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# JFrog Ltd.

Third Quarter 2024 Financial Results

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## CORPORATE SPEAKERS:

**Jeffrey Schreiner**

*JFrog Ltd.; Vice President of Investor Relations*

**Shlomi Ben Haim**

*JFrog Ltd.; Chief Executive Officer and Co-Founder*

**Ed Grabscheid**

*JFrog Ltd.; Chief Financial Officer*

## PARTICIPANTS:

**Sanjit Singh**

*Morgan Stanley; Analyst*

**Pinjalim Bora**

*JP Morgan; Analyst*

**Michael Cikos**

*Needham; Analyst*

**Ryan MacWilliams**

*Barclays; Analyst*

**Kingsley Crane**

*Canaccord Genuity; Analyst*

**Shrenik Kothari**

*Baird; Analyst*

**Miller Jump**

*Truist Securities; Analyst*

**Koji Ikeda**

*Bank of America; Analyst*

**Andrew Sherman**

*TD Cowen; Analyst*

**Jeff Hickey**

*UBS; Analyst*

**Brad Reback**

*Stifel; Analyst*

**Jason Celino**

*Keybanc Capital Markets; Analyst*

**Jason Ader**

*William Blair; Analyst*

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### **PRESENTATION:**

Operator^ Thank you. Ladies and gentlemen. thank you for joining us and welcome to JFrog's third quarter 2024 Financial Results Conference Call. I'll now hand the conference over to Jeffrey Schreiner, Vice President of Investor Relations. Jeffrey, please go ahead.

Jeffrey Schreiner^ Good afternoon, and thank you for joining us as we review JFrog's third quarter 2024 financial results, which were announced following market close today via press release. Leading the call today will be JFrog's CEO and Co-Founder Shlomi Ben Haim and Ed Grabscheid, JFrog's CFO.

During this call we may make statements related to our business that are forward-looking under Federal Securities laws and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 including statements related to our future financial performance and including our outlook for Q4 and the full year of 2024.

The words anticipate, believe, continue, estimate, expect, intend, will, and similar expressions are intended to identify forward-looking statements or similar indications of future expectations.

You are cautioned not to place undue reliance on these forward-looking statements, which reflect our views only as of today and not as of any subsequent date.

Please keep in mind that we are not obligating ourselves to revise or publicly release the results of any revision to these forward-looking statements in light of new information or future events.

These statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from expectations.

For discussion of material risks and other important factors that could affect our actual results, please refer to our Form 10-K for the year ended December 31, 2023, which is available on the Investor Relations section of our website and the earnings press release issued earlier today.

Additional information will be made available in our Form 10-Q for the quarter ended September 30, 2024, and other filings and reports that we may file from time to time with the SEC.

Additionally, non-GAAP financial measures will be discussed on this conference call. These non-GAAP financial measures, which are used as measures of JFrog's performance, should be considered in addition to, not as a substitute for, or in isolation from, GAAP measures.

Please refer to the tables in our earnings release for a reconciliation of those measures to their most directly comparable GAAP financial measures. A replay of this call will be available on the

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JFrog Investor Relations website for a limited time. With that, I'd like to turn the call over to JFrog's CEO, Shlomi Ben Haim. Shlomi?

Shlomi Ben Haim^ Thank you, Jeff. Good afternoon, to you all.

Thank you for joining our call. This was a very active quarter for JFrog including at our annual user conference SwampUp, where industry leaders like JP Morgan Chase, Intel, Google, Snowflake, Capital One, and others shared their powerful experience with the JFrog platform on stage.

Our partners including GitHub, NVIDIA, and Docker, joined us in announcing new levels of collaboration, underscoring our commitment to a unified platform experience.

SwampUp was also an opportunity to spotlight and reveal the innovations driving JFrog's future growth including the release of JFrog ML, which extends our software supply chain platform as the first to integrate DevOps, DevSecOps, and MLOps in one seamless solution.

Additionally, we expanded our security offerings with JFrog Runtime Security, with customers recognizing it as critical solution for organizations seeking full visibility from development to production and back. At JFrog, we say once you leap forward, you won't go back.

Our customers share this belief, as is well shown in our growth retention, and the opportunities ahead align with our strategy, keeping us excited, focused, driven, and inspired. I'm pleased with our success in the third quarter.

We believe we demonstrated not only strong execution within JFrog, but more broadly, customers are telling us that they see JFrog as a key strategic partner in the software development processes.

Now allow me to cover some of our achievements during the quarter in more detail. JFrogs Q3 was strong on all fronts.

Our disciplined go-to-market execution led to some of the largest platform wins in JFrogs history, fueled by DevOps workload migration to the cloud, coupled with comprehensive software supply chain security. JFrogs unified solution empowers enterprises to seamlessly align DevOps, security, and MLOps on a single source of tools, an approach that differentiates us and continues to strongly resonate with market demands.

In Q3, JFrogs total revenue was \$109.1 million, up 23% year-over-year. Cloud revenue for the quarter reached \$42.4 million, representing 38% year-over-year growth, fueled by strategic cloud migration and steady usage patterns among committed annual customers. Based on these Q3 results, we remain confident in our full year 2024 guidance for cloud growth of around

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40%. Customers in Q3 with ARR over \$100,000 grew to a total of \$966, up from \$848 in the year-ago period.

