[Cheri Holmes]

Thank you for joining us today for GitLab's first quarter of fiscal year 2023 financial results presentation. GitLab's co-founder and CEO Sid Sijbrandij and GitLab's Chief Financial Officer, Brian Robins, will provide commentary on the quarter and fiscal year.

Please note we will be opening up the call for panelist questions. To ask a question please use the chat feature and post your question directly to "IR Questions" using the drop-down menu.

Before we begin, I'll cover the Safe Harbor statement:

During this conference call, we may make forward-looking statements within the meaning of the federal securities laws. These statements involve assumptions and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those discussed or anticipated. For a complete discussion of risks associated with these forward-looking statements in our business, we encourage you to refer to our earnings release distributed today and our SEC filings, including our most recent quarterly report on Form 10-Q.

Our forward-looking statements are based upon information currently available to us. We caution you to not place undue reliance on forward looking statements, and we do not undertake any duty or obligation to update or release any revisions to any forward-looking statement, or to report any future events, or circumstances, or to reflect the occurrence of unanticipated events.

In addition, during this call, certain financial performance measures may be discussed that differ from comparable measures contained in our financial statements prepared in accordance with U.S. generally accepted accounting principles referred to by the Securities and Exchange Commission as non-GAAP financial measures. These non-GAAP measures are not intended to be a substitute for our GAAP results.

We believe that these non-GAAP financial measures assist management and investors in evaluating our performance and comparing period-to-period results of operations as discussed in greater detail in the supplemental schedules to our earnings release. A reconciliation of these non-GAAP measures to the most comparable GAAP financial measures is included in our earnings press release submitted to the SEC.

These reconciliations together with additional supplemental information are available at the Investor Relations section of our website. A replay of today's call will also be posted on the website.

I will now turn the call over to GitLab's co-founder and Chief Executive Officer, Sid Sijbrandij.

[Sid Sijbrandij]

Thank you for joining us for our fiscal year 2023 first quarter earnings presentation.

Before discussing the quarterly results, as I stated last quarter, we remain deeply saddened and concerned by the unprovoked and unjustified Russian military invasion of Ukraine, the horrific acts of violence against a sovereign nation and its people, and the terrible impact to all of those in the region. We continue to work directly with the small number of impacted GitLab team members in the region, and are committed to provide ongoing assistance and support until the conflict is over.

Now, turning to our results. We believe every company needs to become a software company, regardless of the macroeconomic environment. Our One DevOps Platform drives compelling business outcomes providing our customers with what we believe to be a distinct competitive advantage of being able to build, deploy, and secure software better. Our pipeline of opportunities remains strong across the globe, as we are addressing a large and early stage market opportunity.

In the first quarter of fiscal 2023 we exceeded our guidance with revenue of $87.4 million dollars. This represents revenue growth of 75% year over year. Our Dollar Based Net Retention Rate remained strong, and exceeded our reporting threshold level of 130%. The primary driver of this metric continues to be an increasing number of users at existing customers, which we believe demonstrates the significant return on investment we provide.

We are committed to growing in a responsible manner, and believe our first quarter results demonstrate the attractive unit economics underlying our business. While continuing to accelerate revenue growth, we also were able to show significant operating leverage. Our non-GAAP operating margin improved by 1,700 basis points year over year, and by 700 basis points quarter over quarter.

Underpinning this acceleration in revenue growth is both a higher velocity of new customer wins, as well as larger strategic commitments. We achieved momentum in growth in both one million dollar deals and $500,000 dollar deals. In addition, we continue to experience strong success in upgrading existing customers and signing new customers to our Ultimate tier. Ultimate adoption represented the highest proportional mix of new logos landed during our first quarter of 2023. Ultimate remains our fastest growing tier by addressing use cases for security, compliance, and portfolio management.

Today's macro economic environment is extremely volatile. There are a number of challenges that very few would have predicted just a few short months ago. Our customers and the economy at large are grappling with the war in Ukraine, ongoing disruptions related to the pandemic, labor shortages, rising inflation, increasing interest rates, and dislocated supply chains, among other issues.

