S&P Global
Market Intelligence

Smartsheet Inc. NYSE:SMAR

Earnings Call

Thursday, September 5, 2024 9:30 PM GMT

Call Participants

EXECUTIVES

Aaron Turner
Vice President of Investor Relations & Treasury

Mark P. Mader
President, CEO & Director

Pete Godbole
CFO & Treasurer

ANALYSTS

Aleksandr J. Zukin
Wolfe Research, LLC

Brent John Thill
Jefferies LLC, Research Division

George Michael Kurosawa
Citigroup Inc., Research Division

Jackson Edmund Ader
KeyBanc Capital Markets Inc., Research Division

Jaiden Rajiv Patel
JPMorgan Chase & Co, Research Division

John Stephen DiFucci
Guggenheim Securities, LLC, Research Division

Joshua Phillip Baer
Morgan Stanley, Research Division

Keith Frances Bachman
BMO Capital Markets Equity Research

Michael H. Berg
Wells Fargo Securities, LLC, Research Division

Michael J. Funk
BofA Securities, Research Division

Robert Michael Morelli
Needham & Company, LLC, Research Division

Terrell Frederick Tillman
Truist Securities, Inc., Research Division

Presentation

Operator

Good afternoon, and welcome to the Smartsheet Inc. Second Quarter Fiscal 2025 Earnings Conference Call. Please note that this call is being recorded. [Operator Instructions]

I will now turn the call over to Mr. Aaron Turner, Head of Investor Relations. You may begin your conference.

Aaron Turner
Vice President of Investor Relations & Treasury

Great. Thank you. Good afternoon, and welcome, everyone, to Smartsheet's Second Quarter of Fiscal Year 2025 Earnings Call. We will be discussing the results announced in our press release issued after the market closed today. With me today are Smartsheet's CEO, Mark Mader; and our CFO, Pete Godbole.

Today's call is being webcast and will also be available for replay on our Investor Relations website at investors.smartsheet.com. There's a slide presentation that accompanies Pete's prepared remarks, which can be viewed in the Events section of our Investor Relations website.

During this call, we will make forward-looking statements within the meaning of the federal securities laws. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends. These forward-looking statements are subject to a number of risks and other factors, including, but not limited to, those described in our SEC filings available on our Investor Relations website and on the SEC website at www.sec.gov. Although we believe that the expectations reflected in the forward-looking statements are reasonable, our actual results may differ materially and/or adversely. All forward-looking statements made during this call are based on information available to us as of today, and we do not assume any obligation to update these statements as a result of new information or future events, except as required by law.

In addition to the U.S. GAAP financials, we will discuss certain non-GAAP financial measures. A reconciliation to the most directly comparable U.S. GAAP measures is available in the presentation that accompanies this call, which can be found on our Investor Relations website.

With that, let me turn the call over to Mark.

Mark P. Mader
President, CEO & Director

Thank you, Aaron, and good afternoon, everyone. Welcome to our second quarter earnings call for fiscal year 2025.

Q2 was a strong quarter that further demonstrated our momentum in the enterprise. 75 customers expanded their Smartsheet ARR by more than $100,000, and we have 3 transactions over $1 million, one of which was over $4 million. We now have 77 customers with ARR over $1 million, up 50% from Q2 last year. And of those 77 customers, 5 of them are government agencies.

We ended the quarter with annualized recurring revenue of $1.093 billion and more than 15.3 million Smartsheet users. In Q2, we expanded with customers, including Intuit, SKECHERS and City National Bank, among others. In June, we launched our new pricing and packaging model. To date, we've seen thousands of new customers transact on the model, which is leading to high engagement and the addition of many provisional members across these plans. While only a small number of our customers have reached their first true-up period, we are encouraged by the positive early results.

Building on the success with global system integrators mentioned on our last call, in Q2, we signed a large expansion with another Big 4 consulting firm, where Smartsheet is being used to streamline client engagement. Smartsheet enabled them to automate their processes through a standardized project delivery framework, which improved the quality of their work and led to significant savings. This customer was an early adopter of our new pricing model, and they estimate that deploying Smartsheet at scale saved the team 39,000 working hours in the last year, reducing their project delivery costs by nearly 12%. Demand for Smartsheet is growing across the organization with users at the company increasing by 120% year-over-year. They are now expanding their Smartsheet project delivery solution to support customers in the EU and U.S. federal government. They are also building new solutions to streamline other aspects of their client engagement life cycle.

