

# MongoDB, Inc. NasdaqGM:MDB

## FQ2 2019 Earnings Call Transcripts

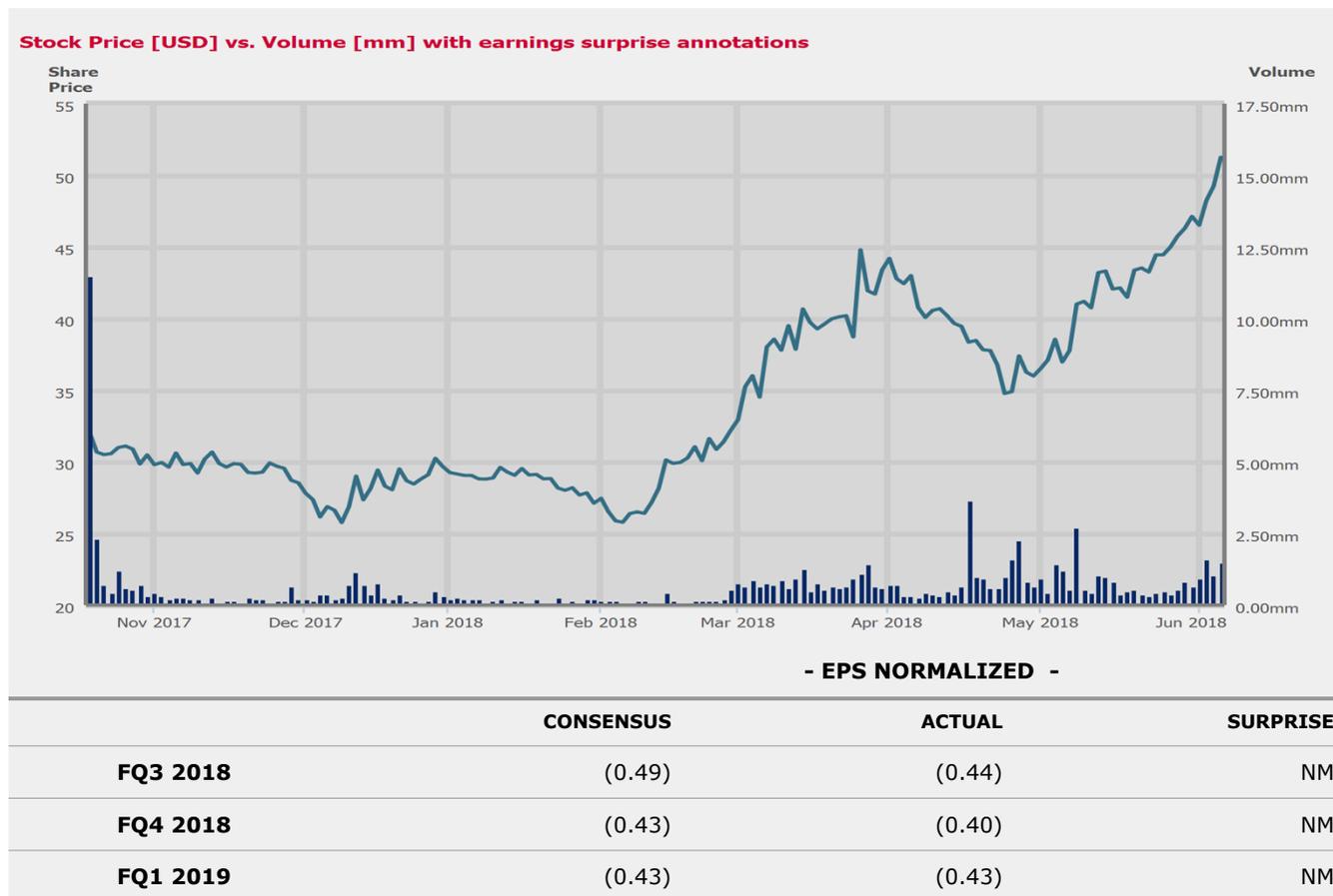
Wednesday, September 05, 2018 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2019-			-FQ3 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
<b>EPS Normalized</b>	(0.45)	(0.41)	NM	(0.39)	(1.62)	(1.20)
<b>Revenue (mm)</b>	51.75	57.49	▲ 11.09	57.57	219.68	296.18

