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✓ **Company Participants**

Kelsey Turcotte - GitLab, Inc., Vice President-Investor Relations
Sytse Sid Sijbrandij - Gitlab, Inc., Co-Founder, Chairman & Chief Executive Officer
Brian G. Robins - Gitlab, Inc., Chief Financial Officer

✓ **Other Participants**

Joel P. Fishbein - Analyst
Ryan MacWilliams - Analyst
Jason Ader - Analyst
Kash Rangan - Analyst
Karl E. Keirstead - Analyst
Rob D. Owens - Analyst
Michael Turrin - Analyst
Pinjalim Bora - Analyst
Gregg Moskowitz - Analyst
Matthew Hedberg - Analyst
Mike Cikos - Analyst
Peter Weed - Analyst
George McGreehan - Analyst
Nick Altmann - Analyst
Kingsley Crane - Analyst

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Operator

Please note today's call is being recorded. I will be standing by should you need assistance.

And now, it is my pleasure to turn the conference over to Kelsey Turcotte. Kelsey, over to you.

Kelsey Turcotte

Good afternoon. We appreciate you joining us for GitLab's second 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 include a 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 the 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.

Sytse Sid Sijbrandij

Thank you for joining us today. I'm excited to share our second quarter results with you and talk about our market-leading DevSecOps platform and its AI capabilities. We continue to deliver strong results that reflect our team's focus on customers, helping them realize faster time to value and customer-specific business outcomes.

Second quarter revenue increased 31% year-over-year to \$183 million, driven by new logos like Delaware North and Guild Mortgage, as well as expansion by existing customers. Our non-GAAP operating margin also meaningfully exceeded our expectations in the quarter, increasing over 1,300 basis points year-over-year to 10%. This underscores our continued commitment to responsible growth.

Now, more than ever, organizations need to deliver software faster to respond to intense competition and accelerate performance. This is what our DevSecOps platform is purpose built to do. We bring together developers, security experts and operations teams to better collaborate, improve quality and prioritize security, all while decreasing software delivery cycle times. And with AI integrated throughout the software development lifecycle, GitLab customers can take those gains even further.

Enterprises are focusing on real results and real use cases for AI. You're looking beyond just cogeneration. They are looking to integrate AI into all aspects of software development to deliver tangible results. This requires a strategic approach that aligns AI solutions with business goals, provides measurable benefits and improved security, and this is where GitLab excels.

Our customers are excited about the meaningful productivity and security benefits of GitLab Duo, which has demonstrated up to 90% reduction in time spent on toolchain operations, 50% faster lead time and 50% faster vulnerability detection.

They are also excited about our ability to help them drive real business outcomes. For example, we recently heard from the State of Washington Public Disclosure Commission about GitLab Duo. They mentioned that GitLab Duo is improving their developer productivity and effectiveness, which is helping their teams focus more on the substance of their work.

AI is also resulting in larger deal sizes. Barclays purchased GitLab Duo seats this quarter, coupled with additional ultimate licenses. They are rolling out GitLab Duo to thousands of developers so they can take advantage of AI powered capabilities in the same platform where they're building and deploying their code. It's exciting to see large enterprises like Barclays adopt AI as a natural step for simplifying toolchains and improving their developer experience.

F5, A multi-cloud application security and delivery company, is yet another customer who's adopting GitLab Duo after seeing value from Ultimate in driving improved developer experience and productivity. Developers who participated in F5's pilot of GitLab Duo shared that our AI capabilities are easy to use and help them to be more productive in their work. Now, F5 is rolling out GitLab Duo to all of the company's 2,000 developers.

The KeyBank team also wanted to improve developer productivity. So, they adopted GitLab Duo. Combined with our DevSecOps platform, GitLab Duo is helping KeyBank developers resolve pipeline issues six times faster. GitLab Duo is KeyBank's first approved AI technology due to our focus on transparency and privacy first. It's the combination of both our end-to-end platform and AI that's driving results for our customers.

According to Gartner, by 2027, the number of platform engineering teams using AI to augment every phase of the SDLC will have increased from 5% to 40%. This is why we're very pleased with the outcomes of two of Gartner's recent Magic Quadrants.

First, GitLab was recently recognized as a leader in the first ever 2024 Gartner Magic Quadrant for AI Code Assistants. We believe this recognition highlights our commitment to delivering AI-powered capabilities that accelerate software delivery, enhance security and drive innovation for our customers.

And for the second year in a row, GitLab was recognized as a leader in Gartner's 2024 Magic Quadrant for DevOps Platforms. We were positioned highest in both our ability to execute and our completeness of vision. Our market leadership comes from our integrated security and compliance capabilities, deployment flexibility and our unified data store. This provides end-to-end context across an organization's entire software development and deployment workflow.

