

Datadog (DDOG US)

Entering an investment phase to drive growth in next stage

Datadog (DDOG US) released (13 Feb HKT) its 4Q24 financial results: total revenue was US\$737.7mn, up 25% YoY (4Q23: 27%; 3Q24: 26%), 3% better than Bloomberg consensus forecast; non-GAAP net income after tax adjustment was US\$177.5mn, up 14% YoY and 10% better than consensus, driven by better-than-expected operating leverage aided by solid revenue growth. For 2024, total revenue grew 26% YoY to US\$2.68bn, and non-GAAP net income grew 41% YoY to US\$653.8mn. With strong confidence in future business development, and an intent to invest for long-term growth opportunities, management guided to grow investment in both S&M and R&D in 2025, and guided for high-20s YoY growth in operating expenses (vs revenue growth guidance of 18-19% YoY). Although the incremental investment may weigh on near-term margin expansion, we remain positive on DDOG's long-term business development potential, driven by the secular trend of digital transformation and cloud migration. Our TP is US\$156.4 (was US\$154.3), based on 16.6x 2025E EV/sales (16.1x prior), inline with its two-year average plus one s.d. BUY.

- **Solid revenue growth driven by both customer and ARPU growth.** By the end of 2024, Datadog's platform had over 30,000 customers, up 10% YoY, while the number of large customers with an ARR of US\$100,000+ reached 3,610 during the same period, up 13% YoY and contributing 88% of the company's total ARR (4Q23: 86%), and the no. of customers with equal or greater than US\$1mn ARR rose to 462 (2023: 396). As of 4Q24, c. 83/50/26/12% of customers used more than 2/4/6/8 products of the company respectively, up by 0/3/4/3ppts YoY respectively. On key operating metrics: 1) billings were US\$908mn, up 26% YoY; 2) RPO was US\$2.27bn, up 24% YoY and current RPO was up mid-20s YoY; 3) net dollar-based retention rate was in a high-110s percentage in 4Q24, improved from levels of mid-110s in both 3Q24 and 4Q23. These metrics, in our view, all speak to a healthy business development trend.
- **Increase in revenue contribution from AI native customers remains healthy.** By the end of 4Q24, about 3,500 customers used one or more DDOG AI integrations to send DDOG the data about their machine learning, AI, and LLM usage. In 4Q24, AI native customers contributed 6% of DDOG's ARR (4Q23: 3%) and 5ppts of YoY revenue growth (3Q24: 4ppts; 4Q23: 3ppts).
- **Management guided to increase investment to drive long-term growth.** For 4Q24, non-GAAP R&D/S&M/G&A expenses saw YoY growth of 29/31/30% YoY, as management started to execute hiring plans to prepare for future growth. DDOG exited 2024 with 6,500 employees, up 27% YoY. Management guided to expand its capabilities in sales and marketing, including expanding in less mature geographies, adding more channel and alliance capabilities, and extending efforts around larger enterprises, in order to drive long-term growth, and guided for high-20s YoY growth for operating expenses in 2025E.
- **Investment could weigh on near-term earnings growth but should benefit long-term development.** Management guided for 1Q25E: 1) revenue of US\$737-741mn, representing ~21% growth YoY, inline with consensus; and 2) non-GAAP net income per share of US\$0.41-0.43, shy of consensus at US\$0.47, in our view driven by the investment plan. For 2025, management is looking for: 1) revenue of US\$3.175bn-3.195bn, representing 18-19% growth YoY (consensus estimate: US\$3.24bn); and 2) non-GAAP net income per share of US\$1.65-1.70 (consensus: US\$2.12).

