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FQ3 2022 Earnings Call Transcript

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Presentation

Operator

Good day, and thank you for standing by. Welcome to the Q3 2022 Datadog Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Yuka Broderick, Vice President of Investor Relations and Strategic Finance. Please go ahead.

Yuka Broderick
Investor Relations

Thank you, Lauren. Good morning, and thank you for joining us to review Datadog's third quarter 2020 financial results, which we announced in our press release issued this morning. Joining me on the call today are Olivier Pomel, Datadog's Co-Founder and CEO; and David Obstler, Datadog's CFO.

During this call, we will make forward-looking statements, including statements related to our future financial performance, our outlook for the fourth quarter and fiscal year 2022, our gross margins and operating margins, our strategy, our product capabilities and our ability to capitalize on market opportunities. The words anticipate, believe, continue, estimate, expect, intend, grow and similar expressions are intended to identify forward-looking statements or similar indications of future expectations. These statements reflect our views only as of today and are subject to a variety of risks and uncertainties that could cause actual results to differ materially.

For a discussion of the material risks and other important factors that could affect our actual results, please refer to our Form 10-Q for the quarter ended June 30, 2022. Additional information will be made available in our upcoming Form 10-Q for the quarter ended September 30, 2022, and other filings with the SEC. The information is also available on the Investor Relations section of our website, along with a replay of this call.

We will also discuss non-GAAP financial measures, which are reconciled to their most directly comparable GAAP financial measures in the tables in our earnings release, which is available at investor.datadoghq.com.

With that, I'd like to turn the call over to Olivier.

Olivier Pomel
Co-Founder, CEO & Director

Thanks, Yuka, and thank you all for joining us this morning. We are pleased to report strong results in Q3 as we continued to execute on our platform vision. Let me start with a review of our financial performance.

In Q3, revenue was $437 million, an increase of 61% year-over-year and above the high end of our guidance range. We had about 22,200 customers, up from about 17,500 in the year ago quarter. We ended the quarter with about 2,600 customers with ARR of $100,000 or more, up from about 1,800 in the year ago quarter. These customers generated about 85% of our ARR.

We generated free cash flow of $67 million, with a free cash flow margin of 15%. And our dollar-based net retention rates continue to be over 130% as customers increase their usage and adopted more products.

Next, our platform strategy continues to resonate in the market. At the end of Q3, 80% of customers were using 2 or more products, up from 77% a year ago. 40% of customers were using 4 or more products, up from 31% a year ago, and 16% of our customers were using 6 or more products, up from 8% a year ago. We continue to be pleased with this continued adoption of multiple products in our platform, which indicates the additional value we are bringing to our customers.

We continue to see strong ARR growth with our newer offerings, and our products introduced since 2019, which excludes infrastructure monitoring, core APM and log management, remain in hypergrowth mode. I also want to highlight a couple of our newer products, Database Monitoring and CI Visibility. We started charging for these products 3 and 2 quarters ago, respectively, and each has already exceeded 8 figures in ARR and more than 1,000 customers. And as we are further developing them, we are confident these products will lead to a broader set of use cases for a larger set of customers over time.

Now moving on to this quarter's business drivers. At a high level, Q3 was overall very similar to Q2, with strong performance in new logos and new [product-attached] activities, tempered by growth of users from existing customers, although healthy, was below our long-term historical averages. This added up to sequential net ARR added that was similar to Q2.

To give a bit more color, first on the usage trend. As we said, usage growth was overall solid but consistent with Q2 trends. From a product perspective, [the trend] was more homogeneous among our major products than it had been in Q2. Looking at industry verticals, similar to last quarter, we continue to see a more pronounced effect in consumer discretionary and, in particular, with our customers that are cloud-native and fully scaled into public cloud. Note that the consumer discretionary vertical represents low teens percent of ARR and includes e-commerce as well as food and delivery.

All that said, we are pleased with our continued strong performance. Revenue in Q3 grew 61% year-over-year and 7% quarter-over-quarter, with all of our products meaningfully outperforming the growth of the large cloud providers. While the macroeconomic environment is likely to remain a headwind in the near term, we continue to see positive trends underpinning our business and remain bullish about the long-term opportunities and aggressive with our investment plan.

First, we continue to see strong growth in new logo ARR, including some large wins in traditional industries. We'll talk about some of those in a bit.

Second, our sales pipeline is strong heading into Q4 for both new logos and new products. And we're seeing great opportunities across customer sizes, geographies and industries. Alongside our strength in new logo ARR, this gives us confidence that digital transformation and cloud migration remain a top priority. It is perhaps even more critical in difficult times when businesses need to be more agile and do more with less. Remember that given our usage-based operating model, new logo wins generally do not immediately translate into meaningful revenue, but they are very important to us as new customers expand their usage in succeeding quarters and succeeding years.

Third, we are seeing continued expansion on our platform, as indicated by customers adopting more of our products.

And finally, churn remains low and hasn't changed, with gross revenue retention steady in the mid- to high 90s. We believe this high gross revenue retention is indicative of the business criticality of Datadog for our customers.

Now let's move on to products and R&D. 2 weeks ago, we had our Dash user conference, which was an occasion to showcase the extension of our products and the results of our R&D investments. Let me go through some of these starting, with observability, before moving on to security, developer experience and, finally, the ability to take action within Datadog.