We also had a 7-figure expansion with one of our largest enterprise customers during their annual renewal. With the total Smartsheet user population of over 150,000 users, our success in this account has been driven in part by our differentiated feature set and our enterprise-grade security and administration. Smartsheet has corporate-level IT and security approval, enabling any team across the company to adopt Smartsheet. As a result of increased self-discovery, we have seen a boost in demand of our premium capabilities and growth in this account. This has resulted in Data Shuttle workflows increasing nearly 200% and Dynamic View configurations growing by 450% over the past year.

Also in Q2, we closed a competitive deal with a prominent financial services company following an RFP process that included other CWM vendors. This new customer onboards thousands of clients a year, and they're executing increasingly complex projects. In order to scale with their customers, they needed to replace their in-house solution with a more robust work management platform, and they chose Smartsheet because of our enterprise readiness and scale. We're partnering with them to develop an integrated project delivery solution that will streamline their processes, improve collaboration with clients and establish unified reporting. They expect this solution to increase customer satisfaction while saving their employees thousands of hours per year, unlocking the capacity to work on additional projects and ultimately grow revenue.

As we move into the second half of FY '25, we are making good progress on the comprehensive modernization of the Smartsheet platform, a strategic investment that is ongoing. In just a few weeks, we'll be hosting our annual customer conference, ENGAGE Seattle. During this year's conference, we'll be showcasing the new Smartsheet, a new experience that is more beautiful, powerful and more integrated than ever before. It will empower our customers to manage their projects, programs and processes at even larger scale and sophistication.

The new Smartsheet experience simplifies and streamlines getting started for users. It will be easier to create solutions and quickly initiate projects and processes with all the necessary tools for configuration and management, all accessible right from a highly visual AI-driven home experience. We are also introducing significant enhancements in how users create, organize and share, whether they're building assets for a marketing campaign or managing documentation for a service delivery program. One of the key improvements simplifies collaboration with stakeholders, making it easier to collect feedback and drive reviews on digital files such as images, videos and PDFs.

Over the past few months, I've personally seen the benefits of more accurate, actionable feedback and the substantial time savings for our teams. I believe our customers are going to love this new collaboration experience. The new and improved Smartsheet features, along with our new user subscription model and self-service access to premium capabilities, enables more customers to solve their most common as well as their more complex work management needs.

Generative AI is proving to be a helpful differentiator for Smartsheet. Our AI-powered tools like formula generation and text summaries are designed to simplify complex tasks, saving time and reducing errors. We're committed to expanding these capabilities to help our customers work more efficiently.

In Q2, we saw a nearly 50% sequential growth in the number of users utilizing our AI tools. Adoption is already showing significant benefits to our customers with approximately 47,000 users having already saved an estimated 1 million hours from AI automations and performance improvements. We also saw positive early results, suggesting that AI-generated formulas and conversational support are effectively acting as our first point of contact for customer support, reducing friction with the platform and lowering our customer support costs. We expect to see the customer impact of AI tools grow meaningfully as we expand them to support cross-sheet formulas, provide portfolio insights and co-build solutions with users.

Starting mid-September, in a push to enable customers to feel the impact of AI and to experience one benefit of our enterprise plan, Smartsheet will grant limited time access to our AI tools to all users through December 31, 2024.

In closing, nearly 2 quarters since the hiring of Max Long and the appointment of Praerit Garg to their respective roles, investments in our go-to-market and deployment of our next-gen product experiences are well underway. Through a combination of a use case-oriented value framework, a simplified licensing model, new user experiences and class-leading scale, FY '25 will be a transformative year for our customers, our company and the Smartsheet platform. We are laying the foundation for the years ahead.

Now let me turn the call over to Pete.

Pete Godbole
CFO & Treasurer

Thank you, Mark. As Mark mentioned, we continue to see considerable strength in our enterprise segment highlighted by large deals, our largest quarterly expansion in our company's history and an enterprise NDRR that remains at 120%. Additionally, in Q2, we launched our share buyback program and repurchased 918,000 shares for a total of $40 million in the quarter. We have $110 million remaining on our existing share buyback authorization as of July 31.

