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DDOG.OQ - Q4 2020 Datadog Inc Earnings Call

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OVERVIEW:

Co. reported 4Q20 revenue of $177.5m and non-GAAP net income of $19.1m or $0.06 per share. Expects full-year 2021 revenue to be $825-835m and non-GAAP EPS to be $0.10-0.14. Expects 1Q21 revenue to be $185-187m and non-GAAP EPS guidance = $0.02-0.03.

CORPORATE PARTICIPANTS

Alexander Joseph Ljubich *Datadog, Inc. - Director of IR and FP&A*

David M. Obstler *Datadog, Inc. - CFO*

Olivier Pomel *Datadog, Inc. - Co-Founder, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Bhavanmit Singh Suri *William Blair & Company L.L.C., Research Division - Partner & Co-Group Head of Technology, Media and Communications*

Brad Alan Zelnick *Crédit Suisse AG, Research Division - MD*

Brad Robert Reback *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Christopher David Merwin *Goldman Sachs Group, Inc., Research Division - Research Analyst*

George Michael Iwanyc *Oppenheimer & Co. Inc., Research Division - Associate*

Gregg Steven Moskowitz *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Joey Marincek *JMP Securities LLC, Research Division - Research Analyst*

Khanh Minh Ngo *Needham & Company, LLC, Research Division - Associate*

Mark Joseph Rende *Morgan Stanley, Research Division - Research Associate*

Matthew John Swanson *RBC Capital Markets, Research Division - Associate VP*

Michael Turits *KeyBanc Capital Markets Inc. - MD & Senior Analyst*

Mohit Gogia *Barclays Bank PLC, Research Division - Research Analyst*

Sterling Auty *JPMorgan Chase & Co, Research Division - Senior Analyst*

Yun Suk Kim *Loop Capital Markets LLC, Research Division - MD*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q4 2020 Datadog Earnings Conference Call. (Operator Instructions) Thank you. I would now like to turn the call over to your speaker today, Mr. A.J. Ljubich. Please go ahead.

Alexander Joseph Ljubich - *Datadog, Inc. - Director of IR and FP&A*

Thank you, Tino. Good afternoon, and thank you for joining us today to review Datadog's Fourth Quarter and Full Year 2020 Financial Results, which we announced in our press release issued after the close of market today. 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 statements related to our business that are forward looking under federal securities laws that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements related to our future financial performance, including our outlook for the first quarter and for the full year 2021; our strategy, the potential benefits of our products, partnerships and investments in R&D and go to market; our ability to capitalize on our market opportunity; and the impact of the COVID-19 pandemic on our customers' usage of our platform and industry trends as well as the ability to benefit from these trends. 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 not as of any subsequent date. These statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from expectations.

For a discussion of the material risks and other important factors that could affect our actual results, please refer to our quarterly report on Form 10-Q for the quarterly period ended September 30, 2020, filed with the SEC on November 12, 2020. Additional information will be made available in our annual report on Form 10-K for the period ended December 31, 2020, and other filings and reports that we may file from time to time with the SEC. Our filings with the SEC are available on the Investor Relations section of our website. A replay of this call will also be made available there for a limited time.

Non-GAAP financial measures will be discussed on this conference call. Please refer to the tables in our earnings release, which can be found on the Investor Relations portion of our website for a reconciliation of these measures to the most directly comparable GAAP financial measure.

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

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

Thank you, A.J., and thank you all for joining us today. We are very pleased with our performance in Q4, which once again showed high growth at scale and demonstrated efficiencies. Despite the unique challenges presented by COVID, we continued in 2020 to introduce new products at a high velocity, grow top line at a rapid rate and demonstrate strong operating efficiencies. We are, in particular, very proud of the way our teams have handled the pandemic as well as the year's other unprecedented challenges.

We ended the year with 2,185 employees globally, a 56% increase year-over-year, with high growth above both our go-to-market and R&D teams. One of our strategic decisions at the beginning of the pandemic was to keep on hiring. And we have been able to interview, hire and onboard remotely while maintaining high employee engagement and productivity.

Throughout the year, we have worked to keep our employees safe and productive and to be good citizens of our communities as they face significant challenges. We are very proud of the exceptional grants we have awarded to our employees in Q2 and Q4, both to support them individually and to allow them to donate nearly $1 million to charities focused on COVID relief as well as social and racial justice efforts.

Last but certainly not least, we have maintained our relentless focus on delivering value to our customers. And while the pandemic has been a source of challenges to businesses this year, we believe it will prove to be an accelerator of cloud migration and digital transformation over time. In other words, we learned a lot this year, including our ability to execute in the face of challenges as well as confirmation of a very large and growing market opportunity.

Now on to a review of the quarter. To summarize Q4 at a high level, revenue was $178 million, an increase of 56% year-over-year and above the high end of our guidance range. We also ended the year with 97 customers with an ARR of $1 million or more, almost double the 50 last year and more than 3x the 29 we had just 2 years ago. We ended the year with 1,253 customers with an ARR of $100,000 or more, up from 858 last year. These customers generate over 75% of our ARR. We have about 14,200 customers, up from about 10,500 last year, which means we added about 1,100 customers in the quarter, making it another strong quarter of adds after the 1,000 we added in Q3.

We also continue to be capital efficient with free cash flow of $70 million. And as in past quarters, our dollar-based net retention rate was over 130% as customers increased their usage and adopted our newer products.

For the full year, we generated revenue of $603 million, a 66% increase year-over-year, which was above the high end of our guidance. And free cash flow was $83 million or a margin of 14% for the year.

