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Datadog (DDOG US)

Results beat; still a key beneficiary in AI era

Datadog reported an upbeat set of 2Q26 results. Total revenue rose 36% YoY to US$1.1bn (2Q25: 28%; 1Q26: 32%), 4% ahead of both our forecast and Visible Alpha (VA) consensus, driven by stronger-than-expected acceleration in growth from both non-AI-native customers (high-20s% YoY in 2Q26, vs 20%/23%/mid-20s% in 3Q25/4Q25/1Q26) and robust growth in AI-native customers. Non-GAAP net profit came in at US$240.4mn, up 47% YoY and 13%/10% above our forecast/consensus, aided by the revenue beat and better-than-expected operating leverage. Mgmt. guided 28-29% YoY revenue growth in 3Q26E (3Q25: 28%) and raised FY26E revenue guidance by 3% to US$4.45-4.47bn, implying 30% YoY growth (2025: 28%). Mgmt. flagged a usage reduction trend at its largest customer in 3Q26, but emphasized that: 1) the customer has renewed with DDOG on a nine-figure contract; 2) growth for the rest of the business is largely unchanged excluding this customer; and 3) both 3Q26E and 2026E guidance has been fully de-risked for this headwind. We raise our 2026-28E revenue forecasts by 3-7% and non-GAAP net profit forecasts by 5-6% to reflect stronger customer demand and better operating efficiency than we had previously assumed. We lift our TP to US$274.0 (from US$203.1) to reflect our positive view that DDOG is one of the key beneficiaries in the Gen-AI era. Market expectations are normalizing post-results, and the share price correction offers a more attractive entry point, in our view. Maintain BUY.

- **Cross-sell and upsell momentum sustained.** Datadog's customer base exceeded 33,400 at end-2Q26, up 6% YoY. Customers with ARR above US$100k reached 4,720, up 23% YoY (2Q25: 14%; 1Q26: 21%), and accounted for 91% of total ARR (2Q25: 89%). As of 2Q26, c.85%/58%/37%/22%/13% of customers used more than 2/4/6/8/10 products respectively, up 2/6/8/8/6ppts YoY. Other key operating metrics remained solid: 1) RPO reached US$3.47bn, up 43% YoY (1Q26: 51%; 2Q25: 35%), with current RPO up c.40% YoY (2Q25: low-30s%); and 2) TTM net revenue retention was in the low-120s% range, improving from c.120% in 2Q25 and stable QoQ.
- **Demand trends healthy across both AI-native and non-AI cohorts.** The AI-native customer base continued to diversify and expand, with 31 customers (1Q26: 22) now spending more than US$1mn annually and 8 (1Q26: 5) spending more than US$10mn. Revenue excluding AI-native customers grew in the high-20s% YoY in 2Q26, accelerating from 20%/23%/mid-20s% in 3Q25/4Q25/1Q26 — in our view, evidence that the core observability franchise is continuously re-accelerating independently of the AI cohort.
- **Operating efficiency improvement on track.** Non-GAAP operating margin reached 22.9% in 2Q26 (2Q25: 19.8%), 1.2ppts above consensus. Mgmt. reiterated its commitment to further efficiency gains and raised FY26E non-GAAP operating profit guidance to US$1.01-1.03bn (from US$940-980mn), implying a non-GAAP OPM of 22.6-23.1%.
- **Lift TP to US$274.0; maintain BUY.** Our new TP is based on 19.9x EV/Sales on 3Q26E-2Q27E revenue, in line with the three-year average plus two s.d. (previously 16.3x, or the three-year average plus one s.d.), reflecting our positive view that DDOG is one of the key beneficiaries of the Gen-AI era.

