

# MongoDB, Inc. NasdaqGM:MDB

## FQ4 2018 Earnings Call Transcripts

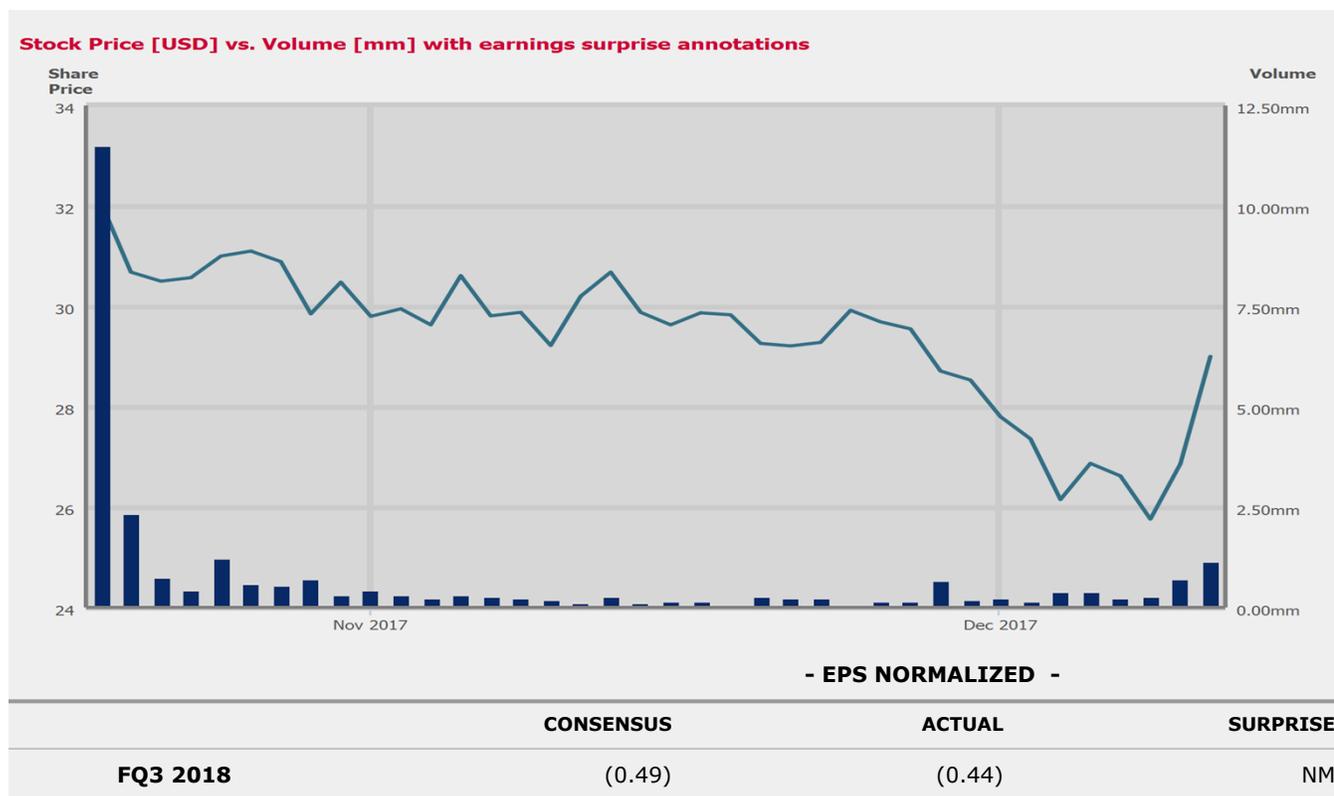
Tuesday, March 13, 2018 9:00 PM GMT

### S&P Capital IQ Estimates

	-FQ4 2018-			-FQ1 2019-	-FY 2018-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
<b>EPS Normalized</b>	(0.43)	(0.40)	NM	(0.43)	(1.77)	(1.74)
<b>Revenue (mm)</b>	42.60	45.04	▲5.73	44.90	152.07	154.52

Currency: USD

Consensus as of Mar-08-2018 11:03 PM GMT



# Call Participants

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## EXECUTIVES

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*President, CEO & Director*

**Michael Lawrence Gordon**  
*Chief Financial Officer*

## ANALYSTS

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# Presentation

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## Operator

Good day, and welcome to the MongoDB Fourth Quarter Fiscal 2018 Earnings Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Brian Denyeau, ICR Investor Relations. Please go ahead, sir.

**Brian Denyeau**  
*Senior Vice President*

Thank you, Don.

Good afternoon, and thank you for joining us today to review MongoDB's fourth quarter and full year 2018 financial results which we announced in our press release issued after the close of market today.

Joining me on the call today are Dev Ittycheria, President and CEO of MongoDB; and Michael Gordon, MongoDB's CFO.

During this call, we may make statements related to our business that are forward-looking under federal securities laws and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements related to our financial results; trends and guidance for the first quarter and full year fiscal 2019, industry and market trends; our go-to-market and growth strategies; our introduction of future product enhancements and the potential advantages of those enhancements; our market opportunity and ability to expand our leadership position and drive revenue growth; our ability to maintain and upsell to existing customers; our ability to acquire new customers; our ability to expand our relationship with the partners and anticipated benefit of our platform for our customers and partners.

The words anticipate, continue, estimate, expect, intend, will and similar expressions are intended to identify forward-looking statements or similar indications of future expectations. These statements reflect our views only as of today and should not be reflected upon as representing our views as of any subsequent date. We do not have plans to update these statements except as required by law. These statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from expectations.