Now to review Q4 in more detail. Execution was very strong with outstanding sales performance, particularly against the macro backdrop. New logo generation was very strong, including a new record of new logo ARR added that was significantly above last year's number, very strong performance across the board from commercial and enterprise sales channels as well as a record number of million-dollar-plus new logo customers.

Growth of existing customers was robust as customers of all sizes continue to grow their usage of Datadog to both increase consumption and cross-selling, and Q4's growth of existing customers was broadly in line with pre-COVID trends. Lastly, churn remains very low and consistent with pre-pandemic historical rates.

Next, our platform strategy continues to resonate and win in the market. As of the end of Q4, 72% of customers are using 2 or more products, which is up from 58% last year. Additionally, 22% of customers are using 4 or more products, which is up from only 10% a year ago. And we have another quarter in which approximately 75% of new logos landed with 2 or more products.

We are very happy with our platform traction, including uptake of the newest products, NPM, RUM and Security, each of which has reached hundreds or thousands of customers in a short amount of time. As a reminder, our newer products are often adopted first by first selecting customers at small scale before our land-and-expand model enables greater adoption over time. And frictionless adoption from our single integrated platform is a key value proposition for our customers. Overall, our ability to both land and expand in a very challenging time speaks to our true execution, to our leading product and to our status as a strategic partner to our customers as they prioritize their digital operations.

Now on to products and R&D. Today, we announced 2 acquisitions. First, we announced an agreement to acquire Sqreen, a SaaS-based security platform that enables enterprises to detect, block and respond to application level attacks. Sqreen's technology provides Runtime Application Self-Protection or RASP and in-app web application firewall also known as WAF and is already used by hundreds of companies today.

Security issue in the application layer are complex to solve because application security crosses lines of responsibility between dev, ops and security teams. As a result, we believe this will be a powerful combination for our customers using APM or Synthetics.

Next, we also announced the acquisition of Timber Technologies, the developers of Vector, a vendor-agnostic and high-performance observability data pipeline. With Vector, customers can collect enrich and transform logs and other signals across multiple tools and data sources in both on-premise and cloud environments and then routes this data to the destination of their choice. We expect this technology to further empower our customers to control their observability data while providing broader points of entry to our platform.

I speak for everyone at Datadog in saying that we are extremely excited for the teams of both companies to join us in our quest to breakdown silos. Beyond the acquisition, we had a number of new developments in Q4. We launched the general availability of Incident Management, which allows users to declare incidents, investigate root cause and collaborate without leaving Datadog. And we also delivered more than 60 other new capabilities and features across our products, including new and enhanced integrations such as Snowflake, Oracle Cloud or vulnerability analysis marrying Snyk with our brand-new Continuous Profiler.

Now taking a step back. We exit 2020 with 9 generally available product. To put this in context, just 4 years ago, we had only 1 product. And we have been able to build the most complete, integrated and cloud-native observability platform because of our founding as an integrated -- integration platform that is extensible to new use cases.

Looking forward to 2021, we continue to feel that we're just getting started. First, we are doubling down on building out our platform for observability. This core market alone is a very large opportunity and is growing quickly with the replatforming to cloud architectures. We're still early in this transition and are aggressively adding functionality to both the new SKUs as well as the more mature products.

Second, we are just getting started in security with our first product launch in 2020. We consider security a very large opportunity with a long runway of planned product development, and we envision the silos between dev, sec and ops breaking down in a similar way to what we have seen between dev and ops.

Third, we are investing in the platform and ecosystem. In addition to building up the Datadog Marketplace, we now have strategic partnerships with all of the major cloud vendors. For example, we announced the expansion of our partnership with Azure and GCP last quarter, which should be in the market in 2021. We are also introducing new cloud instances in regions such as GovCloud. Our goal is to gain distribution across vendors and regions and meet customers where they are to lower friction to adoption and to lower time to value. And as we think longer term beyond 2021, we do believe there may be more use cases we can solve for our customers beyond current reach of our platform.

Let's move on to the sales and marketing. As I mentioned earlier, I'm very pleased with the continued productivity of our go-to-market teams, and Q4 was a very strong [fourth] quarter. So let's discuss some of our wins in the quarter. First, let's talk a bit about the way COVID has accelerated digital transformation (inaudible).

As expected, in the quarter, we saw 7-figure ARR increases from COVID beneficiaries such as consumer -- a consumer data -- sorry, such as a consumer device company, a large e-commerce platform and a global video games company. Perhaps more surprisingly, though, we also had a number of notable upsells from companies that were negatively impacted by the pandemic, including a 7-figure upsell to a travel technology company and 6-figure upsells to 2 separate airlines as well as a physical events company. These deals demonstrate that Datadog is a key strategic partner to companies that are scaling rapidly over online as well as the fact that businesses even in the most negatively impacted industries are investing heavily in their digital operations.

Now let's dive into some of our other key wins for the quarter. First, I will highlight 2 notable 7-figure lands both with Fortune 100 companies, a retailer and an insurance company. Both have been struggling with teams in separate silos and are consolidating dozens of tools into Datadog, giving a single view to both dev and ops teams.

Next, we had a 7-figure land from a streaming sports platform in Asia, which was enabled by our new Datadog partner program. This company adopted a full Datadog platform and our Tracing without Limits approach was a key differentiator as their previous APM solution suffered from blind spots due to sampling and to a lack of integration with infrastructure data.

Next, we had yet another 7-figure land this time from a SaaS company based in EMEA. This company moves to us from a build-it-yourself approach and [free] engineers, so they could build more products and deliver innovation.