BUY (Maintain)

Target Price	**US$274.00**
(Previous TP	US$203.10)
Up/Downside	**19.5%**
Current Price	**US$229.29**

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Stock Data

Mkt Cap (US$ mn)	86,204.2
Avg 3 mths t/o (US$ mn)	490.1
52w High/Low (US$)	288.15/102.62
Total Issued Shares (mn)	376.0

Source: FactSet

Shareholding Structure

Vanguard Group Inc	12.8%
Blackrock Inc.	8.0%

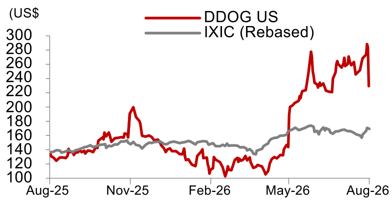
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-10.7%	-12.5%
3-mth	21.5%	19.0%
6-mth	105.3%	79.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US$ mn)	2,684	3,427	4,460	5,453	6,572
YoY growth (%)	26.1	27.7	30.1	22.3	20.5
Net profit (US$ mn)	183.7	107.7	190.3	302.8	395.1
Adjusted net profit (US$ mn)	653.8	746.6	950.7	1,160.7	1,422.1
YoY growth (%)	40.9	14.2	27.3	22.1	22.5
EPS (Adjusted) (US$)	1.83	2.06	2.53	2.90	3.42
Consensus EPS (US$)	na	2.05	2.42	2.97	0.46

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: DDOG: quarterly results trend

(USDmn)	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	2Q26E Consensus	Diff%	CMBI estimates	Diff%
Total revenue	**762**	**827**	**886**	**953**	**1,006**	**1,121**	**1,080**	**3.9%**	**1,078**	**4.0%**
YoY Growth	*24.6%*	*28.1%*	*28.4%*	*29.2%*	*32.2%*	*35.6%*				
Gross profit	**603.9**	**660.8**	**709.2**	**766.3**	**797.2**	**881.3**	**860.4**	**2.4%**	**866.0**	**1.8%**
R&D expenses	341.1	387.5	402.0	417.9	435.3	478.0				
S&M expenses	214.3	239.0	238.7	264.4	279.8	311.5				
G&A expenses	61.0	69.8	74.3	74.6	74.8	86.4				
Operating profit	**(12.4)**	**(35.5)**	**(5.8)**	**9.4**	**7.3**	**5.5**	**9.0**	**-39.2%**	**0.6**	**890.8%**
Net profit	**24.6**	**2.6**	**33.9**	**46.6**	**52.6**	**44.6**	**38.1**	**16.9%**	**28.5**	**56.1%**
Non-GAAP OP	**166.5**	**164.1**	**207.4**	**230.1**	**223.5**	**257.0**	**234.4**	**9.7%**	**227.0**	**13.2%**
Non-GAAP NP after tax adjustment	**167.9**	**163.8**	**197.4**	**217.4**	**218.2**	**240.4**	**218.1**	**10.2%**	**212.6**	**13.1%**
YoY Growth	*6.5%*	*7.1%*	*19.1%*	*22.5%*	*29.9%*	*46.8%*				
Margins (%)										
GPM	**79.3%**	**79.9%**	**80.1%**	**80.4%**	**79.2%**	**78.6%**	**79.7%**	**(1.1)ppt**	**80.3%**	**(1.7)ppt**
R&D expenses ratio	44.8%	46.9%	45.4%	43.8%	43.3%	42.6%	42.6%	(0.0)ppt	44.5%	(1.9)ppt
S&M expenses ratio	28.1%	28.9%	27.0%	27.7%	27.8%	27.8%	28.7%	(0.9)ppt	28.2%	(0.4)ppt
G&A expenses ratio	8.0%	8.4%	8.4%	7.8%	7.4%	7.7%	7.3%	0.4ppt	7.6%	0.1ppt
OPM	**-1.6%**	**-4.3%**	**-0.7%**	**1.0%**	**0.7%**	**0.5%**	**0.8%**	**(0.3)ppt**	**0.1%**	**0.4ppt**
NPM	**3.2%**	**0.3%**	**3.8%**	**4.9%**	**5.2%**	**4.0%**	**3.5%**	**0.4ppt**	**2.6%**	**1.3ppt**
Non-GAAP OPM	**21.9%**	**19.8%**	**23.4%**	**24.1%**	**22.2%**	**22.9%**	**21.7%**	**1.2ppt**	**21.1%**	**1.9ppt**
Non-GAAP NPM	**22.0%**	**19.8%**	**22.3%**	**22.8%**	**21.7%**	**21.4%**	**20.2%**	**1.2ppt**	**19.7%**	**1.7ppt**

