

Datadog, Inc. NasdaqGS:DDOG

FQ4 2024 Earnings Call Transcripts

Thursday, February 13, 2025 1:00 PM GMT

Table of Contents

Call Participants	3
Presentation	4
Question and Answer	9

Call Participants

EXECUTIVES

David M. Obstler
Chief Financial Officer

Olivier Pomel
Co-Founder, CEO & Director

Yuka Broderick
Investor Relations

ANALYSTS

Eric Michael Heath
*KeyBanc Capital Markets Inc.,
Research Division*

Kasthuri Gopalan Rangan
*Goldman Sachs Group, Inc., Research
Division*

Koji Ikeda
BofA Securities, Research Division

Mark Ronald Murphy
*JPMorgan Chase & Co, Research
Division*

Matthew George Hedberg
*RBC Capital Markets, Research
Division*

Patrick D. Walravens
*Citizens JMP Securities, LLC, Research
Division*

Raimo Lenschow
Barclays Bank PLC, Research Division

Sanjit Kumar Singh
Morgan Stanley, Research Division

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Q4 2024 Datadog Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Yuka Broderick, Senior Vice President of Investor Relations. Please go ahead.

Yuka Broderick *Investor Relations*

Thank you, Daniel. Good morning, and thank you for joining us to review Datadog's fourth quarter 2024 financial results, which we announced in our press release issued this morning. Joining me on the call today are Olivier Pomel, Datadog's Co-Founder and CEO; and David Obstler, Datadog's CFO.

During this call, we will make forward-looking statements, including statements related to our future financial performance, our outlook for the first quarter and fiscal year 2025 and related notes and assumptions, our gross margins and operating margins, our product capabilities, our ability to capitalize on market opportunities and usage optimization 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 are subject to a variety of risks and uncertainties that could cause actual results to differ materially.

For a discussion of the material risks and other important factors that could affect our actual results, please refer to our Form 10-Q for the quarter ended September 30, 2024. Additional information will be made available in our upcoming Form 10-K for the fiscal year ended December 31, 2024, and other filings with the SEC. This information is also available on the Investor Relations section of our website, along with a replay of this call.

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

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

Olivier Pomel *Co-Founder, CEO & Director*

Thanks, Yuka, and thank you all for joining us this morning. We had a strong Q4 to end a very productive year. During 2024, we kept building and innovating as we scaled up our teams and went broader and deeper into the problems we solve for our customers from the cloud to AI.

We continue to add new customers and expand with existing ones and we delivered more value as customers adopted more products in the Datadog platform. Let me start with a review of our Q4 financial performance. Revenue was \$738 million, an increase of 25% year-over-year and above the high end of our guidance range.

We ended with about 30,000 customers, up from about 27,300 a year ago. We ended Q4 with about 3,610 customers with an ARR of \$100,000 or more, up from about 3,190 a year ago. These customers generated about 88% of our ARR. We had 462 customers with ARR of \$1 million or more compared to 396 a year ago. And we generated free cash flow of \$241 million with a free cash flow margin of 33%.

Turning to customer adoption. Our platform strategy continues to resonate in the market. As of the end of Q4, 83% of customers were using 2 or more products, which is about the same as last year, 50% of customers were using 4 or more products, up from 47% a year ago, 26% of our customers were using 6 or more products, up from 22% a year ago and 12% of our customers were using 8 or more products, up from 9% a year ago.

During 2024, we continued to land and expand with larger customers. As of December 2024, 45% of the Fortune 500 are Datadog customers, up from 42% in 2023. We think many of the largest enterprises are still very early in their journey to the cloud. The median

Datadog ARR for our Fortune 500 customers is still less than \$0.5 million, which gives a very large opportunity for us to grow with these customers.

So we're serving more customers with more products, and we are also very pleased to celebrate several milestones for the business. First, our total ARR now exceeds \$3 billion, a big achievement for all of us at Datadog even though we're still only just getting started. And we have achieved this milestone largely by growing our first product infrastructure monitoring and expanding into the other pillars of observability: APM and log management.

Today, infrastructure monitoring contributes over \$1.25 billion in ARR. But we didn't stop there. As log management is now over \$750 million in ARR and so is our third pillar as our end to end APM products together also exceed \$750 million in ARR. Note that end-to-end APM includes all the Datadog products our customers use to monitor the applications, which are core APM, Continuous Profiler, Database Monitoring and Error Tracking as well as Synthetics and Real User Monitoring.

Now remember that even in the 3 pillars of observability, we are still just getting started as more than half of our customers do not buy all 3 pillars from us or at least not yet. Meanwhile, we're making progress with our other products, and we are pleased to see them increasing in customer usage and growth. Products outside these 3 pillars now contribute over \$200 million in ARR and we are excited about our growth opportunities in the many new products in this group.

Now let's discuss this quarter's business drivers. In Q4, we saw usage growth from existing customers that was roughly similar to the year-ago quarter. Our usage growth during the quarter generally played out as expected, including a stronger October and November and the slowdown we typically see at the end of December. We continue to experience a stable business environment and our customers overall are growing their cloud usage, while some are continuing to be cost conscious.

We also hit a new record in bookings this quarter. as our go-to-market teams executed on our first ever quarter with over \$1 billion in bookings. As a reminder, our bookings don't translate immediately into revenue growth, but it is an indicator that we continue to serve our new and existing customers as well, and they are growing with us over time.