BUY (Maintain)

Target Price US\$156.40
(Previous TP US\$154.30)
Up/Downside 15.1%
Current Price US\$135.89

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Stock Data

| | |
|--------------------------|---------------|
| Mkt Cap (US\$ mn) | 48,735.0 |
| Avg 3 mths t/o (US\$ mn) | 662.5 |
| 52w High/Low (US\$) | 168.65/104.97 |
| Total Issued Shares (mn) | 358.6 |

Source: FactSet

Shareholding Structure

| | |
|--------------------|------|
| Vanguard Group Inc | 9.2% |
| Blackrock Inc. | 6.8% |

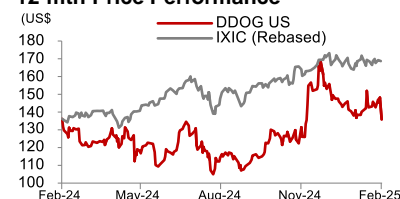
Source: Nasdaq

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -2.3% | -5.4% |
| 3-mth | 3.4% | 0.5% |
| 6-mth | 19.0% | 4.2% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

| (YE 31 Dec) | FY23A | FY24A | FY25E | FY26E | FY27E |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue (US\$ mn) | 2,128 | 2,684 | 3,194 | 3,828 | 4,699 |
| YoY growth (%) | 27.1 | 26.1 | 19.0 | 19.9 | 22.8 |
| Gross margin (%) | 80.7 | 80.8 | 80.8 | 81.1 | 81.3 |
| Net profit (US\$ mn) | 48.6 | 183.7 | 102.6 | 158.6 | 227.5 |
| Adjusted net profit (US\$ mn) | 464.0 | 653.8 | 624.5 | 774.5 | 977.1 |
| YoY growth (%) | 67.7 | 40.9 | (4.5) | 24.0 | 26.2 |
| EPS (Adjusted) (US\$) | 1.33 | 1.82 | 1.67 | 1.99 | 2.42 |
| Consensus EPS (US\$) | na | na | 2.12 | 2.62 | 3.63 |

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: DDOG: quarterly results trend

| (USDmn) | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | 4Q24 Consensus | Diff% |
|----------------------------------|--------|--------|-------|-------|-------|-------|-------|-------|----------------|----------|
| Total revenue | 481.7 | 509.5 | 547.5 | 589.6 | 611.3 | 645.3 | 690.0 | 737.7 | 715.6 | 3.1% |
| YoY Growth | 25.4% | 25.4% | 25.6% | 27.1% | 26.9% | 26.7% | 26.0% | 25.1% | | |
| Gross profit | 381.8 | 407.6 | 444.2 | 484.8 | 501.2 | 521.8 | 552.3 | 593.5 | 602.8 | -1.5% |
| R&D expenses | 229.5 | 239.5 | 240.2 | 253.3 | 270.0 | 274.6 | 291.8 | 316.3 | 307.3 | 2.9% |
| S&M expenses | 145.0 | 147.5 | 156.9 | 160.0 | 173.9 | 187.0 | 187.8 | 207.9 | 200.9 | 3.5% |
| G&A expenses | 42.3 | 42.7 | 51.4 | 43.8 | 45.3 | 47.6 | 52.4 | 59.9 | 53.8 | 11.4% |
| Operating profit | (35.0) | (22.0) | (4.2) | 27.7 | 12.0 | 12.6 | 20.3 | 9.4 | 13.1 | -28.3% |
| Net profit | (24.1) | (4.0) | 22.6 | 54.0 | 42.6 | 43.8 | 51.7 | 45.6 | 39.4 | 15.7% |
| Non-GAAP OP | 86.4 | 106.5 | 130.8 | 166.7 | 164.5 | 157.5 | 173.0 | 179.2 | 167.5 | 7.0% |
| Non-GAAP NP after tax adjustment | | | | | 157.6 | 153.0 | 165.7 | 177.5 | 161.8 | 9.7% |
| Margins (%) | | | | | | | | | | |
| GPM | 79.3% | 80.0% | 81.1% | 82.2% | 82.0% | 80.9% | 80.0% | 80.5% | 84.2% | (3.8)ppt |
| R&D expenses ratio | 47.6% | 47.0% | 43.9% | 42.9% | 41.4% | 41.8% | 42.3% | 42.9% | 42.9% | (0.1)ppt |
| S&M expenses ratio | 30.1% | 28.9% | 28.7% | 27.1% | 26.2% | 26.9% | 27.2% | 28.2% | 28.1% | 0.1ppt |
| G&A expenses ratio | 8.8% | 8.4% | 9.4% | 7.4% | 7.2% | 7.0% | 7.6% | 8.1% | 7.5% | 0.6ppt |
| OPM | -7.3% | -4.3% | -0.8% | 4.7% | 2.0% | 2.0% | 2.9% | 1.3% | 1.8% | (0.6)ppt |
| NPM | -5.0% | -0.8% | 4.1% | 9.2% | 7.0% | 6.8% | 7.5% | 6.2% | 5.5% | 0.7ppt |
| Non-GAAP OPM | 17.9% | 20.9% | 23.9% | 28.3% | 26.9% | 24.4% | 25.1% | 24.3% | 23.4% | 0.9ppt |
| Non-GAAP NPM | | | | | 25.8% | 23.7% | 24.0% | 24.1% | 22.6% | 1.5ppt |

