

[MODERATOR]

Thank you for joining us today for GitLab's first quarter of fiscal year 2024 financial results presentation. GitLab's co-founder and CEO, Sid Sijbrandij, and GitLab's Chief Financial Officer, Brian Robins, will provide commentary on the quarter and fiscal year.

Please note we will be opening up the call for panelist questions. To ask a question please use the chat feature and post your question directly to "IR Questions" using the drop-down menu.

Before we begin, I'll cover the Safe Harbor statement:

During this conference call, we may make forward-looking statements within the meaning of the federal securities laws. These statements involve assumptions and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those discussed or anticipated. For a complete discussion of risk associated with these forward-looking statements in our business, please refer to our earnings release distributed today in our SEC filings, including our most recent quarterly report on Form 10-Q and our most recent annual report on Form 10-K.

Our forward-looking statements are based upon information currently available to us. We caution you to not place undue reliance on forward-looking statements, and we undertake no duty or obligation to update or revise any forward-looking statement, or to report any future events, or circumstances or to reflect the occurrence of unanticipated events.

We may also discuss financial performance measures that differ from comparable measures contained in our financial statements prepared in accordance with U.S. GAAP. These non-GAAP measures are not intended to be a substitute for our GAAP results.

A reconciliation of these non-GAAP measures to the most comparable GAAP financial measures is included in our earnings press release which, along with these reconciliations and additional supplemental information, are available at ir.gitlab.com. A replay of today's call will also be posted on ir.gitlab.com.

I will now turn the call over to GitLab's co-founder and Chief Executive Officer, Sid Sijbrandij.

[Sid Sijbrandij]

Thank you for joining us today. I want to start off by thanking so many of you for the well wishes I've received regarding my health. I'm doing well and I remain committed as ever to GitLab's success.

I'm pleased with how our business performed in the first quarter of FY24. We exceeded our own guidance for both revenue growth and non-GAAP profitability. We executed well towards our goal of making our customers successful on our AI-powered DevSecOps Platform.

This quarter we generated revenue of \$126.9 million dollars. This represents growth of 45% year over year. Our dollar based net retention rate was 128%. Our first quarter results continue to demonstrate improving operating leverage in our business. Our non-GAAP operating margin improved by almost 1700 basis points year over year. We remain committed to growing in a responsible manner.

I want to start this call with one of the most exciting technology developments of our time: AI and ML. AI represents a major shift for our industry. It fundamentally changes the way that software is developed. And, we believe it will accelerate our ability to help organizations make software, faster. I am excited about this next wave of technology innovation.

We continue to focus on incorporating AI throughout our DevSecOps platform. We are innovating at a fast pace. In 1Q we delivered 5 new AI features. And, in the first half of May alone, we delivered 5 additional features. All of these are available to customers now.

We continued to iterate on Code Suggestions. This feature allows developers to write code more efficiently by receiving code suggestions as they type. Code Suggestions is available on GitLab.com for all users while in beta. We expect Code Suggestions will be generally available later this year.

One of the guiding principles with Code Suggestions is to make it available and accessible to all developers, everywhere. We also extended language support so that more developers can realize the benefits of AI on our platform. In 1Q, we increased language support from the initial six languages to now 13 languages.

Code Suggestions is uniquely built with privacy first as a critical foundation. Our customers' proprietary source code never leaves GitLab's cloud infrastructure. This means that their source code stays secure. In addition, model output is not stored and not used as training data.

AI is not only changing how software is developed, it is also amplifying the value of having a DevSecOps platform. DevSecOps is a category that we created, and we're seeing it enter a mainstream adoption phase.

We're seeing industry analysts recognizing this. I'm pleased to share that GitLab was recently recognized as the only Leader in the Forrester Wave for Integrated Software Delivery Platforms 2023. We are excited to see the market mature and recognize the value of an integrated software delivery platform – a strategy that GitLab has followed from the start.