Currency: USD

Consensus as of Sep-04-2018 1:09 PM GMT



# Table of Contents

Call Participants	.....	3
Presentation	.....	4
Question and Answer	.....	10

# Call Participants

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*President, CEO & Director*

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

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# Presentation

## Operator

Good day, everyone. Welcome to MongoDB's Second Quarter 2019 Earning Call. Today's conference is being recorded. At this time, for opening remarks, I'd like to turn things over to Mr. Brian Denyeau. Please go ahead, sir.

## Brian Denyeau

*Senior Vice President*

Thank you, Kelly Anne. Good afternoon, and thank you for joining us today to review MongoDB's second quarter fiscal 2019 financial results, which we announced in our press release issued after the close of the market today. Joining me in the call today are Dev Ittycheria, President and CEO of MongoDB; and Michael Gordon, MongoDB's CFO.

During the call, we may make statements related to our businesses that are forward-looking under federal securities laws. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements related to our financial guidance for the third quarter and full year of fiscal 2019; our market opportunity; our go-to-market and growth strategies; our introduction of future product enhancements and potential advantages of those enhancements and the impact of these product enhancements on our gross margin and sales opportunity; our ability to expand our leadership position and drive best-in-class revenue growth; and the anticipated benefits 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 plan to update these statements except as required by law. These statements are subject to a variety of risks and uncertainties that cause actual results to differ materially from expectations.

For a discussion of the material risks and other important factors that could affect our actual results, please refer to those contained in our annual report on Form 10-K filed with the SEC on March 30, 2018, 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.

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

And with that, I'd like to turn the call over to Dev.

## Dev C. Ittycheria

*President, CEO & Director*

Thanks, Brian. Thanks to all of you for joining us today to review our second quarter results. We are incredibly pleased with our second quarter performance, which reflects the positive impact the investments in our product and go-to-market efforts are having on the business.

To quickly summarize our second quarter results, we generated revenue of \$57.5 million, a 61% year-over-year increase, which was above the high end of our guidance. We grew subscription revenue 63% year-over-year. We ended the quarter with over 7,400 customers, up 72% compared to a year ago. We saw strong growth across all major regions including North America, EMEA and Asia. Atlas revenue grew more than 400% year-over-year and now represents 18% of revenue, and we raised \$254 million in net proceeds from our successful convertible notes offering.

Our second quarter results further demonstrate MongoDB's clear leadership as the modern database platform of the future. Customers recognize that MongoDB offers the best way to work with data, to put data intelligently where it's needed and to allow customers to run applications anywhere. The MongoDB platform offers sophisticated ways to manage data, and we are extending that further with the introduction of Global Clusters in MongoDB Atlas. This groundbreaking technology allows customers to easily create policies to strategically distribute data closer to their users for low-latency read and write operations. In addition, with this feature, customers can easily comply with the ever changing and increasingly demanding regulatory environment for managing data, like Europe's new GDPR rules.

This is a big competitive differentiator for us as it is incredibly challenging, if not impossible, for companies to orchestrate these types of sophisticated data policies with legacy databases. Our ability to address these types of complex data problems is a significant driver in the increasingly strategic nature of our conversations with customers.

Turning to second quarter results in more detail. We again saw a healthy mix of new logo wins and strong upsell activity, both of which included customers migrating existing workloads from legacy databases to MongoDB. Our performance in the second quarter exemplified the power of our land, expand and expand model and our multiple vectors of growth.