I want to dive more deeply into the broader factors driving our financial results. There are four main reasons why we believe GitLab is well positioned to achieve durable growth with improving unit economics over time.

First, we believe the business imperative for digital transformations remains strong regardless of macro conditions. We are in the midst of a generational disruption whereby we believe all companies are becoming software-driven businesses. This requires an increasing number of companies to embrace modern software development practices to deliver captivating mobile and digital experiences to their customers, as well as engage in cloud migrations designed to provide agility and future-proof their development, operational, and infrastructure requirements. In essence, in a world where software defines the speed of innovation, we believe every company has to become great at developing, securing, and operating software to remain competitive.

Second, we believe the market we are targeting is very large and early stage in nature. We believe our One DevOps platform is addressing an estimated $40 billion opportunity. We're focused on selling a business outcome and a time to value. Thus, our competition is largely the Do It Yourself, known as DIY DevOps solutions that companies have in place today.

Third, we are addressing this estimated large market opportunity with a compelling platform. GitLab's One DevOps platform provides one interface, one data store, one set of reports, one spot to secure your code, one location to deploy to any cloud, and one place for everyone to contribute. This empowers all of an enterprise's teams, including development, security, operations, IT, and business, to collaboratively plan, build, secure, and deploy software across an end-to-end unified platform. We believe our platform is the only true cloud-independent end-to-end platform that brings together all DevOps capabilities in one place. Combining all DevOps capabilities in one platform is so central to GitLab that we have incorporated the DevOps infinity loop into our new logo as part of a brand refresh we undertook late in the first quarter.

Fourth, one of our CREDIT values, Iteration, is deeply ingrained and we believe creates competitive differentiation. We strive to do the smallest thing possible as quickly as possible. This value leads to more improvements that address customer problems in a shorter time frame.

To provide some examples of this innovation, in the first quarter we delivered enhancements in our Ultimate product in the areas of security, compliance, and planning.

- Security needs are the main drivers of DevSecOps. Our customers are looking to solve the pain point of a fragmented security experience which slows down innovation and creates more risk. Our recently launched integrated security training functionality aims to help developers improve their efficiency and ability to address security issues as part of their normal development workflow. GitLab provides a comprehensive set of security scanning tools that can identify all types of security issues. Security findings are presented in merge requests, pipelines, and in a dedicated Vulnerability Report. When available, a recommended solution is given.

- Equally important to security is compliance and this is an area where a single DevOps Platform meets an important enterprise need. We released individual compliance violation reporting which improves our Compliance capabilities to capture a single view of projects. The compliance report now reports every individual merge request violation for the projects within a group. This is a huge improvement over the previous version, which only showed the latest merge request that had one or more violations. The new version allows you to see history and patterns of violations over time.

- Truly automating end to end software development and delivery begins with planning and this is an area where all teams need to contribute. We introduced functionality that enables teams to collaborate better and track their dependencies across GitLab groups. Effective dependency management is a key component of reducing variability and increasing predictability in value delivery.

We're excited about the improvements in the product and we believe the four factors mentioned earlier will allow us to capitalize on a long term, durable growth opportunity. This growth opportunity consists of helping companies transition from DIY DevOps to a DevOps Platform. Most companies are still practicing DIY DevOps as they are juggling many different tools, plus homegrown integrations related to code development, deployment, and operations. These integrations take more and more effort and over time it starts looking like digital duct tape. This results in a disjointed organization which constrains their ability to deliver software innovation.

We believe the digital duct tape problem is increasingly recognized among both customers and prospects. This is resulting in a broadening of the market awareness for The One DevOps platform. We are seeing a more frequent number of engagements where prospective buyers have gone from not realizing that their DIY DevOps approach was holding them back, to now identifying that their complex and disjointed toolchain is the issue.

From a business perspective, that means we can deliver both cost savings and productivity gains to our customers. We aim to accomplish this by eliminating the direct and indirect costs associated with manually integrating the complex toolchains inherent with the DIY DevOps approach.

