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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

Daniel Robert Bergstrom *RBC Capital Markets, Research Division - Analyst*

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

Jon Philip Andrews *Needham & Company, LLC, Research Division - Senior Analyst*

Kamil Mielczarek *William Blair & Company L.L.C., Research Division - Research Analyst*

Parthiv Varadarajan *Jefferies LLC, Research Division - Equity Associate*

Patrick D. Walravens *JMP Securities LLC, Research Division - MD, Director of Technology Research and Equity Research Analyst*

Raimo Lenschow *Barclays Bank PLC, Research Division - MD & Analyst*

Raymond Michael McDonough *Crédit Suisse AG, Research Division - Research Analyst*

Sanjit Kumar Singh *Morgan Stanley, Research Division - VP*

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

PRESENTATION

Operator

Thank you for standing by, and welcome to the Quarter 2 2020 Datadog Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Mr. A.J. Ljubich, the Director of Investor Relations. Please go ahead, sir.

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

Thank you, Frenzy. Good afternoon, and thank you for joining us today to review Datadog's second quarter 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 third quarter and for the full year of 2020; our strategy; the potential benefits for our products; R&D and go-to-market investments; expected capital expenditures; anticipated hiring; the size of and our ability to capitalize on our market opportunity; as well as the impact of the COVID-19 pandemic on our customers, their usage of our products, our market industry trends and our business and operating results.

The words anticipate, believe, continue, estimate, expect, intend, will and other 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 March 31, 2020, filed with the SEC on May 12, 2020. Additional information will be made available in our quarterly report on Form 10-Q for the quarterly period ended June 30, 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 the call will be available there for a limited time. Additional information may also be made available in our other filings and reports that we may file from time to time with the SEC.

Additionally, 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 - *Datadog, Inc. - Co-Founder, CEO & Director*

Thank you, A.J., and thank you all for joining us today. Before discussing the results of the quarter, I want to proudly report that, together with our employees, we raised over $1 million for charities supporting COVID relief as well as organizations working to dismantle the systemic discrimination experienced by black communities. We are living in unprecedented times for many reasons, and we want to do our part to help. And as always, Datadog is committed to supporting diversity and inclusion within our company and communities.

Now turning to Q2 results. We are happy to report another quarter of strong growth and demonstrated financial efficiency. Execution was strong during challenging times, including robust new logo generation and continued platform adoption. While we are pleased with our execution in the quarter, we did experience some impact to the rate of usage growth of our customers related to the microenvironment.

While this macro uncertainty remains in the near term, we continue to believe that this environment accentuates the need to be digital-first and agile and confirms the cloud as the best path to achieve these outcomes over the long term. And we see evidence of this in growing overall demand in the form of new customers and new use cases, existing customers.

To summarize Q2 at a high level, revenue was $140 million, an increase of 68% year-over-year and above the high end of our guidance range. We ended the quarter with 1,015 customers with ARR of $100,000 or more, which is an increase of 71% from last year. This customer generated about 75% of our ARR. We have about 12,100 customers, which represent growth of 37% from about 8,800 last year.

We also continue to be capital-efficient with free cash flow of $19 million. And as in past quarters, our dollar-based net retention rate was over 130% as customers increased their usage and adopted our newer products. So we are continuing to deliver high growth at scale.

Now looking at Q2 in more detail. New logo generation was robust in the quarter as new logo ARR grew both from last quarter and year-over-year, and gross new customers additions matched the record set in Q1. We saw companies of all sizes and geographies prioritize cloud migration and digital transformation. For instance, in the quarter, we had a few small yet notable new logo wins from 2 global hotel chains, an amusement park chain, a large U.S. university and a European airline. These wins show that even in the face of challenging times for these customers, transforming to ensure business resilience and longevity is a top priority.

Next, our platform strategy continues to resonate and win in the market. As of the end of Q2, 68% of customers are using 2 or more products, which is up from 40% a year ago. We had another quarter in which approximately 75% of new logos landed with 2 more products, and I would add that over 15% of our customers are now using 4 or more products, while we had 0 last year.

We are also very pleased with the uptake of our newest products in a short period of time, with Synthetics, RUM, NPM and Security all released over the last year.

We are winning in the market because we are cloud native. Our support of cloud and other ephemeral architectures is more important than ever as the rapid change from work-from-home has demonstrated the limitation of legacy infrastructure. And we believe recent events will accelerate the migration to the cloud as the economy improves. We win because we offer a broader solution with end-to-end visibility from back-end infrastructure all the way through to the end-user experience and now security as well. And we win because we offer a truly integrated platform for a single preview into the IT stack.

Now as we mentioned earlier, while execution was strong, the macro environment did have some impact on our top line results and in particular on growth of existing customers. Our customers continue to grow usage of our platform in Q2, but the rate of this growth was below the trends we saw before the pandemic. This dynamic was primarily seen in our larger customers who already have sizable cloud environment. Given macro uncertainty, we saw these customers look to conserve cash where they still could and, therefore, optimize the consumption of cloud infrastructure.

On the flip side, smaller customers and large enterprises that are earlier in their cloud journey continue to see stronger growth. To put it plainly, customers with large cloud deals from AWS, Azure or GCP look for short-term savings. Note that this is not a new motion as we see many enterprises go through these optimization exercises on a regular basis. What was unusual this quarter was to see a large number of companies going through it at the same time.

