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

Thanks Jesse, and thank you all for joining today's call.

I want to start by acknowledging that we're presenting this information in an environment of pronounced uncertainty. We already see shifts in customer behavior, from an increased interest in remote work and how Slack can be helpful in that transformation to the potential for hesitation around purchase decisions.

At this time we don't have a clear idea of the net impact of the macro environment on our business, which is another way of saying that there is more uncertainty than normal in our forecasting. You'll see this reflected in our guidance.

Having said that, we have *no* uncertainty that we are in the right market with the right product at the right time and we're confident about our opportunities to drive further innovation and growth.

We had a strong close both to the quarter and the year and we remain very excited about the year ahead.

Allen will cover the details of our fiscal 2020 results and guidance for fiscal '21 but in short:

- Revenue for the quarter was 182 million, up 49% vs Q4 of fiscal '19, while revenue for the full year was 630 million, up 57% year-on-year.
- We added 5,000 net new Paid Customers in the quarter, bringing the total to more than 110,000.
- And finally, we continue to show leverage: non-GAAP operating margin improved 18 percentage points year-over-year. We expect continued operating leverage in the year ahead.

Now I want to focus on three important priorities for this year. Those are:

- first, continuing to expand our leadership in the enterprise segment;
- second, accelerating our growth in SMB and self-serve by increasing the rate at which new teams are successful on Slack;
- and third, expanding our shared channels feature-set to drive new use cases in communication across organizational boundaries.

Starting with our enterprise business, we saw exceptional growth at the high end, ending the quarter with 70 customers from whom we have one million dollars or more in annual spend. That's an increase of 32% from last quarter and nearly 80% from the 39 million-dollar plus customers we had at the end of fiscal '19.

We also ended the year with 893 customers spending more than $100,000 annually, up from 575 at the end of fiscal '19. Both million-dollar and $100,000 plus traction speaks to our continued momentum in the enterprise segment of the market. We also continue to win not just against the status quo, but head-to-head against Microsoft Teams: 4 of our 5 largest deals in the fourth quarter were against Teams.

New and expansion deals for the quarter demonstrate the breadth of our global enterprise penetration across all industries. They include Nationwide, KPMG, HP, Rakuten, Kyocera, and Sainsbury's. They join Air Canada, TD Ameritrade, United Technologies, Uber, GlaxoSmithKline, Vodafone, SiriusXM, NEC, NTT Data, Nikkei, and the US Federal Government.

Our largest customers are also some of the largest companies in the world: 7 of our 10 largest customers are members of the Fortune 100 and 17 of our top 20 customers are members of either the Global or Fortune 500. They also tend to be Microsoft customers - as noted last quarter, the majority of our million dollar customers also use Office365 and they made the choice to invest in Slack anyway. Behind these numbers are a lot of good stories which are just starting to be understood and appreciated now. We'll be telling more of them in the year ahead.

We continue to win in the largest companies in the world because as organizations continue to move from email and to channel-based messaging platforms, Slack stands alone as the only offering that is truly Enterprise Grade. We have significant advantages in scalability, platform depth and integrations, compliance features, security and usability that our customers value when undertaking digital transformation initiatives.

The best evidence for this is our momentum across regulated industries, including in the federal government. This quarter that momentum continued with the Department of Veterans Affairs rolling out Slack to more than 20,000 employees as part of a broader transformation effort. They join more than a dozen *other* agencies or departments within the federal government who are growing their Slack usage.

Also this quarter, one of the largest defense contractors in the US signed a multi-year multi-million dollar agreement to expand their Slack usage to more than 50,000 knowledge workers. They chose Slack over Microsoft Teams in part because of our ability to scale, and our strength in security, and they will be relying on our enterprise key management feature to remain compliant.

While we do our best to help customers understand these fundamental differences between Slack and its competitors, it doesn't always work. That's why it's interesting to see the results of in-depth evaluations of Slack and competitive products, particularly Microsoft Teams, which began years ago, begin to come to their conclusions. Customers overwhelmingly tend to expand their Slack usage once they understand the fundamental differences.

One of our many Teams displacements from this quarter was a Fortune 100 retailer who, having paused their Slack expansion at 10,000 users about a year and half ago, went on to deploy Microsoft Teams to around 30,000 other employees in an attempt to evaluate the service.

The process was plagued with challenges — from a near-complete lack of engagement to architectural deficiencies which caused overwhelming administrative complexity. The result was so frustrating both for end users and administrators that, last quarter, they ended their Microsoft Teams evaluation and signed an agreement to go wall-to-wall on Slack.

The reasons were simple: Slack scales elegantly for both end users and administrators. Slack's superior user experience and platform capabilities result in real engagement. And if you want to change the way people work together through software, people have to actually use the software to work together.

And when that happens, people stick with it. We see extremely low churn across our entire customer base. In fiscal year 2020, customer retention on a percentage basis for our $100k-plus customers was in the high-90s. Looking at smaller customers tells a similar story: the percentage rate for customers spending between $1k and $100k a year was in the low-to-mid-90s.

