

Datadog (DDOG US)

Entering an investment phase to drive growth in next stage

Datadog (DDOG US) released (13 Feb HKT) its 4Q24 financial results: total revenue was US\$737.7mn, up 25% YoY (4Q23: 27%; 3Q24: 26%), 3% better than Bloomberg consensus forecast; non-GAAP net income after tax adjustment was US\$177.5mn, up 14% YoY and 10% better than consensus, driven by better-than-expected operating leverage aided by solid revenue growth. For 2024, total revenue grew 26% YoY to US\$2.68bn, and non-GAAP net income grew 41% YoY to US\$653.8mn. With strong confidence in future business development, and an intent to invest for long-term growth opportunities, management guided to grow investment in both S&M and R&D in 2025, and guided for high-20s YoY growth in operating expenses (vs revenue growth guidance of 18-19% YoY). Although the incremental investment may weigh on near-term margin expansion, we remain positive on DDOG's long-term business development potential, driven by the secular trend of digital transformation and cloud migration. Our TP is US\$156.4 (was US\$154.3), based on 16.6x 2025E EV/sales (16.1x prior), inline with its two-year average plus one s.d. BUY.

- **Solid revenue growth driven by both customer and ARPU growth.** By the end of 2024, Datadog's platform had over 30,000 customers, up 10% YoY, while the number of large customers with an ARR of US\$100,000+ reached 3,610 during the same period, up 13% YoY and contributing 88% of the company's total ARR (4Q23: 86%), and the no. of customers with equal or greater than US\$1mn ARR rose to 462 (2023: 396). As of 4Q24, c. 83/50/26/12% of customers used more than 2/4/6/8 products of the company respectively, up by 0/3/4/3ppts YoY respectively. On key operating metrics: 1) billings were US\$908mn, up 26% YoY; 2) RPO was US\$2.27bn, up 24% YoY and current RPO was up mid-20s YoY; 3) net dollar-based retention rate was in a high-110s percentage in 4Q24, improved from levels of mid-110s in both 3Q24 and 4Q23. These metrics, in our view, all speak to a healthy business development trend.
- **Increase in revenue contribution from AI native customers remains healthy.** By the end of 4Q24, about 3,500 customers used one or more DDOG AI integrations to send DDOG the data about their machine learning, AI, and LLM usage. In 4Q24, AI native customers contributed 6% of DDOG's ARR (4Q23: 3%) and 5ppts of YoY revenue growth (3Q24: 4ppts; 4Q23: 3ppts).
- **Management guided to increase investment to drive long-term growth.** For 4Q24, non-GAAP R&D/S&M/G&A expenses saw YoY growth of 29/31/30% YoY, as management started to execute hiring plans to prepare for future growth. DDOG exited 2024 with 6,500 employees, up 27% YoY. Management guided to expand its capabilities in sales and marketing, including expanding in less mature geographies, adding more channel and alliance capabilities, and extending efforts around larger enterprises, in order to drive long-term growth, and guided for high-20s YoY growth for operating expenses in 2025E.
- **Investment could weigh on near-term earnings growth but should benefit long-term development.** Management guided for 1Q25E: 1) revenue of US\$737-741mn, representing ~21% growth YoY, inline with consensus; and 2) non-GAAP net income per share of US\$0.41-0.43, shy of consensus at US\$0.47, in our view driven by the investment plan. For 2025, management is looking for: 1) revenue of US\$3.175bn-3.195bn, representing 18-19% growth YoY (consensus estimate: US\$3.24bn); and 2) non-GAAP net income per share of US\$1.65-1.70 (consensus: US\$2.12).

BUY (Maintain)

Target Price US\$156.40
(Previous TP US\$154.30)
Up/Downside 15.1%
Current Price US\$135.89

US Software & IT Services

Saiyi HE, CFA
(852) 3916 1739
hesaiyi@cmbi.com.hk

Ye TAO, CFA
franktao@cmbi.com.hk

Wentao LU, CFA
luwentao@cmbi.com.hk

Joanna Ma
(852) 3761 8838
joannama@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	48,735.0
Avg 3 mths t/o (US\$ mn)	662.5
52w High/Low (US\$)	168.65/104.97
Total Issued Shares (mn)	358.6

