25-May-2022

Snowflake, Inc. (SNOW)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good evening and thank you for attending today's Snowflake Q1 Fiscal 2023 Conference Call. My name is Daniel, and I will be your moderator for today's call. All lines will be muted during the presentation portion of the call, with an opportunity for questions and answers at the end. [Operator Instructions]

I would now like to pass the conference over to our host, Jimmy Sexton. Jimmy, please proceed.

Jimmy Sexton

Head-Investor Relations, Snowflake, Inc.

Good afternoon and thank you for joining us on Snowflake's Q1 fiscal 2023 earnings call. With 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, who will join us for the Q&A session. During today's call, we will review our financial results for the first quarter of fiscal 2023 and discuss our guidance for the second quarter and full year fiscal 2023.

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-K for the fiscal year ended January 31, 2022, and the Form 10-Q for the quarter ended April 2022 that we will 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 posted at 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

Chairman & Chief Executive Officer, Snowflake, Inc.

Thanks, Jimmy, and good afternoon, everybody. Product revenue grew 84% year-on-year to $394 million. Remaining performance obligations grew 82% year-on-year to $2.6 billion. And in the quarter, we added 16 Global 2000 customers. We closed the quarter with a record $181 million of non-GAAP adjusted free cash flow, pairing high growth with improving unit economics and operational efficiency.

Historically, enterprises have struggled to report yesterday's news in a timely manner. Data have to be transformed and transported to systems that produce the reports and dashboards that made sense out of transactional and operational data. There wasn't enough time or money in the day to ingest ever-larger volumes of data and perform long-running processes to make the data consumable and analytics ready.

The public cloud infrastructure, coupled with cloud-native data platforms like Snowflake, broke the back of these laboring systems with tremendous scale, performance, and economics.

While these have been incredible advances, they are only scratching the surface of what is possible. Goals are evolving due to full-scale mobilization of data in the service of the enterprise mission.

Data can do a lot more than authoritatively report what happened historically. We sometimes refer to our innovation of traditional data warehousing workloads as the end of the beginning, because so much more is possible.

Data science can discover and describe data relationships and therefore, also predict them and optimize courses of action. To enable machine learning and data science workloads, Snowflake has been investing for years now in the tooling for these workload types.

This includes a wide variety of data programmability options as well as the Snowpark language run time capabilities in support of Java, Scala and Python. More generally, the Snowflake strategic focus is to enable every single workload type that needs to access govern data. The core idea behind the Snowflake Data Cloud is to enable work to come to the data and stop bringing data to the work. Prior to the Data Cloud, data was copied, transferred, and replicated to be used wherever it was needed. That has led to rivers of data moving 24/7 causing operational complexity, costs, and governance risks.

The Snowflake Data Cloud holds the promise to bring that undesirable legacy to an end. Data stays put on the Data Cloud, and our workload enablement ensures that customers can have their needs met in terms of data engineering, data warehousing, data lake, data science, data analytics and data application development. We recently announced several product development milestones. Our acquisition of Streamlit closed. With Streamlit, we are enabling developers to build apps using their favorite tools and with simplified data access and governance. We're making great progress on our integration plans.

Support for unstructured data is now generally available. Examples include securely sharing PDF documents in Snowflake Data Marketplace and storing medical images to extract data from them. We also entered a public preview for programming of unstructured data from within Snowpark.

Snowflake Data Marketplace monetization is now in public preview. This allows companies to easily publish a variety of data sets that then become available for purchase by other Snowflake users. Our Summit conference in June will feature our most significant product announcements in four years. We look forward to discussing more innovations with you then.

Use cases are often industry-specific applications of Snowflake. In the quarter, we announced the introduction of our healthcare and life sciences Data Cloud and the retail Data Cloud. The healthcare and life sciences Data Cloud helps customers deliver improved patient outcomes and accelerate clinical research and time to market. One of our pharmaceutical customers estimates that using Snowflake will improve their time to market for a new drug by three years. In the retail, Data Cloud empowers retailers, manufacturers, and consumer packaged goods vendors to access new data and seamlessly collaborate across the retail industry.

Customers such as 84.51 and Albertsons are leveraging Snowflake to optimize operations for businesses across the sector. We also enable new use cases through partner enablement. We recently announced new partnerships with Dell Technologies and Pure Storage. With Dell, joint customers will be able to use on-premise data, stored on Dell object storage with the Snowflake Data Cloud while keeping their data local or seamlessly copying it to public clouds.

With Pure Storage, joint customers will be able to work with data stored locally on Pure Storage FlashBlade. As we enable more workload types and use cases, the opportunity for data sharing grows. In Q1, the number of stable edges grew 122% year-on-year. 20% of our growing customer base has at least one stable edge, up from 15% a year ago. Snowflake's Data Marketplace listings grew 22% quarter-over-quarter, now with more than 1,350 data listings from over 260 providers.

Our Snowflake Data Marketplace fuels our rich application development ecosystem and Powered by Snowflake program. Today, there are over 425 Powered by Snowflake partners, representing 48% quarter-over-quarter growth. Over the past three years, we have achieved high growth, while greatly improving unit economics, operating efficiency, and cash flow. The company has a fortified balance sheet with $5 billion plus in cash, cash equivalents, and investments and zero debt. We have the ability to continue to grow at scale, generate cash and invest accordingly. We will continue to do so. Snowflake is not a growth at all cost company, and we only invest with defined expectations in terms of returns and business impact.

