Q2 2022 Snowflake Inc. Earnings Call

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Presentation

Operator

Good day, and thank you for standing by. Welcome to the Second Quarter Fiscal Year 2022 Snowflake Earnings Conference Call. (Operator Instructions) Thank you. Now I would like to hand the conference over to your first speaker today, Mr. Jimmy Sexton, Head of Investor Relations for Snowflake. Sir, please go ahead.

Jimmy Sexton Snowflake Inc. – Head of IR

Good afternoon, and thank you for joining us on Snowflake's Q2 fiscal 2022 earnings call. Joining me in Bozeman, Montana are Frank Slootman, our Chairman and Chief Executive Officer; Mike Scarpelli, our Chief Financial Officer; and Christian Kleinerman, our Senior Vice President of Product, will be joining us for the Q&A session. During today's call, we will review our financial results for second quarter fiscal 2022 and discuss our guidance for the third quarter and full year fiscal 2022.

During today's call, we will make forward-looking statements, including statements related to the expected performance of our business, future financial results, strategy, products and features, long-term growth, and overall future prospects. These statements are subject to risks and uncertainties, which could cause them to differ materially from actual results. Information concerning those risks is available in our earnings press release distributed after market close today and in our SEC filings, including our most recently filed Form 10-Q for the fiscal quarter ended April 30, 2021, and the Form 10-Q for the quarter ended July 31, 2021, that we'll file with the SEC. We caution you to not place undue reliance on forward-looking statements and undertake no duty or obligation to update any forward-looking statements as a result of new information, future events or changes in our expectations.

We'd also like to point out that on today's call, we will report both GAAP and non-GAAP results. We use these non-GAAP financial measures internally for financial and operational decision-making purposes and as a means to evaluate period-to-period comparisons. Non-GAAP financial measures are presented in addition to and not as a substitute for financial measures calculated in accordance with GAAP. To see the reconciliations of these non-GAAP financial measures, please refer to our earnings press release distributed earlier today and our investor presentation, which are both posted on investors.snowflake.com. A replay of today's call will also be posted on the website.

With that, I would now like to turn the call over to Frank.

Frank Slootman Snowflake Inc. – Chairman, CEO & President

Thanks, Jimmy. Good afternoon, everybody. We saw a continued momentum in Q2 with 103% year-on-year growth to $255 million in product revenues, reflecting strength in Snowflake consumption. Remaining performance obligations grew to $1.5 billion and we're getting strength in sales.

For the first half of fiscal '22, total revenues were $501 million, up 107% year-on-year. As the net revenue retention rate reached 169%, we also saw non-GAAP product gross margin and operating margin efficiency improve to 73.6% and negative 8%, respectively.

Adjusted free cash flow was positive for the third quarter in a row. As we approach the $1 billion mark in annual revenues, we continue to add customers at a robust pace, adding 458 net new customers, up from 397 in Q2 of last year. [Really] focused on the largest organizations, our Fortune 500 count totaled 212, increasing by 18 in the quarter. We are addressing the largest enterprises globally with a vertical industry approach. We see these investments yield strong results.

In Q2, financial services customer product revenue grew more than 100% year-on-year, representing the largest contribution, while health care customer product revenue grew nearly 200%. We have engaged in targeted industry events for these verticals, and we'll continue to go to market with tailored business outcomes.

We are pleased with our geographical expansion outside the United States, the product revenue from EMEA and Asia Pacific outstripping the company's growth as a whole, growing 185% and 170% year-on-year, respectively. One of our largest new customers signed in the quarter came from Asia Pacific. During Q2, we had key enterprise wins, including AllianceBernstein, Constellation Brands and Lithia Motors.

The following milestones, we think, are worthy of note. In Q2, we announced public preview availability in all AWS regions of Snowpark, our new developer experience. Snowpark enables developers to work in their preferred programming language and formats, including Java and Scala. Snowpark is designed to make building complex data pipelines and applications easy and allow developers to interact with Snowflake directly without having to extract data, maximizing governance.

The Snowpark Accelerated program has over 50 partners enrolled to bring their capabilities and innovations across data science, data engineering and security to Snowpark. In the future, Snowpark will add support for Python and expand to Azure and Google Cloud regions. Python is the most widely used programming language for machine learning and data science generally.

We also launched Powered by Snowflake in June to help companies build, operate and grow applications in the data cloud. Powered by Snowflake is designed to accelerate the delivery of differentiated applications on Snowflake by supporting developers across all stages of the application journey in Snowflake's Data Cloud. Today, there are over 80 Powered by partners, including founding members, BlackRock, Adobe, Lacework, Observe and OppLoans. Increasingly, application providers are enabling their apps to operate directly against their customers' Snowflake accounts, meaning no data needs to be copied or replicated, simplifying data governance while accelerating the network effect of the Data Cloud.

We also continue to deliver new capabilities to strengthen data governance for our customers. During the quarter, we made row access policies generally available. Data governance features are typically the broadest and fastest adopted feature across our customer base.

Snowflake's increasing focus on vertical industries is leading to more and deeper discussions with customers globally. The Snowflake team is organized around the following [core verticals]. They are: financial services, health care and life sciences, retail and CPG, advertising media and entertainment, technology, public sector, education, and manufacturing. This vertical industry focus will continue to intensify and expand over time.