I would also note that while these customers are at a greater scale in the cloud, they mostly remain at a low penetration relative to their overall IT environment. Therefore, these customers continue to have a long runway of growth in their cloud adoption over time.

Lastly, while we do not want to get into the habit of providing intra-quarter update, I'd like to provide some commentary on what we saw in July, given the unique macro circumstances. We saw over the last month a notable improvement in usage growth relative to Q2, driven by broad-based strength across our customer base. It is, however, too soon to know if this growth will sustain given the macro environment. As a result and while we are encouraged by this trend, we remain prudently conservative in our outlook for the remainder of the year, which David will speak to.

As a reminder, we have both a subscription and usage-based revenue model, and the growth of our revenue is related to the growth of our customers' cloud footprint and data volume.

Finally, to bookend this topic, I am very proud of the performance of our go-to-market teams during these challenging times as we are executing well against what we can control, and our teams are delivering record levels of new logos and product cross-sell.

Next, onto R&D. We continue to make significant investments to rapidly deliver innovation. We have a proven track record of success in creating new products, and we see many new opportunities to expand our portfolio. For example, we recently announced the general availability of Private Locations for Synthetics, which enables dev and ops teams to proactively test internal applications that are not accessible from the public Internet. We also acquired Undefined Labs, a provider of observability for dev and test workflows. This will enable Datadog to be injected earlier in the software life cycle, starting before code is even committed to a central repository. And this will equip customers with better tracking of continuous integration and deployment workflows, enable them to identify issues before reaching production.

Other continued product innovations include the general availability of the Datadog mobile app to provide engineers with access to the alerts and dashboards on the go, support for Amazon Kinesis Data Firehose to enable streaming logs directly from AWS services to Datadog and the preview release of the Datadog IoT agent to provide visibility into Internet of Things devices.

We have also added and improved a number of integrations, including AWS 1-click deployed, HiveMQ, Apache Ignite and Hazelcast.

As we keep investing in R&D, we plan for a continued rapid pace of innovation, and we'll be showcasing some of our newer products at our annual user conference, Dash, which is held online next week on August 11.

Switching gears a bit. We recently achieved FedRAMP authorization for low-impact SaaS, and Datadog is now fully available in the FedRAMP marketplace. We continue to build out our public sector go-to-market motion. And while it is likely to take some time, we are excited about this long-term opportunity.

Now let's talk briefly about some of our wins in the quarter. First, we had a 7-figure upsell with a large fintech company. With Datadog, this customer has been able to move from multiple disparate monitoring tools to using a single platform for all 3 pillars of observability. This allowed them to refocus engineering teams on building new features, and they expect more than $1 million in savings from consolidating disparate monitoring and logging vendors into Datadog.

Another 7-figure expansion came from a European automotive company, which is modernizing and adopting Microsoft Azure. Through adoption of Datadog infrastructure monitoring, APM and NPM, their teams are now collaborating on a shared platform and are moving to an increasingly agile development model.

Next, we saw a large entertainment platform that has been using more and more of our products, commit to over $10 million in the year. This company has made a decision to increase investment in observability and broader use of Datadog, both with new products and by scaling up on existing products.

I will also mention a high 6-figure land deal with a leading asset manager, which is now using us for infrastructure monitoring, APM and logs as well as Synthetics and early adoption of Security.

And last, we had a 6-figure upsell to a 7-figure ARR with a social networking platform that has seen tremendous growth during the pandemic. At record levels of scale, they can use Datadog to quickly drill down into any failed request and easily identify layers. This company is now using all 3 pillars, including Synthetics, RUM and NPM, and has standardized monitoring on Datadog.

Now moving on to our outlook. As we look ahead to the second half of the year, we remain very excited about our market opportunity. Recent events have made one thing very clear. It is more important than ever to be a digital-first business, and the cloud is the best path to achieve this outcome. We continue to believe Datadog is primary beneficiary of this trend and remains very well positioned to win in the market.

In the near term, the macro environment is likely to continue to cause uncertainty, but our focus remains on executing against our strategic priorities, which have not changed. First, we are building on our strong track record of innovation by introducing new products, entering new categories and continuing to improve existing solutions. Second, we continue to hire rapidly in R&D and are pursuing talent that would not otherwise be in the market. And third, we are aggressively expanding our go-to-market globally and into newer channels. We are very confident that we can continue to sustain strong growth both in the near term and over time.

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

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

Thanks, Olivier. As mentioned, we delivered strong second quarter top and bottom line results amid a difficult macro backdrop.

Revenue was $140 million, up 68% year-over-year against the challenging compare. Execution was strong with robust new logo generation and continued platform traction, while the macro environment did pressure usage of existing customers.

To provide some more context. First, in Q2, we saw strong new logo additions, with robust contributions from both enterprise and commercial sales channels and sequential growth of new logo ARR. Execution against our platform has been very strong, with 68% of customers now using 2 or more products versus just 40% a year ago, driven by both land and cross-selling.