First, we are doubling down on our investments in observability, starting with 2 new products: data stream monitoring and Cloud Cost Management, both addressing growing needs and strong demand from our customers. We also extended our APM suite to offer mobile app testing, usage heat map and dynamic instrumentation. On the network side, we added SNMP Traps and [network] monitoring to our products. On the logging side, we announced log forwarding, which coupled with log archives and observability pipeline that is at the center of our customers' data management.

Responding to customer demand, we also extended our Sensitive Data Scanner beyond logs to identify sensitive data across APM and RUM. And across the platform, we've announced extended support for OpenTelemetry, PCI compliance for APM and log as well as HIPAA compliance across most of Datadog.

Second, we are extending our security platform, and we announced Cloud Security Management, which brings together Cloud Workload Security, Cloud Security Posture Management and resource catalog as a frictionless, reach-and-context aware cloud-native application protection platform, or CNAP.

We launched native protection for Application Security Management to enable blocking attacks in real time directly within the Datadog platform. And we now provide vulnerability monitoring to give our users a high-fidelity picture of all applications in production as well as their dependencies, vulnerabilities and the attacks they face.

Third, we follow through with our recent entry in developer experience. We announced continuous testing to facilitate end-to-end testing as soon as the code is developed, which increases quality and velocity at the same time. And we showcase Intelligent Test Runner using more rich APM and profiling data to automatically skip unneeded tests and drastically reduce time and money spend on CI/CD.

Fourth and last but not least, we announced new product areas that take our platform from observing to allowing our users to take action and respond all within Datadog. We announced our [ASM] management products to allow users to correlate and summarize alerts, events and issues in variety of [indiscernible] in order to resolve problems directly from the Datadog AIOps console.

We also announced Datadog Workflows, which allows customers to develop and run automatically DevOps or security remediation using a no-code editor and already more than 200 integrations to service any APIs they use. We announced [limited] availability for CoScreen, the collaboration meeting tool that we acquired last year and that allows real-time screen sharing and collaborative [product coding] within Datadog.

And finally, we kept on extending the scope of our Watchdog AI engine, further automating the detection and getting the resolution of applications that may cause real problems.

That is for the many announcements from Dash. And as you can tell, the team has been hard at work, and I'm extremely proud of our innovation velocity and focus on our customers.

One last thing on products. As announced in the press release issued this morning, we acquired Cloudcraft, a planning and design tool used by tens of thousands of cloud architects to create live diagrams of their infrastructures, including real-time health, configuration and cost data, and we are very excited for their team to join Datadog.

Now moving on to sales and marketing. Let's discuss some of our wins in Q3. First, we signed a 7-year land with a Fortune 100 grocery chain. This company was [marketing] to Azure but was held back by their open source solution. And because this grocery chain has pharmacies inside stores, they need better controls around personally identifiable information. Our Sensitive Data Scanner and our HIPAA compliance filled that gap, and we are differentiators [who are then out] to win these opportunities.

Next, we signed a 7-figure land with a major multinational restaurant chain. This company had a legacy observability solution that wasn't able to scale with their vision of a [indiscernible] and serverless environment. They also needed an end-to-end view of their customer journey, and we will now use 6 Datadog products, including Synthetics and RUM,, to drive customer experience improvements.

Next, we signed a 7-figure land with a social networking app. This company was previously a Datadog customer that had moved several years ago to a competitor as they needed certain languages our APM products didn't support well at the time. Today, our APM not only match the capabilities of the existing solution but presented significant advantages in terms of ease of deployment, alerting and early detection. And they also plan to take advantage of our new service catalog, taking Datadog at the center of their operations.

Next, we had a 7-figure upsell with a large Asia-based electronic conglomerate. This company's many business units include consumer electronics and IoT. And the use of Datadog has grown rapidly with the number of devices they are managing. They have seen a number of benefits from using Datadog, including lowering the amount of [indiscernible] by 25% and mean time to resolution by 50%. They have also seen a significant time savings in incident response activities by cloud engineers from 20 hours to only 2 hours per week. With this renewal, this customer has now adopted 14 Datadog products.

Next, we had an 8-figure multiyear upsell with a large e-commerce company. This customer had been using primarily infrastructure monitoring and APM Datadog and was also operating an open-source logging tool. Using Datadog led to significant efficiencies, including settling customer-impacting incidents by close to 2/3 and reducing the number of employees required to address each incident by 1/3. With this renewal, they are adopting Datadog Log Management and RUM and consolidating multiple homegrown and cloud-native tools as well as a commercial competitor.

That's it for this quarter's customer highlights. And I'd like to thank our go-to-market team for their hard work and for delivering another strong quarter.

Now let me stick to our longer-term outlook. We recognize the macro environment remains uncertain, but we continue to see no change to the multiyear trend towards digital transformation and cloud migration. And we remain confident that we can help our customers with their efforts to save on costs, drive greater engineering efficiency and take advantage of the benefits of cloud and other next-gen technologies. So we are continuing to invest in our strategic priorities to capture our long-term opportunity, and we remain laser-focused on bringing value to our customers as they manage through a more challenging economic environment.

With that, I will turn the call over to our CFO for a review of our financial performance and guidance. David?