One example of our vertical approach is the advertising industry, which is facing new regulations and increasing pressure to strengthen consumer privacy. Advertisers want to compete in a market dominated by the walled gardens. The Snowflake Data Cloud is empowering large media companies, technology providers and marketers to collaborate with their data assets across the ecosystem. Snowflake's data clean room solution can enable companies to share and join data without copying or moving their data assets. Snowflake's Data Cloud powers these data clean rooms with transparency and privacy controls for customers like Disney and NBCUniversal. Each customer is creating their own data network within the Snowflake Data Cloud for their advertising businesses.

Snowflake continues to deliver performance and optimization improvements throughout our platform from improving storage efficiencies, lower ingestion latencies to faster query performance across different workloads. Performance improvements bring not only timelier insights but improve the economics of our platform for our customers.

Finally, data cloud adoption is growing rapidly. The data cloud is the sum of all data network and relationships that are active at any point in time. We track these data relationships through what we call edges. We added over 450 customers in the quarter and continue to expand the number of customers with stable edges. At the end of the quarter, 16% of our customers have stabilized edges in place with external Snowflake accounts compared to 15% last quarter. The total number of these stable edges grew more than 20% quarter-over-quarter. This growth is fueled by the content on our marketplace, which saw listings grow 32% quarter-over-quarter. The Data Cloud enables our customers to enrich their data, gain more effective analytical insight and do so faster and more cost effectively.

Strategically, Snowflake is emerging as a highly secure, compliant, global and efficient data network in the infrastructure across the major public cloud domains. The combination of world-class data workload execution with cloud application development, cross-cloud operations, data and data application marketplaces as well as [plant] monetization is what makes Snowflake stand out.

During the quarter, we hosted our annual Snowflake summit to share our data cloud strategy, platform optimizations, feature enhancements and vertical industry use cases. Over 60,000 folks registered for the 3-day event. We had 4 industry executive sessions and more than 60 customer sessions. Snowflake was launched in preview with over 50 partners supporting the Snowpark Accelerated program, and we announced OverlayAnalytics as the winner of the first Snowflake Start-Up Challenge.

In Q3, we will be hosting events, including the Snowflake Financial Services Data Summit across the Americas, Europe and Asia Pacific, where we'll be sharing more of how Snowflake is connecting the entire financial services ecosystem. Snowflake is a sponsor at Ad Week, where we will discuss our enhanced advertising media and entertainment offerings. And finally, Snowflake is holding our Build event for technical executives including CTOs, VPs of engineering, data scientists, data engineers and application developers.

In closing, our results demonstrate high-quality, durable growth coupled with improving efficiency, and we're looking forward to executing the second half of the year.

With that, I will now turn the call over to Mike.

Michael P. Scarpelli Snowflake Inc. – CFO

Thank you, Frank. We saw continued strength across the board in Q2 with great sales execution and operational efficiencies, setting us up for a strong back half of the year. Our Q2 product revenues were $255 million, representing 103% year-over-year growth. Consumption outperformance was led by our financial services customers with continued strength from our technology and health care verticals. Our rapid growth is driven by our existing customer base.

The expansion of our net revenue retention rate to 169% is indicative of the power of our product over time as well as our sales team driving long-term business outcomes. Q2 was an impressive quarter of sales execution. Remaining performance obligations grew to $1.529 billion with net new bookings led by the technology and financial services verticals. We are still maturing the sales organization to sell multiyear contracts, and the timing of the largest multiyear deals will be lumpy. As a reminder, in Q2 last year, we sold our largest multiyear contract ever, a 3-year $100 million deal. While the multiyear component of new booking sets up a difficult comparison, we saw a net -- we saw new annualized contract value accelerate compared to the year ago period. This is why RPO and revenue must be evaluated together in a consumption-based business model.

Of the $1.5 billion in RPO, we expect approximately 56% to be recognized as revenue in the next 12 months, representing approximately $87 million increase quarter-over-quarter. We remain focused on penetrating the largest enterprises globally as we believe these organizations provide the largest opportunity for account expansion.

In Q2, the number of customers with greater than $1 million in trailing 12-month product revenue increased to 116, up from 104 last quarter. The second quarter was a breakout quarter for us in terms of profitability and efficiency. On a non-GAAP basis, our product gross margin was 73.6%, up 140 basis points from last quarter. Increased price per credit related to higher priced edition consumption and higher-than-expected compute as a percent of revenue from improved storage compression mentioned last quarter drove the outperformance. We have confidence in our ability to show leverage over time, but we view this significant quarter-over-quarter increase as onetime in nature.

Operating margin was negative 8%, benefiting from revenue outperformance. Our adjusted free cash flow margin was 1%, positively impacted by strong linearity in bookings operating margin outperformance. Going forward, we believe we will remain adjusted free cash flow positive. As a reminder, adjusted free cash flow excludes the impact of net cash paid or received on both employee and employer payroll taxes related items on employee stock transactions. This quarter, we saw a $15 million impact from those items. We maintained a strong cash position with approximately $5.1 billion in cash, cash equivalents and short-term and long-term investments.