For a discussion of material risks and other important factors that could affect our actual results, please refer to those contained in our quarterly report on Form 10-Q filed with the SEC on December 15, 2017, and our other periodic filings with the SEC. These documents are available in the Investor Relations section of our website at [www.mongodb.com](http://www.mongodb.com). A replay of this call will also be available there for a limited time.

The development, release and timing of any features or functionalities described for our products remain in our sole discretion. This information is merely intended to outline our general product direction and should not be relied on in making a purchasing decision or is a commitment, promise or legal obligation to deliver any material code or functionality.

Additionally, non-GAAP financial measures will be discussed on this conference call. Please refer to the tables in our earnings release in the Investor Relations portion of our website for a reconciliation of these measures to the most directly comparable GAAP financial measure.

And with that, I will turn the call over to Dev.

**Dev C. Ittycheria**  
*President, CEO & Director*

Thank you, Brian, and thanks to all of you for joining us today to review our fourth quarter results.

MongoDB delivered strong performance across the board, which reflects our growing market momentum and position as the leading modern general-purpose database platform. To quickly summarize our fourth quarter results, we generated revenue of \$45 million, a 50% year-over-year increase and above the high end of our guidance. We ended the quarter with over 5,700 customers, up 78% compared to a year ago. We saw strong growth across both Enterprise Advanced, EA for short, and Atlas customers. And now Atlas is over 10% of revenue, representing more than a 500% increase from a year ago.

When looking at the larger industry trends, it has become clear that the success of every business rests on their ability to use technology, and in particular, software and data to create a competitive advantage. Businesses want to quickly develop new products and services to drive new revenue streams, improve the customer experience to engage them in a more meaningful way and to constantly find ways to reduce the risk and the cost of doing business. As a result, nearly every business is fast becoming a software business or at risk of being eaten by one.

But these digital initiatives often fail. KPMG issued a study last year that found that 88% of CIOs don't think they have fully benefited from the digital strategy and 82% don't believe their companies are effective at using technology to advance their business. One of the main reasons they fail is their inability to leverage their data. A study by Localis found that companies don't think they are good at using their data, with more than 40% of CIOs mentioning that their data is too siloed across the organization, it's highly complex to synthesize, that there are so many rules around data compliance that they have to work around and much of the data is trapped in complex legacy infrastructure. Consequently, we're starting to see the beginning of a real platform shift where customers realize the only way to solve this problem is to modernize the legacy infrastructure by moving to a next-generation data platform.

This is driving a massive opportunity for MongoDB for 3 main reasons. MongoDB offers a superior way to work with data because of the power and flexibility of the document model. Our platform allows our customers to put data where they need it due to our intelligent, highly distributed architecture for reasons around scalability, availability, compliance and geographic coverage. We give customers the freedom to run anywhere, from the mainframe to the cloud, and including a database-as-a-service offering, all with the same unified experience for the developers. This allows customers to future proof their work by knowing that they don't have to rewrite their applications if and when they move from on premise to the cloud.

So millions of developers have already discovered the power of MongoDB, and as a result, MongoDB -- and as a result, made MongoDB the most popular next-generation database. In fact, just this morning, the Stack Overflow Annual Developer Survey results, which polled more than 100,000 developers from 183 countries, were released. This survey provides real insight into what technology developers find most attractive and impactful. The survey showed for that the second straight year, MongoDB was the most wanted database by developers. This provides yet another data point that shows that MongoDB has clearly established itself as the database of the future in the hearts and minds of developers everywhere.

And we're just getting started. In mid-February, we announced that MongoDB 4.0, which is scheduled to be launched this summer and is now in beta, will extend ACID transactions support available in a single-document to multiple documents. With ACID support, MongoDB can now provide all of the same data guarantees of a legacy database, coupled with the performance, scale and flexibility benefits of a document-based architecture, which reinforces our position as the leading modern general-purpose database platform.

We've already seen great success replacing legacy databases which represents approximately 30% of our new business. Now with the introduction of ACID transaction support, we believe there's no reason that a customer will need to use a legacy database instead of MongoDB.

For those of you not familiar with ACID, it's a set of properties that were designed to ensure data integrity and consistency of legacy databases. This was a must-have because they stored data in tables, specifically the data is typically spread across multiple tables, often hundreds of tables. When adding new data or making updates, the database needed to guarantee -- need a set of guarantees to ensure that the data was properly and consistently entered or updated across all of these tables. These guarantees are called

ACID. They're a cornerstone of the legacy world and something many users consider a must-have in order to be considered a viable database.

With a document database, data does not need to be spread out in many different places, rather, it is modeled in a single document. MongoDB has always provided ACID support within a single document. It's our belief that people who are not comfortable using MongoDB for transaction-heavy use cases felt this way primarily because they didn't fully comprehend that most data relationships can be modeled within a document or that transactions within the document were already ACID compliant. Having multi-document ACID compliance has been a highly requested product feature for some time, and with the introduction of 4.0, we now give companies the peace of mind to build anything on MongoDB. As a result, we believe there's no use case today where a traditional database is a better fit than MongoDB.

Delivering ACID compliance across a distributed multi-document database is a challenging technological problem and one that our engineering team has been working on for 3 years. 4.0 was a tremendous achievement and reflects the world-class engineering talent we have in this company.

Turning to our fourth quarter results in more detail. We're pleased with the combination of new logo wins and strong upsell activity and the continuing trend of customers migrating workloads off legacy databases to MongoDB. We have a powerful "land and expand and expand" model, and our fourth quarter results show that it's working.

