

GitLab Q1 FY 25 Earnings Call

Prepared Remarks

Jun 3, 2024

Kelsey Turcotte

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 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.

Sid Sijbrandij

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 derive 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. 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 ANB 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. That has translated into hundreds of thousands of dollars in savings every year. They are also leveraging our AI offering, GitLab Duo Pro. 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 context switching. I'm excited about Chat because it transforms software development by seamlessly integrating AI through 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 U.S. technology company and government contractor removed 7 different point solutions when they consolidated on the GitLab platform. Now, they are doing security scans 13 times faster and are seeing a 90% savings in toolchain 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, SAST, and DAST into a single platform. With our advanced security capabilities, the company can shift security left and address vulnerabilities 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 continued to build on our security capabilities with our acquisition of Oxeye. We acquired Oxeye for their robust SAST technology. This will help streamline vulnerability management and remediation for GitLab customers. We also acquired the intellectual property of Rezilion, which will enrich our vulnerability risk data, add 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. 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 the 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 us as 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 are 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 offerings 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, an 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 am working on making a full recovery. As last time, my scope and responsibilities as GitLab's CEO and Chair remain unchanged. I'd like to thank our executive team and 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. And I'd like to thank our shareholders for your support. I look forward to speaking with many of you this quarter.

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

Brian Robins

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 customers see the value of our end to end DevSecOps platform that allows them to consolidate spend, avoid vendor lock-in, and deliver outcomes to the business more quickly. Customers report to us that they were able to consolidate their tool chain 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 life cycle, 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 of 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 used 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 dollars, an increase of approximately 21%. Consistent with previous quarters, our customers with >\$5,000 dollars in ARR contributed over 95% of total ARR in Q1.

In particular, we monitor performance of our larger customer cohort of \$100,000 dollars plus in ARR where average ARR per customer continues to increase and unit economics continue to improve. This a testament to the importance of security and compliance for these large customers. At the end of the first quarter of FY 2025, we had 1,025 customers with ARR of more than \$100,000 dollars, an increase of 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 will continue to invest in 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 allow 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 \$15.0 million, in the first quarter of last year. As a reminder, in this Q1 our non-GAAP operating loss included a \$15 million dollar investment in Summit, our global team-member gathering. I am 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 \$11.0 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 FY25 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 a 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 would like to provide an update on JiHu, our China joint venture. In Q1 FY 2025 non-GAAP expenses related to JiHu were \$3.0 million compared to \$5.6M in Q1 last year. Our goal remains to deconsolidate JiHu. However, we cannot predict the likelihood or timing of 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 customers, and the large market opportunity in front of us.

Thank you all for joining us this afternoon.

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