I will now go through our financial results for the second quarter. Unless otherwise stated, all references to our expenses and operating results are on a non-GAAP basis and are reconciled to our GAAP results in the earnings release and presentation that was posted before the call.

Turning now to our quarterly results. Second quarter revenue came in at $276.4 million, up 17% year-over-year. Subscription revenue was $263.5 million, representing year-over-year growth of 19%. Services revenue was $12.9 million. Revenue from capabilities made up 35% of subscription revenue. Annualized recurring revenue, or ARR, grew 17% year-over-year in the second quarter to $1.093 billion.

Moving on to our reported metrics. The number of customers with ARR over $50,000 grew 17% year-over-year to 4,140. And the number of customers with ARR over $100,000 grew 23% year-over-year to 2,056. These customer segments now represent 69% and 55%, respectively, of total ARR. The percentage of our ARR coming from customers with ARR over $5,000 is at 92%.

Next, our domain average ARR grew 16% year-over-year to $10,291. We ended the quarter with a dollar-based net retention rate inclusive of all our customers of 113%. The full churn rate increased slightly due to elevated churn rates in our smaller customer segments and is now around 4.5%.

Now turning back to the financials. Our total gross margin was 84%. Our Q2 subscription gross margin was 87%. Overall, operating income in the quarter was $45.3 million or 16% of revenue. Free cash flow in the quarter was $57.2 million.

On guidance, we are maintaining our previous FY '25 revenue guidance of 16% to 17%. While we beat our Q2 revenue guidance, we have lowered our assumption for services revenue for the full year due to a higher percentage of services delivered by partners. We now expect services revenue to be 4.5% of total revenue, down from 5% for FY '25. Absent this shift, our full year revenue guidance would have increased. Our Q3 revenue guidance also takes into account this change.

For the third quarter of FY '25, we expect revenue to be in the range of $282 million to $285 million and non-GAAP operating income to be in the range of $42 million to $44 million. We expect non-GAAP net income per share to be $0.29 to $0.31 based on diluted weighted average shares outstanding of 142.5 million. For the full fiscal year '25, we expect revenue of $1.116 billion to $1.121 billion, representing growth of 16% to 17%. We expect services revenue to be around 4.5% of total revenue.

We are raising our non-GAAP operating income to be in the range of $177 million to $182 million, representing an operating margin of 16%, and raising our non-GAAP net income per share to be $1.36 to $1.39 for the year based on 141.9 million diluted weighted average shares outstanding.

We are updating our FY '25 ARR guidance to be between $1.177 billion to $1.180 billion, representing growth between 14.2% to 14.5%. Regarding seasonality, we expect our Q3 ARR growth rate to be between our Q2 ARR growth rate and our full year ARR growth rate guidance. We are raising our FY '25 free cash flow to be $240 million, representing a free cash flow margin of 21%.

To conclude, Q2 was highlighted by a continuation of our strong performance in the enterprise and progress on our key initiatives. We launched our new pricing and packaging model to new customers in June and are on track to migrate our existing customers over to the new model starting in January. We are looking forward to unveiling a comprehensive transformation of our platform at our upcoming ENGAGE conference in October. We remain well positioned to drive durable and profitable growth this year and beyond.
Now let me turn the call over to the operator. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Terry Tillman with Truist Securities.

Terrell Frederick Tillman
Truist Securities, Inc., Research Division

Mark, Pete and Aaron, it's good to see the ongoing progress on the enterprise side of the business. My first question just relates to -- I know that it's FY '26 when this is going to be instituted in terms of the new pricing and packaging for existing customers, but you've got a lot of new innovation. You've got a lot that you're going to announce at ENGAGE, new experience, et cetera. Have you thought about potentially some of these existing enterprise customers going ahead and starting to leverage the new pricing ahead of time just given you have a lot of reasons to be talking to them about capabilities? And could that drive upside to ARR?

And then the second question and less long-winded than the first one is, with this kind of new provisioning model for the administrators, do you potentially see some sales leverage as they can really kind of turn this on themselves?

Pete Godbole
CFO & Treasurer

So Terry, in terms of your first question, we do see -- expect some interest from our existing customers, and that could translate into potential dollars for us this fiscal year. And as we've rolled it out to a larger majority of our customers, we expect that percent -- that number could increase in terms of customers expressing an interest in moving early and that contributing to increased bookings to that extent. So that's the first part of it.