During the fourth quarter, we were excited to add new enterprise customers, including ASML Netherlands, Culture Amp, LivePerson, MicroStrategy, Pizza Hut and the State of Maryland. We also expanded our relationship with customers such as AstraZeneca, Cisco, Mount Sinai, Samsung, TIAA and T-Mobile.

We had an exciting new customer win during the quarter with one of the largest car rental companies in the United States. A key strategic priority for the CIO was to modernize their infrastructure and move mission-critical applications off legacy databases. The company's reservation pricing engine, one of the most mission-critical applications, was built on a legacy database on the mainframe. As the business grew and customer engagements increased, they experienced degraded performance and rising costs. They needed a database platform that could improve performance, lower costs and support the company's future move to the cloud. They decided to migrate to MongoDB because of our powerful document model, faster query performance, ability to run anywhere, including on the mainframe as well as on the cloud, and the endorsement of their preferred systems integrator. In the first few months after deploying EA, this customer has been able to significantly reduce mainframe consumption for this application which translates into millions of dollars in annual cost savings.

Also this past quarter, we expanded our relationship with Freddie Mac, who launched an initiative to modernize a number of applications that were previously built on legacy databases. One application, their property appraisal tool, held massive amounts of property and loan information but was increasingly expensive and time-consuming to update within the relational database. Leveraging MongoDB, Freddie Mac was able to collect information for a variety of different sources and in a variety of formats to build a single view of all the information needed to actively appraise a property. MongoDB was chosen because of its flexible data model and the high [ availability ] of the database. In the months since using MongoDB, Freddie Mac has seen an increase in developer productivity.

Atlas delivered outstanding results in the fourth quarter. It represented 11% of our overall revenue and grew more than 500% year-over-year. We're seeing healthy demand from new customers, existing EA customers purchasing incremental Atlas workloads as well as existing Atlas customers who continue to significantly expand their usage of Atlas. We once again saw a number of 6-figured Atlas transactions and are seeing a growing percentage of Atlas customers have committed to certain usage levels. In 7 quarters, we've gone from launching Atlas to creating a business that's entering fiscal 2019 with a revenue run rate of over \$20 million.

This is a great validation of the opportunity for Atlas, and we believe we've only scratched the surface. The flexibility of Atlas to serve as both a self-serve solution that can attract new customers as well as a solution that customers can quickly scale up over time is a key differentiator in the market.

A good example of this is Snagajob, the largest platform for hourly work in the U.S. with more than 80 million registered hourly workers and 300,000 employer locations. Snagajob upgraded from Community Server to Atlas. Snagajob had successfully grown its business on Community Server due to the power of our platform. But as the business continued to grow, the overhead of having to provision, configure, secure, back up and manage the infrastructure themselves detracted from their ability to focus on their own competitive advantage. After evaluating Atlas, they recognized it would be significantly more cost-effective to use Atlas than to manage their ever-growing infrastructure themselves. Snagajob made a multiyear 6-figure annual commitment to Atlas as the long-term platform on which it can build innovative applications and scale its business over time. We believe that there are hundreds of thousands of other Community Server users like Snagajob that are great candidates to move to Atlas over time.

In the fourth quarter, we also made significant progress in building out our partner ecosystem. In December, we announced the availability of MongoDB Atlas on AWS Marketplace, making it easier for more than 160,000 existing AWS customers to buy and consume MongoDB Atlas. MongoDB has also joined the AWS SaaS Sales Alignment Program, enabling the AWS sales force to drive MongoDB Atlas revenue through co-selling and to get compensated for it. MongoDB and Microsoft also launched a new co-sell program for MongoDB Atlas in Microsoft Azure, which enables the Microsoft sales force to do the same. Our cloud partnerships are truly win-win as they provide us deeper access to our customers -- to our partners' customer bases as well as driving significant infrastructure revenue for them.

Finally, Tata Consulting Services (sic) [ Tata Consultancy Services ] developed a mainframe modernization practice built around MongoDB and elevated MongoDB as a top 20 global strategic partner.

As I look to 2019, I couldn't be more excited about the opportunities ahead. We have a massive market opportunity, which IDC estimates will be over \$63 billion by 2020, a highly innovative product, a high performance go-to-market model and a team and the credibility to execute. We believe we're still in the early stages of establishing MongoDB as a seminal software franchise with the opportunity to sustain high levels of growth for a long period of time. When we look at the size of our market opportunity, we believe the best thing to drive long-term shareholder value is to remain focused on investing for growth while continuing to drive improved margins.

Specifically, we're focused on the following priorities: continuing to invest in our strategic data platform, transactions which I discussed earlier, is just part of the many innovations coming with the release of 4.0. We're significantly investing in Atlas, adding new capabilities to drive adoption and expansion as well as enterprise-grade upsell opportunities to drive additional revenue and margin expansion. We're also making investments to make it easier than ever for developers to build applications on MongoDB with MongoDB Stitch. MongoDB Stitch provides a service that frees developers from undifferentiated and cumbersome back-end coding like handling user logins and highly granular access to data. We're integrating with other third-party services like Twilio and Stripe who are running and scaling application servers. We're also making investments in mobile and expanding the aperture of what developers can do with our platform, including some very interesting data visualization capabilities that we plan to launch later this year.

The second is driving strong revenue growth through expansion of our sales capacity and related marketing investments. We're at the very early stages of penetrating one of the largest markets in software which is ripe for disruption. In fiscal 2019, we plan to continue to expand our direct sales team in order to expand into new markets as well as deepen our penetration where we already have sales coverage. We're attracting world-class sales talent, and we'll be looking to add sales reps who have experience closing larger, more strategic deals.