Source: Company data, Visible Alpha, CMBIGM estimates

Figure 2: DDOG: changes in CMBI forecast

	Current			Previous			Change		
USD mn	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Revenue	4,460.3	5,452.8	6,571.6	4,340	5,168	6141.8	2.8%	5.5%	7.0%
Gross profit	3,549.6	4,343.2	5,244.0	3,472	4,163	4977.9	2.2%	4.3%	5.3%
Non-GAAP OP	1,025.6	1,294.6	1,619.2	974	1,225	1532.0	5.3%	5.7%	5.7%
Non-GAAP NP	950.7	1,160.7	1,422.1	894	1,098	1353.5	6.3%	5.7%	5.1%
GPM	79.6%	79.7%	79.8%	80.0%	80.6%	81.1%	(0.4)ppt	(0.9)ppt	(1.3)ppt
Non-GAAP OPM	23.0%	23.7%	24.6%	22.5%	23.8%	25.1%	0.5ppt	(0.0)ppt	(0.4)ppt
Non-GAAP NPM	21.3%	21.3%	21.6%	20.7%	21.0%	21.6%	0.6ppt	0.3ppt	0.0ppt

Source: CMBIGM estimates

Figure 3: DDOG: CMBI forecast vs consensus

	Current			Consensus			Difference		
USD mn	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Revenue	4,460.3	5,452.8	6,571.6	4,358	5,321	6,573.4	2.4%	2.5%	0.0%
Gross profit	3,549.6	4,343.2	5,244.0	3,474	4,263	5,269.8	2.2%	1.9%	-0.5%
Non-GAAP OP	1,025.6	1,294.6	1,619.2	979	1,244	1,622.9	4.8%	4.0%	-0.2%
Non-GAAP NP	950.7	1,160.7	1,422.1	925	1,137	1,489.1	2.8%	2.1%	-4.5%
GPM	79.6%	79.7%	79.8%	79.7%	80.1%	80.2%	(0.1)ppt	(0.5)ppt	(0.4)ppt
Non-GAAP OPM	23.0%	23.7%	24.6%	22.5%	23.4%	24.7%	0.5ppt	0.4ppt	(0.0)ppt
Non-GAAP NPM	21.3%	21.3%	21.6%	21.2%	21.4%	22.7%	0.1ppt	(0.1)ppt	(1.0)ppt

