



# 2020

# Asana Inc.

Pre-IPO Aanalysis



**TORRE CAPITAL**

Simplifying Alternative Investments

[support@torre.capital](mailto:support@torre.capital) | [www.torre.capital](http://www.torre.capital) | 128 Prinsep Street, Singapore

## Asana IPO: Exercise caution, could be a fair weather friend as compared to other tech IPOs

Asana is a work management software-as-a-service platform that helps teams orchestrate their work, from daily tasks to cross-functional strategic initiatives. Asana is a competitive platform, however, it operates in a crowded space for the size of the addressable market. While Asana may generate direct listing gains, we believe it will be an underperformer in the medium to long term. **Below we go over a few reasons why we ask you to exercise caution before investing in Asana:**

**Bubble in Tech Stocks likely to drive listing gains:** The recent bubble in tech stocks valuation will help Asana come up with decent listing gains. Asana is likely to start trading at more than \$9 - \$10 Billion valuation, double (2x) the last reported secondary market valuation of \$5 Billion, **replicating the optimism we have seen on the lines of SaaS companies like Snowflake and Unity.**

**Moderating revenue growth still above competition; consistent margins but widening losses a cause for concern:** In the quarter ending July 2020, Asana recorded 57% growth as compared to 86% last year. **Revenue growth has been higher than other primary competitors.** The operating margins have been consistent with the growing customer base due to its SaaS model and the cost advantages it brings. The widening net losses are a sum of an increase in its R&D and Marketing expenses.

**Fragmented Industry:** The market for work management solutions is highly fragmented, and subject to rapidly changing technology. **The situation would only become more complicated for Asana, given the low barriers to entry in the industry and highly differentiated SaaS products.**

**Business Model:** Asana uses freemium model, so that customers can use the slimmed down version for free and pay for upgraded plans. These include extra productivity along with advanced administrative controls. **Though the model brings in customers, a significant shift from free to premium is yet to be seen.**

**Direct Listing gives exit to existing shareholders but no benefit to the company:** Direct listing ensures benefits for the existing shareholders, however won't generate additional funding for Asana.

**Investment Recommendation:**  
Cautiously Optimistic

**Industry | Productivity Software**

**Headquarters:** San Francisco CA, US

### Key Terms

Expected IPO Date	30-Sep-20
Issue Type	Class A and Class B Shares (Common stock)
Issue Size	154,582,104
Offer for Sale	58,513,903
Fresh Issue	Nil
Face Value	\$0.000010
IPO Price	\$13.04 - \$28.00
Listing At	NYSE
Last Trading Price - Secondary Market	\$15.82
Last Trading Date - Secondary Market	14-Jun-20

### Growth in Numbers

Particulars	Year Ending 31 January		Change in %
	2019	2020	
Valuation	\$ 2.0 B	\$4.2 B	110.00%
Revenue	\$76.7 M	\$142.6 M	85.90%
Expenses	\$114.9 M	\$242.3 M	110.87%
Gross Profit/(Loss)	\$62.9 M	\$122.7 M	95.07%
Net Profit/(Loss)	(\$50.9 M)	(\$118.3 M)	-132.42%
R&D	\$42.5 M	\$89.6 M	110.82%
Assets	\$113.7 M	\$421.6 M	270.80%
Cash	\$59.6 M	\$280.5 M	370.64%

\*estimated value for August 2020

Investors looking for listing gains can invest in Asana for short term. **Long term investors will have to be patient as the company faces multiple headwinds** including increasing competitive pressures and lack of growing cash flow.