The number of customers with an ARR exceeding \$1 million increased to 46, up from 30 in the year-ago period, representing 53% year-over-year growth.

In Q3, our go-to-market team demonstrated strong execution, winning large deals for our complete platform, primarily driven by demand for our cloud and security offerings.

As previously shared, some of the significant deals we won faced delays due to a slower, more rigid consumer environment. Let me first address the cloud.

Our cloud business experienced sequential growth driven by increased migration activity, though overall usage trends remained more moderate compared to the previous year.

Customers tell us that the scalable and hybrid nature of the JFrog platform gives them the confidence they need to modernize their software development business, and we were pleased with an increased migration pace and usage in Q3.

We maintain a cautious outlook regarding large migration deals in our 2024 pipeline, as we do not believe customers' migration activity has yet turned the corner.

Next, to highlight security. The market continues to demand higher standards for software integrity, with a focus on achieving trusted, secure, and traceable processes from software creation on the left to distribution and production on the right.

DevOps and DevSecOps are therefore inseparable, and the JFrog platform is purpose-engineered to meet this requirement. In line with this industry shift, enterprises are prioritizing modernization of their holistic software supply chain security.

They seek to streamline developer workflows by consolidating point solution tools and reducing vendor dependencies, thereby enhancing security and efficiency across the software supply chain. This trend has been voiced by our customers and prospects over the recent quarters and was evident in our Q3 wins, which, as predicted, included JFrog Advanced security and JFrog curation as key drivers.

It's not a question anymore about if a company will adopt a holistic platform that incorporates end-to-end software supply chain security, but the question of when.

As mentioned, in Q3 we held our 10th Annual User Conference SwampUp in Austin, Texas.

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As the industry continues to demand more from development teams, we gathered with our customers and the community to drive the future of DevOps, DevSecOps, and MLOps.

We were excited to announce the availability of JFrog Runtime security, delivering as part of our platform the very first DevSecOps solution that allows companies to have full integrity and software lineage traceability from cost to production and back across every development and pipeline phase.

In addition, we showcase the second phase of our strategic partnership with GitHub, announcing co-engineered solutions that unify both companies' advanced security capabilities and, importantly, bring AI capabilities via the co-pilot integration with JFrog Curation and JFrog Catalog. GitHub's CEO Thomas Dohmke, joined me on a keynote session, shared, "Together with JFrog we have let this lightning out of the bottle, and, of course we're bringing the power of JFrog to GitHub co-pilot.

Now you can ask co-pilot about your packages in artifactory and about your internal processes and configurations specific to your company.

This is just the beginning.

We also announced a strategic collaboration with NVIDIA to bring secured, optimized machine learning models into the software supply chain and serve our joint customers with artifactory as NVIDIA's new model trusted registry. This announcement was also shared in our shareholder and analyst briefing we conducted onsite in Austin and are available on our IR website or at [swampup.jfrog.com](http://swampup.jfrog.com).

Before we dive into financials, in Q3, we demonstrated strong execution across our product strategy and deliveries, ecosystem partnerships, platform expansion, sales wings, free cash flow, and overall business efficiency. This success is in line with our strategy, and we are excited about the opportunities ahead.

With that, I'll turn the call over to our CFO, Ed Grabscheid, who will provide an in-depth recap of our Q3 financial results and our outlook for Q4 and full fiscal year of 2024. Ed.

Ed Grabscheid^ Thank you, Shlomi. And good afternoon, everyone. During the third quarter of 2024, total revenues were \$109.1 million, up 23% year-over-year.

As noted by Shlomi, cloud revenues in the quarter equaled \$42.4 million, up 38% year-over-year, representing 39% of total revenues versus 35% in the prior year.

Self-managed revenues, or on-prem, were \$66.7 million, up 15% year-over-year during the third quarter.

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We anticipate self-managed revenue growth trends to remain stable in the fourth quarter but note some customers who are planning to migrate to the cloud have paused their investment in on-prem deployments.

Net dollar retention for the four trailing quarters was 117%, in line with our guidance.

Our gross retention rate remained at 97%. A key motion driving our growth has been customer expansion through the adoption of Enterprise Plus, our full platform subscription.

As we expand our platform capabilities with security and MLOps, we believe further penetration into our existing customer base presents an opportunity for continued growth.

In Q3, 50% of total revenue came from Enterprise Plus subscriptions, up from 46% in the prior year. Revenue contribution from Enterprise Plus subscriptions grew 35% year-over-year.

Now I'll review the income statement in more detail. Gross profit in the quarter was \$90.3 million, representing a gross margin of 82.8%, compared to 83.7% in the year-ago period. The decrease in gross margin relative to the year-ago period is primarily due to the higher mix of cloud revenues, which carries a lower gross margin profile than corporate average.

We maintain expectations for annual gross margin targets, remaining between 83% and 84% in fiscal year 2024.

Operating expenses for the third quarter were \$75.5 million, up \$2.2 million sequentially, equaling 69.3% of revenues, up from \$62.3 million, or 70.3% of revenues in the year-ago period. Current quarter expenses include contributions from the acquisition of Qwak, which closed in early July.

We remain focused on expense discipline while continuing to maintain the proper level of investment to capture future growth opportunities.