Research and development investments must lead to innovation and differentiation. Sales and marketing investments must lead to productive growth and G&A investment is focused on system and process efficiency. Our strategic focus on continued growth informs all of our investments, coupled with improving free cash flow generation.

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

Michael P. Scarpelli

Chief Financial Officer, Snowflake, Inc.

Thank you, Frank. Q1 product revenues were $394 million, representing 84% year-over-year growth, and remaining performance obligations grew 82% year-over-year, totaling $2.6 billion. Of the $2.6 billion in RPO, we expect approximately 53% to be recognized as revenue in the next 12 months, representing 79% year-over-year growth.

Our net revenue retention of 174% includes 11 new $1 million customers and reflects durable growth among our largest customers. In Q1, 10 customers crossed the $5 million-plus threshold on a trailing 12-month basis. We now have 40, $5 million customers and 10, $10 million customers. Similar to last quarter, five of our top 10 customers' product revenue grew faster year-over-year than the overall company.

We continue to pursue a vertical strategy to drive growth in the enterprise. Product revenue from customers in the healthcare and life sciences vertical grew more than 100% year-over-year, and product revenue from customers in the financial services vertical grew just under 100% year-over-year. Driving this growth is our continual move upmarket. As we expand internationally, we are focused on the Forbes Global 2000 and other large institutions.

In the quarter, we added 16 new Global 2000 customers, up from 12 in the same quarter last year. This enterprise focus also leads to larger deals. We booked four, eight figure deals in the quarter up from two in the same quarter last year.

I would like to spend some time discussing the dynamics of our revenue and bookings in the quarter. Q1 product revenue represents significant growth at scale. We're excited about our customers' adoption and expansion of the platform. Our business model allows organizations to have complete flexibility on how much Snowflake they use. Customers rely on Snowflake to run their businesses. Their consumption aligns with their current business needs.

Last year, we saw certain customers experience much higher-than-expected consumption – own businesses were growing extremely fast. Today, some customers face a more challenging operating environment. Specific customers consume less than we anticipated amid shifting economic circumstances, we believe are unique to their businesses, most notably consumer facing cloud companies.

Although these customers are still growing, we believe as long as they are impacted by macroeconomic headwinds their consumption will be impacted. Consumption patterns may fluctuate from quarter-to-quarter. This variability does not detract from our long-term opportunity. Customers overall demand for Snowflake remains unchanged. This is supported by the contractual commitments they are making with us and their longer-term plans for adopting the Data Cloud across their organization.

Turning to bookings. As I mentioned on last earnings call, we saw record bookings in Q4 fiscal year 2022. We outperformed our internal plan by approximately $300 million in the quarter. This led to a tough quarter-over-quarter comparison, which is why you're seeing a sequential decline in RPO in Q1.

The outperformance in Q4 led us to increase our booking spend for fiscal 2023, and we still achieved our internal target in Q1. As a reminder, revenue is the leading indicator of our growth. Bookings and RPO follow consumption as our customers purchase more capacity.

Now turning to margins on a non-GAAP basis. Our product gross margin was 75%. Scale in our public cloud data centers and enterprise customer success contribute to steady gross margin improvement. Our operating margin was 0%, benefiting from hiring linearity. Our adjusted free cash flow margin was 43%, positively impacted by strong collections from record Q4 bookings.

We ended the quarter in a strong cash position, with approximately $5 billion in cash, cash equivalents and short and long-term investments. I would like to reiterate what Frank mentioned earlier. Snowflake is not a growth at all cost company. And since we joined, it never has been. We evaluate investments based on yield. This has put us in a very strong position. We will continue to grow and are committed to showing leverage year-on-year.

Now let's turn to our guidance. For the second quarter, we expect product revenues between $435 million and $440 million, representing year-over-year growth between 71% and 73%.

Turning to margins. We expect on a non-GAAP basis, negative 2% operating margin, and we expect 358 million diluted weighted average shares outstanding. As a reminder, we will be hosting our summit conference in-person in June. The associated expenses will largely be incurred in every Q2 moving forward. For the full year fiscal 2023, we expect product revenues between $1.885 billion and $1.9 billion, representing year-over-year growth between 65% and 67%.

Turning to profitability for the full year fiscal 2023, we expect on a non-GAAP basis, 74.5% product gross margin, 1% operating margin and 16% adjusted free cash flow margin, and we expect 358 million diluted weighted average shares outstanding.

We are adding head count to support our growth initiatives. Q1 was a record hiring quarter. For the full year, we still plan on adding more than 1,500 net new employees. Our long-term opportunity is stronger today than it has ever been.

Our strategy of enabling more workloads and data types is playing out in front of us, and our market opportunity is expanding. And in our conversations with customers, it is clear that the Data Cloud plays a key role in the success of their business. With the growth we have seen over the last year and the expansion of our opportunity, we are confident that we will continue to execute at scale.

In advance of our Investor Day, I would like to update our fiscal year 2029 targets. For fiscal year 2029, we are reiterating our target for product revenue of $10 billion, growing 30% year-over-year. We are increasing our margin targets and now expect on a non-GAAP basis approximately 78% product gross margin, 20% operating margin and 25% adjusted free cash flow margin.

We look forward to sharing more information at our Investor Day on June 14 in Las Vegas in conjunction with Snowflake Summit. If you are interested in attending, please e-mail ir@snowflake.com.

