

Datadog Inc

2024 Investor Day takeaways: Didn't rock the boat, stays steady and true

Maintain Rating: NEUTRAL | PO: 144.00 USD | Price: 131.84 USD

Appears well positioned to disrupt DevSecOps

Maintain Neutral, \$144 PO. On February 15th, Datadog hosted a very well attended investor day, where we come away more positive on its ability to take share in the attractive DevSecOps category. We found mgmt's tone to be upbeat and bullish. Topics of discussion included: 1) the vision; 2) growth opportunities; 3) product and innovation; 4) go-to-market strategy and driving customer success; and 5) a brief financial update with increased long-term operating margin target (new: 25%+, old: 20-25%). The presentation and data points were very nicely presented, and we believe the investor day came in as expected. While noting our DDOG view that the risk/reward appears balanced at current price, the investor day supports our long-term bullish view on the business.

The platform enables fast product release cadence

We have always been impressed with Datadog's ability to introduce new products at a pace that exceeds many of its software peers. The fast release cycle is enabled by its foundational platform layer, which consists of: dashboards, alerts, unified agents, integrations, among others. With its expanding product offerings, Datadog is shifting left and right into Developer and Security team workflows, which is creating new monetization opportunities that supports long-term durable revenue growth potential.

Go-to-market (G2M) strategy update: Land-and-expand big

Numerous examples were given that demonstrate Datadog's powerful land-and-expand strategy, specifically into the seven-figure ARR levels, which is impressive. The core land-and-expand strategy remains unchanged, with new growth opportunities found: 1) international; 2) vertical focus, including Federal; 3) expanding the partner network; and 4) landing with more product at the onset. We see the potential for Security to find similar adoption success that infrastructure monitoring had in the early days of Datadog.

Financials: We got a "+" as OpM target goes to 25%+

There was a debate on what could be new/updated, but overall, we believe not much changed, which is a good thing. With many of the targets given at the IPO already achieved, the PF operating margin target was increased to 25%+, from 20-25%. While commentary on free cash flow, tax-rate considerations, and SBC could take time to digest, we do not believe it changes anything around future revenue growth potential.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.98	1.65	1.40	1.72	2.11
GAAP EPS	(0.15)	0.14	0.22	0.29	0.39
EPS Change (YoY)	100.0%	68.4%	-15.2%	22.9%	22.7%
Consensus EPS (Bloomberg)			1.54	1.91	2.64
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	134.5x	79.9x	94.2x	76.7x	62.5x
GAAP P/E	NM	941.7x	599.3x	454.6x	338.1x
EV / EBITDA*	105.7x	67.0x	57.8x	45.9x	36.8x
Free Cash Flow Yield*	1.0%	1.6%	1.8%	2.4%	3.0%

* For full definitions of *IQmethod*SM measures, see page 5.

15 February 2024

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Stock Data

Price	131.84 USD
Price Objective	144.00 USD
Date Established	8-Feb-2024
Investment Opinion	C-2-9
52-Week Range	62.60 USD - 138.61 USD
Mkt Val (mn) / Shares Out (mn)	39,837 USD / 302.2
Free Float	91.4%
Average Daily Value (mn)	696.13 USD
BofA Ticker / Exchange	DDOG / NAS
Bloomberg / Reuters	DDOG US / DDOG.QQ
ROE (2024E)	21.8%
Net Dbt to Eqty (Dec-2023A)	20.3%
ESGMeter TM	Medium

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iQprofileSM Datadog Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	16.0%	18.4%	17.9%	18.5%	18.9%
Return on Equity	27.6%	33.5%	21.8%	21.2%	20.6%
Operating Margin	19.5%	23.0%	21.3%	22.3%	23.3%
Free Cash Flow	383	632	732	953	1,208

