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PRESENTATION

Raimo Lenschow *- Barclays Bank PLC, Research Division - MD & Analyst*

Hey, good morning. Welcome to our next session. I'm really happy to hear -- to have Michael Gordon and Serge Tanjga over here from Mongo.

Maybe we start off to get everyone on the same picture. Mike, you had like really good Q3 numbers this week. Just maybe give us a couple of the highlights for you, and then we kind of go into kind of more deeper Q&A.

Michael Lawrence Gordon *- MongoDB, Inc. - COO & CFO*

Yes. Great. No, thanks for having us. Good to see you, Raimo. Thanks, everyone, for joining.

Yes, we reported a couple of nights ago, I guess Tuesday night, our third quarter results, very strong results. Revenue was up 38% year-over-year. Subscription revenue was up 39% year-over-year. Atlas, which is our database as a service offering, was up 61% year-over-year. It is now 47% of revenue, so closing in on half of the revenue.

And it was another great quarter in terms of customer additions, with customers topping 22,600. And we talked about how we executed really well in the quarter sort of despite COVID and the macroeconomic environment that was challenging. We did also call out that the COVID impact was less than we had expected. So we sort of outperformed relative to our expectations but, nevertheless, does remain a headwind, and we think it will, at least into Q4.

We talked about, I think, the evidence of the new customer additions and the continued strength there, sort of just reinforces the fact that this is a very large market. We're very early on in penetrating it. And also, we've been making some sort of investments on both the self-serve side to kind of introduce some of that consumer DNA as well as some changes in kind of tinkering that we do and optimizations on the go-to-market side that are having the desired effects. And I think fundamentally, all that's led us to -- despite the environment that we're in to meaningfully raise our outlook for the rest of the year. And if I think on a more macro and longer-term basis, I think a lot of the trends that we're sort of naturally benefiting from, whether that be digital transformation, modernization, cloud adoption and migration, all those things are only being accelerated and enhanced. And so while there's clearly a short-term headwind from COVID in the macroeconomic backdrop that we've been managing through nicely, I think it turns into secular tailwinds when you look out over a multiyear horizon.

So that's probably the sort of key headlines or highlights.

QUESTIONS AND ANSWERS

Raimo Lenschow *- Barclays Bank PLC, Research Division - MD & Analyst*

Yes. They elevate your (inaudible). The -- just -- you start -- talked a little bit about the environment, like can I -- maybe like if we drill a little bit deeper there, like what are you seeing in terms of like, from a geography perspective, but also from certain industries?

Michael Lawrence Gordon - *MongoDB, Inc. - COO & CFO*

Yes. You'll see a wide range. Certainly, Asia Pacific and other areas are functioning much more closer to normal. But a lot of it really at this point is less sort of virus-related specifically in terms of not being able to visit a customer or other things because just like your conferences in these meetings, people have really adapted to that. It's gone on long enough that you sort of had to do that. It really is much more about the macroeconomic uncertainty and whether that's a specific business impact, you're in hospitality or travel, where you might be under pressure or more just you're trying to figure out and trying to plan.

And so I think what we've seen is we've seen great resilience in the business and incredible strength and outperformance relative to our expectations, as you can see in the results.

And then even as coming in some of those challenged sectors, I think we talked about in the -- can't remember if it was the Q1 or Q2 call in March or in June, but we even talked about one of the largest airlines making a meaningful investment. You'd think they'd be among the last people to do that in this first half of the year.

So I think the value proposition of MongoDB continues to resonate and, in some cases, is even more relevant, right? When you think about some of those trends that we were discovering. I think the macro uncertainty, though, is what we have seen and we expect to see in some select deals, we'll make people provide a little bit more scrutiny, right? If you're thinking about doing a big large deal or a big multiyear deal is not everyone is open with the purse strings and those kinds of things received more scrutiny in some situations.