Our operating profit in Q3 was \$14.7 million, or 13.5% operating margin, compared to an operating profit of \$11.9 million, or 13.4% operating margin in the year-ago period. Diluted earnings per share equaled \$0.15, based on approximately 115.3 million weighted average diluted shares, compared to \$0.15 per share in the prior year on 110.2 million weighted average diluted shares.

Turning now to the balance sheet and cash flow, we ended the third quarter of 2024 with \$467.8 million in cash and short-term investment, down from \$591.3 million as of June 30, 2024.

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I would like to note that we utilized \$163.7 million in cash for the initial consideration paid for the acquisition of Qwak in early July. Cash flow from operations was \$27.6 million in the quarter. After taking into consideration our CapEx requirements, free cash flow was \$26.7 million, or 24.5% free cash flow margin.

As of September 30, 2024, our remaining performance obligations totaled \$346.1 million. Now I'd like to speak about our outlook and guidance for the fourth quarter and full year of 2024. For the fourth quarter, we expect revenue to be in the range of \$113.5 million to \$114.5 million.

We forecast non-GAAP income from operations to be in the range of \$14 million to \$15 million, and non-GAAP net income per share to be in the range of \$0.13 to \$0.15, based on 117 million estimated diluted weighted average shares outstanding.

For the full fiscal year 2024, we expect revenues to be in the range of \$425.9 million to \$426.9 million, non-GAAP income from operations to be in the range of \$56.4 million to \$57.4 million, and non-GAAP net income per share to be in the range of \$0.59 to \$0.61, based on 116 million estimated diluted weighted average shares outstanding.

Now let me provide more context around our guidance.

We anticipate our cloud revenue to achieve around 40% year-over-year growth in 2024, with year-to-date cloud growth currently at 42%.

fourth quarter cloud growth will be supported by a full quarter of contribution from large-scale wins in the third quarter, annual customer commitment, as well as contribution from smaller-scale migrations to the cloud.

We believe our cloud growth forecast for 2024 still represents strong execution in what remains to be a challenging spend and procurement environment.

We continue to be cautious in our forward outlook, de-risking large-scale pipeline opportunities from our current guidance.

We have not observed a material shift in sentiment in regards to the overall spending environment and still observe customers being sensitive to the timing of large-scale budgetary commitments.

During the third quarter, we saw security become a critical driver of larger customer deals and view the JFrog platform combined with security as the industry standard for enterprise customers looking to manage and secure their software supply chain and consolidate point solutions.



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We continue to anticipate that JFrog advanced security and JFrog Curation will achieve material revenue contribution in 2025. Given our fourth quarter guidance, we reiterate our net dollar retention range for the full year 2024 in the mid-team.

Finally, the acquisition of Qwak closed in the beginning of July. Revenue contribution in the third quarter associated with this transaction was less than 0.5%.

As we integrate Qwak into JFrog over the coming period, we will provide further updates regarding our outlook for growth and profitability. Now I'll turn the call back to Shlomi for closing remarks before we take your questions.

Shlomi Ben Haim^ Thank you, Ed.

Our Q3 achievements and successes belong to our global team. Driven by the thirst for innovation and followed by our customers' happiness, our team delivered a robust quarter with growth and cloud and security leading the way.

Frogs, I'm incredibly proud of each of you and constantly inspired by your resilience and spirit.

We remain focused and committed to achieving a solid 2024 in line with our guidance.

While macroeconomic challenges persist, we believe the foundation laid are bearing fruit.

Before we take your questions, let us all remember that it has now been over a year since the terrorist attacks on Israel began. And as we speak, 101 of our brothers and sisters remain held captive by Hamas in Gaza.

We pray for peace in the region and for the fast and safe return of those hostages to their families. Thank you for attending our call today and may the Frog be with you.

Operator, we are now open to take questions.

Operator^ (Operator Instructions) The first question comes from the line of Sanjit Singh with Morgan Stanley. Your line is open.

Sanjit Singh^ Thank you for taking my questions and congrats on the solid Q3 results. I wanted to get a sense of how you saw Q3 come in.

If I rewind back to 90 days ago, you guys did see some deals push out.

So would you characterize Q3 as a function of some of those deals closing and generating revenues quarter or was it more kind of a more broad-based strength beyond just closing deals?

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Then I had a follow-up.

Ed Grabscheid^ Hi, Sanjit, this is Ed. Thank you for the question.

So we're really pleased with the results.

We thought it was a strong quarter of execution. The overall performance that we saw during Q3 was largely due to these significant projects that we talked about that we de-risked from our forecast.

We saw several of those deals close in Q3, one of those being a deal that was pushed from Q2.

So therefore, the over-performance of what we saw was largely due to the fact that we saw many of those large deals being closed.

Sanjit Singh^ That's great context and great to hear that these strategic deals are coming over the line. My follow-up question was around security and showing me your comments around 2025 being the year.

It's hard to go from, we have to sort of build that pipeline.

So in terms of what you're seeing right now to give you that confidence that 2025 will be the year for more material contribution from security, what are some of the proof points that you're seeing right now that gives you that confidence on the advanced security side?

Thank you very much.

Shlomi Ben Haim^ Yes, Sanjit, this is Shlomi.