Customers realize significant return on investment from adoption of our DevSecOps platform. Our new Forrester study on the total economic impact of GitLab Ultimate found that organizations can achieve 482% return on investment over three years. That's a nearly 60-percentage point increase over the last time we conducted this study two years ago. These results are based on our continued focus on increasing developer productivity, improving developer experience and accelerating feature delivery, improving security and toolchain consolidation, toolchain consolidation and related benefits I mentioned frequently by our customers.

In fact, in our annual survey of more than 5,000 DevSecOps professionals, 62% reported that their teams use more than five tools and 64% wanted to consolidate their toolchain to drive efficiencies. This presents a tremendous opportunity for us as a platform to allow customers to consolidate vendors and reduce total cost of ownership.

One of GitLab's strengths is our ability to help customers replace legacy point solutions. For example, by consolidating on GitHub, Lockheed Martin managed to run CI pipeline builds 80 times faster, retired thousands of legacy CI servers and reduce the time spent on system maintenance by 90%. That shift resulted in a significant increase in efficiency and productivity for Lockheed Martin.

Another example is one of the world's leading innovators in materials science. They are using our Enterprise Agile Planning add-on in combination with GitLab Ultimate to centralize planning tools into a single platform and improve visibility across the business.

Our customers also see security as a mission-critical need. Recent news cycles continue to increase awareness and urgency in the executive suites about the need to embed security at the earliest stages of software development. GitLab Ultimate helps solve this by shifting security left in the process, seamlessly instrumenting security checks and guardrails into the software development pipeline. This comprehensive

approach not only earns the confidence of security leaders, but also dramatically enhances the developer experience by eliminating context switching and post-deployment firefighting, developers maintained their crucial state of flow. This results in faster, more secure code delivery.

GitLab transforms security from a bottleneck into a strategic advantage in innovation and reliability. Security and compliance capabilities are at the heart of Ultimate and set us apart from the competition. Ultimate is a particularly good fit for customers who require the enterprise-grade capabilities of our platform to meet constant demands to move faster and produce more software. In the second quarter, 7 of our 10 largest deals were Ultimate purchases, and 7 of our top 10 first order customers landed with Ultimate. At the end of Q2, Ultimate is now 47% of total ARR.

For example, the National Oceanic and Atmospheric Administration upgraded from Premium to Ultimate this quarter for its enhanced security and compliance. They also purchased GitLab Duo to improve their developer productivity.

Security is an important factor when customers adopt GitLab Dedicated, our single-tenant SaaS offering that is completely managed by GitLab. This offering is unique in the market and is especially valuable to companies with highly complex security and compliance requirements and in regulated industries such as the public sector and financial services.

Snowflake recently migrated to GitLab Dedicated for source code management, CI and security for their corporate environment. With GitLab Dedicated, Snowflake has the security of a single-tenant environment plus all the benefits of an end-to-end DevSecOps platform.

We're also excited to share that we have achieved the in-process designation for FedRAMP Moderate. GitLab Dedicated for Government helps public sector agencies and customers in highly regulated industries meet stringent security and compliance requirements from the US government. We expect this designation to build upon the significant momentum we already have in the public sector.

In summary, Q2 was a good quarter and I'm proud of what we accomplished. I also want to thank the GitLab team for everything you contributed to our ongoing success. Looking at the second half of fiscal 2025, I'm really energized by our ability to continue to drive customer success and the opportunity we have with AI to accelerate business outcomes.

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

Brian G. Robins

Thank you, Sid, and thank you again for everyone joining us today. This quarter's results validates the value that our customers get from our integrated platform. In today's cautious macroeconomic environment, technology needs to deliver quick time to value, while solving complex, impactful problems. That is what our AI-powered DevSecOps platform does. A great example is Intuitive Machines, which became the first US venture in 50 years to land spacecraft on the moon.

Integral to the success of the project was GitLab. Our end-to-end platform enabled dozens of developers write code, gain visibility, and collaborate on shared projects. The result was a 10x increase in release cadence, 99% reduction in downtime, and 20x decrease in pipeline execution time. Quoting one of the software leads on the project, we absolutely could not have built a spacecraft in five years without GitLab. It helped us make history.

Turning to Q2 FY 2025 results exceeded our expectations as we delivered another quarter of greater-than-30% top line growth and significant year-over-year operating margin expansion. Second quarter revenue reached \$182.6 million, an increase of 31% from Q2 of the prior year. We ended the quarter with dollar-based net retention rate or DBNRR of 126%. Q2 DBNRR was driven by a combination of seat expansion at approximately 40%, increased customer yield at approximately 50%, and tier upgrades at approximately 10%. In addition, all of our historical cohorts continue to steadily expand.