Finally, churn has remained low, with gross revenue retention stable in the mid- to high 90s highlighting the mission-critical nature of our platform for our customers. Moving on to R&D and what we built in 2024. We released over 400 new features and capabilities this year. Not as too much for us to go back today, but let's go over some of our innovations.

First, we continue to improve the Datadog platform. We now have more than 850 integrations, making it easy for our customers to bring in every type of data they need to benefit from all the new AWS, Azure, GCP and OCI capabilities and engage with the latest technologies like the newly emerging AI stack. We announced Kubernetes autoscaling to help customers rightsize the Kubernetes environments without impacting stability and performance.

We launched Datadog Monitoring for Oracle Cloud Infrastructure so customers can now monitor their OCI stack and unify their monitoring across all clouds and on-prem environments. And we took several big steps to expand on Datadog as the best observability platform for OpenTelemetry users including making our infra monitoring and APM instrumentation fully interoperable with OTel components and improving the experience for OTel customers by embedding the OTel collector directly within the Datadog agent. In the next-gen AI and LLM space, we continue to add capabilities to Bits AI, launching Bits AI for incident management and previewing Bits AI for autonomous investigations.

We launched LLM observability in general availability to help customers evaluate, safely deploy and manage their models in production, and we continue to see increased interest in next-gen AI. At the end of Q4, about 3,500 customers used 1 or more Datadog AI integrations to send their data about their machine learning, AI and LLM usage. In the end-to-end APM space, our Error Tracking product now allows customers to view and manage errors across user stations, applications and logs, all in one place.

We kept building our data observability, including the launch of data job monitoring to help data engineers detect problematic spark and Databricks jobs anywhere in their pipelines. And we expanded the technologies we can provide deep insights into such as Amazon SQS, in data stream monitoring and MongoDB in database monitoring.

In Digital Experience, our customers can now use our mobile app testing to test iOS and Android applications on real mobile phones. We allow faster investigation of mobile app issues with mobile session replay. And while product analytics remain in early stages, we are encouraged by customer interest in using Datadog to analyze user behavior for better business outcomes. In log management, Flex Logs launched into general availability, and customers can now cost-effectively retain and analyze massive volumes of data over long periods of time.

We expanded log workspaces for advanced analytics and querying. And we simplified the deployment of observability pipelines with new out-of-the-box template and granular configuration options. In cloud security, we now have more than 7,000 customers using 1 or more security products. We launched agentless scanning to detect risks and vulnerabilities within hosts, containers and servers across a whole cloud account in a few clicks.

We shipped Datadog infrastructure as code security, so our customers can identify and fix misconfigurations in their Terraform and Plat4mation code. Our customers can now use Kubernetes security posture management to benchmark their environments against industry-based practices. We launched code security to detect vulnerability in first-party code running in production environments.

We continue to expand on our software composition analysis capabilities. And we built many more integrations, content packs and investigative workflows into our cloud SIEM product. In software delivery, Developers can now use Datadog code security with quality gates to ensure production code meets quality, security and performance standards. And we announced the ability for customers to observe DORA metrics to improve the speed and efficiency of the engineering teams.

In Cloud Service Management, we launched our modern scheduling solution, Datadog OnCall for general availability last month. We are already seeing significant customer interest for it and are excited to solve this problem for our users.

We launched Event Management for general availability using AIOps to intelligently aggregate, consolidate and simplify alerts from any sources. We built out our case management functionality so users can triage, assign and close production-related tickets faster. And finally, our app builder product lets users build apps to implement their own custom processes and workflows and take action directly within Datadog.

So I'd like to thank our product and engineering teams for a very productive 2024, and I'm super excited about what we have planned for 2025. Let's move on to sales and marketing. We had a strong close to 2024 with record bookings and some very exciting new logos and expansions. Let's go through a few.

First, we landed a 7-figure annualized deal with a major U.S. financial institution. This company was struggling with high costs and expansive logging tools. By using Datadog Flex Logs and observability pipelines, this customer expects to save money on log management, and we'll redeploy those savings to invest in observability transformation.

This customer is starting with 4 Datadog products and is replacing 4 commercial and open-source tools. Next, we landed a 7-figure annualized deal with a large Brazilian retail company. This company had built a homegrown open-source based observability tool, but had poor visibility into customer journeys for their shopping application.

With Datadog, they quickly improved application performance, which drove higher app store ratings, better digital reputation and improved user confidence. This customer is starting with 5 Datadog products.

Next, we landed a 6-figure annualized deal with the leading American entertainment company. This company had limited visibility into their customers' experience on in-store kiosks and on their mobile app. By using Datadog's unified platform, this company will correlate monitoring across front and back end and enable multiple teams to collaborate for improved customer experience. This landed deal featured our brand-new product analytics capabilities and will displace 2 commercial observability and analytics tools.

Next, we landed a high 6-figure annualized deal with a U.S. federal health insurance company. This company's Medicare Services business requires a SIEM, but its SIEM tool was expensive and poorly adopted by the teams. They will now rely on both Flex Logs and our cloud team within GovCloud for significant cost savings, all that while improving security and compliance.

