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Gitlab, Inc. (GTLB)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the GitLab First Quarter Fiscal Year 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Kelsey Turcotte, Vice President of Investor Relations. Thank you, Kelsey. You may begin.

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

Thank you for joining us today for GitLab's first quarter fiscal year 2025 financial results conference call. GitLab's Co-Founder and CEO, Sid Sijbrandij, and GitLab's Chief Financial Officer, Brian Robins, will provide commentary on the quarter and guidance for the fiscal year.

Before we begin, I'll cover the Safe Harbor statement. I would like to direct you to the cautionary statement regarding forward-looking statements on page 2 of our presentation and in our earnings release issued earlier today, which are both available under the Investor Relations section of our website. The presentation and earnings release included discussion of certain risks, uncertainties, assumptions and other factors that could cause our results to differ from those expressed in any forward-looking statements within the meaning of the Private Securities Litigation Reform Act. As is customary, the content of today's call and presentation will be governed by this language.

In addition, during today's call, we will be discussing certain non-GAAP financial measures. These non-GAAP financial measures exclude certain unusual or non-recurring items that management believes impact comparability of the periods referenced. Please refer to our earnings release and presentation materials for additional information regarding these non-GAAP financial measures and the reconciliations to the most directly comparable GAAP measure.

I will now turn the call over to GitLab's Co-Founder and Chief Executive Officer, Sid Sijbrandij, Sid?

Sytse Sid Sijbrandij

Co-Founder, Chairman & Chief Executive Officer, Gitlab, Inc.

Thank you for joining us today. We had a strong first quarter with 33% revenue growth and significant year-over-year margin expansion. The value customers derived from GitLab comes through not only in our top line growth but also in our best-in-class dollar-based net retention rate of 129%. We continue to differentiate our platform with security, compliance and AI throughout the software development lifecycle, and we also continue expanding our total addressable market with new use cases and personas. AI is quickly transforming the way software is delivered. With GitLab, our AI extends well beyond coding and development. Because we have the broadest platform, we uniquely enable our customers to also leverage AI for planning, security and operations.

Both new customers like financial services company [ph] ANB (03:14) and existing customers like NASA, Artemis, Carrefour, Indeed and the FBI understand the value of a platform that enables software development across the end-to-end lifecycle. It improves productivity and security without sacrificing speed. We believe the benefits and improved quality delivered by our end-to-end approach are unmatched in the market. A great example of this is a

leading financial services company that decreased pipeline outages by 90% since deploying GitLab, and that has translated in hundreds of thousands of dollars in savings every year. They are also leveraging our AI offering, GitLab Duo Pro, and GitLab Duo Pro has already delivered increases in productivity for this customer.

We're seeing GitLab Duo adoption by customers who are excited about the benefits it's bringing to their teams. For example, a leading provider for the global communications industry purchased GitLab Duo in Q1 to help engineering teams code faster and more securely.

We continue to add new capabilities to GitLab Duo. In Q1, we released GitLab Duo Chat into general availability. Chat is a conversational AI interface for GitLab Duo that helps customers quickly understand project status, get help with planning and configuration, receive explanations of suggested code and generate tests, all without complex switching. I'm excited about Chat because it transforms software development by seamlessly integrating AI to a single, easy-to-use natural language chat interface. This optimizes DevSecOps workflows and boosts productivity. We also introduced new privacy controls that enable organizations to manage sensitive data at the project, group and subgroup levels. This helps reduce the security and compliance risks of AI adoption.

Our next AI add-on is GitLab Duo Enterprise. GitLab Duo Enterprise combines the developer-focused AI features of GitLab Duo Pro with enterprise-focused features to help teams collaborate faster together. Our customers are particularly excited about the security tools coming as part of GitLab Duo Enterprise, such as root cause analysis, along with vulnerability explanation and resolution. In the future, GitLab Duo Enterprise will also allow customers to deploy AI models in air-gapped environments. This feature will further differentiate GitLab Duo in the market.

Now, I'd like to turn to security and compliance. These capabilities are core to our platform and continue to be big business drivers for us. Customers turn to GitLab because they need to integrate security earlier in the development process. For example, a major US technology company and government contractor removed seven different point solutions when they consolidated on the GitLab platform. Now, they are doing security scans 13 times faster and are seeing 90% savings in tool chain administration.

In Q1, we closed a six-figure deal with a global financial services company, a new logo for GitLab. They were looking to improve security in the DevSecOps lifecycle and GitLab was the only option that would let them bring software composition analysis, SaaS and DaaS into a single platform. With our advanced security capabilities, the company can shift security left and address vulnerability sooner. At the same time, they are consolidating their toolchain, reducing their total cost of ownership and increasing visibility across the software supply chain. GitLab's integrated security is driving upgrades to our ultimate tier.