Finally, a note on the enterprise ecosystem. In the fourth quarter we closed a number of large deals alongside partners such as Atlassian, Box, Okta and Zoom. We see more value to unlock there on the go-to-market side and also with tighter integrations. In the first half we plan to launch new integrations with voice and video offerings, including Amazon Chime, Cisco Jabber, Microsoft Teams, RingCentral, and Zoom Phone.

Moving on, our second strategic priority for this year is increasing the rate at which teams succeed in converting to Slack. We expect this to have an impact on our SMB segment, which is primarily addressed by our self-service distribution strategy. In fiscal '20 we added 22,000 net new paid customers, most of whom are SMBs. That's a large number of customers for an enterprise software company, but we believe there are *millions* of addressable customers in the SMB segment and we think there are opportunities for us to accelerate our growth on this side of the business.

We have a lot of raw material to work with. Every week about a million prospects visit our website and tens of thousands of new teams are created. Given this volume of interest, our major focus is making *more* of the teams who get started on Slack successful more quickly.

A wide variety of businesses use Slack and while surveys indicate two thirds of our tenured users are already non-technical, we still have work to do to make Slack more accessible for non-early adopters. In the first half of this year we plan to launch a dramatically improved user interface. This is the first fundamental overhaul to Slack's user interface since we launched and we're very encouraged by the results of early testing.

We are also investing heavily in the experience for new users, reducing friction and helping them understand how Slack works and what they will get out of it.

We'll continue to update you on the progress here, but given the size of the addressable market, we feel ongoing investment into this part of the business will generate high returns over time.

Our third priority for this year is shared channels, which allow for seamless communication across organizational boundaries using Slack. Despite a big break for most of our customers during the holidays, we ended the quarter with over 32,000 paid customers using shared channels, up from over 26,000 last quarter. The rate of creation is even more impressive: the number of shared channels created per week in the last week of January was up about 50% from the last week of October. And among our biggest customers we've seen the biggest success: almost 90% of our $100k+ customers are using shared channels to communicate outside the boundaries of their organizations.

We have an ambitious roadmap for shared channels this year. The most important release will be the ability for three or more organizations to share a channel. Up to now, shared channels have been limited to 1:1 sharing.

These "multi-org shared channels" will massively expand the use cases for shared channels, unlocking more complex collaboration across and between a company's customers, vendors and partners. We'll highlight more of the roadmap here in the quarters ahead.

We'll also update you on the business impact. Early data indicates a strong correlation between shared channels adoption, and customer retention and expansion. This is obviously exciting, but I want to caveat that we have more work to do to understand how the network is evolving and how it will impact our business. I'll disclose more in the coming quarters about how the network model is evolving and how we think it can drive revenue growth over time.

Before handing it over to Allen, I want to conclude with some comments about the overall state of the company. I feel a renewed optimism that comes from having risen to meet the challenges of the last few years. It is not easy or simple to go from hundreds of employees to thousands, or from tens to hundreds of thousands of customers. But with each order of magnitude, certain things begin getting easier.

Our investments in foundational technology and infrastructure improvements over the last few years are starting to pay off. The same is true of our investments in leadership and organizational structure. The work we're doing today would have been impossible for us a year ago and we are now in a position to accelerate the pace of innovation and extend our lead.

In the meantime, this new channel-based messaging platform category is taking shape. Customers are starting to appreciate the differences. The most demanding customers have realized that Slack is the only option for Enterprise scale and Enterprise quality, and others are following their lead.

Our strategy is clear. We are transforming business communication. And, by building the best platform for customers to execute on their own transformation efforts, we are helping define the future of work.

We are doing this all while becoming a stronger business that can grow both its top and bottom line at the same time. I'm looking forward to another year of strong growth and innovation and with that I'll hand it over to Allen.

Prepared Remarks
Allen Shim, Chief Financial Officer

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

I will go through our fourth fiscal quarter results in detail before moving on to guidance for the first quarter and full year fiscal 2021.

Total revenues in the fourth quarter were $182 million, growing 49% year-over-year.

Our Q4 calculated billings were $255 million, growing 47% year-over-year. Fiscal 2020 calculated billings were $765 million and grew 48% year-over-year. Billings in the second-half of fiscal year 20 were negatively impacted by approximately $5 million of credits issued in the second quarter.

Remaining performance obligations were $328 million up 18% quarter-over-quarter and 77% year-over-year. As mentioned on the last call, 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 customers to standardize on Slack.

In terms of geographic breakdown, 37% of our total revenue came from outside the U.S. which is in line with Q4 last year. We continue to invest in international expansion, particularly within our direct sales organization. In fiscal year 2020 we opened offices in Munich, Paris, Sydney, and Osaka.