Source: Bloomberg, CMBIGM

Figure 2: DDOG: changes in CMBI forecast

| USD mn | Current | | | Previous | | | Change (%) | | |
|--------------|---------|---------|---------|----------|-------|-------|------------|----------|-------|
| | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E | 2025E | 2026E | 2027E |
| Revenue | 3,193.6 | 3,828.2 | 4,699.1 | 3,281 | 4,046 | - | -2.7% | -5.4% | - |
| Gross profit | 2,581.5 | 3,103.7 | 3,821.9 | 2,651 | 3,279 | - | -2.6% | -5.3% | - |
| Non-GAAP OP | 685.8 | 863.7 | 1,107.5 | 822 | 1,042 | - | -16.6% | -17.1% | - |
| Non-GAAP NP | 624.5 | 774.5 | 977.1 | 771 | 959 | - | -19.0% | -19.2% | - |
| GPM | 80.8% | 81.1% | 81.3% | 80.8% | 81.0% | - | 0.0ppt | 0.0ppt | - |
| OPM | 21.5% | 22.6% | 23.6% | 25.1% | 25.8% | - | (3.6)ppt | (3.2)ppt | - |
| Non-GAAP NPM | 19.6% | 20.2% | 20.8% | 23.5% | 23.7% | - | (3.9)ppt | (3.5)ppt | - |

Source: CMBIGM estimates

Figure 3: Datadog: target valuation

| EV/Sales Valuation | 2025E |
|--|--------|
| Revenue (US\$m) | 3,194 |
| Target 2025E EV/Sales | 16.6 |
| Target EV (US\$m) | 53,013 |
| Net cash (US\$m) | 3,178 |
| Target equity valuation (US\$bn) | 56,191 |
| Total shares outstanding (Diluted; mn) | 359.2 |
| Valuation per share (US\$) | 156.4 |

Source: Company data, CMBIGM estimates

Financial Summary

| INCOME STATEMENT | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
|---------------------|-------|-------|-------|-------|-------|-------|
| YE 31 Dec (US\$ mn) | | | | | | |
| Revenue | 1,675 | 2,128 | 2,684 | 3,194 | 3,828 | 4,699 |
| Cost of goods sold | 347 | 410 | 516 | 612 | 724 | 877 |
| Gross profit | 1,328 | 1,718 | 2,169 | 2,582 | 3,104 | 3,822 |
| Operating expenses | 1,387 | 1,752 | 2,114 | 2,571 | 3,049 | 3,708 |
| Selling expense | 495 | 609 | 757 | 941 | 1,116 | 1,356 |
| Admin expense | 139 | 180 | 205 | 242 | 281 | 333 |
| R&D expense | 752 | 962 | 1,153 | 1,388 | 1,653 | 2,019 |
| Operating profit | (59) | (33) | 54 | 10 | 54 | 114 |
| Interest income | 37 | 100 | 157 | 125 | 145 | 165 |
| Interest expense | (17) | (6) | (7) | 0 | 0 | 0 |
| Pre-tax profit | (38) | 60 | 204 | 135 | 199 | 278 |
| Income tax | (12) | (12) | (20) | (32) | (40) | (51) |
| After tax profit | (50) | 49 | 184 | 103 | 159 | 228 |
| Net profit | (50) | 49 | 184 | 103 | 159 | 228 |
| Adjusted net profit | 277 | 464 | 654 | 624 | 774 | 977 |