The second part of your question was around self-directed capabilities and improving the motion and efficiency of the sales model. Clearly, as people discover those capabilities, there will be efficiency in the model because there isn't as much selling to be done, and that will be a part of our process as we think about FY '26 going forward.

Operator

Our next question comes from Josh Baer with Morgan Stanley.

Joshua Phillip Baer
Morgan Stanley, Research Division

Wanted to stick on this topic of the new pricing model. Just hoping you could provide a little bit more context on the initial customer behavior around the new model. Any rule of thumb for how much of what you typically expect would just be the free users are now monetized? Any update on the assumptions around the benefit from pricing changes both this year or longer term from some of these initial usage here? And just wondering how the price per paid seat is evolving under this new model.

Mark P. Mader
President, CEO & Director

Yes, Josh. Last week was our first week where we saw those first of the thousands of customers who are on the new model hit their true-up period. And we were all waiting with bated breath to see what would happen. We're really pleased to see confirming data come out of that. So high level, more users, more value being realized by a greater number of people, these clients and more ARR.

So that approach of lower P with a conforming Q or a higher Q, that is playing out to our expectations. And again, we have a whopping 1 week of data. So 1 week of data does not a durable trend make, but really pleased to see that first card out of the shoe look good.

Operator

Our next question comes from Jackson Ader with KeyBanc Capital Markets.

Jackson Edmund Ader
KeyBanc Capital Markets Inc., Research Division

So some reports out about the company possibly being in play for an acquisition. I'm just curious if we can get your thoughts on those reports first.

Mark P. Mader
President, CEO & Director

Yes. We're not going to comment on that today, but happy to take any other questions on the quarter or outlook.

Jackson Edmund Ader
KeyBanc Capital Markets Inc., Research Division

Yes, that's fair. I had to ask. Okay. So I guess a follow-up question is that -- the share repurchase program. Is the company still in the market acquire repurchasing shares in the -- I guess this is now the third fiscal quarter?

Pete Godbole
CFO & Treasurer

We have -- the share repurchase program continues, and it continues all the way through the year. That's the way the program has been set up for us to be purchasing.

Jackson Edmund Ader
KeyBanc Capital Markets Inc., Research Division

All right. And then I'm sorry, if I can just squeeze one more in. On the AI capabilities like giving people access for the next couple of months, will there be any like gross margin impact to that where you're providing these capabilities? I assume that's going to draw on some compute resources but not really recognizing any uplift in revenue.

Mark P. Mader
President, CEO & Director

No. We don't really expect that to be a major topic. Huge kudos to our product and engineering teams. They actually have moved a lot of that workload over to a new model, which is significantly more efficient. So we feel very confident in our ability to serve a much larger population with really de minimis impact on the cost change side.

Operator

Our next question comes from Alex Zukin with Wolfe Research.

Aleksandr J. Zukin
Wolfe Research, LLC

Congrats on a solid quarter here. Maybe just the 2 for me. I wanted to ask about just bookings linearity trends in the quarter, how it progressed, how it kind of ended up and how that compares to the prior quarter.

And then just any thoughts about NRR trends through the second half and any comments about -- you made a couple of competition comments, winning some bake-offs against other work management vendors. Curious if you could dive a little deeper there as well.

Pete Godbole
CFO & Treasurer

Yes. So the -- your first question was on implied bookings, Alex. So the implied bookings and sort of how they came out for the quarter, very similar between quarters. There was not a big difference in how this quarter looked versus the previous quarter. So that was your first question.

Your second question, can you repeat what your second question was?

Aleksandr J. Zukin
Wolfe Research, LLC

Just NRR trends for the second half. Do you expect it to be stable or further decline, expanding?

Pete Godbole
CFO & Treasurer

So the -- what we've said before has been that we expect NRR to track down, consistent with our overall ARR guidance, so that will follow in suit, if you will. There's no change in how we think about that in that respect.

Aleksandr J. Zukin
Wolfe Research, LLC

Okay. And [indiscernible] competition -- yes, just a competition question. Double clicking on that a little bit and what you saw in the quarter, both in the higher end of the market and then the lower end.