As of the end of Q4 we surpassed 110,000 Paid Customers, up 25% year-over-year. As a reminder, in the second half of fiscal year 2019 net new Paid Customer growth benefited from the Atlassian acquisition, which contributed approximately 1,800 customers in the second half of fiscal year 2019.

We remain focused on expansion within existing customers and growing our large enterprise customer base, and ended the quarter with 893 Paid Customers with greater than $100,000 in annual recurring revenue, which is up 55% year-over-year. As Stewart mentioned, we ended the year with 70 customers with greater than $1 million in annual recurring revenue. This is up from 39 a year ago. Million dollar customers will continue to be a milestone disclosure moving forward.

Paid Customers with greater than $100,000 in annual recurring revenue represented 47% of revenue in the fourth quarter, up from 41% in the year ago quarter. For the full year, $100,000-plus customers represented 46% of revenue, up from 40% in fiscal year 2019. We expect revenue contribution from $100,000-plus customers to continue to increase moving forward.

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

As Stewart mentioned, our customer retention for $100,000-plus customers is in the high-90s percent and has been fairly consistent over the last three years. Our customer retention for customers that spend between $1k and $100k is in the low to mid 90s percent and has also been consistent for the last three years. These customers collectively represent over 95% of our annual recurring revenue. This is a one-time disclosure, but one that we think is helpful in understanding the unit economics of our business.

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

Q4 fiscal 2020 gross margin was 88% versus 87% a year ago.

R&D expenses were $58 million or 32% of revenue. We continue to invest into Slack's user experience, scalability, platform and new features such as shared channels and expect R&D to roughly grow in-line with revenue in fiscal year '21.

Sales and marketing expenses were $86 million or 47% of revenue. We continue to see year-over-year leverage in sales and marketing, despite sales headcount growth greater than 50% year-over-year.

G&A expenses were $39 million or 22% 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 $23 million, representing an Operating Margin of negative 13%.

Free cash flow was negative $1 million. Free cash flow includes $11 million of capital expenditures related to the buildout of office space.

Stock-based compensation and related employer payroll taxes were $67 million in the quarter. As a reminder, due to the performance-based vesting condition of our RSUs, stock-based compensation recognition is accelerated in the first year after going public.

Now I'll turn to guidance.

For the first quarter we expect revenue in a range of $185 million to $188 million representing growth of 38% at the midpoint.

We expect non-GAAP operating loss in a range of negative $42 million to negative $38 million.

We expect non-GAAP EPS in a range of negative $0.07 to negative $0.06. We are modeling Q1 basic shares outstanding of approximately 557 million.

For fiscal year '21, we are initiating revenue guidance of $842 million to $862 million, or 35% growth at the midpoint.

We are initiating billings guidance of $970 million to $1 billion. In terms of billings seasonality, we currently expect the first half to represent about 40% of full year billings. As we have discussed before, we expect our business to become more back-end weighted due to the growth of our enterprise business and, particularly this year, the timing of renewals.

For example, we expect about $10 million of billings that occurred in Q1 of fiscal 2020 to be renewed in the latter three quarters of the year in fiscal 2021. We encourage investors to focus on trailing twelve month billings and our full year billings guidance as the best measures of underlying growth in our business.

Additionally, we are taking into consideration our best guess of the potential impact from COVID-19. We have paused all non-essential travel and have encouraged employees to work from home, as have some of our customers and prospects.

While the pipeline currently remains healthy, we see risk due to increased customer uncertainty and travel disruption, particularly in the enterprise segment.

Given the aforementioned risk, we believe it is prudent to bake in somewhat slower growth in the first half, particularly Q1, versus the rest of the year. Our guidance reflects this. And, to provide additional color, we expect sequential billings growth from Q1 to Q2 to be faster than it was in fiscal 2020.

On the positive front, we are seeing customers begin to work remotely and many are looking to Slack to help manage this. Over the last week we have observed a significant spike in created teams, which typically start out as free.

We are initiating non-GAAP operating loss guidance in a range of negative $130 million to negative $120 million.

We expect full year stock-based compensation expense and related employer payroll taxes to be less than 32% of revenue in fiscal '21 and to be lower in the second half as a percentage of revenue than the first half.

We are initiating full year EPS guidance in a range of negative $0.21 to negative $0.19. We are modeling full year weighted average basic shares outstanding of approximately 566 million.

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

For fiscal year '21 capex, we expect approximately $40 million of capital expenditures related to office space buildouts.

To close, we drove over 1000 points of leverage in fiscal 2020 while making substantial investments in the public company process, sales, marketing, international expansion and product development. In fiscal year '21, we plan to continue to invest into what we view as a very large opportunity in the channel-based messaging platform market while continuing to drive leverage in the business.

Finally, we've started to create shared channels with many funds and analysts for investor relations communications and coordination. If you are an investor or analyst that would like to create a shared channel with the Slack IR team, please let us know and we will introduce you to the future of B2B communication.

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