David M. Obstler
Chief Financial Officer

Thanks, Olivier. In Q3, we continued to execute well and support our customers. Revenue was $437 million, up 61% year-over-year and up 7% quarter-over-quarter.

To dive into some of the drivers. First, we experienced strong new logo ARR growth and continued low churn again this quarter. We saw existing customer usage growth remain at levels similar to Q2 as customers continue to be more cost-conscious as they manage their businesses. As Olivier noted, we saw a roughly similar sequential growth in ARR dollars added in Q2 as -- in Q3 as in Q2. And we saw a relatively homogenous usage growth amongst our major products during Q3. As with Q2, we saw relatively more deceleration in the consumer discretionary vertical, particularly in e-commerce and food and delivery.

And we saw similar growth across geographies. As a reminder, we bill all of our revenue in U.S. dollars, and we do not price in local currencies. Our dollar-based net retention remained at strong levels above 130% for the 20th consecutive -- 21st consecutive quarter.

Our land and expand model, aggressive product innovation and our customers' motion to the cloud continue to drive expansion opportunities with our existing customer base. Overall, the customer usage growth we're seeing remains higher than the trough growth we experienced at the beginning of COVID in 2020, and we're pleased with our 61% year-over-year and 7% quarter-on-quarter revenue growth this quarter.

Meanwhile, gross revenue retention was unchanged and steady in the mid- to high 90s. Regardless of the macroeconomic environment, our customers still need to serve their clients, and moving to the cloud enables better service and cost savings against people-intensive or on-prem technology-based offerings. We believe our high and steady gross retention indicates that Datadog is critical to our customers' ability to deliver services to their clients digitally.

And as Oli mentioned, on new logos, we saw continued strong new logo ARR growth across geographies, industries and company sizes, and we have a strong pipeline of opportunities in Q4. Finally, our platform strategy continues to resonate with customers, with 80% of our customers using 2 or more products, 40% using 4 or more products and 16% using 6 or more products as of the end of Q3.

Moving on to our financial statements. Billings were $467 million, up 51% year-over-year. Billings duration was slightly lower year-over-year.

Remaining performance obligations, or RPO, was $941 million, up 31% year-over-year. Current RPO growth was in the mid-40s year-over-year. As a reminder, we signed several large multiyear renewals in Q3 2021, which may make current RPO, a more useful indicator with -- as it excludes the multiyear duration impact. We also had a challenging comparables of that metric as Q3 of last year's current RPO growth was about 100%. We continue to believe revenue is a better indication of our business trends than billings or RPO as those can fluctuate relative to revenue based on the timing of invoices and the duration of customer contracts.

Now let's review some key income statement results. Unless otherwise noted, all metrics are non-GAAP. We have provided a reconciliation of GAAP to non-GAAP financials in our earnings release.

First, gross profit in the quarter was $348 million, representing a gross margin of 80%. This compares to a gross margin of 81% last quarter and 78% in the year ago quarter. We continue to experience efficiencies in cloud costs reflected in our cost of goods sold this quarter. In the medium to long term, we continue to expect gross margin to be in the high 70s range.

Our Q3 non-GAAP OpEx grew 65% year-over-year as we continued to grow our headcount in R&D and go-to-market. Q3 operating income was $75 million or a 17% operating margin compared to an operating income of $44 million or a 16% operating margin in the year ago quarter.

Then turning to the balance sheet and cash flow statements. We ended the quarter with $1.8 billion in cash, cash equivalents, restricted cash and marketable securities. Cash flow from operations was $84 million in the quarter. After taking into consideration capital expenditures and capitalized software, free cash flow was $67 million for a free cash flow margin of 15%.

Now for our outlook for the fourth quarter and fiscal year 2022. First, in forming our guidance, we continue to use conservative assumptions as to the organic growth of our customers. And as usual, we are basing our guidance on current economic conditions, which includes slower-than-historical growth in usage among existing customers as we have seen in Q2 and Q3.

For the fourth quarter, we expect revenue to be in the range of $445 million to $449 million, which represents 37% year-over-year growth at the midpoint. Non-GAAP operating income is expected to be in the range of $56 million to $60 million. And non-GAAP net income per share is expected to be in the $0.18 to $0.20 per share range based on an approximate 347 million weighted average diluted shares outstanding.

For fiscal year 2022, we expect revenue to be in the range of $1.65 billion to $1.654 billion, which represents 61% year-over-year growth at the midpoint. And non-GAAP operating income is expected to be in the range of $300 million to $304 million, with non-GAAP net income per share expected to be in the range of $0.90 to $0.92 per share, again, based on an approximate 346 million weighted average annual diluted shares.

Now some notes on guidance. As we discussed last quarter, Q4 includes some large-input person events, including our Dash user conference, which was held 2 weeks ago, and AWS re:Invent, our largest trade show event of the year. The cost of those events will result in an approximate 300-to-400-basis-point effect on margins.

As it relates to our capital expenditures, we are adding more office space around the world as we continue to return to office. We expect CapEx of about $15 million in Q4.

In conclusion, while we recognize macroeconomic uncertainty continued into Q3, we see no change in the importance of cloud migration and digital transformation, which are critical to our customers' competitive advantage. We believe we are well positioned to help our customers embark on these journeys, and we are investing aggressively into our long-term opportunities while maintaining our financial strap.