Lastly, we had a nearly $1 million upsell to a very large management consulting firm. This company is now using our Network Device Monitoring product to replace legacy point solution and gain visibility into physical network devices. I would also note that this was one of the first expansion deals to benefit from our brand-new Marketplace offerings, in this case, a partner-developed integration with Office 365.

Now moving on to our outlook. It is clear to us that the market trends that have driven our success so far have only gotten stronger. Businesses must be digital first like never before. Massive IT platform management by cloud migration is still in its early stages, and engineers and developers are truly strategic employees whose productivity and ability to collaborate are key drivers of business performance.

While there is a possibility for more near-term volatility caused by the macro environment, we are increasingly confident in our ability to execute in a long-term opportunity. And we believe that we can continue to sustain strong growth both in the near term and over time.

With that, I would like to turn the call over to our Chief Financial Officer, David Obstler. David?

David M. Obstler - *Datadog, Inc. - CFO*

Yes. Thanks, Olivier. As mentioned, we delivered strong fourth quarter top and bottom line results amid a difficult macro backdrop. Revenue was $177.5 million, up 56% year-over-year against the challenging year ago comp. New logo generation was very strong. Usage trends were solid. Platform traction continued to be strong, and churn was in line to better than historical norms.

To provide some more context, first, new logo results were very strong. Both new logo ARR and the number of new logos were records for Datadog, displaying strong growth versus a year ago. New business contributions came across regions and from both our commercial and enterprise sales channels. Remember that given our usage-based revenue model, new logo wins generally do not immediately translate into revenue.

Growth of existing customers was robust, and our dollar-based net retention remained above 130% for the 14th consecutive quarter. We are pleased with the usage growth of existing customers, which showed continued adoption of our platform and their cloud migration even in the face of the macro pressures.

To go into a little more detail, growth of existing customers was broadly in line with long-term trends and meaningfully better than the level experienced in Q2 of last year. As a reminder, even though we have now experienced 2 quarters of usage growth that was approximately in line with pre-pandemic levels, Q2 was meaningfully pressured, and that pressure will impact our year-over-year metrics, including revenue growth and net retention until we lap that compare.

Next, in the fourth quarter, we saw continued strength of our platform strategy with over 70% of our customers using 2 or more products and 22% of our customers now using 4 or more products, up from only 10% a year ago. Given that 75% plus of our lands now come from 2 or more products, we believe the overall share of customers using 2-plus products is closing in on that number.

Lastly, churn was in line to slightly better than historical levels. This demonstrates the importance of our solution to our customers even during challenging times. Our dollar-based gross retention rate has remained largely unchanged in the low to mid-90s.

Now turning to billings, which were $219.4 million, up 68% year-over-year. After adjusting for the timing of $6 million of billings in last year's fourth quarter, pro forma billings growth was 61% year-over-year, strong and approximately in line with revenue growth.

Remaining performance obligations, or RPO, was $434 million, up 78% year-over-year. Both billings and contract duration extended in the quarter driven by strong annual billings and commitments as well as a few larger multiyear commits. It is important to note that those multiyear commits were billed annually, and we do not incentivize our sales force for multiyear deals given our high net retention rate.

Current RPO growth was strong in the mid-60s, similar to billings growth. As a reminder, billings and RPO can fluctuate versus revenue based on the timing of invoicing and the signing of customer contracts, while revenue incorporates customer usage.

Now let's review the income statement in more detail. 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 $137.6 million, representing a gross margin of 78%. This compares to a gross margin of 79% last quarter and 78% in the year ago period. The slight decrease in gross margin sequentially is due to minor inefficiencies created from our investments in product and platform innovation. As a reminder, our gross margins may fluctuate quarter-to-quarter within an acceptable range as we prioritize product development and innovation as well as the build-out of our cloud data centers in newer geographies.

R&D expense was $53.5 million or 30% of revenues compared to 27% in the year ago quarter. We have continued to invest significantly in R&D, including high growth of our engineering head count, which was -- which we added approximately 370 net R&D heads over the course of 2020.

We have been able to attract talent and execute on hiring and onboarding during COVID.

Sales and marketing expense was $52.5 million or 30% of revenues compared to 35% in the year ago period. Similar to R&D, we continued to make substantial investments in sales and marketing, but the pace of revenue growth has outpassed that investment. This was another quarter of no in-person trade shows or marketing events. While we have successfully redeployed much of the events budget to advertising and other lead generating activities, it was not on a 1:1 ratio.

G&A expense was $13.5 million or 8% of revenues, slightly lower than the 9% in the year ago quarter, and operating income was $18.1 million or 10% operating margin compared to an operating income of $7.9 million with a 7% margin in the year ago period. The continued reduction in marketing, events, travel and entertainment and facilities overhead due to COVID were the primary drivers in the year-over-year leverage. Headcount growth was approximately in line with revenue growth in the quarter. Non-GAAP net income in the quarter was $19.1 million or $0.06 per share based on a 334 million weighted average diluted shares outstanding.

Turning to the balance sheet and cash flow. We ended the quarter with $1.5 billion in cash, cash equivalents, restricted cash and marketable securities. Cash flow from operations was $23.8 million in the quarter. After taking into consider capital expenditures and capitalized software, free cash flow was $16.7 million for a margin of 9%. For the full year, free cash flow was $83.2 million or 14% margin.

Now turning to the outlook for the first quarter and the full year of 2021. As Olivier mentioned, we believe we can deliver high growth for the foreseeable future as we are addressing a very large greenfield market and are executing well against that opportunity.

As we look out to 2021, COVID continues to present some uncertainty. On the one hand, we believe the pandemic will accelerate digital transformation and cloud migration once the near-term pressure subsides. However, the timing and path of normalization remains uncertainty. Taking in combination, we are initiating the following 2021 guidance, which includes continued high growth.

