

**GitLab Q3 FY 25 Earnings Call**  
**Prepared Remarks**  
**Dec 5, 2024**

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**Kelsey Turcotte:**

Good afternoon, we appreciate you joining us for GitLab's third quarter fiscal year 2025 financial results conference call. With me are Sid Sijbrandij, our co-founder and Executive Chair of the Board, Brian Robins, our CFO, and Bill Staples, our newly appointed CEO. During this afternoon's call we will introduce Bill, provide commentary on our third quarter results and guidance for the fourth quarter and fiscal year 2025.

Before we begin, I'll cover the Safe Harbor statement:

I would like to direct you to the cautionary statement regarding forward-looking statements on Page 2 of our presentation and in our earnings release issued earlier today, both of which are available under the Investor Relations section of our website. The presentation and earnings release include a discussion of certain risks, uncertainties, assumptions and other factors that could cause our results to differ from those expressed in any forward-looking statements within the meaning of the Private Securities Litigation Reform Act.

As is customary, the content of today's call and presentation will be governed by this language. In addition, during today's call, we will be discussing certain non-GAAP financial measures. These non-GAAP financial measures exclude certain unusual or non-recurring items that management believes impact the comparability of the periods referenced. Please refer to our earnings release and presentation materials for additional information regarding these non-GAAP financial measures and the reconciliations to the most directly comparable GAAP measure.

I will now turn the call over to Sid Sijbrandij. Sid...

**Sid Sijbrandij:**

Thank you for joining us today.

And before I get into the numbers, I could not be more excited to welcome Bill Staples to the team. This afternoon we announced Bill will succeed me as CEO of GitLab. He will also take a seat on the GitLab Board. And, I'll continue on as Executive Chair of the GitLab Board.

As I have gotten to know Bill, his passion for software and commitment to innovation makes me confident he is the right person to lead the company going forward. Over his career Bill has an impressive track record of building and scaling enterprise software organizations. He most recently served as CEO of New Relic and held senior leadership roles at Adobe and Microsoft. I couldn't be more excited to welcome Bill to the team. Congratulations! Bill, over to you.

**Bill Staples:**

Thank you, Sid. And, good afternoon everyone.

I am humbled to have been asked by Sid and the Board to take on the role of GitLab's CEO. I've spent nearly three decades building developer platforms and tools and I know our customer and category very well. I am convinced that we have a significant opportunity ahead of us.

We have all seen how software has changed all aspects of our lives and transformed every business into a software-driven business. However, I believe we're still in the early stages of the software transformation which I expect AI to further accelerate. In my view, there has never been a better time to serve developers and GitLab offers the best and most comprehensive platform to do that. We sit at the heart of the software development lifecycle, improving the development experience for everyone involved and enabling customers to create better quality software faster for enterprises.

I look forward to rolling up my sleeves, spending time with customers, partners, and you, as well as GitLab team members.

Sid, I am honored to take the helm of the company that you worked so hard to build. Thank you for entrusting me with your vision.

Now, I will turn the call back to you.

**Sid Sijbrandij:**

Thanks, Bill. I really look forward to working with you.

Turning back to the business, I want to talk about a few things. First: our really strong Q3. Second: our competitive advantage in AI and where we are going. And, finally: the tremendous momentum we are seeing with GitLab Ultimate.

We executed well and once again we exceeded both revenue and profitability guidance. Third quarter revenue increased 31% year-over-year to \$196 million. And, consistent with our commitment to responsible growth, our non-GAAP operating margin reached 13.2%. This is an increase of over 1,000 basis points year-over-year.

From cybersecurity threats to compliance mandates, CTOs, CIOs, and CISOs are facing increasingly complex challenges. Despite all of this, organizations need to accelerate the pace of software development to remain competitive and respond to ever increasing customer expectations. This is why our DevSecOps platform resonates so well.

On the AI front, we continue to build momentum with GitLab Duo Pro and Enterprise. Customers are realizing tangible value with it. One recently told us that 40% of their developers are saving more than 2 hours per week with Duo. And another customer is seeing productivity improvements of up to 50%.

In their first purchase with GitLab, Emirates, the world's largest international airline, chose Ultimate and Duo Pro. After comparing different AI-powered developer tools, it was our platform's built-in security and compliance capabilities and our AI code assistance that made us the choice.

Another new customer, OxBlue, a leading global provider of construction video camera services, chose Ultimate and Duo Enterprise in a competitive assessment against GitHub. This is because of our ability to improve the developer experience across the entire software development lifecycle, including productivity improvements and security.

The combination of Ultimate and Duo Enterprise is a powerful one. While there are many AI solutions that can generate code, we go beyond that. We integrate AI throughout the software development lifecycle. And, we serve all stakeholders involved in shipping great software, including product managers, security engineers, and operations teams. To take advantage of our end to end AI capabilities beyond the code creation F5 moved from Duo Pro to Duo Enterprise in Q3.

An international insurance and financial services company expanded their Ultimate deployment and purchased Duo Enterprise. By the end of 2024 they will have replaced 4 point products, saving over \$2 million. They plan to consolidate more tools over the next three years, securing their entire software supply chain with a single DevSecOps platform. And with Duo Enterprise, they estimate that their engineering teams will spend up to 45% less time on mundane tasks like writing code, allowing them to spend time on more strategic valuable work.