Mark P. Mader
President, CEO & Director

Yes. We really haven't seen any meaningful change, Alex. I mean we continue to crank along in terms of new opportunities that we're winning. We had our largest ever expansion at one of our $1 million-plus accounts. So that continues to go. I think what I'm really looking forward to as we hit the second half is, as our experiences change/improve and with -- compared with our new pricing model, I think that's going to resonate quite well with the people who are starting out. So I should see -- I should expect a little bit better conversion at that entry point. But again, at the high end of the enterprise, we continue to -- the team continues to perform really nicely.

Operator

Our next question comes from John DiFucci with Guggenheim Securities.

John Stephen DiFucci
Guggenheim Securities, LLC, Research Division

I have a question also on the new pricing. And the P times Q math works really nicely. But Mark, I think like we do expect the number of paid users to increase, which is logical. And I think you've said that they could double. Well, first of all, is that true?

And then Mark or Pete, or both of you. I get that you're moving to industry standards for pricing. But if this math all works out, like at least a simple math in my head, customers would be paying more. And I'm not sure why they'd be eager to switch, and frankly, not maybe even resist it and perhaps even threaten to leave. So is this sort of a logical question? And I just wonder how I should be think -- we should be thinking about this.

Mark P. Mader
President, CEO & Director

Yes. So I still feel very confident, John, in our ability to double our paid user base. I think what -- when prices change and when models change, I think customers' expectation is that value has to change, too. So if you can clearly demonstrate more value, people are actually open to listening. People do not like it when prices change and value doesn't change. And that's part of what -- as we're working with our clients now and we're enrolling them on who gets to participate, they absolutely have a choice.

The good news is we're moving to a model which is conforming to how other software is charged for. So there really aren't a lot of, I'll call them, sanctuary cities that you can go to where you can get the free opportunity. So we're confident that the value we're layering into the platform does resonate with people. The early metrics in the thousands of customers who have signed on, I think, was indicative of how the existing base will respond, too.

And we've had not only example with the people starting out. As we mentioned in our remarks, the largest -- one of our largest global SIs is on the new model. They're expanding very rapidly. They're doing so with this new backdrop. And they're, again, seeing the value being -- they're experiencing that value being realized. So again, it's very early. But we're really pleased with the indications we're seeing so far.

John Stephen DiFucci
Guggenheim Securities, LLC, Research Division

And that makes sense, Mark. But what exactly is that value? Are there new features and functionality? Are these things on the come relative to the old pricing? Or I mean it's not just the pricing model, right?

Mark P. Mader
President, CEO & Director

Yes. In the old world, John, all you could do as a free collaborator is like comment on something and edit on something. You couldn't use AI. You couldn't construct anything. You couldn't create a dashboard. You couldn't do any reporting. It's like you're pretty handcuffed. So what we heard from a lot of our customers was they didn't like that friction of the haves and the have-nots. So this is a huge unlock for these populations, in some cases, 100,000-plus people where they no longer need to navigate this uncomfortable difference. And yes, again, fortunately, the early reaction to this has been net positive.

John Stephen DiFucci
Guggenheim Securities, LLC, Research Division

Got it. Okay. So the actual level of usage has gone up in a more sophisticated way. Got it. Okay.

Operator

Our next question comes from Michael Berg with Wells Fargo Securities.

Michael H. Berg
Wells Fargo Securities, LLC, Research Division

I just had a quick one on the increase in churn. You mentioned from smaller customers, but I want to get some clarity if there's any other dynamics to point to in other segments of the market, whether it's mid-market, enterprise or any verticals in particular?

Pete Godbole
CFO & Treasurer

We didn't see anything in particular. It's exactly as we said in our smaller segments. We saw some slight tick-up in churn. That's what we called out.

Michael H. Berg
Wells Fargo Securities, LLC, Research Division

And then one quick follow-up. Anything new to point to in terms of paid users on the P times Q math with the new pricing model?

Mark P. Mader
President, CEO & Director

No further details at this time. Again, we're a week through -- 1 week past our first group truing up. Pleased to see, but we're not reporting out on any dip between the old model and the new.

Operator

Our next question comes from Pinjalim Bora with JPMorgan.

Jaiden Rajiv Patel
JPMorgan Chase & Co, Research Division

This is Jaiden on for Pinjalim. Are you giving customers the ability to renew earlier than 2025 to lock in the prior pricing model one last time? One of your partners noted something similar. And we were wondering if this is a broad-based thing or may be limited to a small subset of customers.

