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Datadog, Inc. (DDOG)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Q4 2021 Datadog Earnings Conference Call. My name is John and I'll be your operator for today's call. At this time, all lines are muted. Later, we will conduct a question-and-answer session. [Operator Instructions]

And I will now turn the call over to Yuka Broderick, Head of Investor Relations.

Yuka Broderick

Head-Investor Relations, Datadog, Inc.

Thank you, John. Good morning and thank you for joining us to review Datadog's fourth quarter and fiscal year 2021 financial results, which we announced in our press release issued this morning. Joining me on the call today are Olivier Pomel, Datadog's Co-Founder and CEO; and David Obstler, Datadog's CFO.

During this call, we will make forward-looking statements, including statements related to our future financial performance, our outlook for the first quarter and the fiscal year 2022, our gross margins and operating margins including investments in R&D and go-to market, our strategy, our product capabilities, and our ability to capitalize on market opportunities. The words anticipate, believe, continue, estimate, expect, intend, will, and similar expressions are intended to identify forward-looking statements or similar indications of future expectations. These statements reflect our views only as of today and are subject to a variety of risks and uncertainties that could cause actual results to differ materially.

For a discussion of the material risks and other important factors that could affect our actual results, please refer to our Form 10-Q for the quarter ended September 30, 2021. Additional information will be made available in our upcoming Form 10-K for the year ended December 31, 2021, and other filings and reports that we may file with the SEC. These filings are available on the Investor Relations section of our website, along with a replay of this call.

We will also discuss non-GAAP financial measures, which are reconciled to their most directly comparable GAAP financial measures in the tables in our earnings release, which is available at investors.datadoghq.com.

With that, I'd like to turn the call over to Olivier.

Olivier Pomel

Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

Thanks, Yuka, and thank you all for joining us this morning. We are very pleased with the performance where we showed high growth at scale as well as strong business efficiencies.

Looking back at 2021, not only do we continue to see a very strong demand environment, we also kept innovating at a rapid pace, and our team executed extremely well to help our customers manage complexity in the [ph] current era (00:02:19).

Let's start with a quick summary of Q4. Revenue was $326 million, an increase of 84% year-over-year and above the high-end of our guidance range. We had about 18,800 customers, up from about 14,200 at the end of last year. We ended the quarter with about 2,010 customers with ARR of $100,000 or more, up from 1,228 at the end of last year. These customers generated about 83% of our ARR.

We had 216 customers with ARR of $1 million or more, which is more than double the 101 customers we had at the end of last year. The leverage and efficiency of our business model is coming through with free cash flow of $107 million and our dollar-based net retention rate continued to be over 130%, as customers increased their usage and adopted our newer products.

At a high level, positive business trends from recent quarters continued in Q4. Usage growth from existing customers exceeded our expectations this quarter and we saw strong growth across all the products in our platform and all business segments. We had record new logo ARR year in Q4, including some large new enterprise wins. And churn remains low and in line with historical rates. All these factors together led to another record quarter of ARR added.

Next, our platform strategy continues to resonate in the market. As of the end of Q4, 78% of customers were using two or more products, up from 72% a year ago. 43% of customers were using four or more products, up from 22% a year ago. And as a sign of further adoption of our platform, we saw that 10% of our customers were using six or more products, which is up from 3% last year.

We saw strong growth across our platform in Q4. Year-over-year growth of Infrastructure Monitoring ARR has accelerated in Q4 compared to Q3. In addition to that, APM suite and Log Management products continue to be in hyper-growth mode and we're very pleased to report that our newer products added about $100 million in ARR in 2021. These are the newer products we launched since 2019, which excludes core Infrastructure, core APM and Log Management.

Now, let's move on to product and R&D, where our teams nothing slowing down and delivered another strong quarter of innovation. We announced a general availability of Sensitive Data Scanner in December. Sensitive Data Scanner gives customers an easy and cost-effective method to discover, classify and protect sensitive information. With modern applications, data moves across many important teams, making it difficult to know when services are storing sensitive data. This is particularly important for enterprises in regulated industries, like health care or financial services. Sensitive Data Scanner is available today for log management and we'll be working to extend it into other areas of the platform in 2022.

We also announced this morning the acquisition of CoScreen, a screen sharing platform that allows participants to interact with a joint workspace in real-time. Engineering is team's work. CoScreen lets us bring individual work into a shared team environment. And unlike general purpose videoconferencing tools, which are one too many and focused on presentation and conversation, CoScreen is many-to-many, allowing multiple participants to share and collaborate in each of those windows as if they were local applications. We believe this will help our customers in a number of use cases such as incident response and aligns with our founding goal of breaking down silos between teams.

Now let's take a moment to review our accomplishments in 2021. We ended the year with 13 generally available products, up from 9 at the end of 2020. We significantly extended our observability capabilities in 2021. In Infrastructure Monitoring, we made it even easier to instrument and monitor. We launched over 80 new integrations covering cloud, CDNs, web platforms, automation platforms and more. We now have over 500 integrations and continue to go deeper into cloud platforms including AWS, Azure and GCP.

We launched Network Device Monitoring for physical network devices and appliances. We created new container-centric views as our customers continue adopting Kubernetes at massive scale. On the serverless front, we have extended our coverage to include visibility into not only the functions customer develop, but also the ecosystem of data, security and routing services that surround them. And we launched a beta of Universal Service Monitoring, which captures service-level health and performance without needing to modify any application goal.

Our APM suite was named a leader in the Gartner Magic Quadrant in 2021, and we doubled down on innovation in APM. We expanded Real User Monitoring meaningfully, particularly for Android and iOS mobile devices. We launched Session Replay, Database Monitoring and automated tracking of faulty deployment. We expanded Synthetic Monitoring with support of numerous new browsers and locations.