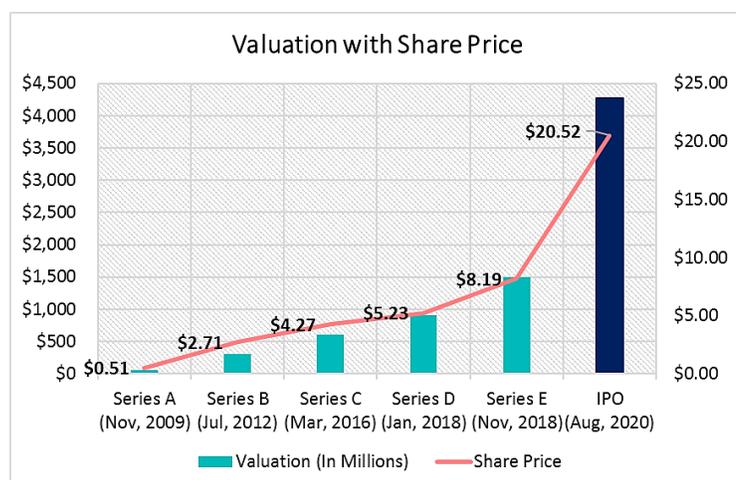


## Investment Thesis

### Upbeat market sentiments driving soaring valuations

Founded by Dustin Moskowitz and Justin Rosenstein in 2008, Asana is a task management software that helps teams orchestrate their work, from daily tasks to cross-functional strategic initiatives. The company will shortly be traded on NYSE under the ticker symbol "ASAN".

The last valuation as per funding round Series E (as of Nov 2018) is \$1.5 Billion post-money valuation. **Asana has been trading at a roughly \$5 Billion market value in the secondary market as of June 2020, which we believe is not justified as per current fundamentals.**



\*IPO projection (August 2020) based on intrinsic valuation

Asana is predicted to open trading at more than \$9 - \$10 Billion valuation, double (2x) the value of its last reported secondary market valuation. The **stock might be valued at around 45x forward revenue at the mean of this valuation** which would be amongst the highest multiple for valuations in the entire tech industry. These inflated valuation numbers are just an indicator of how markets have been defying the previously used pricing benchmarks in the recent past and **Asana, like a number of other technology stocks like Zoom, Tesla and Shopify is valued at an absurdly higher price** than what their fair price as per valuations should be.

Fundamentally, the current valuation for Asana would be **approximately at 20x-25x NTM**, keeping the positives together - when we establish listed and successful comparable like Slack, Atlassian and Smartsheet. In the longer run, the markets will correct itself and the valuation is likely to **slump by as much as 50% to range between \$3.5 B - \$4.2 Billion as per conservative estimates.**

Asana plans to list only class A shares with this Direct-listing. Asana's dual stock structure gives more voting power to its founders, early investors and employees. Under the Class A and Class B common stock Moskowitz has 39% holding followed by his co-founder Rosenstein, having 17.5% voting power. This **structure is not very investor friendly and may be an issue with large institutional investors.**

Asana has been witnessing widening losses and decelerating revenue growth in a highly competitive industry. The situation would only become more complicated for Asana, given the low barriers to entry in the industry and **we believe anything above initial \$5 Billion valuation will be too high.**



## Deal History

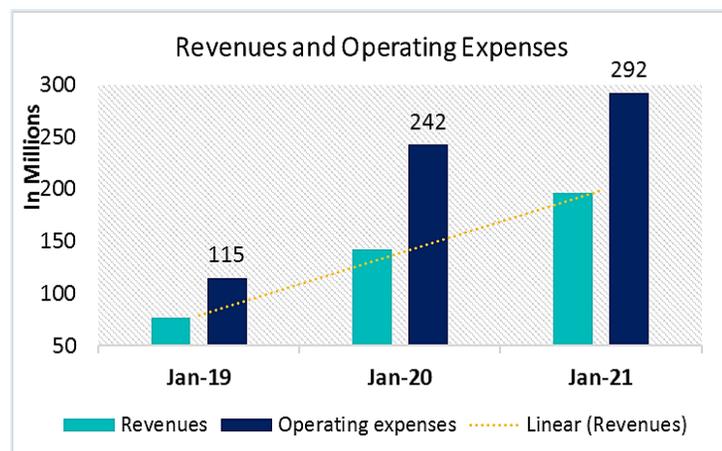
Total amount raised including venture funding and others has been \$413.5 Million till date. Few notable investors include - Founders Fund; Y Combinator; Benchmark; Andreessen Horowitz and Mark Zuckerberg.

