen will discuss in more detail, we are not immune from our customers' bankruptcies, downsizing, or other negative macroeconomic effects. Due to these factors, the range of outcomes as we move through the year is also significantly wider than is typical. We don't know with any confidence what the second half of the year will look like from a world health or macroeconomic perspective and how that will impact our customers. These are challenging times for everyone.

However, we also see a generational shift occurring. How the world works is changing right now. This shift will significantly increase what our customers need from us. It will also likely accelerate the adoption of both our category and software more broadly over the medium to long-term. The timing is hard to predict, but the secular trends are very clear in our view.

So, we'll continue to invest. We will market aggressively. We will hire more engineers, designers, product managers and salespeople. We'll pursue opportunistic M&A where we see opportunities to expand our portfolio of offerings. While we invest, we'll continue to manage the business towards free cash flow break even.

With that, I'd like to turn it over to Allen for more detailed commentary on the quarter and our guidance.

Prepared Remarks
Allen Shim, Chief Financial Officer

Thank you Stewart, and thanks again to everyone for joining us.

I will go through our fiscal first quarter results in detail before moving on to guidance for the second quarter and full year fiscal 2021. I'll also discuss the expected impact from COVID-19 on the rest of the year.

Total revenues in the first quarter were $202 million, growing 50% year-over-year.

Our Q1 calculated billings were $206 million, growing 38% year-over-year. Calculated billings this quarter were impacted by approximately $17 million of headwinds which impact the year-over-year growth rate. First, as we discussed on the fourth quarter call, there were $10 million of billings that occurred in the first quarter of fiscal 2020 that will be renewed in the latter three quarters of fiscal 2021. Second, there were a number of COVID-19 related headwinds. To support distressed customers, we have offered credits, installment billings and billings duration of less than one year. We have similarly built up a reserve to account for potential credit issues which is a negative impact to deferred revenue. These COVID-19 related billings headwinds totaled $7 million in the first quarter.

We plan to continue to help customers manage through this unique time and expect calculated billings to be less useful as a measure of underlying growth during the COVID-19 crisis.

Trailing twelve month calculated billings were $822 million and grew 46% year-over-year.

Remaining performance obligations were $379 million up 16% quarter-over-quarter and 97% year-over-year. Because we have taken the practical expedient under ASC 606, our RPO disclosure is reflective of contracts greater than one year in length and excludes annual and monthly contracts, which are captured in deferred revenue. Accordingly, RPO growth is driven primarily by growth in multi-year enterprise license agreements. These multi-year deals tend to be larger and often reflect a decision by our enterprise customers to standardize on Slack.

In terms of geographic breakdown, 38% of our total revenue came from outside the U.S. which is up from 37% in Q1 last year. We continue to invest in international growth, including expanding our direct sales footprint and additional language localization.

As Stewart mentioned, we ended the quarter with over 750,000 total free and paid organizations using Slack, up from 660,000 at the end of Q4. The over 90,000 net new organizations added in the quarter was a record for Slack.

As of the end of Q1 we surpassed 122,000 Paid Customers, up 28% year-over-year and representing a net addition of 12,000 customers quarter-over-quarter, also a record for Slack.

Due to the unique nature of the work-from-home surge, I'll give additional detail about paid customers added this quarter. Customers added in the quarter had a similar distribution to our customer base as a whole from a geographic and a segment perspective. Moreover, the average annual recurring revenue of customers added in the quarter was up slightly year-over-year. The transition to work-from-home was obviously a major tailwind this quarter and we expect net new customer additions to moderate through the remainder of the year to quarterly levels closer to those observed in fiscal 20.

We remain focused on expansion within existing customers and growing our large enterprise customer base, and ended the quarter with 963 Paid Customers with greater than $100,000 in annual recurring revenue, which is up 49% year-over-year.

Paid Customers with greater than $100,000 in annual recurring revenue represented 49% of revenue in the first quarter, up from 43% in the year ago quarter.