In the second quarter, our dollar-based net retention was once again above 130% for the 12th consecutive quarter. We saw continued growth of our existing customers, driven by both increased usage of existing solutions and robust cross-selling to newer solutions. Our net retention rate, which remains best-in-class above 130% did, however, decline from Q1. As Olivier discussed, macro factors pressured usage increases.

To add some detail. First, while existing customers did grow, the rate of growth was below pre-pandemic levels. This was primarily seen from our larger customers with the greater scale in the cloud, who experienced business pressures and sought to save in the near term by slowing down their consumption. Additionally, one dynamic which we discussed as a possibility on our Q1 call is that we did see the normalization of some spiked usage from Q1. In March, we had a number of customers, such as streaming media vendors, scale rapidly in the face of COVID. Over the following months, some of these customers were able to optimize usage and save on cloud spending amid budget pressures and normalization of business activities.

Next, some customers, such as delivery and at-home media companies, have continued to see elevated demand and, therefore, have continued to meaningfully grow their Datadog usage. Lastly, we saw some of our COVID-impacted customers reduced usage. As a reminder, these customers, such as those in hospitality and travel, contribute less than 10% of our ARR and, therefore, they were a mild track detractor.

Lastly, churn was a bit elevated related to the most hard-hit COVID customers, but better than expected. Our dollar-based gross retention rate has remained largely unchanged in the low to mid-90s. Performance of our SMB customer base has been robust, including stable dollar-based churn and continued rapid growth year-over-year.

Now turning to billings, which was $160.1 million and up 62% year-over-year, relatively in line with revenue growth. Entering the quarter, as we discussed on the last call, we thought it was possible some customers would seek to renegotiate terms or slow payments, but that did not happen in a material way, pointing to the importance of our solution. Remaining performance obligations, or RPO, was $287 million, up 53% year-over-year. We did not see a material change in billings durations in Q2. We did see some slight shortening of contract duration year-over-year related to large multiyear contracts closed in the year ago quarter. We continue to have great success in closing annual committed deals, which remains our strategic focus. As a reminder, billings and RPO can fluctuate versus revenues based on the timing of invoicing and 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 $111.8 million, representing a gross margin of 80%. This compares to a gross margin of 80% also last quarter and 75% in the year ago period. Year-over-year improvement of gross margin was driven by efficient use in our cloud hosting. Our gross margins may fluctuate quarter-to-quarter within acceptable ranges as we prioritize product development and innovation as well as the build-out of cloud data centers in newer geographies.

R&D expense was $38.3 million or 27% of revenue compared to 30% in the year ago quarter. We have continued to invest significantly in R&D, as Olivier mentioned, including high growth of our engineering head count. However, the growth of revenue continues to outpace even our substantial investments, and we did have some leverage from T&E and overhead savings related to work-from-home.

We continue to see a meaningful opportunity to innovate and expand our platform and, therefore, plan to continue to make meaningful investments in our R&D going forward.

Sales and marketing expenses were $45.7 million or 33% of revenue compared to 42% in the year ago period. Similar to R&D, we continue to make substantial investments, but the pace of revenue growth has outpaced that investment. This was the first full quarter of no in-person trade shows or marketing events. While we have successfully redeployed much of the event's budget to advertising and other lead-generating activities, it is not so on a one-for-one ratio.

G&A expense was $12.5 million or 9% of revenue, in line with the same ratio a year ago quarter.

Operating income was $15.3 million or an 11% operating margin compared to a loss of $5 million and a negative 7% margin in the year ago period. Beyond the improvement in gross margin and revenues outpacing investments, the reduction in travel and entertainment and facilities overhead contributed to the operating margin.

Non-GAAP net income in the quarter was $17.5 million or $0.05 per share based on 331 million weighted average diluted shares outstanding. Note that our non-GAAP net income does not include the $5.6 million noncash benefit related to payroll taxes. We have a very efficient business model and experienced a high return on our investments in sales and marketing and R&D. While we have delivered 4 consecutive quarters of breakeven to positive operating income, we note that our priority remains top line growth, and we intend to continue investments aggressively in R&D and go-to-market.

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, which includes the $641 million of proceeds from our convertible note issuance during the quarter, net of issuance costs and the capped call transaction. Cash flow from operations was $24.7 million in the quarter. After taking into consideration CapEx and capitalized software, free cash flow was $18.6 million in the quarter for a margin of 13%. Free cash flow includes an approximately $4.4 million outflow related to the conclusion of our first employee stock purchase program.

I would now like to turn to our outlook for the third quarter and the full year 2020. We are pleased with our execution and ability to drive new sales in an uncertain macro environment. As discussed, we did see some lower growth in usage from our existing customers in Q2 due to the overall slowing of the economy. As Olivier noted, however, in July, we experienced an improvement in usage trends relative to Q2 that were closer to our pre-pandemic historical levels. However, it is too soon to know if this will prove to be sustainable. And given the lack of clarity of economic trends, we are assuming usage growth of existing customers below pre-COVID growth rates.

Additionally, while we have not yet seen a material impact to our new sales, we think it is prudent to expect some impact in the second half given that -- the macro backdrop. Beginning with the third quarter, we expect revenues to be in the range of $143 million to $145 million, which represents a year-over-year growth of 50% at the midpoint. Non-GAAP operating income is expected to be in the range of a loss of $1 million to an income of $1 million. Non-GAAP net income per share is expected to be breakeven to $0.01 per share based on approximately 333 million weighted average diluted shares outstanding.