Funding in Round	Funding Amount	Post-Money Valuation	Shares Outstanding	Share Price
Series A (Nov, 2009)	\$9.31 M	\$ 51.36 M	100.7 M	\$0.51
Series B (Jul, 2012)	\$28 M	\$310 M	114.4 M	\$2.71
Series C (Mar, 2016)	\$50 M	\$600 M	140.5 M	\$4.27
Series D (Jan, 2018)	\$75 M	\$900 M	172.1 M	\$5.23
Series E (Nov, 2018)	\$50 M	\$ 1.5 B	168.4 M	\$8.19

Asana has shown a steady growth in terms of its share price but an inevitable wide gap in funding between its Series B in 2012 and Series C in the year 2016. Asana's deal sizes have often been less than \$50 Million which is **small as per industry standards, indicating that the wider adoption remains to be proven.**

## Company Highlights - Financial Results

**Revenue:** Asana has experienced very strong business growth in recent years, and trends remain very robust, although **growth is expected to slow modestly.** Revenues were up by 86% year-to-year growth at \$142.6 Million. In its most recent quarter ending July 2020, Asana recorded 57% year-to-year growth. **Asana's decelerating revenue growth makes us question the company's ability to become profitable in future.**



\*projections based on six months ending 31 July

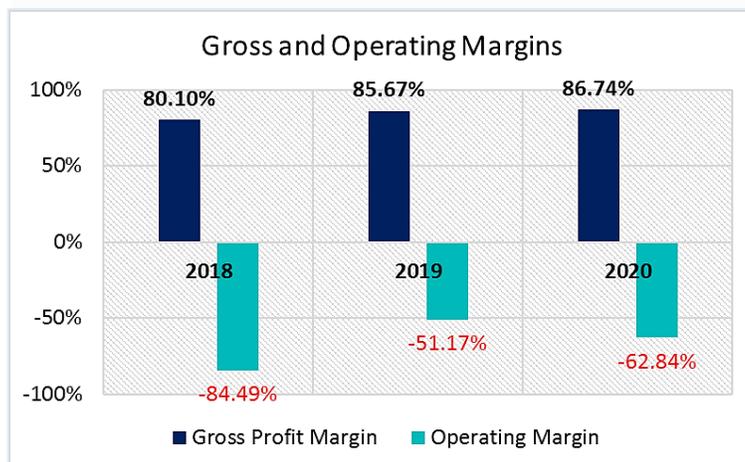
**Losses:** The company also saw its losses grow from \$50.9 million in 2019 to \$118.6 million in year 2020. Showing an increase of 95% from the previous year. In its most recent quarter, net losses grew by 138% year-to-year. The increase in losses can be attributed to the company more than **doubling its spending on research & development as well as sales and marketing.**

**Expenses:** Research and development **expenses increased by 111%**, for year ending January 2020. Sales and marketing expenses increased \$53.7 million, or 103%, for year 2020 from previous year. In 2020, accounting for 74% of its revenue and its R&D spending accounted for 63% being two of its major spends, indicating its **hustle to remain competitive in the market and acquire customer base.**

**Net Retention Rate:** Asana's dollar-based net retention rate, which measures how much existing customers spent on the platform today versus how much they spent a year earlier, was over 120% in 2019. For customers with an ACV greater than \$50,000, Asana's NRR expands to over 140%, indicating that its **biggest customers are spending significantly more** than they did a year ago.



**Negative Cash Flow:** The *company's free cash flow margin is -33%*. The reliance it places on its paying customers and earnings from its key product is more than 70% of its sales of subscriptions. Primarily cash is used for marketing expenses and software expenses. Asana has generated negative cash flows from operating activities and have supplemented working capital requirements through net proceeds from the sale of equity and equity-linked securities, *this indicates the struggle for Asana to meet its immediate requirements.*



\*six months ending 31 July

**Operating Margins:** Asana's gross margin is 86.1%, which is among the best in the software industry. While Asana continues to operate in losses, the company is consistently maintaining its gross profit margin with an unstable trend towards decreasing operating expenses. *The management's outlook for increase in acquiring new customer base indicates cost of revenue growth.*

### Company Highlights - Business Overview

Headquartered in San Francisco CA, US. Asana has 9 offices across 8 different countries. A work management platform, Asana has a hybrid self-service and direct sales model. Over 25 million users have registered on Asana since its inception, as of January 2020, Asana had over 1.2 million paid users.