So I think it's really more that context than anything. But I think the fundamentals are strong. We've been executing well in a difficult environment. And I think the long-term trends are all actually quite sort of reinforcing or helpful to us.

Raimo Lenschow - *Barclays Bank PLC, Research Division - MD & Analyst*

Yes. And I mean full disclosure, Michael, when the -- when March, April hit and everyone was like COVID winners and losers, I mean, I was a little bit nervous for you guys because you're selling a proper operational database. You're not like having some little toy, like Mongo is like used like properly. And then I was sitting there going like, okay, well, in this sort of environment, like a database sits on an even application, so who are starting new projects? But since then, I've been proven pretty wrong because you've been kind of delivering numbers kind of very, very healthily.

Was I totally wrong on the track? Or what -- how would you describe what are you seeing out there?

Michael Lawrence Gordon - *MongoDB, Inc. - COO & CFO*

Yes. So what I'd see is -- I think what you're highlighting is the fact that we do occupy this quite sort of strategic mission-critical position within the technology stack, right? If you think about an application, the heart of that application is the database, right? And so even if the -- even if you're seeing less usage, right, or less activity, you're not actually going to churn it off. And we talked about this in some of our earlier calls, where in the first half of the year, we actually saw some impact on the Atlas expansion rates from existing customers, within existing customers because of the macroeconomic environment. And our original thought was, oh, maybe people are churning off, and is that an issue because the ads were strong, and you could see the ads were strong publicly available data. And we looked at it and said, no, there's been no change, no uptick in attrition, which sort of underscores that sort of mission criticality of the role that we provide.

And it was really just more -- when there's less usage, especially on Atlas, which is database as a service, in a consumption-based model, when there's less macroeconomic activity, there's going to be less consumption, right? And it'll all kind of actually make sense.

And to your earlier point, though, we had thought that maybe it was industry skewed, right? Maybe it was a small number of applications in the, obviously, affected industries that were off massively. But really, it wasn't that. It was sort of very broad-based, but very modest across the portfolio, across industries and geographies.

So I think that we do occupy a very important and strategic position. People are building new applications. I think the thing that maybe not everyone fully understands is -- and I haven't come up with some good quick pithy sound bite, which you have to work on or maybe someone can help me with. But the best thing I've come up with is it's not -- our business is not as quite as quick twitch, right? Like -- so in the sense of when there's a -- everyone sort of mandatorily working from home in March, everyone needed video conferencing software, right? So obviously, Zoom's business took off. Or you need a collaboration software, right? So people are using Slack or Teams or whatever they're using.

When you say, "Oh, my goodness, our application infrastructure is antiquated. We need to modernize, right, which of all these trends that we benefit from", you can't suddenly just flip a switch and turn that on, right? Like you say, we really need to take this app modernization stuff seriously. We really need to think about our ability to allow people to work from home or resiliency and redundancy, really need to increase our cloud adoption, those take time, right? So there's sort of an application life cycle. So that's part of the reason why you don't see that -- the tailwind that we benefit from sort of show up immediately in the first couple of quarters after the situation.

But I think in terms of the long-term setup, I feel really good about how our position.

Raimo Lenschow - *Barclays Bank PLC, Research Division - MD & Analyst*

Yes. No, that's what I thought as well. Yes. And then feeding into -- or leading into that as well, like what do you see if you look at your -- the deals out of the pipeline that are getting executed on in terms of competition? And I'm just kind of saying, look, I'm deep in the data space. We're seeing less of like private companies like DataStax, et cetera, they have like their own problems. But I'm also seeing like AWS had that conference or started last week, it's slightly less on kind of DocumentDB, et cetera. It almost feels like you kind of won that mindshare battle.

Like is that -- do you see that -- is that a per kind of observation, or do you see that in the field as well?