We believe our single application helps companies to deliver software faster and improve organizational efficiency, security, and compliance. Based on a study conducted by Forrester Consulting, and commissioned by us, GitLab customers saw a 407% return on investment within three years of deployment of our DevOps platform. These benefits can be broken down into four categories. First, there is a direct software tool license cost reduction, as customers are able to eliminate point vendors and consolidate software spend. Second, customers can remove tool chain integration costs. Third, customers realize greater productivity and a better overall developer experience. Finally, revenue acceleration can be achieved due to faster innovation, as customer-facing applications can be designed and deployed faster.

The One DevOps platform delivers positive business outcomes for a very wide range of customers – from single users to tens of thousands of users, from small organizations to Fortune 100 companies, from A to Z - Aerospace to Zoology. We remain encouraged with the increasing number of strategic conversations happening at the C-level. We continue to see increasing traction with our channel partners. Over the last year, we have increased our number and depth of alliance partners. We have also continued to invest in our partner program.

Please let me give you some customer examples representing both new logo wins and expansions:

First, a UK-based retail chain with over 400 outlets and 16,000 employees that sells household and homeware goods became a GitLab Ultimate SaaS customer in the first quarter of FY 2023. They chose GitLab to replace their Do-It-Yourself DevOps approach. Their existing toolchain contained a broad mix of tools, which was holding back their culture shift to DevOps and Agile practice. This shift is key to their future digital transformation strategy.

Second, a North-American-based technology company uses GitLab to drive efficiency and productivity throughout their development teams, primarily utilizing SCM and CI/CD capabilities. In late 2021, they began experiencing outages with another vendor that became worse over time. They evaluated GitLab's package management capabilities and migrated their usage to improve performance and continue enabling developer productivity. In addition, they implemented more advanced infrastructure to allow them to scale, partnering with GitLab's Professional Services team. Through dedicated training, workshops, and strategic planning, this company was able to quickly expand and drive outcomes around developer self-service, high availability, and automation, leading to growth in fiscal Q1 2023 that brought them to over 18,000 Premium seats.

Third, Trendyol (*sounds like tren dyaal*) is the largest e-commerce company in Turkey. They serve more than 30 million shoppers and deliver more than 1 million packages every day. As Trendyol has expanded its stable of services and platforms, its developer teams have amassed a diverse and complex assortment of DevOps tools. Adopting GitLab Premium has allowed its DevOps teams to simplify operations and organize using a single platform. As a result, Trendyol has experienced a 30% improvement in developer productivity, a 60% reduction in build times, and the ability to launch a new application 50% faster.

In summary, I am extraordinarily pleased with the quarter and am grateful to all our team members, partners, the wider GitLab community, and customers who contributed to our results. As we look forward, we are seeing continued strong momentum for customers adopting our One DevOps platform.

I'll now turn the call over to Brian Robins, GitLab's Chief Financial Officer.

[**Brian Robins**]

Thank you Sid, and thank you again to everyone joining us. I will quickly recap our first quarter results for FY 2023 and key operating metrics, introduce guidance, and conclude with some additional context regarding our business and how strong demand for our DevOps platform translates into a strong financial profile.

First, let me turn to the quarter. We are pleased with our results, as our business continues to perform at a very high level, demonstrating improving unit economics, despite macroeconomic volatility.

We continually hear from customers that GitLab is a highly strategic platform for them. Our platform is offered with a free version and two paid subscription tiers, which we call Premium and Ultimate. Our paid tiers are priced per user with different features per tier. Every user within an organization is on the same plan, which helps to keep our business model transparent and easy to understand.

Our customer base is very well diversified across industry verticals, customer sizes, and geographic regions. We did not see any slowdown in any key business metrics during the quarter. In fact, our pipeline in EMEA is actually stronger than it's ever been.

We are also happy with how we executed on team member hiring, as we added more new people to the organization this quarter than in each of the previous eight quarters. We remain steadfast in our commitment to growing in a responsible manner. We also view the uncertainty in the macro economy as a benefit for hiring new team members.

Now, turning to the numbers. Revenue of $87.4 million this quarter represents an increase of 75% organically from the prior year. As of quarter end, we had over 5,100 customers with ARR of at least $5,000, compared to over 4,500 customers in the prior quarter, and over 3,100 customers in the prior year. This represents a year-over-year growth rate of approximately 64%. Currently, customers with >$5,000 in ARR represent approximately 95% of our total ARR.