In Q1, we continue to build on our security capabilities with our acquisition of Oxeye. We acquired Oxeye for their robust SaaS technology. This will help streamline vulnerability management and remediation for GitLab customers. We also acquired the intellectual property Rezilion, which will enrich our vulnerability risk data and auto remediation capabilities, as well as runtime vulnerability reachability.

Together, these acquisitions are intended to extend GitLab's detection and remediation capabilities from code through runtime, and this will help organizations resolve vulnerabilities more efficiently and quickly. We will be integrating Oxeye and Rezilion's technologies into GitLab over the next several quarters.

Turning to compliance, one of our big differentiators here is GitLab Dedicated, our single tenant SaaS solution, which provides customers with data isolation and residency. One of the largest public service departments in Europe adopted GitLab Dedicated in Q1 to help them break down silos and build a culture of collaboration across organization's hybrid landscape while maintaining strict compliance requirements.

Now, I'd like to discuss our go-to-market strategy. As we scale past \$500 million and move to \$1 billion in revenue, our customer profile is evolving and so are we. Customers recognize this is more than just a vendor. We're a partner. We recently won Ally Financial's Technology Operational Excellence Award for driving simplified and resilient solutions for Ally and its customers. This follows from last year, when we won Ally's Velocity with Quality Award for helping Ally Financial deliver value to customers quickly.

In addition, our partnerships with Google Cloud and AWS accelerate cloud migration for them and we benefit from wider distribution. In April, GitLab received the 2024 Google Cloud Technology Partner of the Year Award in the Application Development category for the fourth consecutive year. At Google Cloud Next, we announced our Google Console integration. This helps our customers improve developer experience and decrease context switching across GitLab and Google Cloud.

We're also excited about our integration with Amazon Q. The integration gives our joint AWS and GitLab customers a unified interface, whether they are working in AWS or in GitLab. AWS customers using GitLab can opt to have GitLab Duo route tasks to Q and vice versa.

To help us penetrate the estimated \$40 billion market opportunity ahead of us, we are investing in a number of initiatives. First, we are adding more global field CTOs to help amplify our message and articulate our value to the executive suite. Second, we are bringing in more solution architects and also expanding our services offering to ensure post-sale success. Third, we are increasing our global theater presence to more closely meet the needs of specific regions and markets. And fourth, we are sharpening our focus on industries with complex security and compliance requirements such as financial services.

During the quarter, we closed the second-largest deal in GitLab history, with a US-based global investment banking firm. Given their success with our core capabilities, they upgraded to GitLab Ultimate for our security and compliance capabilities and significantly expanded seats.

Finally, we're looking forward to next month's anticipated GitLab 17 product launch event. We invite you to join us on June 27. Registration information can be found on the GitLab website. Many innovations are planned for GitLab 17, including enhanced security scanning and governance controls, and the general availability of our CI/CD catalog. Then we'll be taking GitLab 17 on the road as part of our DevSecOps World Tour event focused on business leaders and practitioners.

On a personal note, during a recent routine scan, I learned that I need to again undergo treatment for osteosarcoma, the same form of cancer I was treated for in 2023. My doctor believes that this finding is part of the original lesion and that as such the disease has not metastasized. I'm working on making a full recovery, as the last time, my scope and responsibilities as GitLab's CEO and Chair remain unchanged. Like to thank our executive team and the board of directors for their support.

In closing, I'm confident we will continue to win the large market opportunity in front of us. I want to thank our team members and partners for their focus on customer success, and our customers for trusting us. Like to thank our shareholders for your support. And I look forward with speaking with many of you this quarter.

With that, I'll turn it over to Brian.

Brian G. Robins
Chief Financial Officer, Gitlab, Inc.

Thank you, Sid, and thank you again for everyone joining us today. I am pleased with our start to FY 2025 as the team delivered strong top line growth. We also achieved a significant year-over-year increase in operating margin, and for the first time generated positive Q1 operating and adjusted-free cash flow. Our number one objective is to grow, but we continue to do that responsibly.

It is clear from our results that our customers see the value of our end-to-end DevSecOps platform that allows them to consolidate spends, avoid vendor lock-in, and deliver outcomes to the business more quickly. Customers report to us that they were able to consolidate their toolchain anywhere from 3 to 20 solutions into our platform, accelerate release cycles by 7 times, and even realize 70% improvements in annual savings. These outcomes move the needle for our customers in the software development lifecycle, maximizing budgets, and increasing their competitiveness.

Turning to the numbers. First quarter revenue of \$169 million represents an increase of 33% from Q1 of the prior year. Please note that our acquisition, Oxeye, did not contribute to Q1 revenue. As a reminder, when we guided for Q1 and FY 2025, we had not completed our annual standalone selling price analysis or SSP, which determines our revenue recognition rate for upfront license revenue. As a result, we use our FY 2024 rates for FY 2025 guidance. That evaluation is now complete and had the effect of decreasing Q1 revenue approximately \$1 million and decreasing expected FY 2025 revenue by approximately \$4 million relative to guidance. Excluding the impact of the new SSP allocation, Q1 revenue was \$170 million, an increase of 34% year-over-year. Going forward, guidance for FY 2025 includes our updated SSP allocation.

