
DATADOG Q1 2024 EARNINGS

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CONTEXT

Datadog recently released its fiscal Q1 2024 earnings, beating consensus estimates on earnings and revenue, but disappointed analysts with its guidance.

Let's take a look at what Datadog disclosed.

FINANCIAL PERFORMANCE

Datadog demonstrated robust financial performance in the first quarter of 2024. Here are the key highlights:

1. **Revenue Growth:** Datadog reported revenue of \$611 million, up 27% year over year. This performance exceeded the high end of the guidance range provided.
2. **Customer Growth:** The company saw an increase in its customer base, ending the quarter with about 28,000 customers, up from 25,500 in the previous year. Notably, the number of customers with an annual recurring revenue (ARR) of \$100,000 or more rose to 3,340, up from 2,910 the previous year. These larger customers generated approximately 87% of Datadog's ARR.
3. **Cash Flow:** Datadog generated a free cash flow of \$187 million during the quarter, resulting in a free cash flow margin of 31%.
4. **Product Adoption:** Product adoption increased significantly. 82% of customers used two or more Datadog products, and 47% used four or more products, demonstrating deepening engagement and integration into customer operations.

This financial and operational growth indicates strong market acceptance of Datadog's offerings and reflects its effective execution in expanding its platform across observability, cloud security, and other areas.

NON-FISCAL HIGHLIGHTS

During the first quarter of 2024, Datadog achieved several non-financial milestones that underscored its strategic growth and innovation in technology.

Here are the critical non-financial achievements highlighted during the earnings call:

1. **Platform Expansion and Product Usage:** Datadog expanded its platform capabilities across various domains, such as observability, cloud security, and software delivery. There was a notable increase in customers using multiple Datadog products, reflecting the platform's growing integration into customer workflows. Specifically, customers using four or more products rose from 43% to 47%, and those using six or more products rose from 19% to 23%.
2. **Innovation in AI and New Products:** Datadog introduced new features and products, including the general availability of Bits AI for incident management, which automates incident summaries and provides AI-driven insights to accelerate incident resolution. Additionally, Datadog released Event Management in general availability to help teams handle the increasing complexity and volume of alerts and incidents.
3. **AI Integrations and Customer Adoption:** There was a significant focus on enhancing AI capabilities, with about 2,000 customers using one or more AI integrations. Datadog also introduced a new integration with the NVIDIA Triton Inference Server during the quarter.
4. **Customer Growth and Strategic Expansions:** Datadog saw robust customer growth, with notable expansions in its customer engagements. This includes a multi-year, seven-figure expansion with a leading online grocery business, indicating strong customer trust and reliance on Datadog's platform for critical operations and security.

GUIDANCE & OUTLOOK

Datadog provided a positive outlook for the upcoming periods:

Q2 2024 GUIDANCE

- **Revenue:** Datadog expects revenue for the second quarter to be between \$620 million and \$624 million, representing a year-over-year growth rate of approximately 22%.
- **Operating Income:** Non-GAAP operating income is projected to be between \$134 million and \$138 million, indicating an operating margin of around 22%.
- **Net Income Per Share:** Non-GAAP net income per share is estimated to be between \$0.34 and \$0.36, based on around 360 million weighted average diluted shares outstanding.

FISCAL YEAR 2024 GUIDANCE

- **Revenue:** For the full year, revenue is expected to be between \$2.59 billion and \$2.61 billion, marking a 22% to 23% increase from the previous year.
- **Operating Income:** Non-GAAP operating income is forecasted to range from \$585 million to \$605 million, translating into an operating margin of about 23%.
- **Net Income Per Share:** Non-GAAP net income per share is anticipated to be between \$1.51 and \$1.57, based on approximately 361 million weighted average diluted shares outstanding.

ADDITIONAL FINANCIAL CONSIDERATIONS

- **Net Interest and Other Income:** For fiscal year 2024, net interest income and other income are expected to total around \$110 million.
- **Cash Taxes:** Cash taxes are projected to be in the range of \$20 million to \$25 million.
- **Capital Expenditures:** Capital expenditures and capitalized software are expected to account for 3% to 4% of revenues.

The company continues to invest in growth, particularly in sales, marketing, and R&D, to leverage opportunities in digital transformation and cloud migration trends.

ANALYSIS

Datadog continues to innovate and expand its suite of offerings. The company's strategic focus on integrating artificial intelligence into its platform is particularly noteworthy.

Datadog's platform strategy is proving effective, with a significant percentage of customers using multiple products. As of the end of Q1, 82% of customers were using two or more products, while 47% were engaged with four or more, indicating strong customer reliance on Datadog's comprehensive solutions.

While its guidance may disappoint some financial analysts, the projections show a company aligned with the overall market. The only disappointment was the lack of clarity on Datadog's traction in large enterprise, where more enterprise-focused competitors like Dynatrace

may outmaneuver the company.

Datadog's Q1 2024 earnings show that the company continues to execute well. Its focus on innovation, customer expansion, and strategic market positioning continues to yield significant financial and operational dividends.



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