In Continuous Profiler, we added support to profile many new languages such as .NET, Ruby, PHP C/C++ and NodeJS. And we invested to get closer to developers' day-to-day experience with synthetic testing and CI pipelines, now detecting problems before they happen in production. They are tracking [ph] no covering (00:07:52) front-end devices and back-end services, and source code integration enabling developers to tie productions to the right line of code.

In Log Management, we continue to aggressively invest, providing more sophisticated analytical and governance capabilities, and giving our customers more flexibility with data storage and retention. Our improvement unlock many sophisticated use cases, for example, in cybersecurity and business analysis.

We also announced Online Archives, a new long-term data store for extremely large data volumes. Now, further extending observability to development workflows, we launched CI Visibility to have developers ship faster and more safely. And going beyond observability, we launched our Cloud Security Platform, including cloud SIEM, Cloud Security Posture Management and Cloud Workload Security. In addition to those, our Application Security product is currently in beta. And we're now very pleased with our early momentum in security as we have thousands of customers using our cloud security products today.

We also kept opening up Datadog as a platform with the release of Datadog apps. And finally, we'll continue to invest and innovate with Watchdog, Datadog's AI engine. Watchdog can automatically detect and correlate anomalies, and we've been busy extending Watchdog to provide information in context throughout our platform. I want to thank our engineering and product teams for their hard work and their relentless focus on our customers.

Now moving on to sales and marketing, earlier this month we announced the promotion of Sean Walters to Chief Revenue Officer. This is a well-deserved promotion for Sean who has been an enterprise sales leader at Datadog for four years now and has shown excellence in building strong teams and delivering high productivity. We've all been impressed with his performance over the past few quarters as well. Sean has a deep experience in the field, with over 20 years of increasing responsibilities in software sales and we're excited to see him build on his successes as CRO.

In addition to this, we are pleased to have received a FedRAMP Moderate authorization. As a result, we can now sell to US federal government agencies as well as the other public sector customers who use FedRAMP as an indicator of compliance and security. We have been working to build our go-to-market teams for the public sector and we intend to extend on those efforts aggressively.

We also announced a global strategic partnership with AWS. This is a recognition of our success and growth with AWS and our commitment to further invest to accelerate our joint opportunities. Among the areas of further partnership, we have already integrated Datadog more tightly into the AWS marketplace. We are also working with AWS to build deeper integrations not only for observability, but also for security use cases. And we are also planning to extend our joint go-to-market activities.

Meanwhile, our sales teams continue to execute at a very high level. So, let's discuss some wins for Q4. First, we had a six-figure land deal with a major US airline. This customer has chosen Datadog as the de facto monitoring solution for all new IT projects and applications. They plan to start with six products in the Datadog platform, with an expectation to extend significantly with more teams and applications over time.

Next, we had a seven-figure upsell with a major European car company. Prior to using Datadog, this customer had five disparate monitoring tools, which created false positive alerts while leaving gaps in coverage. With Datadog, they were able to break down silos between teams and reduced the frequency and duration of [ph] outages (00:11:29).

Next, we had an upsell to eight figures of ARR with a major financial infrastructure company. This customer has consolidated multiple monitoring tools in Datadog, helping them ensure stability and support growth. This customer estimates savings of 45% by migrating to Datadog and the upsell also includes new products such as Cloud SIEM, Cloud Workload Security and Cloud Security Posture Management. And this customer now uses 10 Datadog products.

Next, we had a seven-figure upsell with a multinational beverage conglomerate. This expansion makes Datadog their global observability standards with enterprise adoption across six international zones. Thanks to Datadog log correlation, what used to take three people an hour of log data gathering now takes one person less than 10 minutes.

And finally, we wanted to spend some time discussing our largest ever multimillion-dollar land deal with a major media company. This media conglomerate sees massive amount of traffic with its customer-facing content, and the most critical content such as live sports and entertainment requires highly optimized observability. This customer also decided to embark upon a significant digital transformation project, eliminating its data centers over time in favor of cloud.

This operational overhaul hinged on proper end-to-end observability, but the customer's existing monitoring solutions failed to innovate quickly enough to support its growth and increasing complexity. In addition, reliance on open-source tooling was a strain on engineering resources. Datadog provided a single integrated cloud solution, and the customer plans to replace eight different commercial and open-source tools with the Datadog platform, starting with five of our products.

So, as you can see, our go-to-market teams are successfully helping both new and existing customers get value out of Datadog, and I want to congratulate them for their incredible work this quarter.

Now looking ahead to 2022 and beyond, we'll continue to see digital transformation and cloud migration as critical for existing and prospective customers. The cloud and other next-gen technology are creating complexity that customers need to understand and manage. Meanwhile, security threats can occur anywhere in this broad and dynamic set of infrastructure and applications, making identifying vulnerability and attacks absolutely crucial.

So there's a lot of demand out there for observability and security for the modern stack. As a result, we continue to feel that we are still very early with respect to our products and our market opportunity. And looking forward to 2022, we will make further progress in expanding the Datadog platform. We have a lot to do and we're excited about what's in front of us.

On a final note, we feel that 2021 was a very successful year for Datadog, but we recognize that it's been a tough time for many others. This is why we're happy to report that together with our employees, Datadog donated over $3 million to nonprofit global organizations at the end of the year and we look forward to giving back more to our communities in 2022.

With that, I will turn the call over to our CFO for a review of financial performance and guidance. David?

David M. Obstler

Chief Financial Officer, Datadog, Inc.

Thanks, Olivier. In summary, we had a very strong Q4 and fiscal year 2021. Revenue was $326 million, up 84% year-over-year and up 21% quarter-over-quarter. Usage growth with our existing customers exceeded our expectations. Customers are finding value from adopting more products on our platform. And new logo ARR grew robustly in Q4.

Let's go into some more of the details. First, growth of existing customers was strong in Q4, and our dollar-based net retention rate remained above 130% for the 18th consecutive quarter. Usage growth was very strong. Our customers expanded the usage of our largest products meaningfully. Infrastructure Monitoring year-over-year ARR growth accelerated from Q3 levels and the APM suite and Log Management products remained in hyper-growth mode. And our newer products are all growing very rapidly.