Security is being part of all big deals that we secured in Q3. And as we reported, those are our strategic customers.

So the sell cycle took longer than expected.

But then when we won this deal, that was a sizable deal that was triggered by cloud and security very much aligned with our strategy. When we are looking at the pipeline, though being very cautious about it and de-risking it, we see more opportunities that combine cloud growth and security and as we mentioned, it is now coupled together on all the big platform deals.

So that gives us the confidence that we are getting into 2025 with the same momentum we created.

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Sanjit Singh^ Thank you for the context, Shlomi.

Operator^ Thank you.

Our next question comes from the line of Pinjalim Bora from JP Morgan. Your line is open.

Pinjalim Bora^ Oh, great. Thank you for the questions and congrats from me as well.

Shlomi, just wanted to ask you, staying on the security thread a little bit more, I believe you have a lot of deals that came for renewal, coming for renewal Q3, Q4 that had a big security component signed about a year ago. There was some introductory pricing involved in there.

I want to ask you, what is the customer behavior in those deals as they're coming for renewals?

Is it possible to understand the conversion rates of those deals, signing into bigger security deals, any way to understand that you're seeing on the ACV side?

Ed Grabscheid^ Hi, Pinjalim. This is Ed. I'll go ahead and start with that.

So we went general announcement of the security in the second half of last year. And as you mentioned, we did a lot of introductory pricing. Those are now coming up to renewals and we're starting to see the adoption of those and expansion of seats on those customers.

The focus has really been on these large projects, these migration and large projects, where we're seeing sizable deals in terms of the number of seats and security.

Those are what's leading most of these projects that we talk about. These projects, once we have a proof of concept, we have a win in terms of we know they're committed to JFrog. The timing of those projects are still uncertain. That's why we're de-risking those.

Shlomi Ben Haim^ And if I may Pinjalim, thank you for the question.

What we designed into the offering is that advanced security duration and now JFrog Runtime are all part only of the Enterprise-X and Enterprise Plus subscription as an add-on.

So what we see is not only that the introductory prices gave us kind of the runway that we needed in order to penetrate the market and to displace other products, but also to consolidate our customers around the platform play and not just security as an add-on.

Pinjalim Bora^ Yes, understood.

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One follow-up for Ed.

I know you're not really talking anything about 2025, but I want to ask you, how we should think about the puts and takes. You're exiting at about 17-18%. Growth seems like the macro environment is still not kind of green light as of now.

On the other hand, you have seemed like built a big RPO base that probably gives you more visibility.

Then there is the security trend. How should we think about 2025 as we think about our models?

Ed Grabscheid^ Yes. Thank you for your comments and question on that, Pinjalim.

We're not at the moment commenting on 2025 as we normally do.

We'll do that at the end of the fiscal year and during our fourth quarter.

But one comment I'd like to make is that we're being more conservative in the way that we are building our outlook and as we build our overall guidance going forward.

Pinjalim Bora^ Understood. Thank you very much.

Operator^ Thank you.

Our next question comes from the line of Mike Cikos from Needham. Your line is open.

Michael Cikos^ Hi. Guys. Thanks for taking the question here.

I just wanted to circle up on two components, really first closing out the point from Pinjalim.

But I know that you're talking about how you're being more conservative in building this guidance from the ground up going forward.

So is that a comment as it relates to where we stand today?

Because I know you've obviously signaled that you're more cautious and de-risking for these large cloud migrations.

Or is there potential for incremental prudence to be introduced?

Shlomi Ben Haim^ Hi, Mike. This is Shlomi.

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We are looking at Q3.

We are very pleased, very strong beat, very strong delivery on the quarter on all fronts.

We are doing Q4 now and we de-risk our pipeline.

We looked at the opportunities.

But we still remain cautious because what we are seeing is that the big cloud migration, the big security deals, the big platform deals are not yet completely out of the woods.

So we have to remain cautious and to deliver on a strong 2024.

We are committed to what we guide you with.

But we will take the conservative approach as we communicated in the past.

Michael Cikos^ I appreciate that.

Then I guess my follow up, I know it's probably a secondary, even admittedly, maybe more of a tertiary metric.

But if I look at billings and RPO, this quarter specifically, both those metrics were significantly stronger versus what it's been more recently.

I just wanted to get a better sense.

Should we equate that to maybe some of the catch up in these larger deals that push from Q2 to Q3?

Or is there anything else to kind of point to help us understand those dimensions?

Ed Grabscheid^ Hi, Mike.

It's Ed. Thanks for your question. Yes.

Thank you for noticing that.

It was a very strong quarter and much of that is the contribution that we saw in these very large deals.

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In addition to that, when you start to look at RPO, the fact that now we are starting to see many of these deals be multi-year deals.

So that's taken into consideration, obviously in the RPO as well.

Shlomi Ben Haim^ I mentioned, Mike, in the previous call that some of those sizable deals that were kind of pushed from the second quarter to the third, and maybe some will be pushed in the future, are sizable, not only because of the potential, but also because of the strategic play that our team is working according to.

If the deal can be larger, and it requires me to wait a bit more, but to bring a multi-deal, multi-cloud, multi-technologies in a completely different size, we will wait and we will deliver.

What you see in the RPO is a result of that exact strategy.

Michael Cikos^ Great. Thank you very much, guys.