With that, operator, you can now open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] First question comes from Karl Keirstead of UBS. Please proceed.

Karl E. Keirstead
Analyst, UBS Securities LLC

Q

Thanks so much. Maybe I'll direct this one to you, Mike. Mike, given that you mentioned that some customers might be exposed to macro, you called out consumer-facing cloud companies, and maybe that pinched you a little bit in the April quarter. When you're stepping back and reaffirming the full year product revenue guide of $1.9 billion, Mike, what are the assumptions you're embedding in that guidance for 2Q through 4Q? Are you assuming that what you saw in the April quarter essentially continues, gets a little bit worse? I think that might be an interesting color from you. Thank you.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Well, specifically, some of our large customers where we saw a decline, we've taken down their forecast, but we have others that are offsetting partially some of that. What I will say is April, we did see weakness in week-over-week growth in our total revenue by customer. But to be honest, the last two weeks of March or May has been very strong. But just given everything in the macro headwinds we're hearing, we're going to be a little bit more cautious going into the full year.

Karl E. Keirstead
Analyst, UBS Securities LLC

Q

Okay. That makes sense to me prudent. Thanks, Mike.

Operator: Thank you. Next question comes from Alex Zukin of Wolfe Research. Please proceed.

Alex Zukin
Analyst, Wolfe Research LLC

Q

Hey, guys. Thanks for taking the question. So maybe just to kind of piggyback on Karl's question, Mike, can you talk about specifically, what kind of consumption trends actually took a step back? And you mentioned even for some of the impacted companies, those numbers started to step back up in May. Again, kind of the confidence interval of how you see even within those companies, consumption patterns trending around the Data Cloud that give you conviction around the guidance.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Well, I know all the customers that are going to be going into production that are the new ones because we've been working on these. That gives me the confidence. And I literally look at the revenue on a daily basis for all of our customers, and that's how we based our forecast. And as I said, the last two to three weeks has been very strong and week-over-week growth in revenue that gives us the conviction even with lowering on an individual basis, some of our larger customers that are still growing, just not at the pace we saw them grow last year.

Alex Zukin
Analyst, Wolfe Research LLC

Q

Got it. And is there any – in terms of just maybe quantifying or sizing that impact, is that possible?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

It is possible, but I told you what I'm going to tell you.

Alex Zukin
Analyst, Wolfe Research LLC

Q

Okay. Thanks, Mike.

Operator: Thank you. The next question comes from Keith Weiss with Morgan Stanley. Please proceed.

Keith Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Excellent. Thank you. Thank you, guys for taking the question. Two questions for you guys. One, last quarter, we talked a lot about a big price performance boost that you guys are pushing into your customers and the intended consequences both in terms of lowering revenues, but also incenting more workloads to come on to the platform. So, question number one is, has that initiative had the intended consequences so far? Like, have you seen the behaviors that you're looking to see from that initiative?

And then two, to piggyback on Karl's question. When customers – when the consumption is below plan, does that typically come from people actually cutting existing workloads and doing less of what they were doing before? Or is it more so the pace with which new workloads get deployed is slowing down? Can you give us any context in terms of what impacts those consumption patterns more?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Yeah. So, on the first question you asked, as we said last quarter, it's usually a lag between when we roll out performance improvements to when we see new workloads driving incremental revenue in Snowflake. But everything is going as planned with regards to the rollout of the – specifically, you're asking for Graviton2, the warehouse scheduling went out already last quarter, and we're seeing the benefit in customers, and the feedback from customers has been very strong, too, about that.

On your other question, I'll let Christian answer that.

Christian Kleinerman
Senior Vice President - Product, Snowflake, Inc.

A

Yeah, there are two drivers to – when you see the lower consumption. One is just natural correlation with data and activity from the businesses. So, if some business are expecting a slowdown in their activity, damage less data, which translates into pipelines and how much we're aggregating. The other aspect is you do see a little bit more of focus on optimization of the usage of Snowflake. So, I would not characterize it as removal of workloads. It's just optimization of what they're doing and paying a little bit more attention to resources.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Yeah. And what I would say is a lot of these customers where we've seen the – and we've taken our forecast down, these are customers that have grown so fast their business. And when you have that rapid growth in your business, you don't necessarily pay attention on cost as much. Many of these customers have publicly come out. You hear them on CNBC talking about cutting costs. And those are the ones who are being prudent and lowering some of our forecast consumption from them. And by the way, we're going into those customers to help them optimize as well, too.

Keith Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Got it. That's super helpful. Thank you, guys.

Operator: Thank you. The next question comes from Mark Murphy of JPMorgan. Please proceed.

Mark R. Murphy
Analyst, JPMorgan Securities LLC

Q

Yes. Thank you very much. So, you had commented on slower consumption from consumer cloud. We're probably associating that with Facebook, Netflix, Peloton, Snap types of public companies that have missed. Is it reasonable to assume some softness from enterprise software companies, maybe the cash burning, venture backed ones that are also slowing their investments and trying to get to cash flow breakeven?

And then it's kind of the same question for retailers. Just in the wake of Amazon, Walmart, Target, we have the three biggest retailers that have missed their own numbers. And I'm just wondering if there's any recalibration there?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.
A

Well, I'm not going to name the customers, but none of them were the ones you mentioned. And there definitely is a focus on top of mind for many CFOs to find out where they can cut costs. And that's the beauty of a consumption model is you only expense what you use, and that's what our customers like as well, too. And so I feel good about the forecast that we just laid out, taking into consideration the macro environment and literally looking at our customer's continued usage of Snowflake, and I don't see that changing and in aggregate. Yes, I'm sure there's going to be some customers that are going to underperform. But likewise, there's going to be many customers that overperform. And long-term, none of these customers are moving off of Snowflake and most have plans to do more with Snowflake.