LATAM Airlines, the largest airline in Latin America and a new GitLab customer, selected Ultimate and Duo Enterprise in a competitive evaluation between us and several security, AI, and CI/CD point solutions. Now LATAM can consolidate their software toolchain, reduce costs, and improve productivity. And, they can leverage our extensive security scanner coverage and AI throughout the software development lifecycle.

Looking ahead, we intend to be the vendor customers choose to partner with for a comprehensive approach to AI. There are three reasons we believe we are uniquely positioned to do this.

First is our end-to-end DevSecOps platform. To be effective, AI models need context. And our platform's unified data store allows us to give the AI more and more relevant context.

Second, customers value security when it comes to AI. I'm excited to share that GitLab Duo Enterprise customers can now deploy self-hosted models. This is a significant differentiator for

us. With self-hosted models customers can implement AI capabilities without their private data leaving the organization. This lowers the risk of security breaches and enables adherence to data protection laws. Recently, a large U.S. Government agency chose to add 2,000 GitLab Duo Enterprise users to their existing Ultimate licenses to provide their developers with an AI experience in an off-line environment. They chose GitLab Duo because they could use their own self-hosted large language models with their existing GitLab instance.

Finally, customers need to trust the AI they are using. This concern is raised at all levels of our customers' organizations, including the board of directors. We partner with LLM vendors who do not use our customers' proprietary code to train their models. And, we have adopted a transparency and privacy first approach to safeguard customers' data and IP.

Earlier this week we announced a bundle offering for GitLab Duo with Amazon Q, allowing developers to create and deploy high-quality, secure code faster on AWS. The joint offering integrates AI capabilities from GitLab Duo and Amazon Q into a single interface for AWS customers using GitLab Ultimate.

GenAI innovation started with AI-powered code creation, which we offer in GitLab Duo Pro. With the introduction of Duo Enterprise, we expanded AI to everyone in the software development lifecycle. We anticipate the next evolution in AI will be agentic, where AI will be autonomous and proactive rather than prompt-based and reactive. Agentic AI is the foundation of GitLab Duo Workflow, an autonomous agent for end-to-end software development that we shared a preview of earlier this year. This is where we see the industry going, and we intend to be the leader.

Now I'll move on to the success we are seeing with Ultimate. There are multiple drivers creating demand for Ultimate and interest from partners like AWS. These include integrated security and compliance, GitLab Dedicated, and, as I discussed, Duo Enterprise. Ultimate has now reached 48% of our total ARR.

During the quarter, Indeed, the #1 job site in the world, moved from GitLab Premium to Ultimate. Prior to the upgrade, Indeed migrated thousands of projects from a legacy competitor to GitLab, increasing daily pipelines by 79% and cutting hardware costs by up to 20%. In Q3 they chose Ultimate to consolidate multiple tools into 1 platform for source code management, CI/CD, and security.

Ultimate creates a paradigm shift in how customers can embed security in the earliest stages of software development. We also seamlessly integrate security checks and guardrails as the code is being written. Our recent Forrester study found that Ultimate customers can decrease their incident response times from 1 month to 1 hour.

USAA is one of our longest-standing customers. With Ultimate, they have been able to boost the productivity and efficiency of their developers by setting and enforcing security and compliance scans and shifting security left.

In addition, a large global supermarket chain with 12,000 stores in 18 countries upgraded to Ultimate to take advantage of our platform's full suite of security and compliance features. With Ultimate, they've told us they expect to save 90 minutes per developer per day on manual security tasks and reduce costs by \$10 to \$15 million per year.

Ultimate is also attracting new customers like Prometheus Group, a provider of enterprise asset management software for plants and facilities. They chose GitLab to increase security and compliance with a single all-in-one platform while also consolidating their toolchain and increasing visibility across projects.

In fact, nine of our top ten largest new first order customers in Q3 all purchased Ultimate.

In the third quarter, GitLab Advanced SAST became generally available for all our Ultimate customers. Advanced SAST is powered by technology we acquired with the acquisition of Oxeye. It uses a proprietary detection engine to identify exploitable vulnerabilities in first-party code. This delivers more accurate results so developers and security teams don't have to sort through the noise of false-positive results. And unlike other stand-alone security scanners, Advanced SAST is natively built into the GitLab DevSecOps platform. This provides a developer experience free from the overhead that comes with integrating multiple point solutions.

GitLab Dedicated, which continues to exceed our expectations, is also driving demand for Ultimate. To leverage Dedicated, customers must be on Ultimate. Because Dedicated is fully managed by GitLab, customers can achieve quicker time to value compared to hosting the platform themselves, while maintaining high security and compliance standards.

Enterprise work management platform Smartsheet purchased Dedicated through a hyperscaler partner to remove the need for maintenance, reduce infrastructure costs, and give teams time back for innovation. All while ensuring they have a highly reliable software development process.

Blackstone, the world's largest alternative asset manager, purchased Dedicated for toolchain consolidation, compliance, and visibility.