During the second quarter, we added a number of new enterprise customers, including Canon U.S.A., Coinbase, [ Manutan ] International, IPC Systems, Royal Caribbean Cruises and Service New South Wales. We also expanded our relationship with customers, such as Apervita, Cisco, Fresenius Medical Care North America, HSBC, Maple Leaf Sports & Entertainment Partnerships, Squarespace, the Bank of Nova Scotia and ClickTech.

As we expand the functionality of the MongoDB platform and build deeper relationships with our customers, we are seeing those customers turn to MongoDB to support an ever-increasing variety of use cases. Coinbase, a leading global digital currency wallet and platform, made a strategic decision to build its business on MongoDB in order to rapidly develop its capabilities and fuel the growth and scale necessary to be the market share leader in the hypercompetitive cryptocurrency exchange industry. The company continues to invest in MongoDB to extend its platform, better handle traffic spikes at peak trading hours and to serve a growing global customer base.

Squarespace, one of the largest SaaS-based website building and hosting platforms, chose MongoDB as the standard for its core website platform. This is a great example of an innovative company building an integral part of its business on top of MongoDB.

Medable, a platform enabling users to build HIPAA-compliant applications and services, was recently approved by the FDA to collect and analyze data from clinical trials, has built their system on MongoDB. Due to the nature of the data managed, Medable relies heavily on MongoDB's robust security features and flexible data model to rapidly add features and make schema changes to serve the needs of their business.

Maple Leaf Sports & Entertainment, the largest sports and entertainment company in Canada and owners of the Toronto Maple Leafs, Raptors, Argonauts and Toronto FC, needed to consolidate customer information that was spread across more than 5 different sources into 1 holistic view. The lack of a unified customer repository was linked to inefficiencies, lost revenue and the potential for missed customer service opportunities for MLSE. They chose MongoDB due to our proven track record with other large entertainment companies and our ability to support their cloud-first mandate.

HSBC, a long-time MongoDB customer, once again expanded its relationship with us as it continues on the path of its digital revolution. Embracing a board-level directive to use technology that makes its operations simpler, better and faster, HSBC is migrating several trading platforms from relational databases to MongoDB in order to simplify, migrate and manage complex financial data transactions.

Hancom, a Korean provider of office productivity tools, is using MongoDB as a core component of its Thinkfree Office online suite. The company needed the scalability and flexibility of MongoDB to support

its microservices architecture with a low total cost of ownership to address their key strategic priority of offering a cloud-native version of Thinkfree.

Turning to Atlas. We saw a large number of new customer wins during the quarter as well as better-than-expected usage from a number of existing customers. Atlas now represents 18% of revenue versus 5% a year ago and 14% last quarter. In 2 years, Atlas has scaled from 0 to \$40 million revenue run rate and generated more than 400% growth over the past year.

In addition to offering lower operating costs and improved development velocity, a key attribute of Atlas is that it provides elastic capacity for customers when they experience spikes in usage for their applications. There is a particularly strong product market fit for Atlas with customers who have a cloud-first strategy, which enables our sales reps to sign more deals, bigger deals and quicker upsells within this market segment, which all contribute to meaningful productivity increases.

FTD Companies, a premiere floral and gifting company, is leveraging MongoDB Atlas as part of its digital transformation initiatives. Specifically, FTD is using -- utilizing Atlas to deliver new experiences for its customers and network of member florists, provide true omnichannel customer service while also beginning the process of moving to a cloud infrastructure.

During the quarter, we introduced many of the premium features of Enterprise Advanced into Atlas, including sophisticated new security features like encryption key management, LDAP integration and database auditing. We also introduced a secure Atlas environment for health care customers that is fully HIPAA-compliant.

Apervita, a leading health care cloud analytics platform serving over 1,200 hospitals, expanded its use of MongoDB after Atlas became HIPAA-compliant. By leveraging the complex data to create predictive models, the company helps health care professionals deliver more effective care. MongoDB powers the Apervita platform, massively simplifying the process of connecting health data to analytics. By providing the scale and robustness required for real-time big data environment, clinicians have the ability to run analytics [sending] algorithms against patient data and deliver improved clinical outcomes.