This quarter, we had many conversations with senior-level customers, but one with a CTO from a top 5 European bank really stands out. At first, we focused on many of our differentiated features that only a DevSecOps platform can provide. For example, we talked about the benefits of Value Stream Dashboards, DORA metrics, and compliance on a single platform. When the conversation moved into AI, the CTO said something extremely interesting. He said: code generation is only one aspect of the development cycle. If we only optimize code generation, everything else downstream from the development team, including QA, security, and operations, breaks. It breaks because these other teams involved in software development can't keep up.

This point - incorporating AI throughout the software development lifecycle - is at the core of our AI strategy.

Today, our customers have the ability to use *Code Suggestions* for code creation, *Suggested Reviewers* for code review, *Explain this Vulnerability* for vulnerability remediation, *Value Stream Forecasting* for predicting future team efficiency, and much more. We're proud to have 10 AI features available to customers today, almost three times more than the competition.

Applying AI to a single data store, for the full software development life cycle, also creates compelling business outcomes. We believe that this is something that can only be done with GitLab.

We see a lot of excitement surrounding AI at the executive level. We are hearing from customers that AI is motivating them to assess how they develop, secure, and operate software through a new lens. Enterprise level companies who may not have been in the market until 2024, 2025, or 2026 are reevaluating their strategies. On top of that, there's new personas entering the mix. As chief information security officers navigate this new AI powered world, they are working to empower their teams to benefit from AI and apply appropriate governance, security, compliance, and auditability.

In all, we believe that AI will increase the total addressable market for several reasons.

First, AI will make writing code easier, which we believe will expand the audience of people, such as junior and citizen developers, who build software.

Second, as these developers become more productive, we see software becoming less expensive to create. We believe this will fuel demand for even more software. More developers will be needed to meet this additional demand.

Third, we expect customers will increasingly turn to GitLab as they build machine learning models and AI into their applications. As we add ModelOps capabilities to our DevSecOps platform, this will invite data science teams as new personas, and will allow these teams to work alongside their Dev, Sec, and Ops counterparts. We see ModelOps as a big opportunity for GitLab.

Expanding the addressable market will also create an opportunity to capture greater value. Later this year, we plan to introduce an AI add-on focused on supporting development teams. This new add-on will include Code Suggestions functionality. We anticipate this will be priced at \$9 per user per month billed annually. This add-on will be available later this year across all our tiers.

All of this innovation accentuates a broader theme for our business: the differentiation between a Dev and a DevSecOps platform.

We believe that an AI-powered platform focused solely on the Developer persona is incomplete. It is missing essential Security, Operations, and Enterprise functionality. Remember: developers

spend only a small fraction of their time developing code. The real promise of AI extends far beyond code creation. And this is where GitLab has a structural advantage. We are the most comprehensive DevSecOps platform in the market.

Features like Code Suggestions and Remote Development are important accelerants for Developer efficiency. And today, GitLab has more AI features geared towards Developers than our competitors. However, that isn't enough. In order to achieve a 10 times faster cycle time on projects, enterprises need an end to end platform that works across the entire software development lifecycle.

Let me describe some of GitLab's key Security, Operations and Enterprise differentiators. For Security, only GitLab has dynamic application security testing, container scanning, API security, compliance management, and security policy management. In Operations, only GitLab has features flags, infrastructure as code, error tracking, service desk, and incident management. For Enterprises, only GitLab has portfolio management, OKR management, value stream management, DORA metrics, and design management.

Let me illustrate the value of a DevSecOps platform with one of our customers: Lockheed Martin. Lockheed Martin's customers depend on them to help overcome their most complex challenges and to stay ahead of emerging threats. Their customers need the most technologically advanced solutions.

Lockheed Martin's engineering teams require speed and flexibility to meet the specific mission needs of each customer. They also require shared expertise and infrastructure to ensure affordability. Lockheed Martin has a history of using a wide variety of DevOps tools and needed to improve automation, standardized security practices, and collaboration.

They chose to go big with GitLab—greatly reducing their toolchain and cutting complexity while reducing cost and workload. The Lockheed Martin team has reported 80x faster CI pipeline builds, 90% less time spent on system maintenance, and they have retired thousands of Jenkins servers. Lockheed Martin continues to grow with GitLab and is looking to migrate even more projects to their DevSecOps platform. One of their software strategy executives said, "By switching to GitLab and automating deployment, teams have moved from monthly or weekly deliveries to daily or multiple daily deliveries."