I want to thank Datadogs worldwide for their participation in these efforts.
And with that, we will open the call for questions. Operator, let's begin the Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Raimo Lenschow with Barclays.

Raimo Lenschow
Barclays Bank PLC, Research Division

Congrats on a great Q3. Olivier, like a quick question for me. The first one is on -- if you compare the current situation and the current environment and what you saw in the pandemic, back then, the hyperscalers, you kind of talked about cost optimization and customers calling back a little bit. It does seem it's slightly different now. Could you maybe talk a bit about some of the factors that you're seeing out there? And then I have one follow-up for David.

Olivier Pomel
Co-Founder, CEO & Director

Yes, the situation is fairly different now from what we saw in COVID. First of all, in COVID, [with this whole very brutal], very broad, everyone was cramming to save money as quickly as possible, which is not what we're seeing today. What we're seeing today, it's a mix of things actually. First of all, everything that is related to direct transactions with customers, whether it's new logos or new products, all of that is actually working great, but the demand we can see there is as strong as we've seen it. When you look at the usage and where you might see cost optimization, I think there are 2 different stories there.

There's the customers that are largely cloud-native and normally pretty scale on the cloud environment, so then have cloud end-to-end on public cloud. They are definitely trying to save money. And these are companies that, in general, also tend to have their own growth rates affected or probably affected in the future by the macro trends. So that's why they're doing that.

But when you look at the other customers, the ones that are earlier in their cloud migration, they are actually not slowing down, and we see the same urgency and eagerness for them to keep scaling and keep moving into the cloud. And that's also where the bulk of our opportunity is.

When you compare us to the hyperscalers, the -- we are seeing some expenses they're seeing when -- and by the way, I should say, it is always hard to do -- to draw a direct comparison between the numbers of the hyperscalers and ours. Their numbers include a bunch other things beyond infrastructure. And we're also not just in public cloud. We also might serve quite a bit of a private environment as well. But we're seeing some of what they're seeing in terms of optimization. We're a little bit less sensitive to it because we tend to -- because of what we do, we tend to skew towards more critical environment than everything that might be in the hyperscaler. And overall, all of our products meaningfully outperformed the growth of the hyperscalers.

Raimo Lenschow
Barclays Bank PLC, Research Division

Okay. Perfect. And then David, in these kind of uncertain times, a lot of the time you have negotiations or a vendor has negotiated with customers around billings, billings terms, et cetera. Have you seen anything that is impacting you or that you can note?

David M. Obstler
Chief Financial Officer

No, we really haven't seen any difference in billing terms or DSOs for that matter. So on that side, given the mission-critical nature of the product, we haven't seen any material changes in that.

Olivier Pomel
Co-Founder, CEO & Director

And again, that is different from COVID in that COVID was really a cash crunch that was something we were worried about. And so they are trying to prevent money from going out of the door right way. For us, in this case, it is more preparing for an environment where they might want to watch they profitability a bit more. And customers, when they negotiate on this, especially the ones that are fully scaled, the one thing they look for is more optionality in terms of how long they commit for and how much you commit for long period of time when they're -- especially when they're really unsure of their own growth rates.

Operator

[Operator Instructions] Our next question comes from Fred Lee with Credit Suisse.

Frederick Lee
Crédit Suisse AG, Research Division

I was wondering if you could comment a little bit on your traction in security, what segments you're seeing the most traction. And also bigger picture, what you're seeing in the wake of the silos breaking down between sec and DevOps overall.

Olivier Pomel
Co-Founder, CEO & Director

Yes. So bigger picture, we -- I mean, fairly well, everybody is talking about it. We're not the only ones to talk about. They need to bring security to get them up and [indiscernible] a lot of responsibility in that. So -- and we're confident that this is -- we see that developing in a way that's very similar to what we see with DevOps about a decade ago. So this gives us confidence.

In terms of our traction, we're happy with where we are. Like we see -- we have a -- we mentioned earlier, thousands of customers using our specific products. The customer business is growing fast, but the revenue is growing fast, but it's not like we're also growing the [indiscernible] products very fast. And what we feel there's a lot of market pull, lot of traction with it. There's a lot of customers who want us to be there, and there's a lot of product investments we still need to do, some of that in -- at Dash, and there's a lot more coming. So it's working as planned, I would say, at this point.

Operator

Our next question comes from the line of Mark Murphy with JPMorgan.

Mark Ronald Murphy
JPMorgan Chase & Co, Research Division

Yes, and I will add my congratulations on a nice performance. So Olivier, many customers had said that your Cloud Cost Management solution is extremely well timed. And they're saying that because they're seeing interest in cost optimizations that didn't exist about 6 months ago. I'm wondering if that aligns with your view. And does that feel like a product to you that can get off to a pretty fast start in this environment? And then I have a quick follow-up.

Olivier Pomel
Co-Founder, CEO & Director

I mean you're right that cost management is on a lot of people's minds right now. But I would say that it was already the 6 months ago and even a year ago. I think any company that is fully scaled into the cloud cares about their efficiency and they tend to have quite a bit of leverage in terms of cost improvement if they get it the right way with the right tooling.

So we think it's a product that, yes, it's well timed, but we think it's a product that's going to be -- that has the potential of being widely adopted and very useful for a very long time even after we come out of this challenging macro environment.