We now have 9,314 customers with ARR of at least \$5,000, an increase of approximately 19% year-over-year, and contributed over 95% of total ARR in Q2. In particular, we monitor performance of our larger customer cohort of \$100,000-plus in ARR which reached 1,076 this quarter, an increase of 33% year-over-year. In fact, more than 65% of new dollars invested by this cohort was in Ultimate this quarter.

A great example of customer success with these large customers is bol, one of the biggest online retailers in the Netherlands. As bol's revenues grew, they needed to keep up with the strict and constantly changing compliance regulations. With GitLab, bol can set up policies that automate compliance configurations and checks, saving thousands of developer hours per month.

This quarter, total RPO grew 51% year-over-year to \$747.9 million, while cRPO grew 42% year-over-year to \$475 million. Non-GAAP gross margins were 91% for the quarter. SaaS now represents 28% of total revenue, in part a reflection of considerable traction we are getting with GitLab Dedicated. Year-over-year SaaS revenue grew 46%. Given the continued high growth in SaaS, I am very happy with the team's attention to operating efficiencies, which continues to result in best-in-class non-GAAP gross margins.

Once again, we saw significant year-over-year improvement in operating leverage. Q2 non-GAAP operating income was \$18.2 million, compared to a loss of \$4.3 million in the second quarter of last year. This quarter, we dropped all of our revenue outperformance to the bottom line, which in combination with the team's continued focus on smart resource allocation, translated to non-GAAP operating margin of 10% compared to negative 3.1% in the Q2 of last year. This once again demonstrates our commitment to responsible growth.

Cash from operating activities was \$11.7 million in the second quarter, compared to \$27.1 million in the prior-year period. Adjusted free cash flow was \$10.8 million in the second quarter of FY 2025, compared to \$26.8 million in the prior-year period. Q2 FY 2025 cash flow from operations and adjusted free cash flow reflect the timing in payments for our Q1 global employee gathering made in Q2.

Now, turning to guidance. For the third quarter of FY 2025, we expect total revenue of \$187 million to \$188 million, representing a growth rate of 25% to 26% year-over-year. We expect a non-GAAP operating income of \$19 million to \$20 million, and we expect a non-GAAP net income per share of \$0.15 to \$0.16, assuming 168 million weighted average diluted shares outstanding.

For the full-year FY 2025, we expect total revenue of \$742 million to \$744 million, representing growth rate of approximately 28% year-over-year. We expect a non-GAAP operating income of \$55 million to \$58 million, and we expect a non-GAAP net income per share of \$0.45 to \$0.47, assuming 168 million weighted average diluted shares outstanding.

Separately, I'd like to provide an update on JiHu, our China joint venture. In Q2 FY 2025, non-GAAP expenses related to JiHu were \$3.3 million, compared to \$4.8 million in Q2 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 of last year.

Thank you all for joining this afternoon. We delivered a strong Q2 and I'm really pleased with how we are positioned as we head into the back-half of FY 2025. We appreciate your support and look forward to

speaking with many of you during the quarter.

With that, I will turn it over to Kelsey, who will moderate the Q&A.

QUESTION AND ANSWER SECTION

Answer – Kelsey Turcotte: Great. Thank you very much. Appreciate everyone joining. We're going to start by taking one question and one follow-up question. And our first participant is Joel Fishbein at Truist. Joel, go ahead.

Analyst:Joel P. Fishbein

Question – Joel P. Fishbein: Thanks, Kelsey, for the question and congrats on a strong quarter. Sid, love to get an update from you on how you're thinking about the go-to-market going forward. Obviously, had a changeover in leadership there. And despite that, you had a very solid quarter. Just curious what you're looking for in a new leader. And just a quick question for you, Brian, on a follow-up.

Answer – Sytse Sid Sijbrandij: Thanks for that, Joel. Yeah, Chris was doing a great job and would love to continue to have him here, but he found another opportunity. We've launched a search and we've been really impressed with the quality and the quantity of candidates. And in the interim, we're really pleased with how smoothly the team has transitioned to Ashley's leadership in her role as Chief Marketing & Strategy Officer. She was already very in touch with both our customers and the sales leadership, but that enabled a smooth transition which supported our raising guidance this quarter.

Question – Joel P. Fishbein: Great. And, Brian, just a quick one for you. I mean, you outperformed very significantly in the operating margin line. I believe you're still going to prioritize growth over margins, but any color you could give us there would be really helpful. Thank you.

Answer – Brian G. Robins: Thanks, Joel. I appreciate that. Yeah, nothing's changed on that pre-IPO every quarter. Sid and I have said growth is the number one thing, but we'll do that responsibly and we continue to get increased operating leverage in the model with even growing greater than 30% year-over-year. So, happy with the performance this quarter and happy with the beat and raise for the year.

Question – Joel P. Fishbein: Great. Thank you.

Answer – Kelsey Turcotte: Great. Thanks, Joel. Next question goes to Ryan MacWilliams at Barclays. Ryan, go ahead.