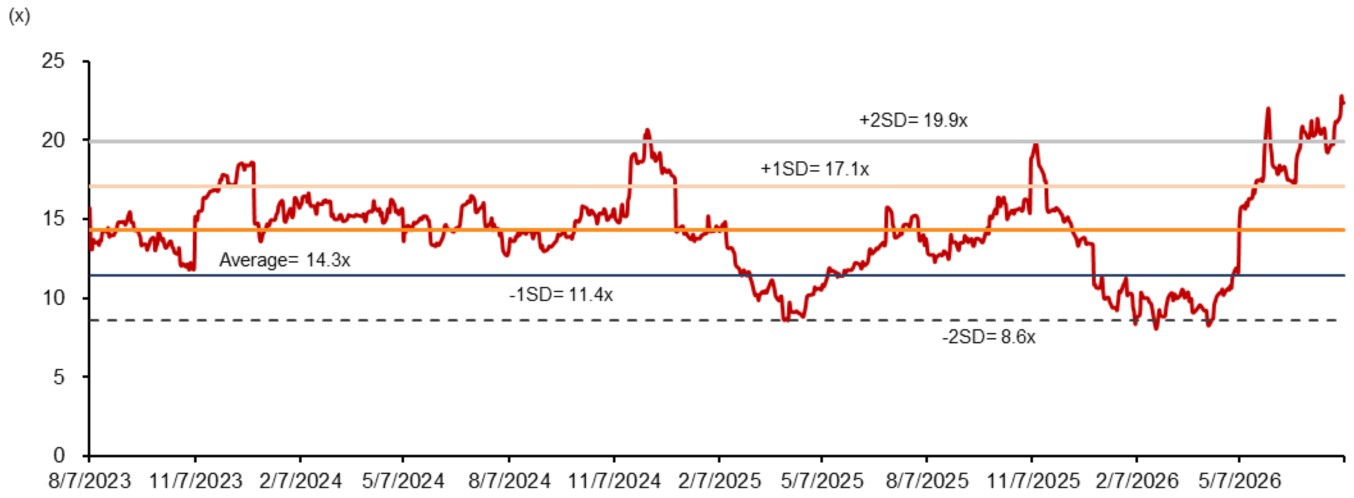
Source: Visible Alpha, CMBIGM estimates

Figure 4: Datadog: target valuation

EV/Sales Valuation	
Revenue (US$mn; 3Q26-2Q27E)	4,948
Target NTM EV/Sales (x)	19.9
Target EV (US$mn)	98,457
Net cash (US$mn)	4,550
Target equity valuation (US$mn)	103,007
Total shares outstanding (Diluted; mn)	376.0
Valuation per share (US$)	**274.0**

Source: CMBIGM estimates

Figure 5: Datadog: one-year forward EV/sales valuation band over the past 3 years



Source: Bloomberg, CMBIGM

Risks

1) AI-native customer revenue growth slower than our expectation;
2) Margin expansion slower than our expectation;
3) Industry competition fiercer than our expectation.