Source: FactSet

Shareholding Structure

Vanguard Group Inc	9.2%
Blackrock Inc.	6.8%

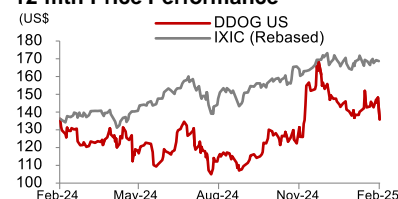
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-2.3%	-5.4%
3-mth	3.4%	0.5%
6-mth	19.0%	4.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	2,128	2,684	3,194	3,828	4,699
YoY growth (%)	27.1	26.1	19.0	19.9	22.8
Gross margin (%)	80.7	80.8	80.8	81.1	81.3
Net profit (US\$ mn)	48.6	183.7	102.6	158.6	227.5
Adjusted net profit (US\$ mn)	464.0	653.8	624.5	774.5	977.1
YoY growth (%)	67.7	40.9	(4.5)	24.0	26.2
EPS (Adjusted) (US\$)	1.33	1.82	1.67	1.99	2.42
Consensus EPS (US\$)	na	na	2.12	2.62	3.63

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: DDOG: quarterly results trend

(USDmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	4Q24 Consensus	Diff%
Total revenue	481.7	509.5	547.5	589.6	611.3	645.3	690.0	737.7	715.6	3.1%
YoY Growth	25.4%	25.4%	25.6%	27.1%	26.9%	26.7%	26.0%	25.1%		
Gross profit	381.8	407.6	444.2	484.8	501.2	521.8	552.3	593.5	602.8	-1.5%
R&D expenses	229.5	239.5	240.2	253.3	270.0	274.6	291.8	316.3	307.3	2.9%
S&M expenses	145.0	147.5	156.9	160.0	173.9	187.0	187.8	207.9	200.9	3.5%
G&A expenses	42.3	42.7	51.4	43.8	45.3	47.6	52.4	59.9	53.8	11.4%
Operating profit	(35.0)	(22.0)	(4.2)	27.7	12.0	12.6	20.3	9.4	13.1	-28.3%
Net profit	(24.1)	(4.0)	22.6	54.0	42.6	43.8	51.7	45.6	39.4	15.7%
Non-GAAP OP	86.4	106.5	130.8	166.7	164.5	157.5	173.0	179.2	167.5	7.0%
Non-GAAP NP after tax adjustment					157.6	153.0	165.7	177.5	161.8	9.7%
Margins (%)										
GPM	79.3%	80.0%	81.1%	82.2%	82.0%	80.9%	80.0%	80.5%	84.2%	(3.8)ppt
R&D expenses ratio	47.6%	47.0%	43.9%	42.9%	41.4%	41.8%	42.3%	42.9%	42.9%	(0.1)ppt
S&M expenses ratio	30.1%	28.9%	28.7%	27.1%	26.2%	26.9%	27.2%	28.2%	28.1%	0.1ppt
G&A expenses ratio	8.8%	8.4%	9.4%	7.4%	7.2%	7.0%	7.6%	8.1%	7.5%	0.6ppt
OPM	-7.3%	-4.3%	-0.8%	4.7%	2.0%	2.0%	2.9%	1.3%	1.8%	(0.6)ppt
NPM	-5.0%	-0.8%	4.1%	9.2%	7.0%	6.8%	7.5%	6.2%	5.5%	0.7ppt
Non-GAAP OPM	17.9%	20.9%	23.9%	28.3%	26.9%	24.4%	25.1%	24.3%	23.4%	0.9ppt
Non-GAAP NPM					25.8%	23.7%	24.0%	24.1%	22.6%	1.5ppt

Source: Bloomberg, CMBIGM

Figure 2: DDOG: changes in CMBI forecast

USD mn	Current			Previous			Change (%)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Revenue	3,193.6	3,828.2	4,699.1	3,281	4,046	-	-2.7%	-5.4%	-
Gross profit	2,581.5	3,103.7	3,821.9	2,651	3,279	-	-2.6%	-5.3%	-
Non-GAAP OP	685.8	863.7	1,107.5	822	1,042	-	-16.6%	-17.1%	-
Non-GAAP NP	624.5	774.5	977.1	771	959	-	-19.0%	-19.2%	-
GPM	80.8%	81.1%	81.3%	80.8%	81.0%	-	0.0ppt	0.0ppt	-
OPM	21.5%	22.6%	23.6%	25.1%	25.8%	-	(3.6)ppt	(3.2)ppt	-
Non-GAAP NPM	19.6%	20.2%	20.8%	23.5%	23.7%	-	(3.9)ppt	(3.5)ppt	-