Now let's turn to our guidance and outlook. For the third quarter of fiscal 2022, we expect product revenues between $280 million and $285 million, representing year-over-year growth between 89% and 92%.

Turning to margins. We expect, on a non-GAAP basis, negative 7% operating margin, and we expect 303 million weighted average shares outstanding. For the full year fiscal 2022, we expect product revenues between $1.06 billion and $1.07 billion, representing year-over-year growth between 91% and 93%.

Turning to profitability for the full year. We expect, on a non-GAAP basis, 73% product gross margins, negative 9% operating margin and 7% adjusted free cash flow margin, and we expect 300 million weighted average shares outstanding. Our outlook assumes that we will still add more than 1,200 net new employees during the fiscal year. With respect to COVID, our forecast now assumes that we will most likely continue to work remotely for the foreseeable future, and we have paused most travel with a slight uptick of return-to-office expenses in the fourth quarter, where we anticipate an eventual return to the office. We do not have a specific time line for that goal.

With that, operator, you can now open up the line for questions. As a reminder, Christian Kleinerman, our SVP of Product, will be joining us for Q&A.

Questions and Answers

Operator

(Operator Instructions) Your first question comes from the line of Mark Murphy from JPMorgan.

Mark Ronald Murphy JPMorgan Chase & Co, Research Division – MD

Congratulations on a solid first half of the year. Frank, how many of your Fortune 500-type customers are in discussions with you today with some kind of a plan to build their own data cloud, for instance, in energy cloud or an insurance cloud or a retail cloud that uses Snowflake's data sharing model? And then I had a quick follow-up for Mike.

Frank Slootman Snowflake Inc. – Chairman, CEO & President

I don't have an exact authoritative number to report back to you, but I can tell you that I'm involved in those conversations on a daily basis. We lead with a value proposition literally in every conversation. We're betting 1,000 when we go down the data cloud path. So we're super excited by the way this is resonating with our future customers.

Now that said, the way our market has historically worked, people have had a workload attitude and mentality to the world in terms of moving to the cloud. So sometimes the data cloud is viewed as something that is sort of Phase 2 or Phase 3. People are first preoccupied with moving data to the cloud, then moving workloads to the cloud and then having -- sort of pulling up and having a look at what's next.

We're working very hard to make sure that we look at the data cloud right from the beginning. And the real reason is what you don't want to do, and this is what we tell every single customer that we meet with, is to recreate the silos of the past in the cloud because they'll find the exact same set of challenges that they have today. So the data cloud conversation has to happen upfront to prevent people from re-siloing their data and really selling themselves short on the potential of data sciences, machine learning and all the advanced analytics capabilities that are coming down the pike.

Mark Ronald Murphy JPMorgan Chase & Co, Research Division – MD

I see. Okay. And then, Mike, you spent a little time talking about the RPO. I wanted to ask you on the next 12 months portion of RPO that we understand it's an estimate of future consumption. Do you have any thoughts on how to model it this year? Because if that kind of strips out the multiyear noise, just for instance, would we think about it growing in line with revenue growth? Or could it be slightly above? Slightly below? Any framework for that?

Michael P. Scarpelli Snowflake Inc. – CFO

I'm not really giving that. It's been running in the low to mid-50s. And as I said, we expect 56% based on what we're seeing today. That could change. And it really changes based upon how many multiyear deals we do because, obviously, when the total RPO grows because of multiyear, that percentage could come down. But what we're seeing now, it's 56% we're estimating.

Operator

Your next question comes from the line of Gregg Moskowitz from Mizuho.

Gregg Steven Moskowitz Mizuho Securities USA LLC, Research Division – MD of Americas Research

Congratulations on a good quarter. Frank, you called out strength in financial services. And I'm just wondering, when you look at consumption patterns, is there anything that you noticed that sort of stood out on a geo basis this quarter?

Frank Slootman Snowflake Inc. – Chairman, CEO & President

On a geo basis, I think we're sort of experiencing traditional patterns in enterprise software adoptions, U.S. leading, EMEA following, after that, Asia Pacific. We're actually really encouraged by the uptick in EMEA. We certainly have work to do coming into the company in terms of how we were approaching that marketplace. It's coming around really well, very pleased in what's going on in Asia Pacific as well. I mean we're really big on making sure that all our products, all our regions, all our channels are showing up every single quarter, and that's really a key focus when you're driving high growth the way we have been. So everybody is contributing and that's -- if there is a secret sauce, that's part of it.

Gregg Steven Moskowitz Mizuho Securities USA LLC, Research Division – MD of Americas Research

All right. That's very helpful. And then just for Mike, so you've now signed up more than 10% of the Fortune 500 over just the last 12 months. That's incredibly difficult to do. And my question here is, given the nature of your model, would it be fair to say that a very small percentage of your Q2 revenue came from these 54 relatively new Fortune 500 customers.

Michael P. Scarpelli Snowflake Inc. – CFO

I would say less than 1% has come from new customers we landed in the quarter. And for the full year, less than 10% will be for customers we land in the year. As a reminder -- and when we land these customers, it takes 9 to 12 months before they really start consuming at a rate. So what's really driving the revenue this year are all of the customers we landed -- those large customers we landed last year.