Pete Godbole
CFO & Treasurer

Jim (sic) [Jaiden], you know the -- what we're finding in conversations with customers is we're not giving them an option to renew under the old model for long durations. The preference is to convert them to the new model early with an ability to sort of experience the value the new model provides. So that's been the trend. We're not on the early renewal of the old model approach.

Operator

Our next question comes from Michael Funk with Bank of America.

Michael J. Funk
BofA Securities, Research Division

I think you mentioned it earlier, but can you reiterate what you're seeing like-for-like customer spend under the new model versus the previous model?

Mark P. Mader
President, CEO & Director

We're not giving specifics of it. I will say that the -- as we look at the P and the Q, we are seeing higher ARR contributions from people who have reached that first step of -- that first phase of maturity, that first true-up motion. So the thesis, which was bring down the P, have people connect -- more people connect to value, resulting in a net benefit. The early indications 1 week in are positive and confirmatory.

Michael J. Funk
BofA Securities, Research Division

Okay. Very helpful. And then the free trial, if you will, of AI through the end of December, what is the plan after that? How do you plan to engage with customers to move them forward with AI functionality, the monetization plan there?

Mark P. Mader
President, CEO & Director

Yes. Our engineering team has done a great job of getting more of our capabilities into people's hands in a trial basis. So I do expect a future in which all of our capabilities, including AI, would be discoverable and something that you could trial. We don't have that wired up yet for AI. So we decided to do a full activation for the entire population for these number of months. But I would expect that to be part of someone's trial experience in the future.

Operator

Our next question comes from Steve Enders with Citi.

George Michael Kurosawa
Citigroup Inc., Research Division

This is George on for Steve. First one on the revenue guidance. Pete, you gave some helpful color in the services shifting over to partners, about 0.5 point of revenue change there, which, by my quick math, is like a $5 million to $6 million headwind. So is it right to think about your revenue guide, excluding that, would have been up somewhere in that ballpark?

Pete Godbole
CFO & Treasurer

Our revenue guide would have been up by some part of it for what we've done. So I would describe it as it probably wouldn't have been up for the whole amount, but it would have been up by some amount for what we booked to date. And then the rest of it implies our confidence in the business that we've raised by.

George Michael Kurosawa
Citigroup Inc., Research Division

Okay. That's helpful. And then you guys continue to find really great leverage in the middle and cash generation. Maybe just a little more color on kind of like where you're finding those efficiencies? Are there any OpEx areas you're pulling back from and how we should think about margin going forward?

Pete Godbole
CFO & Treasurer

Yes. I think our plan has always been to continue to invest in high-growth areas but pair that with an absolute focus on driving operational efficiency. And that starts with reducing spans and layers in the organization, scrutinizing head count additions, leveraging nearshore locations, streamlining processes. All of those are part of it. And the place we found it has been in sort of many functions. We found it in not quota-carrying roles but in functions that support sales, the sales support functions. We found it in G&A. We found it in real estate. So we've hit all those areas and finding it.

And the last part of your question is, I don't view this as a destination. I view this as a journey. So you should think of operational efficiencies continuing as we continue to strive to be more and more efficient. It could be in future years finding ways to do sales and marketing more efficiently by self-discovery and those sorts of elements, which are completely different than what we've done today.

Operator

Our next question comes from Scott Berg with Needham & Company.

Robert Michael Morelli
Needham & Company, LLC, Research Division

This is Rob Morelli on for Scott Berg. Congrats on the quarter. It feels as though the outlook on the economy has dampened a bit over the past couple of months. Did you notice any sort of change in buying behaviors throughout the quarter where things are pretty linear and stable throughout?

Pete Godbole
CFO & Treasurer

I think our buying behavior, as we went through the quarter, we saw essentially a good progression through the quarter. We saw momentum build up as we went through the first month to the second and the third. So we saw that build happen quite nicely for us. That was the only trend we saw in the behavior.

Robert Michael Morelli
Needham & Company, LLC, Research Division

Got it. And then excited to get more updates on the new views and customer experiences at the conference. I believe board view was released in mid-July. So a bit early, but any sort of insight you've got from customers, any feedbacks or anecdotes would be helpful.