Beginning with the first quarter, we expect revenue to be in the range of $185 million to $187 million, which represents a year-over-year growth of 42% at the midpoint. Non-GAAP operating income is expected to be in the range of $8 million to $10 million, and non-GAAP net income per share is expected to be $0.02 to $0.03 per share based on approximately 345 million weighted average diluted shares.

For the full year, revenue is expected to be in the range of $825 million to $835 million, which represents 38% year-over-year growth at the midpoint. Non-GAAP operating income is expected to be in the range of $35 million to $45 million, and non-GAAP net income per share is expected to be in the range of $0.10 to $0.14 per share based on approximately 348 million weighted average diluted shares.

Now some notes on the guidance. Embedded in the guidance are prudent assumptions on growth of existing customers as well as new logo attainment, which reflect some of the current macro uncertainties. Next, our strategic focus remains on investing to optimize for long-term growth. Therefore, we're planning to continue aggressive investments in both R&D and go to market throughout 2021. While we have been profitable throughout 2020 and plan to be in 2021, we are not focused on optimizing near-term profitability. Rather, the efficiencies of our business are clearly evident, and we are confident in our ability to be a sizable and materially profitable company over the long term.

Additionally, our model assumes a return to the office and a resumption of travel and in-person events in the second half of the year. We have limited visibility presently on these topics but believe it's prudent to incorporate that in our outlook.

Next, of the 2 acquisitions, Timber Technologies have closed and has no impact to our guidance. We also announced the agreement to acquire Sqreen for total transaction costs of $260 million, of which approximately 25% is deferred in a mix of cash and stock. We expect Sqreen to close in Q2, subject to customary closing conditions including regulatory approvals. Sqreen is not included in our guidance, but we expect it to have an immaterial impact to both our revenue and operating income guidance in 2021 upon deal closure.

Now below operating income. We expect approximately $1.2 million of quarterly non-GAAP other income, which is net, including the interest income on our cash and marketable securities less the interest expense of our convertible. Next, we don't expect to be a federal taxpayer next year but have a tax provision related to our international entity and expect that tax provision to be approximately $600,000 in Q1 and $3 million for the full year.

Lastly, we have early adopted ASC 2020-06 as of January 1, which changes the accounting for our convertible debt. Therefore, going forward, our convertible notes will be accounted for wholly as debt on our balance sheet. GAAP and other expenses should now be more aligned to non-GAAP as there is no longer a noncash component related to the debt discount.

More importantly, our share count forecast now considers an additional 8.1 million shares as the new standard requires all underlying shares of the convert to be included, and this has been taken into account in our EPS guidance.

To summarize, we are pleased with our results for the quarter. Execution was very strong, including strong sales results and continued product innovation. Customers continue to consume more Datadog both in terms of usage and the cross-selling to newer products.

Our continued execution throughout the challenges of 2020 give us even greater confidence heading into 2021, and the importance of our solutions will only be heightened long term by the pandemic. Therefore, we're continuing to reinvest in our business and are very excited for the year-end -- for the year ahead, sorry.

Finally, we would like to thank A.J. who is having his last earnings call with us today at Datadog. I'm sure our investors have appreciated his contributions as much as we have.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question, we do have Sanjit Singh from Morgan Stanley.

Mark Joseph Rende - *Morgan Stanley, Research Division - Research Associate*

This is Mark Rende on for Sanjit. Congrats on the results and continued strong growth here. First, I just want to quickly get an update on the headwinds you're seeing at the top line from the lower expansion you saw last summer. It seems like those trends have largely turned around, and we should expect another quarter or 2 to kind of work through those impacts. I guess my question is, as we get into the back half of next year and the growth comps become easier, should we be expecting the combination of easier growth comps and ramping kind of products and partnerships with like Azure to result in an acceleration of growth? Is that an appropriate way for us to be thinking about it?

David M. Obstler - *Datadog, Inc. - CFO*

I think that we've given our guidance taking into account all of the potential upsides and risk. But you are right. The headwinds created in Q2 do create a drag on the revenue growth as we talked about through Q2 of next year. And while we are not providing that quarterly guidance through next year, we expect of that headwind in terms of the comp to abate in the second half of the year.

Mark Joseph Rende - *Morgan Stanley, Research Division - Research Associate*

Got it. Helpful. And then maybe just on the 2 acquisitions announced. So on the security side with Sqreen, you're building out quite a portfolio now across observability and security at Datadog. And I guess my question on Sqreen is kind of how does this integrate with the core Datadog platform. How does it work with core Datadog versus being a stand-alone functionality?

And then on the Timber purchase, what's the need for an observability data pipeline in the platform? Can you help us kind of better understand what Timber's bringing to Datadog and the platform and why customers really need this functionality?

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

Yes. So I'll take the questions on M&A. So the -- on the Sqreen side, what's really interesting is the focus is application security. And application security is one of the areas where the conflict, I would say, between applications, [in dev] basically, ops and security is the most present and the responsibilities are not really clear-cut in there. And we think it's one area where we can show particular strength because our APM is already deployed. It's already in the heart of the application, and we can inject the security protection and detection in there directly. So we think this is a product will make a lot of sense to our customers that are using APM, and that's going to be deployed the same way basically. So that's for Sqreen.