And I want to stress too, it's not just those large -- we have a lot of small customers that drive a lot of revenue too. It's just the point is those large customers, they have a lot of growth potential within them still today.

Operator

Your next question comes from the line of Kirk Materne from Evercore ISI.

Stewart Kirk Materne Evercore ISI Institutional Equities, Research Division – Senior MD & Fundamental Research Analyst

Mike, I actually want to follow up on that on the last point you made in terms of the bigger customers taking 9 to 12 months to start consuming. How have you guys been working with sort of the ecosystem broadly to make sure that, that cadence stays on track as you add more and more of those large customers? Do you feel good that the kind of resources that are out in the market in terms of consultants, professional services partners are out there to make sure that after you sort of land these customers, that they are on track to start consuming within sort of the approximate time frame you laid out?

Michael P. Scarpelli Snowflake Inc. – CFO

Yes. So it's a couple of ways. It's done through our professional service people, and we probably do, I think, less than 10% of them out there. But we have a whole alliances program that's focused on all the global GSIs and the regional partners. And I think the number of those partners, including GSIs, is up 3x from what it was last year. And you can see one of the things on our professional service line, a big chunk of that is training. And we are spending a lot of time training partners, so their people can get certified, doing a lot of train the trainers, so they can add more resources that are Snowflake certified to do these migrations and implementations.

Stewart Kirk Materne Evercore ISI Institutional Equities, Research Division – Senior MD & Fundamental Research Analyst

And just a quick one for Frank. Frank, you guys have taken sort of a vertical approach to sales quicker than you did at the last company -- your last company. Can you just talk about the opportunities within the Federal government or governments in general? It's sort of a big quarter for the Federal that we're all aware of? But I was just kind of curious on that vertical in particular where you think you are and maybe where you could be in 12, 18 months from now.

Frank Slootman Snowflake Inc. – Chairman, CEO & President

Yes. Actually, a great question because, ironically, this wasn't true in the previous company that you referenced. Public sector is actually the slowest market for Snowflake to come along, and Asia Pacific traditionally, especially Japan, tend to be the slow adopters. They're actually coming around much faster and public sector is actually slower. And one of the reasons is cloud adoption in the Federal government is really hard because of the standards that they have for companies like ours, and we can go on-premise, something that we did do at ServiceNow as you recall.

We are now getting close to approaching the requirements for broadly being able to contest Federal business. We believe that Federal business can become 15% of our total number, so there is an enormous opportunity pending for us there, where we have not really effectively addressed it up to this point, but we are super confident that we are going to. There is a lot of tremendous demand there. And it's very much a procedural set of requirements that we have to grind through and it's not easy to do. So once it's there, it will also really form quite a moat, a barrier, if you will, around that type of cloud business.

Operator

Your next question comes from the line of Brent Bracelin from Piper Sandler.

Brent Alan Bracelin Piper Sandler & Co., Research Division – MD & Senior Research Analyst

First one for Frank or Christian here. We saw a noticeable uptick in the number of data lake migrations to Snowflake this quarter, clearly builds on the data warehouse migrations. But what's resonating most with enterprises that are now standardizing on Snowflake for data lake use cases? Is there new feature functionality that you've added to enable that? And how big of an opportunity can that be as you think about that going forward?

Christian Kleinerman Snowflake Inc. – SVP of Product

Yes, certainly. Christian here. I think it's the breadth of the platform that we are presenting to our customers, not only performance advantages relative to alternatives but the economic benefits that our performance represents. We hear that consistently and that has driven migration from a variety of platforms.

Brent Alan Bracelin Piper Sandler & Co., Research Division – MD & Senior Research Analyst

Helpful. And then, Mike, as we just think about the operating margin this year, it's narrowed materially faster than expected, encouraging to see the leverage in the model. But how much of an improvement would you attribute to just product gross margin improvement here versus higher sales productivity that you expect in the second half clearly performing better? Just trying to understand what's driving that.

Michael P. Scarpelli Snowflake Inc. – CFO

Yes. Well, it's -- the gross profit is driving part of that, the revenue outperformance and also improved gross margins. As we said, we improved 150 basis points. We're really looking more to keep our sales productivity flat and improve that because if it's growing too fast, it means we're not adding reps at a fast enough pace out there. And it's really partly because of COVID with the return to office. We're not traveling that we saw some uptick in and our hiring was more back-end loaded. And as most of you know, we tend to be very cost conscious when we spend money on anything. And I don't think there's a lot of waste in our numbers.

Brent Alan Bracelin Piper Sandler & Co., Research Division – MD & Senior Research Analyst

Got it. So a lot of that is just the flow-through on the product side, and then it sounds like still hiring aggressively. Helpful color.

Operator

Your next question comes from the line of Gray Powell from BTIG.

Gray Wilson Powell BTIG, LLC, Research Division – MD & Security and Analytics Software Analyst

Congratulations on the strong results. So yes, maybe a high-level question on my side. I guess what do you see as the bigger driver of your business today? Is it the replacement of legacy data warehouse architectures? Or is it more net new from modern companies like Instacart and Coinbase that start out and build businesses on top of Snowflake?