We ended our first quarter with a dollar-based net retention rate or DBNRR of 129%. Q1 DBNRR was driven by a combination of seat expansion at approximately 55%, price at approximately 35%, and tier at approximately 10%. Over the last four quarters, seat expansion has been greater than 50% of the growth in DBNRR. And we are very pleased to see customers' commitment to our platform reflected in this expanding adoption.

We now have 8,976 customers with ARR of at least \$5,000, an increase of approximately 21%. Consistent with previous quarters, our customers with greater than \$5,000 in ARR contributed over 95% of our total ARR in Q1. In particular, we monitor performance of our larger customer cohort of \$100,000-plus in ARR, where average ARR per customer continues to increase and unit economics continue to improve. This is a testament to the importance of security and compliance for these large customers. At the end of first quarter of FY 2025, we had 1,025 customers with ARR of more than \$100,000, an increase of over 35% year-over-year. Expanding this cohort both in absolute number and total ARR is a focus of our go-to-market team, and as Sid mentioned, we'll continue to invest additional resources to drive momentum across these customers.

This quarter, total RPO grew 48% year-over-year to \$681 million, while cRPO grew 34% to \$436 million. Non-GAAP gross margins were 91% for the quarter. SaaS now represents over 28% of total revenue and grew 50% year-over-year. The team continues to identify efficiencies that allows us to maintain best-in-class non-GAAP gross margins.

Once again, we saw year-over-year improvement in operating leverage. Q1 non-GAAP operating loss was \$3.8 million compared to a loss of \$15 million in the first quarter last year. As a reminder, in this Q1, our non-GAAP operating loss included a \$15-million investment in Summit, our global team member gathering. I'm really pleased with the team's continued focus on execution, which resulted in a non-GAAP margin expansion of more than 900 basis points year-over-year.

Cash from operating activities was \$38.1 million in the first quarter of FY 2025, compared to an \$11 million use of cash in operating activities in the same quarter of last year. Adjusted free cash flow was \$37.4 million in the first quarter of FY 2025, compared to an \$11.2 million use of cash in the same quarter of last year.

Turning to guidance, I'd like to start with a few comments on guidance. First, as I mentioned already, guidance includes our updated SSP revenue analysis. FY 2025 revenue guidance includes the approximately \$4 million SSP net headwind for FY 2025, and raises in line with our first quarter top line outperformance. For the second quarter of FY 2025, we expect total revenue of \$176 million to \$177 million, representing a growth rate of 26% to 27% year-over-year. We expect a non-GAAP operating income of \$10 million to \$11 million, and we expect a non-GAAP net income per share of \$0.09 to \$0.10, assuming 167 million weighted average diluted shares outstanding.

For the full-year FY 2025, we expect total revenue of \$733 million to \$737 million, representing growth rate of approximately 26% to 27% year-over-year. We expect a non-GAAP operating income of \$34 million to \$38 million, and we expect a non-GAAP net income per share of \$0.34 to \$0.37, assuming 168 million weighted average diluted shares outstanding.

Separately, I'd like to provide an update on JiHu, our China joint venture. In Q1 FY 2025, non-GAAP expenses related to JiHu were \$3 million, compared to [ph] \$5.6 million (18:19) in Q1 of last year. Our goal remains to deconsolidate JiHu. However, we cannot predict the likelihood or timing when this may potentially occur. Thus, for FY 2025 modeling purposes, we forecast approximately \$14 million of expenses related to JiHu, compared with \$18 million in FY 2024.

In closing, Q1 was a strong start to the year, highlighting the differentiation of our DevSecOps platform and the power of our financial model. We're excited about the introduction of AI across the entire software development lifecycle, the significant value we deliver for our customers, and the large market opportunity in front of us.

Thank you all for joining us this afternoon. With that, I'll turn it over to Kelsey, who will moderate the Q&A.

QUESTION AND ANSWER SECTION

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

A

Hello, everyone. Thank you very much for joining us this afternoon, and it's time for questions. [Operator Instructions] We'll take our first question from Matt at RBC. Matt, please go ahead. We're requesting one question and one follow-up, please.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Q

Great. Thanks, Kelsey. First of all, Sid thoughts and prayers out to you as you continue this journey here. Certainly, you're in our thoughts and prayers. Maybe just to start with you, Sid, on the demand environment, there's obviously been a lot of volatility [indiscernible] (19:54) guess I'd say, off-quarter software earnings over the past couple weeks. Can you just maybe just pull the lens back a little bit and kind of just talk about what you're seeing from [indiscernible] (20:03) looks like you had good results this quarter? But just a little bit more perspective there.