Mark R. Murphy
Analyst, JPMorgan Securities LLC
Q

Thank you.

Operator: Thank you. Next question comes from Gregg Moskowitz of Mizuho. Please proceed.

Gregg Moskowitz
Analyst, Mizuho Securities USA LLC
Q

All right. Thank you. Good afternoon, guys. The net new customer count appears to be slowing down somewhat. It was lower on a year-over-year basis. I know it's more about quality over quantity. And Mike, you talked about 11 new seven-figure customers. But can you give us a little more color just on your [indiscernible] (00:24:38) and then just generally what your expectations are for net new when you look at your pipeline?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.
A

Well, I don't disclose the target for what we're looking to add. But as you said, we – and I said in my commentary, we're really focused on the largest enterprises in the world. It's not all customers are equal. We want to land those customers that can be the $1 million plus customers. So it's not all about – it's the aggregate number. It's the quality of those individual customers, and that's what we're focused on.

Gregg Moskowitz
Analyst, Mizuho Securities USA LLC
Q

All right. Thank you.

Operator: Thank you. The next question comes from Kash Rangan of Goldman Sachs. Please proceed.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC
Q

Thank you very much. Thank you so much, Frank and Mike. Did the full effect of the warehouse optimizer credit and the [ph] AMD upfront shift (00:25:39), did you get the full headwind effect in this quarter? Just curious about that...

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.
A

No.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC
Q

...or is there any more left to play out? Okay, okay. Got it.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.
A

No, the Graviton2 was rolled out over a period of time. The warehouse scheduling service was already done and that we have a full impact of that.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC
Q

Got it. So, which quarter should we expect a maximum headwind and then the weighting of that headwind?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.
A

By the end of the year.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC
Q

Okay, got it. Also, the – you said that – Mike, you said that you saw activity resumed back in the first couple of weeks of May. Was that the same cohort of customers that did go through the decline in consumption? Or was it a – was it more of an aggregate effect?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.
A

More of an aggregate effect.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC
Q

Got it. And finally, are you rethinking how you structure contracts to have more subscription, a more predictable element given that the macroeconomic environment is?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.
A

No.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC
Q

And why would that not be the case?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.
A

Well, the problem is when you are in a consumption model, the more you use it, the more our costs are. And the only way to extract the value to cover the cost is by doing a consumption model.

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.
A

People have contracts.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.
A

And it's also much more customer friendly.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC
Q

Got it, got it. Thank you so much. Appreciate it.

Operator: Thank you. Next question comes from Kirk Materne of Evercore. Please proceed.

Stewart Kirk Materne III
Analyst, Evercore ISI
Q

Hi. Thanks very much. Frank, you obviously, you've both been through some economic cycles before. I was just wondering if you could talk a little bit about just, sort of, the importance of Snowflake and data as we go through a potential economic cycle and the discretionary nature of it or the lack of being discretionary. I think people are thinking the consumer model also means it's discretionary. And I'd imagine you have a very different take on that in terms of how customers are using your technology. So I was just wondering if you could give us some perspective on the longer term importance of what you guys are doing for your customers and why that gives you confidence in the fiscal 2029 guide? Thanks.

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.
A

Yeah. It's a fair question, and I saw some noise on this topic online as well. But it requires a little bit of more of a nuanced way of looking at it, meaning that it's not all one thing or all the same thing.

I mean, the reality is, is that our type of workloads become very heavily grafted into core business processes. And that, by the way, is also one of the reasons why it's – we've talked about this for the last two years in the call, how difficult it is to move workloads to Snowflake, because these workloads are so heavily grafted into operational processes.

So these things are not going anywhere. They're not optional. They're not like, what do I feel like doing today? That, by the way, there are workloads like that, that's far more on the data lake side, where essentially you have a massive repository of files. And you may have data scientists that are just sort of fishing files out of the lake and trying to decide to do some interesting stuff for that. That sort of thing is highly discretionary, but that's not the focus of our business.

When people put data in Snowflake, I mean, they have some serious intentions on what they're going to do with that data. So that's not our part of the elephant that we're dealing with, but there are uses of data platforms that are of that sort that are much more discretionary where you can really avoid running processes. But in our world, as I said, it is so embedded into core business processes. It's not something that you can just sort of shut off for a while until things get better.

Stewart Kirk Materne III
Analyst, Evercore ISI

Q

Thank you.

Operator: Thank you. The next question comes from Raimo Lenschow of Barclays. Please proceed.

Raimo Lenschow
Analyst, Barclays Capital, Inc.

Q

Thank you. And quick question. If you think about the – as a couple of other guys said on the call, Mike and Frank, you've seen this play out before. If you think about your readiness or your kind of adoption to the situation, can you talk a little bit about what levers you have to think, for example, kind of have investments more in other industries that seem more stable and hence, prioritize spending in different sales segments, these different vertical segments, et cetera.