Now for the full year 2020, revenue is expected to be in the range of $566 million to $572 million, which represents a 57% year-over-year growth at the midpoint. Non-GAAP operating income is expected to be in the range of $28 million to $34 million, and non-GAAP net income per share is expected to be in the range of $0.11 to $0.13 per share based on approximately 332 million weighted average fully diluted shares.

A few things to take into account in our guidance. First, when evaluating our quarterly growth rates, it is important to consider the accelerated growth rates in the second half of 2019, creating more challenging comps. Next, while we've seen continued improvement in our gross margins, we are running towards the top end of our long-term target. As we prioritize product development and diversifying our cloud hosting vendors and regions, our gross margins may fluctuate within a range of acceptability. Next, as I've mentioned earlier, our intention continues to be to invest meaningfully, including aggressive hiring in R&D and sales and marketing, and we have not changed our plans during COVID.

Then some notes below operating income. We expect approximately $2.4 million of quarterly non-GAAP other income, which is net including interest income in our cash and marketable securities less the interest expenses of our convertible debt.

Next, we do not expect to be a federal taxpayer, but have a tax provision related to our international entities. We expect a tax provision of approximately $350,000 per quarter. Note that our share count forecast for Q3 and the full year are diluted given that we expect to be non-GAAP net income breakeven to profitable for both periods.

To summarize, we are pleased with our execution during a very challenging time. While the macro environment has impacted our top line results in the near term, we believe the current environment will prove to be a catalyst for digital transformation and cloud migration over the long term. And we are very well positioned to be a primary beneficiary of those trends. We have a highly efficient business model and are making investments across the organization today in order to capitalize on the large opportunity ahead of us.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Sanjit Singh of Morgan Stanley.

Sanjit Kumar Singh - *Morgan Stanley, Research Division - VP*

Really appreciate all of the detail that you guys provided around the environment and usage. That's very helpful context.

So I guess maybe to start with Oli, you sort of singled out the sort of primary factor. And correct me if I'm wrong, but the primary factor being large customers that have large-scale cloud deployments, which sort of just makes sense, right? It's sort of a law of large numbers impact there as well. What gives you the confidence, Oli, that you think this is a temporary pause with those customers versus something more sustained? Is there any sort of customer conversations you're having? Or is it just kind of like the secular tailwinds of digital transformation? I just want to get a sense of what gives you guys the confidence that -- in these large customer cohorts that it's more of a digestion period after a period of strong growth versus a more sustained downturn.

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

Yes. So the first thing I'd say is it's something we've seen before, right? It happens from time to time, like companies ramp up their cloud consumption. At some point, they notice their bills going up and they ask themselves, can we optimize? And look, we've done that too as a company. You've seen our gross margin, for example, go up from last year, that was fairly similar in that respect.

What happened there is that everybody had the same idea at the same time, like everybody asked themselves, "How can we save some cash?" The word came in pretty much every single company affected by COVID, that because of the uncertainty, cash has to be conserved. One of the good things about cloud is that a lot of it is OpEx, and a lot of it is still has to be paid in the next bill, right? It's not the same cost. So there are still savings to be made if you take action. So that's what we saw happen.

In terms of the -- continuing on that, again, it's hard to tell what's going to happen in the near term. But in the broader scheme of things, companies are still moving to the cloud. New companies are moving to the cloud that were not before, and we've mentioned that on the call that we've had a number of the affected companies that started using us right now, when you think of hotel chains and amusement parks and things like that.

We see, in the July data and even in some of the June data, companies that have optimized their cloud infrastructure. And by the way, in general, what we mean by that is not that they call Datadog to quote their bill -- to cut data bill, is that they're trying to figure out what they could shut down or optimize on the Amazon side or on the Google side or on the Azure side. And so we see some decrease of their data volume or infrastructure sizes over a period of a few weeks. But then what we see after that is that these start going again because then their teams keep building, and they keep deploying and keep serving customers, et cetera, et cetera. So it's not an exercise that is new or unexpected. I think what's different now is that it makes sense for all these companies do it at the same time, and it just happened.

Sanjit Kumar Singh - *Morgan Stanley, Research Division - VP*

Understood. That makes total sense. And then, David, if I think about the guidance, right, 68% growth this quarter. And I look at Q3, the high end is roughly around 50%, and then Q4 is roughly around 40%, at least by my math. I think it would be helpful to understand the underlying assumptions behind that guidance and particularly around those usage trends, right? So I know there was a -- prior to COVID, there was a significant amount of customers that were sort of overspending relative to their committed usage. If you could sort of give us like the pre-level of usage, any way to sort of quantify that and what it looks like post-COVID to understand the underlying assumptions behind your guidance? Because I think what your guidance assumes is that some of the weaker usage trends persist for the second half. And so any way to frame that out, I think, would be very helpful in terms of understanding that, in terms of the guidance.

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

Yes. I think that's right. We have, in our guidance throughout our history as a public company, been fairly prudent in our forward-looking usage and implicit net retention, and we're particularly cognizant of that given COVID. Most of our guidance has conservative assumptions in that, and we'll continue to do that.