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Revenue	**2,128**	**2,684**	**3,427**	**4,460**	**5,453**	**6,572**
Cost of goods sold	410	516	687	911	1,110	1,328
Gross profit	**1,718**	**2,169**	**2,740**	**3,550**	**4,343**	**5,244**
Operating expenses	**1,752**	**2,114**	**2,785**	**3,504**	**4,188**	**4,997**
Selling expense	609	757	956	1,228	1,478	1,762
Admin expense	180	205	280	337	390	454
R&D expense	962	1,153	1,548	1,939	2,319	2,782
Operating profit	**(33)**	**54**	**(44)**	**45**	**155**	**247**
Interest income	100	157	182	190	200	210
Interest expense	(6)	(7)	(11)	(13)	(13)	(13)
Pre-tax profit	**60**	**204**	**127**	**223**	**343**	**444**
Income tax	(12)	(20)	(19)	(33)	(40)	(49)
After tax profit	**49**	**184**	**108**	**190**	**303**	**395**
Net profit	**49**	**184**	**108**	**190**	**303**	**395**
Adjusted net profit	**464**	**654**	**747**	**951**	**1,161**	**1,422**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Current assets	**3,178**	**4,911**	**5,382**	**6,539**	**8,115**	**10,007**
Cash & equivalents	2,583	4,189	4,475	5,580	6,963	8,649
Account receivables	509	599	741	763	926	1,105
Prepayment	86	123	166	196	225	253
Non-current assets	**758**	**874**	**1,262**	**1,580**	**1,706**	**1,850**
PP&E	172	227	338	451	550	667
Right-of-use assets	127	173	215	206	206	206
Intangibles	10	4	15	23	23	23
Goodwill	353	360	531	707	707	707
Other non-current assets	97	111	163	192	221	248
Total assets	**3,936**	**5,785**	**6,644**	**8,118**	**9,821**	**11,857**
Current liabilities	**1,003**	**1,863**	**1,591**	**1,797**	**1,983**	**2,172**
Account payables	88	108	149	125	151	181
Other current liabilities	128	761	210	231	231	231
Lease liabilities	22	32	39	44	44	44
Contract liabilities	766	962	1,194	1,397	1,557	1,717
Non-current liabilities	**908**	**1,208**	**1,320**	**1,346**	**1,420**	**1,500**
Long-term borrowings	742	979	983	986	986	986
Deferred income	21	23	69	29	32	35
Other non-current liabilities	144	206	268	332	403	480
Total liabilities	**1,911**	**3,071**	**2,912**	**3,143**	**3,403**	**3,672**
Capital surplus	2,181	2,689	3,579	4,654	5,793	7,166
Retained earnings	(154)	30	138	328	631	1,026
Other reserves	(2)	(5)	15	(7)	(7)	(7)
Total shareholders equity	**2,025**	**2,714**	**3,732**	**4,975**	**6,417**	**8,185**
Total equity and liabilities	**3,936**	**5,785**	**6,644**	**8,118**	**9,821**	**11,857**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Operating						
Profit before taxation	**49**	**184**	**108**	**190**	**303**	**395**
Depreciation & amortization	44	55	56	77	93	113
Change in working capital	45	13	72	76	40	35
Others	522	619	815	983	1,139	1,372
Net cash from operations	**660**	**871**	**1,050**	**1,327**	**1,574**	**1,915**
Investing						
Capital expenditure	(62)	(96)	(135)	(164)	(191)	(230)
Acquisition of subsidiaries/ investments	(12)	(7)	(116)	(112)	0	0
Net proceeds from disposal of short-term investments	(656)	(634)	(1,081)	(470)	0	0
Net cash from investing	**(731)**	**(737)**	**(1,333)**	**(746)**	**(191)**	**(230)**
Financing						
Proceeds from share issues	58	51	63	52	0	0
Others	0	736	(636)	0	0	0
Net cash from financing	**58**	**787**	**(572)**	**52**	**0**	**0**
Net change in cash						
Cash at the beginning of the year	342	330	1,247	403	1,031	2,415
Exchange difference	1	(4)	11	(4)	0	0
Cash at the end of the year	**330**	**1,247**	**403**	**1,031**	**2,415**	**4,100**
GROWTH	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Revenue	27.1%	26.1%	27.7%	30.1%	22.3%	20.5%
Gross profit	29.4%	26.2%	26.3%	29.5%	22.4%	20.7%
Operating profit	na	na	na	na	241.7%	58.8%
Net profit	na	278.3%	(41.4%)	76.6%	59.1%	30.5%
Adj. net profit	67.7%	40.9%	14.2%	27.3%	22.1%	22.5%
PROFITABILITY	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Gross profit margin	80.7%	80.8%	80.0%	79.6%	79.7%	79.8%
Operating margin	(1.6%)	2.0%	(1.3%)	1.0%	2.9%	3.8%
Adj. net profit margin	21.8%	24.4%	21.8%	21.3%	21.3%	21.6%
Return on equity (ROE)	2.8%	7.8%	3.3%	4.4%	5.3%	5.4%
GEARING/LIQUIDITY/ACTIVITIES	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Net debt to equity (x)	(0.9)	(1.2)	(0.9)	(0.9)	(0.9)	(0.9)
Current ratio (x)	3.2	2.6	3.4	3.6	4.1	4.6
Receivable turnover days	77.9	75.3	71.4	61.5	56.5	61.4
Payable turnover days	49.5	69.2	68.1	54.8	45.4	49.7
VALUATION	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
P/E	1,529.5	419.5	739.1	435.8	290.8	231.9
P/E (diluted)	1,588.2	440.9	773.5	452.9	302.9	241.5
P/B	39.6	30.2	22.3	16.8	13.3	11.1

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

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