Is there anything you can do there in terms of – to do that? And if you – I'm sure you've done the analysis, like, how much of exposure do you have to certain more consumer-facing? Is there anything you can share or maybe do it at the Analyst Day? Thank you.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Yeah. What I would say, Raimo, I'm not quite sure on your question, but on – with regards to costs in our business, we're still seeing quite amazing growth at scale. And we're going to continue to invest in our business.

But as I mentioned, we've done this all the time where we make efficient investments. There is no waste in Snowflake. There never has been in the last two-and-a-half years, and it won't be going forward. But there's a great opportunity in front of us.

We're continuing to invest very heavily in R&D, and we're investing very heavily in the go-to-market function. And we will continue to do that, but we're going to do it efficiently and continue to show leverage in our model. And we're very focused on free cash flow.

We're also in the envious position that we're sitting on over $5 billion today, and we will be opportunistic, because we're doing this for the long term, not for the next two quarters or three quarters or however long this macro uncertainty is going to last, but we're going to set ourselves up for the next 10, 20 years.

Raimo Lenschow
Analyst, Barclays Capital, Inc.

Q

Yeah. And Mike, I came more from the revenue side, in terms of, like more of the still is focus like for example, as you're building out vertical clouds now, can you focus more on financials because that might be like safer or over the next...

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.
A

Well, we are. We're focused on all those clouds. And where we see the opportunities, we're going to add more resources. And we're seeing very strong in the healthcare. The retail, it may be – you talk about all these retail clients missing, but they want better data. And they want to – in troubled times, that's when people want to access data more to understand what's going on in their business, which is going to drive more Snowflake consumption. But definitely, financial services is one that always has been one of our biggest and will continue to be our biggest.

Raimo Lenschow
Analyst, Barclays Capital, Inc.
Q

Good. Okay. Perfect. Thank you.

Operator: Thank you. Next question comes from Brad Zelnick of Deutsche Bank. Please proceed.

Brad Zelnick
Analyst, Deutsche Bank Securities, Inc.
Q

Great. Thank you so much, guys. So instead of trying to dream up the 16th way of asking you about the macro and the impact it's having, I want to maybe put that aside for a sec, and I mean you're delivering amazing growth at scale, and certainly, that shouldn't be lost. But if we just think about pricing and maybe competitive dynamics, I think you guys have had strong discipline when it comes to pricing, very ROI-focused. But is there any reason to believe pricing is an obstacle for adoption? And maybe any evidence that you have to believe your competitors are seeing the same things you're seeing? And perhaps – I don't know if it changes the win rates or customers even stratifying their consumption across other alternatives to save money, anything that you can help us to appreciate what's going on along those dimensions would be helpful. Thank you.

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.
A

Yes. This is Frank, Brad. Our business is not commoditized, which is sort of another way of characterizing your question. There's certainly people in our world that are trying to commoditize the business. But customers are trying to do very difficult things, also very amazing things. So, what they're paying for credit is already incredibly optimized. It's incredibly competitive. This is physics and economics, right? And there aren't many places to hide in terms of what we charge for it.

So it's not very, very productive for people to pursue things on that basis. One that's still developing the impact, the insights is really where it's at right now. So we've really not felt that pressure at all. And yes, you're right, we maintain good pricing discipline. We want to make sure that customers don't feel that they are subsidizing somebody else's business that we have good discipline, and we will continue to do that. But we sell best-of-breed, we sell value, we sell impact. We have verticalized our business because we're really adopting and owning the customers' mission, the customers' outcome rather than just sort of whining about whether we're going to pay a fraction of a $0.01 more for compute credit, right?

I mean those are really non-sensical conversations out with customers when they – when a hospital is trying to save lives or improve quality of life. Those are the core missions of the institutions that want to use Snowflake for really amazing things. And that's the conversations that I'm certainly having with customers. And people are not coming at us with a hammer like that's to be cheaper. That's just not the dynamic that's playing out there.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.
A

I'm not aware of a single customer, a significant customer opportunity we're going after where we lost it over pricing – not a single one.

Christian Kleinerman
Senior Vice President - Product, Snowflake, Inc.
A

I'll add one more thing that we also look at the ratio of price performance and the performance and enhancements platform that we deliver, improve not only the factor, decisions and insights for customers, but also the economics of the platform. And from that front, customers see the value.

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.
A

Yes. I mean, we can use many examples. We have a lot of pharma customers. And their mission in life is to accelerate time to market of life-saving pharmaceuticals. That's what they're trying to do. Snowflake helps with that. That's what's on their mind. That's what preoccupying them, how do we do this, right? So, this whole commoditization thing, I think is a dog that just won't hunt very well.

Brad Zelnick
Analyst, Deutsche Bank Securities, Inc.
Q

Really appreciate the color. Thank you, guys.

Operator: Thank you. The next question comes from Kamil Mielczarek of William Blair. Please proceed.

Kamil Mielczarek
Analyst, William Blair & Co. LLC
Q

Hi, thanks for taking my question. Your sales and marketing head count grew 55% year-over-year, the fastest rate in over two years, and net new adds almost doubled. Given the macro-related noise from some customers, why is now the right time to accelerate that growth?

And when factoring in the time needed for new reps to ramp and the time needed to load data from new customers onto the platform, when should we expect this accelerated head count growth to show up in the financial model?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.
A

Well, it's reflected in our long-term target of getting to $10 billion by fiscal year 2029. And Q1 is always our biggest hiring quarter in sales and marketing, as we've said before, because we onboard people at the beginning of a new comp year, but also for our sales kickoff. And it tends to be very heavy more in the SDRs that we try to onboard in big groups at once.