Third, driving deeper relationships with partners to elevate MongoDB's customer mindshare. We're seeing increasing traction with leaders in digital transformation, particularly the largest systems integrators in the world, and we believe that their role as trusted advisers for digital transformation can help elevate our positioning among C-level executives, our prospective customers. This year, we'll invest to more tightly align with partners as part of our strategy to pursue larger, more strategic customer relationships.

And fourth, making our culture and reputation a competitive advantage. Nothing is more important than having a culture that allows us to attract the best people. We're investing significantly in sales enablement, technical training and leadership development programs, talent acquisition and other

initiatives to make MongoDB a place where employees can have the opportunity to grow and succeed in their careers.

Before I turn it over to Michael, I want to provide an update on our senior leadership team. Carlos Delatorre, our Chief Revenue Officer, will be leaving MongoDB at the end of our first fiscal quarter to become the CEO of a private technology company. Over the last 3 years, Carlos has helped MongoDB deliver rapid growth [ of scale ] and, most importantly, for the long term, he has built a world-class sales organization that positions MongoDB incredibly well for the future. I am personally excited for Carlos as he and I worked together closely over the last 13-plus years and consider him not just a colleague but also a friend. We wish him well as he begins the next chapter in his career, and thank him for his contributions over the last 3-plus years. Carlos will stay on until the end of the quarter to ensure a smooth transition. We are beginning a search process to identify our next sales leader, and we'll carefully evaluate both internal and external candidates.

In the meantime, sales will directly report to me. In addition to my personal experience building high-performance sales organizations, we also have a deep sales leadership bench, most of whom I've worked with before. We're also in the fortunate position of having a board member, John McMahon, who is probably the only individual who has been the head of sales for 5 different public software companies. John and I worked together in leadership roles at 2 of those companies, so he's someone I know very well. John has been closely engaged with our sales teams since joining the board a year ago -- 1.5 years ago, and he'll increase his level of involvement and support for the business during this transition.

So in summary, the fourth quarter was a great finish to a record year for MongoDB. We're extending our product leadership, expanding our customer base and increasing customer usage, all of which is helping to drive best-in-class revenue growth.

And now to review the financials, let me turn the call over to Michael.

**Michael Lawrence Gordon**  
*Chief Financial Officer*

Thanks, Dev.

As mentioned, we're very pleased with our fourth quarter results which capped a strong year for MongoDB. I will begin with a detailed review of our fourth quarter and full year results and then finish with our outlook for the first quarter and full year fiscal 2019.

Total revenue in the quarter was \$45 million, up 50% year-over-year. Subscription revenue was \$41.9 million, up 54% year-over-year. And professional services revenue was \$3.2 million, up 16% year-over-year. The strong performance of the business was broad-based during the quarter, with healthy new logo and upsell activity among enterprise customers as well as continued rapid adoption of Atlas. Atlas represented 11% of revenue during the quarter, up from 3% in the fourth quarter of last year and representing an annualized revenue run rate of over \$20 million.

We continue to see strong global demand for our offerings. During the fourth quarter, we grew our customer base by approximately 800 customers, bringing our total customer count to over 5,700 customers, which is up from over 3,200 customers in the year-ago period and over 4,900 customers at the end of last quarter. Of our total customer count, over 1,450 customers are direct customers, up more than 20% from the year-ago period. The growth in our total customer count is being driven, in large part, by Atlas, which had over 3,400 customers at the end of the quarter compared to over 2,600 at the end of the quarter -- of the third quarter. The growth in total customers includes growth in our Enterprise Advanced customers as well as new Atlas customers. It is important to keep in mind that the growth in our Atlas customer count reflects both new customers to MongoDB as well as existing Enterprise Advanced customers adding incremental Atlas workloads.

We also continue to see healthy expansion from existing customers. Our net AR expansion rate remained above 120% in the fourth quarter. We ended the quarter with 354 customers with at least \$100,000 in ARR and annualized MRR, which is up from 320 in the third quarter and up from 246 in the year-ago period. In addition, as evidence of our growing strategic value to customers, we now have over 20

customers with more than \$1 million in annual recurring revenue, up from just 2 customers at that level 2 years ago.

Driving expanded adoption and spend among existing customers is a key component of our growth strategy and has been a consistent area of success. Even among our largest customers today, we believe that their spend with MongoDB represents a small fraction of their total database spend, which represents a large and attractive growth opportunity for us over time.

Moving down the P&L, I will be discussing all of our results on a non-GAAP basis, unless otherwise noted.

Gross profit in the fourth quarter was \$33 million, representing a gross margin of 73% and consistent with the year ago period. We are pleased with the gross margin performance in the quarter, particularly in light of the growth in Atlas. Recall, Atlas includes the underlying infrastructure, and we've had success in reducing the infrastructure costs related to Atlas, resulting in improved Atlas gross margins. We still anticipate Atlas will be a modest headwind to gross margins overall, but we are tracking well relative to our original expectations. As a reminder, today, Atlas represents incremental dollars of gross profit given it is monetizing our free offering.

Our operating loss was \$21.1 million or a negative 47% operating margin for the fourth quarter, which was a meaningful improvement from a negative 56% margin in the year-ago period. We're pleased with our ability to generate this strong operating leverage while continuing to make investments to grow and expand our business.

Net loss in the fourth quarter was \$20.2 million or \$0.40 a share based on 50.3 million weighted average shares outstanding.

Looking at our P&L results on a full year basis, we generated total revenue of \$154.5 million, which was up 52% year-over-year. Gross profit was \$112.9 million or 73% gross margin, which is up 100 basis points year-over-year. Finally, operating loss was \$76 million or a negative 49% operating margin, which is an approximately 1,500 basis point improvement year-over-year.