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

A

Hey, Matt, thanks for the question. This is Brian. Yeah, I'll start in. There weren't any major macro changes from Q4 to Q1. Sales cycles and discounting were consistent. The macro continues to be cautious, I would say, from the procurement departments on how they're being thoughtful and what they commit to. If you get specific to GitLab, though, first, if I look at new business, our First Order business continues to be strong. And so, that's a great indicator. And then second, I look at existing customers, and we reported the dollar-based net retention rate of 129%. This is led by seat expansion, followed by the price increase/increased customer yield, and then up-tiering. And so, that was better than what we modeled. The cohort of \$100,000, which we view as a proxy for enterprise customers, grew more than 35% year-over-year. And so, hopefully, it gives you some context on the macro, and then also, what we look at from GitLab specific within the quarter.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Q

Okay, that's great, Brian. Then maybe just [indiscernible] (21:18) for you, on the \$4 million SSP headwind you talked about, I just want to be clear, it feels like, A, that's a full-year headwind, not just Q1, which I think you alluded to on the call. But I just want to make sure that my math is right because it feels like you beat by, I think, \$3 million and you're raising by, I think, \$7 million. But you talked about this \$4 million SSP headwind. I just want to make sure I understand kind of the puts and takes to the full year. It sounded like you said you're basically just pushing the Q1 beat through, but maybe you can just provide a bit more color on that.

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

A

Yeah, absolutely. And thanks for the question. The – when we reported the guidance for last quarter, it was based on the 2024 SSP allocation. We completed that analysis and there was \$1 million impact in Q1. And so, the \$3.7-million beat includes the \$1-million impact. The guidance we gave for the full year of \$733 million to \$737 million includes the \$4-million headwind. And so, that would be additive to those numbers. So, we've absorbed those in the numbers that we provided.

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

Great.

[indiscernible] (22:26)

A

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

Thanks, Matt. Next question's coming from Ryan at Barclays. Ryan, your line is open.

A

Ryan MacWilliams

Analyst, Barclays Capital, Inc.

Thanks for taking the question. Just on the incremental pricing guide you offered last quarter, [ph] you obviously guide the (22:44) \$10 million to \$20 million in benefit for this fiscal year. Any update to that guide? And are you seeing any differences at renewal for the additional price increase this year in this macro? Thanks.

Q

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

Yeah. Thanks, Ryan. This is Brian. We gave that range out a couple quarters ago to help with calibrating the models because there was such a wide range on this year's revenue. Your assumptions that we gave out, including our guidance on a go-forward basis, includes that. And so, I'm happy to report that we're doing better than what we internally modeled and, yeah – and so what we internally modeled.

A

Ryan MacWilliams

Analyst, Barclays Capital, Inc.

Perfect. Appreciate that color. And just one housekeeping item. Maybe I missed it on the prepared remarks, but did you provide Ultimate as a percentage of ARR? And then maybe one for Sid. Love to hear about how you're thinking about the initial uptick in terms of demand for Duo Pro and maybe any early signs of demand for Duo Enterprise. Thanks.

Q

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

I'll do Ultimate real quickly. That's 46% of total ARR, up from 44% from last quarter.

A

Sytse Sid Sijbrandij

Co-Founder, Chairman & Chief Executive Officer, Gitlab, Inc.

Thanks for that, Brian. And thanks for the question about Duo Pro and Duo Enterprise. So, we're seeing the momentum there. For Duo Pro, we got some great initial results. A major Americas financial services company reported 35% to 40% developer productivity as a result of using it. Got a great deal with a major APAC telecommunications company that wanted to have AI-powered capabilities not just in coding, but in all stages. And we made a sale to a major security infrastructure company.

A

As for Duo Enterprise, the features they really like are the ones around security and root cause analysis, and the security features they like is vulnerability explanation and resolution. So, they're looking forward to that. And in the future, Duo Enterprise will also allow customers to deploy AI models in air-gapped environments, a lot of our customers are looking forward to that.

Ryan MacWilliams

Analyst, Barclays Capital, Inc.

Thanks for the color. Thanks, guys.

Q

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

Great. Thanks, Ryan. Next question goes to Jason at William Blair.

A

Jason Ader

Analyst, William Blair & Co. LLC

Yeah, thank you. Guys, I was just wondering, have you explored recently any changes to the pricing model? I know you can perceive pricing for both the self-managed and the SaaS, especially for the SaaS business where most of your peers are using some form of usage-based pricing. It would seem like that could be in the cards for you guys. Just any comments on how you're thinking about pricing going forward would be great.

Q

Sytse Sid Sijbrandij

Co-Founder, Chairman & Chief Executive Officer, Gitlab, Inc.

Yeah, for the most important part, our pricing is the same, as you said, it's based on users. The value we add is we make people more productive, 10 times faster cycle time, getting more work done. On SaaS, we also charge for, for example, storage. But the big benefit in GitLab is in how we make people more productive. For example, the storage costs are not very high. Another indicator of that is our gross margins, like 91%. It kind of indicates that there's not a ton of compute cost that we drive down. It's making the people more efficient with things like replacing point solutions with the platform and the AI. And that's what we charge for.