And we have the opportunity to provide additional value and expand to 3 pillar end-to-end observability over time. Next, we signed a 7-figure annualized expansion with a Fortune 100 oil and gas company. This customer is moving thousands of hosts from on-prem to the cloud and will replace 2 legacy infrastructure and network monitoring tools.

The estimated cost and productivity savings from operating these legacy tools exceed \$1 million annually. And we work with them to evaluate the productivity gains when thousands of users saw less disruption by incidents for expected savings of over \$10 million per year.

This customer is expanding to use 14 Datadog products. Last for today, we signed a 7-figure annualized expansion with a leading security software company. This customer built a homegrown log management tool using open source software, but it was time consuming to maintain extremely costly and perform poorly with unacceptable delays.

By moving to Flex Logs, this customer is already saving on total cost, reducing mean time to resolution and increasing user productivity with estimated savings over \$1 million a year. And this customer is expanding to use 8 Datadog products. And that's it for this quarter's highlights.

Congrats again to our go-to-market team for their great work in 2024, our best ever close to the year and the exciting plans we've laid out for 2025. Before I turn it over to David for a financial review, a few words on our longer-term outlook. We continue to believe digital transformation and cloud migration are long-term secular growth drivers of our business as well as critical for every company to deliver value and gain competitive advantage. And we think moving to modern cloud-based technologies is more important than ever as more companies step up to adopt AI capabilities.

We continue to focus on delivering innovation and value to our customers against their mission-critical needs. And more than ever, we feel ideally positioned to help customers of every size in every industry to transform, innovate and drive value through technology adoption.

And with that, I will turn it over to our CFO. David?

David M. Obstler
Chief Financial Officer

Thanks, Olivier. To start, Q4 revenue was \$738 million, up 25% year-over-year and up 7% quarter-over-quarter. To dive into some of the drivers of the Q4 revenue growth. Overall, we saw trends for usage growth from existing customers that were consistent with our expectations. We continue to see conditions that were similar to recent quarters and roughly stable throughout 2024 with continued movement to cloud and modern DevOps technologies, and with customers remaining cost conscious and seeking efficiency and value from their spend.

In Q4, we saw usage growth from existing customers that was roughly similar to the usage growth in the year-ago quarter. Next, we continue to see robust contribution from AI native customers who represented about 6% of Q4 ARR roughly the same as the quarter -- as last quarter and up from about 3% of ARR in the year-ago quarter. AI native customers contributed about 5 percentage points of year-over-year revenue growth in Q4 versus 4 points in the last quarter and about 3 points in the year-ago quarter.

So we saw strong growth from AI native customers in Q4. We believe that adoption of AI will continue to benefit Datadog in the long term. Meanwhile, we did see some optimization and volume discounts related to contract renewals in Q4. We remain mindful that we may see volatility in our revenue growth on the backdrop of long-term volume growth from this cohort as customers renew with us on different terms, and as they may choose to optimize cloud and observability usage.

Next, as we look at usage growth by segment. Similar to recent quarters, we are seeing the strongest year-over-year usage growth from our enterprise customers. Meanwhile, our SMB customers' usage growth remained solid with slight year-over-year acceleration versus last quarter. As a reminder, we define enterprise as customers with 5,000 employees or more, mid-market as customers with 1,000 to 5,000 employees and SMB as customers with less than 1,000 employees.

Regarding our retention metrics, our trailing 12-month net revenue retention percentage was in the high 110s in Q4 compared to the mid- 110s last quarter. And finally, our trailing 12-month gross revenue retention percentage remained stable in the mid- to high 90s. Regarding our customer growth, we added 800 net customers in Q4 for a total of around 30,000 customers.

This includes the highest number of gross new logos and dollar new logo annualized bookings since early 2023. Now moving to our financial results. Billings were \$908 million, up 26% year-over-year. Remaining performance obligations, or RPO, was \$2.27 billion, up 24% year-over-year. Current RPO growth was in the mid-20s percent year-over-year.

RPO duration was down year-over-year. Normalizing for duration, RPO growth was in the mid-30s year-over-year. We continue to believe revenue is a better indication of our business trends than billings and RPO, as those can fluctuate relative to revenue based on the timing of invoicing and the duration of customer contracts.

Now let's review some of the key income statement results. Unless otherwise noted, all metrics are non-GAAP. We have provided a reconciliation of GAAP to non-GAAP financials in our earnings release. First, gross profit in the quarter was \$603 million for a gross margin of 81.7%. This compares to a gross margin of 81.1% last quarter and 83.4% in the year-ago quarter.

Our Q4 OpEx grew 30% year-over-year accelerating from 21% last quarter as we continue to execute on our hiring plans. This includes our successful investment in sales and marketing, which grew 31% year-over-year in Q4 2024 to 23% of revenues, up from 5% year-over-year growth in Q4 of 2023 at 22% of revenues.

We ended 2024 with sales and marketing headcount of about 3,000, up from about 2,400 at the end of 2023. This also includes our successful investment in R&D, which grew 29% year-over-year in Q4 2024 to 29% of revenues, up from 15% year-over-year growth in Q4 last year at 28% of revenues. We ended 2024 with R&D headcount of about 3,100, up from 2,400 at the end of 2023.