Analyst:Ryan MacWilliams

Question – Ryan MacWilliams: Hey, thanks for taking the question. Just in terms of what you're seeing in the macro right now, do you notice any differences between the second quarter and the first quarter? And how are you seeing developer hiring at this point? Thanks.

Answer – Brian G. Robins: Yeah, thanks for the question. There's really been no difference between the two quarters. It still remains a cautious spending environment out there. And so, we're enabling our teams to go out there and the pitches are more financially related. And we haven't seen really any changes in trends on developer hiring either. And so, first order continues, remain really strong. And that's really the power of the

platform in the payback period that Sid talked about with the Forrester report and the ROI that our customers are receiving.

Answer – Kelsey Turcotte: Second question was around developer hiring.

Answer – Brian G. Robins: Yeah, developer hiring has been the same. No changes.

Question – Ryan MacWilliams: Excellent. And then for Sid, there's been a lot of focus on coding assistance around generative AI. But as you're seeing the velocity of software development pick up, are you seeing more interest from customers around non-coding tools, but as they utilize AI within their coding process, such as securing binaries or more security around their software development lifecycle? Would appreciate more color here. Thanks, Sid.

Answer – Sytse Sid Sijbrandij: Yeah, thanks. And that's certainly how we see the market. The first market was AI code creation. We're really glad that the last Gartner AI Assistant Magic Quadrant rates us as the only non-hypercloud that's a leader in this space. The second phase is AI throughout the whole software lifecycle. And I think, for that, we're in a great spot with Duo Enterprise. And in the Gartner Magic Quadrant for DevOps that was released this morning, we're a leader with – and we have the highest score for both execution and for vision. And I think that having the best and broadest platform enables us to win in this category.

And beyond that, you'll have more autonomous AI, AI going from reactive to proactive. And I'm really excited about what we're doing here. If you attended our GitLab 17 event, we showed GitLab Duo Workflow, an autonomous agent that can take more initiative of its own. That's where the puck is going and we're skating towards it.

Question – Ryan MacWilliams: Thanks for the color. Thanks, guys.

Answer – Kelsey Turcotte: Thanks, guys. Jason Ader next from William Blair. Jason, go ahead.

Analyst: Jason Ader

Question – Jason Ader: Yeah, thank you. Can you hear me okay?

Answer – Kelsey Turcotte: Yeah.

Answer – Sytse Sid Sijbrandij: We can.

Question – Jason Ader: Got you. All right. I guess there's a sense out there, Sid, that because of GitHub's faster growth rate recently, that they're growing faster than you and taking share. I mean, I guess they are growing faster than you. But how do you think about the kind of share shift, if at all, in the market? Are you just both doing better than everybody else and that's the explanation? Or do you think GitHub could be taking some market share?

Answer – Sytse Sid Sijbrandij: I think that customers are migrating to platforms and that's benefiting both of us. And I think we're early. You look at our revenue together, it's a small part of the \$40-billion market. The same time, there's the other thing is that they had a head start in AI co-creation. They purchased OpenAI and they had a head start.

Today, we're the only non-hypercloud that's a leader, according to Gartner. And that's because of two things, because you need a great model and you need a great context. We're vendor-agnostic. Today, we use the best model on the market for co-generation, Anthropic Claude 3.5. And context-wise, we know more of what a user is working on and what they've worked on in the past, because we got the broadest platform, we have the most – more context and better context leads to better AI answers. So, together with that, we feel comfortable in competing.

Question – Jason Ader: Okay, great. And then, Brian, just a follow-up for you on net retention rate and DRR. It was 126%, it's continuing to come down. Do you think we bottomed? Where do you see NRR maybe exiting the year?

Answer – Brian G. Robins: Thanks for the question. We're happy with where we landed in the quarter. I don't see anything with the dollar-based net retention rate. That's a concern for me, although our historical cohorts continue to steadily expand. The composition of our net dollar retention rate includes seats, which is an output for us.

Just as a quick reminder, last year, we signed the largest deal in company history, which has been a tailwind for us for seats over the year. And we don't view a change in the ratio as a reflection of any recent developer hiring trends. Since this is a big market, very low penetration, and we have lots of room in front of us for growth.

Question – Jason Ader: Thank you.

Answer – Kelsey Turcotte: Great. Thanks for the question. Next question goes to Kash Rangan from Goldman Sachs. Kash, go ahead.

Analyst:Kash Rangan

Question – Kash Rangan: Great. Thank you so much. Congrats on the big raise quarter. I hope you enjoyed your summer. One for Sid, one for Brian. Sid, you talked about GitLab as being the unique company that it's not a hyperscaler, you have these AI capabilities. Is that strength a key selling point in your end markets? I think we can all safely agree that Duo just got going seven to eight months ago. It's still too early in the AI race. So, how do you think that, given that we're early and you're off to a good start, that this hyperscaler neutral positioning actually does give you an advantage in the long run?