Lockheed is a great example of the power of a DevSecOps platform. We see this in other use cases as well - such as Compliance. In the quarter, a large healthcare provider purchased GitLab Ultimate for our platform features. They needed to meet specific compliance requirements from their auditors, and they determined that GitLab was the best way to achieve their objectives.

Another customer we expanded business with in Q1 is NatWest Group, a relationship bank for the digital world. NatWest Group is focused on delivering sustainable growth and results, while fostering a better, simpler banking experience. Last year NatWest Group chose GitLab Dedicated. They wanted to enable their engineers to use a common cloud engineering platform to deliver a better experience for customers and colleagues. Five months into the program, we are pleased that NatWest has reported shorter onboarding times and productivity gains. This led to NatWest choosing GitLab Professional Services to accelerate their transformation by supporting training, certifications, and developer days.

In summary, we're confident in the strong value proposition that GitLab provides to customers. GitLab is the most comprehensive AI-powered DevSecOps enterprise platform. The significant return on investment, quick payback period, and well-documented positive business outcomes are resonating globally. We are trusted by more than 50% of the Fortune 100 to secure and protect their most valuable assets. We also believe we are in the early stages of capturing an estimated \$40 billion dollar addressable market. A market that we've seen evolve from point solutions to a platform. From DIY DevOps to a DevSecOps platform. AI will speed up different aspects of software creation and development. This in turn creates the need for more robust security, compliance, and planning capabilities. In today's era of rapid innovation, the power of a platform like GitLab to enable faster cycle times truly shines.

I will now turn it over to Brian Robins, GitLab's Chief Financial Officer . . .

[Brian Robins]

Thank you Sid, and thank you again for everyone joining us today. I would like to spend a moment discussing the macro environment, the financial impact of our recently implemented Premium pricing change, and provide some insight into the financial impact of our AI products.

Then, I will quickly recap our first quarter financial results and key operating metrics, and conclude with our guidance.

Let me first touch on some of the watch points that I discussed on prior calls. We continue to see sales cycles remaining at 4Q levels due to more people involved in deal approvals.

Contraction improved over 4Q but is higher than prior quarters. Like 4Q, contraction is driven almost entirely by lower seat counts, with minimal downtiering. I was pleased with the bookings predictability in 1Q, it was much better than 4Q.

As we mentioned on the prior call, we raised the price of our Premium SKU for the first time in 5 years. Over that time frame we added over 400 new features, transitioning from a Dev Platform to a DevSecOps platform. We shared that we expected the Premium price increase to have a minimal impact in FY24, with greater impact in FY25 and beyond.

The price increase which took effect on April 3rd is going as planned. We only had one month of renewals impacted by the price increase in the quarter. To date customer churn is unchanged for the Premium customers who renewed in April, and our average ARR per customer increased in-line with our expectations.

Now onto the way we are thinking about the financials and the impact of our AI products. We continue to invest in people and infrastructure to support AI. While we have had some teams working on AI features, we recently shifted additional engineers from other teams to support the work on AI. As a result, this has not led to significant incremental expenses on engineering talent. Additionally, we have made investments in our cloud provider spend to support our AI and R&D efforts.

In addition, we also continue to leverage partners to help drive our AI vision. This has included partnership announcements with Google Cloud and Oracle. The Google partnership allows us to use Google Cloud AI functionality to make our own AI offerings better by leveraging their toolset. The partnership with Oracle makes it easier for our customers to deploy their own AI and machine learning workloads using Oracle's Cloud Infrastructure. Both of these partnerships help create strategic differentiation for our customers in a financially responsible manner.

Now, turning to the quarter. Revenue of \$126.9 million this quarter represents an increase of 45% organically from the prior year. We ended 1Q with over 7,400 customers with ARR of at least \$5,000, compared to over 7,000 customers in the fourth quarter of FY23, and over 5,100 customers in the prior year. This represents a year-over-year growth rate of approximately 43%. Currently, customers with >\$5,000 in ARR represent approximately 95% of our total ARR.