Q4 operating income was \$179 million or a 24% operating margin compared to 25% last quarter and 28% in the year ago quarter. Now turning to the balance sheet and cash flow statements. We ended the quarter with \$4.2 billion in cash, cash equivalents and marketable securities. In December, we issued a 5-year \$1 billion convertible note. We used \$122 million of the proceeds for transaction costs and cap calls associated with these notes.

And simultaneous with the issuance of these notes, we've repurchased approximately 15% of our outstanding 2025 convertible notes and terminated the associated cap calls for net cost of \$142 million. After taking into account this issuance and repurchasing activity, our cash balance increased by \$736 million net. \$636 million principal amount of the 2025 convertible notes and associated cap calls remains outstanding, and we expect to retire the outstanding amount of the 2025 notes on or before their maturity date of June 15, 2025.

Cash flow from operations was \$265 million in the quarter. After taking into account capital expenditures and capitalized software, free cash flow was \$241 million for a free cash flow margin of 33%. And now for our outlook for the first quarter and fiscal year 2025. First, our guidance philosophy remains unchanged.

As a reminder, we based our guidance on trends observed in recent months, and apply conservatism on these growth trends. So for the first quarter, we expect revenues to be in the range of \$737 million to \$741 million, which represents 21% year-over-year growth. Non-GAAP operating income is expected to be in the range of \$162 million to \$166 million which implies an operating margin of 22%. And non-GAAP net income per share is expected to be \$0.41 to \$0.43 per share based on approximately 366 million weighted average diluted shares outstanding.

And for the full fiscal year 2025, we expect revenues to be in the range of \$3.175 billion to \$3.195 billion, which represents 18% to 19% year-over-year growth. Non-GAAP operating income is expected to be in the range of \$655 million to \$675 million, which implies an operating margin of 21%.

And non-GAAP net income per share is expected to be in the range of \$1.65 to \$1.70 per share based on approximately 369 million weighted average diluted shares outstanding. Now for some additional notes on this guidance as it relates to our growth in OpEx and hiring. First, we successfully executed on our hiring plans in 2024, ending the year with about 6,500 employees, growing 27% year-over-year.

And we remain excited by our numerous long-term growth opportunities. Our operating profit guidance reflects our intent to continue to invest for future growth in 2025. Because of that, our operating profit guidance implies operating expense growth in the high 20s percent range year-over-year. As we did in 2024, we expect to grow our investments in both sales and marketing and R&D this year. As I discussed earlier, in Q4, sales and marketing expenses grew 31% year-over-year and R&D expense grew 29% year-over-year.

We continue to expand our capabilities in sales and marketing, including expanding in our less mature geographies, adding more channel and alliance capabilities and extending our efforts around larger enterprises, among many other initiatives. And in R&D, we are focused on delivering more value to our customers, both in expanding the number of products for our customers and the capabilities we add as part of the Datadog platform.

Meanwhile, we continue to balance our investments in long-term growth with financial discipline, as we have executed in the past. Now turning to the other areas of the P&L. First, we expect net interest and other income for fiscal 2025 to be approximately \$120 million. Regarding taxes, our non-GAAP tax rate is 21% in fiscal year 2025, and this is reflected in our non-GAAP net income per share guidance.

Next, we expect our cash taxes in 2025 to be about 1% of 2025 revenues or about \$30 million to \$35 million. While we have utilized the majority of our U.S.-based NOLs, we have R&D tax credits and deductions related to stock-based compensation that reduced our cash tax payments. Finally, we expect capital expenditures and capitalized software together to be in the 4% to 5% of revenues range in 2025.

Now to summarize, we are pleased with our execution in 2024. We are well positioned to help our existing and prospective customers with their cloud migration and digital transformation journeys. And we continue to invest in our growth opportunities in 2025. I want to thank all Datadogs worldwide for their efforts last year, and I'm very excited about our plans for this year. And with that, we will open the call for questions. Operator, let's begin the Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Mark Murphy with JPMorgan.

Mark Ronald Murphy

JPMorgan Chase & Co, Research Division

Great to see the record bookings in Q4. I'm curious how you're feeling overall about the book of business for AI native customers. We recall you anticipated several months ago that some of them were growing so rapidly that they would increase their commitments with better terms. And I'm curious if the developments that you mentioned on the call, aligned with that, or whether any of that might become so large that they would try to handle observability in health.

So in other words, I'm trying to understand if the AI usage and commits are kind of on the same trajectory that they were on or whether you feel that there are some oscillations there.

Olivier Pomel

Co-Founder, CEO & Director

Thanks for the question. So I think the -- in general, what happened during the quarter is pretty much what we thought would happen when we discussed it in the last earnings call. When you look at the AI cohort, we definitely saw some renewals with higher commit, better terms and optimization usage all at the same time, which is fairly typical, which typically happens with larger end customers in particular is at the time of renewal, customers are going to trying and optimize what they can. They're going to get better prices from us, up their commitments and we might see a flat or down a month or quarter after that, with a still sharp growth from the year before and growth to come in the year to come. So that's what we typically see.

When you look at the cohort as a whole, even with that significant renewal optimization and better unit economics this quarter is wholly stable, this quarter as a whole is stable quarter-to-quarter in its revenue and it's growing a lot from the quarter before, even with all that. Now when you talk about like some very large customers that are growing extremely fast, perhaps the fastest we've seen in the tech industry, there are always customers that want to in-house their observability or monitoring.