And then one for you, Brian. I think you talked about a smaller percentage of the growth rate NER (25:47) coming from price increases. Can you help us understand what is ahead for the company, especially as you go through the motions of renewals from the other pricing tiers and the subsequent price increases that could help your contribution to the growth to get even better? Thank you so much.

Answer – Sytse Sid Sijbrandij: Yeah, Kash, thank you for that question. Being hyperscaler-independent, being vendor-agnostic, it's good, but it's not enough. The key reasons we win against Microsoft GitHub are that we have, first of all, the most comprehensive platform. When the platform can do more, our customers can get a 10 times faster cycle time. The second reason is we have the best security. We allow our customers to shift security left, always do security, and proof that they've done it. And the third reason is that we really listen to our customers. We're the only vendor with a single-tenant SaaS solution, GitLab Dedicated, that's growing really, really fast.

And we're getting the acknowledgment that we're executing well. Today, leader in the MQ for DevOps. We're all the way to the top, all the way to the right, and that's enabling our customers to get the biggest return, 482% ROI, according to Forrester. And the interesting thing is, that's 60% more than the previous study. So,

the benefits of being on the broadest platform are increasing. Our customers are better and better off over time being on GitLab.

Answer – Brian G. Robins: Thanks, Sid. I'll touch on the price increase real quickly, Kash. And so, there's a couple things to touch on there. One is, we do break out quarterly and the dollar-based net retention, what impact is related to seats, price, which has also increased customer yield, as well as tier upgrades. And what I really care about when I look at that is the positive unit economics are growing really nicely in the business. I talked about this in the Q1 call and I'm happy with how we're doing there.

And then going forward, we expect the price increase to continue to layer in over time, as we cycle through the renewal portfolio. And so, we're partially there, but we'll see impacts throughout this year and next year related to that. And so, overall, I'm really pleased with the returns that we're seeing from the price increase and the consistently improving unit economics, which shows the value that the customers are getting from the platform, and as part of the total economics study increasing as well.

Answer – Kelsey Turcotte: Great. Thank you. Next question comes from Karl Keirstead at UBS.

Analyst:Karl E. Keirstead

Question – Karl E. Keirstead: Okay, great. Maybe on the AI side, Sid, those anecdotes about Barclays, F5, and KeyBank are pretty powerful. Maybe a two-parter for you. Are any of those customers, or maybe some of your other early Duo wins, customers that were using GitHub Copilot and now that Duo has closed a lot of those functionality gaps are moving off of Microsoft?

And then I guess the second question, Sid, I could be wrong on this, but my understanding was that Duo, at least initially, was quite rooted in Google's LLMs. And I'm wondering if this change, assuming it is, to Anthropic's Claude model, had a market improvement in the functionality of that cogen tool? Thank you.

Answer – Sytse Sid Sijbrandij: Yeah, thanks for that, Karl. Yeah. If you look at the customers evaluating Duo Pro and Duo Enterprise, I think there's nearly zero customers that don't know that Copilot exist. And for most of these customers, they've had pockets of use and they do commonly a head-to-head comparison. So, we're winning against Copilot.

Regarding the best model for the task, we're still using some of Google's models, but for cogeneration, the most kind of vivid application, right now the best model on the planet is Anthropic Claude 3.5. You look on the Internet, that's consensus. We found the same in our testing and we can switch to that. We're not beholden to using any hypercloud's product. We haven't bought an AI company or an AI foundational modeling company, and being able to use the latest and greatest is a great advantage because it gives our customers better code.

Question – Karl E. Keirstead: Okay, perfect. Thanks and congrats.

Answer – Sytse Sid Sijbrandij: Thanks.

Answer – Kelsey Turcotte: Great. Next question goes to Rob Owens at Piper Sandler. Rob, go ahead.

Analyst:Rob D. Owens

Question – Rob D. Owens: Great. Thanks for taking my question. Brian, realizing there's a lot of puts and takes around the revenue growth number, just with changes to your SSP, I guess I'll have two questions kind of masked in one. Number one, did that come in relative to your expectations and is there no change to the year if we think about the headwind that you called out on last quarter?

And I guess secondarily, looking at a lot of the leading indicators, RPO up quarter-over-quarter, cRPO up quarter-over-quarter. I think one of the best growth results you've seen in the last year. Can you speak to large deal activity right now, upsell versus new customer commitments and just what you guys are seeing on that front? Thanks.

Answer – Brian G. Robins: Yeah, absolutely. Thanks for the question, Rob. When it – when you look at sort of the SSP and, for everybody, that's just accounting on how it gets allocated, it doesn't impact the overall deal itself. We actually took a little bit of a hit this quarter related to SSP that we talked about on the last call. And so, that was assumed in the numbers.