And typically, depending on the nature of the rep, whether you're on the corporate team or you're on the enterprise or majors, it's anywhere from a six-month ramp to nine months to a year. And the people we're hiring now will have more of an impact on revenue next year has somewhat of an impact on bookings towards the end of the year, but this is what we were planning on doing all along.

And as I said, we're going to continue to invest in our go-to-market function because of the opportunity we have in front of us. And we've shown that we can do it efficiently and continue to show leverage.

Kamil Mielczarek
Analyst, William Blair & Co. LLC
Q

That's helpful. Thank you. And if I could just quickly follow-up. Frank, in your prepared remarks, you mentioned all the great progress you've made to enable application developers. You acquired Streamlit. You're adding Python. You launched Powered by Snowflake. Have you seen any changes in the pace of app development in recent quarters? And are there key milestones that we should watch out for maybe around the rollout of specific features and integration that could make app development a more dependable flywheel for Snowflake? Thank you.

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.
A

Well, I specifically mentioned in the prepared remarks about the number of Powered by Snowflake partners that we now have in the growth was like 48% quarter-on-quarter. There is an enormous amount of energy in the – on the application software development side. We're going to have a separate conference called Build later this year in November. This is a conference just for application developers.

So, that whole end of the spectrum where our programmers lift is an enormous focus for Snowflake because our entire strategy is to enable workloads. And any time customers cannot do things on Snowflake that they want to do is a good day because then they will copy data out of Snowflake and then do it somewhere else and then we fall out of alignment with our business model, and things don't work the way are supposed to. So our whole game is we bring, we allow the work to come to the data. And whether you're a data engineer or whether you're a programmer, where you're going to see everything we do is this maximum investment to allow these workloads to execute extremely well, just from a usability standpoint, from an economic standpoint, obviously, from a performance standpoint, that's what this is all about.

The more we succeed broadly along all these lines, the more it drives the core business model of consuming Snowflake, okay? So that's what – everything that we're doing, everything that we're announcing, everything you've seen from us is in full alignment with that focus and that strategy.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.
A

Yeah. And I will add too, we're extremely excited about Streamlit. And what's amazing about that is that the Streamlit acquisition we announced last quarter, we've already seen a 25% increase in the number of developers using Streamlit today. And we think once that's reintegrated into Snowflake that will be meaningful for the app development in Snowflake.

Kamil Mielczarek
Analyst, William Blair & Co. LLC
Q

That's great to hear. Thanks again.

Operator: Thank you. The next question comes from Ittai Kidron of Oppenheimer. Please proceed.

Ittai Kidron
Analyst, Oppenheimer & Co., Inc.
Q

Thanks. Frank, I had a question for you regarding your prepared remarks. You talked about the unstructured data opportunity. It's in preview now. Any more color you can give on timing when will this be GA? And how big is the universe of customers trying this out? How do you think the impact it can have on your performance out of the gate?

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.

A

I'm going to just flip this one over to Christian if you don't mind.

Christian Kleinerman
Senior Vice President - Product, Snowflake, Inc.

A

Yeah. The core capability is generally available. What you'll see us announcing both at our summit user conference in a couple of weeks and throughout the year is additional capabilities on how to extract additional value from unstructured types. But all of the benefits of Snowflake around data governance and replication and data sharing, that's available for unstructured data already.

Operator: Thank you. Next question comes from Brent Bracelin of Piper Sandler. Please proceed.

Brent A. Bracelin
Analyst, Piper Sandler & Co.

Q

Thank you. I guess, Mike, on the consumption side, I look back at the pandemic. That was the most recent business cycle where we saw a pretty meaningful slowdown. Your business actually did slow sequentially for about two quarters and then reaccelerated. I guess if you just were to go back in time and look at some of the customers most impacted, travel, hospitality as their businesses were impacted, did they recover two quarters later as well, because they start to use new use cases beyond just a slowdown in their business? Just trying to think back what you saw in the past relative to a slowdown in the pandemic and then that reacceleration. Just wondering what you saw then and kind of comparing maybe a little bit to what you're seeing now. Thanks.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

I really don't have that data on those specific industries, looking at it. I really haven't. And what I will say is the slowdown we saw came from some of our highest growth customers that is unique to their businesses is what we saw in April, in particular. With that – which caused us to reset those – and these are some of our largest customers, $10 million, that we've reset their forecast for the full year, that is what you're seeing in there. We still – as I looked at it today, we have a number of our top 10 customers that are outperforming our forecast, and we have a few that are below that internal, but that is what we typically see every quarter.

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.

A

Yes. The only thing I would add – it's Frank here. I do recall from the pandemic that it started to trigger a lot of new use cases in response to people were in a fog, they just couldn't understand where demand was, where demand wasn't. Supply chains were upside down. Sending products to the wrong places, so there was a renewed focus to really try to understand what was happening to them. And that led to some form of demand acceleration that started to compensate for the sort of sectoral weaknesses that were, as you said, in travel and hospitality and things of that sort. So that's sort of what went on there. And that's going to happen again now as well because when you have dislocations of this sort, people are going to resort to a much stronger analytical focus.

Brent A. Bracelin
Analyst, Piper Sandler & Co.