However, studying their business model didn't make us feel any better as *they have limited meaningful product releases to date.* Moreover, they are really *a mono-product miracle* including their distinguished synchronization capabilities with over 100+ popular applications.

### Market Opportunities

**Work Management Solutions:** Work Management targets to improve productivity by replacing tools like emails and manual processes such as scheduling meetings and phone calls. As work processes becomes more complex, the shift to such solutions will be unavoidable.

The *demand for work administration has seen rapid growth.* As per the June 2019 IDC report, the current total market for collaborative applications and project management is worth \$23 Billion and is projected to rise to \$32 Billion by 2023.

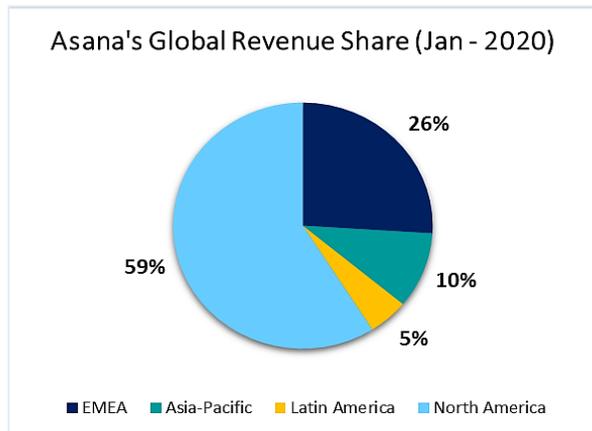
The total global information workers were estimated to be 1.25 Billion in September 2019 report by Forrester. Asana's existing customer base represents less than 3% penetration of this *total addressable market reflecting a notable whitespace opportunity for Asana.*

## Business Tenacity

Asana has **over 82,000 paying customers** as of July 31, 2020 and over 3.2 Million free activated accounts since inception, representing a large opportunity to convert these accounts into paying customers.

Asana's dollar-based net retention rate was over by 120% as compared to 2019. The **core features are worth the buck, as their biggest customers are spending more than they did a year ago**. The company's focus on user experience underscored by sleek and **intuitive design is not easily imitable**.

With already 41% of its business coming from outside North America, there is a huge potential to **expand internationally by tapping enterprise-wide deployments** with optimized budgets and its workflow-automation capabilities.



## Business Hurdles

Due to competitive pressure Asana **needs to continuously innovate** and enhance its enterprise-scale capabilities, which should help grow its ACVs and change the perception of it as a tool for bigger teams.

Asana operates in a tech-driven environment with **larger, equally well-funded competitors such as Jira (Atlassian)**; increasing their visibility with new launches and resources.

Asana will have to devote a significant percent of their sales to customer acquisition strategies and increasing **private vendor consolidation also points to future volatility making the struggle for Asana bigger**.

Global operations pose several risks such as **credit risk, currency exchange rate volatility, risk of security breaches** resulting in enforcement actions by government officials alleging violation of laws.

## Pricing Strategy

Company	Per User Plan/ Month (in USD)		
	Free	Standard/ Business	Premium/ Enterprise
Asana	\$0	\$8	\$15
Workzone	--	\$24	\$34-43
Jira	\$0	\$7	\$14
Trello	\$0	\$9.99	\$17.50
Wrike	\$0	\$10-25	\$36.40
Airtable	\$0	\$10-20	\$24
Clickup	\$0	\$9	\$17

When comparing Asana's pricing strategy with different work management platforms; Asana is stuck-in-the-middle. Neither do they have a differentiating pricing for premium products like Workzone or Wrike, nor do they have an overall cost leadership in the segment like Atlassian's Jira.

No single customer accounted for more than 1% of Asana's revenues, and **top 100 customers accounted for approximately 9%** of the revenues for year 2020. This gives Asana a **good bargaining power** as there is no single customer which controls the biggest revenue share.