Frank Slootman Snowflake Inc. – Chairman, CEO & President

It's Frank. It's actually an important question to ask because we have very high net revenue retention rates and people are often wondering, where's that coming from because that's typically not seen. The reason is a lot of what Snowflake does is what we call enabling the demand. In other words, we're not creating it. We're allowing it to happen.

So there's a lot of latent, bottled-up, pent-up demand that has literally grown over literally decades where people have -- because of fixed capacity limits on storage, on computational or contractual limitations, they have not been able to do what the technology is now capable of doing. So just unlocking that puzzle and allowing workloads to be provisioned, allow unlimited number of concurrent workloads, let jobs run every night as opposed to once a month if you're lucky, that is really the explosion of the enablement of demand that was already there, is really the big, big driver behind Snowflake.

Now there are others. I mean there's brand-new use cases that are exploding in several of these verticals that are driving a lot of demand as well. This is a very dynamic marketplace. This is not, okay, we have an existing workload. We're going to move it to the cloud and call it a day. That is not the nature of this business. This is a very fluid, dynamic process where people are doing brand-new innovative things.

The great thing about the public cloud combined with Snowflake is that technology is no longer standing in the way. What is only standing in the way now is your imagination and your budget. Those are not minor things, by the way, but that's a hell of a lot better than having a fixed limitation that we historically have had to live with.

Operator

Your next question comes from the line of Patrick Colville from Deutsche Bank.

Patrick Edwin Ronald Colville Deutsche Bank AG, Research Division – Research Analyst

Can I just ask about this vertical strategy that you referenced at the beginning of the call? Probably for Frank. I mean how much of the vertical strategy is product specificity versus kind of go to market and partnerships?

Frank Slootman Snowflake Inc. – Chairman, CEO & President

It's not product. We only have one product, and the product is not vertical as it's a horizontal product. It's an infrastructure platform. So this is really about use cases. It's how you apply the technology to industry-specific challenges and problems. So you can, as you said, it very much has to do with, okay, what are specific institutions doing in specific industries with Snowflake and how can other entities in that industry and sub-industry take advantage of those learnings. There's a lot of talk going on inside these verticals between entities about, "Hey, what are the opportunities to apply these technologies to problems that we're all living with?" So that's why verticalization is so important because we can really accelerate our business when these use cases and these opportunities are becoming more broadly shared.

Patrick Edwin Ronald Colville Deutsche Bank AG, Research Division – Research Analyst

Yes, that's helpful. And can I keep going on the product side actually and just talk about Snowpark? Again, you referenced that in your prepared remarks. I mean even though we're still kind of early in that product cycle, just help me understand the indicators that you're seeing that drive confidence that developers embrace Snowpark?

Christian Kleinerman Snowflake Inc. – SVP of Product

Yes. Christian here. We look at a number of adoption metrics. All of them are following our most successful launches relative to other previews we've done. We have talked to the different customers that have been early adopters of the technology, and the feedback is overwhelmingly positive. And as Frank mentioned in his remarks, we have over 50 partners that have signed up to drive solutions in Snowpark. And they also have overwhelmingly positive feedback, but that will also provide leverage to the adoption. So we're highly confident.

Operator

Your next question comes from the line of Keith Weiss from Morgan Stanley.

Sanjit Kumar Singh Morgan Stanley, Research Division – VP

This is Sanjit Singh for Keith. I have another question for Christian. It sort of relates to Snowflake and maybe the application market, which is a $300 billion market today. As customers are sort of centralizing more and more of your data onto Snowflake, what are the potential opportunities in terms of applications, development of applications on top of Snowflake? Maybe it's a next-generation CRM or a next-generation financial application. Given that you're centralizing that data, what do you think that Snowflake's role could be when it comes to applications? Is that something more that partners would sort of build on top of? Or could we see Snowflake have some ambitions on the application side of the house?

Christian Kleinerman Snowflake Inc. – SVP of Product

Yes. Christian here. It's a great question and really something that is an important priority for us. We shared some of this vision at our Investor Day. One of the biggest challenges that application developers face today is the notion of data governance where they need to get customers to trust them and share the data with them. What we are enabling is bringing those applications to operate within the governance and security perimeter of Snowflake, and we see interest from applications across horizontals and verticals wanting to build on top of Snowflake and running closer to the data without creating copies or silos.

Frank Slootman Snowflake Inc. – Chairman, CEO & President

Yes. One follow-up. This is Frank. One of the things that we talk about when we talk about the Data Cloud is that it is a completely comprehensive hemisphere for application developers. And I referenced this in the prepared remarks, but what that means is we have a Data Cloud that has, number one, live data. Number two, it has full-blown infrastructure, obviously, that can scale unlimited as a function of our public cloud relationships. We have, through Snowpark, a complete application development infrastructure on top of that cloud. Then we have a marketplace that allows people to find, to discover, to explore, to try out applications. And then you layer monetization on top of that. You have basically an environment where developers can build cloud applications that the world has never seen before.