We also saw strong ARR growth in each geographical region. North America, EMEA and APAC, all accelerated on a year-over-year basis compared to Q3. Our go-to-market teams delivered a strong quarter in new logos and new logo ARR. We added 1,300 customers sequentially, a new record for us. And new logo ARR was also a record and included our largest ARR land ever, as Olivier discussed earlier. Remember that given our usage-based revenue model, new logo wins generally do not immediately translate into meaningful revenue.

Our platform strategy continues to resonate with customers, with 78% of our customers using two or more products, 33% using four or more products and 10% using six or more Datadog products as of the end of Q4. Finally, churn has remained low. Our dollar-based gross retention rate has gradually improved over the years and is now in the mid- to high-90s and it's similar across customer segments and major products.

Turning to billings, billings were $408 million, up 86% year-over-year. Billings duration in Q4 was similar to the year-ago quarter and within the range we've seen historically. Remaining performance obligations, or RPO, was $815 million, up 88% year-over-year, and contract duration was similar to the year-ago quarter. Current RPO growth was over 80% year-over-year. We continue to believe revenue is a better indicator of our business trends than billings and RPO, as those can fluctuate relative to revenue based on the timing of invoicing and the duration of customer contracts.

Now, let's review the income statement. As a reminder, unless otherwise noted, all metrics are non-GAAP. We have provided a reconciliation of GAAP to non-GAAP financials in our earnings release. Gross profit in the quarter was $262 million, representing a gross margin of 80%. This compares to a gross margin of 78% last quarter and also 78% in the year-ago quarter. As we discussed on last quarter's call, we saw efficiencies in cloud costs reflected in our cost of goods sold in the quarter. In the medium- to long-term, we continue to expect gross margin to remain in the high-70s range.

Operating income was $71 million or 22% operating margin, compared to an operating income of $18 million with a 10% margin in the year-ago quarter. We are experiencing significant business efficiencies on strong revenue growth. This is occurring despite continued aggressive investments in our long-term opportunities, particularly in R&D and go-to market. Finally, in Q4, we hosted our Dash user conference virtually and had a strong presence at AWS re:Invent.

Turning to the balance sheet and cash flow statements, we ended the quarter with $1.6 billion in cash, cash equivalents, restricted cash and marketable securities. And cash flow from operations was a strong $116 million in the quarter. After taking into account – taking into consideration CapEx and capitalized software, free cash flow was $107 million with a free cash flow margin of 33%.

I want to briefly summarize our fiscal 2021 results. Revenue was $1.03 billion, up 70% year-over-year. We generated $165 million positive in operating income for a 16% operating margin, compared to $64 billion (sic) [$64 million] (00:20:25) with an 11% operating margin in 2020. And we generated $251 million in free cash flow at a 24% margin in 2021, compared to $83 million at a 14% margin in 2020. I want to thank all Datadog employees for their hard work and strong execution throughout 2021.

Now for our outlook for the first quarter and fiscal year 2022. We continue to believe we are in early days of our opportunity in observability and we are at the very beginning of our potential in cloud security and developer-focused observability. At 18,800 customers, we believe we are still very early in our penetration of potential customers worldwide, and we see opportunities broadly across industries and customer sizes.

As we look on to 2022, we believe companies have learned to manage around the potential business disruptions and remote work lives of the past couple years. And we believe that the need for companies to embark upon digital transformation and cloud migration projects is higher than ever, and our strategic imperatives can drive competitive advantage. So we are initiating our fiscal 2022 guidance which includes continued high growth.

With our usual conservatism applied, our outlook is as follows: For the first quarter, we expect revenues to be in the range of $334 million to $339 million, which represents 70% year-over-year growth at the midpoint. Non-GAAP operating income is expected to be in the range of $36 million to $41 million and non-GAAP net income per share is expected to be in the $0.10 to $0.12 range per share based on approximately 348 million weighted average diluted shares.

For the full year of fiscal 2022, we expect revenues to be in the range of $1.51 billion to $1.53 billion, which represents 48% year-over-year growth at the midpoint. Non-GAAP operating income is expected to be in the range of $160 million to $180 million and non-GAAP net income per share is expected to be in the range of $0.45 to $0.51 per share at approximately 350 million weighted average diluted shares outstanding.

And now some notes on the guidance. As usual, when providing guidance, we use more conservative assumptions than we have seen in our historical results. Our strategic focus remains to invest aggressively in R&D and go-to market to optimize for our long-term growth.

Next, our model assumes greater expenses related to travel and in-person events going forward, but we remain flexible depending on further COVID developments and our highest priority is protecting the health of our employees. Finally, as it relates to our capital expenditures, we are catching up on office build-outs and expect CapEx as a percent of sales to roughly double compared to 2021.

In conclusion, we are very pleased with our results in Q4 and 2021. We continue to innovate rapidly and broaden our platform capabilities, with many more products planned to be launched in 2022. We have grown our go-to-market opportunities, including in the public sector with our FedRAMP Moderate authorization and deepening our relationships with our cloud partners. And across the company, we are working hard to execute against our opportunities in 2022 and beyond.

And with that, we will open the call for questions. Operator, let's begin the Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now begin the question-and-answer session. [Operator Instructions] And our first question is from Raimo Lenschow from Barclays.

Raimo Lenschow
Analyst, Barclays Capital, Inc.

Q

Thank you. Now a new version of my name. Hey, congratulations. I think it was an amazing quarter. Olivier, you mentioned a higher usage in this quarter. What's driving that? Is that just kind of people standardizing? Is it just traffic? Are the clients getting better? So – because that's kind of a very, very strong number. What are the factors there? Thank you.