Typically, what we see is it's more of a cultural choice because it's not economically rational unless you have a combination of tremendous scale, exceptional access to talent. And you also don't have a growth that is limited by the engineering bandwidth you have for innovation work this quarter to your business. And so all 3 are typically never true at the same time. If you look at the top 5, 10 companies in the world by infrastructure size today, some don't run any third-party software and build everything themselves, some do run third-party software and do run our service usually on part of their businesses.

But really, at the end of the day, like those 5, 10 companies are not the market for selling software or SaaS and they never have been. So the rest of the world is the core market. And when we talk about the AI cohort, what's interesting is not so much this relatively small set of native companies. We see them more as a sign of things to come in terms of a broader AI adoption. So what's interesting to us is how the rest of the world starts operating in our workload and grows into that.

Mark Ronald Murphy

JPMorgan Chase & Co, Research Division

Okay. Understood. And then just as a very quick follow-up, Olivier, either for Olivier or David. All 3 major hyperscalers did miss their Q4 revenue forecast. And they were talking about capacity constraints on the AI side. But the non-AI side for some of them seem to slow just a regular typical cloud migrations. And I'm just wondering if you felt the timing of the holidays, excuse me, had any impact on December or whether their AI capacity constraints might be flowing through to Datadog as well?

Olivier Pomel

Co-Founder, CEO & Director

Yes. It's hard to tell exactly what's going on with the AI capacity constraint and things like that. If I will adjust to compare and contrast what we do for our growth with the cloud providers, overall, we're growing a bit faster than the cloud providers including the very big bump they're getting from selling GPUs, which is not something we monetize very well on our end, in part because those GPUs are largely attached to trading workloads that we don't have a big role in, but also in part because these are sort of new pieces of infrastructure that we'll have different needs as they become more broadly used by a larger number of companies.

If you back out the -- as you mentioned, the GPU related, AI related part of the growth for the top providers, they are slowing down and we are meaningfully outgrowing them, that part of the business. And I think that if you zoom out, that's sort of in line with the broader trend of -- we're driven by -- our business is driven by digital transformation and cloud transformation, which is happening, which will keep happening and we're outgrowing that trend now and in the long run.

Operator

Our next question comes from Sanjit Singh with Morgan Stanley.

Sanjit Kumar Singh

Morgan Stanley, Research Division

Congrats on the record bookings quarter in Q4. Olivier, I want to talk on the sales and marketing side, how you're thinking about this year in terms of the magnitude of change versus the prior year, whether it's relating to the investments in underserved geos or the channel partners or continuing to serve the enterprise opportunity? What do you have in store for the sales organization going into 2025?

Olivier Pomel

Co-Founder, CEO & Director

So we have quite a bit in stores. There's a number of parts of the business we're being a little bit more deliberate about pushing the product, in particular, in the segment where we think we're on the cusp of acceleration in critical mass and we can invest and slip behind that. So there's a few examples.

We mentioned, for example, on the -- some of the customer wins we discussed today, we mentioned a number of wins for Flex Logs. And we definitely see the potential for logs and Flex Logs, in particular to get much broader adoption in the market. We also see a very interesting and timely competitive opening there with some of the bigger players being taken out recently.

So there's efforts like that, that we're pushing into. Another example we gave on the call of the product that's exciting to us right now is OnCall. OnCall is brand-new, just entered GA, but demand is very, very strong. So we are making sure that we have the right programs from a go-to-market perspective to make sure those products can take off as they should.

So if you zoom out from the specific product related programs or the specific partner related or segment related because there's a number of those. What we're doing really that matters is we are growing the sales capacity. We've been growing the sales capacity last year. I would say we probably got a bit of a slower start last year in the first half of the year at growing sales capacity than we would have wanted. We accelerated that throughout the second half of the year. We're still accelerating the sales capacity growth, and we expect to see the results from that. The good rule of thumb is when you invest in sales when you hire sales and marketing, you start seeing the impact in 1 to 2 years after that. When you hire engineering and you build the R&D capacity, you start seeing the impact within 2 to 3 years after that. So that's the -- we're pushing towards that.

Sanjit Kumar Singh

Morgan Stanley, Research Division

That makes total sense. And just as a follow-up, actually, I was going to ask about logs and Flex Logs, it sort of dominated a lot of your customer highlights this quarter. In terms of like logs becoming sort of renewed focus across the sort of observability stack. You obviously have some incumbents. But is there anything sort of changing technologically. You guys have obviously, I think, rearchitected your log platform. But what seems to be driving the renewed interest in logs and cloud SIEM that get you excited about the opportunity?

Olivier Pomel

Co-Founder, CEO & Director

Well, it's a combination of -- there's definitely new interesting technologies and economics that relate to these technologies that resonate well with customers. So now you can keep a lot more data and keep it for a lot longer and it's a lot more cost efficient. And so that's definitely 1 aspect.

Second aspect is modernizing the stack is something that's really cloud first cloud-based, which was not the case of the platforms that we're mostly used before that. And then there is interesting opportunities to also unify some of the operational aspects of the security aspects. So we -- alongside with Flex Logs, we also see quite a bit of demand for Cloud SIEM and we think the competition of those is very interesting.