A

Jason Ader

Analyst, William Blair & Co. LLC

Okay, great. And then one quick follow-up just on the product roadmap, maybe this is for you Sid, but as we think about this fiscal year, what would you say is your kind of top priority in terms of the kind of the products capabilities, the GitLab applications capabilities?

Q

Sytse Sid Sijbrandij

Co-Founder, Chairman & Chief Executive Officer, Gitlab, Inc.

Yeah, a top focus, of course, is AI, Duo Pro, Duo Enterprise, but we also continue to invest in our – the ability of our customers to replace point solutions. Really excited about the acquisition of the two security companies, that's going to make our security offering better. Also investing our compliance, our planning capabilities, and just making it easier to replace all the other point solutions that our customers have. Currently with GitLab, our customers can replace more point solutions than any other way, but we want to make sure they can replace all their point solutions. And I think in that, in security, we're getting pretty close and we will keep driving for all the other sectors, including planning and binary storage and everything else.

A

Jason Ader

Analyst, William Blair & Co. LLC

Thank you. Best of luck with your treatment.

Q

Sytse Sid Sijbrandij

Co-Founder, Chairman & Chief Executive Officer, Gitlab, Inc.

Thanks.

A

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

Next question goes to Nick from Scotiabank, please. Your line is open.

A

Nick Altmann

Analyst, Scotiabank

Awesome. Thanks, guys. And, Sid, best of luck. I wanted to ask a question, Brian, on the RPO, the sequential change from 4Q to 1Q was a little bit smaller than we've historically seen. And just is there anything to call out mechanically as to why that change is a little bit smaller? Was there pull into the Q4? Are customers signing shorter-duration deals? Is there more sort of renewal activity, and the renewals go from three years to one year? Just anything else to call out on that RPO number and why that sequential change is a little bit smaller?

Q

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

Yeah. Thanks, Nick. We've talked about with billings and RPO, them being somewhat a little bit noisy within a quarter. We're – I was happy with the cRPO at 34% year-over-year, that was in line with the revenue growth of 33%. Q4 to Q1, there is some seasonality. Q4 is our strongest quarter, and Q1 is seasonally our lowest quarter. And so, we had a real strong finish to the year. So, that impacts it a little as well. But I'm pleased where we're at and the visibility that we have in the model.

A

Nick Altmann

Analyst, Scotiabank

Awesome. Thanks. And then just a quick follow-up on the \$4-million headwind. Is that all related to license revenues? And if so, just any goalposts as to how we should be thinking about license versus self-managed contract support for this year? Thanks.

Q

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

Yeah. Thanks for that. We don't break down because we don't forecast that level. We don't set sales compensation targets between self-managed or ones that we're going to host. And so, when we go through the SSP allocation, it's based on what we deem to deliver value when it's received versus value over the time of the license, and that's what causes a switch. And so, the headwind we eventually get, because we don't recognize it upfront, we recognize it over the period of the contract, and so, the \$4 million that we called out is lower than what our recognition would have been last year. But we've included that in our guidance and absorb that.

A

Nick Altmann

Analyst, Scotiabank

That's great. Thank you.

Q

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

Great. Thanks, Nick. Next question is from Karl at UBS. Your line is open.

A

Karl E. Keirstead

Analyst, UBS Securities LLC

Q

Okay, great. Hey, Brian, you talked a little bit about the macro being reasonably stable relative to 4Q. Could we talk specifically about seat growth? Your disclosures of the seat contribution to NRR, both in Q1 and 4Q, would lead one to believe that seat growth is either stable or even slightly improved. Is that the correct assumption?

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

A

Yeah. When I look back at seats from a contribution to the net dollar retention rate over the last four quarters, it's averaged over 50%. And so, that's been the number one contributor. That's both in obviously Ultimate and Premium.

Karl E. Keirstead

Analyst, UBS Securities LLC

Q

Okay. So, it sounds more stable than not. Okay. And then on the contribution, the assumed contribution of Duo Pro and Enterprise to the fiscal 2025 guidance, Brian, are you including anything in there, maybe a minimal amount, maybe just to add some color there? Thank you.

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

A

Yeah. Thanks for that. Like we said on previous calls, it's early. It takes some time. Happy with the sales process as it's going, but it's included in our guidance that we provided.

Karl E. Keirstead

Analyst, UBS Securities LLC

Q

Okay. Got it. Congrats on the nice numbers. Thank you.

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

A

Thanks, Karl.

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

A

Great. Our next question comes from Joel Fishbein of Truist. Joel, your line is open.

Joel P. Fishbein

Analyst, Truist Securities, Inc.

Q

[indiscernible] (31:50).

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

A

Hey, Joel?

Joel P. Fishbein

Analyst, Truist Securities, Inc.

Q

First, congrats on – yes?

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

You're breaking up a little. I don't know if there's a way to fix that.