| BALANCE SHEET | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
|-------------------------------|-------|-------|-------|-------|-------|-------|
| YE 31 Dec (US\$ mn) | | | | | | |
| Current assets | 2,344 | 3,178 | 4,911 | 5,815 | 6,942 | 8,324 |
| Cash & equivalents | 1,884 | 2,583 | 4,189 | 5,070 | 6,046 | 7,244 |
| Account receivables | 400 | 509 | 599 | 607 | 738 | 897 |
| Prepayment | 60 | 86 | 123 | 138 | 159 | 182 |
| Non-current assets | 661 | 758 | 874 | 935 | 1,012 | 1,104 |
| PP&E | 125 | 172 | 227 | 275 | 335 | 408 |
| Right-of-use assets | 88 | 127 | 173 | 173 | 173 | 173 |
| Intangibles | 16 | 10 | 4 | 4 | 4 | 4 |
| Goodwill | 348 | 353 | 360 | 360 | 360 | 360 |
| Other non-current assets | 83 | 97 | 111 | 123 | 141 | 159 |
| Total assets | 3,005 | 3,936 | 5,785 | 6,750 | 7,955 | 9,428 |
| Current liabilities | 760 | 1,003 | 1,863 | 2,011 | 2,191 | 2,376 |
| Account payables | 23 | 88 | 108 | 94 | 114 | 138 |
| Other current liabilities | 171 | 128 | 761 | 761 | 761 | 761 |
| Lease liabilities | 22 | 22 | 32 | 32 | 32 | 32 |
| Contract liabilities | 543 | 766 | 962 | 1,125 | 1,284 | 1,444 |
| Non-current liabilities | 835 | 908 | 1,208 | 1,246 | 1,303 | 1,370 |
| Long-term borrowings | 739 | 742 | 979 | 979 | 979 | 979 |
| Deferred income | 13 | 21 | 23 | 23 | 26 | 29 |
| Other non-current liabilities | 83 | 144 | 206 | 244 | 297 | 362 |
| Total liabilities | 1,594 | 1,911 | 3,071 | 3,258 | 3,494 | 3,746 |
| Capital surplus | 1,625 | 2,181 | 2,689 | 3,364 | 4,174 | 5,168 |
| Retained earnings | (202) | (154) | 30 | 133 | 291 | 519 |
| Other reserves | (12) | (2) | (5) | (5) | (5) | (5) |
| Total shareholders equity | 1,411 | 2,025 | 2,714 | 3,492 | 4,461 | 5,682 |
| Total equity and liabilities | 3,005 | 3,936 | 5,785 | 6,750 | 7,955 | 9,428 |

| CASH FLOW | 2022A | 2023A | 2024A | 2025E | 2026E | 2027E |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| YE 31 Dec (US\$ mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | (50) | 49 | 184 | 103 | 159 | 228 |
| Depreciation & amortization | 35 | 44 | 55 | 62 | 75 | 91 |
| Change in working capital | 6 | 45 | 13 | 151 | 67 | 50 |
| Others | 428 | 522 | 619 | 675 | 809 | 994 |
| Net cash from operations | 418 | 660 | 871 | 991 | 1,110 | 1,363 |
| Investing | | | | | | |
| Capital expenditure | (65) | (62) | (96) | (111) | (134) | (164) |
| Acquisition of subsidiaries/ investments | (46) | (12) | (7) | 0 | 0 | 0 |
| Net proceeds from disposal of short-term investments | (274) | (656) | (634) | 0 | 0 | 0 |
| Net cash from investing | (385) | (731) | (737) | (111) | (134) | (164) |
| Financing | | | | | | |
| Proceeds from share issues | 24 | 58 | 51 | 0 | 0 | 0 |
| Others | 12 | 0 | 736 | 0 | 0 | 0 |
| Net cash from financing | 36 | 58 | 787 | 0 | 0 | 0 |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 274 | 342 | 330 | 1,247 | 2,128 | 3,104 |
| Exchange difference | (2) | 1 | (4) | 0 | 0 | 0 |
| Cash at the end of the year | 342 | 330 | 1,247 | 2,128 | 3,104 | 4,302 |

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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