So I would say all those together would drive the renewed specific interest in that part of the business and why we're pushing this.

Operator

Our next question comes from Raimo Lenschow with Barclays.

Raimo Lenschow

Barclays Bank PLC, Research Division

Perfect. A quick -- there's a lot of focus on the big AI guys at the moment. But how do you -- I mean that's -- but it's only the starting point for the AI opportunity. Can you see like what you see in first feedback on people looking at inference workloads and trying to have observability on them because I would assume in the long run, that's probably the big opportunity. What do you see there? And then a question -- I have a follow-up for David.

Olivier Pomel

Co-Founder, CEO & Director

Yes. So on the inference side, the -- mostly still what customers do is they use a third-party model either through an API or through a third-party inference platform. And what they're interested in is measuring whether that model is doing the right thing. And that's what we serve right now with LLM observability, for example, as well, we see quite a bit of adoption that does not come largely from the AI-native companies.

So that's what we see today. In terms of operating the inference stack fully and how we see relatively few customers with that yet, we think that's something that's going to come next. And by the way, we're very excited by the developments we see in the space. So it looks like there is many, many different options that are going to be viable for running your AI inference.

There's a very healthy set of commercial API-gated services. There's models that you can install in the open source. There are models in the open source today that are rivalling in quality with the best closed API models. So we think the ecosystem is developing into a rich diversification that will allow customers to have a diversity of modalities for using AI, which is exciting.

Raimo Lenschow

Barclays Bank PLC, Research Division

Okay. Yes, that's really exciting. And then, David, like if you think about the increased investments that we're seeing across sales and marketing and R&D, obviously, we could have kind of taken kind of an accelerated approach or an approach there like this time last year, the year before, et cetera. What drives your confidence or what drives the decision to kind of think this year? Like what are the signals that you're seeing out there to kind of get you excited about that?

David M. Obstler

Chief Financial Officer

Yes. It's really bottoms up. We look at the geographies in one case where we see the white space and the evidence of success and attainment and the accounts that, as we talked about internationally, we don't fully cover. Next, as you know, we've been developing our channel and our partnerships. We think there's a big opportunity there.

So we've been increasing our investment and see return on that, the percentage of our sales that are affected by channel partners has been increasing. So there's evidence there. And then in terms of across the different types of customers, we see very large enterprise customers that need to be treated in a certain way and have been increasing the way we go to market. Of course, we go bottoms up, but we also have an increasing effort in some key accounts. So all of those things are based on the evidence of the demand cycles we see in our results to date.

Olivier Pomel

Co-Founder, CEO & Director

One thing to keep in mind when we look at -- because I know something that's in the back of the mind of many of our listeners here, when we look at growing the sales capacity and the relationship between that and how we think we're going to grow the business and guidance for this year and things like in particular, remember that the revenue comes on usage and usage is only loosely related to in time to the bookings we get from the sales team.

And so when we think about the guidance we're putting forward and what we're looking at for the year, it's all based on usage -- recent usage trends that we discounted to the future. And it doesn't really incorporate a lot of the longer-term gains we get from the scaling of the go-to-market.

David M. Obstler
Chief Financial Officer

Just adding one more thing. I think we said that in 2023, with the risks that we saw in the market that we did take a prudent approach and we slowed down the growth of the go-to-market. So there is some of catch-up essentially, as these are things that we pulled back on a little bit, took a little more conservative approach.

And once we saw the evidence in some of these territories, we began to accelerate. And if you look at the sales and marketing investment in the second half of the year, you'll see that we started to be successful in increasing our quota capacity and our go-to-market investments.

Operator

Our next question comes from Kash Rangan with Goldman Sachs.

Kasthuri Gopalan Rangan
Goldman Sachs Group, Inc., Research Division

I'm wondering if I could get your assessment of the disparity between the strong forward-looking indicators, so it's RPO, CRPO, forward-looking event of the business versus the conservative guidance. Any thoughts on that? Is it a bit more conservative given that your forward-looking indicators actually look a little bit stronger than one would have expected.

And second, maybe this is 1 for you, David. Is there, at the margin, any change at all with respect to the usage upside versus the commitment that customers are making. And therefore, that could help understand why the guidance is what it is.

Olivier Pomel
Co-Founder, CEO & Director

So I think on the first question, really that's what I was just commenting on, which is that the revenue report is based on usage. And we only know when we get the usage from customers. And it's not directly linked in time to the bookings. In many cases, the bookings come ahead of the revenue. So we'll have a new customer, and it's going to take them time to ramp into their commitment.

In some cases, the bookings can trail the revenues, okay, say, customers grew a lot and they were -- they had a lot of already uncommitted revenue and then we will commit to some part of that over time. So there's less of a direct relationship there. Again, when we look at guidance.

Kasthuri Gopalan Rangan
Goldman Sachs Group, Inc., Research Division

Probably I get that, I think you explained it. But at the margin, how do you convert those commitments into usage? I mean are there things that you're emphasizing in the organization to get better conversion in a shorter span of time. That was really the heart of the question. If I'm not clear, sorry about that.

Olivier Pomel
Co-Founder, CEO & Director

Yes, there's a number of things we're doing for that, right? I mean part of it is the usual question of how much of your comp plan on the sale side should be usage versus bookings. And we've definitely experimented with some different ratios there, and we try to optimize for the best outcomes.