Mark Ronald Murphy
JPMorgan Chase & Co, Research Division

Okay. Understood. And then, David, just as a quick follow-up. Looking at the sequential growth in Q3 is around 7% and the way it appears in guidance for Q4, just thinking about your cadence, that would seem to compound out at a year-over-year growth rate around 30%, the -- thinking forward, is that type of cadence a fair way to try to conceptualize the glide path into next year, just figuring somewhere around 30%, if we want to kind of derisk the models? Or do you think that Q3 and Q4 are maybe not so representative of where the puck is going to be heading here?

David M. Obstler
Chief Financial Officer

Yes, we're -- yes, as a reminder, we provide guidance in a consistent way. We essentially look at the environment, the performance. And given the usage model, we put conservative assumptions on top of that. We employed that for the guidance we gave here in Q4. For next year, we'll provide guidance when we report Q4 and plan to update everybody at that time.

Olivier Pomel
Co-Founder, CEO & Director

Keep in mind the different aspects that are there. Part of it is driven by the new logos where we're getting some customers. Part of it is driven by the growth of existing customers. And the one we actually gave also is -- it's tougher to grow customers very fast when they're growing with us a lot over the past few years and when customers have grown [just spending 80%] year-over-year or [70%] year-over-year for 2 years. They might go away before of after that. But in turn, it might give us an easier compare for the future.

Operator

Our next question comes from the line of Sanjit Singh with Morgan Stanley.

Sanjit Kumar Singh
Morgan Stanley, Research Division

[indiscernible]

Yuka Broderick
Investor Relations

Sanjit, we can't hear you. Can you please get near to your mic?

Sanjit Kumar Singh
Morgan Stanley, Research Division

Sorry about that. My question is really around competitive displacements and potentially observability consolidation within your customer base. To what extent are you seeing customers either consolidate open source or other sort of commercial tools and standardize on Datadog, not just to benefit from the innovation that you're seeing from the Datadog platform but also to lower their overall observability monitoring spend as they go into next year?

Olivier Pomel
Co-Founder, CEO & Director

Well, we do see a little bit of both. I think it's [interesting] what we've seen in the past. There's no big or new trend there, but we see that happen across our customers. We think also in the future, this will only become more compelling when customers also bring to us more of their security use cases, more of their user analytics use cases, or the [indiscernible] use cases. So these so far have required different copies of the data to be sent to different vendors, and this tends to be the most expensive part, [but] the other one, the part is that the cost structure that scales in the [indiscernible] of these [indiscernible]. So we think we make a very compelling long-term proposition with these customers.

Sanjit Kumar Singh
Morgan Stanley, Research Division

That makes a lot of sense. And then I think, Olivier, in your script, you called out a customer that's using 14 different products, which is pretty incredible to think about. For customers that's adopting that many different product capabilities, how is that contract sort of structured? And how does that adoption sort of happen? Is it through some broader, flexible sort of credit system? Or are they being -- are these products being sold or priced individually? Can you just give us a sense for a customer that gets up to that level of adoption? How does the sort of contracting work for that type of customer?

Olivier Pomel
Co-Founder, CEO & Director

Yes. So the majority of those contracts for large customers [using a lot of] products are made on what we call the drawdown, which is basically setting committed amount of credit that customers can use. In relation to that, they get a rate card for all the various [SKUs] they are going to consume. And those rate cards can also be negotiated. Some customers use very large amounts of certain products. They can get a better rate of those specific products as well as they negotiate that. I think that's where it gets a little bit tailored to their specific use cases in their business.

David M. Obstler
Chief Financial Officer

And not to add, that's what we've been talking about, the frictionless adoption where the client is using the platform. And given this drawdown with a rate card, they can use the products in a frictionless way as they expand their use of the Datadog platform.

Olivier Pomel

Co-Founder, CEO & Director

The benefit for them is they just -- they usually don't know how much of each of the products they are going to consume ahead of time. But overall, what the shape of their -- or the size of the data environment is going to be but also don't know within this environment how much APM, traces that would need versus logs versus metric versus really use our monitoring, is there anything else that we produce. So it gives them the flexibility there. And again, that's another reason to bring in to some of that more tools on our platform because they don't have to precommit to everything in separate buckets basically.

Operator

Our next question comes from the line of Koji Ikeda with BofA Securities.

Koji Ikeda
BofA Securities, Research Division

I just kind of wanted to dig in here on the consumer discretionary, and I appreciate all the comments you had in the prepared remarks. But was really kind of wondering, how much of that vertical is international? Just thinking about FX and the potential effects of FX there if the USD strength persists in the future.

Olivier Pomel
Co-Founder, CEO & Director

Yes. So on FX, sorry, David, if I'm [stealing] your thoughts out. The -- we charge in dollars everywhere, right? So we don't have any formal FX risk. We don't provide any adjusted numbers for FX, any of that. We do, however -- like our customers who buy our products from Europe and from Japan, their budgets are still in Japanese yen or in euros. And so we do think that the strong dollar is a headwind for us. We don't see very dramatically different growth rates between Europe, Americas and APAC. So we think we might see higher growth in APAC and Europe, which are smaller parts of our revenues and less mature if the dollar was weaker.

It is conjecture. We can't actually quantify that because we're charging dollars everywhere, but that's something that we are aware of.