I think as we said, we had strong cross-sell, and so we see a continued adoption of the platform, which is a good sign. And as far as the usage, the more variable usage, we saw, as Oli just mentioned, some constraints. So we try to use conservative assumptions going forward in our guidance.

Operator

Your next question comes from the line of Chris Merwin of Goldman Sachs.

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

For Olivier, I wanted to ask about your thoughts on pricing, particularly in light of all the convergence that we're seeing going on within the observability space. I remember with your log product, when you launched it, you had a pretty disruptive pricing strategy where you were charging a very low price for ingestion, and you were letting the customers pay just for the logs that they actually want to index. And now we're seeing other players in this space give away entire aspects of their platform for free and creating free tier. So I guess the question is, how do you see your pricing model evolving, if at all, in time? And as you keep up the industry-leading pace of innovation, do you see the ability to even raise price as you deliver more value to your customers?

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

Yes. So I think we're -- so we're very careful about pricing in that the way we do it is, first of all, we encourage having the maximum deployment with our customers, meaning that's why we don't charge by the user. We want absolutely everybody to use it. And then we want to make sure that customers have the levers to align pricing -- to align what they pay to Datadog with value they get. And in our case, that means having differentiated pricing for very different parts of our platform because not every single gigabyte of data that's being sent to us has the same value to the customer and represents the same amount of processing and other things online. So we try to align that.

Right now, we're happy with our pricing. It works well in the market. It gives customers the flexibility. But look, we've had a pricing model evolve over time. It will probably still evolve in the future. We believe in our ability to win in the market. And if you win the market and give them more and more value, you have pricing power in the long term. And that's where we are today, where we want to be in the future.

I think when your only tool is to play on pricing, like it's usually bad news, it means you can't actually win based on the quality of your products alone.

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

Understood. And maybe just a follow-up for David. Would you be able to share some more detail about some of the trends that you saw by customer segment during the quarter as it relates to net expansion or gross churn or any metrics you could share, I guess, across SMB, mid-market and your enterprise customers?

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

Yes, that was one of the surprises. We had very stable gross churn, dollar-based gross churn. And it's very similar to what we have discussed in the last call that all of the metrics, in gross, are in the 90s, with enterprise tending to be towards the upper part of that range and SMB towards the lower, but all of them strong and in the 90s. We really didn't see very much disruption from that.

And similarly, we saw net retention rates come down. We said a little more at the larger end because of this concentration on costs, but all within the same type of bands we've had since we've become a public company.

Operator

Your next question comes from the line of Sterling Auty of JPMorgan.

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

So in terms of the macro impacts and the slowing of usage of existing customers, is there any evidence that you've seen of some of those customers slowing the usage of your tools, but supplementing it with maybe the cloud platform tools or something else or they're just slowing the usage and that's it?

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

No. I think what we've seen mostly is they're slowing the usage of the cloud infrastructure that's directly related to how we recognize new revenue. So that's what we thought, right? To put it in other terms, they've used less Amazon instances or containers or less Azure instances and containers. And that's -- that would end up moving the needle for us.

And I should say, this is something that we're used to seeing in the other way. We used to see -- like the way we sell it, we sell to customers, and they're still early in their cloud transition, and we grow with them as they grow.

What happened this quarter is that their growth slowed overall during the quarter. It still grew, and they're still going to grow. And what we said in the call is in July and also towards the end of June, we saw some acceleration of the growth again, but we want to remain prudent. Considering all the uncertainty there is right now in terms of how long the COVID crisis is going to last and what's going to be the impact in various parts of the economy, we remain prudent in what we think is going to happen in the near term.

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

Understood. And then one follow-up. How would you characterize the ramping of the new sales resources that you've hired over the last couple of quarters? Are they ramping at the same pace that you've traditionally seen? Are they ramping faster, slower?

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

We haven't seen any changes there. And everything that is within control of the sales team actually worked pretty well. We mentioned it during the call, but we had a record level of new logos, both in terms of numbers and in terms of revenue. We had a record level of new products attach, and this is where our sales team spend their time on. The growth of customers, once they're set up, every single month, is only partially related to the work that they'll still do, that we don't have full control over that, which is also why when we set expectations around our net retention initially, we said we're going to set it at 130% because we don't fully control that number. We -- a great part of it is driven by the rate of migration to the cloud and the rate at which customers are scaling into the cloud.

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Again, we're very early in that transition, and customers are going to keep transitioning for a much longer time, keep scaling, and we see that they only want to do that more now that they see the impact of COVID on their business and they need to transform. But from a quarter-to-quarter basis, in the near term, we don't exactly know where that's going.

Operator

Your next question comes from the line of Brad Zelnick of Crédit Suisse.

Raymond Michael McDonough - *Crédit Suisse AG, Research Division - Research Analyst*

This is Ray McDonough on for Brad Zelnick. I just wanted to ask, can you help us understand a little bit more the relative size or recent attach rates of your APM and log management solution, both of which, I think you mentioned last quarter, were growing faster than the overall business? Has that remained the case in this recent quarter?

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

Yes. So they're both in hyper growth. So the picture hasn't changed a lot since the last time we talked. The infrastructure, iPhone would still be a great public company. Logs and APM are still in hyper growth and are growing much faster than Datadog goes at the scale. And the other products that are smaller and earlier are also growing extremely fast right now. So we -- overall, we're fairly happy with those.