## Market Competitors

Asana's direct competitors include other modern work management vendors, such as Airtable, Smartsheet, Jira (Atlassian) and Slack as the next step-up.

Asana lists three competitor groups in its S-1 including project management (such as Atlassian) and work management categories (such as Workzone, Trello, Wrike, Clickup), including solutions around email, messaging (such as Slack and Workplace), spreadsheets (such as Smartsheet) and file collaboration (such as Dropbox and AWS). **Given the general trend toward convergence of communication and collaboration tools at the enterprise level**, we believe **Asana faces a broad set of large competitors including, Salesforce, Microsoft, Google, and Facebook.**

Asana's Valuation based on comparable of EV/Projected Revenue of other listed competitors:

Metric	Asana	Smartsheet	Atlassian	Slack
Projected Revenue	196 M	460 M	2082 M	1044 M
Revenue Growth	38%	41%	29%	36%
Net Dollar Retention	120%	128%	--	138%
Fund Raised	413 M	271 M	522 M	1.22 B
Gross Margin	86%	78%	84%	87%
FCF Margin	-33%	-13%	33%	-4%
Net Income	(118 M)	(104 M)	(351 M)	(323 M)
Valuation	4.27 B	7.08 B	50.00 B	23.25 B
EV/Revenue	21.8x	19.1x	24.03x	22.27x
Employees	1117	1780	4907	2431
NYSE	ASAN	SMAR	TEAM	WORK

Given the market conditions, with the valuation in tech space is inflated, we believe **the intrinsic valuation that Asana has ranges between \$3.5 - \$4.2 Billion** but with the recent froth that we see in the IPO market, Asana could open trading at a \$9-\$10 Billion valuation, which is overvalued as market sentiments are driving all the stocks of tech-based industry upwards.

As people continue to multitask on multiple projects – partly spurred by the rise in the other two collaboration categories – **a platform that helps keep them organized and on top of all the work. This is where Asana sits!**

While Asana has established partnerships with many of these organizations as part of its efforts to integrate various solutions into its platform, we believe **the competitive dynamic of these relationships remains an important risk factor for the business.** For example, Asana partners with Google and Microsoft to integrate with Skype but has a very competitive relationship with MS Office and G Suite.

Contrary to Jira, **Asana has a stronger footing among smaller businesses.** We believe this reflects the company's modest growth trajectory among startups and independent users, whereas the expansion of tools mentioned earlier has been primarily a function of Atlassian's ability to convert current large enterprise customers into users.



## Industry Drivers

**Changing Nature of Workforce:** With the gig economy changing the nature of work and driving demand for more independent contractors, outsourced workers, freelancers and other flexible working environments. This is ***driving demand for better workplace collaboration tools that are easy to use, understood broadly and can integrate across the thousands of applications*** organizations may utilize.

**Growing Use of Cloud Applications and Need to Integrate Work Groups:** The growing adoption of cloud applications is ***adding new complexity to the work environment as different teams use different tools to communicate***. This provides an opportunity for simple collaboration platforms that can function across enterprise functions such as sales, product, HR, finance, marketing, etc.

**ML and AI to Optimize Productivity:** As enterprises focus more on productivity through collaboration and employee alignment, ***the buzz around ML and AI capabilities is more marketing than reality — filtering is not ML***. Leveraging AI capabilities such as chat bots and voice-driven commands helps teams to drive greater adoption; this builds data that can support process automation optimization that can inform new use cases.

**Consumerization of IT:** As younger workers increasingly prefer to use workplace applications that resemble the kinds of applications they use personally. These applications ***provide easy-to-use self-service capabilities and function seamlessly across devices*** providing, richer personalization features that make them more enjoyable to use relative to legacy workplace apps.

## Impact of COVID-19 on Business and Industry

A study by 451 Research indicates that increasing productivity and collaboration was already a top priority for IT agencies, while a research by IDC research shows that ***more than 54% of the respondents believe that the spending on workflow management tools have accelerated post lockdown***.

Companies are grappling with the new normal. According to a research by Asana, ***50% of the employees surveyed worldwide said that the company goals have been deprioritized since the remote working began***. Such gaps provide a whitespace opportunity for the firms working to provide workflow management solutions.