Just a reminder, with ASC 606 we have some up front revenue recognition that we analyze on an annual basis. This may cause some fluctuations to the amount of license revenue we are required to recognize upfront. If we normalized for the change this quarter, we still grew 70% year over year.

We also measure the performance and growth of our larger customers, who we define as those spending more than $100,000 in ARR with us. At the end of the first quarter of FY 2023, we had 545 customers with ARR of at least $100,000, compared to 492 customers in the prior quarter, and 324 customers in the first quarter of FY 2022. This represents a year-over-year growth rate of approximately 68%.

As many of you know, we do not believe calculated billings to be a good indicator for our business, given that prior period comparisons can be impacted by a number of factors, most notably our history of large prepaid multi-year deals. This quarter total RPO grew 92% year over year to $336 million.

We ended our first quarter with a Dollar-Based Net Retention Rate exceeding our reporting threshold of 130%.

The Ultimate tier is our fastest growing tier, now representing 39% of Annual Recurring Revenue for the first quarter of FY 2023, compared with 26% of Annual Recurring Revenue in the first quarter of FY 2022, and continuing to grow in excess of 100%.

Non-GAAP gross margins were 90% for the quarter, which compares to 89% in the immediately preceding quarter and 87% for the first quarter of fiscal year 2022. As we move forward, we are estimating a moderate reduction in this metric due to the rapid year-over-year growth rate of our SaaS offering.

We saw improved operating leverage across the business this quarter, largely driven by revenue outperformance. Non-GAAP operating loss was $24.8 million, or (28%) of revenue, compared to a loss of $22.5 million, or (45%) of revenue in Q1 of the last fiscal year. Q1 FY23 includes $3.7 million of expenses related to our JV and majority owned subsidiary.

Operating cash use was $28.2 million in the first quarter of FY23, compared to $21.5 million use in the same quarter last year.

In summary, we performed extraordinarily well during the first quarter of FY 2023 on both the top and bottom line and believe our business is set up for continued strength.

Now let’s turn to guidance:

For the second quarter of FY 2023:

- We expect total revenue of $93.5 million to $94.5 million, representing a growth rate of 61% to 63% year-over-year.
- We expect a non-GAAP operating loss of $34.0 million to $33.0 million.
- And, we expect a non-GAAP net loss per share of $0.24 to $0.23 assuming 147 million weighted average shares outstanding.

For the full year FY 2023:

- We now expect total revenue of $398.0 million to $402.0 million, representing a growth rate of 58% to 59% year-over-year.
- We expect a non-GAAP operating loss of $130.5 million to $127.5 million.

- And, we expect a non-GAAP net loss per share of $0.93 to $0.89 assuming 148 million weighted average shares outstanding.

As Sid mentioned earlier, we believe we are addressing a very substantial market opportunity that is currently underpenetrated, and that we're well positioned to capture an outsized portion of it. Despite the volatility in the macroeconomic environment in the first quarter, we have not seen any impact to our business. There has been no philosophical change in how we run the business to maximize shareholder value over the long term. We continue to be focused on growth while driving incremental improvements in the unit economics of our business.

A few more details on guidance and our model. As I mentioned last quarter, we will incur approximately $20 million of incremental expenses related to the resumption of travel and in-person customer and marketing events, as well as new public company costs that were not incurred in the first three quarters of FY22. In addition, we now forecast approximately $22 million of expenses related to JiHu, our China joint venture. This compares with $12 million of combined JiHu and Meltano costs in FY22. I'd like to note we have deconsolidated Meltano, our majority owned subsidiary.

On a percentage basis, our new annual FY2023 guidance implies non-GAAP operating margin improvement of approximately 700 basis points year-over-year at the midpoint of our guidance ranges. Over the longer term, we believe that a continued, targeted focus on growth initiatives and scaling the business will yield further improvement in unit economics.

With that, we will now move to Q&A. To ask a question please use the chat feature and post your question directly to "IR Questions." We are ready for the first question.