But in general, again, just if I go back to the biggest question, which is what's the relationship between what we see there and the guidance, guidance is really based on the recent trends, and we extrapolate them with some discount. So by definition, even though we see acceleration from the drivers, we ourselves invest more in some areas, it's unlikely that we -- unless we see direct acceleration in the recent quarter that we -- you will see accelerating a number of the guidance there. Just because of the way this is constructed. But we're very disciplined in terms of sticking to the usage trends there.

David M. Obstler
Chief Financial Officer

Yes. Just to add. I think we've said that in some quarters, the bookings and RPO numbers might diverge from the ARR and revenue growth. I think in this quarter, you see there's pretty good convergence, right? They all point to the same range, et cetera. We certainly have the motion, as you mentioned, of assigning commits and then working with clients to use those commits and then go above that.

That hasn't changed. So the amount of spread between usage and commits is similar to what it's been. I think you're correct. A lot of what we do operationally in our customer success, our technical account management, our product management, our marketing is about trying to get our customers to use more of the platform. And in the metrics we show, both in terms of revenues of the different product areas and in the cross-sell metrics that continues to be strong.

I echo what Oli said was when we provide the guidance, we really haven't changed our methodology. We take what we know from those trends and we've essentially put conservatism going forward. So I think you can't necessarily go on to 1:1 there, and we've not changed our approach in doing that and providing guidance.

Operator

Our next question comes from Matt Hedberg with RBC.

Matthew George Hedberg
RBC Capital Markets, Research Division

David, for you, it was nice to see NRR pick up a bit. And I realize it's a trailing 12 metric, and this year was met with a lot of stability here. I'm just sort of curious when you think about that going forward, what have you embedded from a retention perspective in your '25 outlook? And then maybe to put a finer point on the digital -- the AI native question earlier. Does your guidance assume that we see a pretty stable contribution there throughout the year?

David M. Obstler
Chief Financial Officer

Yes. So on the first question, yes, it has been ticking up. And then what we do essentially, there's really 2 inputs into revenue guidance. One is -- and the largest one is what is net retention and the other is what contribution from new. And we essentially, as you know, and you can probably figure that out, we do take the net retention and then discount that. So that's what we look at.

In terms of the AI contribution, I think we try to embed that in the level of the discount, I think we essentially don't assume that there's going to be some non-pro rata acceleration of AI. There may be, it's a big opportunity, but we don't assume that. So we try to take the conservatism that we have in our net retention or expansion rate and apply that across the customer base, not being smart enough to know exactly where it might be or not be.

Operator

Our next question comes from Koji Ikeda with Bank of America.

Koji Ikeda
BofA Securities, Research Division

I appreciate all the disclosure on ARR coming from the 3 core pillars here on infrastructure monitoring, APM and logs. And so as we move into 2025 and beyond, how do you think about the potential for infrastructure monitoring specifically the growth there to accelerate from current levels? And what would be the trigger for that?

Olivier Pomet
Co-Founder, CEO & Director

It's a good question. I think there's -- first, there's a number of new use cases that are emerging that are related to infrastructure that we might want to cover. Again, we -- when I say they're emerging, they're actually emerging, like we still have to see what the actual need is from a large number of customers. I'm talking in particular about infrastructure concerns around GPU management, GPU optimization, like there's quite a lot going on there that we can potentially do. But we -- for that, we need to see broad usage of the raw GPUs by a large number of customers as opposed to usage by a smaller number of native customers, which is mostly what we still see today.

There are some interesting pockets of the market that we don't get into today because there are still some large IoT fleets or on-prem fleet. So things that are part of our customers set up that we were not built from day 1 to handle, but that are not becoming part of the picture as those customers settle in some form of mix of what they have on the cloud and what they keep on-prem.

And so we see some opportunity there, too. So there's a number already has where we can progress on the infrastructure side. Another area is network monitoring, which we've been building up. So there's a few things there. But we definitely still see quite a bit of opportunity. The largest opportunity, of course, is that look, even for faster monitoring, where we're clearly the leader, we still have a relatively small part of the market that is growing in the cloud.

And so a lot of our efforts have to do with making sure that one, we will land enough of the right customers. Now again, we still have a bit less than half of the Fortune 500 customers today. And then for those customers, we get into all of their workloads, all of their environments and we keep going at.

Koji Ikeda
BofA Securities, Research Division

Got it. And just a follow-up here on FX and the impacts to revenue and guidance. And so I know the vast majority of contracts are in USD, about 30% of revenue being international. Are you considering some changes in pricing and packaging, making pricing more localized for international customers? And then also trying to understand any benefits to operating margin from FX in 2024 and how that may be accounted for in the 2025 guide?

David M. Obstler
Chief Financial Officer

Yes. As you know, we are largely a U.S. dollar-based company. Our exposure is not very high. We have -- we do occasionally look at local billing. It's not something that is significant. I think that's all wrapped up into our offers to our clients. And I think unlike other companies that have been reporting, FX is not a very major effect on our financial results.

Operator

Our next question comes from Eric Heath with KeyBanc.