Source: CMBIGM estimates

Figure 3: Datadog: target valuation

EV/Sales Valuation	2025E
Revenue (US\$m)	3,194
Target 2025E EV/Sales	16.6
Target EV (US\$m)	53,013
Net cash (US\$m)	3,178
Target equity valuation (US\$bn)	56,191
Total shares outstanding (Diluted; mn)	359.2
Valuation per share (US\$)	156.4

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Revenue	1,675	2,128	2,684	3,194	3,828	4,699
Cost of goods sold	347	410	516	612	724	877
Gross profit	1,328	1,718	2,169	2,582	3,104	3,822
Operating expenses	1,387	1,752	2,114	2,571	3,049	3,708
Selling expense	495	609	757	941	1,116	1,356
Admin expense	139	180	205	242	281	333
R&D expense	752	962	1,153	1,388	1,653	2,019
Operating profit	(59)	(33)	54	10	54	114
Interest income	37	100	157	125	145	165
Interest expense	(17)	(6)	(7)	0	0	0
Pre-tax profit	(38)	60	204	135	199	278
Income tax	(12)	(12)	(20)	(32)	(40)	(51)
After tax profit	(50)	49	184	103	159	228
Net profit	(50)	49	184	103	159	228
Adjusted net profit	277	464	654	624	774	977

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Current assets	2,344	3,178	4,911	5,815	6,942	8,324
Cash & equivalents	1,884	2,583	4,189	5,070	6,046	7,244
Account receivables	400	509	599	607	738	897
Prepayment	60	86	123	138	159	182
Non-current assets	661	758	874	935	1,012	1,104
PP&E	125	172	227	275	335	408
Right-of-use assets	88	127	173	173	173	173
Intangibles	16	10	4	4	4	4
Goodwill	348	353	360	360	360	360
Other non-current assets	83	97	111	123	141	159
Total assets	3,005	3,936	5,785	6,750	7,955	9,428
Current liabilities	760	1,003	1,863	2,011	2,191	2,376
Account payables	23	88	108	94	114	138
Other current liabilities	171	128	761	761	761	761
Lease liabilities	22	22	32	32	32	32
Contract liabilities	543	766	962	1,125	1,284	1,444
Non-current liabilities	835	908	1,208	1,246	1,303	1,370
Long-term borrowings	739	742	979	979	979	979
Deferred income	13	21	23	23	26	29
Other non-current liabilities	83	144	206	244	297	362
Total liabilities	1,594	1,911	3,071	3,258	3,494	3,746
Capital surplus	1,625	2,181	2,689	3,364	4,174	5,168
Retained earnings	(202)	(154)	30	133	291	519
Other reserves	(12)	(2)	(5)	(5)	(5)	(5)
Total shareholders equity	1,411	2,025	2,714	3,492	4,461	5,682
Total equity and liabilities	3,005	3,936	5,785	6,750	7,955	9,428

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	(50)	49	184	103	159	228
Depreciation & amortization	35	44	55	62	75	91
Change in working capital	6	45	13	151	67	50
Others	428	522	619	675	809	994
Net cash from operations	418	660	871	991	1,110	1,363
Investing						
Capital expenditure	(65)	(62)	(96)	(111)	(134)	(164)
Acquisition of subsidiaries/ investments	(46)	(12)	(7)	0	0	0
Net proceeds from disposal of short-term investments	(274)	(656)	(634)	0	0	0
Net cash from investing	(385)	(731)	(737)	(111)	(134)	(164)
Financing						
Proceeds from share issues	24	58	51	0	0	0
Others	12	0	736	0	0	0
Net cash from financing	36	58	787	0	0	0
Net change in cash						
Cash at the beginning of the year	274	342	330	1,247	2,128	3,104
Exchange difference	(2)	1	(4)	0	0	0
Cash at the end of the year	342	330	1,247	2,128	3,104	4,302

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.