

**GitLab Q2 FY 25 Earnings Call**  
**Prepared Remarks**  
**September 3, 2024**

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**Kelsey Turcotte**

Good afternoon, we appreciate you joining us for GitLab's second quarter fiscal year 2025 financial results conference call. GitLab's co-founder and CEO, Sid Sijbrandij, and GitLab's Chief Financial Officer, Brian Robins, will provide commentary on the quarter and guidance for the fiscal year.

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

I would like to direct you to the cautionary statement regarding forward-looking statements on Page 2 of our presentation and in our earnings release issued earlier today, which are both available under the Investor Relations section of our website. The presentation and earnings release include a discussion of certain risks, uncertainties, assumptions and other factors that could cause our results to differ from those expressed in any forward-looking statements within the meaning of the Private Securities Litigation Reform Act.

As is customary, the content of today's call and presentation will be governed by this language. In addition, during today's call, we will be discussing certain non-GAAP financial measures. These non-GAAP financial measures exclude certain unusual or non-recurring items that management believes impact the comparability of the periods referenced. Please refer to our earnings release and presentation materials for additional information regarding these non-GAAP financial measures and the reconciliations to the most directly comparable GAAP measure.

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

**Sid Sijbrandij**

Thank you for joining us today. I am excited to share our second quarter results with you and talk about our market-leading DevSecOps platform and its AI capabilities.

We continue to deliver strong results that reflect our team's focus on customers, helping them realize faster time-to-value and customer-specific business outcomes. Second quarter revenue increased 31% year over year to \$183 million, driven by new logos like Delaware North and Guild Mortgage as well as expansion by existing customers. Our non-GAAP operating margin also meaningfully exceeded our expectations in the quarter, increasing over thirteen hundred basis points year over year to 10%. This underscores our continued commitment to responsible growth.

Now more than ever organizations need to deliver software faster to respond to intense competition and accelerate performance. This is what our DevSecOps platform is purpose built to do. We bring together developers, security experts, and operations teams to better collaborate, improve quality, and prioritize security – all while decreasing software delivery cycle times. And with AI integrated throughout the software development lifecycle, GitLab customers can take those gains even further.

Enterprises are focusing on real results and real use cases for AI. They are looking beyond just code generation. They are looking to integrate AI into all aspects of software development to deliver tangible results. This requires a strategic approach that aligns AI solutions with business goals, provides measurable benefits, and improves security. And, this where GitLab excels.

Our customers are excited about the meaningful productivity and security benefits of GitLab Duo, which has demonstrated up to 90% reduction in time spent on toolchain operations, 50% faster lead time, and 50% faster vulnerability detection.

They are also excited about our ability to help them drive real business outcomes. For example we recently heard from the State of Washington Public Disclosure Commission about GitLab Duo. They mentioned that GitLab Duo is improving their developer productivity and effectiveness which is helping their teams focus more on the substance of their work.

AI is also resulting in larger deal sizes. Barclays purchased GitLab Duo seats this quarter coupled with additional Ultimate licenses. They are rolling out GitLab Duo to thousands of

developers so they can take advantage of AI-powered capabilities in the same platform where they're building and deploying their code. It's exciting to see large enterprises like Barclays adopt AI as a natural step for simplifying toolchains and improving their developer experience.

F5, a multi-cloud application security and delivery company, is yet another customer who is adopting GitLab Duo after seeing value from Ultimate in driving improved developer experience and productivity. Developers who participated in F5's pilot of GitLab Duo shared that our AI capabilities are easy to use and helped them to be more productive in their work. Now, F5 is rolling out GitLab Duo to all of the company's two thousand developers.

The KeyBank team also wanted to improve developer productivity, so they adopted GitLab Duo. Combined with our DevSecOps platform, GitLab Duo is helping KeyBank developers resolve pipeline issues 6 times faster. GitLab Duo is KeyBank's first approved AI technology due to our focus on transparency and privacy first.

It's the combination of both our end-to-end platform and AI that is driving results for our customers. According to Gartner, "By 2027, the number of platform engineering teams using AI to augment every phase of the SDLC will have increased from 5% to 40%." This is why we are very pleased with the outcomes of two of Gartner's recent Magic Quadrants.