Q

Great. And just a quick follow-up on the new workload area. I spoke to a Snowflake customer in the consumer retail space last week that talked about building a data app store on top of Snowflake. Obviously, it sounds like that might be tied to Streamlit. But what – how popular is this idea of building an app store on top of Snowflake as you think about that as a new workload lever for the business?

Christian Kleinerman
Senior Vice President - Product, Snowflake, Inc.

A

Yes. So the general capability we have around data sharing and function sharing, which is the foundation of our marketplace has been also leveraged by a number of third parties to be the enabling technology for data distribution and data commercialization. So I don't know about the specifics, but I think that's what – that maybe you're referring to.

Brent A. Bracelin
Analyst, Piper Sandler & Co.

Q

Helpful. Thank you.

Operator: Thank you. Next question comes from Derrick Wood of Cowen. Please proceed.

Derrick Wood
Analyst, Cowen & Co. LLC

Q

Hey, guys. First question. I think you made some tweaks to go-to-market teams in Q1 as you evolve more towards a verticalized strategy. Can you remind us what changes you may have made and whether there was any kind of impact to productivity in Q1? Or how did you feel about that sales productivity for new bookings in the quarter?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Hey, Derrick. As I mentioned, we hit our internal Q1 bookings plan for growth. Productivity is where we needed to be. And the change we made is we went to an industry vertical focus from a geography focus with the majors, and there were a number of accounts that moved under new sales leadership. But by and large, the reps themselves did not change. And that's something we have been talking about for almost a year. We were going to roll it out starting this commission plan year.

Derrick Wood
Analyst, Cowen & Co. LLC

Q

Great. And Mike, you raised the long-term free cash flow margin target from 15% to 25%. That's a pretty large jump. What – can you walk us through kind of the biggest changes in your assumptions?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Well, I'd say, I think we were probably overly conservative last year. We just – as a reminder, we just did 43% free cash flow this recent quarter, which is skewed, but I feel very good about 16%-plus for the full year this year. And as I mentioned, we're going to continue to show leverage every year, and I'm not – collecting cash from our customers is not an issue.

Derrick Wood
Analyst, Cowen & Co. LLC

Q

Got it. Thank you.

Operator: Thank you. Next question comes from Tyler Radke of Citi. Please proceed.

Tyler Radke
Analyst, Citigroup Global Markets, Inc.

Q

Thanks for taking the question. Could you just talk about what you saw in EMEA and internationally, if there was any slowdowns with some of the macro noise out there in the quarter? And then I just wanted to clarify in terms of your outlook, did you make assumptions in terms of lower consumption rates going forward beyond just those large customers you referenced? Or was it only specific to those customers? Thank you.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

We lowered it for specific customers, and we still continue to see, as I've mentioned in the last two and a half weeks, we've seen quite high growth on a daily basis for revenue week-over-week. So customers are increasing their consumption and in line with what we're forecasting.

Yes, I do see some weakness in Europe, but I'm not going to necessarily blame it on the macro. I think it's probably an execution on our part as well, too. Frank has been spending a lot of time in Europe recently, and we'll continue as well as Chris Degnan over there. APJ is very strong for us. We're seeing really good growth there. Mind you, it's small. I would say North America enterprise was very strong last quarter, as well as our commercial business was strong in North America.

Tyler Radke
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you.

Operator: Thank you. The next question comes from Brad Reback of Stifel. Please proceed.

Brad Reback
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thanks very much. Mike, earlier in the call, you had talked about having good line of sight on new customers coming on to the platform. I know it usually takes well over a year for a new customer to hit their stride. How should we think about the go-forward growth rates of net new customers versus historically over the last few years? And what have you sort of modeled in? Thanks.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Well, the biggest impact is going to be existing customers in the current year driving revenue. When we start a year, roughly 94% of our revenue comes from existing customers. The customers we're landing now have a bigger impact going out. And when I say the visibility, when we are signing up new customers, we know it takes them six to nine months to really ramp on our platform, because it takes time to do the migration. And that's what I'm saying, those customers that we signed up in Q3 and Q4 are starting to come on in Q2.

Brad Reback
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thanks very much.

Operator: Thank you. Next question comes from Phil Winslow of Credit Suisse. Please proceed.

Philip Winslow
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Thanks, guys, for taking my question. Last quarter, there was a lot of focus on the impact of the Graviton chips on consumption. But I wanted to double click on the workload schedule, it's something that we've been talking to customers about being an area of enhancement they've been looking for. What are you seeing in terms of just to go up the negative impact that you discussed right now? Is it similar to what you expect, any different? But also what are customers saying, call it, on the flip side of this, what types of new workloads could be brought on the Snowflake? What does this open up and maybe wasn't necessarily going to move to Snowflake without enhanced workload scheduling? Thanks.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

I'll just say, the impact of warehouse scheduling service has been what we planned. As I mentioned, we had rolled it out already before the end of – that got rolled out in January, and that had an impact on the quarter, and the impact was what we were expecting. In terms of what new workloads, I'll let Christian talk about that.

Christian Kleinerman
Senior Vice President - Product, Snowflake, Inc.

A

Yeah. We've heard from many of our customers that they see the concurrency improvement, the lower latency, and many of them have expressed intent of bringing additional workloads on to Snowflake.

Oftentimes, those processes take time. So we cannot say that the migrations have happened, but the intention to leverage these new capabilities is something we hear frequently about.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

There's been nothing but positive impact from our customers on these performance improvements.

Philip Winslow
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thanks, guys.

Operator: Thank you. Next question comes from Gray Powell of BTIG. Please proceed.