Eric Michael Heath
KeyBanc Capital Markets Inc., Research Division

Oli, you talked about Flex Logs having a lot of success, some M&A in the marketplace that's opened up some opportunity. But just curious from displacement activity that you're seeing with some of the recent M&A takeouts on the SIEM and log management vendors and curious also what your ability is to win both the logs and security use cases because in our feedback, talking to customers and channel, it sounds like it's oftentimes one or the other, but not both loads. So, I'm curious your ability to win both of those workloads.

Olivier Pomel
Co-Founder, CEO & Director

Yes. So it happens is -- so first of all, we see a lot of success with the -- some of the migrations in particular to Flex Logs. The majority of the use cases are around the DevOps as opposed to SIEM to start. But we do see a number of opportunities that come solely from SIM to start with. You're right that they typically don't come together because the 2 are typically purchased by different parts of the org, and maybe they come up at different times or maybe the motivations come from different parts of the org to consider a change.

So what we see is that in the growing number of migration to Flex Logs we've seen, we typically start with a few workloads in Flex Logs and ops. And then after that, we see more workloads in ops open and some conversations on the SIEM side. I would say historically, the SIEM side has been harder to convert because it is more heavily entrenched with a lot of specific queries and workflows that are built on top of legacy products.

But we've developed a lot of functionality to not only come to parity with all the functionality that has been used for those custom bits, but also to help customers directly migrate that. And that's part of the efforts that are coming to bear this year in terms of being able to accelerate in the go-to-market with those products.

Eric Michael Heath
KeyBanc Capital Markets Inc., Research Division

Awesome. And Oli, I'd love to just get some of your thoughts on Agentic AI and AI generally. Just curious, when we think about agents, which parts of the core observability platform that you think are most relevant or going to be most beneficial to your business as you start to monitor those?

Olivier Pomel

Co-Founder, CEO & Director

Yes. Well, first of all, it's a bit hard to tell because it's a very nascent field. So my guess is in a year if we probably look different from what it looks like today. Just like this year, it looks very different from what it looks like last year. What we do see, though, is that -- so when we built -- we started building our LLM Observability product, most of the use cases we saw there from customers were chatbot in nature or RAG in nature, trying to access information and return the information.

Now we see more and more customers building agents on top of that and sending the data from their agents. So we definitely see a growing trend there of adoption and the LLM Observability product is a good level of abstraction, at least for the current iteration of these agents to get them. So that's what we can see today. In our internal developments, obviously, we use our own products heavily for that. And we see a lot of different opportunities to automate work with agents on top of our platform.

I would say, though, that we also do see new modalities, different modalities for developing those agents and the market is changing very, very quickly there.

Operator

And our final question comes from Patrick Walravens with Citizens JMP.

Patrick D. Walravens

Citizens JMP Securities, LLC, Research Division

Great. So Oli, I think you started touching on this, but you guys help your customers to digitally transform. But when you look inside of Datadog, what are some of the processes and the areas where you see the possibility to really drive some improvements.

Olivier Pomel

Co-Founder, CEO & Director

Inside Datadog?

Patrick D. Walravens

Citizens JMP Securities, LLC, Research Division

Yes, inside Datadog.

Olivier Pomel

Co-Founder, CEO & Director

Well, everywhere like the -- what's fascinating about the current evolution of AI, in particular, is that it touches a lot of the different areas of the business. The first area for company like ours the first area to be transformed is really the way software is being built. What engineers use, how they write software, how they debug software, how do they also operate systems. And part of that is outside tooling we're using for writing software. Part of that is dogfooding or new products for made incident resolution and that sort of thing.

So that's the first area. There's a number of other areas that are going to see large improvements in productivity. Typically, everything that has to do with supporting customers, helping with onboarding and helping troubleshoot issues like all of that is in acceleration. In the end, we expect to see improvements everywhere, from front office to back office.

Patrick D. Walravens

Citizens JMP Securities, LLC, Research Division

And then the follow-up on that is, do you see your efficiency as an organization overall increasing where you can just grow with sort of the same number of people? Do you feel like in the future, you're going to need to add the same amount of headcount to drive growth as you do today?

Olivier Pomel

Co-Founder, CEO & Director

Well, I mean, in general, just to the level set, we have a very efficient customer organization already, like we have really sales efficiency metrics. We have -- we've been highly innovative, growing fast and at the same time, we've shown that we could deliver very good margins all the way to the bottom line.

So I consider ourselves to be a very efficient organization. Right now, any productivity we gain on the R&D side is reinvested in building more and delivering more functionality and generating more growth. I would say in the short to mid-term, we should expect also that any productivity we gain on the other side of the business is also going to be reinvested in R&D and building more and getting more differentiation or in getting more scale faster on the GTM side.

So for the short to midterm, that should be the expectation. Long term, I was always expecting us to be a very efficient company and a highly profitable company. And I think all of those advances are only going to emphasize that.

Operator

This concludes the question-and-answer session. I would now like to turn it back to CEO, Olivier Pomel for closing remarks.

Olivier Pomel

Co-Founder, CEO & Director

All right. Thank you. And again, I want to thank the team for a super, super productive year. We have a lot planned, whether that's on the go-to-market side and the scaling the company on the product development side for 2025. So I'm really impatient to see how this unfolds and to share with everyone and our customers, in particular, everything we've been working on. So thank you all.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

Copyright © 2025 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.
© 2025 S&P Global Market Intelligence.