First, GitLab was recently recognized as a Leader in the first-ever 2024 Gartner® Magic Quadrant™ for AI Code Assistants. We believe this recognition highlights our commitment to delivering AI-powered capabilities that accelerate software delivery, enhance security, and drive innovation for our customers.

And, for the second year in a row, GitLab was recognized as a Leader in Gartner's 2024 Magic Quadrant for DevOps Platforms. We were positioned highest in both our Ability to Execute and our Completeness of Vision.

Our market leadership comes from our integrated security and compliance capabilities, deployment flexibility, and our unified data store. This provides end-to-end context across an organization's entire software development and deployment workflow.

Customers realize significant return on investment from adoption of our DevSecOps platform. Our new Forrester study on the Total Economic Impact of GitLab Ultimate found that organizations can achieve a 482% return on investment over 3 years. That's a nearly 60 percentage point increase over the last time we conducted this study two years ago. These results are based on our continued focus on increasing developer productivity, improving developer experience, accelerating feature delivery, improving security, and toolchain consolidation.

Toolchain consolidation and related benefits are mentioned frequently by our customers. In fact, in our annual survey of more than 5,000 DevSecOps professionals, 62% reported that their teams use more than 5 tools. And 64% want to consolidate their toolchain to drive efficiencies. This presents a tremendous opportunity for us as a platform to allow customers to consolidate vendors and reduce total cost of ownership.

One of GitLab's strengths is our ability to help customers replace legacy point solutions. For example, by consolidating on GitLab, Lockheed Martin managed to run CI pipeline builds 80 times faster, retired thousands of legacy CI servers, and reduced the time spent on system maintenance by 90%. That shift resulted in a significant increase in efficiency and productivity for Lockheed Martin.

Another example is one of the world's leading innovators in materials science. They are using our Enterprise Agile Planning add-on in combination with GitLab Ultimate to centralize planning tools into a single platform and improve visibility across the business.

Our customers also see security as a mission-critical need. Recent news cycles continue to increase awareness and urgency in the executive suites about the need to embed security at the earliest stages of software development. GitLab Ultimate helps solve this by shifting security left in the process, seamlessly instrumenting security checks and guardrails into the software development pipeline. This comprehensive approach not only earns the confidence of security leaders but also dramatically enhances the developer experience. By eliminating context switching and post-deployment firefighting, developers maintain their crucial state of flow. This results in faster, more secure code delivery. GitLab transforms security from a bottleneck into a strategic advantage in innovation and reliability.

Security and compliance capabilities are at the heart of Ultimate and set us apart from the competition. Ultimate is a particularly good fit for customers who require the enterprise-grade capabilities of our platform to meet constant demands to move faster and produce more software. In the second quarter 7 of our 10 largest deals were Ultimate purchases and 7 of our top 10 first order customers landed with Ultimate. At the end of Q2, Ultimate is now 47% of total ARR.

For example, the National Oceanic and Atmospheric Administration upgraded from Premium to Ultimate this quarter for its enhanced security and compliance. They also purchased GitLab Duo to improve their developer productivity.

Security is an important factor when customers adopt GitLab Dedicated, our single-tenant SaaS offering that is completely managed by GitLab. This offering is unique in the market and is especially valuable to companies with highly complex security and compliance requirements, and in regulated industries such as the public sector and financial services.

Snowflake recently migrated to GitLab Dedicated for source code management, CI, and security for their corporate environment. With GitLab Dedicated, Snowflake has the security of a single-tenant environment plus all the benefits of an end-to-end DevSecOps platform.

We are also excited to share that we have achieved the “In Process” designation for FedRAMP Moderate. GitLab Dedicated for Government helps public sector agencies and customers in highly regulated industries meet stringent security and compliance requirements from the U.S. government. We expect this designation to build upon the significant momentum we already have in the Public Sector.

In summary, Q2 was a good quarter and I’m proud of what we accomplished. I also want to thank the GitLab team for everything you have contributed to our ongoing success. Looking at the second half of fiscal 2025, I’m really energized by our ability to continue to drive customer success and the opportunity we have with AI to accelerate business outcomes.

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

**Brian Robins**

Thank you Sid and thank you again for everyone joining us today.