Operator^ Thank you.

Our next question comes from the line of Ryan McWilliams from Barclays. Your line is open.

Ryan MacWilliams^ Thanks for taking the question. Just on the cloud side, how would you say macro is currently impacting cloud usage at this point?

And do you notice any linearity for cloud consumption throughout the quarter, like maybe getting better towards the end of the quarter or since in 4Q?

I'd love to hear about how those usage trends are going. Thanks.

Shlomi Ben Haim^ Hi, Ryan. This is Shlomi. Thank you for joining the call. Listen, we see in our pipeline some of our biggest customers still planning on migrating to the cloud, but it's not ready yet to be executed in full steam ahead.

So proof of concepts are being made. The cloud vendor has been chosen. Deals are being negotiated not only with us, but also on the marketplace.

It takes a bit longer. This is why our approach about cloud migration is more conservative than it used to be in the past.

The second thing is that these customers, if they are customers and not prospects, they are not investing in their self-hosted while planning the move to the cloud.

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That's kind of a double click also on what happened until they decide to kind of shift gears and start to move to the cloud.

We will partner with them until they will be ready, but that takes a bit longer in today's macro.

Ryan MacWilliams^ And just to follow up on that migration point, is there any way to further incentivize those migrations, like maybe taking more price on the self-hosted side?

And let's just say the macro does become clear in the fourth quarter. Are these migrations ready to go?

Could you activate more quickly to the cloud and they could like accelerate their timing to moving over?

Or would this be like a multi-quarter migration process?

Shlomi Ben Haim^ Yes. That's a very good point. When we speak about incentive, you don't punish your customers that are now struggled with today's macro by raising the price on the self-hosted. Unless you don't want to partner with them in the future.

But we will think as we do every year about the pricing for the self-hosted solution next year.

That might motivate our future migrator to the cloud. Those that are currently in the pipeline, we are partnering with them to make sure that we accomplish a full successful migration that will not only lead to the migration per se, but also a cohort that will show year-over-year goals as they keep using our platform.

Ryan MacWilliams^ That makes sense. Thanks so much.

Operator^ Thank you.

Our next question comes from the line of Kingsley Crane from Canaccord. The line is open.

Kingsley Crane^ Hi, congrats on the quarter. Thanks for taking the question. I want to start with cloud growth, 40% growth on the year.

I think that implies some pretty significant acceleration in Q4.

You called out a couple of things, full quarter of large-scale ones in Q3, annual customer commitment, and then smaller migrations to the cloud.

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Is there any way to stack rank those?

Then I guess as a follow-up, is there any sort of consumption true of expected similar to last Q4?

Thanks.

Ed Grabscheid^ Hi, Kingsley. This is Ed. Thanks for your question. There's no way really to stack rank those. Those are the three contributing factors to what we see as we move into Q4. The cloud usage so far has been kind of consistent with what our expectations have been.

In terms of the sequential growth, when you look at it last year compared to this year, I want to remind everybody first off that we had a one-time benefit in Q4 of 2023.

We don't anticipate a similar level of a true up one-time benefit during Q4 of the same time this year.

But on a sequential, when you remove that one-time benefit, it will be somewhere around the same range from a dollar's perspective.

Then overall, I think what you'll see is that the execution in terms of our strategy around cloud has still delivered very strong cloud growth in a tough budgetary environment.

Kingsley Crane^ Okay. Thank you. That's it for me.

Operator^ Thank you.

Our next question comes from the line of Shrenik Kothari from Baird. The line is open.

Shrenik Kothari^ Thanks for taking my question. Great execution. Shlomi, you mentioned it's no longer a question of if companies will adopt this end-to-end security, but when?

Of course you showcased hundreds of logos at SwampUp and saw these, I would say larger deals are showing up in RPO. Just curious, are customers still in early stage of deploying these advanced securities?

How are you helping them overcome the deployment integration bottlenecks?

Are you needing to ramp up your sales marketing efforts?

Are you really pushing hard on training support about deeper integration into the DevSecOps workflows?



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Just curious or be it both. Then I have a quick follow-up.

Shlomi Ben Haim^ Well hi, Shrenik. I hope that I heard the question right. If you're asking about our strategy of how to take these technologies that was some of it innovated and announced at SwampUp, how we take it to the market, I guess that this is what you asked.

Our strategy is that the JFrog platform will consolidate all the solutions that you need around software supply chain management with one platform. Therefore, the end-to-end security from the creation of the code all the way to production including runtime security that was announced at SwampUp, and therefore the MLOps technology following the acquisition of Qwak to provide our customers the ability to use the same platform for MLOps and not just DevOps and DevSecOps.

All of these head-ons are available for our customers on the Enterprise-X and the Enterprise Plus subscription.

If you are not there, it will generate an upgrade. If you are there, it will be a buy-seat mechanism that will allow them to implement these technologies on top of the platform.

Shrenik Kothari^ Got it. I appreciate it. Very helpful. A quick follow-up, Ed and Shlomi, feel free to chime in. In terms of the strategic partners with GitHub, which includes unification of the advanced security and bringing AI to co-pilot integration, can you give us some color in terms of this deeper integration?

Is it already playing or how is it expected to play out in perhaps 2025 specifically and beyond?