We also measure the performance and growth of our larger customers, who we define as those spending more than \$100,000 in ARR with us. At the end of the first quarter of FY24, we had 760 customers with ARR of at least \$100,000, compared to 697 customers in 4Q of FY23, and 545 customers in the first quarter of FY23. This represents a year-over-year growth rate of approximately 39%.

As many of you know, we do not believe calculated billings to be a good indicator of our business, given that prior period comparisons can be impacted by a number of factors, most notably our history of large prepaid multi-year deals. This quarter total RPO grew 37% year over year to \$460 million, and cRPO grew 44% to \$324 million for the same time frame.

We ended our first quarter with a Dollar-Based Net Retention Rate of 128%. As a reminder, this is a trailing 12 month metric that compares the expansion activity of customers over the last 12 months, with that same cohort of customers during the prior 12 month period. The Dollar-Based Net Retention Rate of 128% was driven by lower seat expansion and contraction due to seats.

The Ultimate tier continues to be our fastest growing tier, representing 42% of ARR for the first quarter of FY24, compared with 39% of ARR in the first quarter of FY23.

Non-GAAP gross margins were 91% for the quarter, which is slightly improved from both the immediately preceding quarter and the first quarter of FY23. SaaS represents over 25% of total ARR and we have been able to maintain non-gaap gross margins despite the higher cost of delivery. This is another example of how we continue to drive efficiencies in the business.

We saw improved operating leverage this quarter, largely driven by realizing greater efficiencies as we continue to scale the business. Non-GAAP operating loss of \$15.0 million, or (12%) of revenue, compared to a loss of \$24.8 million, or (28%) of revenue in 1Q of last year. 1Q FY24

includes \$5.6 million of expenses related to our JV and majority owned subsidiary compared to \$3.7 million in 1QFY23.

Operating cash use was \$11.0 million in the first quarter of FY24, compared to \$28.2 million use in the same quarter of last year.

Now let's turn to guidance. We are assuming that macroeconomic headwinds and trends in the business we have seen over the last few quarters continue. There has been no change to our overall guidance philosophy.

For second quarter of FY24:

- We expect total revenue of \$129 million to \$130 million, representing a growth rate of 28% to 29% year-over-year.
- We expect a non-GAAP operating loss of \$11 million to \$10 million.
- And, we expect non-GAAP net loss per share of \$(0.03) to \$(0.02) assuming 153 million weighted average shares outstanding.

For the full year FY24:

- We now expect total revenue of \$541 million to \$543 million, representing a growth rate of approximately 28% year-over-year.
- We expect a non-GAAP operating loss of \$47 million to \$43 million.
- And, we expect non-GAAP net loss per share of \$(0.18) to \$(0.14) assuming 153 million weighted average shares outstanding.

On a percentage basis, our new annual FY24 guidance implies non-GAAP operating improvement of approximately 1200 basis points year-over-year at the midpoint of our guidance. Over the longer term, we believe that a continued, targeted focus on growth initiatives and scaling the business will yield further improvements in unit economics. This guidance has us on track to achieve cash flow break even for FY25.

For modeling purposes, we estimate that our fully diluted share count is 173 million.

Separately, I would like to provide an update on JiHu, our China joint venture. Our goal remains to deconsolidate JiHu. However, we cannot predict the likelihood or timing of when this may

potentially occur. Thus, for modeling purposes for FY24, we now forecast approximately \$29 million of expenses related to JiHu, compared with \$19 million in FY23. These JiHu expenses represent approximately (5%) of our total implied (8%) non-GAAP operating loss for FY24.

Our number one priority as a management team is to drive revenue growth, but we will do that responsibly. There has been no philosophical change in how we run the business to maximize shareholder value over the long term. Before we take questions, I'd like to thank our customers for trusting GitLab to help them achieve their business objectives. I also want to thank our team members, partners, and the wider GitLab community for their contributions this quarter.

With that, we will now move to Q&A. To ask a question please use the chat feature and post your question directly to "IR Questions." We are ready for the first question.