This quarter's results validates the value that our customers get from our integrated platform. In today's cautious macro economic environment, technology needs to deliver quick time to value while solving complex, impactful problems. That is what our AI-powered DevSecOps platform does. A great example is Intuitive Machines, which became the first U.S. venture in 50 years to land a spacecraft on the moon. Integral to the success of the project was GitLab. Our end to end platform enabled dozens of developers to write code, gain visibility, and collaborate on shared projects. The result was a 10X increase in release cadence, 99% reduction in downtime, and 20X decrease in pipeline execution time. Quoting one of the software leads on the project, "We absolutely could not have built a spacecraft in five years without GitLab. It helped us make history."

Turning to Q2 FY25, results exceeded our expectations as we delivered another quarter of greater than 30% top-line growth and significant year over year operating margin expansion.

Second quarter revenue reached \$182.6 million dollars, an increase of 31% from Q2 of the prior year.

We ended the quarter with a dollar-based net retention rate, or DBNRR, of 126%. Q2 DBNRR was driven by a combination of seat expansion, at approximately 40%; increased customer yield at approximately 50%; and tier upgrades, at approximately 10%. In addition, all of our historical cohorts continue to steadily expand.

We now have 9,314 customers with ARR of at least \$5,000 dollars, an increase of approximately 19% year over year, and contributed over 95% of total ARR in Q2. In particular, we monitor performance of our larger customer cohort of \$100,000 dollars plus in ARR which reached 1,076 this quarter, an increase of 33% year over year. In fact, more than 65% of new dollars invested by this cohort was in Ultimate this quarter.

A great example of customer success with these large customers is bol, one of the biggest online retailers in the Netherlands. As bol's revenue grew, they needed to keep up with the strict and constantly changing compliance regulations. With GitLab, bol can set up policies that

automate compliance configurations and checks, saving thousands of developer hours per month.

This quarter total RPO grew 51% year-over-year to \$747.9 million dollars, while cRPO grew 42% year-over-year to \$475.0 million dollars.

Non-GAAP gross margins were 91% for the quarter. SaaS now represents 28% of total revenue, in part a reflection of the considerable traction we are getting with GitLab Dedicated. Year over year SaaS revenue grew 46%. Given the continued high growth in SaaS, I am very happy with the team's attention to operating efficiencies which continues to result in best-in-class non-GAAP gross margins.

Once again we saw significant year over year improvement in operating leverage. Q2 non-GAAP operating income was \$18.2 million dollars, compared to a loss of \$4.3 million dollars in the second quarter of last year. This quarter we dropped all of our revenue outperformance to the bottom line which, in combination with the team's continued focus on smart resource allocation, translated to a non-GAAP operating margin of 10% compared to negative 3.1% in Q2 of last year. This once again demonstrates our commitment to responsible growth.

Cash from operating activities was \$11.7 million dollars in the second quarter compared to \$27.1 million dollars in the prior year period. Adjusted free cash flow was \$10.8 million dollars in the second quarter of FY 25 compared to \$26.8 million dollars in the prior year period. Q2 FY25 cash flow from operations and adjusted free cash flow reflect the timing of payments for our Q1 global employee gathering made in Q2.

Now, turning to guidance:

For the third quarter of FY25:

- We expect total revenue of \$187 million to \$188 million dollars, representing a growth rate of 25% to 26% year-over-year.
- We expect a non-GAAP operating income of \$19 million to \$20 million dollars.
- And, we expect a non-GAAP net income per share of \$0.15 to \$0.16, assuming 168 million weighted average diluted shares outstanding.

For the full year FY25:

- We expect total revenue of \$742 million to \$744 million dollars, representing a growth rate of approximately 28% year-over-year.
- We expect a non-GAAP operating income of \$55 million to \$58 million dollars.
- And, we expect a non-GAAP net income per share of \$0.45 to \$0.47, assuming 168 million weighted average diluted shares outstanding.

Separately, I would like to provide an update on JiHu, our China joint venture. In Q2 FY25 non-GAAP expenses related to JiHu were \$3.3 million dollars compared to \$4.8 million dollars in Q2 last year. Our goal remains to deconsolidate JiHu. However, we cannot predict the likelihood or timing of when this may potentially occur. Thus, for FY25 modeling purposes, we forecast approximately \$14 million dollars of expenses related to JiHu, compared with \$18 million dollars last year.

Thank you all for joining this afternoon. We delivered a strong Q2 and I am really pleased with how we are positioned as we head into the back half of FY25. We appreciate your support and look forward to speaking with many of you during the quarter.

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