Dedicated also contributed to a record quarter in our public sector business. And we are building momentum with our "In Process" designation for FedRAMP Moderate. The U.S. General Services Administration, our agency sponsor for FedRamp, selected GitLab Dedicated for Government. Dedicated will reduce the burden of building new tools and will establish a factory floor with an end-to-end, FISMA-compliant DevSecOps platform. GitLab is a great choice for highly regulated industries and I am pleased with our performance in this market.

I want to finish by saying thank you. First, to our team members for living our values and mission. To our customers for placing their trust in us and our partners for their support. And, finally, to the wider GitLab community.

And with that, I'll turn it over to Brian...

**Brian Robins:**

Thank you Sid, and welcome Bill.

I'm really pleased with our Q3 FY25 results which exceeded our expectations. We built off the momentum we saw in Q2 and continue to deliver against our commitment to profitable growth. Q3 revenue reached \$196.0 million dollars, an increase of 31% from Q3 of the prior year, and we delivered a record non-GAAP operating margin.

We now have 9,519 customers with ARR of at least \$5,000 dollars, which contributed over 95% of total ARR in Q3. In particular, we monitor performance of our larger customer cohort of \$100,000 dollars plus in ARR which increased 31% this quarter and reached 1,144. As they

scale, this cohort continues to make significant investments in Ultimate, including our top 7 deals in the quarter.

We are also seeing new customers land with GitLab Duo. In Q3 this included 5 six-figure first order deals that included Duo. On the expansion front, we ended the quarter with a dollar-based net retention rate, or DBNRR, of 124%. Q3 DBNRR was driven by a combination of seat expansion, at approximately 50%; increased customer yield at approximately 40%; and tier upgrades, at approximately 10%.

Total RPO grew 48% year-over-year to \$811.8 million dollars, while cRPO grew 39% year-over-year to \$515.2 million dollars. We encourage investors to look at these metrics over a multi-quarter period.

Non-GAAP gross margin was 91% for the quarter. The team continues to do a very good job of driving operating efficiencies to maintain our best in class gross margin. SaaS now represents 29% of total revenue and grew 44% year-over-year. The considerable traction we are getting with GitLab Dedicated is helping drive this momentum.

Once again we saw a significant increase in operating leverage. Q3 non-GAAP operating income was \$25.9 million dollars, compared to \$4.7 million dollars in Q3 of last year. Similar to Q2, we dropped our revenue outperformance to the bottom line which, in combination with the team's focus on execution, translated to a record non-GAAP operating margin of 13.2% compared to 3.1% in Q3 of last year. This is an increase of more than 1,000 basis points year-over-year. As we scale, our land and expand model becomes increasingly efficient which allows us to both invest in future growth while also driving operational efficiencies.

Q3 FY 25 adjusted free cash flow was \$9.7 million dollars compared to negative \$6.7 million dollars in the prior year period. Cash from operating activities was negative \$177.0 million dollars in the third quarter compared to negative \$6.0 million dollars in the prior year period. Cash flow from operations reflects the conclusion of the Bilateral Advance Pricing Agreements, or APA, with the IRS and the Netherlands' Dutch Tax Authority. In addition to the third quarter payment of \$188 million to the Dutch Tax Authority which resulted from the APA negotiations, we have reserved an additional \$10 million to be paid to the IRS, although we have petitioned for an abatement of this amount. We expect it to be finalized in Q4.



Now, turning to guidance:

For the fourth quarter of FY25:

- We expect total revenue of \$205 million to \$206 million dollars, representing a growth rate of 25% to 26% year-over-year.
- We expect a non-GAAP operating income of \$28 million to \$29 million dollars.
- And, we expect a non-GAAP net income per share of \$0.22 to \$0.23, assuming 170 million weighted average diluted shares outstanding.

For the full year FY25:

- We expect total revenue of \$753 million to \$754 million dollars, representing a growth rate of approximately 30% year-over-year.
- We expect a non-GAAP operating income of \$69 million to \$70 million dollars.
- And, we expect a non-GAAP net income per share of \$0.63 to \$0.64, assuming 168 million weighted average diluted shares outstanding.

Separately, I would like to provide an update on JiHu, our China joint venture. In Q3 FY25 non-GAAP expenses related to JiHu were \$3.5 million dollars compared to \$4.3 million dollars in Q3 of last year. Our goal remains to deconsolidate JiHu. However, we cannot predict the likelihood or timing of when this may potentially occur. Thus, for FY25 modeling purposes, we forecast approximately \$14 million dollars of expenses related to JiHu, compared with \$18 million dollars last year.

In summary, Q3 was another strong quarter driven by demand for our leading AI-powered DevSecOps platform. To help our customers build better software, GitLab brings together developers, security experts, and operations teams on a single platform to collaborate, improve quality, and prioritize security. In a time when there is intense demand for software, this allows customers to both drive innovation and reduce cycle times. This is a large market that is ripe for consolidation and I am confident in our ability to build long-term shareholder value. The team is focused on a strong close to the year and we look forward to seeing many of you over the coming weeks.

Thank you all for joining today.

With that, I will turn it over to Kelsey who will moderate the Q&A.