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

And the attach rates and their contribution to net retention has been very similar to the trends that we've talked about last time. So we continue to have increasing number of customers using the platform. And what they're spending on the additional components of the platform continues to grow in hyper growth.

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

Yes, which is -- it's important to understand, we -- the signs of active demand are really strong, whether it's new logo, new products, like we -- the attach rates are actually up from what they've been before, and we keep -- this keeps growing over time. So all that is great. The one thing that's been a detractor this quarter has been, I would say, the passive consumption. I don't like the word passive because it actually sounds like we're not doing anything and customers are not doing anything, but it's something that's not directly related to an action customers are taking with us today.

Raymond Michael McDonough - *Crédit Suisse AG, Research Division - Research Analyst*

That's helpful color. And then if I could, building on Chris' question from earlier and appreciating that the majority of your lands are greenfield, how do you think your -- one of your competitors' recent pricing changes and packaging changes will impact your ability to cross-sell APM into your customer base? And overall, what do you think the medium or long-term implications are for your business as this one competitor, in particular, seems to be focused on competing more aggressively on price and total cost of ownership at this point?

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

Yes. So for these kind of changes, like we always have to keep an open mind, like see what can work and not work. At the same time, look, we don't see that having a major impact on us because we don't actually -- our business, as you said, is mostly greenfield. And you saw today on the strength of our individual products that get tied together in the platform. And there's no problem with our customers adopting our products little by little, like they can adopt as little as they want as APM or as little as they want as log on top of their infrastructure or as little as they want as Synthetics.

That's not an issue. That's already something we have. We actually give them differentiated pricing that is more tailored to the value they're going to get for each of those products. So I don't see anything very disruptive there or anything very different. So again, from our end, there's no big change there.

Operator

Your next question comes from the line of Raimo Lenschow from Barclays.

Raimo Lenschow - *Barclays Bank PLC, Research Division - MD & Analyst*

A quick question for me. So you mentioned about like the slowing usage in the public cloud. I mean like the one benefit we have is that we see Azure and Amazon and AWS then report numbers before you. And so in a way, you were always seen as a little bit of a derivative of those. And if I look at AWS growth slowdown, Azure slowdown, I'm just wondering, like they almost -- you almost seem not directly in terms of the growth numbers, but in terms of directionally related. Is that something that you're paying attention to as well? Because it seems like there seems to be a correlation here.

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

Well, there's definitely a correlation. I mean we don't call it exactly with them, right, because they have different product portfolios. And some of these tie to what we do today, the kind of new products we already have for our customers to consume. But the -- what I will say is we understand the dynamics of what happened to the cloud providers, we saw it happen to their customers, basically, which is they try to save for the next deal because every million dollar counts in big companies right now. And before they know where that price is going, they want to make sure they do everything they can.

So we have -- we are quality to them. The one thing I will say is we are growing a lot faster than the cloud providers because we keep adding more products, and we're still underpenetrated in the market. So we are growing a lot faster than they are, and we're still growing faster, even in more recent quarters.

Raimo Lenschow - *Barclays Bank PLC, Research Division - MD & Analyst*

Yes, exactly. No. Exactly. Yes. Yes, that's true. And then the other question I had on that subject is like, in theory, the one offset you have is like, one is consumption usage, and there's not that much you can do about. On the other hand, you mentioned some stats around product uptake, et cetera. Have you taken any action to kind of change or incentivize sales force or push more towards more upselling and cross-selling of other products? Or is this something -- look, we're writing it up because like COVID is there for everyone, you saw some better trends in July? Or are you taking extra action here?

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

No, we didn't change anything. The sales incentives are the same. The way we sell, we ask the teams to do is the same. So we haven't changed anything to the way we proceed. The -- what we're doing right now is working, right? What we said earlier is we're delivering the right numbers of new logos, the right numbers of product cross-sells. That was our focus before. That's still our focus today. The rest, the growth in usage, will come because the transition into digital businesses and move to the cloud is not going to stop.

Operator

Your next question comes from the line of Matt Hedberg from RBC Capital Markets.

Daniel Robert Bergstrom - *RBC Capital Markets, Research Division - Analyst*

It's Dan Bergstrom for Matt Hedberg. Wondering about linearity in the quarter, given callouts around the macro and then large enterprise. You provided some color on July. That was helpful. But anything else from a linearity perspective in the quarter to note, or maybe different than what you expected?

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

Yes. So this quarter was actually -- I mean, David, I hope you'd understand if I take the numbers question, but...

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

No. Go ahead.

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

The way we thought that this quarter was a little bit different in that what we saw from early July was fairly consistent with what we had before in Q1. So we saw good growth and a great behavior of new logos, which is what we discussed in the last call -- sorry, I mentioned that July -- April. The first few weeks of April were very good growth and -- in new logos. New logos remain for the rest of the quarter, but what we saw is towards the end of April and then the full month of May, we had much lower growth. And then things recovered -- or started recovering in June. So growth was going up in June and is recovering further in July. So these are the trends we've seen.