We expect the introduction of enterprise features in Atlas to be a catalyst for our sales organization. With enterprise features, Atlas can now serve the needs of the most demanding and sophisticated customers who want to consume MongoDB as a service.

Royal Caribbean, one of the world's largest cruise lines, chose MongoDB Atlas to optimize the cruise search application on its e-commerce platform to increase revenue and reduce churn. One of the exciting aspects of this win is that it was driven by the e-commerce team inside Royal Caribbean's marketing organization, who, within 3 months, went from having 0 MongoDB experience to launching a mission-critical application on Atlas.

While our second quarter results were impressive, we are not standing still. We continue to invest in our platform to push the innovation -- push the pace of innovation and deliver even greater value for our customers. During the quarter, we hosted our annual user conference, MongoDB World, in New York. More than 2,000 developers, customers, partners and investors experienced a day of product introductions, training, customer testimonials and most importantly, shared ideas and best practices among the MongoDB community.

The highlight of the event was the formal introduction of MongoDB 4.0. As we have discussed in the past, 4.0 includes multi-document asset transactions which combines the speed, flexibility and power of the document model with ACID guarantee. ACID is having a positive impact in our conversations with prospective and existing customers by enabling a greater number of discussions about the strategic role that MongoDB can play in their digital transformation initiatives.

MongoDB 4.0 included far more than asset transactions. I would like to call out a few of the highlights. Stitch, our new serverless platform, is now generally available. Stitch makes it easy to build modern cross-platform applications in MongoDB without developers having to do the tedious work of managing the back end of an application. With Stitch, the app server is no longer required and developers can use the

MongoDB query language directly from front-end code as well as to connect to third-party services. Stitch will dramatically increase the velocity of development, allowing teams to focus on only value-added code.

We announced the beta of MongoDB Mobile, which will extend the power of MongoDB all the way to the network edge on IoT assets as well as iOS and Android devices. MongoDB Mobile enables real-time automatic syncing of data between the device and the back-end database, which will significantly enhance development velocity and application performance.

To support our mission of giving customers the freedom to take advantage of an on-premise, hybrid and public cloud infrastructure, we have also introduced a new MongoDB Kubernetes Operator in beta. This solution will support provisioning and orchestration of MongoDB within a Kubernetes environment.

We are incredibly proud of the innovations we've used in MongoDB 4.0, and we believe it will significantly raise the bar for the value we deliver to customers. With 4.0 successfully launched and generating significant customer interest, our engineering team is already hard at work executing on a robust product road map we have laid out for the coming years.

To summarize. We delivered terrific results in second quarter. We are executing well across all aspects of the business, and we're seeing strong returns on the product and go-to-market investments we are making. We are in the early stages of disrupting one of the largest markets in technology, and our position continue to strengthen with each passing quarter.

With that, let me now turn the call over to Michael to review the financial results.

**Michael Lawrence Gordon**

*Chief Financial Officer*

Thanks, Dev. As mentioned, we're very pleased with our second quarter performance and it was our fourth strong quarter as a public company. I'll begin with a detailed review of our second quarter results and then finish with our outlook for the third quarter and full fiscal year 2019.

Total revenue in the quarter was \$57.5 million, up 61% year-over-year. Subscription revenue was \$52.9 million, up 63% year-over-year. And professional services revenue was \$4.6 million, up 48% year-over-year. In addition to our strong net customer acquisitions and expansion activity, we also recognized approximately \$1.5 million of revenue that we had not anticipated during the second quarter. This was primarily due to a greater contribution to revenue from new contracts signed in the quarter as well as the favorable impact related to bundled services subscriptions.