We're doing well across the business. First order is doing well, expansion is doing well. We had the best quarter in churning contraction in the last eight quarters. And so, on prior calls, I said that I thought that second quarter we would have run through most of the contracts, and churn and contraction is better than in eight quarters.

The other thing that we saw is we actually saw real strength in enterprise, greater than \$100,000 customers growing over 30% year-over-year. And we saw a lot of expansions and lands in that area as well. And I think it just goes to some of the things that Sid said previously around time to value, positive business outcomes, ROI, consolidating a toolchain onto a single platform, it just created a lot of benefit. And we're seeing the positives of that sort of show up in the model.

Question – Rob D. Owens: Thank you.

Answer – Kelsey Turcotte: Great. Next question comes from Michael Turrin at Wells Fargo. Michael, go ahead.

Analyst:Michael Turrin

Question – Michael Turrin: Hey, great. Thanks, Kelsey. Appreciate you taking the questions here, team. I guess just to – I'll ask both parts upfront, but to some of the prior question, the leading indicators here all look pretty good. And it's not something we're seeing a lot of across software, cRPO, billings, bookings up more than 40%. Just hoping you can unpack that strength a bit more, if there's anything more onetime in nature for us to be mindful of in those metrics. And then, Brian, maybe walk us through the assumptions you're embedding in forecast for the rest of the year on the back of that Q2 strength across macro, seats, sales execution or anything else worth mentioning for us. Thank you.

Answer – Brian G. Robins: Appreciate the two questions. On the forecast and how we're running the business and the transition of actually taking over the Interim CRO role, there's really been no changes whatsoever. And Ashley has been really plugged in to the entire sales force and visiting customers and worked really closely at Chris. So, we're happy about the minimal disruption there with Chris's departure.

All the metrics that you talked about, cRPO growing 42% year-over-year, short term calculated billings growing 40% year-over-year, Ultimate ARR now 47% of total ARR and was greater than 50% of bookings within the quarter, and that really coming from the enterprise base that we have. And so our deals are getting larger, Ultimate adoptions increasing. Ultimate is good for us and our customers, and I think you see that in the metrics itself. And then we also saw Dedicated. Dedicated grew roughly 150% year-over-year. SaaS

was great. And so we're just seeing strength sort of across the board from our customers who are adopting the platform.

Question – Michael Turrin: Nice job. Thank you. Appreciate it.

Answer – Kelsey Turcotte: Great. Yeah. We'll turn the questions over to Pinjalim Bora at JPMorgan.

Analyst:Pinjalim Bora

Question – Pinjalim Bora: Oh, great. Hey. Congrats on the quarter. Thanks for taking the questions. I want to ask you, Sid. Obviously, it seems like we are seeing some of the AI adoption. But any way to further quantify it in terms of maybe the portion of your customer base or users that are touching the product today, and what portion of the goods that is being written by the AI is being committed any further kind of quantitative metrics?

Answer – Sytse Sid Sijbrandij: Yeah. Thanks for that. It's still early for us. You heard from Barclays, F5, Noah (35:33). But if you look at the quotes going on, not all of them have AI in it. And if they have AI, they typically don't have AI for all the users of our customer yet. So, customers are early in this adoption cycle. We cater to the enterprise. They are relatively slower to adopt this and more considerate.

It's really important that we listen well to these customers. For example, we are accelerating our work on offline models because our customers are requesting that. We see a giant opportunity for AI throughout the life. So our GitLab Ultimate customers, for them, we think that Duo Enterprise is a really, really good value proposition and that's a big focus of ours.

Question – Pinjalim Bora: Yeah, understood. One follow-up for Brian. Brian, what portion of the contracts from existing customers at this point are completely through kind of the first phase of your pricing change of existing customers, the 19 to 24? Is it fair to assume that it's largely complete by this point? And in the second phase of the rollout, which I believe started in end of April, if I'm not wrong, did it have any impact in billings RPO performance this quarter?

Answer – Brian G. Robins: Yeah. So on the price increase impact overall, remember we weren't allowing people to early renew. And so it really up when their renewal comes up and they would go 19 to 24, then 24 to 29, and then new customers would go straight to 29. And so I think it's really important that the price increase will continue to layer in over time as we cycle through the renewal portfolio. And so I expect next year to continue to see the benefit of that, and it really points to the unit economics improving based on what we're delivering to our customers.

Question – Pinjalim Bora: Got it. Thank you.

Answer – Kelsey Turcotte: Great. So from now until the end, we're going to go to just one question so we can get as many people on the phone as possible. And with that, I'll turn it over to Gregg Moskowitz at Mizuho.