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

I don't think there is one specific factor that's driving it. I think it's in combination of everyone's digital transformation and cloud migrations still happening and happening with, I would say, the historical rate we've seen through the history of the company. It's that plus us covering more and more surface with those customers with more product that they can adopt and they can grow into. And so, that's what we felt for the quarter.

We did see – like, this is a Q4, right, so we did see the same compression at the end of the quarter as we see every year. It was also a bit more pronounced like it was last year. We assume them to be a bit more pronounced in a post-COVID world. But, overall, the quarter was very, very strong and definitely stronger than last year.

Raimo Lenschow
Analyst, Barclays Capital, Inc.

Q

Okay. And then one follow-up on that one. You talked about some of the very big wins and how they are consolidating on you. Do you see that consolidation about more in-house-built tooling and open-source tools? Or is it also consolidating like some of the kind of more established competitors in the space in the kind of [indiscernible] (00:26:38) APM, log areas, etcetera?

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

It's a mix of both. Really it follows the distribution of tooling out there, like whatever customers have is what they end up consolidating on us. And this movement was still early in this consolidation movement. We see it happen, I would say, maybe a bit more often than we used to. I mean, we are mentioning a couple in every earnings call at this point, but the large ones are fairly notable. But we expect to see more of that in the future, but not necessarily right away.

Raimo Lenschow
Analyst, Barclays Capital, Inc.

Q

Okay. Perfect. Congratulations. Well done.

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

Thank you.

Operator: Our next question is from Kash Rangan from Goldman Sachs.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC

Q

Thank you so much. What a superb quarter. Olivier, I am curious to get your thoughts on a couple of things. One is, as the product suite broadens out, how are you thinking about distribution? Are you going to have more specialized distribution attack in, say, the DevOps market or the abstract market and your core markets in APM and monitoring? And I have a follow-up question. Thank you so much.

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

So the short answer is we are open to whatever would work. We still haven't made any changes to the way we distribute. We still have one sales force that sells everything. We still land largely with infrastructure and then expand from there. And we actually see some proof points that can get some very good wins that way. I mean, I think we mentioned on the call the fact that one of our very large customers in finance adopted our security suites and that was done with a standard land-and-expansion motion. So, we see that working in at least some cases. That being said, as we fully mature newer product, especially the security product, we might have to get some as we go to market, but we're not there yet.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC

Q

Got it. And second and final one. Thank you so much for that. As you look at the consumption model, when trends are improving, obviously those revenue outcomes can be as impressive as the ones that you have now. As you become a larger company, are you contemplating things to minimize the volatility of these results and have a little bit more predictability on the positive side? And that would mean like a Snowflake, there's concessions to its customers as they keep making technology improvements. They fast-track some of these savings to alleviate any potential pushback as you become a more strategic vendor, oh my god, I'm spending those so much. It is of great value, but at the same time, can you elaborate a little bit on how you can think ahead and anticipate some of the things that can get underway? And that's it for me. Thank you so much and congrats.

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

Yes. So the way we do with that is, and again the backdrop there is the explosion of data volumes and also if data volumes at our customers grow a lot faster than the top line. At some point, you can't grow but you charge for that linearly with the data volume. The way we deal with that is, we give them more and more options, and those options are differentiated technologically, so that we can keep developing new ways of storing the data, different types of data in different ways for different periods of time. And that customers, they can choose what they want to use out of that.

So, that's what we're doing with Online Archives, for example, which we announced last year and which is going in GA this year. We – that's also why we invested in the observability pipeline. So, there's a number of things we're doing to put customers in control and make sure that what we deliver always, always aligns with the – or what we charge always aligns with the value customers get.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC

Q

Thank you so much.

Operator: Our next question is from Sanjit Singh from Morgan Stanley.

Sanjit K. Singh
Analyst, Morgan Stanley & Co. LLC

Q

Thank you for taking the questions and my congrats on the exceptional 2021. Olivier, I wanted to talk a little bit about your comment about the early days of the opportunity on sort of two dimensions. If I look at some of the big software companies that we've seen, whether it's Salesforce or VMware or other large companies, they have north of hundreds of thousands of customers, right, and you're sort of sitting at 18,000. I was wondering in terms of your guys' vision, do you envision Datadog getting to those sort of customer count level? That's sort of one of the question.

On the other hand, it seems like you guys are doing better and better upmarket as evidenced by this largest ever land win with this media company. Do you start to feel that the large enterprise market is now moving more and more towards the sort of Datadog platform versus kind of this sort of hybrid cloud approach that they've been – that sort of mobility that they've been in for the last couple of years? Any sort of views on traction in enterprise and what sort of customer count you can get to longer-term?

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

Yeah. So, on the first question, we definitely, like we build a product and a company that serves the whole market, like the whole gamut of potential customers. We think that developers at small companies behave, especially in the cloud, like they behave very much the way as developers in very large enterprises. They have the same tool box. They work the same way largely. And so, we build a product that serves everyone. We do expect to have very large counts of customers in the end.

But to your second question, we also see right now a lot of that demand, a lot of the growth is coming from mid-market and large enterprises and also the higher end of the market. And we feel good about that part of the market, like we see it successfully standardize on Datadog. We see it successfully land and expand with us. I think we're growing faster – we're in equivalent size and growing faster than anybody else in the market for that specific part of the market. So, I think we feel good about it. That's a big part of what we do.

Sanjit K. Singh
Analyst, Morgan Stanley & Co. LLC

Q

That makes a ton of sense. And I guess my follow-up question is related to security. Understanding that it's still early days in moving to this area, I wondered if you could talk about it in sort of two pieces. One, selling security solutions to your core set of users. How confident are you that you're going to see traction in that motion sooner versus maybe selling security solutions to the security operations team, which may require more of an investment, more of a specialized go-to-market motion? And sort of how do we think through traction on sort of part one of that, selling to like Datadog's users versus its big operations team?