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	1.1x	1.5x	1.6x	1.6x
Asset Replacement Ratio	1.0x	0.6x	0.8x	0.8x	0.8x
Tax Rate	NM	19.4%	1.7%	4.1%	4.0%
Net Debt-to-Equity Ratio	28.3%	20.3%	-10.8%	-35.0%	-53.8%
Interest Cover	24.8x	NM	NM	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,675	2,128	2,563	3,204	3,932
% Change	62.8%	27.1%	20.4%	25.0%	22.8%
Gross Profit	1,346	1,744	2,102	2,627	3,225
% Change	67.6%	29.6%	20.5%	25.0%	22.8%
EBITDA	376	593	688	867	1,081
% Change	98.8%	57.7%	16.0%	26.0%	24.7%
Net Interest & Other Income	24	97	94	94	94
Net Income (Adjusted)	338	576	505	638	797
% Change	102.7%	70.2%	-12.3%	26.3%	25.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(50)	49	80	106	149
Depreciation & Amortization	35	44	51	64	79
Change in Working Capital	6	45	86	141	194
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	428	522	554	690	845
Capital Expenditure	(35)	(28)	(38)	(48)	(59)
Free Cash Flow	383	632	732	953	1,208
% Change	38.5%	65.0%	15.8%	30.2%	26.7%
Share / Issue Repurchase	36	37	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	339	330	1,024	1,929	3,079
Trade Receivables	400	509	721	912	1,019
Other Current Assets	1,606	2,339	2,323	2,333	2,318
Property, Plant & Equipment	125	172	172	172	172
Other Non-Current Assets	535	586	646	688	725
Total Assets	3,005	3,936	4,886	6,034	7,312
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	760	1,003	1,327	1,686	2,002
Long-Term Debt	739	742	742	742	742
Other Non-Current Liabilities	96	165	199	214	227
Total Liabilities	1,594	1,911	2,268	2,642	2,972
Total Equity	1,411	2,025	2,617	3,392	4,341
Total Equity & Liabilities	3,005	3,936	4,886	6,034	7,312

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Server & Enterprise Software

Company Description

Datadog is an observability software vendor that enables its customers to have strong visibility into the health and performance of its technology stacks to drive high quality end-user experiences. Datadog is able to achieve this with its portfolio of 15+ products that spans infrastructure monitoring, APM, log analytics, cloud security, among many others.

Investment Rationale

In our view, Datadog's platform is positioned to take share of a large \$53bn observability TAM over the long-term because it delivers enterprise-class observability tools with a low-friction adoption motion that drives fast time to value and good ROI. Furthermore, we believe enterprises will increasingly standardize its observability tools to a single vendor, to which Datadog appears positioned to take share. However, we believe there are downside revenue risks, and see a balanced risk/reward.

Stock Data

Average Daily Volume 5,280,106

Quarterly Earnings Estimates

	2023	2024
Q1	0.28A	0.34E
Q2	0.36A	0.35E
Q3	0.45A	0.34E
Q4	0.55A	0.36E



Price objective basis & risk

Datadog Inc (DDOG)

Our \$144 PO is based on an EV/revenue multiple of 19.1x EV/CY24E (was 18.8x) to our CY24E revenue estimate of \$2.6bn. We raise our multiple to account for our increased confidence in Datadog's potential to drive upside to consensus estimates and infrastructure group multiple expansion. The 19.1x multiple represents an EV/revenue/growth multiple of 0.9x, which is above infrastructure peers at 8.3x/0.7x.

Upside risks to our PO: 1) better-than-expected revenue growth, 2) faster-than-expected AI tailwinds, 3) better-than-expected expanding free cash flow margins, 4) expanding NRR, and 5) stronger-than-expected competitive differentiation.

Downside risks to our PO: 1) valuation risk, 2) competition, 3) deteriorating NRR, 4) execution, and 5) enterprise software spend can be cyclical.

Analyst Certification

I, Koji Ikeda, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY	8x8	EGHT	EGHT US	Michael J. Funk
	Adobe	ADBE	ADBE US	Brad Sills
	Alarm.com	ALRM	ALRM US	Michael J. Funk
	Amplitude, Inc.	AMPL	AMPL US	Koji Ikeda, CFA
	BILL	BILL	BILL US	Brad Sills
	CCC Intelligent Solutions	CCCS	CCCS US	Michael J. Funk
	Dropbox	DBX	DBX US	Michael J. Funk
	Dynatrace	DT	DT US	Koji Ikeda, CFA
	Elastic NV	ESTC	ESTC US	Koji Ikeda, CFA
	GitLab Inc.	GTLB	GTLB US	Koji Ikeda, CFA
	Global-e Online Ltd.	GLBE	GLBE US	Koji Ikeda, CFA
	HubSpot	HUBS	HUBS US	Brad Sills
	Informatica Inc.	INFA	INFA US	Koji Ikeda, CFA
	Intapp Inc.	INTA	INTA US	Koji Ikeda, CFA
	Intuit	INTU	INTU US	Brad Sills
	JFrog Ltd	FROG	FROG US	Koji Ikeda, CFA
	MeridianLink, Inc.	MLNK	MLNK US	Koji Ikeda, CFA
	Microsoft Corporation	MSFT	MSFT US	Brad Sills
	MongoDB Inc	MDB	MDB US	Brad Sills
	nCino, Inc.	NCNO	NCNO US	Adam Bergere
	NICE Ltd.	NICE	NICE US	Michael J. Funk
	NICE Ltd.	NCSYF	NICE IT	Michael J. Funk
	PagerDuty	PD	PD US	Koji Ikeda, CFA
	PowerSchool Holdings, Inc.	PWSC	PWSC US	Koji Ikeda, CFA
	RingCentral	RNG	RNG US	Michael J. Funk
	Salesforce.com	CRM	CRM US	Brad Sills
	ServiceNow	NOW	NOW US	Brad Sills
	UiPath	PATH	PATH US	Brad Sills
	Unity	U	U US	Michael J. Funk
	Weave	WEAV	WEAV US	Michael J. Funk
	Workday Inc.	WDAY	WDAY US	Brad Sills
	Zeta Global	ZETA	ZETA US	Koji Ikeda, CFA
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA
NEUTRAL	Autodesk	ADSK	ADSK US	Michael J. Funk