Turning to the balance sheet and cash flow. We ended the quarter with \$279.5 million in cash, cash equivalents, short-term investments and restricted cash.

Short-term deferred revenue was \$114.5 million, up 46% year-over-year, while total deferred revenue of \$137.4 million was up 47% year-over-year.

We believe longer-term trends in deferred revenue are directionally correlated to the underlying momentum of our business. That said, as Atlas continues to become a larger portion of our business, it is important to appreciate that it is a usage-based model and does not generate meaningful deferred revenue. Also, as a reminder, Atlas has a consumption model that is typically billed monthly in arrears versus the annual and advanced billing terms we typically see in our EA customers. Lastly, quarter-to-quarter comparisons to deferred revenue can also have some level of variability due to the timing of events that may occur.

Operating cash flow in the fourth quarter was negative \$7.7 million. After taking into consideration approximately \$400,000 in CapEx, free cash flow is negative \$8.1 million for the quarter.

I'd now like to turn to our outlook for the first quarter and full year fiscal 2019. Beginning with the first quarter, we expect revenue to be in the range of \$45.5 million to \$46.5 million, including \$3 million to \$3.5 million of professional services revenue. Non-GAAP loss from operations is expected to be in the range of \$22 million to \$21.5 million, and non-GAAP net loss per share to be in the range of \$0.44 to \$0.43 per share based on 50.4 million weighted average shares outstanding.

For the full fiscal year 2019, we expect revenue to be in the range of \$211 million to \$215 million. Non-GAAP loss from operations is expected to be in the range of \$84 million to \$82 million, and non-GAAP net loss per share to be in the range of \$1.66 to \$1.62 per share based on 51.5 million weighted average shares outstanding.

In closing, we finished the strong year with a strong quarter. We're excited about the opportunities that lie ahead in fiscal 2019.  
And with that, we'd like to open up for questions. Operator?

## Question and Answer

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### Operator

[Operator Instructions] And we'll take our first question from Sanjit Singh with Morgan Stanley.

### Sanjit Kumar Singh

*Morgan Stanley, Research Division*

Congrats on the 50% growth this fiscal year, very impressive. Maybe I just want to start with, Dev, on the ACID transaction subject. Could you give us some examples of what use cases are now available or maybe types of applications that are now available that weren't before prior to this introduction of 4.0?

### Dev C. Ittycheria

*President, CEO & Director*

Yes, so a good example would be, say, an e-commerce use case where, say, someone is ordering something, some widget, and associated with that order is some inventory management system that has to [ deprecate ] the number of widgets that they are holding at a particular location. So in that situation, you want to have a transactional guarantee from ordering a particular widget as well as decrementing the number appropriately in the inventory management system. So those 2 data sources would be in 2 separate collect -- document collections, and that's where ACID transactions would be -- multi-document ACID transactions would be very helpful. Did that answer your...

### Sanjit Kumar Singh

*Morgan Stanley, Research Division*

That's very helpful. And then -- yes -- no, that was great. It makes a lot of sense. Michael, in terms of -- we're obviously seeing a lot of traction with Atlas, 11% of revenues. Any sense of the pace of how that revenue contribution should evolve next year and beyond?

### Michael Lawrence Gordon

*Chief Financial Officer*

Yes, so we're not giving a specific guidance number for Atlas in fiscal '19, but we've been very pleased with the performance and the results of Atlas so far. I think if you think more holistically, though, our primary goal in the sales channel is getting customers to understand the value proposition of MongoDB. And as Dev mentioned, one of the 3 key pieces is the ability to run anywhere. And so we're less focused with whether customers are deploying on prem, in cloud, consuming in a subscription model or in a consumption model, but really, we want to be focused on having MongoDB appreciated and permeated throughout the organization. And so that's really the key focus. And so far, the results show that we're having success with that.

### Sanjit Kumar Singh

*Morgan Stanley, Research Division*

Great. That makes a lot of sense. And then maybe just a follow-up, maybe a 2-part follow-up to Atlas. Any plans to release a more commercial version of Atlas? I know it's monetizing with a free offering today, but any plans to release some of -- maybe an enterprise version of Atlas this fiscal year? And the second part of that question would be, if you can give us a sense of what the impact is on your invoice durations from Atlas constituting a bigger part of your bookings mix would be very helpful.

### Dev C. Ittycheria

*President, CEO & Director*

Yes, sure. So we definitely are -- as part of our roadmap, have a very robust roadmap in terms of adding new capabilities to Atlas. And so unlike EA, where you get all the proprietary features literally out of the box, with Atlas, we will offer more of an a la carte model where customers can pick and choose new features and capabilities that will be an upcharge to the base offering. So those could be things like

security offerings around auditing, things like connecting to sophisticated key management systems that a particular cloud provider may offer, things around like enabling a connection to your BI tools through a BI Connector that will launch on Atlas. So those will be just a small smattering of things that we have planned. We have a very robust plan. But unlike EA, where you basically get all the proprietary features as part of the licensing, with Atlas, it will be more of an à la carte model, which I think will attract customers, a broader set of customers, who may pick and choose what capabilities they want now versus later. I'll let Michael answer the second part of that question.