Now this is what we saw in the last quarter. It was a lot noisier than what we're used to. Like we're used to having very consistent numbers month-over-month. We can't really tell whether in the near term we'll see some return to the previous normal or if we'll still see some oscillation as the state of the economy and other things prove of the same motion in our customers.

Daniel Robert Bergstrom - *RBC Capital Markets, Research Division - Analyst*

Great. Helpful. And then Security Monitoring, that's been generally available here for a little over 3 months. Just curious of initial reception from customers and security engineers. I know it's a strong demand in beta. And then maybe where should we think about you heading with security? Certainly, a long runway left there.

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

Yes. So we -- like, look, it's still super early, right? It's a very, very early product. It has some very focused use cases to start with for some very focused types of customers. We're very happy with the uptake that we did get to a good start in terms of customers starting to use it and pay for it. But again, super, super early.

So I think maybe we'll talk about it some more in the future when it becomes more material and when we have more products to talk about there. But we're -- I would say we're excited, but still early, still a lot of work to do.

Operator

Your next question comes from the line of Brad Reback from Stifel.

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

David, I know you don't guide to billings, but I believe, looking through my notes, next quarter, you have some difficult comps with pretty significant contracts that paid up last 3Q. Any color on that would be super helpful.

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

We didn't have that. We didn't present the pro forma because it wasn't as impactful. We did say in RPOs, we had the multiyear contracts and a quarter ago which were more concentrated than we had in creating RPO, but it didn't affect the billings numbers that much, and so there was nothing to point out.

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

Okay. And no issue for 3Q as we look forward?

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

Sorry, I can't hear you. No issues with?

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

Sorry. Any issues for 3Q with difficult comps from the year before?

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

Yes. We haven't -- nothing that we're pointing out on this call. So we -- nothing that we wanted to point out.

Operator

Your next question comes from the line of Jack Andrews from Needham.

Jon Philip Andrews - *Needham & Company, LLC, Research Division - Senior Analyst*

I want to follow up on the go-to-market strategy. You talked about you haven't really changed anything, but I'm just wondering as you continue to innovate rapidly and roll out these new products, are you running into new buyers or new personas within organizations? And how do we think about the implications of that, whether you might need to either make more investments or maybe change your strategy over time?

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

Yes, you're certainly right. I think on the -- for the bulk of our product portfolio, we still talk to buyers that are going to be either the same or work in the same way for everything that relates to observability, I will say. When it comes to security, in some cases, now we're starting to see some different buyers. So today, we're still selling the same way. I mean the security product is focused enough in terms of the customers we're going after, that it works that way. But it's something that we're monitoring. It's possible that we'll make changes in the future to that motion. Nothing yet. We'll get more data. We'll get more -- we'll see more how the product behaves and how the customers behave as we keep expanding the target audience for that product. But that's something that we're aware of and we're monitoring.

Jon Philip Andrews - *Needham & Company, LLC, Research Division - Senior Analyst*

Okay. Great. And just as a follow-up, could you elaborate on how you're thinking about the opportunity for the Private Locations for Synthetic Monitoring product? I mean is this essentially a new way to leverage your technology for employee use? Or how do you think about the opportunity around that?

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

Yes. I think it's more for all of the internal services that are being exposed inside companies that don't have a web-facing UI. One of the -- in fact, it has many great -- good advantages, but for me, it's more difficult to go and reaching to test some endpoints that are not exposed to the Internet. So that's all that. So it allows customers to put probes inside their own networks to automatically test and verify the APIs in their old application. It also allows them to install probes in the networks they might manage or that their employees might be using. For example, they might deploy that at cable providers or specific cloud providers, things that we were not hosted in as Datadog, but they want to monitor this directly. So it opens a whole range of possibilities for them.

Operator

Your next question comes from the line of Bhavan Suri of William Blair.

Kamil Mielczarek - *William Blair & Company L.L.C., Research Division - Research Analyst*

This is Kamil Mielczarek on for Bhavan Suri. You announced the launch of your formal partner network in January, which expands support for partners via things like go-to-market collateral, self-service training for implementation, opportunity registration, partner located listing. Can you talk about early interest across partner categories in your near- and medium-term channel strategy? And how important of a growth lever do you see this channel being over time? And at least qualitatively, can you talk about how it's been impacted by the macro environment?

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

So yes -- no, we can't say that. It's a fairly recent program for us. We've had great uptake like we signed up a large number of partners, actually larger than we thought we would. I don't think we've communicated that number publicly. So I will not do it today. But it's been off to a strong start. I think we're working on making sure we have the right process in place so we can enable those partners and develop them. So it's not enough to just be a partner, but different levels of partnership that are also going to have different expectations in terms of what they provide to us, what we will provide to them. And so we're working on promoting for partners through -- for different levels right now.

So far, we've seen some interesting outputs from that. So we've closed deals, large deals, much earlier than we thought, through partners. And we've done that in multiple regions. We haven't seen a specific impact on -- from COVID just because of that. That partner network is so new that it's growing very fast, no matter what. And we can focus on the partners that want to grow now and that have opportunities now as opposed to maintaining a large base of existing partners. So, so far, I would say, early great signs, but a lot more to do.