How should we think about that influencing overall adoption and retention amongst the 7% customer base, of course upsell and what are the key APIs that you're tracking to measure that?

Thanks.

Shlomi Ben Haim^ Wonderful question. There are actually three factors that will determine whether this partnership is good or not.

One is the retention of our customers. Two, bringing prospects and new customers on board.

Three is to generate more innovation together with our partners.

Some of it might be a business innovation of what we can sell together.

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Currently, we are at the face of co-engineering and pushing very hard including just a week ago at GitHub Universe the GitHub conference that we announced more capabilities with co-pilot.

We are on all three fronts, DevOps, security, and AI with co-pilot. At this moment, we are not pursuing a co-sell mechanism with Microsoft.

We might consider it in the future together with our partners.

Shrenik Kothari^ Got it. Thanks a lot. Appreciate it.

Operator^ Thank you.

Our next question comes from the line of Miller Jump with Schwartz Securities. Line is open.

Miller Jump^ Great. Thank you for taking the question. I want to go back to your comments on Ryan's question earlier. You talked about cloud migration causing some customers to kind of drag their feet signing deals on the self-managed side as well. Just looking at the top line this quarter, self-managed was the larger driver of outperformance against our estimates.

I'm just trying to understand, are customers getting more comfortable staying on-prem, or are you saying there's no change there?

Shlomi Ben Haim^ No. Actually, if you remember, Miller, what we called the last quote of the twilight zone, this is where they are staying because they know strategically that they are going to migrate to the cloud, but they don't have the blessing of the business, of their managers, or even the bold to complete the process.

So while staying on the self-hosted, not because they chose to, but because they don't have any other options, they cannot invest in adopting security, in adopting MLOps, in adding more servers.

So what happens is that they keep the business running with what they have for years, and they are planning with a strategic migration to the cloud.

We believe that this momentum that we saw in Q3 with the big deal will go on to the fourth quarter in 2025, but we have to be very conservative because we are not yet out of the woods.

Miller Jump^ Understood.

Okay.

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So I guess I also just want to double-click on the consolidation opportunities that you all called out.

In these cases, are you having to wait for other vendors' contracts to end to expand with the customer?

And if that is the case, do you expect Q4 to actually have relatively more of those opportunities than the rest of the year?

Shlomi Ben Haim^ Consolidation is a matter of what technology we are talking about. I never seen an enterprise customer that never had a security vendor or even five or 10 covering their software supply chain, and nobody just switched from one tool to another over a day not even over a year.

But what we hear from the CIO, what I hear from our customers, what you heard at SwampUp when you met our customers, is that they want to consolidate.

They don't want to have multiple vendors. They don't want to have a technology that is compromising on how they do software supply chain security.

So it would be probably in the beginning, running in parallel, and slowly kind of sunsetting the competitive point solution. This is what we hear from the market. This is being expressed very loudly by the CISOs and the CIOs of our customers.

Miller Jump^ Understood. Thank you. Thank you.

Operator^ (inaudible) from Bank of America. Your line is open.

Koji Ikeda^ Hi, Shlomi. Hi, Ed. Thanks for taking the question.

It's just one from me.

I wanted to double-click here on kind of the reservedness of the buyer into committing with JFrog on a bigger scale today.

So is there something very specific in the way that JFrog is being used or deployed within enterprises that's driving this more reserved posture?

And Shlomi, you maybe alluded to this a little bit in your answer to another question.

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It sounds like there's also a component of the buyer needing to catch up a little bit with the understanding of what JFrog is offering today to really invest in the future with JFrog. I'm just trying to understand this a little bit more. Thanks.

Shlomi Ben Haim^ Thank you, Koji.

So what is it that we see?

We see that in Q3, JFrog won three of the most sizable deals ever in the company's history. These deals were not born in Q3. They were born a year ago and even more.

Some of our customers not only grew by doubling their spend on JFrog, but by adding more technologies, not just DevOps, now also DevSecOps, and even other technologies like the Connect for IoT devices.

Strategically, our customers start to understand that software supply chain needs to be managed by one platform and they have to choose.

I'm very glad that they chose JFrog.

What the buyers, to your question about the buyers, they start to see the JFrog budget line growing. And from being discussed on a VP level to a fee level, board level, this is a completely different playbook and we are very happy that we got there. This is what we saw in the pipeline when we communicated Q2. This is what we see now.

But again we would be very conservative with what happened in the macro and with the size of the deals that are not being signed by a CEO minus four, minus five, but sometimes by the Board approvals themselves.

Koji Ikeda^ Thanks, Shlomi.

Operator^ Thank you.

Our next question comes from the line of Andrew Sherman from TD Cowen. Your line is open.

Andrew Sherman^ Oh, great. Thank you. And congrats on the quarter. Great to hear about these big deals closing. Wondering about Q4 pipeline. Are there more of these type of big deals in the pipeline and what's your visibility into those and how have you factored in closure rates and the timing of any deals there?

Shlomi Ben Haim^ Yes. That's obviously something that we see for a few quarters, right?

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There is no pipeline for big deals or mega deals, as we call it, the JFrog that was born a quarter before.

So the answer is yes, we see those sizable deals in the future quarters as well pipeline, but we did the pipeline and we are looking at every deal from the bottom up and top down.