**Michael Lawrence Gordon**

*Chief Financial Officer*

Yes, so if you think about the models, over time, they'll more converge, even on their financial attributes, not just sort of on a product functionality standpoint. Today, and historically, there've been kind of 2 main aspects that are different. There's the margin profile and then there's sort of the billing and the cash flow dynamics. I think that, as evidenced by the result, we've continued to make progress and better progress than we had originally forecast on the Atlas margin. There's more work that we want to do there, and we'll continue to do, but so far, we're very pleased with that progress. On the billings and cash flow side, Atlas can be consumed in a couple of different ways. There's the self-service component to Atlas, which is very much sort of consumption-based and paid in -- monthly in arrears and invoiced monthly in arrears, so that obviously has an effect on deferred revenue and, ultimately, the billing [ calculation ] that you all do. But we're also seeing increasing traction for the sales force for applications where they don't need the full advantages, they'd don't need the full functionality of Enterprise Advanced being able to sell Atlas today. And some of those relationships are being struck on a paid-in-advance basis and others are being struck on a monthly invoicing basis. So there's sort of a mix across the board, if you will. From a macro perspective, we don't see the increasing mix of Atlas changing our timing to get to free cash flow positive. The self-serve customers do -- are monthly in arrears, and so that is different. And from sort of the calculated billings, which we don't focus on as a management metric, but you should understand there's certainly a billings and cash flow impact of that in the short term.

**Operator**

For our next question, we'll go to Raimo Lenschow with Barclays.

**Raimo Lenschow**

*Barclays Bank PLC, Research Division*

Dev, can you talk a little bit about the ACID compliance? It seems like a very important point that you mentioned on the call. How do you see that playing out in the market in terms of -- I mean, it's something that, for a NoSQL database, it's kind of unusual. So how do you expect it to play out with customers? Are they kind of doing all -- lots of tests now to see how they can use it? Do you see kind of a faster uptake? Or like -- it's kind of an unusual development and kind of -- I struggle to -- a little bit to understand how that's kind of -- will impact your markets?

**Dev C. Ittycheria**

*President, CEO & Director*

Sure, sure, sure. So customers actually have been incredibly excited by our announcement because candidly, when you've grown up knowing databases and it's been drilled into your head that ACID transactions is an incredibly important feature that every database must have, but you are very attracted by the power of MongoDB's document model and its distributed architecture, some people still feel a little nervous about using MongoDB for many use cases, even though they don't really need multi-document ACID transaction support. So the first thing this does, it just gives customers real peace of mind. When we made the announcement, literally our salespeople got calls from lots of people. We had meetings in a very short period of time with CIOs. In fact, I had a meeting with one CIO and he said, "Geez, if I had to rebuild my application portfolio, I'd never have to use another -- a relational database." And so the receptivity of that has been very strong. And the reason it's really strong is that they literally can have their cake and eat it, too. They can get all the data guarantees that they're used to with their legacy database with the power, the scalability, the availability and the ability to be very

sophisticated about where you put your data for things around GDPR and other compliance issues or things around, if you have a globally distributed user base, moving the data that's most relevant to them to a particular geography for low latency access. Now that becomes incredibly powerful for customers. And as I mentioned earlier, there are some niche use cases where it actually becomes quite important. So now with the availability of multi-document ACID transaction support, we believe that there's not one use case that we can't do better than a traditional database.

**Raimo Lenschow**

*Barclays Bank PLC, Research Division*

Okay, that's -- yes, that's really -- that's what I thought. Like it's -- that's pretty exciting, actually, yes. And then can you talk a little bit, too -- I know we live in a world of competition, and if I listen to AWS at their conference in November, there was sort of more noise around NoSQL as well, but then I see also now the partnership. Can you just kind of see how you -- can you talk a little bit about how you see that playing out?

**Dev C. Ittycheria**

*President, CEO & Director*

Yes. Amazon is clearly an important partner of ours and so are the other cloud providers as well. The announcement we made with the AWS Marketplace is that their customers can actually buy Atlas through the Marketplace and use their own credit, that they may have already kind of made committed to with Atlas, to apply towards Atlas, which is very compelling as well as get billed directly by Amazon for those services. Moreover, and as we -- as I mentioned in the prepared remarks, we also have joined their SaaS alignment program where their own salespeople get commissioned for selling Atlas. So Amazon is a company that really allows its teams and its groups to operate fairly independently and autonomously. And so the [ P teams ] that -- in the core hosting group, the people in the Lambda group, the people in a lot of other groups are very excited about Atlas. Clearly, the people who offer a competing database offering are not necessarily our partners, but overall, Amazon does a very good job of managing this relationship, and we're very excited about the partnership with AWS.

**Raimo Lenschow**

*Barclays Bank PLC, Research Division*

Okay. And last question for me is can you -- the increase of number of large deals seems kind of -- seems really exciting. Can you talk a little bit about what you see in the field? Was that kind of special year this year? Or like -- because 20 versus 2 seems like a big jump.

**Dev C. Ittycheria**

*President, CEO & Director*

Yes, I think it speaks to a couple of things. One, I think it speaks to the maturity of the product, where people have seen the product evolve very quickly over the last few years and have been -- are really -- are comfortable using MongoDB for mission-critical workloads. It speaks to the sophistication of our sales force and our go-to-market model, where we can be more effective in capturing customers. And also speaks to our land-and-expand model where, once you get in -- as Michael mentioned, we still have such a small percentage of the wallet share that those customers spend on database software. And given the very clear and compelling benefits of MongoDB's features and architecture, our sales teams have been very aggressive in going after those existing workloads that are running on traditional databases. The last thing I would say is that given all this, we're actually getting more bold and being more aggressive and basically going higher earlier in the engagement cycle rather than just starting lower with, say, a department level or a certain business level -- business unit level kind of group. And so that's also starting to pay dividends in terms of larger deal sizes. And as -- while we don't disclose our deal sizes, over time they definitely trended up and to the right, and we feel like that trend is not going to stop anytime soon.

**Operator**

We'll take our next question from Heather Bellini with Goldman Sachs.