Kamil Mielczarek - *William Blair & Company L.L.C., Research Division - Research Analyst*

That's very helpful. And can you talk a little bit more on your international performance this quarter? Are there any specific regions where you're seeing particular strength? And additionally, can you talk about your plans for international investment this year and where you maybe see the most opportunity?

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

David, do you want to take this one?

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

Yes. We are continuing, as we talked about before, to build out regions, either when we get to critical mass and have a successful sales team or when we're landing in, in new territories. So we're continuing the same plan we had, which is to build out Asia, complete the build-out of EMEA as well as to expand in some areas like Latin America.

We saw good performance, as we've talked about before, in the second quarter in EMEA on the back of the build-outs we had done. And as we said all along, we're earlier in Asia, building out teams and filling out teams for the first time. So we'll continue that as part of our plan in the remainder of the year.

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

One thing that's interesting is that the pandemic is hitting different parts of the world at different times. So we have these -- in various parts of the world, it gets turned on and turned off at different times, and we've seen that through Q2 basically. Again, it's hard to tell what's going to happen in Q3 with respect to that.

Operator

Your next question comes from the line of Brent Thill from Jefferies.

Parthiv Varadarajan - *Jefferies LLC, Research Division - Equity Associate*

This is Parthiv on for Brent. Oli, I wanted to ask about the Undefined acquisition. Can you help us frame the opportunity for observability in the application testing space? I guess how should we think about usage patterns in development environments relative to production environments?

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

Yes. So what's very interesting with Undefined is that they focused completely on what happens when developers test their own code first on their own machine and then to share next CI/CD process until it ends up being deployed in production. So it's not an area where we've been present before. We haven't been typically used with developers on coding their own machine before they commit anything to share there. So that's new for us. It allows us to be closer to the developer, closer to their code in many ways, and also allows us to really get extremely high flexibility information for what happened from the time the code is committed to -- all the way through the release of production. So very good change level that we see there.

So we are super excited about it because it's a company that built a great product in a short amount of time. And we are very excited about building a common product together. Right now, we're busy. The plan is to sunset the existing products and to rebuild the data platform to have it being maximally integrated. And the team is hard at work towards that right now.

Operator

Your next question comes from the line of Pat Walravens from JMP Sec.

Patrick D. Walravens - *JMP Securities LLC, Research Division - MD, Director of Technology Research and Equity Research Analyst*

So Oli, I'd like to ask you pretty much the same question I asked you last quarter, which was you've been doing this for 20 years, you've seen a number of sort of slowdowns in the economy, how does this one feel in comparison?

And then just to remind you, last time, you said that the one thing you'd learned was that you don't really know where it's going until it's over. So do you still feel the same way? Or what have you learned?

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

Yes. I think we knew -- like the thing we knew last time was that we wouldn't exactly know what would happen. We got some ideas, and some of the things we thought would happen did happen. Some others happened a little bit differently.

So when we thought about Q2 back in Q1, we thought we might see elevated churn. We thought we might see mostly certain parts of our customer base being much more affected than others. And it's not exactly what happened. We actually didn't see the churn we're expecting to see. But we saw a broader slowdown among a certain category of larger-scale customers.

In retrospect, you can explain it easily. You understand the behavior. You see what's happening, and it makes sense. I think collecting it before, that was the difficult part.

So going back to where we are today, we're super confident about where we are, what the product is doing in the market, who our customers are adopting it, developing the various parts of it and are growing with it. The one thing we are a little bit more careful about is our understanding of what's going to happen over the next few months -- the next few quarters as the world navigates with -- through the end of the pandemic, hopefully.

Operator

Your next question comes from the line of Gregg Moskowitz from Mizuho.

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

For Olivier, the increased level of cloud optimization among larger customers that you saw this quarter, do you think that this will have any impact on the pace of multi-cloud adoption going forward?

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

I don't think so because when customers are adopting multi-cloud, like they typically have one cloud of scale, that's a smaller one addition to that. So I think this is going to adopt -- to impact mostly their cloud of scale first. That's my guess and maybe what we've seen in some cases. But we'll see what happens. Again, it's a little bit harder to tell, but that's my guess.

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

Okay. And then just for David. Your growth in RPO on a year-over-year basis did decelerate quite a bit this quarter. I think you said that your annual contract billing has remained strong and that you were coming up against some longer-duration contracts from a year ago. And I know you don't break out current RPO. Just wondering if you have any commentary on duration-adjusted RPO growth or just how we should be thinking about that.

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

Yes, you're exactly right. The RPO, the current RPO, is similar growth to the billings, much closer to the revenues in the 60s. The difference there is the timing of some multiyear contracts in the second quarter of last year. So the billing duration didn't -- the billing period you see didn't change. The contract duration came down slightly just because those contracts are being consumed. And that's the reason why if we had a current RPO, it would be much more aligned with the billings and the revenue.

Operator

And right now, I would like to turn it over to Mr. Olivier Pomel. Please continue.

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

Thank you. All right. So to close this call, I'd like to repeat that we are very pleased with our execution in Q2 against what has been a challenging backdrop. And that while the macro environment has presented near-term uncertainties, the situation has made more imperative than ever for businesses to be digital-first and in the cloud. We believe Datadog is ideally positioned to be a primary beneficiary of these long terms, and we continue to invest to capture that opportunity.

So I want to thank you all for attending the call.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.