Recall, when we sell software and services on a bundled basis, we do not begin recognizing subscription revenue from customers until the delivery of services has commenced. In Q2, this allows us to start recognizing revenue from these customers in the second quarter versus our expectation that they will begin in the third quarter.

The second quarter was also another strong quarter for MongoDB Atlas. Atlas represented 18% of revenue during the quarter, up from 5% in the year-ago period and 14% last quarter. During the quarter, we experienced some large Atlas wins, a few of which generated additional revenue as a result of testing, launching or migrating their applications. This reflects the elastic nature of cloud-related workloads and serves as a reminder that customers can have periods of elevated or reduced usage based on customer-specific factors, including the application's life cycle.

We continue to see strong global demand for our offerings. During the second quarter, we grew our customer base by approximately 800 customers, bringing our total customer count to over 7,400 customers, which is up from over 4,300 customers in the year-ago period and over 6,600 customers at the end of last quarter. Of our total customer count, over 1,600 are direct sales customers, which compares to over 1,550 at the end of the prior quarter and over 1,350 in the year-ago period.

The growth in our total customer count is driven largely in part by Atlas, which had over 5,300 customers at the end of the quarter compared to over 4,400 customers at the end of the first quarter. The growth in total customers includes growth in our Enterprise Advanced customers as well as new Atlas customers,

and it's important to keep in mind that the growth in our Atlas customer count reflects both new customers to MongoDB as well as existing EA customers adding incremental Atlas workloads.

We also continue to see healthy expansion from our existing customers. Our net ARR expansion rate in the second quarter remained above 120% for the 14th consecutive quarter. We ended the quarter with 438 customers with at least \$100,000 in annual recurring revenue and annualized MRR, which is up from 394 in the first quarter and 296 in the year-ago period.

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 MongoDB comprises 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'll be discussing our results from a non-GAAP basis unless otherwise noted. Gross profit in the second quarter was \$41.8 million, representing a gross margin of 73%, which is slightly better than the year-ago period. We are pleased with the gross margin performance of the quarter, particularly in light of Atlas' growth. Atlas includes the underlying infrastructure, and our success in reducing the infrastructure costs related to Atlas has resulted in improved Atlas gross margins. We have now begun to introduce the premium Enterprise Advanced features into Atlas starting with advanced security, and we expect this will be an incremental benefit to revenue and gross margins going forward. We still anticipate Atlas will be a modest headwind to gross margins overall, but we are tracking well relative to our original expectations.

Our operating loss was \$21.6 million or negative 38% operating margin for the second quarter compared to a negative 60% margin in the year-ago period. The more than 2,000 basis point improvement in operating margin reflects the benefits of our increased scale while we invest in the continued growth of the business. Net loss in the second quarter was \$21.1 million or \$0.41 a share based on 51.2 million average weighted shares outstanding.

Turning to the balance sheet and cash flow. We ended the quarter with \$523.2 million in cash, cash equivalents, short-term investments and restricted cash. The increase in our cash balance reflects the \$254 million of net proceeds from our successful convertible notes offering in June. These notes are due in 2024 and have a coupon of 75 basis points. We entered into capped call transactions that raised the effective conversion price of the notes to \$106.90, a 100% premium to our share price at the time of the transaction. This was an opportunistic financing to raise additional capital at advantageous terms.

Operating cash flow in the second quarter was negative \$16.9 million. After taking into consideration approximately \$1.2 million in capital expenditures, free cash flow is negative \$18 million in the quarter. As a reminder, the second quarter is typically the low point in the year for operating cash flow due to seasonally low collections, and the second quarter is usually our heaviest investment in marketing events, like MongoDB World. In addition, in the second quarter, we began to incur capital expenditures associated with our New York City office move, and we expect to see capital expenditures at an elevated level in the third quarter as a result.

Short-term deferred revenue was \$125.5 million, up 44% year-over-year, while total deferred revenue of \$145.8 million was up 38% 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 is often billed monthly in arrears versus the annual advanced billing terms we see with our Enterprise Advanced customers. Lastly, quarter-to-quarter comparisons of deferred revenue could also have some level of variability due to the timing of events that may occur.