Analyst:Gregg Moskowitz

Question – Gregg Moskowitz: Okay, great. Thank you, Kelsey, and congrats on a very good performance. I wanted to follow-up on Ultimate because the percentage of ARR continues to expand nicely. And Sid, you called out some very good success among your largest customers. Despite the much higher price point that

exist for Ultimate as compared with Premium, what I'm curious about is if you're finding that you're landing more frequently with Ultimate versus where – what you were seeing 6 to 12 months ago? Thanks.

Answer – Sytse Sid Sijbrandij: Thanks for that. We're certainly changing our approach to leading with Ultimate when we approach a new customer, because the more comprehensiveness is driving so much value, because this integrated security is driving so much value, we've started to lead with Ultimate. Just talked about the return, like the 482% return, that is for GitLab Ultimate. So maybe counterintuitively, our most expensive product is the one you get the biggest return on because the return is not coming so much from paying us less, but it's about deprecating all those existing point solutions.

We talked about Lockheed Martin being able to deprecate our legacy CI vendor. It's even not just on software, not just on cycle time, not just on efficiency, even on hardware costs. So, being able to consolidate is the big winner and Ultimate is – can replace the most point solutions and that's why we're leading with it.

Question – Gregg Moskowitz: Great. Thank you.

Answer – Kelsey Turcotte: Great. Our next question comes from Matt Hedberg at RBC. Matt, go ahead.

Analyst:Matthew Hedberg

Question – Matthew Hedberg: Great. Thanks, Kelsey. I'll offer my congrats as well. I guess for either of you, regarding GenAI, assuming (39:36) you guys are increasingly fitting into that work stream for a customer when they're thinking through their own GenAI adoption, I'm just sort of curious, like when you're having conversations with customers, how important is GenAI? Because I think we've all been sort of like – it's the first and last question I think everybody asks. But how – when you're talking to the customers, how important is that in their software development lifecycle right now? And I guess is there a – how do they see GitLab fitting into that kind of that ecosystem that they're all developing?

Answer – Sytse Sid Sijbrandij: Yeah. It's really important to our customers with a bunch of caveats why they're not – all of them are rushing to implement it to 100% of their users. First of all, they want it secure. Second of all, they want it to work for the people who are working on existing applications. A lot of the demos you see out there, they're for new applications. Most developers in enterprises are working on giant existing applications. So, making that work well is really important. We got a project internally called DaVinci to make AI work even better for those existing applications. That's super, super important.

It has to meet all the security requirements that the customer has and they want to see an actual return. And most of the time, that return comes not when it's just for the coding, but when it's throughout. So, those are the considerations we run into. They want vendors who can deliver on that. They have a great vision going forward, but they're not jumping in to 100% of the people for just a coding solution today.

Question – Matthew Hedberg: Got it. Thanks, Sid.

Answer – Kelsey Turcotte: Great. Next question goes to Zach Schneider at R.W. Baird. You there, Zach?

Operator

Zach, you can now unmute on your phone. If you'd go ahead and unmute for us, you have that capability.

Answer – Kelsey Turcotte: Okay. So we'll go on to Mike from Needham. Mike, go ahead.

Analyst:Mike Cikos

Question – Mike Cikos: Hey, team. Thank you for getting me on. Can you hear me all right?

Answer – Sytse Sid Sijbrandij: We can.

Question – Mike Cikos: Terrific. I just wanted to circle up and appreciate you guys continuing to give us the composition of the DBNRR. If I could just focus on the seats contributing about 40% this quarter. Wanted to get a sense first how that compared versus your internal expectations. And then secondly, can you help us think about – like, is the sales force indexing more potentially toward pricing given the changes to the different packages you have out there in the market, or any other color there as well to help us get a better sense of how the DBNRR flows from one quarter to the next? Thank you.

Answer – Sytse Sid Sijbrandij: Yeah. Absolutely. Thanks for the question. The dollar-based net retention with the seat fluctuation based on the largest deal that we had last year, we knew that was going to be different this quarter than previous quarters. It's also an output. And so, as we go in and solution sell, we're trying to figure out what the best solution is for the customer and then we'll land there. The fact that we're landing larger and landing more on Ultimate, that's going to – that's good news and will have an impact on dollar-based net retention rate. But there's nothing that I saw within the quarter that caused any concerns as it relates specifically to seats as that component of the dollar-based net retention rate.

Question – Mike Cikos: Thank you very much.

Answer – Kelsey Turcotte: Great. Next question goes to Peter Weed at Bernstein. Peter, go ahead.

Analyst:Peter Weed

Question – Peter Weed: Thank you very much, and congrats on the continued momentum. I think if I'm doing my back of the envelope properly, it looks like you are anticipating a nice acceleration in quarter four implied in the numbers. How should we think about that acceleration relative to what appears to be a little bit of a deceleration in your guidance for quarter three?