## Future Products

Asana's vision for the next few years is to create a ***navigation system for organizations apart from its niche integration capabilities***. Listed below are few of the upcoming features in Asana that could help capture the market share better:

**Huddles:** Aims to improve the efficacy of regular meetings. The meeting will be transcribed automatically, and the action items will be allocated to the respective team members.

**Focus Mode:** Remove the distractions by setting preferences so we can only receive notifications that are important to current work.

**Workflow Store:** Provide teams with different workflows catering to different projects/challenges.

**Goals:** This feature will allow teams to tie the priorities of the company to their day-to-day work with real time tracking.

**GPS System for Work** – users tell Asana where they want to go and, using ML it automates the steps to get there, ***predictively analysing employees' intentions and optimizing surfacing work***, by matching skills to tasks, while assigning resources to manage schedules.



## Compliance and Due Diligence

### Laws and Regulations

Being an **“emerging growth” company as defined in the JOBS Act, 2012**. Asana is not required to comply with the provisions of Section 404 of the Sarbanes-Oxley Act of 2002. In addition, it faces reduced commitments with respect to financial reports and employee pay.

**Asana is subjected to GDPR and other data protection laws, for business and personal information protection.** Non-compliance to GDPR can lead to penalties amounting to €20mn or 4% of global revenues.

Other legislations requiring local storage and processing of data could overall **increase the cost and complexity of platform** especially as Asana looks to expand their operations globally.

### Taxation

Asana is subjected to different tax laws in several jurisdictions. Although Asana has **not been required to pay income tax yet**, new or updated tax regulations can have effect on volume of taxes collected in various countries.

Asana has so far **recorded deferred tax assets primarily coming from net operating losses carry forwards worth ~\$477 Million** and R&D tax credit forwards worth \$22 Million. The federal net operating losses in tax years beginning after December 2020, is limited to 80% of taxable income. It is unclear to what degree the different States can comply with either the Tax Act or the CARES Act.

### Insurance

**General Insurance:** Asana provides general liability insurance, which may not cover potential claims or other obligations. The result of the litigation (if any) may be very unpredictable and may have an adverse impact on company activities.

**A claim brought against Asana – uninsured or underinsured may result in unexpected expenses**, possibly detrimental to the financial situation and its activities. Asana's insurance coverage may not cover for damages in the case of serious natural disasters and other catastrophic events.

**Others:** Asana maintains insurance policies indemnify its directors and officers for the numerous risks occurring under the Securities Act and the Exchange Act that may be sustained by any director or officer in his role.

Keeping an eye on GDPR, the company invested in several capabilities, including encrypting web connections and replicating databases; it is also **certified under the EU-US Privacy Shield framework**.

### Employee Benefits and Compensation

Asana has a defined contribution retirement savings plan under section 401(k) of Internal Revenue Code. The company's contribution to the plan is at discretion of board of directors.

**ESPP:** ESPP allows members to buy shares of common stock by payroll deductions of up to 15% of their earnings. The purchase price of the shares would be 85% lower than the current market value of the ordinary shares of Asana.



## Work Culture and Core Values

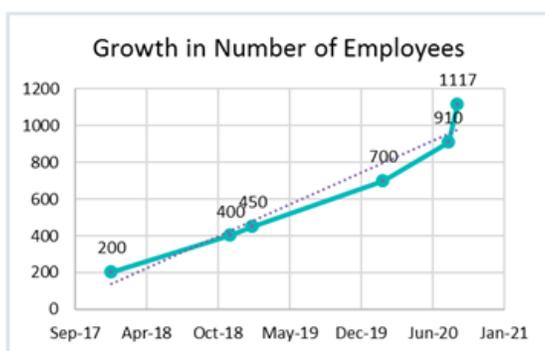
Asana is a mission-driven organization that has built its principles to optimize every individual's contribution to the business. The organization actively **engages in initiatives of diversity and inclusion to help all succeed** and allow them to meet diverse customer base requirements.