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

So, on traction, this year we see the traction, right? So we mentioned on the call, we have thousands of customers on security product. And so the adoption is there, it's happening, it's happening across all products. We have a number of products we started charging for in Q4 such as cloud workload protection, for example. And those actually are off to a strong start. So we are pretty impressed with the numbers we see there.

So, again, it's too early to pass judgment. We have to see them perform for a couple of quarters. We have to see what's working, what's not working, as customers get multiple quarters into the adoption of the product. But the signs we see today are very positive in terms of the adoption, in terms of the fit of those products, in terms of the way our story makes sense for our customers.

It's still possible, we have to make changes to the go-to-market motion and specialize the teams and do a number of other things. I would say, it might come in a bit later when customers start embarking on the same standardization motion for security as they do right now with us for observability. But today we're very pleased with what we see in terms of the fit and the adoption of those product. This is happening according to plan I would say. So we're very happy.

Sanjit K. Singh
Analyst, Morgan Stanley & Co. LLC

Q

Very encouraging. Thank you, Olivier.

Operator: Our next question is from Sterling Auty from JPMorgan.

Sterling Auty
Analyst, JPMorgan Securities LLC

Q

Yeah. Thanks. Hi, guys. Maybe we'll switch over to the margin side. So, David, in particular, I was impressed by your sales and marketing spend increased less this year quarter-over-quarter than it did last year, but the revenue incremental dollars that you added was much higher. Can you kind of go through, is that all just because of the usage base and existing customer contribution in the quarter?

David M. Obstler
Chief Financial Officer, Datadog, Inc.

A

Yeah, that's because of the usage and the cross-sell and the efficiency of it and our frictionless adoption. So, it's an indication of both the robustness of the end market as well as the ability for clients to adopt more of the platform.

Sterling Auty
Analyst, JPMorgan Securities LLC

Q

Got it. And then maybe one quick follow-up. Same thing on gross margins, there was a very big sequential bump. What's contributing to it? And is it durable at these levels or what should we be contemplating in terms of that trend?

David M. Obstler
Chief Financial Officer, Datadog, Inc.

A

Yeah. As we said since we went public that we are focusing on gross margins in the mid-70s to touching 80% and that there will be periods of time that due to investments they will tend towards the middle or lower part of that range and then go up. And in this case, in this period of time, we were able to harvest efficiencies in our cloud costs. And like in other periods of this fluctuation of the gross margin, we've hit 80%. We – as we're interesting that we may dip below that, but as we've said in my prepared remarks, we feel confident that that will remain in the mid to upper parts of the 70% range.

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

As a reminder, we're shipping the Cloud Cost Management product next year and we hope to be the first case study for that.

Sterling Auty
Analyst, JPMorgan Securities LLC

Q

Understood. Thank you.

David M. Obstler
Chief Financial Officer, Datadog, Inc.

A

Welcome.

Operator: Our next question is from Fatima Boolani from Citi.

Fatima Boolani
Analyst, Citigroup Global Markets, Inc.

Q

Good morning. Thank you for taking my questions. Olivier, maybe I'll start with you. You've been very conservative with respect to some of your commentary around the traction you're seeing outside of your core wheelhouse of observability in the realm of CI/CD and [ph] room tethering (00:37:14) to the developer audience. So, maybe just to take a step back with 13 generally available products, what are some of the efforts that are being put in place to package certain modules that are in a similar family or address a similar buyer persona? And sort of where are you on that journey to be able to attract more and more of these different groups within the enterprise organization? And then I have a follow-up for David, if I may.

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

Yeah. So we're actually very happy with those products. So they're getting to market nicely. So the CI/CD product also started charging fairly recently. And we're very happy with the adoption we see there, similarly to what we said about security. At some point, we'll also comment on the numbers for that. I would say the numbers are still small compared to the rest of the business, but are small due to the fact that the rest of the business is well north of $1 billion in ARR and growing close to 100% or 100% of it for some parts of it year-over-year. So, it's going to take more time for it to be meaningful compared to all that, but we do see a lot of potential in those products. We are very happy with the adoption.

In terms of the packaging, we always ask ourselves the right ways to price and package those products. We're big fans of unbundling for – because it does align very precisely what customers pay for the value they get, and it gives us very strong signal on what works and what doesn't work at the product level. So we always start with unbundled. And then over time, we might find that there are some things that might need to be packaged differently or customers that want to buy together. That's when we start bundling things. But we always start with unbundled. That's the default motion for us.

Fatima Boolani
Analyst, Citigroup Global Markets, Inc.
Q

I appreciate that detail, Olivier. David, for you, I think you were pretty categorical in your prepared remarks vis-à-vis your guidance philosophy. But taking a step back and in the context of the $1 million deal volume that you saw double this year, how are you contemplating the incidents, frequency and maybe volume of larger deals, as you do start seeing some more repeatability and patterns in the way customers are moving to the seven-, eight-figure deal mark? Any help or context as to how you're thinking about those attributing factors...

David M. Obstler
Chief Financial Officer, Datadog, Inc.
A

Yeah. It's still...

Fatima Boolani
Analyst, Citigroup Global Markets, Inc.
Q

...would be great.

David M. Obstler
Chief Financial Officer, Datadog, Inc.
A

Yeah. Thank you. It's still the similar motion to what we've been experiencing, which means, for the most part, our $100,000-plus customers were started out lower than the $100,000 and our $1 million customers started lower than $1 million. We're still largely the land and expand. So we see that motion continuing.

And in addition to that, I think as we've said in our prepared remarks, we're seeing in some cases where a client has a significant cloud presence, and consolidates or outsources or goes to a system rather than open source, we would land and get to a large amount earlier, as we've talked about in some of our prepared comments. But for the most part, it still is that land and expand and evolve from lower deal sizes to the $100,000 and $1 million as we've been discussing.

Fatima Boolani
Analyst, Citigroup Global Markets, Inc.
Q

Thank you.

David M. Obstler
Chief Financial Officer, Datadog, Inc.
A

Thank you.