A

Joel P. Fishbein

Analyst, Truist Securities, Inc.

Do you hear me better now?

Q

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

Yeah.

A

Joel P. Fishbein

Analyst, Truist Securities, Inc.

Sid, best to you, and thoughts and prayers with you. Brian, congrats on the margin [indiscernible] (32:14). Sid talked a lot about scaling the [indiscernible] (32:18) here and I would love to get [indiscernible] (32:22) on how you're thinking about growth versus margin going forward.

Q

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

Yeah. Thanks, Joel. We've been very consistent in our messaging that the number one goal of the company is growth, but we'll do that responsibly. If you look at sort of what we added this quarter, we added \$42 million of incremental revenue. And that was done with an increase of \$31 million of incremental expense. But in that incremental expense was the onetime cost of Summit, which was roughly about \$15 million. And so, we grew 33% quarter-over-quarter, and we did that with good incremental profit.

A

Joel P. Fishbein

Analyst, Truist Securities, Inc.

Great. Thanks.

Q

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

Thanks, Joel.

A

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

Great. Thanks, Joel. Our next question comes from Kash from Goldman Sachs.

A

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

Thank you very much. Sid, how would you describe GitLab's product competitiveness versus your leading competitor? How is that gap today versus, say, six months ago or so, especially in light of the generative AI features that you've introduced with Duo, Duo Chat, and also other things like Agile and Dedicated. I know it's a quantitative thing, but I just wanted to get that perspective from you.

Q

And one for you, Brian, when the effect of Duo, Agile, Dedicated price increases do kick in into full gear, what is the rough contribution that these vectors have to your reported growth in this quarter? So in other words, how much additive will be the effect of those vectors to your current reported growth? Thank you so much.

Sytse Sid Sijbrandij

Co-Founder, Chairman & Chief Executive Officer, Gitlab, Inc.

A

Yeah, thanks for that question. I think we're – if you look at the AI features with Duo Pro, where we were later than our main competitor, but I think we have a competitive offering now. If you look at Duo Enterprise, we can use what we're really strong at, namely integrating security in Dev and Ops, and that leads to a very strong offering. The Omdia report said GitLab has the most AI features available. That comes because we have the broadest platform, we can replace more point solutions for our customers, and that's really important because then they can have a faster cycle time, deprecate all those old tools, and not only not have to pay for them, but they save on the integration costs as well. And because we have more in the platform and customers use more of GitLab, we also have more contacts, so more relevant AI features. So, I think that's really exciting. And I'm looking forward to all the security help we can offer our customers to with AI, and I think we're leading there. So, that that makes me really excited.

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

A

And Kash on your question around Duo and in all the number of things that you mentioned, what's the rough contribution, on the new products that we've launched, it's price times quantity is the rev rec on that. And so, based on the number of seats sold and with the prices that we sell that for in a given month or quarter would be the revenue that we'd recognize that would be additive to what we currently sell today in the base business.

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

Q

And I'm just looking to quantify that. Appreciate the math, Brian, but – appreciate the process, but the math behind it, how much roughly would it contribute when it all hits the P&L incremental to the reported growth? Because today's growth is not benefiting from those vectors, which is just the heart of my question.

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

A

Yeah, that's correct. We've included in our guidance and we haven't broken that out separately.

Kash Rangan

Analyst, Goldman Sachs & Co. LLC

Q

Okay.

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

A

Great. Thank you very much. Our next question comes from Rob at Piper. Rob, go ahead.

Ethan Weeks

Analyst, Piper Sandler & Co.

Q

I'm grateful for taking my question. This is Ethan on for Rob. Just one for me. I wanted to ask around how customer conversations on hiring intentions have trended specifically for developers. And are you seeing any sort of customers look to step up hiring in the second half as they invest behind kind of the resumption of cloud migrations or any gen AI initiatives at this point? Thanks.

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

A

Yeah. Thanks, Ethan. As you can – there's not a report that we can run, per se, and actually see what the hiring intentions are of the customer base. I would say just more broadly that there weren't major macro changes from Q4 to Q1 and it was fairly consistent. And then I spoke earlier a little bit about first order and the net dollar retention rate. And I think that's reflected in this – within the net dollar retention rate. That seat expansion is approximately 55%.

Ethan Weeks

Analyst, Piper Sandler & Co.

Q

Great. Thanks for the color.

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

A

Great. Thank you very much. Next question comes from Koji at Bank of America.

Koji Ikeda

Analyst, BofA Securities, Inc.

Q

Yeah. Hey, guys. Thanks for taking the questions. Sid, we are all rooting for you here. Couple questions from us. First one, a big picture question maybe for Sid, so the DevSecOps world is evolving very, very quickly and there is a lot of focus on generative AI code, but really, that's only a sliver of DevSecOps workflows. So, the question is on what's really going on out there. What are developer teams and IT ops teams and security ops teams most focused on today that is driving demand for GitLab?