David M. Obstler
Chief Financial Officer

But in that -- just to add, in that sector we commented on, the predominant effect would be what's happening in their business, in their sector rather than the geographical location of the company and its customers.

Koji Ikeda
BofA Securities, Research Division

Got it. Great. And just one follow-up, if I may, here on the Cloudcraft acquisition. Just any color on how big this company is. The press release, it says hundreds of thousands of engineers. So how does that equate to maybe customer overlap? And does Cloudcraft open the door to maybe new personas to sell into within organizations?

Olivier Pomel
Co-Founder, CEO & Director

Yes. So Cloudcraft is very interesting because it's a very great product. There are lots of opportunities in terms of integrating their product with ours. There are opportunities also with some part of this product, many stand alone. It is a product that works very well for planning and for cloud architects in general to start their planning, their documenting, their cloud migration.

It's also interesting for us from a distribution perspective because it has a lot of different users today. It has a very broad reach. It's also very easy to embed on third-party sites. So there are a number of opportunities we're excited about with Cloudcraft. You'll see more as we integrate and as we pursue these opportunities. But we're very excited. It's a company that we have been tracking for a while.

David M. Obstler
Chief Financial Officer

Just to make sure it's clear, it's a small company. It's an acqui-hire like we've done, meaning we are bringing on board the engineers, it does come with a customer base, it's an immaterial amount of revenues relative to our total and, as Oli mentioned, provides an extension of the platform as well as potentially some leads and some lead generation in the customers and personas.

Operator

Our next question comes from Matt Hedberg with RBC.

Matthew George Hedberg
RBC Capital Markets, Research Division

David, for you. Last quarter, you talked about a stronger July versus June. I'm wondering if you could comment a little bit on how the linearity of the quarter played out. And then maybe also how is -- how did October trend relative to September?

David M. Obstler
Chief Financial Officer

Yes. So we -- for linearity, it was very similar linearity to what we've had. There was no difference. And so we saw -- unlike last quarter a bit, we saw pretty much of a pro rata type of quarter. And we normally have a strong October in terms of the flow of our customers and what they're doing in the platform before [indiscernible].

We're pleased with what we have seen so far but still recognize that October is usually strong for us. And it's only the beginning of the quarter.

Oli, anything else you want to add to that?

Olivier Pomel
Co-Founder, CEO & Director

No, I think the one thing you're trying to get through [indiscernible] over time during the quarter. We exited the quarter pretty much at where we entered it. There's no change there. And again, as David said, we're happy with what we've seen in October, but we're also usually happy with October. We -- Q4 has a bit more seasonality than other quarters. In particular, December tends to be a little bit weaker as a lot of our customers take time off and shut down their development environment and things like that. It's also been a little bit harder to forecast in recent years with the pandemic and the behavior that the vacation behavior that changed after the pandemic. So we are little bit careful with that, and that's all incorporated in our guidance, yes.

David M. Obstler
Chief Financial Officer

And remind everybody what we said in the script was that the Q3 performance was very similar in its drivers to Q2. So that's further evidence of, as Oli said, that the conditions that we ended Q2 with continued throughout the Q3.

Operator

Our next question comes from Brent Thill with Jefferies.

Brent John Thill
Jefferies LLC, Research Division

David, a question on investment philosophy. Going into the pandemic, you didn't really pull the throttle back. You had it at 11. Going into these times, are you thinking differently about your investment philosophy in this cycle? And can you talk about quota-carrying reps in terms of -- are you at -- on pace to hire what you thought at the beginning of the year? Are you pulling back a little bit given some of the current macro jitters.

David M. Obstler
Chief Financial Officer

Yes. I think as we remind everybody, we've always lived within our means and been limited more by our ability to integrate in a responsible way of quota-carrying reps, or R&D for that matter, into our company. And we really have not made changes. We had a sort of a prudent plan and continued. As a reminder to everybody, we think there's a very long-term opportunity, and we're investing behind that. We are cognizant that there's more volatility in microeconomic conditions, and we're looking at everything, but we didn't get out over our skis to begin with in our plan. So it allows us, given our model and the way we run the company, to continue that investment in a systematic way.

Olivier Pomel
Co-Founder, CEO & Director

And just to restate that, we -- so we did make changes. We're investing. From an R&D perspective, this was so early. There's so much we want to do, and we have great tractions on the products, and we keep investing there.

From a go-to-market perspective, as I mentioned on the call, we actually have a very strong pipeline, and the [conversations] with customers are going [to it] in terms of new logos and new products. And so there is value in growing the sales here, and there is short-term and long-term value there. So we'll keep doing that.

And the last thing I'd say is we -- remember, I keep repeating, but we burned only $30 million from inception to taking the company public. We generated a lot more cash since then. We have efficiency that's one of the core parts of our culture. That's how we run the business, where we built it. And as for the model, we've built in terms of frictionless expansion and adoption products.

So we trust that we have the levers and the way we thought to use them to make sure we have the right profitability as well.

Brent John Thill
Jefferies LLC, Research Division

And just a quick follow-up on the [CRP]. I know David, you mentioned, so if I focus on that. It is continuing to decelerate. I guess is that just a function of the large comps? Are you seeing larger enterprise customers? You've seen a slower cadence of large deals come in. Can you give us your take on that?