Operator: Our next question is from Brent Thill from Jefferies.

Brent Thill
Analyst, Jefferies LLC
Q

Olivier, on 2022 cloud migrations, there's been some concern given the consumption that we've seen in the last two years that there could be some slowdown or digestion. It doesn't appear that that's what you're seeing right now, but curious if you could just share your thoughts on what happens this year. And it seems like there's some really new pockets of movement even in financial services and other sub-sectors that we haven't seen. What are you expecting?

And David, if I could follow up with you just on a quick question about Sean's new role. Historically, we've seen changes in the sales team. In other software companies, we've seen a little bit of an air pocket. It seems like you expected this to proceed smoothly and it's more of a tweaking of the go-to market versus a major change. Can you comment on that as well? Thanks.

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.
A

Sure. Yeah. So, in terms of the sort of the trends we're seeing and we're forecasting, from what we can tell, there's no – like what we see is continuity. Like, what we see in 2021, if you look at including 2021, to us, it looks a lot like 2019, which itself looks a lot like 2018. And what this tells you is we're still early in digital transformation and cloud migration. And this is happening and it seems to be happening with a certain rate within enterprises that wish to convert workloads and move them to the cloud, and we've seen that to be more or less throughout the history of the company. So, from where we stand, we don't see any particular acceleration in 2021 that is – that would be a pull forward of 2022 or anything like that. So we see continuity, that's what we see. So we see a strong demand environment.

Obviously, we can't forecast what's going to happen next year. It's possible that – we're still in troubled times and it's possible weird things happen, but we're very confident that if that's the case, the setbacks will be temporary and that we're still very early in a very, very broad transformation, the magnitude of which is still difficult to reason about. So, that's on your first question. So we're very confident on the environment and very confident in our place in it.

In terms of the sales team, we actually didn't make a very large transition to the sales team. We opted with continuity and we promoted from within for our CRO spot. We promoted Sean, who I think is the best person for the job really. And we don't expect any big changes as part of that. We expect to keep building. We expect to keep scaling. We expect to maybe do a little bit of go-to market in some areas with the new products to the fold, but mostly we're here to scale what we have today.

Brent Thill
Analyst, Jefferies LLC
Q

Thank you.

Operator: Our next question is from Brad Reback from Stifel.

Brad Reback
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Great. Thanks very much. Olivier, last quarter you talked about some recent product releases that could be easily consumed by non-IT employees. So I'm just wondering how that's trending. And then as we look forward, should we think about that as a driver to 2022, or more 2023 and beyond? Thanks.

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

Yes. So we have a few of those products. We mentioned some of the products that reach more into the business areas or support area like Session Replay, Funnel Analysis, things like that, Cloud Cost Management. There are some that are still not in GA. The others are still very early. We shipped them late last year. So I would say it's nearly too early to share any data about them.

2022 is still probably going to be too small to have a major impact on the numbers, but that's definitely a big area for growth for us in the future. So we invest now, we grow those products, and then they'll make meaningful contribution in the future. And by the way, that's what we've seen happen with our other products today. I think we mentioned on the call that those "smaller product" that we released since 2019 collectively added more than $100 million in ARR last year, which is very meaningful. And so we expect the same to happen with the products we released last year.

Brad Reback
Analyst, Stifel, Nicolaus & Co., Inc.

Q

And that's great. Thanks very much.

Operator: Our next question is from Michael Turits from KeyBanc.

Michael Turits
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, Olivier, and everybody. Congrats on the quarter. I want to ask a competitive question, particularly important given that you had two new public comps that had less impressive results. So very specifically where are you winning upmarket and how are you winning upmarket competitively in enterprise, and also maybe down-market where you may be seeing more price competition on ingest?

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

So, first off all, we don't actually see the competition all that much. So I don't wake up every morning asking myself how are we going to win or whether we're winning. We mostly compete against customers building it themselves or being under-tooled and starting in the cloud without the clear idea what's going on.

We do see a few big replacements in every quarter. We've mentioned a few on the call. When that's the case, we – I mean, the ones we mentioned are typically the ones that are upmarket. The reason why we win in those situations is we offer integrated platforms where others don't. We're cloud native where others aren't. And most importantly, we have a lot more usage and adoption from the teams on the ground around our product. So, that's the deployed everywhere, used by everyone saying that I repeat at every call, and that really is what makes us win in the end with customers. And that applies upmarket, that applies down-market, that applies everywhere.

David M. Obstler
Chief Financial Officer, Datadog, Inc.

A

And let me just add that, of course, we didn't have the APM and logs, we didn't have the breadth of the platform five years ago. So, as we talked about there, a number of customers where we had landed with infrastructure and as they are consolidating on the platform, they're buying our products whether it be enhancement, whether it be movement from open source, or whether it be replacement of the company's products that you're talking about.

Michael Turits
Analyst, KeyBanc Capital Markets, Inc.
Q

And David, Fatima asked on the packaging of different products for different personas. What about from a sales and go-to market perspective? Any moves to either create specialized or overlay sales forces, given the breadth and scope of what you're now offering?

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.
A

Not yet. Right now, we're experimenting with a few things, obviously, like we're trying to see if it can make sense in some areas, the prime candidate being security. But we haven't made any big changes to the way we sell. And we also see some interesting proof points that we can be successful with keeping the way the – keeping our sales team the way it is right now. So, we are continuing on that. We expect it to be an area of focus at some point during the next year. But so far, no changes, and so far, things are looking good.

Michael Turits
Analyst, KeyBanc Capital Markets, Inc.
Q

Great. Thanks.

Operator: Our next question is from Matt Hedberg from RBC Capital Markets.

Matthew Hedberg
Analyst, RBC Capital Markets LLC
Q

Oh, great. Hey. Thanks, guys. Hey, Oli, it's great to see you achieving FedRAMP Moderate status. Could you remind us about the success you've had thus far on the federal side? And could that drive additional success there in 2022?

