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Datadog, Inc. (DDOG)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Q4 2020 Datadog Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to hand the call over to your speaker today, Mr. AJ Ljubich. Please go ahead.

AJ Ljubich

Director, Investor Relations and Financial Planning & Analysis, Datadog, Inc.

Thank you, Kia. 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 and 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 of 2021, our strategy, 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 our 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 also will 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 you can find 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

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

Thank you, AJ. 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 efficiency. 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 other unprecedented challenges.

We ended the year with 2,185 employees globally, a 56% increase year-over-year, with high growth of 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 faced 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 reliefs, as well as social and racial justice efforts.

Last, but certainly not least, we have maintained a 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 our very large and growing market opportunity.

Now on to a review of the quarter. To summarize Q4 at the 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 3 times the 29 we had just two 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 $17 million. And as in past quarters, our dollar-based net retention rate was over 130%, as customers increased their usage and adopted our newer product. 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% on 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 $1 million-plus new logo customers.

Growth of existing customers was robust as customers of all sizes continued to grow their usage of Datadog through both increased consumption and cross-selling, and Q4's growth of existing customers was broadly in line with pre-COVID trends. Lastly, churn remained 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 two or more products, which is up from 58% last year. Additionally, 22% of customers are using four 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 two 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 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 strong 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 product and R&D. Today, we announced two 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 issues 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 in 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 route 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 break down 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 nine generally available products. To put these in context, just four years ago we had only one product. And we have been able to build the most complete, integrated and cloud-native observability platform because of our founding as an 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 partnerships 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 am very pleased with the continuous productivity of our go-to-market teams. And Q4 was a very strong sales 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. As expected, in the quarter, we saw seven-figure AR increases from COVID beneficiaries, 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 seven-figure upsells with travel technology company and a six-figure upsells through two separate airlines as well as a physical event company. These deals demonstrate that Datadog is a key strategic partner to companies that are scaling rapidly 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 two notable seven-figure lands, both with Fortune 100 companies, a retailer and an insurance company. Both had been struggling with teams in separate silos and are consolidating dozens of tools into Datadog using a single view to both Dev and Ops teams.

Next, we had a seven-figure land from a streaming sports platform in Asia, which was enabled by our new Datadog Partner program. This company adopted the 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 seven-figure land this time from a SaaS company based in EMEA. This company moves to us from a build-it-yourself approach and free its 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 the legacy point solution and get 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. The massive IT re-platforming driven 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 our 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

Chief Financial Officer, Datadog, Inc.

Yeah. 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 two 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 two or more products and 22% of our customers now using four or more products, up from only 10% a year ago. Given that 75%-plus of our lands now come from two or more products, we believe the overall share of customers using two-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 know 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 products 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 – in 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 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 was 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 event 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 two acquisitions, Timber Technologies have closed and has no impact to our guidance. We also announced the agreement to acquire Sqreen for a total transaction cost 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 tax payer 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 non-cash 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 continued 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 ahead.

Finally, we would like to thank AJ, 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.

QUESTION AND ANSWER SECTION

Operator: All right. [Operator Instructions] First question, we do have Sanjit Singh from Morgan Stanley. You're now live.

Mark J. Rende
Analyst, Morgan Stanley & Co. LLC

Q

Hi. This is Mark Rende on for Sanjit. Thanks for taking my questions and congrats on the results and continued strong growth here. First, I just wanted to quickly get an update on the headwinds. You're seeing the top line from the lower expansion you saw last summer. Seems like those trends have largely turned around and we should expect another quarter or two 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
Chief Financial Officer, Datadog, Inc.

A

I think that we've given our guidance taking into account all of the potential upsides and risks. 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 that headwind in terms of the comp to abate in the second half of the year.

Mark J. Rende
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Helpful. And then maybe just on the two 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 standalone 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 is bringing to Datadog in the platform and why customers really need this functionality? Thanks so much. Really helpful.

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

A

Yes. So I'll take the question on M&A. So, 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 and 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, is 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 that 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 are legacy system, 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 our cloud service but also maybe to other places, maybe to an archive they want to keep in-house. So, what we think this would allow us to do is to satisfy that need from customers, make sure they're 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.

Mark J. Rende
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: Next question comes from the line of Chris Merwin from Goldman Sachs. You are now live.

Christopher Merwin
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thanks so much for taking my question. I wanted to ask about new land. I think you called out that 75% of those lands are with two 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? Thanks.

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

A

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 at Dash 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 prominent space for us to cover, which is why we are aggressively building a team and hiring and we're also proceeding to these acquisitions.

Christopher Merwin
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you. 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 2021 is in the high-30s. So I realize billings are going to factor in usage, but can you help us think about how to reconcile the really strong billings growth we saw exiting 2020 and with the revenue growth guide for 2021? Thanks.

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

A

Yeah. I think we had a strong new logo. We also had, as we mentioned, a 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.

Christopher Merwin
Analyst, Goldman Sachs & Co. LLC

Q

Understood. Thank you.

Operator: Next one on the line is Sterling Auty from JPMorgan. You are now alive.