For Timber and Vector, which is the product, what's really interesting there is we hear and we see from customers over and over again that they have a number of different data sources that produce logs in particular but also other kinds of observability data. And many of those sources, our legacy systems, log management systems, for example, and one thing they want to be able to do is to aggregate all that data before it leaves their own network environment, make sure they have the right privacy controls on them, so they can filter PII, for example, and things like that and then decide to route this data to us, for example, like to a cloud service but also maybe to other places, maybe to an archive they want to keep in-house. So what we think this will allow us to do is to satisfy that need from customers, make sure they are fully in control of the observability data and make it a lot easier for customers to, in the end, send us all the data that is relevant to them.

Operator

Next question comes from the line of Chris Merwin from Goldman Sachs.

Christopher David Merwin - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Okay. I wanted to ask about new land. I think you called out that 75% of those lands are with 2 or more products. So beyond infrastructure, can you give us a sense of where you're seeing the strongest traction more recently with the rest of your suite?

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

It's easy. It's pretty much in the order of introduction of the products. So the most mature behind that are APM and logs that are, I would say, neck and neck in terms of which are the other ones that are getting attached first. And then you go one step down to Synthetics, and then you go one step down to NPM and RUM, and then you go down to Security.

And so that's the order, which, by the way, I think, is a question we might get later, but we're planning to invest a lot more because we see so much success with that platform approach. We see all these products have a pretty interesting growth curve. And we think there's a lot more problem space for us to cover, which is why we are aggressively building a team and hiring, and we're also proceeding to do these acquisitions.

Christopher David Merwin - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Great. And just a follow-up. If we look at billings, I mean, on a pro forma basis, I think you said it was up 61% RPO, CRPO was up in the mid-60s, but then the revenue guide for '21 is in the high 30s. So I realize billings aren't going to factor in usage. But can you help us think about how to reconcile the really strong billings growth we saw exiting '20 and with the revenue growth guide for '21?

David M. Obstler - *Datadog, Inc. - CFO*

Yes. I think we had a strong new logo. We also had, as we mentioned, an extension of the duration of billings and contracts from our clients. So those were some of the factors that caused the strong performance. We try to get everyone sort of back to the revenue growth and then the linearity within the quarter, which one can look at ARR because of the variabilities in billing and RPO due to billings, but we did have strong new sales as well as the extension of duration in the quarter, as we mentioned, which contributed to that performance.

Operator

Next one on the line is Sterling Auty from JPMorgan.

Sterling Auty - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Wanted to revisit the security topic again. And traditionally, when we think about WAF adoption, that's usually been the security CISO organization kind of driving that adoption. RASP is a newer area. And what I'm curious is do you need a dedicated security sales force to properly penetrate the opportunity. Or is there enough buying decision and influence coming out of the dev ops areas that your existing sales force can adequately push the security products that you have?

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

So the short answer to that is we don't know yet, and we -- first of all, the deal is not closed yet, right? So we're standing in -- speaking in a hypothetical with the company -- the companies are not merged yet. But the -- the way we're seeing it is by starting from an APM product, we really lowered the friction that is involved in deploying an application security product, which typically is the problem you have.

Like when you try to deploy a RASP product, there's a high friction to deploy and the person who wants to deploy it is not the person who actually has the authority to do it or actually manages the servers or manages the application. And we solve that with Datadog. So we think it opens up new avenues of frictionlessly deploying those products. Now how it translates on the go-to-market side and if we need to have specialist sales, we don't know yet, and we're open to it.

Sterling Auty - *JPMorgan Chase & Co, Research Division - Senior Analyst*

All right. Great. And then one follow-up would be just in the 2-plus products, you mentioned kind of the land and the adoptions by the maturity curve. But what I'm curious about is are you seeing the use cases, especially for log and APM driving into newer areas than what you saw, let's say, maybe 3 or 4 quarters ago. Are you getting expansion of those products, in particular, new areas of your customers?

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

So those products are still expanding a lot, right? So the adoption curve for our customers is -- they usually start small and then they grow, and they expand the products to more and more and more of their business units and various activities. And so log and APM look different, but they keep growing with customers that way. So even when we say 70% of the customers have adopted the product, there's still a lot of growth to be had within those customers.

Operator

Next one on the queue is Brad Zelnick from Crédit Suisse.

Brad Alan Zelnick - *Crédit Suisse AG, Research Division - MD*

Great. And congrats on a strong end to a crazy year. Oli, my question is on Timber.

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

Thanks.

Brad Alan Zelnick - *Crédit Suisse AG, Research Division - MD*

Yes, for sure. My question on Timber, is the idea Vector to be an agnostic data pipeline and to be able to feed data to any observability platform. And in that case, how should we think about then rolling that into your offering, potentially create coopetition, if you will, amongst observability platforms? Or am I not thinking about it right to express it that way?

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

I mean you're right. I mean the -- it's important for -- like if you want customers to send all the data from all the sources, they have to be -- they have to have some flexibility to send it to various places, right? So that's actually part of the mix there. We think it actually makes sense for us to do it.

Obviously, the integrated experience with Datadog will be fantastic and so that it makes the most sense, and it is the most interesting from a value perspective to send everything to Datadog. But it is important for these to be open and to cater to various use cases where customers have another destination they want to consume the data or another source they want to add or some flexibility to filter on the fly what they send. In a way, you can see that as an extension of Logging without Limits that reaches back into the customer's infrastructure.

Brad Alan Zelnick - *Crédit Suisse AG, Research Division - MD*

Got it. And maybe a follow-up for David. David, how should we think about the level of sales hiring this year and the ability to ramp reps on the entire portfolio, which has expanded quite significantly?

David M. Obstler - *Datadog, Inc. - CFO*

Yes. We've been successful last year as well as our plans for this year and ramping sales higher slightly ahead of revenue. So we've been -- as we talked about it in the 60s, we have plans to do it again. And as we've talked about, it involves both expanding into new geographies. It involves building out the teams within geographies where we've been already successful. And it's what we did last year and believe we can do it again the next year.