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.
A

The goal is really to be able to sell to fully go-to market on the federal side. With the FedRAMP law we had before, we were limited in the number of agencies we could target and we also were limited in number of use cases. We basically could only target Infrastructure Monitoring use cases. We couldn't send logs, APM, things like that.

With FedRAMP medium, what we can do is we can sell all of our products and we can pretty much sell to every single civilian agency in the federal government as well as a number of other government agencies that are – local agencies but that take the same or use FedRAMP as the same guidelines for security and compliance. So it really opens up the market.

We've seen already some success to-date. We already have as of last quarter a $1 million-plus customer on the federal side on our FedRAMP on [ph] OSCAL offer (00:49:50). So we're optimistic, but we still have a lot of building to do on the go-to market there, like it's not necessarily exactly the same go-to market that we're used to.

Matthew Hedberg
Analyst, RBC Capital Markets LLC
Q

Got it. And then maybe just a quick one on the product side. I was really excited to see Sensitive Data Scanner launched. It really feels like data governance as a whole is just becoming more important in a post-COVID world.

It sounds like it's working today with application logs. Could that product go further? I'm just sort of curious on sort of what the scope of what Datadog can provide from a data governance perspective.

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

Yeah. So, that product is actually a great example of the power of our platform in all the various use cases we can derive from it. We started the Sensitive Data Scanner with log data, which is very straightforward, and it's got something customers love because it tells them immediately whether they're manipulative sensitive data where they should not, which is a hard problem for them to solve.

But we can extend it to look at all of the data that ends up on the front-end of an application through our Real User Monitoring. We can extend it to look at all of the data that go through the various services in the back-end of an application through the APM. We can extend it to look at all of the data that go through the network through network monitoring.

So it's a great example of how we can use the data collection we already have to help our customers solve the hard problems they couldn't solve otherwise. It's also interesting because it's a product that sits pretty much halfway between observability and security. And you could make a good guess for attaching it to one or the other. So it really shows like the unified future observability and security platform that we're building.

Matthew Hedberg
Analyst, RBC Capital Markets LLC

Q

Super helpful. Congrats on the results, guys.

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

Thank you.

Operator: Our next question is from Adam Tindle from Raymond James.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Q

Okay. Thanks. Good morning. Olivier, I just wanted to start with a big picture question. You crossed the $1 billion in ARR threshold this year, very strong year, and that tends to be a milestone where software companies can start thinking about updates to either internal infrastructure or team to take them beyond that $1 billion level. So, maybe you could just talk conceptually about how you're thinking about what to put in place to scale Datadog to a multibillion dollar company.

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

Well, that's what we do every week. We ask ourselves, how we're going to keep scaling the company, what we are missing, what we need to add. So, in general, we are scaling company. We're hiring a lot. We're hiring at all levels. We're bringing outside experience where we don't have it. But I would say, in addition to that, we're also very, very, very careful to make sure we can keep delivering and keep innovating.

I mean, I've worked at much larger companies before. I've seen how hard it can be to get things done in very large organizations and I want to make sure that we keep our teams extremely productive. We minimize the number of red tape that prevents them getting work done, while putting – building enough road and enough controls, so we make sure that nothing weird happens. So, that's the concern every single week for us at Datadog and that's pretty much what my job is.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Q

Understand. Maybe a more near-term follow-up for David on guidance. This time last year, you were guiding to high-30s year-over-year growth for 2021. You obviously overachieved that, but now are sitting here guiding to high-40s year-over-year in 2022 on a bigger base number. Just wondering how you thought about the process to putting that target out now versus this time last year in 2021. It seems bold but you talked about usual conservatism, so maybe take us through that process. Thank you.

David M. Obstler
Chief Financial Officer, Datadog, Inc.

A

Yeah. Yeah, I think – yeah, thanks. I think overall, it's sort of the same ideology, which is to take what we've seen in the usage and numbers and discount it. I will say last year being in COVID, we took, and we said this on the call, a bit more of a conservative approach. We had less – we had more uncertainty last year. So I mean, think we adopted the same approach but applied a little more conservatism last year when we gave our original guidance.

Adam Tindle
Analyst, Raymond James & Associates, Inc.

Q

That's helpful. Thanks and congrats again.

David M. Obstler
Chief Financial Officer, Datadog, Inc.

A

Thank you.

Operator: Our next question is from Gregg Moskowitz from Mizuho.

Gregg Moskowitz
Analyst, Mizuho Securities USA LLC

Q

Okay. Thank you and I'll add my congratulations. Olivier, you released Cloud SIEM about 18 months ago and it seem to get off to a slower start than the typical new Datadog product. But as you mentioned, you now have thousands of customers that have deployed your security products. So what I'm wondering is what's the primary driver of this. Is it a function of having more breadth in security, such as Sensitive Data Scanner, cloud workload protection, etcetera? Is it because your sales force and channel have become more adept at selling security? Or is it something else that you would point to?

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

So, first of all, actually it's off to a very strong start. So we mentioned thousands of customers using it. That's a lot of customers especially for a product that is an expansion product. That's not something that we lead with typically. So we're very happy with that. There's still quite a bit of product work happening on it, like we're broadening it so it can support more use cases, so it can be more end-to-end for everything our customers need to do with the Cloud SIEM. So there's quite a bit of investment on that product that we made. So we're still early in the product development cycle there.

We expect at some point maybe this year to share some numbers on the revenues earned by those products, but we're also very happy with the growth there. And those products are growing very, very quickly, obviously, from a much smaller base than the rest of our products. But we mentioned $100 million of added revenue from the – or added ARR from the newer product. And the two bigger buckets there are user experience monitoring and security. So we see that growing and we see that being a potential driver of future growth for us.

Gregg Moskowitz Q
Analyst, Mizuho Securities USA LLC

Okay. That's very helpful. And then regarding the new global partnership with AWS or expanded partnership, can you elaborate on how much tighter the product integration may become? And then also how actively are the two companies planning to engage in a collaborative go-to market?