**Heather Anne Bellini***Goldman Sachs Group Inc., Research Division*

Most of my questions, at this point, have been answered, but I wanted to dig a little deeper on what Raimo just said in regards to the \$20 million with customers over \$1 million in ARR. I'm just wondering, is there a commonality amongst those customers, whether it's by vertical that they're in or type of application that they're deploying that you could share with us? And also, just given the rapid adoption and uptake of Atlas, just wondering -- I think you got asked a little bit earlier about the type of apps there, but again, just wondering if there's commonality amongst the customers that you're seeing that you could share with us.

**Dev C. Ittycheria***President, CEO & Director*

Yes, so the short answer is there's no commonality in terms of the type of customers. We're seeing that in financial services, we're seeing that in telecom, we're seeing that in tech, we're seeing that across a broad set of vertical industries. I think the commonality is, frankly, the ability for us to go high and connect and be able to clearly articulate the value of moving to a much more modern and cost-effective and flexible platform. And when that message resonates with the senior people in the organization, they tend to move much more quickly and aggressively and tend to be more forceful in driving a lot of the migrations or the new use cases that they're going after. So we, as an organization, are actually starting to institutionalize that across the entire sales force, where we believe that, for the same amount of time and effort, we can actually get a better yield out of the sales organization by starting higher in the organization. So that will take some time for all our salespeople to get there, but we are very excited about the opportunity. And it doesn't hurt to have a lot of great customer proof points. Some of the most sophisticated and demanding customers are using us for very, very important use cases, and so that gives customers even more confidence in going with MongoDB.

**Michael Lawrence Gordon***Chief Financial Officer*

Yes, I'd say, the other thing, if you're looking for patterns, that they would tend to be sort of the expression of the strategic piece that Dev's talking about, is the number of applications that a customer is running. Like it's unusual that it would be a single application that is at that level of spend, but it's that you're -- you've broken through from that initial application and you've become more strategic and are starting to permeate the balance of the organization where you start to see the momentum and the relationships expand to that kind of size.

**Operator**

We'll take our next question from Richard Davis with Canaccord.

**Richard Hugh Davis***Canaccord Genuity Limited, Research Division*

Actually, to corroborate your answer to Raimo's question, I was actually talking to a CTO who uses Google Dialogflow, NoSQL and Atlas on AWS. So I think you're right. It's kind of a multi-factor world for a long time. So one quick question. Just a tactical question on technology and just a real quick question on number. So tactical question, how hard is it to do kind of a port over -- stumbling block that you face as -- a live migration of -- to a new version of Mongo or from an old version to a new one? And so how have you solved that question? And then on the numbers, just -- we ran back-of-the-envelope numbers. We get like an LTV to CAC of like 2:1, and I don't know if that's right because we're outsiders. Are you able to -- do you think you can get to 3:1? Or what's your thoughts on that? So 2 quick questions.

**Dev C. Ittycheria***President, CEO & Director*

So on the first question, we actually -- one of the design principles that's been from the get-go here at MongoDB is to really have customers not suffer any downtime. So whenever they migrate from one

release of MongoDB to another release, we literally do it in a very seamless and graceful way. We do it node by node, where we never have to take the application down. And we've also built tools to help customers do that in a way that helps them through the process, and we also have a professional services team that can also help with planning and executing those migrations. But in general, it is a far easier and less onerous process than doing it with a legacy database. And then in terms of your second question, was -- I forgot. What was your...

**Richard Hugh Davis**

*Canaccord Genuity Limited, Research Division*

LTV to CAC...

**Michael Lawrence Gordon**

*Chief Financial Officer*

LTV to CAC related. Yes, so Richard, here would be my high level. Obviously, we don't give out specific numbers on that. I think what we shared in the context of the IPO is the contribution margin analysis which showed some pretty attractive returns on the investments that we're making in sales and attractive paybacks, but I think importantly, also showed significant growth even 1, 2 years into a cohort's lifecycle. And so given the strong retention and the strong net ARR expansion rates, when we look at the unit economics, they're very, very attractive. I think the one thing that if you were to kind of take a snapshot in time, that burdens the current -- our current point of view is we still have a very high percentage of the sales force that is ramping. And so those people are not productive as we're in the early stages of trying to capitalize on the opportunity in front of us, and so they would burden any kind of current period analysis. But even when we do that analysis today, we're very pleased with the returns that we're getting on the investments we're making in the sales and marketing efforts.

**Operator**

We'll go now to Pat Walravens with JMP Securities.

**Patrick D. Walravens**

*JMP Securities LLC, Research Division*

So my first question, Dev, would be around your new head of sales and what you're looking for in that candidate. And then sort of related, what degree of changes do you have planned to territories and comp plans and things like that in fiscal '19?

**Dev C. Ittycheria**

*President, CEO & Director*

Well, the good news is that all of the territory planning and the comp plans are already done. And we typically start that process in Q4 and roll that out in early Q1, so that's already behind us. So -- and it's just -- there tend to be some incremental changes around the edges of the plan. We get feedback on what happened last year, incorporate that in some of the goals that we're trying to drive this year. So that's point number one. And point number two, this is a pretty interesting business and a fairly unique business because we're selling to a very sophisticated technical audience, but we also have to sell high. So we need people who know how to kind of clearly communicate the business value high, but can also kind of engage with technical stakeholders, developers, architects and so forth, to really ensure that they are fully bought in and understand and appreciate the power of our architecture. And then the other thing about our business, unlike, say, an application software or, frankly, even like hardware, is that this is a little bit of a conceptual sale in the sense that you can't really see, feel or touch MongoDB. It's really driving an outcome, whether it's helping you build out an application or giving you insights into your business and so forth. So you have to be comfortable selling -- making a conceptual sale, and so that's also an important skill. The third thing is that we have a very strong sales organization. The management bench is very deep. I was actively involved in helping recruit senior leaders to the sales organization both at Carlos' direct report level, and 1 level below. So I have a lot of intimacy around the organization, and I'm very proud of what we've built. So I don't feel the need to make any wholesale changes and so forth, and I

don't feel in a rush to go hire someone tomorrow. Like we want to be very thoughtful. As I mentioned, we're going to do a search and look both at internal and external candidates.