David M. Obstler
Chief Financial Officer

Yes, I think we had -- the comps are very significant in this quarter. In Q3 of last year, and I think we said this at the time, we had some large multiyear deals. A reminder, we don't try to target multiyear deals we had from the client side. So that's why the current probably is more of a time-correlated. And this also moves, so if you look at sort of the average of this, it tends over the longer time to correlate with revenues, but there's a lot of noise in this number. So we steer everyone back to revenues and then the computation we've given everybody on how to convert revenues into ARR.

Olivier Pomel
Co-Founder, CEO & Director

One big change again is -- one big driver for this is our early customers renewed because they're trying to get ahead of the growth and secure better economics. And in times of uncertainty like this one, customers tend to wait and see more. And sometimes, they have slightly worse economics a little bit, but they have been maintaining some optionality. And so this is why those numbers moved quite a bit. And again, the best predictor of what's going to happen next year, the revenue ramp on which we are. Everything else is sort of a little bit more distorted.

Operator

Our next question comes from Kamil with William Blair.

Kamil Mielczarek
William Blair & Company L.L.C., Research Division

Congrats on a strong quarter. It sounds like international demand has remained relatively unchanged from June. Was that consistent across regions? And what do you think is unique about Datadog that its major sales in Europe, more resilient than some of your peers?

Olivier Pomel
Co-Founder, CEO & Director

I mean, look, we see them everywhere. We're growing the teams everywhere. We're growing the teams on the right relative basis faster in Europe and in APAC than we are in the U.S. We're also growing the teams in Latin America, which is doing very well for us. So we -- from where we see, we see them in everywhere. We see Europe and Asia as a little bit behind the Americas in terms of maturity of the cloud migration. But they're scaling, and it's happening there, the same way it's happened in the past.

From a competitive perspective, the situation is about the same everywhere. And it hasn't changed in any notable way over the past year, I would say. So there's nothing shocked to stay there.

Kamil Mielczarek
William Blair & Company L.L.C., Research Division

That's helpful. And if I could just follow up. You called out some vendor displaced in your prepared remarks. Can you maybe comment on how much of your new customer wins are coming from competitive displacements versus greenfield opportunities? And between the 2, are you seeing any difference in the macro impact that are -- companies that are using competitors may be revisiting alternative solutions to optimize pricing? Or is the mix shift [predictable]?

Olivier Pomel
Co-Founder, CEO & Director

It's still a small minority of the deals, isn't it, right? It tends to be the only one that are very large because our customers already had something. They already have a large footprint, and we need to migrate it over. So these are deals that are large, and the one which is not, that's majority of the deal. The vast majority of the deals in there are small, and they grow from there. These are the ones we tend to mention because these are the ones that are most interesting to look at from day 1, but this is still a small minority of what we do.

We also don't particularly seek those deals. We train our sales team to land as many new logos and new products as possible. And it's better for them to do 10 smaller ones than 1 larger one. As those 10 smaller ones will each be as big as the 1 large one in the end. So that's -- in terms of dollar we make for dollar of sale activity we spend, that's the most productive.

Operator

Our next question comes from Fatima Boolani with Citi.

Fatima Aslam Boolani
Citigroup Inc., Research Division

Oli, I've got one for you and one for you, David. Oli, to your commentary on the usage moderation persisting in the consumer discretionary vertical, I know this is a hard question. But what are some of the signs or signals from that vertical that would lead you to suggest -- or lead you to conclude that maybe there's more moderation to come? And I'm thinking about this in the context of sort of big tech, right, in the realm of digital advertising and all of the larger companies just beyond and outside of CDP -- the CDP vertical. So just any signals or signs that would lead you to conclude one way or the other is sort of the worst of the moderation on the platform expansion is behind us.

And then a quick follow-up for David, please.

Olivier Pomel
Co-Founder, CEO & Director

Yes, I think the question is -- I mean it's mostly where we see the most case in the customers that are fully in the cloud -- fully scaled in the cloud. And there, basically, the -- we should expect their cloud spend to grow at the same rate of their top line in the end. And so when their top line started slowing down a bit -- or whether [indiscernible] has been slowing down a bit, they try and slow the expenses as well, which is what we've seen.

I think what we can tell you is whether the top line will just slow down and start narrow a little bit or it's getting compressed, I think it all depends on what big of an economic downturn we face, if any. We're not really in the business of predicting that. But what we see is for much of those customers, we got a pretty good idea of where they stand because we see what their projected spend growth even when it relates to the relative growth of the business.

Fatima Aslam Boolani
Citigroup Inc., Research Division

David, last quarter, you sort of mentioned to us that a lot of customers and prospects are thinking about reduced commitment levels out the gate, right? So I'm curious about how that's trending this quarter and what your expectations are with what you're seeing with new customers in terms of commitment levels out the gate. And within this quarter, how much of that austerity, if you will, around commitment levels -- how much of that austerity contributed to maybe usage upside beyond the commitment levels this quarter, just kind of given the strength in the quarter?

David M. Obstler
Chief Financial Officer

Just to clarify, so that's not exactly correct, what you said. So it is -- so essentially, most of our customers essentially land and expand and then commit and then grow their usage over time. And that has been going on in the whole model of the company. What we said last time was this is not related to they're cutting their commitment. This is related to when there are an overage on demand, whether they decide to do a new commitment or stay on demand longer and to be able to get greater visibility.