Sterling Auty
Analyst, JPMorgan Securities LLC

Q

Yeah. Thanks. Hi, guys. 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 DevOps areas that your existing sales force can adequately push the security products that you have?

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

A

So the short answer to that is we don't know yet. And we – first of all, [ph] perhaps (34:54) the deal is not closed yet, right? So we're standing in – speaking in a hypothetical where the companies are not merged yet. But the way we're seeing it is, by starting from an APM product, we really lower 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 server, manages the application. And we solved 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
Analyst, JPMorgan Securities LLC

Q

All right. Great. And then, one follow-up would be just in the two-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 three or four quarters ago? Are you getting expansion of those products in particular in new areas of your customers?

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

A

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, logs and APM are not different, but we 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.

Sterling Auty
Analyst, JPMorgan Securities LLC

Q

Got it. Thank you.

Operator: Next one on the queue is Brad Zelnick from Credit Suisse. You're now live.

Brad Zelnick
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you so much and congrats on a strong end to a crazy year. Oli...

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

A

Thanks.

Brad Zelnick
Analyst, Credit Suisse Securities (USA) LLC

Q

...my question is on Timber. Yeah, for sure. My question on Timber, 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 competition, if you will, amongst observability platforms? Or am I not thinking about it right, to express it that way?

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

A

I mean you're right. I mean, it's important for – like, if you want customers to send all the data from all the sources, 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 this to be open and to cater to the 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, that is an extension of Logging Without Limits that reaches back into the customer's infrastructure.

Brad Zelnick
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. Thank you. 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
Chief Financial Officer, Datadog, Inc.

A

Yeah. We've been successful last year as well as our plans for this year in ramping sales hire slightly ahead of revenues. So we've been – as we talked about 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.

Brad Zelnick
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you, guys.

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

A

Yes.

Operator: Next one on the line is Mohit Gogia from Barclays. You are now live.

Mohit Gogia
Analyst, Barclays Capital, Inc.

Q

Hey, guys. Thanks for taking my question and I'll 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 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 have replaced the existing incumbents, which were like five or six tools that the customer was using. So, if you can go into some stuff like the dynamics of your land there or maybe you're already there and expanded from there, but any more color on that customer will be very helpful.

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

A

Yeah. 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 the – interestingly enough, this was not one of the customers we mentioned in the rest of the call in the prepared notes.

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

A

But I think as Oli has mentioned, there 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
Analyst, Barclays Capital, Inc.

Q

Understood. My follow-up question is for David. So, David, in terms of – so I think you followed up this record new ARR in Q3, but not as strong quarter here 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 like compare that to next fiscal year guidance versus really two strong quarters of ARR add, can you help us reconcile that?

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

A

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

A

Yeah. One thing I will say is, when we look at our metrics internally, and our 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 too obviously this year. And I could spell a difference to what it was a 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 developer environments and things like that.

This year, it was more pronounced I think because many people hadn't taken any time off during the year and everybody took their time 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.

Mohit Gogia
Analyst, Barclays Capital, Inc.

Q

Okay. Very helpful color, guys. Thank you.

Operator: Next question comes from Matt Hedberg from RBC Capital Markets. You are now live.

Matthew Swanson
Analyst, RBC Capital Markets LLC

Q

Yeah. Great. Thanks. This is actually Matt Swanson on for Matt. Olivier, the strength in multi-product 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
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

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

Matthew Swanson
Analyst, RBC Capital Markets LLC

Q

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

A

Yeah. 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 on a network device monitoring product, it's 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 is 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 opportunity is the longer-term and how we can have enterprises basically understand what's going on in their network and in their applications.

Matthew Swanson
Analyst, RBC Capital Markets LLC

Q

All right. Thank you.

Operator: Next question comes from Jack Andrews from Needham & Company. You are now live.

Q

Hi. Good afternoon. This is [ph] Collin (45:37) in for Jack. Can you provide some color on how your relationship with Azure is progressing and expected ramp time in 2021? How should we think about new logo size contribution from the partnership compared to your organic go to motion, given Microsoft's enterprise leverage?

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

A

So it's still not live, it's still 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 [ph] two or three things (46:03) that need to happen before that. Look, it's hard to tell what the impact is going to be. Hopefully, we do expect it's going to have a positive impact, but I don't want to tell 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 with Datadog and expand with us. So we've seen a few large customers already react very positively to that. So I would say we're already pretty satisfied with the impact.

Q

Thank you. 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? Are you seeing any changes in like cohort behavior, given that these customers can derive value from your platform more quickly?

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

A

Yes. Look, the marketplace is fairly 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 [indiscernible] (47:08-47:15)

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

A

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

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

A

Am I mute? Sorry.

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

A

Yeah. You're mute and not clear. Okay. You're back.

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

A

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 competing 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 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.

Q

Thank you. Appreciate the color.

Operator: Next one on the queue is George Iwanyc from Oppenheimer. You're now live.

George Iwanyc
Analyst, Oppenheimer & Co., Inc.