**Patrick D. Walravens**

*JMP Securities LLC, Research Division*

Okay, great. And my second question is broader. I'd love to hear you just comment on sort of what you're seeing in terms of broader trends in the database market and how Mongo is inserting itself into those conversations to sell. In particular, are people lifting and shifting sort of these core database workloads?

**Dev C. Ittycheria**

*President, CEO & Director*

Yes, so I would say that we're starting to see the beginnings of a real platform shift. What's interesting is that everyone's trying to use technology as an enabler to drive their competitive advantage. And invariably, they recognize that being able to leverage their data is an important part of being able to achieve that goal, but what they typically find is that data is not an enabler, but a blocker. And it's a blocker because it's kind of trapped in legacy infrastructure, it's very siloed across the organization. And so we're starting to see people really put a lot of focus around app modernization or legacy modernization. And that's also obviously buffeted by the desire to potentially move to the cloud as well as desire to roll out new use cases. New use cases around like machine learning, AI, even things like IoT, et cetera, are driving the need to be much more effective in using data. And so we're starting to see a real focus on doing that. The second thing I would say is that there seems to be a real antipathy towards the existing incumbents. And so that's also driving a lot of senior-level stakeholders to contemplate going to a new vendor, and I think we are well positioned. And as you know, we have massive customer -- I'm sorry, developer adoption. We're the only database company to go public in the last 20 years. We've raised a lot of capital to drive our business, and so we basically feel very well positioned to pursue this opportunity and that's resonating with customers.

**Operator**

[Operator Instructions] For our next question, we'll go to Jack Andrews with Needham.

**Jon Philip Andrews**

*Needham & Company, LLC, Research Division*

I just wanted to follow up on some of the other commentary. You mentioned that you're engaging higher in the organization through your sales process. So in these customer conversations, do you still need to spend any time evangelizing the overall technology value proposition? Or do customers get it at this point? And how would that compare to these conversations maybe 6 or 12 months ago?

**Dev C. Ittycheria**

*President, CEO & Director*

It's a good question. So I would say it's kind of -- it spans across the board. So we may be talking to customers who are very intimate with MongoDB and they're now just looking to really expand their use of MongoDB in a very aggressive way to all the way to the other end where people have very limited understanding and so there needs to be a lot of education around the document model, the value of the document model, the value of our distributed architecture and also the fact that they have a variety of options. And actually, that's one of the benefits of MongoDB is that they have optionality to run it themselves on prem, run it themselves in the cloud or go to a more consumption-based model like Atlas or do some hybrid combination thereof, depending on what workloads they want to use where and when. But that does kind of require some education. What we find is that if you go high and really link ourselves to some of the more important business initiatives, people may be trying to improve their -- the experience that they offer to their customers, people may be trying to build out new products and services. And so the more we can tie ourselves to some of the businesses initiatives that they're trying to drive and explain to them how MongoDB can help address that problem, and then explain why we're the best solution to do so, that tends to accelerate deals as well as the size of those deals. And that's essentially what our sales team is starting to do now.

**Jon Philip Andrews**

*Needham & Company, LLC, Research Division*

Sure. I appreciate that color. And then I guess just a quick follow-up, could you just touch on the mainframe modernization practice that Tata is building out? I mean, how prevalent do you think these mainframe modernization can be as a use case moving forward?

**Dev C. Ittycheria**

*President, CEO & Director*

I think they're huge. And I say that -- just for a little bit of color. My background, I used to be the President of BMC Software. And while I didn't run the mainframe business, I saw that business pretty up close, and I was always amazed how that business kind of chugged along. I think we're reaching an inflection point, frankly, for a number of reasons. One is that there's just -- the mainframe developer community is candidly retiring, and so finding people who still want to build apps on the native platform, on the native mainframe, it's hard to find. IBM actually funded us to port MongoDB to the zSeries Linux. So as I mentioned in that one use case, we had a car rental company who had a very complex reservation application that was built on the -- on a legacy database that they ported to MongoDB on the mainframe today, but then it gives them real optionality to then move off the mainframe to either go on prem or, ultimately, to the cloud. We've seen customers like Barclays, who basically moved off mission-critical consumer applications in the U.K. off the mainframe to MongoDB. And candidly, we're starting to see that all over the place. I think people are starting to realize that there's limited utility in continuing to invest in the mainframe, and so they're very open and very interested in trying to use MongoDB to help modernize that platform.

**Operator**

That does conclude today's question-and-answer session. At this time, I'll turn the conference back to Mr. Dev Ittycheria for any closing remarks.

**Dev C. Ittycheria**

*President, CEO & Director*

Yes, again, I want to thank you all for listening to our earnings call.

We're really, really excited about Q4 -- what happened in Q4, but even more excited about the future. We feel like the combination of the product, the team, the market and the larger secular trends are all in our favor, and we're very excited about a strong 2019.

So thank you very much for your time, and we'll speak to you soon.

**Operator**

That does conclude today's conference. Thank you for your participation. You may now disconnect.

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