I'd now like to turn to our outlook for the third quarter and full fiscal year 2019. Beginning with the third quarter, we expect revenue to be in the range of \$59 million to \$60 million. Non-GAAP loss from operations is expected to be in the range of negative \$21 million to negative \$20 million and non-GAAP net loss per share to be in the range of negative \$0.40 to negative \$0.38 a share based on 52.3 million weighted average shares outstanding.

For the full year fiscal 2019, we are raising our revenue outlook to \$228 million to \$230 million. We are reiterating our non-GAAP loss from operations is expected to be in the range of negative \$84 million to negative \$82 million and non-GAAP net loss per share to be in the range of negative \$1.66 to \$1.62 (sic) [ negative \$1.62 ] per share based on 51.6 million weighted average shares outstanding.

Our increased revenue guidance reflects strong underlying trends in the business, and given the high ROI investment landscape we see, we've maintained our full year outlook for non-GAAP loss from operations. Please note that our updated outlook reflects approximately \$1.5 million of incremental public company expenses in the second half of the year, in part driven by the anticipated loss of our emerging growth company status under the Jobs Act.

In closing, MongoDB delivered a strong second quarter, and we're well positioned as we enter the second half of fiscal 2019. The company is performing well at a high level, and we are pleased with the attractive returns we are generating from our investments and the resulting growth. With that, we'd like to open it up to questions. Operator?

# Question and Answer

## Operator

[Operator Instructions] We'll hear first from Raimo Lenschow with Barclays.

### **Raimo Lenschow**

*Barclays Bank PLC, Research Division*

Two questions on Atlas, if I may. First, Dev, can you talk a little bit about the partnerships and what they are bringing to the table that you're seeing around Atlas distribution around AWS and IBM? I know IBM is a little bit early. But just what has been the reception there? What's AWS doing to help you? That's my first question.

### **Dev C. Ittycheria**

*President, CEO & Director*

Sure. So just to be clear, so with regards to IBM, our relationship with IBM today does not include Atlas. And so it is designed for our on-prem Enterprise Advanced product line. In terms of AWS, AWS has really helped on the demand fulfillment side because customers can choose to procure Atlas to their Marketplace program. And so what it allows a customer to do is really reduce the friction in the process of basically procuring Atlas when they decide that MongoDB is the preferred choice. We also do obviously participate in a number of AWS summits around the world. Obviously, they tend to bring lots of people, especially developers, to these conferences, and we view that as an opportunity to basically speak about what we're doing with MongoDB and Atlas in particular.

### **Raimo Lenschow**

*Barclays Bank PLC, Research Division*

Okay. Perfect. And then the next one on Atlas is if you think about the -- and now that you have -- trying to have the enterprise features available, how do you -- what do you -- what are first examples in terms of how people are going to adopt this? Is this kind of going to be like a lot of test and development initially? Are people kind of quickly moving over and using it? Can you just kind of see -- kind of give us a little bit of feedback how you see that?

### **Dev C. Ittycheria**

*President, CEO & Director*

Yes, I think -- so the enterprise features in Atlas has just been allowing us to go after even workloads that have very strict, for example, security requirements. With the new features we have in Atlas, like enterprise key management, customers can bring their own keys and have comfort that no one else can see their data. We allow integration to LDAP. We allow you to do very sophisticated auditing of the database. So for those customers who have those extra level of security requirements, it really enables them to feel very comfortable of moving their workloads to the cloud on Atlas. And so it really expands the, what I'd say, the addressable market of Atlas and allows customers to just be more and more comfortable of going to the cloud using MongoDB Atlas.

## Operator

We'll hear next from Sanjit Singh with Morgan Stanley.