Michael Lawrence Gordon - *MongoDB, Inc. - COO & CFO*

Yes. So I think we really -- obviously, it's competitive, the market, big large markets draw competition. So -- and we've got a bunch of great competitors. So I would never suggest that it's always easy out there. But nevertheless, though, I think we're doing well. And I think if you look at it, there are really 3 main buckets of competition, right? The dollars or the wallet share and the relational databases, right, sort of the oracles, et cetera, the old, and I think we've talked to folks and try and provide examples in the earnings calls about customers where we're seeing continued relational migrations and success there. And those are really viewed as, certainly, important legacy technologies, but not what people tend to choose to build new applications on. And increasingly, people see the brittle nature and the complexity of what they're trying to do.

And especially in today's environment where people are talking about 6 years of progress being achieved in a 6-month time frame and everything else, people want to innovate quickly, right? And for that, you need the most popular modern general purpose database, which is MongoDB, right?

So we're sort of seeing that. And so I think that's a pretty established piece.

You're definitely right. I think there was a group of insurgence, 5, 6, 7 years ago, who tried to sort of go after this big large market opportunity. I think we can pretty meaningfully distance ourselves from them. And so we don't see those folks, really, to your point.

And then it's the cloud players. And I think the cloud players, it's a different story with each of the 3 large global hyperscale players. But I think on balance, the relationships tend to be competitive and cooperative, but seem to have a higher dose of cooperation. They're obviously ultimately competing against each other for an even bigger prize. And I think that they realize that the MongoDB Atlas workloads make their cloud stickier and help them sell the rest of their stack, which is valuable.

The last thing that I'd say is to your point, broadly, we really have good win rates when we get into the -- if you kind of look at it on a deal-by-deal basis, including against the cloud players, whether it be their other offerings or their imitation offerings. And so we really like our chances when we're in the discussion.

I think the risk for us particularly with the cloud players is that our footprint coverage, right, is so small relative to the size of the market opportunity that there may just be deals that we don't know about, right, or that were not considered. And someone's just -- and Dave talked about this in the prepared remarks in the earnings call, people are just thinking about a move to the cloud or thinking about a cost savings and are doing a lift and shift and not realizing that they're just transferring some of their problems, certainly, the problems that were related to being a relational database, right? And some of those challenges and constraints. And so I think we're -- increasingly people see and understand and appreciate that difference.

Raimo Lenschow - *Barclays Bank PLC, Research Division - MD & Analyst*

Yes. And then staying on Atlas a little bit, like it's been like one of the most amazing success stores I've seen in my space because you came from nothing like -- and when did you start? Like 2016 to like this year is going to be -- you're ending probably at 50% of revenue.

Just walk us through a little bit the changes for you. Like, obviously, you're in the cloud, and there's a database in the cloud, but the change to your organization because you have like there's different -- the sales cycles are different. The revenue model, consumption, like how you get revenue is different, like it's a whole journey, and it's pretty amazing how you kind of gone through this.

Michael Lawrence Gordon - *MongoDB, Inc. - COO & CFO*

Yes. So there are a lot of flavors to it. And you're right, and I would certainly, by no means, suggest that we've perfected or satisfied with it. We continue to sort of optimize and experiment with different things.

But you're right. It's a very different mindset. We've talked about -- probably the go-to-market side is maybe the easiest to talk about or easier for people to understand.

First and foremost, starting with, we've created a self-service version, right? Previously, the closest thing we had to self-serve was you downloaded the free-to-use version and used it yourself, but we didn't make any money off of that. You weren't actually a customer. And so we had to build a set of skills that are more akin to consumer marketing really in terms of being able to identify -- raise awareness, identify and kind of a classic lead gen funnel, right, where you get sort of awareness, trial, experimentation adoption, free tier, people paying, et cetera, et cetera. And we're continuing to get better at that. You can see that show up in the numbers and the growth in the self-service numbers.

There are more investments we want to make there. We hired a new CMO over the summer. And so continue to invest there and see a lot of opportunities. But I think it just sort of speaks to how big the market is and what we're doing.