Q

Yeah. Thank you for taking my question. 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
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

Yes. So, definitely, we mentioned the two 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 switched to us. But that's not the dominant motion.

George Iwanyc
Analyst, Oppenheimer & Co., Inc.

Q

All right. Thank you. 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
Chief Financial Officer, Datadog, Inc.

A

We think that, that can be episodic with – as we talked about, with that 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.

George Iwanyc
Analyst, Oppenheimer & Co., Inc.

Q

Thank you.

Operator: Next one on the line is Bhavan Suri from William Blair. You are now live.

Bhavan Suri
Analyst, William Blair & Co. LLC

Q

Thanks for taking my questions, guys, and I'll echo my congrats. That 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 2019. 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
Chief Financial Officer, Datadog, Inc.

A

Yeah. It's going very well. As 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 a 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 Number 4 product in terms of the size after infrastructure, logs and APM together. So we've continued to see very strong reception as part of the overall platform.

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

A

Yeah. And look, we're very – as I said I think earlier, network monitoring and RUM, which were introduced after Synthetics, both have adoption with very similar growth curves 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 applicability and road maps that have different depths, I would say. But, overall, we – so far, we don't have any duds in our platform. So, we feel good about that.

Bhavan Suri
Analyst, William Blair & Co. LLC

Q

Yeah. Yeah. No, absolutely. And then, one other one from me, you disclosed 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 seven-figure deals.

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

A

Yeah. 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 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.

Bhavan Suri
Analyst, William Blair & Co. LLC

Q

Got you. Got you. Got you. That's super helpful. Thanks, guys. And really nice job. Appreciate you taking my question.

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

A

You're welcome.

Operator: For the next question, we do have Pat Walravens from JMP Securities. You're now live.

Joey Marincek
Analyst, JMP Securities LLC

Q

Thank you. This is Joey Marincek on for Pat. I was going off that last question. I wanted 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. Thank you.

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

A

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 between customers that are $1 million-plus or $7 million – I mean, it's 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. 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.

Joey Marincek
Analyst, JMP Securities LLC

Q

Thank you so much.

Operator: Next one on the line is Brad Reback from Stifel. You're now live.

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

Q

Thanks very much. 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? Thanks.

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

A

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 will need different kinds of sales, and I would say, a bit more friction at 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 [ph] in a variety of (55:22) customers. So, there's still a very long runway for all of that.

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

Q

Great. Thanks very much.

Operator: Next one on the line will be Michael Turits from KeyBanc. You are now live.

Michael Turits
Analyst, KeyBanc Capital Markets

Q

Hi, David and Oli. One of your competitors has made some very extensive 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
Co-Founder, Chief Executive Officer & Director, Datadog, Inc.

A

We haven't seen any developments there, no. I think it's a – and look, it's still possible that customers want to change the way they consume, so we didn't fix. 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
Analyst, KeyBanc Capital Markets

Q

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
Chief Financial Officer, Datadog, Inc.

A

They were both – in contract and billings, they were both a couple months. So, both of them had been sort of in the 7 to 10, 12 months. And so, they both extended a couple 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, etcetera, 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
Analyst, KeyBanc Capital Markets

Q

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

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

A

Yeah, that range has been sort of in the six to eight month range, and the contract 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 one quarter and caution everybody.

Michael Turits
Analyst, KeyBanc Capital Markets

Q

Okay. So it has been six to eight months, and it was up a couple months this quarter on invoicing duration.

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

A

Yes.

Michael Turits
Analyst, KeyBanc Capital Markets

Q

Okay. Thanks.

Operator: Next one on the queue is Gregg Moskowitz from Mizuho. You are now live.

Gregg Moskowitz
Analyst, Mizuho Securities USA LLC

Q

Okay. Thank you. Hi, guys. 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 a long tail type event for usage to move around materially in any given quarter?

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

A

So I don't have [indiscernible] (58:07) what's going to happen to the vaccines and the rest of the pandemic. So I'll defer on that. In terms of the cycles optimization, like, they happen from time-to-time from our customers. Now, whether they all got on the same schedule now because they all optimized at the same time? I don't know. I don't think all companies work the same way here. 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 Moskowitz
Analyst, Mizuho Securities USA LLC

Q

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

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

A

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.

Gregg Moskowitz
Analyst, Mizuho Securities USA LLC

Q

All right. Thank you.

Operator: Last question comes from the line of Yun Kim from Loop Capital Markets. You are now live.

Yun Kim
Analyst, Loop Capital Markets

Q

Thank you. So, Oli, there was an earlier question on the impact of SolarWinds and SUNBURST. Are you seeing that event driving closer collaboration between DevOps and security ops? And is that what's driving somewhat of a wait and [audio gap] (59:38-59:43)

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

A

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

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

A

Should we take the next?

AJ Ljubich
Director, Investor Relations and Financial Planning & Analysis, Datadog, Inc.

A

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

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

A

Oli, that's you. Back to Oli.

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

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 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 the move to cloud is proving to be truly essential. So I and everyone at Datadog are excited to continue to make their life 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.