And we sometimes compare this to what happened on mobile development, which obviously was a huge world. The mobile developers have to set up separate environments for the iPhone and for Android. Here, you literally have one place and you'll be able to target multiple runtime platforms in terms of AWS and Azure, GCP and so on. So that's really what the Data Cloud -- when it's fully built out and all its capabilities, what it will be. And so I think your question about software developers is strategically very important to Snowflake.

Sanjit Kumar Singh Morgan Stanley, Research Division – VP

Yes. [People say] a lot have evolved. As a follow-up going into sort of Mike's commentary around the expansion opportunity within these larger customers, I know it's early in terms of like the data marketplace. But is there any sort of examples that you can cite in terms of customers standing up new revenue-generating businesses, whether it's data stores or data marketplace, monetizing that business and how that revenue that you're getting compares to their annual Snowflake spend? Is that a multiple of 2, 5, 10? Any sort of indicator from some of these early cohorts that are monetizing, [standing] up new businesses on Snowflake?

Frank Slootman Snowflake Inc. – Chairman, CEO & President

Yes. I think we -- this is Frank. We have seen some of our data partners certainly in the financial verticals having, in a very short period of time, very substantial expansion of their business. We're literally a channel for them to reach demand that they couldn't through traditional challenges. I can't really bring any more sort of comparisons and metrics to it. It's probably something that we'll try to do at a future point in time.

But there is no doubt that, as I said during the prepared remarks, we have tremendous growth in the data listings that are coming on to the marketplace. And by the way, the reason that they're coming is because they're viewing Snowflake increasingly as a place where they can sell data. And the network effect starts to be induced and more data begets more data, right, because it becomes a very rich environment after a while. So we're very positive with this quarter with the growth in listings, the growth in data just -- and so on. And that's really how we track our progress in terms of the Data Cloud and the data networking relationships that make up that Data Cloud.

Operator

Your next question comes from the line of Kamil Mielczarek of William Blair.

Kamil Mielczarek William Blair & Company L.L.C., Research Division – Research Analyst

Congrats on a strong quarter. I believe you mentioned in your prepared remarks that tech and financial services were large drivers of RPO strength, and at your user conference, you called out media entertainment as your largest vertical. So it's great to see the broad growth. As you look out across -- if you look across the 6 end markets that you've structured your sales force around, are there any industries that particularly stand out as drivers of strength over the next 1 to 2 years, especially as the economy opens up? And where do you see the risks of deceleration, particularly as you think about your guidance?

Frank Slootman Snowflake Inc. – Chairman, CEO & President

Well, this is Frank. You're correct. Both media entertainment, that area is approximately the same order of magnitude as the financial services. Those are both big drivers of our business. I really don't see any deceleration risk. I'm just -- we're just waiting for industries that were heavily affected by the pandemic to come online. Obviously, hospitality, aviation, all the places that have suffered disproportionately to start normalizing and will become, I guess, more daring in terms of their exploits with us. So I see that as upside.

But one of the great things about the type of business that we're in, it's very secular in the sense that it's really not driven by too many macro factors. I mean, this is something that people are going to do. Just some of them are just doing it faster than others.

Kamil Mielczarek William Blair & Company L.L.C., Research Division – Research Analyst

Yes, makes sense. And just as a quick follow-up, can you talk about any changes you've seen on the competitor front? Are you seeing any private companies more often? And among your large public competitors, are you seeing any impact from the changes they're making to their platforms?

Frank Slootman Snowflake Inc. – Chairman, CEO & President

Not really. The competitive environment has been speculated upon quite a bit in recent days and weeks. But from our perspective, things are the same. Now obviously, when you become a much bigger company as we have been, the intensity starts to pick up because you're just in more places and you're contesting in more places and so on. But fundamentally, the dynamic is as we have characterized it previously, so there's really nothing terribly noteworthy in this area.

Operator

Your next question comes from the line of Raimo Lenschow from Barclays.

Raimo Lenschow Barclays Bank PLC, Research Division – MD & Analyst

I apologize for asking the question, but with a lot of the legacy players, you ask, okay, how is customer behavior changing now as the pandemic is getting better. We have like recovery talks and stuff like that. And new growth has been so strong over the last few quarters or throughout the whole life. But do you see any change in customer behavior in terms of contract size, contract lengths and stuff like that coming through that we should think about that we might not think about? And then I had one follow-up.

Michael P. Scarpelli Snowflake Inc. – CFO

I haven't seen any real change in contract duration. Still, the majority of our customers start with a 1-year contract; and then on the renewal, they do a multiyear contract. We did see our ACV pickup, but in terms of deal size, it's actually remained pretty consistent there.

I will say there are some new customers we're in discussions with that are willing to do bigger deals, first year deals that are 1-year deals with them. But I don't think that's going to change the ramp time to any of these customers. Historically, they just take 9 to 12 months to really ramp a large customer.

Raimo Lenschow Barclays Bank PLC, Research Division – MD & Analyst

Yes. Okay. Perfect. And then one follow-up more for Frank maybe. If you think about, initially, the discussion with like Snowflake as a Teradata competitor, but what we see now more and more is like you as a data platform, more guys working with you. How do you see that mix evolving? How customers see you versus like some of the old traditional players in the future? It almost feels like you're moving way beyond that, and it's kind of the long discussion that we are having here. Congrats from me as well.