Then you've got -- now all of a sudden, you've got this pool of customers, even if I just kind of stick with the funnel, who are using the product. We now have product intelligence or product insights. We can see what they're doing, right?

Previously, when it wasn't a product that we manage for them, right, they'd subscribe enterprise advance in the self-managed environment. We didn't have the visibility to help them and say, "Oh, you should be really doing this." And so you can apply the data science to say, all right, these are the actions or activities that indicate someone who has the potential to really dramatically improve their performance. And then what you want to do is if a human touch or human intervention can differentially drive that performance, you want to spend the time and effort to have someone go reach out and talk to them. If they're just going to grow on their own, which many do, they're not worth the time and cost to have someone go call them because you only really want to invest the time where you're going to drive incremental performance. And so those kinds of thought processes and mindsets are really quite different.

The last thing that I'd say, and obviously, Serge, feel free to jump in with anything. But the last thing I'd say sort of at a macro level is we'd originally started thinking about the two channels, self-serve and the direct sales channel as fairly separate. And what we've increasingly seen over time is sort of a blurring in the sort of fishing pond concept where in classic enterprise sales, you'd have marketing and you have lead generation and you'd have marketing qualified leads, and you'd have all these things that the team was doing that said this is a high-value prospect. It's totally different when you actually have the customers. It's not just that you have firmographic data. Like you know how they're using the product, right? You have in-product signals. And that product-led growth is a very different kind of model.

And so as we've seen sort of some of the channels, blur, and kind of cross-channel fertilization has been something that we've continued to iterate and work on.

Actually, the last thing I'd say is we talked about this on the sales side and the direct sales side is some of the traditional enterprise software dynamics of a salesperson selling, trying to maximize like what is your annual contract value, right, how much are you signing up for in this annual commitment is a dynamic that's not perfectly consistent or compatible with the cloud, right?

Cloud people -- cloud folks -- when you have a cloud model, people tend to think about it being more consumption oriented. And as a result, it was creating this artificial tension or friction, where as a sales rep, I'm trying to maximize your commitment. And you're sitting here saying, well, wait a second, I haven't even used the product. Like, how do I know how much I'm going to use? And so we made some changes. We observed that at the end of last year, we made some changes at the beginning of this year to address that and to sort of reduce that friction and just make sure that people can easily adopt in a more frictionless manner because we had the cohort data that showed that once they got on, the growth was strong. And so we made some of those tweaks and optimizations, and you're seeing that in the results.

Serge, anything I missed or anything you want to add on that?

Serge Tanjga - *MongoDB, Inc. - VP of Finance and Business Operations*

I guess the only thing I would add is maybe the things that haven't changed, which is -- and you talked about sort of the amazing success and the fact that Atlas is approaching 50% mark. The one thing, though, that is important to remind is that the decision which product to use is something that we don't drive, and it's sort of made, ultimately, on the customer end. And obviously, Atlas has been successful, and we expect it to continue growing as a function of the business, but there's no sort of tipping point or acceleration or anything like that when we flip to Atlas being majority of the business. It's really just more of the same.

Raimo Lenschow - *Barclays Bank PLC, Research Division - MD & Analyst*

Yes. And Serge, like you probably have to report to Mike like, how do you think about getting visibility into a quarter then? Because I was talking with Snowflake yesterday and it's like, how do you predict consumption, how do you model and get consumption into a model and then say like, "oh, this is what I'm expecting from my quarter." Like what kind of stuff are you doing to kind of get visibility?

Serge Tanjga - *MongoDB, Inc. - VP of Finance and Business Operations*

So I on a quarterly basis, I actually feel like we have reasonable visibility. Now, obviously, we had the hiccup with COVID, and that's not trivial. But if you take that -- but that was -- COVID hiccup was sort of clearly 2 standard deviations away from the normal type of (inaudible) of our weekly consumption. But outside of that shock to the system, we have a reasonably diversified base.

If you think about Atlas in 2 pieces, self-serve is highly diversified. So that's close to 20,000 customers, all relatively small, reasonably consistent cohort behavior. So like we have a reasonably good call on it, right?