Mark P. Mader
President, CEO & Director

Yes. Customers are giving overwhelming feedback that they are excited to see the new experiences come in, and it's beyond the views. I think a few days ago, we just shipped our new home experience. It's much more visual, just easier. And what I love about customers and software is that with every release, there's a fresh batch of new feedback, right?

So we made the home experience much more visual, moved away from more of a traditional list oriented view. And people have ideas, and we welcome those ideas. And I think as a software company, you never want to shut the door on that. And much like we had with our old interfaces, the new ones are prompting just as much curiosity and feedback. I think people will be very pleased to see what we show at ENGAGE next month. Some really neat stuff coming out.

Operator

Our next question comes from Brent Thill with Jefferies.

Brent John Thill
Jefferies LLC, Research Division

Mark, there's been a lot of questions about the health of the enterprise spend environment. I'm curious if you could give us your view. I know growth is slowly decelerating. It doesn't look like there's a massive inflection, but what you're seeing between enterprise, SMB, anything notable that you could highlight from a 40,000-foot view.

Mark P. Mader
President, CEO & Director

I think what's consistent, Brent, is people want to understand what they're getting for their investment. And the difference at the enterprise is the scale is simply much larger. So when you're talking about a multimillion-dollar investment, whether you're doing that at a mega lift or you're working and serving an SMB customer, everyone wants to know what that return is.

So starting years ago, we started talking about that expectation growing. And one of the things that's, I think, really helping us perform well there is this use case-oriented framework, where we have a number of really key plays that are really getting dialed in where we can articulate this value. And I think the degree to which a company can present its software offerings in that light enables you to transact. I think if you struggle in that articulation, people are less willing to sort of invest on hope. So really pleased with how the team has progressed in that camp. But I think that pressure will continue to remain very high, Brent.

Brent John Thill
Jefferies LLC, Research Division

And did you have any differences between SMB and enterprise? Was there a difference in growth or adoption? Or what was the sense downstream versus upstream?

Mark P. Mader
President, CEO & Director

Well, enterprise continues to be a huge strength of the business. And I think as we offer some of that down at the lower end of the market, I think there's more -- probably more performance coming out of packaging and interfaces and experience. So when you do engage -- if a customer whose SMB does engage, I think you need to articulate value, but I think there's a higher number of deals that get done at the low end that are not grounded in that. And I think that's where the product and the packaging can be more of a lead suitor. So the takeaway there is almost every deal at the high end involves this. And as you go down, I would say it's not 100%.

Operator

[Operator Instructions] Our next question comes from Keith Bachman with BMO Capital Markets.

Keith Frances Bachman
BMO Capital Markets Equity Research

Mark, in the introductory remarks, you commented that you thought next year would be a transformative year, and I'm really focusing on the word transformative. Maybe you want to talk a little bit about what you mean there? And we, as shareholders, how do you think we'll note it?

Mark P. Mader
President, CEO & Director

Well, we've been on a really, I think, good progression over the last couple of years around becoming a company with margin expansion while still growing. And I think what -- when you have these transformative opportunities is when you have a number of things converged. I see maturity in our model. I see maturity in our go-to-market motion. I see maturity in our product offerings. And you just don't get that many opportunities in your career or your company's life where those things converge.

A lot of that work is being laid this year. It's never perfect in the convergence, but I think it's really good as it's approaching next year. So I think it will manifest itself in growth in profitability, in cash flow, customer sat. And we'll do our best to report out on those different dimensions.

Keith Frances Bachman
BMO Capital Markets Equity Research

Right, right, right. Interesting. Okay. My follow-up question, one of the previous questions was asking about a press release or rumors in the market, and I understand you can't answer that question. What I want to pose is more philosophical question. You remember, you are on the Board and you used the word transformative next year. But how would you sort of, as a Board member, depict pros and cons or the friction, if you will, on selling the company at this juncture?

Mark P. Mader
President, CEO & Director

Yes, I think that question is a close cousin to the first one that was asked, and we're not in a position to comment on that today.

Operator

There are no further questions at this time. I will now turn the call back over to Aaron Turner for closing remarks.

Aaron Turner
Vice President of Investor Relations & Treasury

Great. Thank you all for joining us today, and we'll speak with you again soon.

Operator
This concludes today's conference call. Thank you all for your participation. You may now disconnect.