

## GitLab Inc.

# Raising AI add-on price on Feb 1, suggesting confidence in its value prop

Maintain Rating: BUY | PO: 74.00 USD | Price: 63.46 USD

## AI add-on price is going up to \$19/user/month on Feb 1

Maintain Buy, \$74 PO. On its webpage, it was announced that the pricing for the new GitLab Duo Pro product, its AI add-on, will be increasing to \$19/user/month on February 1, 2024. This is a 110% pricing increase from the introductory price of \$9/user/month, when the product became generally available in its 16.7 release a few weeks ago (December 21, 2023). We believe the ability to increase the price of the new product this early demonstrates three things: 1) high initial demand for the product; 2) a strong value proposition that is driving high ROI; and 3) the capabilities of Code Suggestions are competitive against other offerings. Bottom line: With the price of the AI add-on product going up 110% in two weeks on Feb 1, we are confident in the potential for total revenue to grow 25%+ in FY25.

## AI add-on likely a good growth driver for FY25

The announcement of the AI Duo price increase raises our confidence that the add-on has the potential to be a good revenue growth driver for FY25. Prior to the price increase, we estimated that at a 20% attach rate by end of FY25, the AI add-on could drive approximately 4 points of total revenue growth. If the price increase does not impede the rate of adoption, there is the potential to see an even higher contribution to growth from the AI add-on product.

## Could pull forward demand, drive upside to F4Q24 results

With the price increase occurring on Feb 1, 2024, there is the potential that it could drive a demand pull forward. Given the general availability of the AI add-on was on December 21, we do not anticipate a significant contribution to total revenue in its F4Q24 results. Nonetheless, a pull forward of demand for the product could lead to a higher magnitude revenue beat compared to F3Q24 (i.e., 5.7% above Street) which could act as a catalyst for the stock.

## Creates another price increase tailwind for FY25

Depending on how the attach rates for the introductory \$9/user/month price shake out for F4Q24, the renewals a year from now at the higher \$19/user/month rate should create an additional price increase tailwind in F4Q25. This, along with the Premium price increase that was enacted last year (April 3, 2023), could result in healthy contributions from two price increases hitting the revenue model at the same time.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(1.22)	(0.46)	0.13	0.22	0.32
GAAP EPS	(1.99)	(1.16)	(2.70)	(1.05)	(1.07)
EPS Change (YoY)	41.3%	62.3%	NM	69.2%	45.5%
Consensus EPS (Bloomberg)			0.13	0.37	0.62
DPS	0	0	0	0	0
<b>Valuation (Jan)</b>					
P/E	NM	NM	488.2x	288.5x	198.3x
EV / EBITDA*	NM	NM	NM	258.0x	141.5x
Free Cash Flow Yield*	-0.8%	-1.2%	-0.1%	0.2%	0.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

17 January 2024

### Equity

**Koji Ikeda, CFA**  
Research Analyst  
BofAS  
+1 415 913 2106  
[koji.ikeda@bofa.com](mailto:koji.ikeda@bofa.com)

**George McGreehan**  
Research Analyst  
BofAS  
+1 415 913 4315  
[george.mcgreehan@bofa.com](mailto:george.mcgreehan@bofa.com)

**Natalie Howe**  
Research Analyst  
BofAS  
+1 415 436 1103  
[natalie.howe@bofa.com](mailto:natalie.howe@bofa.com)

### Stock Data

Price	63.46 USD
Price Objective	74.00 USD
Date Established	5-Dec-2023
Investment Opinion	C-1-9
52-Week Range	26.24 USD - 67.55 USD
Mrkt Val (mn) / Shares Out (mn)	6,606 USD / 104.1
Free Float	87.8%
Average Daily Value (mn)	194.58 USD
BofA Ticker / Exchange	GTLB / NAS
Bloomberg / Reuters	GTLB US / GTLB.OQ
ROE (2024E)	2.8%
Net Dbt to Eqty (Jan-2023A)	-35.8%
ESGMeter <sup>TM</sup>	NLA

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Timestamp: 17 January 2024 06:59PM EST

# iQprofile<sup>SM</sup> GitLab Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-16.3%	-7.6%	2.9%	6.5%	7.6%
Return on Equity	-19.2%	-8.3%	2.8%	5.5%	7.2%
Operating Margin	-38.9%	-20.5%	-1.7%	3.5%	5.0%
Free Cash Flow	(50)	(77)	(5)	14	24

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	-0.2x	0.4x	0.4x
Asset Replacement Ratio	0x	0x	0x	0x	0x
Tax Rate	2.3%	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-110.7%	-35.8%	-44.6%	-48.5%	-51.1%
Interest Cover	NM	NA	NA	NA	NA

## Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	253	424	574	712	916
% Change	66.0%	68.0%	35.2%	24.2%	28.6%
Gross Profit	224	380	521	641	824
% Change	66.3%	69.3%	37.2%	23.1%	28.6%
EBITDA	(98)	(87)	(9)	25	46
% Change	3.5%	11.3%	89.1%	NM	82.4%
Net Interest & Other Income	(3)	14	36	34	34
<b>Net Income (Adjusted)</b>	<b>(95)</b>	<b>(68)</b>	<b>21</b>	<b>37</b>	<b>56</b>
<b>% Change</b>	<b>9.0%</b>	<b>28.9%</b>	<b>NM</b>	<b>81.3%</b>	<b>49.4%</b>

## Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(155)	(170)	(419)	(176)	(187)
Depreciation & Amortization	34	47	43	40	40
Change in Working Capital	23	(45)	214	(44)	(53)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	49	90	157	194	224
Capital Expenditure	0	0	0	0	0
<b>Free Cash Flow</b>	<b>-50</b>	<b>-77</b>	<b>-5</b>	<b>14</b>	<b>24</b>
<b>% Change</b>	<b>32.3%</b>	<b>-55.4%</b>	<b>93.9%</b>	<b>NM</b>	<b>78.0%</b>
Share / Issue Repurchase	679	39	30	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	885	295	284	351	428
Trade Receivables	77	130	192	230	313
Other Current Assets	90	692	766	794	826
Property, Plant & Equipment	NA	NA	NA	NA	NA
Other Non-Current Assets	40	51	84	117	147
<b>Total Assets</b>	<b>1,091</b>	<b>1,169</b>	<b>1,326</b>	<b>1,492</b>	<b>1,714</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	242	306	570	627	699
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	51	38	119	142	177
<b>Total Liabilities</b>	<b>292</b>	<b>344</b>	<b>689</b>	<b>769</b>	<b>876</b>
<b>Total Equity</b>	<b>799</b>	<b>825</b>	<b>636</b>	<b>723</b>	<b>838</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,091</b>	<b>1,169</b>	<b>1,326</b>	<b>1,492</b>	<b>1,714</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Server & Enterprise Software

## Company Description

GitLab is a developer of an end-to-end DevOps platform that enables developers to create, review, and deploy code. Key features include: source code management, code review, CI/CD and security. By having a complete end-to-end platform, users should have better transparency, consistency and traceability, versus a basket of best-of-breed DevOps tools.

## Investment Rationale

We believe that GitLab is a potential future DevSecOps share gainer. The company enables organizations the ability to develop and deploy applications efficiently and at scale, which is essential for successful digital transformations and the digital economy of the future. The DevOps ecosystem is currently fragmented, but GitLab's core SCM applications positions the business to become a future platform winner, driving the business to become larger and more profitable over time.

## Stock Data

Average Daily Volume 3,066,203

## Quarterly Earnings Estimates

	2023	2024
Q1	-0.18A	-0.06A
Q2	-0.15A	0.01A
Q3	-0.10A	0.09A
Q4	-0.03A	0.08E

## Price objective basis & risk

### GitLab Inc. (GTLB)

Our \$74 PO is based on an EV/revenue multiple of 15.5x to our FY25E (C24E) revenue estimate. The multiple implies an EV/revenue/growth multiple of 0.58x, which is above infrastructure peers at 7.4x/0.57x. We believe the premium multiple to peers is warranted given its faster growth, NRR in the high 120s, and upside potential.

Risks to our PO: 1) valuation risk, 2) competition, 3) deteriorating NRR, 4) extended timeline to profitability, 5) execution, and 6) 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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	Autodesk	ADSK	ADSK US	Michael J. Funk
	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



## US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA

## 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
	Everbridge	EVBG	EVBG 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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iQmethod<sup>SM</sup> Measures Definitions

## Business Performance

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

## 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

## Denominator

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

## Quality of Earnings

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

## Numerator

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

## Denominator

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

## Valuation Toolkit

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

## 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

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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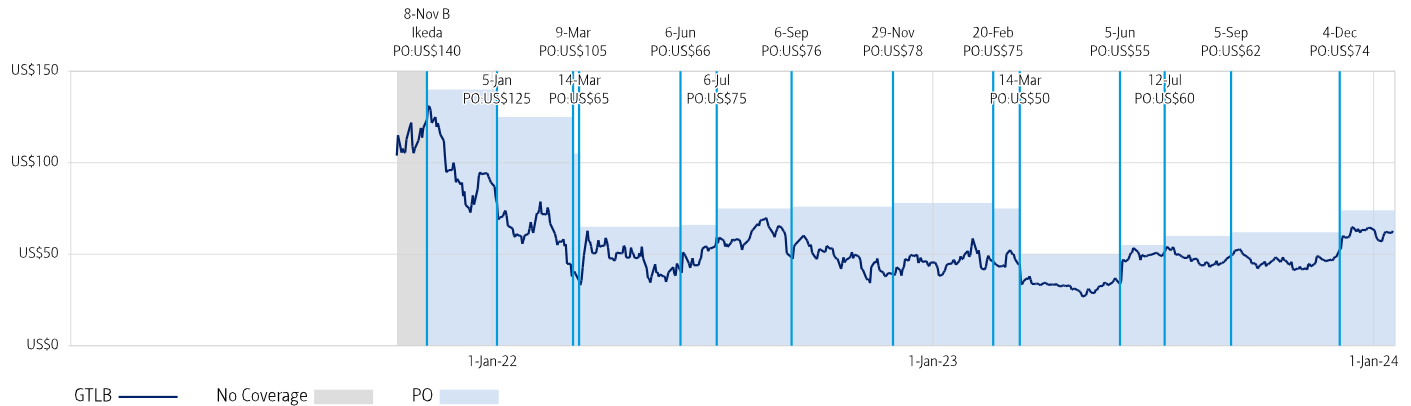
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### GitLab (GTLB) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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

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