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Bentley Systems	BSY	BSY US	Michael J. Funk
	BigCommerce Holdings, Inc.	BIGC	BIGC US	Koji Ikeda, CFA
	Coveo	YCVO	CVO CN	Koji Ikeda, CFA
	Datadog Inc	DDOG	DDOG US	Koji Ikeda, CFA
	DocuSign	DOCU	DOCU US	Brad Sills
	Freshworks, Inc.	FRSH	FRSH US	Adam Bergere
	HashiCorp	HCP	HCP US	Brad Sills
	Jamf	JAMF	JAMF US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	LSPD	LSPD US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	YLSPD	LSPD CN	Koji Ikeda, CFA
	Oracle Corporation	ORCL	ORCL US	Brad Sills
	Paycom	PAYC	PAYC US	Adam Bergere
	Paylocity	PCTY	PCTY US	Adam Bergere
	Shopify, Inc.	SHOP	SHOP US	Brad Sills
	Snowflake	SNOW	SNOW US	Brad Sills
	Veeva Systems, Inc.	VEEV	VEEV US	Brad Sills
	Zoom Video Communications	ZM	ZM US	Michael J. Funk

UNDERPERFORM

	AvidXchange, Inc.	AVDX	AVDX US	Brad Sills
	Blackbaud, Inc.	BLKB	BLKB US	Koji Ikeda, CFA
	BlackLine, Inc.	BL	BL US	Koji Ikeda, CFA
	C3.ai	AI	AI US	Brad Sills
	Confluent	CFLT	CFLT US	Brad Sills
	CS Disco, Inc.	LAW	LAW US	Koji Ikeda, CFA
	Enfusion, Inc.	ENFN	ENFN US	Koji Ikeda, CFA
	Five9	FIVN	FIVN US	Michael J. Funk
	Guidewire Software, Inc.	GWRE	GWRE US	Michael J. Funk
	Twilio	TWLO	TWLO US	Michael J. Funk
	Vertex, Inc.	VERX	VERX US	Brad Sills

RSTR

	Splunk	SPLK	SPLK US	Brad Sills
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IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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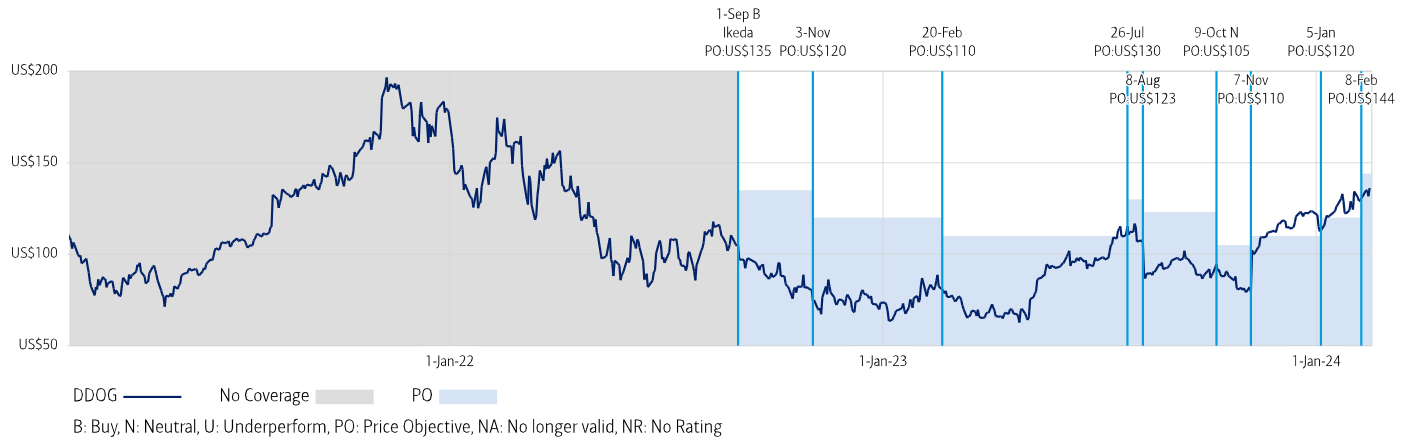
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Datadog Inc (DDOG) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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