On the direct sales sold Atlas side, which is over half of Atlas at this point, back a couple of years ago, that was a problem because there was less diversification, and you needed a few large applications to do things abnormally. And if you remember, we had a quarter like that when that happened, that was Q4 of fiscal '19.

But as we get closer, we have these debates internally, as we get closer to the future, what's the likelihood of a positive or a negative outlier really changing our view on a single app basis in Atlas, and that declines. We had COVID and sort of the broad-based slowdown that we experienced, that was a new event for us, but for everybody, I guess. But that notwithstanding, I feel like on a relatively short-term time horizon, a quarter or 2 consumption is not an incremental modeling challenge in my opinion.

Raimo Lenschow - *Barclays Bank PLC, Research Division - MD & Analyst*

Yes, yes. Okay. Okay. That's really helpful. And it sounds exciting, like it's going to be more and more interesting.

The other thing that this year really changed was like the number of new customers you guys signed. Talk a little bit about the initiatives there. Like what's -- is that on purpose? It just happens? Or like what was...

Michael Lawrence Gordon - *MongoDB, Inc. - COO & CFO*

Yes, no, it's definitely intentional, and it goes back to the sort of macro comment that I said at the beginning, which is, I think it's a good reminder that it's a very large market, and we're very early on in capturing it. And these tweaks, optimization improvements that we've been making are having the desired effect.

So I'd call out 2 things. One is within the self-service channel, is sort of trying to infuse more of that consumer marketing DNA, right, that we were discussing. And I think we're continuing to get better and better at that. When I say when you look at sort of the number of new registrations, and you're just going to work your way down the funnel, like you said, we haven't perfected it, but we're definitely getting better. And it's quite early on in terms of sort of the market adoption.

And then on the sales sold side, I think the discussion that we're having earlier is probably the most tangible and sort of easy to process understanding of the changes, which is it's really focused on get folks on the platform, let's reduce some of these artificial barriers.

And so rather than giving the salesperson an incentive to hold out for the maximum initial contract, instead, let's get them on. And as the customer grows and succeeds, we will reward you, the salesperson over time based on what their consumption is, right? And then ultimately, if you think about it from a mathematical standpoint, I think, is maybe useful in the context of the unit economics, which is the customers we're acquiring, there's no reason to believe that their behavior should be any different, right?

It's just -- let's imagine that you're the customer and I'm negotiating with you, and I want you -- I think you should be signing an $80,000 contract and you're sitting here saying, "well, I'm only comfortable with $40,000", now, rather than like us going on and on and on and going several rounds about it, I'm going to say, okay, fine, I'm going to get paid in the $40,000. You're going to wind up consuming in the $80,000 or maybe whatever you end up consuming, I'm going to get paid for that over time. So that doesn't change your kind of LTV other than the fact that maybe I could argue, you're probably a lot happier because it was a lot easier to deal with me, so maybe satisfaction goes up and lifetime value goes up with that.

But let's just assume it's flat. My velocity as a salesperson has gone up dramatically, right? Because I'm doing many, many fewer cycles with you because I'm not introducing these artificial barriers. And so the cost per acquisition goes down meaningfully because you can see it in the customer numbers, like you're acquiring many more customers. And so it's really introducing a fair amount of leverage.

Lastly, while certainly, there are lots of negatives to COVID. I do think that we are a long-term beneficiary, and it is causing people to sort of reevaluate things, and I think that will help us in the long run.

Raimo Lenschow - *Barclays Bank PLC, Research Division - MD & Analyst*

Yes. Okay. No, that's -- yes. And it's amazing how like internal changes to you, like construct, et cetera, have such a kind of visible effect in the numbers. Like it's almost like a Harvard business review case study for (inaudible), I guess. Yes.