We communicate with our customers about the strategy.

Sometimes it's even our decision to push it a bit because we can win a deal now and maybe miss the opportunity to add security to it.

So when we strategically speak with our customers, we might take a bit longer. It's not only the macro, it's also the strategy of the adoption of the full platform.

So to optimize the opportunity and also to take into consideration the macro environment, we are de-risking the pipeline on a daily basis as we reported before.

To your question, we are very excited about what we see in the pipeline moving forward.

Andrew Sherman^ That's great, Shlomi.

One more for you.

On the AI front, when do we think we could see that show up in revenues for you?

I know we're still early, but these AI binaries are huge and that could potentially drive more storage revenue for you, I would think but we'd love to hear your thoughts on that.

Shlomi Ben Haim^ Yes, great question. AI, let's make it very clear. Putting flap aside, AI equals models. Models equals binaries.

So if we plant the right seeds in the ground now we will see the food. The question about when, I wish I had an answer for you.

I know that all of my customers including the paying customers for the MLOps solution, are at the experiment mode. And most of them, even those that were brave enough to take it to production, are looking at compliance and regulation and security and adoption and scale and budget.

So many open questions there that I think it will take a bit longer than just a few quarters. When we will have more clarity, obviously we will include it in our guidance. Currently, we are investing in R&D and paving the path for future growth with this growth engine.

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Andrew Sherman^ Excellent. Thank you.

Operator^ Thank you.

Our next question comes from the line of Jeff Hickey from UBS. The line is open.

Jeff Hickey^ Great. Thanks so much for taking just a couple questions. I wanted to ask if we could get any color on monthly customers.

I think you described steady usage patterns on the cloud side amongst committed customers. Last quarter, you had de-risked the cloud guide this year, partially from the monthly side. Are those trends that you're seeing there really consistent with where we were back in early to mid-August, or has there been any kind of change from what you're seeing internally?

Shlomi Ben Haim^ Yes. Thank you, Jeff. I'll start, and Ed will chime in. What we are strategically doing is incentivize our cloud monthly users to go annual. The main reason for that is not only growth, but reducing volatility. This is what we discussed last quarter. What we see is that the retention of our customers in the cloud is high.

We see two groups, those that are ready to go annual and to become enterprise, not only by their profile, but also by their usage, and those that are happy with a couple of thousands of dollars of ARR a year. The platform will serve them, but I don't see them as top of the funnel. This is what we de-risk.

Currently, we are very happy with the progress of migrating some of them to an annual base, and hopefully to reduce the volatility and the pull-up movement that we had last year. Moving on to the future, we want to see more of these customers adopting more than just the DevOps monthly solution, but also security. This will be part of our strategy for upgrades in 2025.

Ed Grabscheid^ And just to carry on with what Shlomi is saying, the cloud usage for those monthly customers has been stable compared to what we saw previously and it's consistent with our expectation. Those monthly customers are around 20% and have come down over time.

We expect, as we continue to move forward with the strategy of moving those monthly customers to annual customers that the contribution from them would start to decline over time.

Jeff Hickey^ Got it. That's really helpful, color.

Then one quick follow-up. Ed, just on the net dollar retention guidance, reiterating for mid-teens, you're at 117 right now and that's a trailing 12-month metric.

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Is there anything else we should keep in mind as we're just thinking through the growth algorithm, outside of maybe just the relative conservatism you mentioned earlier?

Ed Grabscheid^ Yes, Jeff, that's a good question.

I wouldn't take too much from that besides the fact that we remain very conservative in the outlook approach, and that's being factored into the guidance in the mid-teens that we're projecting going forward.

Jeff Hickey^ Great. Thank you.

Operator^ Thank you.

Our next question comes from the line of Brad Reback from Stifel. The line is open.

Brad Reback^ Great. Thanks very much. Ed, can you give us a sense of the \$74 million sequential increase in RPO?

How much of that was current RPO versus long-term?

Ed Grabscheid^ Sure.

We had \$245 million of that is current RPO, and growth on our current RPO is around 24% on a year-over-year basis.

Brad Reback^ Great. That's super helpful.

Then last numbers question, hopefully for the night. Gross margin obviously down-ticked each quarter this year, and I know you talked about 83 to 84 for the year, but looks like will exit less than that. How should we think about that stabilizing going forward?

Is it in the low 80s or maybe into the 70s?

Thanks.

Ed Grabscheid^ So what we see is we start to see more cloud revenue and a change in the mix.

We have a lower margin profile for our cloud.

We continue to focus on optimization in terms of our cloud cost of revenue.

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However as that mix shifts, you would expect that gross margins would start to decline over time. This is what we saw during Q3.

We had a greater mix in terms of our cloud on a year-over-year basis.

39% of our revenue is coming from cloud versus last year at 34%.

I would expect as we move forward and that becomes a bigger piece of our total revenue, our gross margins would start to decline.

Brad Reback^ Got it. Thanks very much.

Operator^ Thank you.

Our next question comes from the line of Jason Celino from Keybank Capital Markets. Your line is open.

Jason Celino^ Hi, thanks for fitting me in. Actually a free cash flow question, so not quite the last numbers question of the night.

Looks like the free cash flow guide is coming up nicely by more than kind of the revenue raise. Just curious what's kind of leading to that.