Operator

Next one on the line is Mohit Gogia from Barclays.

Mohit Gogia - *Barclays Bank PLC, Research Division - Research Analyst*

I offer my congrats on a very strong quarter as well. So my first question is around the Mendix deal that you guys announced last week. So wondering if you can give us some more color there. It sounds like this is Mendix standardizing on Datadog as its observability platform. I think the release also mentioned that you guys replaced the existing incumbents, which were like 5 or 6 tools that the customer was using. So if you can go into some sort of like dynamics of your land there or maybe you were already there and expanded from there, but any more color on that customer will be very helpful.

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

Yes. I actually don't have much more color I can provide because I'm not sure what I can speak to publicly. We didn't prepare anything for that. But interestingly enough, this was not one of the customers we mentioned in the rest of the call in the prepared notes.

David M. Obstler - *Datadog, Inc. - CFO*

But I think as Oli has mentioned, it happens to be a press release, but it's typical of what has been happening with the expansion of the products across the platform, where most of the motion is landing smaller and then expanding given the value of the platform to across the product set. So it's a typical type of motion.

Mohit Gogia - *Barclays Bank PLC, Research Division - Research Analyst*

Understood. My follow-up question is for David. So David, in terms of -- so I think you followed up the record new ARR in Q3, then a strong quarter in Q4, right? So if I -- I mean, obviously, we understand the puts and takes to billings and RPO. But if I just look at ARR, it seems to be things coming together very nicely after sort of like a slight -- or rather a dip in Q2. So like how should we think about the guidance? I know this question was already asked. But if I sort of compare that to next fiscal year guidance versus really 2 strong quarters of ARR, and can you help us reconcile that?

David M. Obstler - *Datadog, Inc. - CFO*

Yes. As we said last time, and it's a typical approach. There's lots of positives, and we're very proud of it. But we continue to take a conservative approach towards guidance given the uncertainty in the world from COVID and what might happen to enterprises. As we said, we see a less -- we've seen a less volatile world in terms of both the growth of client usage and new logos but continue to remain prudent and conservative when we provide guidance as we have in our quarters as a public company.

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

Yes. One thing I will say is, when we look at our metrics internally, usage metrics, in particular, those are still noisier than they were before the pandemic, and that's because they basically track the way the various economical impacts of the pandemic ripple through the world and the various layers of the economy. And so we want to be a little bit cautious there.

People's behaviors have changed to, obviously, this year, like it's fairly different from what it was the year before. An example of that is, typically, at the last year or the last week of the year, there's a drop in activity because pretty much everyone takes the week off and some companies turn off their development environments and things like that. This year, it was more pronounced, I think, because many people haven't taken any time off during the year and everybody took their time off at that time. So we want to be a little bit careful about what we predict in the future. We've learned in Q2 that the numbers can change fast as changes to the economy happen.

Operator

Next question comes from Matt Hedberg from RBC Capital Markets.

Matthew John Swanson - *RBC Capital Markets, Research Division - Associate VP*

Yes. Great. This is actually Matt Swanson on for Matt. Olivier, the strength in multiproduct adoption has trended well throughout the year. I know we talk a lot of times about your opportunity being greenfield rather than displacements. But when we start to talk about more and more customers adopting more and more solutions, is this leading you into more of a displacement cycle? And how is that kind of affecting your go-to-market strategy and the sales cycles for those upsells?

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

Yes. We're still, I would say, just as dominated by greenfield as we were before, and I think it's going to be the case for the foreseeable future, which is why a lot of the -- what we're doing today is investing in building more products and growing the sales force so we can capture as much of this greenfield market as possible.

Matthew John Swanson - *RBC Capital Markets, Research Division - Associate VP*

Yes, that's helpful. And then I know security is a newer opportunity. But could you touch on any changes you've seen following SUNBURST, maybe even outside of security? It feels like there might be some elevated concerns for enterprises around observability and just kind of a renewed focus on knowing what's happening in their environment.

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

Yes. Well, it's both a challenge and an opportunity, right? I think the whole world has asked themselves what was happening with their software supply chain, where they were running, which is good. I think it opens some opportunity. There's some, I would say, minor short-term opportunity because we do see some customers that want to replace their network monitoring. And our Network Device Monitoring product is fairly new, but we see some interest in that for that reason.

I think longer term, there's definitely a growing problem that is understanding what's running, understanding your supply chain, understanding what your application's doing, and that's why we're investing in security. I think there's going to be a long-term opportunity there. So maybe short term, some replacement there, but the real opportunities go longer term and would -- who we can help. Enterprises basically understand what's going on in their network and in their applications.

Operator

Next question comes from Jack Andrews from Needham & Company.

Khanh Minh Ngo - *Needham & Company, LLC, Research Division - Associate*

This is Khanh in for Jack. Can you provide some color on how your relationship with Microsoft -- with Azure is progressing and expected ramp time in 2021? How should we be thinking about new logo size contribution from the partnership compared to your organic [go to] motion given Microsoft's leverage, enterprise leverage?

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

It's -- so it's still not live yet. It's in previews. So we have some customers that have limited access to it. And we're expecting this to be live in the first half of the year, but we don't fully control it. So there's still (inaudible) that needs to happen for that.

We -- look, it's hard to tell what the impact is going to be. Hopefully, we do expect that it's going to have a positive impact, but I don't want to sell it before it happens.