Michael Lawrence Gordon - *MongoDB, Inc. - COO & CFO*

Yes. Well -- and I think it's important, I think people understand this, but I'll just triple confirm. These are changes that we made prior to COVID, this is not a COVID-related change, just so that's clear.

Raimo Lenschow - *Barclays Bank PLC, Research Division - MD & Analyst*

Yes, yes. No, that's fair. Okay. The last couple of minutes, I wanted to talk about profitability. So like, obviously, like with better revenue and less travel, you're picking your profit forecast nicely. But like we also have to think slowly about like the way forward, like what are the stuff that you took away that you think like, "oh, actually, that's something we could kind of continue to do going forward and will help me in profitability"? And just a couple of examples maybe there. Or like (inaudible).

Michael Lawrence Gordon - *MongoDB, Inc. - COO & CFO*

Do you want to talk about that, Serge, and then me too.

Serge Tanjga - *MongoDB, Inc. - VP of Finance and Business Operations*

Yes. Why don't I start? So if you think about -- so just to take a step back and remind everybody, when COVID hit, we obviously had a lot of questions around revenues, and we discussed those and obviously have outperformed, since then, our expectations quite materially. But there was also a pretty immediate cost effect, which is all travel stopped, everybody stopped going to the offices. We exited co-working spaces, which were used frequently for our smaller satellite offices and also marketing events, which was a big bucket of what we've used particularly to generate sort of ongoing relationship with our strongest sort of advocates among the developer community, like MongoDB world, all those went virtual. And it obviously fractioned the cost.

So we then looked opportunistically and decided to use that as an opportunity to accelerate investment in other areas. And 2 things that we called out on our Q1 call were accelerating hiring and engineering to bring forward our road map because, a, we had savings, but also it was a good market to -- the market got better for acquiring (inaudible).

And then secondly, back to the sort of the continuing growth and improving our experience -- or sorry, our expertise in digital marketing, we invested there more. And again, it was opportunistic because actually online pricing went down in terms of ads.

So now as we fast forward, obviously, we're going to continue investing in the business as we look forward to some point in the future and COVID going away, how are those 3 buckets of savings going to change.

So I will start with events. I think we will definitely do events. I think it's probably a long time before 2,000 people are comfortable being in a hotel in Manhattan like we would do for MongoDB world, but I would fully imagine that at some point, we did it because, again, it was like a very strong way to galvanize sort of our core supporter group.

So I don't know when, but I would assume that is, at some point, 100% back.

On the offices, you mean -- you read the journal at the time as much as we do. Every company is considering this and tech companies are seeing it differently than we do. What we've learned is that we can be tremendously effective working remotely. But at the same time, we've -- especially as this goes on, people are missing ability to collaborate in person, and people are missing the ability to get to really know their colleagues socially, the kind of stuff that you cannot create if your entire life is scheduled Zoom after Zoom.

So the office is probably not 5 days when we come back, but it's probably an office. It looks differently. It serves differently, probably a smaller footprint for the same amount of whatever number of people. But that's probably what it looks like. But we like everybody else are working on what they really need.

And in travel, I would say that's the one with the most debate internally because, look, like a lot of our travel is customer-driven. And then the question is, not next year, but 2 or 3 years out, will the pressure to go see customer face-to-face return? And if your competitor is going, are you going to get on a plane? I think that's -- that necessarily just drove us, I think that's true in every industry.

So it will be a gradual return next year, I'm sure. But whether we are 100% of those expenses, 2 or 3 years out, sort of a little bit of it remains to be seen.

Raimo Lenschow - *Barclays Bank PLC, Research Division - MD & Analyst*

Yes. Okay. I could kind of talk for a lot longer, but I'm already 2 minutes over my time. So I got to let you go.

Michael, Serge, that was really helpful. Thank you.

Michael Lawrence Gordon - *MongoDB, Inc. - COO & CFO*

Good to see you. Thanks for having us.

Raimo Lenschow - *Barclays Bank PLC, Research Division - MD & Analyst*

Take care.