Gray Powell
Analyst, BTIG LLC

Q

Okay. Thanks for taking the question. So, yes, I mean, I know we've kind of hit on this before, but I do think that everybody understands that there's risk just across all of software, if we go into a recession. But Snowflake is generating a lot of free cash flow. You're sitting on $5 billion in cash.

So let's just say the economy gets worse and everyone starts seeing slowing growth. Where would you look to invest in order to come out a bigger and stronger company once the world stabilizes? Or said differently, where do you see opportunities in this downturn?

Frank Slootman

Chairman & Chief Executive Officer, Snowflake, Inc.

A

This is Frank. I think Mike has already tried to answer this question a few times this afternoon, but we see opportunity absolutely everywhere at this point. We have a very – on a daily basis, we can see which customers, which verticals, which use cases, which workloads are trending, and which ones are not.

So we have the ability to adjust direct investments where they're most likely to have the yield and the impact that we're looking for. But we're not in a – there's no reason for us to be in a battening down the hatches mode, because the investments that we're making are continuing to yield.

I mean, we've been saying that, if we start backing off from our growth trajectory, considering how well it's working for us. Our opportunity is incredibly broad-based. I mean there's still verticals where we're not very well penetrated as well.

For example, the public sector, especially federal government. I shouldn't say – there are parts of the federal – the public sector where we're doing quite well, where we are making investments, because over the long haul, we really plan to have a very, very large business in those sectors. But that's not something you sort of turn on and off on a dime. Once you're on an investment process there, you got to – you have to stick with it.

At some point, things will change again, right? We can't be crash tacking the ship every time people get a little nervous around the table, right? So as long as we can drive growth as we are with the economics that we are producing in terms of the unit economics, in terms of operating efficiency, in terms of cash flow, why would we not be doing it? So, we're not cowering in the corner. We're going to go out there and do what we do.

Now circumstances change to the point where we feel that these investments are not yielding, of course, we're going to make changes, right? But that time is not now. I mean, the behavior of our customers and how they're – the type of contracts they're stepping up to, they are not in a mode yet where they're sort of in a massive avoidance mode of doing contracts or trying to do natural acts in terms of the expenses that you're generating as part of the platform. So, I think we're getting a little bit ahead of ourselves in terms of where the real economy really is at this moment in time.

Michael P. Scarpelli

Chief Financial Officer, Snowflake, Inc.

A

Yes. I'll add to that. I do think the next 6 months if things stay where they are, there could be interesting opportunities on the M&A front, not necessarily big M&A, but I do think the – there's going to be some valuation resets on some of the private companies out there, that could create interesting opportunities. And that's where I'm saying there may be some opportunities, which areas that are on our roadmap where it may make sense to buy a team with some good technology, not necessarily, we're not looking for revenue, but good teams and technology at a more reasonable valuation.

Gray Powell
Analyst, BTIG LLC

Q

That makes lot of sense. Very helpful. Thanks.

Operator: Next question comes from DJ Hynes of Canaccord. Please proceed.

David Hynes
Analyst, Canaccord Genuity LLC

Q

Hey, thanks guys. Mike, just one for you. So, if you see more consumption rollover, which I think notionally kind of lowers your expansion opportunities at renewal, how does that impact your thinking around retention of sales staff? I know just given the comp model, driving expansions like foundational to how these guys get paid. Is that something you worry about at all or how would you manage through it?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Yes. So just to be clear, we still are seeing our customers consume their contracted amount well within their contract period. Actually, one of our largest customers who signed a three-year $100 million deal, we've already invoiced them for their third year when we're still in the second year. And I don't see that changing for our customers because most of our customers have historically, and I still see that happening, consuming within their contract period. I just don't see that changing right now.

The only thing that has changed and they're still growing, the growth rate that we've seen historically with some of these fast growth companies has slowed down. And I'm not going to give you the names on the conference call with those customers.

David Hynes
Analyst, Canaccord Genuity LLC

Q

Sure. Okay. Yes, that's an important clarification. Thanks.

Operator: Next question comes from Steve Koenig of SMBC. Please proceed.

Steven Koenig
Analyst, SMBC Nikko Securities America, Inc.

Q

Thanks gentlemen for squeezing me in. I'll just ask one question for Mike. And by the way, it's a pleasure to be covering you guys now. So Mike, the acceleration in NRR and revenue per customer across fiscal 2022 was really remarkable. Can you talk a little bit about what drove this? And just qualitatively, how should we think about the puts and takes on the trends in those metrics going forward, either short-term lumpiness or longer term? Thanks very much.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Well, NRR is really driven by, a, our largest customers continuing to grow quite quickly, but also new customers that are coming into the cohort that are ramping. And this shouldn't surprise – this is the real focus that we've had over the last two years seasonally and this is why this isn't about number of customers, quality customers. We have a lot of these large customers we've landed that are now in a two-year cohort that are ramping their usage of Snowflake.

As I said in the past, I don't expect the net revenue retention to stay at this extremely high rate. I do think it will come down over time. It will come down gradually over time, but I don't see it increasing, and I mentioned that last quarter. And I do think that will continue to come down, but it will remain well above 130% for a very long time.

Steven Koenig
Analyst, SMBC Nikko Securities America, Inc.

Q

Got it. Great. Well, thank you very much.

Operator: That will conclude the time of questions. Thank you for your participation. You may now disconnect your lines.