Frank Slootman Snowflake Inc. – Chairman, CEO & President

Yes. It's not entirely the wrong discussion to have. I mean both these dynamics are playing out at the same time. There's tons of discussion going on in terms of legacy replacements and you mentioned Teradata. And the reality of the Teradata world is it's not that easy to pick up that workload and move it. It costs a lot of money. And I think Teradata has done a good job making it bloody hard to move off their platform. Kudos to them. But we're still up 30% year-on-year in terms of Teradata replacements. So that will play itself out over time. It's going to happen. It's just is it going to go faster. And it is going to happen. It's not going to stay.

But you are also correct that those are traditional data warehousing workloads; and obviously, we're the king of doing that sort of thing. But as I commented earlier, we're busting out in all these verticals and all these new use cases that are going way beyond data warehousing. The data cloud is the evolution of the data warehouse. That is the way to think about it, right? It is an incredibly enhanced vision of what data warehousing was, right? So that's where people want to go. They don't want to replicate the data warehousing legacy in the cloud. That is a missed opportunity, and that's why there's so much new energy and new dynamics going on because of what is now possible that wasn't before.

Michael P. Scarpelli Snowflake Inc. – CFO

I'll also add, Raimo, too, it's not just Teradata. There's piles of Hadoop on-prem, Cloudera that we are doing. And we're in discussions with many customers who still have multiple years left on those contracts, but they're all in discussions to move to Snowflake. It'll take a number of years.

Raimo Lenschow Barclays Bank PLC, Research Division – MD & Analyst

Yes. Okay. Congratulations.

Frank Slootman Snowflake Inc. – Chairman, CEO & President

Thanks.

Michael P. Scarpelli Snowflake Inc. – CFO

Thanks.

Operator

Your next question comes from the line of DJ Hynes from Canaccord Genuity.

David E. Hynes Canaccord Genuity Corp., Research Division – Analyst

Mike, the net revenue expansion metrics stand out and continue to impress. I'm just curious, as the base ages, are there any consistent signals that this expansion starts to plateau or normalize either at a certain time period or spend threshold? I don't know if there's cohort data that you can share. I'm just trying to think about how this plays out longer term as the business matures.

Michael P. Scarpelli Snowflake Inc. – CFO

Obviously, longer term, it will come down as our customer base becomes larger. I think we've only been selling product for, what, 5 years now, 6 years. And remember, this is going back 2 years. Looking at it, I don't see any real slowdown in the near-term future, but definitely, over time, that number will come down.

David E. Hynes Canaccord Genuity Corp., Research Division – Analyst

Okay. And then, Frank, one for you. As you continue to introduce new solutions, features, functionality, will they always be aimed at driving incremental consumption? Or do you see Snowflake ever introducing additional nonconsumption-based SKUs that could add different layers to the revenue model?

Frank Slootman Snowflake Inc. – Chairman, CEO & President

Well, we obviously are very focused. We look at the world through a lens of consumption. That is true. That's how we seek alignment. But one area that comes to mind that is not consumption-based is through the monetization models that we are developing for data and data applications. So that will also drive consumption, but it will also have a transactional component that will be a completely different business model than consumption.

Operator

Your next question comes from the line of Derrick Wood from Cowen.

James Derrick Wood Cowen and Company, LLC, Research Division – MD & Senior Software Analyst

Frank, I wanted to start a couple of questions in verticals. Obviously, you guys highlighted financial services. And I'm just curious if you're seeing a trend of new use cases that -- is it customer 360? Is it trading? Is it fraud detection, cybersecurity? Anything you'd highlight as trending upwards?

And then on a different vertical of retail, are you having any early traction kind of moving beyond analytics into operational automation like inventory management, supplier management, things that you can automate from an operational standpoint?

Frank Slootman Snowflake Inc. – Chairman, CEO & President

Well, obviously, we have large customers like Instacart who obviously have revolutionized retail; and obviously, they have very important relationships with the large retailers all over the place. That -- the use of Snowflake there affords them whole kinds of new opportunities for insights and for optimization.

So retail is hot. It's really the combination of retail worth the CPGs, the consumer packaged goods providers, the amount of data that is moving back and forth between these entities and the insights that can now be derived and then how much faster these insights are being derived. So in retail, it's certainly the type of business that has to come a long way in terms of sophistication. It used to be that it was very difficult for them to have accurate inventory levels and really know where to restock and how to restock. And things like Instacart have really helped because they run catalogs across all these stores. They know exactly what's there, what's not there, and that's sort of the new value that's brought in terms of data to these verticals.

I can go on and on about one vertical after another in terms of what's going on there. I mean I remember having a conversation with a Chief Science Officer of a big pharma, and they were saying that they view the biggest impact in the world of life sciences in terms of people's longevity and quality of life will come from data science and will not come from life science, which are really enormous statements to come out of life sciences companies that they think that the enrichment of data is going to create insight in terms of the effectiveness of treatments and therapies and protocols and so on that are going to have an enormous effect. So that's why you see data becoming insanely important to all these different verticals because of the impact that it's going to have on what these people do for a living.