What I will say though is that we already got great feedback from existing customers and prospects that were already in our pipeline that this integration and the partnership with Microsoft is helping them move with confidence in Datadog -- with Datadog and expand with us. So we've seen a few large customers already react very positively to that. So we are -- I would say, we're already pretty satisfied with the impact.

Khanh Minh Ngo - *Needham & Company, LLC, Research Division - Associate*

That's helpful. And can you talk about some of the gains you're seeing from customers who adopt solutions from your Marketplace in terms of sales cycles and ease of use? Or are you seeing any changes in like cohort behavior given that these customers can derive value from your platform more quickly?

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

Yes. So we -- look, the Marketplace is kind of new, right? So there's still quite a bit that needs to happen in terms of the offering there and the breadth of the offering, I would say. But we do have some customers (inaudible).

David M. Obstler - *Datadog, Inc. - CFO*

Oli, I think you're on mute. Not clear anymore.

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

Am I mute? Sorry.

David M. Obstler - *Datadog, Inc. - CFO*

Yes, you're mute and not clear. You're back.

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

All right. Let me try again. I was saying that the platform is still fairly new at the Marketplace. But we do see some customers that are already adopting applications through the Marketplace and completing their Datadog platform with software that we haven't written in-house, which is very, very interesting. And some of these Marketplace deals are actually fairly meaningful. So this is -- I would say this is an encouraging sign. Again, there's still a lot of work to be done, a lot of building, a lot of partners to recruit on the platform, so still fairly early, but we have some very good validating signs very early on.

Operator

On the queue is George Iwanyc from Oppenheimer.

George Michael Iwanyc - *Oppenheimer & Co. Inc., Research Division - Associate*

So Olivier, kind of following up on the strong multi-product adoption. Are you seeing any consolidation of the number of tools at your customers? And kind of just a broad look at the overall competitive landscape.

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

Yes. So we -- clearly, we mentioned the 2 examples of customers that are consolidating on us, right, because they don't want to have their teams jump between tools. They don't want to have separate tools between the teams. So we definitely see that.

In terms of the competitive landscape, it's a bit boring in that we haven't seen any noticeable change in the past year, I would say, so pretty much the same situation as it was before, where the bulk of the opportunity is greenfield. A lot of our competition is open source do it yourself. And then occasionally, we're going to have some large lands from customers that already had something before and switch to us, but that's not the dominant motion.

George Michael Iwanyc - *Oppenheimer & Co. Inc., Research Division - Associate*

All right. And then, David, when you talked about the duration extending a bit, when you're looking at your guidance, do you expect that to either flatten out or start to contract maybe later in the year?

David M. Obstler - *Datadog, Inc. - CFO*

We think that can be episodic with -- as we talked about with the particular quarter and the contracts that come up, there hasn't been any change in strategy. Our strategy is to get annual commits and to offer mainly upfront billing with on-demand. That's still the dominant way to go to market. So what happens in the variability is some clients want a multiyear arrangement or they want a certain billing, but we really haven't changed our assumptions sort of where we are longer term in terms of duration.

Operator

Next one on the line is Bhavan Suri from William Blair.

Bhavanmit Singh Suri - *William Blair & Company L.L.C., Research Division - Partner & Co-Group Head of Technology, Media and Communications*

And I'll echo my congrats. It was a solid quarter. I guess I just want to touch a couple of quick things here on Synthetics. You started charging for Synthetics. I think it was, correct me if I'm wrong, Q3 '19. You've talked about seeing solid traction. Just love to understand what the growth has been in that business specifically. Attach rates, maybe how it's trending relative to your expectations because you did bring up a little bit in the call, but we didn't get much color. I'd love to hear how that's doing.

David M. Obstler - *Datadog, Inc. - CFO*

Yes, it's going very well. And I think we talked about the size and growth of the products is really aligned to when they were initiated. And we said last quarter, we're having tremendous success that Synthetics was multiple tens of millions of dollar type customer early in its growth, had very strong adoption, and it's been, as we talked about, sort of the #4 product in terms of the size after infrastructure, logs and APM together. So it's -- we've continued to see very strong reception as part of the overall platform.

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

Yes. And look, we're very -- as we said -- as I said, I think, earlier, network monitoring and RUM, which were introduced after Synthetics, both have adoption with very similar growth curve and a very good growth curve. So we're optimistic about all those products.

Look, the curves might differ a little bit between the products because they have different levels of friction. They have different levels of [ease of] applicability and road maps that have a different depth, I would say. But overall, we -- so far, we don't have any doubts in our platform, so we feel good about that.

Bhavanmit Singh Suri - *William Blair & Company L.L.C., Research Division - Partner & Co-Group Head of Technology, Media and Communications*

Good. Good to know. Absolutely. And then one other one from me, as you disclose this metric, and maybe I've got it wrong, but I don't think you've given the 1 million customer count in previous quarters. I'd love to understand how that trended through the year and if you saw a budget flush in December, which might have driven a jump in 7-figure deals?

David M. Obstler - *Datadog, Inc. - CFO*

Yes. We said that we would be delivering that once a year and providing some color, so it's the end of the year. We -- as I think we told you, we saw steady growth of that in the year. I think it sort of mimicked the rest of the effect in the business where those -- that type of evolution either from land or expand was more difficult in Q2 and improved throughout the year commensurate with our new logo and our expansion.

Operator

For the next question, we do have Pat Walravens from JMP Securities.

Joey Marincek - *JMP Securities LLC, Research Division - Research Analyst*

This is Joey Marincek on for Pat. I was going off that last question. I want to dig in on those larger customers. Just wondering, has your conversations changed at all with these larger customers, maybe just how you're approaching them?