Sytse Sid Sijbrandij

Co-Founder, Chairman & Chief Executive Officer, Gitlab, Inc.

A

Yeah. Thanks for that. You're totally right, helping people code is only part of the equation. That's helping the developers. And even they don't spend most of their time coding. They spend a lot of their time, for example, interpreting issues, and that's where generative AI can help as well. And then if you produce code, you still have to secure it and the bar for security is coming – going up. You have to have a tighter security profile. You got to address things quicker. So, that's very generative AI can help a lot. Super excited about all the features coming out in Duo Enterprise that help with that.

And then, it's also operations, keeping everything up and having AI respond faster to security incidents, most of the time augmenting people. But even with things like planning, we're the only platform that has enterprise agile planning completely integrated. And with AI, you can have a better forecast of when you're going to deliver something. It helps managers with resource allocation. So, we're really excited to have AI throughout the lifecycle and we think the platforms are in a great position to have more context to feed the AI better. And the broader the platform, the more point solutions you replace, the better that AI is going to work and the more it can do for you.

Koji Ikeda

Analyst, BofA Securities, Inc.

Q

Got it. Thank you, Sid. And a follow-up here for Brian, just thinking about the performance in the first quarter and the guidance methodology, I mean, you just beat the first quarter guidance, the revenue guidance midpoint by 2.2%. If the guidance methodology is the same, is this the right way to think about upside potential? And if not, how should we be thinking about upside drivers from that? Thank you.

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

A

Yeah. Thanks for that, Koji. The guidance that we gave out includes the upsides that we talked about in the various products that we have. And so we – as I spoke earlier, we didn't break that out and/or reporting on that separately.

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

A

Great. Thanks. Koji, just one thing to note is with the \$1 million headwind to revenue in the first quarter, the – what you refer to as the beat was – would have been actually 2.7%, up from the 2.2% that you mentioned.

Next question will come from Michael at Wells Fargo.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

Hey. Thanks. Appreciate you taking the question. Just one for me. On free cash flow, 22% margin in what's generally a seasonally lighter period. So Brian, was just hoping you can speak to the drivers of outperformance there and how should we think about the seasonality or progression of free cash flow throughout the course of the coming year? Thanks.

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

A

Yeah, absolutely, Michael. We had a very strong fourth quarter. And so, fourth quarter collections happen in first quarter. So, we did better on the top side and we spent less on the bottom side. And so, there was some timing, not much, but there was some timing associated with that. But it was basically the strong collections based on fourth quarter performance and less spending. Timing was about a quarter of the total.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Q

And is it – I mean, as far as on a go forward, if we look at just the change in operating income assumptions between Q4 guidance and where things sit today, is it fair for us to assume at least sort of a similar progression of free cash flow or was sort of the one-time benefits something that we should more carefully contemplate within Q1? Thanks.

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

A

Yeah. 1Q is stronger from a cash collection standpoint because of 4Q. And so, it really has some dependency on the prior quarter. And so, I'll leave it at that.

Michael Turrin

Analyst, Wells Fargo Securities LLC

Thank you.

Q

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

Great. Thank you. In the interest of time and to see if we can get everyone on, if you could limit yourself to one question, please, that'd be great.

A

Next question is coming from Pinjalim, JPMorgan. Please go ahead.

Pinjalim Bora

Analyst, JPMorgan Securities LLC

Oh, great. Hey. Thanks for taking the question, and Sid, wishing you rapid recovery. One question for you, Brian, you said you're doing better on the pricing assumptions that is embedded in the guidance. Is there a way to understand the raise? Does that include a little bit of uptick on that assumption as well?

Q

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

Yeah. So we broke that out, like I said, a couple quarters ago to help with calibrating the models. It's included in our guidance on a go-forward basis. We won't be – we don't break that out. And so, it's better than what we modeled internally. And we'll just guide to the full year.

A

Pinjalim Bora

Analyst, JPMorgan Securities LLC

Okay. Thank you.

Q

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

Next question is from Adam at Raymond James. Go ahead. Your line is open.

A

Adam Tindle

Analyst, Raymond James & Associates, Inc.

Okay. Thank you. Wanted to return to the Duo conversation, see if I can ask it a little bit differently. I know, Brian, you talked about it's early, it's going to take time. As we compare it to Microsoft Developer Copilot, they had 400,000 paid subs at launch two years ago. They just announced 1.8 million. And you can backend this more than \$100 million of ARR for that platform to them. I wonder if you guys might compare and contrast that versus what you're seeing in the initial launches versus Duo. Realized it's different scale than GitHub. But what does stop this from being tens of millions of ARR in the next 12 to 18 months. Thanks.

Q

Sytse Sid Sijbrandij

Co-Founder, Chairman & Chief Executive Officer, Gitlab, Inc.