Olivier Pomel A
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

Well, so it's similar to continuation of what we are doing with AWS. I think we've written down a few things that were more implicit before in terms of what we're going to do from an integration perspective. What's exciting to us is that we've written down things that don't just concern observability but also reach into security use cases. So we're going to see broader integrations there between the two products. And we've also decided to get a little bit closer on some of the – that don't go to market. There's not much more I can say on that. We're still working on a number of other things, but this is I would say in line with what we're doing with other partners to really fully go to market with the cloud provider's customers.

Gregg Moskowitz Q
Analyst, Mizuho Securities USA LLC

Very helpful. Thank you.

Operator: Our next question is from Yun Kim from Loop Capital Markets.

Yun Kim Q
Analyst, Loop Capital Markets LLC

First, super congrats on a strong quarter. Olivier, your growth is accelerating and you're already at a scale that's much larger than your competition. Obviously, you can't keep hiring at the current rate to support growth. Can you just talk about what you are seeing in regards to sales productivity improvement? And is it natural for you to just focus on larger deals just to keep driving higher sales, productivity gains?

Olivier Pomel A
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

So, first of all, our growth is not completely predicated on sales productivity because we have a largely frictionless model. So the part of our growth is, but part is not, which is why you see the revenue growth outpace the sales and marketing growth or expenses growth by quite a wide margin. Our focus for the year is more on scaling the team than on increasing productivity because productivity is already very high. If you look at the cost of sale, like we're probably the best, if not close to the best, in the market. So our goal is really to keep scaling the team and keep scaling the product set, so we can keep getting more of the same economies of scope that we already see with our customers.

Yun Kim
Analyst, Loop Capital Markets LLC

Q

Great. And then just a quick question for David. Can you just at a high level talk about level of visibility you have and how that has trended over the past year? You mentioned that revenue recognition could lag the actual signing of the deals. As you sign larger deals, are you seeing increasing revenue visibility as some of the new deals and expansion deals take a bit longer to ramp as the deployment size gets larger?

David M. Obstler
Chief Financial Officer, Datadog, Inc.

A

We have very consistent performance on our cohorts across the different types of customers, the way they adopt the product and ramp, and that applies to larger deals as well as smaller. So we have pretty good visibility, pretty good time series. There hasn't been a change in that pattern of adoption and we monitor that all the time as we look at increasing our ability to predict the revenue. We also, I think, are in some cases looking at developing functionality and account management to help our clients adopt faster and that is sort of around the edges. But we have a pretty good idea of how our clients are adopting.

Yun Kim
Analyst, Loop Capital Markets LLC

Q

Okay. Great. Thank you so much.

Operator: Our next question is from Mike Cikos from Needham & Company.

Mike Cikos
Analyst, Needham & Co. LLC

Q

Hi, guys. Thanks for taking the questions here. The first, just coming back to the profitably guidance that we have for Q1 and for fiscal 2022 now, for David, I know that you had discussed, I guess, the expectation that we would see some of these travel and in-person events kind of feather back in. I have to imagine that there's an incremental cost with these acquisitions that you guys have announced. Could you help, I guess, fine-tune that a little bit for us as far as what's expected and how that's expected to come into the year?

David M. Obstler
Chief Financial Officer, Datadog, Inc.

A

Yeah. In our guidance, we have assumed a resumption of normal T&E and marketing events. We said previously that sort of in the 3% to 4% range we estimate we've had cost savings due to lower than average T&E and marketing events. So we've incorporated that in the guidance. We'll have to see how quickly that resumes. As we said, first priority is safety of our employees, but we've incorporated that.

We also, as we said, have very aggressive hiring plans and we have incorporated that in. But as we said previously, we think the number is sort of on average around 3%-plus in terms of COVID savings relative to T&E and marketing events as a percentage of revenues.

Mike Cikos
Analyst, Needham & Co. LLC

Q

Great. Thank you for that. And then just I guess a two-part question here, but more housekeeping. The first, I know in previous quarters, and maybe I missed it on this call here, but you guys have discussed how new logo lands are typically coming in with two-plus products 70% to 75% of the time. And so, first question would be is that still the case.

And then the second question, I know that you're talking about gross retention now improving to the mid- to high-90s range. It had been mid-90s. I think before that, it was mid- to low-90s. So, can you just help us think of what are the investments or what is it you guys are doing to drive those gross retention rates up over time? And congratulations on that effort as well.

David M. Obstler
Chief Financial Officer, Datadog, Inc.

A

Yeah. Thank you. On the first question, yes, the land percentage of more than one product remains similar to what we said previously in the 70s, no change in that motion. In terms of the gross retention, with the platform expanding and the standardization, one, we see some more stickiness. And as we always have, we're focusing on both account management, technical account management, working with our clients over a long-term, which we've done and continue to do. Oli?

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

Yeah. And to close on that, I mean we deliver a great product that's a must-have for our customers that has extremely high adoption and usage across our customer base, that delivers great value for them. And we know it delivers great value. We're not surprised by anything because we have this unbundling approach that lets us really quickly understand that what customers pay for. It's basically part of our platform and that is what we expect out of it. So, that's what makes the gross retention stay up and go up all the time.

Mike Cikos
Analyst, Needham & Co. LLC

Q

Terrific. Thank you very much, guys.

Operator: Thank you. I'd now like to turn the call back over to Olivier Pomel for closing remarks.

Olivier Pomel
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

All right. Thank you. Thank you, all. In closing, I'll just repeat that we're very, very pleased with our performance this quarter and I also want to thank all Datadogs around the world for their hard work in 2021. I know they're excited for what's in store in 2022 and so am I. So, thank you all.

Operator: Thank you. Ladies and gentlemen, that concludes today's conference call. Thank you for participating and you may now disconnect.