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

The conversation hasn't really changed much. I think it's all in continuity with what has happened in the past, which is that those customers are adopting more and more of our products, and they are deploying us more and more broadly. And they themselves are getting deeper and deeper into the cloud.

So the boundary is between customers that are 1 million plus or 7 million. It is arbitrary, but we have a large number of customers right above it, large number of customers right below it. And we keep pushing customers up basically. So there's nothing new or different there. I think what this speaks to is customers continue to adopt more of our product and more of our platform, and they continue to move to the cloud.

Operator

Next one on the line is Brad Reback from Stifel.

Brad Robert Reback - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Oli, traditionally, you've talked about the frictionless adoption of the platform as being a key focus. So as you continue to build out into new areas, how important is it to maintain that frictionless type of environment versus taking on some more difficult problems that may include deeper sales efforts upfront?

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

Well, we're okay with both, right? But we can also -- like there's a lot we can still do to play to our strengths, and we're very far from covering the full spectrum of problems we can solve in a completely frictionless way.

So in some areas, especially security, like it's possible that we will need different kinds of sales and I would say, a bit more friction of deployment. But we're not done with the addition of frictionless products. And the ones that we have today are still very far from being fully penetrated [and maybe we're at our] customers. So there's a -- there's still a very long runway for all of that.

Operator

Next one on the line will be Michael Turits from Keybanc.

Michael Turits - *KeyBanc Capital Markets Inc. - MD & Senior Analyst*

One of your competitors has made some very extensive changing -- changes to their pricing structure. Are you seeing any impact from that or any pressure to make any kinds of changes structurally in the way you price?

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

We haven't seen any developments there. No, I think it's -- and look, it's still possible that customers want to change the way they consume [so we didn't see]. But we haven't seen anything so far, so we're -- as I said, the competitive landscape is boring in a good way so far.

Michael Turits - *KeyBanc Capital Markets Inc. - MD & Senior Analyst*

And David, just a quick housekeeping. You talked about billings getting some boost from duration extension. Can you quantify that for this quarter?

David M. Obstler - *Datadog, Inc. - CFO*

We're both in contracting billings that were both a couple of months, so both of them had been sort of in the 7 to 10, 12. And so they both extended a couple of months. But again, we want to caution everybody that, that may be related to the bills that went out at the end of the year, et cetera, and we don't expect any real changes in the way we're sort of going to market and interacting with our customers.

Michael Turits - *KeyBanc Capital Markets Inc. - MD & Senior Analyst*

And what's that invoicing duration on average now? What's been roughly?

David M. Obstler - *Datadog, Inc. - CFO*

That range has been sort of in the 6 to 8 range and the contact duration has been a couple of months longer than that. And they both expanded, but again, we don't -- we're not drawing conclusion out based on 1 quarter. I'd cautioned everybody.

Michael Turits - *KeyBanc Capital Markets Inc. - MD & Senior Analyst*

So it has been 6 to 8, and it was up a couple of months this quarter on invoicing duration.

David M. Obstler - *Datadog, Inc. - CFO*

Yes.

Operator

Next one on the queue is Gregg Moskowitz from Mizuho.

Gregg Steven Moskowitz - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

So it's great that the usage trends were good again this quarter and that you're now approximately back to pre-COVID levels. And what I was curious about is now that we're another quarter removed from the Q2, just to get your thoughts on the likelihood of a similar spike in cloud optimization reoccurring at some point. In other words, do you think that we would probably need to see another exogenous shock or long tail type event for usage to move around materially in any given quarter?

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

So I don't have [an in] on what's going to happen to the vaccines in the -- and the rest of the pandemic, so I'll defer on that. In terms of the cycles of optimization, they happen from time to time from our customers. Now whether they all got on the same schedule now because they are optimized at the same time, I don't know. I don't think all companies work the same way. But again, we don't know. We want to be a little bit prudent with our numbers because, as I said, they're a little bit noisier than pre-pandemic, and we want to set the right expectation there.

Gregg Steven Moskowitz - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Okay. And then just, David, any changes to average deal sizes this quarter across either new or existing customers?

David M. Obstler - *Datadog, Inc. - CFO*

We did have more -- an increase of the new logos. Broadly speaking, we have some range of that. So we talked about that was part of our new logo performance in Q4. And over time, we have a steady increase of the average spend with our customers as they grow with us as part of the land and expand.

Operator

Last question comes from the line of Yun Kim from Loop Capital Markets.

Yun Suk Kim - *Loop Capital Markets LLC, Research Division - MD*

So Oli, there was an earlier question on the impact of SolarWinds and SUNBURST. Are you seeing that event's driving closer collaboration between dev ops and security ops? And is that what's driving somewhat of a wait and....

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

I'm sorry. I think you got cut off.

David M. Obstler - *Datadog, Inc. - CFO*

Should we take the next?

Alexander Joseph Ljubich - *Datadog, Inc. - Director of IR and FP&A*

Yes. Maybe, operator, we end the call here.

David M. Obstler - *Datadog, Inc. - CFO*

Oli, as you (inaudible)

Olivier Pomel - *Datadog, Inc. - Co-Founder, CEO & Director*

Sorry, we're ending the call. So yes. So thank you, everyone. Again, I'd like to restate the fact that we're very pleased with the performance in the fourth quarter and as well as the performance for the full year.

And as a closing word, I am very proud of our execution, and I want to thank our employees for their hard work and the high output is what -- in what has been a difficult year for most people. One thing that's important to remember is that we are more critical to our customers than ever before and as the move to cloud is proving to be truly essential. So I and everyone at Datadog are excited to continue to make their lives easier and to deliver value to them in 2021 and in the years to come. So thank you all.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.