Ed Grabscheid^ Well what's leading to that is the fact that we closed several very, very large deals is what we talked about during the quarter.

So the execution during the quarter with three of the largest deals in the history of the company is contributing to the free cash flow.

In addition to just a very strong collections in general, we do have some customers that are a multi-year that pay up front.

But the timing of the free cash flow can shift from quarter to quarter.

Jason Celino^ Okay. That makes sense.

Then Shlomi, with the GitHub partnership, I think you talked about being in the co-innovation phase at the moment.



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I'm curious if you can share any anecdotal top-of-funnel metrics or anecdotal drivers for advanced security curation, like what that looks today maybe before versus before the GitHub partnership announcement.

I guess what I'm trying to ask is if you've seen some media pipeline or top-of-funnel interest over the last couple of quarters.

Shlomi Ben Haim^ Yes. That's a good question.

I don't think that any of our customers will buy security only because of the co-engineered integration with GitHub or the single pane of glass for security on one platform.

But it's a very strong differentiator. And even customers that are using GitHub, customers that are using

Atlassian big bucket, even these customers are exposed to this integration of the best of breed platform, JPOG and GitHub, and they are sensitive to it.

It's also being presented that way on our pricing page as a feature, as a differentiator for Enterprise X and Enterprise Plus users.

So I think it creates some momentum on the top-of-funnel, but it cannot be the only reason.

It's just one of the catalysts.

Jason Celino^ Okay. No. That makes sense. Thank you.

Operator^ Thank you.

Our next question comes from the line of Jason Ader from William Blair. Your line is open.

Jason Ader^ Yes. Thank you. Good afternoon, guys. Just a couple of quick ones for me. Ed, I just want to clarify. Did you say that the self-managed subscription business would have a similar growth rate in Q4 as Q3?

Did I hear that incorrectly?

Ed Grabscheid^ I didn't.

I don't believe I said that, but what I would -- Jason, the way to think about it is Q4 is our highest renewal quarter. Therefore, the self-managed, because of the upfront portion, you would see that we would get revenue contribution in Q4.

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We expect that the self-managed growth will be basically in line with what we've seen over the last few quarters.

Jason Ader^ Okay.

I'm just trying to square that because to get to 40% growth in cloud for the full year, that would assume around \$48 million in cloud-managed subscription in Q4, which means that self-managed would have to be down somewhat sequentially, and 8% growth year-over-year, which would be a much lower growth rate, not even double-digit growth rate in self-managed, unless I'm missing something like with licenses, if licenses are way down in Q4.

But otherwise, the math just doesn't work, so I'm trying to figure that out.

Ed Grabscheid^ Your self-managed will be around the same rate, maybe up or down a 1percentage point, most likely down.

Jason Ader^ Okay but then you can't get to 40% for the year on cloud. That's the point.

It's just the math doesn't work. You gave 114 million midpoint guidance. Maybe we could take this offline, but the math doesn't work.

Ed Grabscheid^ We guide it to around 40% for the year.

Jason Ader^ Okay.

If your growth rate in self-managed is close to the growth rate in Q3 year-over-year, the cloud number will not get you to 40% growth.

It'll get you to like 38% for the year.

I'm just telling you that's the math.

Ed Grabscheid^ Yes. That's correct.

It's around 40%, and we'll talk to you after the call.

We can help you with that, but it's around 40% for the full year.

Jason Ader^ Okay but it sounds like it's going to be below 40%.

Shlomi Ben Haim^ Jason, I think we can take it as a follow-up.

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Our guidance for the street is 40% on the cloud, the self-fostered with no significant change. This is what we guided. This is what we think the pipeline, and we can do the math later if you want, but that's what we committed.

Jason Ader^ Okay. All right. Then on the net retention, I know you said sort of mid-teens exiting the year, right?

I just want to get a sense if you believe net retention.

First of all, do you think it's going to be stable with Q3 and Q4?

Then what are the puts and takes kind of going forward, and where do you expect that to get to, let's say in a year?

I mean is there a specific target in your mind, and then how do you get there?

What drives that to that target?

Ed Grabscheid^ Yes.

So we're focused for this call on Q4 and the full fiscal year, and what we see going into Q4 is stabilization of our net dollar retention rate around the mid-teens.

Shlomi Ben Haim^ As predicted.

Jason Ader^ Got you.

I know you're not giving guidance, but whatever the puts and takes, like what drive net dollar retention higher?

Would it be security?

Would it be some of these larger renewals?

I'm just trying to, again I'm just trying to understand like what's...

Shlomi Ben Haim^ Jason, net dollar retention is triggered by security add-ons and cloud migration.

Jason Ader^ Security add-ons and cloud migration.

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Okay. Thank you.

Operator^ Thank you. Due to time constraints, we will end the Q&A session here. I will now turn the call back over to Shlomi for closing remarks.

Shlomi Ben Haim^ Yes. Hi. Well guys, we had a very strong quarter. This is not happening by itself. I have 1,700 heroes working for JFrog, resilient, smart, and committed to deliver a very strong 2024, and we will deliver.

We want to thank you for joining us here today and from the Swamp, may the Frog be with you. Take care.

Operator^ This concludes today's call. Thank you for joining. You may now disconnect.