Answer – Brian G. Robins: Thanks, Peter. As always, appreciate the question. When I'd look back at sort of last year and looked at when we reported Q2 and what we guide for Q3 and Q4, they're somewhat similar. And so, I didn't see any sort of sequential or year-over-year changes that jumped out to me to be surprising. Fourth quarter historically has always been the strongest quarter in the company. Q2 and Q3 have relatively been the same, and Q1 seasonally has been a little weak. We continue to guide to strong top line growth rates and improving non-GAAP operating margins.

The thing I personally like about the business model is we have a lot of visibility heading into any given quarter given the ratable nature of the business. And as we continue to scale, we're seeing efficiencies at scale in the business, which is great as well. And so I'm pleased with the guidance we've provided this afternoon for the third quarter and for the full year.

Question – Peter Weed: Thank you.

Answer – Kelsey Turcotte: Great. Next question goes to George McGreehan at Bank of America. George, go ahead.

Analyst:George McGreehan

Question – George McGreehan: Hey. Can you guys hear me all right?

Answer – Sytse Sid Sijbrandij: We can.

Question – George McGreehan: All right. Hey, Sid, Brian. Appreciate you guys taking the question. It's George McGreehan on for Koji Ikeda. I wanted to say congrats on Duo Enterprise going GA. The list of features highlighted on the press release were very impressive. And I kind of wanted to dig in more specifically about how you're selling the product to the installed base. Can you talk a bit about the strategy there and in terms of any changes to sales incentives? Just to kind of get a sense of how to think about potential adoption rates over the next several quarters.

Answer – Sytse Sid Sijbrandij: Yeah. Thanks for that. The main audience for Duo Enterprise is existing GitLab Ultimate customers. And Ultimate is typically are larger companies and they are served by our sales force. So, it's a direct motion. Ultimate is also our fastest growing SKU. Like if you think about it, if you look at the cohort of \$100,000-plus, two-thirds of the net new ARR went into Ultimate. So, that's growing and we want to build this Duo Enterprise growth on top of that.

And we're talking to the customer because there's lots of considerations implementing it. That's, for example, why we're working on an offline version. That's why we have tons of features to control who's using it and when they are using it. And we're selling it because of the improvement in productivity, not just for coding, not just for devs, but also for their security people and their operations people.

Answer – Kelsey Turcotte: Great, thanks. We have time for two more questions. I'll go to Nick Altmann at Scotiabank. Nick, go ahead.

Analyst:Nick Altmann

Question – Nick Altmann: Thanks, guys. Just a quick one for me. Last quarter, you guys talked about Duo going to be sort of a bigger needle-mover next year. You guys did rattle off a handful of marquee wins. And so I guess when you think about the second half pipeline as you sort of get more customers on Duo, have more referenceable logos, what are you sort of anticipating from the second half of the year in terms of Duo contribution versus, say, a quarter ago? Thanks.

Answer – Brian G. Robins: Yeah. Thanks for the question. I'll answer it directly and I'll give some more context on sort of how I think about it. So, we really expect AI to start contributing to the model in FY 2026 and beyond. First, from just a practical perspective, there was sort of a big media hype cycle and people are just partially adopting it now. So I think right now, we're starting to see customers trying to figure out how to implement AI safely and compliantly within their organizations. And we're starting to see that with what we gave you from a reference perspective.

And also just from a mechanics perspective, and I know you know this, but it makes sense to say it, is from a new product perspective, for it to have an impact at a company that's \$700 million plus in run rate revenue growing 30%, it's just going to take a little while to sort of build that. From the AI contribution in 2Q, I will say that we're three times our planned number. So, we did a lot better than what we expected internally. And so from a model perspective long term, I just view this as good news because this is going to be a long-term growth driver for the business.

Question – Nick Altmann: Thanks, Brian.

Answer – Kelsey Turcotte: Great. Last call for our question is coming from Kingsley Crane at Canaccord. Kingsley, go ahead.

Analyst:Kingsley Crane

Question – Kingsley Crane: Great. Hello?

Answer – Kelsey Turcotte: Please go on.

Question – Kingsley Crane: Great. It sounds like you've had some nice wall-to-wall Duo deployments with a couple banks and F5. Should we continue to think about high user penetration but a smaller total number of customers or are you seeing some green shoots in terms of some bottoms-up adoption with Duo? Thanks.

Answer – Sytse Sid Sijbrandij: We're seeing some bottoms-up adoption as well. I think if you look across our entire customer base, the more common scenario is that they buy Duo for part of their users. And for various reasons, they don't – they're not yet ready to put all the users in it. We think that will come over time. The returns are there that add some more common scenario. Of course, we also have these great customers that do it wall to wall immediately. And if we if we meet all the requirements, we can do that and it's – that has our preference, but the partial scenario is more common.

Question – Kingsley Crane: Great. Thanks for the color.

So, this concludes our second quarter call. Thank you very much for joining us and we look forward to seeing many of you over the coming quarter. Have a great evening.

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