The comment from last quarter was really more about billing and the -- those metrics then about customer usage. We said that customer usage has been lower than historical trends but not as low as it was in COVID. So that's another effect. And what we talked about last quarter was more about the billing effect. So we continue to say that customers are, as we talked about, cautious, but that really only has a marginal effect in the billing. And actually, when a client decides that and stays on demand, it has a positive effect on the revenue side in that micro decision.

Olivier Pomel
Co-Founder, CEO & Director

And I'll just add one thing with respect to your first question and [indiscernible]. In terms of -- some part of the question is, how do we know things are going to get better or worse in the future? We -- I remind you that we have a usage that model for revenue, and we don't have to wait until the mix renewal to get the news on customers on whether this is better or worse. Whether news is good or bad, we get it early.

And an example of that is that while the -- broadly in the world, we see Q3 being worse at a macro level than Q2. As far as our business is concerned, Q3 is very, very much in line with Q2. And whatever step function there was in terms of changing the growth rates for some customers happened in Q2 already and didn't change in Q3. So we are fairly confident that whatever happens with CDP this year is...

Operator

Our next question comes from Ittai Kidron with Oppenheimer & Co.

Ittai Kidron
Oppenheimer & Co. Inc., Research Division

Congrats guys. Great quarter. David, I just want to have one question for you on the net dollar expansion rate. Great to see it well above 130%. But I was hoping if you could give a little bit more color on that. Specifically, directionally, did it go down quarter-over-quarter? And perhaps, is there a way for you to break down the mix of existing solution expansion in that mix versus new solution adoption? I'm just wondering maybe not in absolute terms or perhaps on a relative basis how that mix has changed over the last 2, 3 quarters.

David M. Obstler
Chief Financial Officer

Sure. So we don't give more pointed net retention, but it is a fact that if the organic rate -- or the expanding rate of customers is lower than it was in previous periods and we said that the rate is lower than it was at the peak but not as low as it was at the low and COVID in the middle that, that would indicate that net retention would be going down mathematically. But we don't give more information than that.

As far as the -- and I think we said a little bit about this in the past, as far as the mix between expansion of existing solutions and new as clients adopt more of the solution in their land, which we said is happening, what happens again, mathematically is that the percentage of the net retention from existing products goes up, despite the fact that, as we said, we have very strong adoption of additional products. But we also have very strong momentum in client landing with more products, which affects that number directionally, if that makes sense, yes.

Ittai Kidron
Oppenheimer & Co. Inc., Research Division

No, that's helpful. And then maybe, Oli, for you, on the database monitoring. It seems like you're off for a good start there. Just from a persona standpoint, does this expand the personas that you're touching? I mean do you need to be engaged more with this administrative admins in order to sell this product? Or I'm just trying to think from a go-to-market standpoint, what is needed to keep driving progress here?

Olivier Pomel
Co-Founder, CEO & Director

In terms of -- from a go-to-market perspective, it was as similar as the rest of what we deliver. It expands nicely on top of the rest of the platform. You're right, so that we're reaching to some of the more specialized function around like DBAs and people like that. And -- but we also have those are not trained as DBAs, solve the issues and develop DBA skills in a way. So we -- you're right that there's a little bit of a difference there.

I think today because of the better business we reported today, it's not as pronounced as it might be in the future when we start supporting [bigger] business like Oracle, for example, where the position of the DBA is more formalized, I would say.

Operator

Our final question will come from the line of Michael Turits with KeyBanc.

Michael Turits
KeyBanc Capital Markets Inc., Research Division

Two quick kind of same questions. I think you talked about the growth rates of a number of hosts monitored last quarter is an indication that you really weren't seeing any slowing in the underlying capacity of what needed to be monitoring. Is that growth rate still the same?

Olivier Pomel
Co-Founder, CEO & Director

It's -- if you look at the growth by product this time, it's not only [indiscernible] needs to be. There's some variations quarter-to-quarter. A lot is about the same in growth rate. APM is a little bit better. In fact, [it shows] a bit down, but there's nothing really meaningful there. I think some of the effects you might expect from what you heard from the hyperscaler, we see maybe some of that in the infrastructure, but it's not extremely pronounced. So that's why we can't comment on this [indiscernible].

Michael Turits
KeyBanc Capital Markets Inc., Research Division

Okay. And then David, just on the CapEx that you called out that was having to do with headquarters, $15 million extra, I believe you said in this quarter. So any -- I know you're not giving guidance for next year. But is that a 1-quarter phenomenon, a multi-quarter phenomenon? How big an impact longer term on CapEx?

David M. Obstler
Chief Financial Officer

Yes. Just clarify, that wasn't extra. That's just the total amount, not the delta between the quarters. We haven't provided that type of guidance. We are expanding and building out offices. And again, when we provide guidance for next year, we'll endeavor to provide some guidance that will help in the modeling. Thanks.

Operator

At this time, I would like to turn it back to Olivier Pomel for any further comments.

Olivier Pomel
Co-Founder, CEO & Director

Thank you. Thank you all for listening. I also want to thank, obviously, all Datadogs around the world for working so hard this quarter. [It's been] another great quarter. And I want to thank our customers for trusting us with their business and joining us at Dash, as we've [indiscernible] was a great event. So thank you all, and we'll speak again in Q4.

Operator
Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.