With 1117 employees on board, there are 207 reviews on the Glassdoor website, where **Asana gets the rating of 4.7/5 stars which is higher than the average industry benchmark**. According to Glassdoor 99% of the employees approve of the CEO and 98% of the employees would recommend working at Asana to a friend as a great place to work. The company has also been listed in top five small and medium workplaces in Bay Area by Great Place to Work.

With the core company values being:

- Do great things fast
- Clarity
- Co-Creation
- Give & Take responsibility
- Mindfulness
- Reject false trade-offs
- Be real (with yourself & others)
- Heartitude

These values form the foundation of the Diversity and Inclusion programs, which Asana's committed to develop and expand.



## Management

The core team at the San Francisco Office consists of diverse geographical background, with **2 women executives in a team of 9 Executive Officers** with the industry veterans having more than 15 years of experience.

- Dustin Moskowitz is the co-founder and CEO of Asana.
- Justin Rosenstein as Co-founder and Director.
- Anna Binder head of people operations at Asana
- Tim Wan is the Head of Finance at Asana,
- Chris Farinacci is Asana's Head of Business,
- Eleanor Lacey is the General Counsel and Head of Legal at Asana.
- Alex Hood is Asana's Head of Product, leading the company's product strategy and product organization
- Prashant Pandey - As head of engineering,
- Dave King is the Head of Marketing at Asana.
- Oliver Jay is Head of Global Sales and Business Development at Asana,

## Appendix

## Balance Sheet

	As of January 31,		As of
	2019	2020	April 30, 2020
	(in thousands)		
<b>Consolidated Balance Sheet Data:</b>			
Cash, cash equivalents, and marketable securities	\$ 87,967	\$ 351,308	\$ 331,546
Working capital <sup>(1)</sup>	59,662	280,506	253,070
Total assets	113,749	421,692	406,505
Deferred revenue	31,918	64,106	70,142
Convertible note, net—related party <sup>(2)</sup>	—	203,097	210,088
Redeemable convertible preferred stock warrant liability	94	—	—
Redeemable convertible preferred stock	250,370	250,581	250,581
Total stockholders' deficit	(181,011)	(145,315)	(175,611)

(1) Working capital is defined as current assets less current liabilities.

(2) Consists of a 3.5% senior mandatory convertible promissory note, net of debt discount, due in January 2025. For additional information, see "Description of Capital Stock—Senior Mandatory Convertible Promissory Notes."

## Income Statement

	Year Ended January 31,		Three Months Ended April 30,	
	2019	2020	2019	2020
	(in thousands, except per share amounts)			
<b>Consolidated Statements of Operations Data:</b>				
Revenues	\$ 76,770	\$ 142,606	\$ 27,970	\$ 47,706
Cost of revenues <sup>(1)</sup>	13,832	19,881	4,109	6,206
Gross profit	62,938	122,725	23,861	41,500
Operating expenses:				
Research and development <sup>(1)</sup>	42,585	89,675	13,432	22,383
Sales and marketing <sup>(1)</sup>	52,106	105,836	18,859	36,091
General and administrative <sup>(1)</sup>	20,260	46,845	6,934	12,111
Total operating expenses	114,951	242,356	39,225	70,585
Loss from operations	(52,013)	(119,631)	(15,364)	(29,085)
Interest income	1,290	1,755	558	694
Interest expense	—	(78)	—	(6,991)
Other income (expense), net	(177)	(390)	(86)	(340)
Loss before provision for income taxes	(50,900)	(118,344)	(14,892)	(35,722)
Provision for income taxes	28	245	61	123
Net loss	\$ (50,928)	\$ (118,589)	\$ (14,953)	\$ (35,845)
Net loss per share <sup>(2)</sup> :				
Basic and diluted	\$ (0.78)	\$ (1.69)	\$ (0.22)	\$ (0.47)
Weighted-average shares used in calculating net loss per share <sup>(2)</sup> :				
Basic and diluted	65,214	70,335	67,782	75,641
Pro forma net loss per share <sup>(2)</sup> :				
Basic and diluted	\$ (0.82)			\$ (0.24)
Weighted-average shares used in calculating pro forma net loss per share <sup>(2)</sup> :				
Basic and diluted		143,887		149,218



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