Thanks for the question. We're not giving out specific numbers on the adoption. Typically, we sell more to enterprises where it's more of a top-down sale versus a bottoms-up approach. So, it takes a little bit longer. I also think with Duo Pro, with the coding, we were later. I think with Duo Enterprise, the everything else, I think we're more on time. We have very high expectations. We do foresee the majority of impact in the coming fiscal years,

A

not this year. What we have estimated is in our guidance that what we're very excited about is that customers see the effect of Duo in productivity, and they are enterprise customers. They choose GitLab. They choose GitLab Ultimate for their security features. They also want the AI security features. So, I think we got a really compelling offering there. Really excited to see how that develops in the rest of the year and outer fiscal years.

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

A

Great. Thanks, Adam. Next question is coming from Derrick at TD Cowen.

Derrick Wood

Analyst, TD Cowen

Q

Thanks. Sid, good luck with your next treatment. And for Brian, I just wanted to go back to the change in guide, just to get more clarification. At midpoint, it went up by \$7 million. You're also absorbing an incremental \$4 million. So apples-to-apples, it seems like you're raising by \$11 million. Just wanted to confirm that. And then it looks like a lot of that raise, at least relative to where Street was, is expected to be seen more in the back half of the year. Can you just walk us through how you're thinking about seasonal mix over the course of the year and what could drive a stronger second half?

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

A

Yeah, absolutely, Derrick. The – your math is almost correct. And so, we beat by \$3.7 million. That included \$1 million of headwind. And so, we raised by \$7 million. And then if you add the additional \$3 million for the remaining three quarters of headwind for SSP, you would get to \$10 million total, not the \$11 million. So, close but it's \$10 million total. And the revenue that we're expecting would – is – ramps consistent with what the quarterly spread has been. And so, first quarter seasonally is our weakness, fourth quarter seasonally is our strongest, and second and third quarter is relatively about the same.

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

A

Thanks, Derrick.

Derrick Wood

Analyst, TD Cowen

Q

Thank you.

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

A

Next question coming from Jason at KeyBanc.

Jason Celino

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, great. Thanks for fitting me in. Maybe just one for Sid. Duo Pro, still pretty new, but surprised to see the Enterprise announcement in the quarter. Curious if this was already always planned to come out around this timeframe or if you were able to accelerate it, and if so, why? Thank you.

Sytse Sid Sijbrandij

Co-Founder, Chairman & Chief Executive Officer, Gitlab, Inc.

A

Yeah. Thanks for that. I think what we're seeing is that AI is not one thing. Like it's not – we have a few teams that help with AI overall, but the implementation of AI, we can frequently rely on the individual teams. So, it's not that we just have an AI team. AI is going to change the whole DevSecOps lifecycle. And we're enabling our team members, our people in R&D to apply AI in the individual aspect. So, it's really cool to see like AI is not just going to help you write the line of code. It's also going to help you describe what you coded. It's also going to help you plan for the next thing. And for example, if you have 200 comments from customers on what you should build, it helps you kind of give you a summary. And if something goes wrong, it gives you the root cause of what actually went wrong. If there's a security warning, it helps you write the code to fix that, and in the future, it will start solving some of these security issues automatically. So, I'm super excited about the broadness with which we can apply AI. And I think Duo Enterprise going relatively fast after Duo Pro shows that we're able to apply AI very broadly, as does the Omdia report show. So, great opportunity in the future to get a lot of our Ultimate customers using AI throughout the software lifecycle.

Jason Celino

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thank you so much.

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

A

Great. Thanks, Jason. Next call – next question is from Mike at Needham. Mike, your line is open.

Mike Cikos

Analyst, Needham & Co. LLC

Q

Great. Thanks for taking the question, guys. I just wanted to ask about the profitability and the raise that we have for the full year operating profit here. Just trying to size up the magnitude. Can you help me think about how much of that is coming from expectation setting or spending initiatives potentially moving out? And I'd also just like to get a sense if we can marry up the raised profitability outlook with Sid's earlier comments in the prepared remarks regarding investments in field CTOs and solution architects. Is that a fiscal 2025 event or is this a little bit longer term in scope?

Sytse Sid Sijbrandij

Co-Founder, Chairman & Chief Executive Officer, Gitlab, Inc.

A

No. We're certainly going to – we're already hiring these people. I'll leave it to Brian to talk about the financial impact or not. But this is happening. There's changes in go-to-market are happening this fiscal year. Brain?

Brian G. Robins

Chief Financial Officer, Gitlab, Inc.

A

Yeah. That's – everything as Sid said and what we included earlier is included in our financial results, is as we mentioned, the number one objective is grow but to do that responsibly. And based on where we're at and looking out the forecast, the amount of operating income that we're forecasting for the year is what we gave out as guidance.

Kelsey Turcotte

Vice President-Investor Relations, GitLab, Inc.

Great. Mike, thank you for your question. Unfortunately, we have run out of time. So, this does conclude this afternoon's call. We appreciate your participation. You can disconnect at this time and we'll talk to you a little later. Thank you.

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