James Derrick Wood Cowen and Company, LLC, Research Division – MD & Senior Software Analyst

Great. And one for Mike. Obviously, impressive to see that 169% net revenue retention. You had said at least 60 -- 160% this year. You're kind of pushing close to 170%. Are you -- should we still be thinking about at least 160%? And what do you see as the biggest drivers that could generate upside to your expectations?

Michael P. Scarpelli Snowflake Inc. – CFO

I don't think it's going to go up. I think we're going to continue to be above 160% for the balance of the year, what I said last quarter. And our large customers just continue to increase their consumption. When I look at the forecast for this quarter, our largest customers are continuing to consume at a very rapid pace.

Operator

Next question comes from the line of Dan Church from Goldman Sachs.

Daniel Peter Church Goldman Sachs Group, Inc., Research Division – Associate

This is Dan Church on for Kash Rangan. I just -- I'm piggying back on that net expansion rate, obviously 169% really healthy. When you look at your large customers, how do you think about the runway that you have from a share of wallet perspective and how big Snowflake can ultimately become in terms of a line item and how sustainable that 160% number is? And then when you look at your $1 million customers, can you give us a sense of how much of that is Fortune 500 versus customers that may fall below that threshold?

Frank Slootman Snowflake Inc. – Chairman, CEO & President

So I'm going to go first, Mike. You can go second on the second part of the question. It is really hard to predict where the ship is going to hit the beach because it is so dynamic. There's so much latent pent-up demand. There's so much opportunity. So it's really not that helpful to look at historical spend and try to extrapolate that into the future. And you see that in our net revenue retention rate. It is strictly the fact that it's now possible that we're enabling that demand is why it's happening, right?

So can we foretell exactly what that's going to be? No, we can't. We're just going to follow it to where it leads and we're going to enable it to the maximum extent. But I can't put a stake in the ground and say this is what it will be.

Michael P. Scarpelli Snowflake Inc. – CFO

Yes. On your question, the Fortune 500, I just want to remind people, Fortune 500 is very much a U.S.-centric term. And the Fortune 500 account for roughly 25% of our $1 million plus customers. We have a number of Global 2000. We started looking at Global 2000. I think we now have 462 of the Global 2000. We'll start reporting on that next year.

But clearly, large customers are what are driving those. That $1 million, there's a lot that aren't Fortune 500 that are large customers, and we think that will continue to be the case. Yes, the Fortune 500s have big wallets, and those will be some of our largest customers, and we think that will continue to be the case.

In terms of your net revenue retention, I'm not going to guide long term. It's hard to do that. I'm just going to say -- reiterate again what I said to Derrick, is we will stay above 160% for this year. And I do expect longer term as our customer base gets bigger and bigger and more mature, that number will come down, but I still think it'll be well above 130%, 140% for a very long time.

Daniel Peter Church Goldman Sachs Group, Inc., Research Division – Associate

That's really helpful. And then just a quick follow-up. I mean we talked about the storage compression improvements last quarter and some of the impact on gross margins as revenue mix shifts more towards compute. And then we layer on kind of the opportunity you have and data sharing to drive incremental compute per unit of storage. How do you see that impacting gross margins over the next, let's say, 12 to 24 months?

Michael P. Scarpelli Snowflake Inc. – CFO

Well, we saw it right now, and I'm not expecting a big increase in -- as a reminder, we do new storage compression technology every 2 years. We just rolled that one out last quarter. Storage is running just under 10% of our total revenue. And so clearly, compute is what's driving the margin though. And we think with data sharing, there will be a higher percentage of compute going forward. I don't expect it to see much improvement on the storage side. The biggest driver though of gross margin is as we move into larger customers that are buying enterprise and business critical, that is more software rich that drives the gross margin.

Operator

Your next question comes from the line of Pat Walravens from JMP Securities.

Joseph P. Goodwin JMP Securities LLC, Research Division – VP & Equity Research Analyst

This is Joe on for Pat. Great to see the strength in the Asia Pacific region. I guess at what point would it make sense to expand to a fourth cloud in the region, like Alibaba Cloud? I guess what's the thought process there? Any color would be great.

Frank Slootman Snowflake Inc. – Chairman, CEO & President

Yes. Let me just say, first off, we have made a decision as a company that we need to move into China. That's because China is now integral to the world economy. It's not a separate market, and our largest customers are demanding, insisting that we be there. And we're literally in the middle of figuring out how to be there, and we're reevaluating all those options. Whether we are in one flavor of the cloud or another, it depends a whole lot on what type of a dynamic we're anticipating. We've learned a whole bunch from being with Amazon, being with Microsoft and being with Google; and we're certainly going to take those learnings into that market as well.

Christian, anything you want to add to that?

Christian Kleinerman Snowflake Inc. – SVP of Product

I would add that we like meeting customers where they are, and they guide very much our deployment regional as well as cloud deployments. As Frank said, yes, we want to go in China and is working with our customers that we determine how we do that.

Operator

There are no further questions on queue. Ladies and gentlemen, this does conclude today's conference call. Thank you for participating. You may now disconnect.