

Buy MongoDB

Tim Beyers | February 28, 2018 | [Buy Recommendation](#)

CURRENT PRICE: [MDB](#) \$ 224.03 ↑ \$ 6.19 (2.8%) Current Price: \$224.03, Up \$6.19 (2.8%)

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Electronic data has evolved in countless ways over the past few decades. But do you know what hasn't evolved as quickly? Databases.

Business intelligence in the Internet age means interpreting lots of things that yesterday's analysts may not have even recognized as data — whole documents, photos, video, audio. And it's all beyond the reach of databases that want to shred and squish information into orderly columns and rows. **Oracle** ([NYSE: ORCL](#)) may still be the 800-pound gorilla in the industry, but its signature database technology, first introduced in the 1970s, was never meant to handle a load like this.

Not surprisingly, companies that depend on data for their business don't rely on Oracle anymore. At least, not to the extent they used to. Over the past couple decades, some of the biggest Internet players have begun to collect, organize, and analyze information in custom-built databases using technology called NoSQL (because it lacks the "structured query language" through which an Oracle database places information in columns and rows).

NoSQL databases handle a wider variety of data in less time, and usually with less stress on the underlying hardware. They're built for the cloud era, in other words. And no company has done a better job of commercializing this technology than my recommendation this month, **MongoDB** ([NASDAQ: MDB](#)). MongoDB is already a hit with developers, and I think its disruptive potential will make it popular with investors, too.

A Big Problem, Solved

Oracle and its peers specialize in relational databases, which are considered monolithic software. For the most part, this is how it operates: Data is funneled into, and processed within, a single system. So the more intense or complicated the problem, the more powerful the underlying hardware must be.

This worked fine for years. But think about how quickly our data needs are evolving today. Can you imagine **Facebook** ([NASDAQ: FB](#)) or **Amazon.com** ([NASDAQ: AMZN](#)) upgrading their hardware every few months just to keep up with normal operations? That's not feasible. So it's no surprise those two giants have taken to NoSQL. NoSQL was built to handle data in manageable chunks. Instead of one massive database machine, NoSQL infrastructure could use dozens or even hundreds of low-cost servers.

WHAT IT DOES

MongoDB's open-source database captures data not easily squished into columns and rows, disrupting traditional database vendors such as Oracle.

WHY YOU SHOULD BUY

- The next Oracle won't be Oracle; MongoDB provides a compelling alternative based on popular NoSQL technology.
- Revenue is accelerating, and margins are expanding in response.
- Developers are downloading the free version in record numbers, creating a built-in pipeline for future growth.

KEY DATA

- **Headquarters:** New York, N.Y.
- **Website:** [MongoDB investor relations](#)
- **Sign of a Breaker:** [First Mover](#)
- **Market Cap:** \$1.6 billion
- **Cash/Debt:** \$288.6 million / \$0
- **Revenue (TTM):** \$139.4 million
- **Earnings (TTM):** (\$91.8 million)
- **Revenue (2016/'17):** \$65.3 million / \$101.4 million
- **Earnings (2016/'17):** (\$73.5 million) / (\$86.7 million)
- **Recent Price:** \$31.62

BUYER'S GUIDE

- **Industry:** Software
- **Size:** Mid Cap
- **Region:** U.S.
- **Risk:** 10 out of 25 ([see all our stocks here](#))
- **Crushability:** Jawbreaker ([see the full scale here](#))
- **Most similar to:** HubSpot, Zillow

Follow MDB

In its filings, MongoDB quotes an IDC report that says the database software market — or the "structured data management software" market — was growing 8% annually as of 2016 and on tap to reach \$61.3 billion by 2020. Disrupting even a portion that flow could turn an investment in MongoDB — which generates a measly \$139.4 million in annualized revenue as of this writing — into a multibagger in just a few years.

Talk About MDB

Financial data from S&P Global Market Intelligence.

Data as of Feb. 23, 2018

There's good reason to think that disruption is already well under way.

Developers, Developers, Developers

Developers love MongoDB; they've downloaded more than 30 million copies of the company's free Community Server database since 2009, and over 10 million copies in the last 12 months alone. That wins the company fans, and those fans turn into customers. Growth has been accelerating as a result, leading to a successful IPO in October.

Just as Oracle licenses its signature database, MongoDB licenses an enterprise version of its core NoSQL database. But the company also offers a variety of ways to engage, including a purely online version called Atlas that's similar to AWS DynamoDB, the version of Amazon's NoSQL database that it makes available to AWS clients. The popularity of Community Server suggests there's a rich pipeline of growth still to be tapped.

We've already seen plenty of momentum. Revenue growth has accelerated for three consecutive quarters (up 50.70% in last year's first quarter, to 50.85% in the second, to 57.79% in the third) while the company's gross margin has expanded over the same period (from 71.6% in the first quarter to 73.3% in the third). And while it's hard to know just how big MongoDB deployments get, the company has an impressive customer list that includes data-driven businesses such as **eBay** ([NASDAQ: EBAY](#)) and **Expedia** ([NASDAQ: EXPE](#)). Google and Facebook, too.

It's not just developers who are fans of MongoDB — so are the people who work there. Employees reviewing the company on Glassdoor give MongoDB 4.5 out of 5 stars, and 86% would recommending working there. Of that same group, 96% approve of CEO Dev Ittycheria, who had previously co-founded data-center automation specialist BladeLogic and later sold it to BMC Software.

All three MongoDB co-founders are still involved in some way, and combined, they own more than 15% of the shares outstanding. Kevin Ryan is chairman; Eliot Horowitz, who wrote the original MongoDB code base and built the early engineering team, is chief technology officer; and Dwight Merriman, another of the original technical authors of the database, is listed as an active member of the management team.


Risks and When We'd Sell

MongoDB is thriving on the presumption that the next Oracle won't be, well, *Oracle*. No doubt there's risk to this thinking. The database king has held the throne for 40 years, and it continues to grow nicely. But here's the thing: Oracle's core business hasn't consistently grown in recent years. And while the more comparable cloud business grew 39% in the latest quarter, if Oracle's cloud alternatives were taking a bite out of MongoDB, you'd expect to see the smaller company's growth decelerating. That isn't the case. Were that to change in a substantive way — say, if revenue growth were without warning to decelerate by 10 points or more — we'd consider selling, and suggest you do the same.

Continued growth also depends on the right team shepherding the revolution. There's an interesting backstory here: Ryan, Horowitz, and Merriman appear to have met at DoubleClick and helped build that company before selling it to Google at a premium. So not only do they know the value of data, but they also know how to build a data-driven business from the ground up. Experience counts for a lot in bare-knuckle markets, and every market in which Oracle participates is a bare-knuckle market. MongoDB appears to be well-prepared for the fight. But if one or more of the core team leaves or sells out, we'd be concerned and would likely reevaluate our position.

The Foolish Bottom Line

The best way to think about investing in MongoDB? The cloud era needs a database of record in the way that the era of business computing needed a database of record. Oracle was the right choice in the '70s, but not today. Recent press reports confirm this belief: **Salesforce.com** ([NYSE: CRM](#)) is among those actively seeking to reduce its dependence on Oracle databases. MongoDB is angling to fill the gap. We believe it will, unleashing multibagger returns for investors in the process.



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Market data provided by FactSet and Web Financial Group.