Our strong customer retention and ability to expand within existing customers have resulted in a consistently high net dollar retention rate, which remained flat at 132% at the end of the first quarter.

Moving forward I'll be discussing non-GAAP financial measures.

Gross margin was 89% versus 87% a year ago.

R&D expenses were $61 million or 30% of revenue. We continue to invest into Slack's user experience, scalability, our platform and new features such as shared channels and expect R&D expenses to grow roughly in-line with revenue growth in fiscal 21.

Sales and marketing expenses were $95 million or 47% of revenue. We increased marketing spend in the quarter due to the work from home surge and plan to invest into what we see as a major secular trend in the shift to remote work. As such, we expect sales and marketing as a percentage of revenue for fiscal 21 to be similar to Q1 levels.

G&A expenses were $40 million or 20% of revenue. We continue to expect G&A expenses as a percentage of revenue to decline moving forward.

Our Operating Loss in the quarter was $17 million, representing an Operating Margin of negative 8%.

Free cash flow was $3.7 million. Free cash flow includes $5 million of capital expenditures related to the buildout of office space.

Stock-based compensation and related employer payroll taxes were $58 million in the quarter, or 29% of revenue.

I'd like to spend a moment on the expected impact from COVID-19 and how we have factored it into guidance. We are fortunate in that Slack enables remote work. Due in part to this, growth in the first quarter accelerated and was above our expectations. We have also continued to see stronger than normal top-of-funnel activity in April and May.

However, there are potential headwinds to our business. We estimate that about a quarter of our business is derived from companies with less than 100 employees. Within this SMB base we saw churn trend a bit higher than historical norms in March and April albeit off a low base.

When I look at the breakdown by industry our customer distribution is highly diversified. However, some of our customers have been impacted by COVID-19. We estimate that less than 20% of our business is derived from the most directly impacted industries such as travel, hospitality, commercial real estate, ride sharing, and retail.

In the enterprise segment, some sales cycles have accelerated due to work-from-home, but others have slowed, particularly in impacted industries. Our pipeline remains very healthy, but, on balance, there is less visibility into how IT spending will trend for the remainder of the year, particularly if the economic effects of the COVID-19 pandemic persist or worsen.

As mentioned previously, we also plan to accommodate certain distressed customers during the crisis via the use of flexible contract structures and billings terms. While this has less of a revenue impact, it directly impacts calculated billings and free cash flow.

When we guided for the full year in early March, we accounted for some of these headwinds. Thus far, In the first half the tailwinds have outweighed the headwinds. However, we believe that macroeconomic uncertainty is significantly greater today than it was then. Taking into account the puts and takes of the above, we continue to have visibility to guide to quarterly and full year revenue, but are withdrawing our calculated billings guidance.

Now, on to guidance.

For the second quarter we expect revenue in a range of $206 million to $209 million representing growth of 43% at the midpoint.

We expect non-GAAP operating loss in a range of negative $22 million to negative $18 million.

We expect non-GAAP EPS in a range of negative $0.04 to negative $0.03. We are modeling Q2 basic shares outstanding of approximately 564 million.

For the full year, we are raising our revenue guidance to a range of $855 million to $870 million, representing growth of 37% at the midpoint.

We expect full year non-GAAP operating loss guidance in a range of negative $110 million to negative $100 million.

We expect full year non-GAAP EPS in a range of negative $0.19 to negative $0.17. We are modeling full year weighted average basic shares outstanding of approximately 567 million.

We are maintaining full year free cash flow guidance in a range of negative $20 million to breakeven.

To close, we are obviously operating in very unique times. Now more than ever our customers depend on Slack to continue to push the envelope of innovation. We plan to continue to invest, as we see the current crisis accelerating digital transformation and the transition from email to channel-based messaging platforms over the medium-term to long-term. At the same time, we will manage the business prudently and with a goal of showing consistent operating leverage and progression toward being free cash flow positive.

With that, I'll turn it over to the operator for questions.