### **Sanjit Kumar Singh**

*Morgan Stanley, Research Division*

I wanted to follow up on Raimo's question. You started talking about the enterprise opportunity, not just with Atlas, but given a multi-document ACID support, you're rolling out Global Clusters. Could you help -- maybe you can help us understand like where does a customer lean more towards Enterprise Advanced versus Atlas? And what is your sort of view on how enterprise adoptions are going to unfold throughout the balance of the year versus your commercial business?

**Dev C. Ittycheria**

*President, CEO & Director*

Yes, so our strategy, one of the key differentiating points about MongoDB is really the customers have freedom to run their workloads anywhere. And today, we have customers who run MongoDB on the mainframe. We have customers -- we have lots of customers who run it on-premise. And as you can obviously see with the Atlas results, we have lots of customers who are now consuming MongoDB as a service. I should also say we also have lots of customers who buy Enterprise Advanced but self-manage it in the cloud as well. So you literally run the gamut of all the variety of options, and we just believe that it's important to give customers choice. Every customer is at a different stage in their journey to the cloud. We have lots of government agencies who are very, very careful and, frankly, cannot use the public cloud infrastructure today. We have lots of financial services customers who, for regulatory reasons, cannot use the public cloud today. And so we address their needs through our capabilities on-prem. And then we have lots of other customers, even large enterprises to emerging startups, who are moving either select workloads or the entire business to the cloud. And having that choice really allows us to serve a wide spectrum of needs. In terms of directionally, we clearly see everyone is on some journey to the cloud. So we see the cloud becoming an increasingly important part of the business for MongoDB. Obviously, the Atlas results speak for themselves. The other advantage, I think, that we give customers is not just freedom to run on cloud, but we run on any cloud provider. And so one of the things that we hear, and we see a lot of enterprises do now, is try and work with multiple cloud providers. They may have a primary and then a secondary. And the comfort they have with going with MongoDB is that it's very easy to move applications from one cloud provider to another cloud provider. And so you don't have to worry about being locked into any one particular cloud. So that's another big advantage of using MongoDB.

**Sanjit Kumar Singh**

*Morgan Stanley, Research Division*

I appreciate that. Appreciate the answer. Maybe a follow-up question and sort of thinking on down the road in terms of serverless, I know Stitch, you guys are rolling out Stitch as well, but just maybe more higher level. What is serverless? As customers gravitate more towards serverless computing method, what do you see as sort of the impact on the business in terms of the demand for database services from your -- from MongoDB's perspective?

**Dev C. Ittycheria**

*President, CEO & Director*

Yes, I mean, the company was basically founded to make a developer's life really easy, to really let developers and organizations move very, very quickly in being able to develop applications that drive the business. And what basically serverless does for us is that it really allows developers to avoid all the mundane and tedious back-end work that they normally have to do and basically only focus on value-added coding. And that becomes really, really important because as customers, and specifically developers, think about what platform to use, they'll naturally gravitate to platforms that make their lives significantly easier. So MongoDB's popularity was driven by the fact that the document model and our approach just makes a developer's life so much easier by giving them a very easy way to work with data, by making it very easy to move and put data where you want it from a scalability, reliability, availability point of view. And Stitch just takes that to next level where they can basically not have to deal with all the back-end tedium work they have to do to build any web or mobile app. And so what Stitch does is allow you, for example, to essentially expose the power of the database through front-end code where you can basically create a database from the client side. It allows you to easily integrate with third-party services, whether it's a payment service like Stripe or notification like Twilio or even a third-party service -- an internal third -- service that you may have. With Stitch now, you can use Stitch to sync data between your mobile device with MongoDB Mobile to the back end. And there's even things like with triggers that we announced previously with Change Streams, you can now easily enable the ability to take action on events or changes in your database. So when you think about where the world is going, JSON is becoming the synonymous with the word modern applications. MongoDB is the preeminent JSON database, and Stitch -- basically, you should think about Stitch as really the lubricant that allows people to move very, very quickly and faster in building applications.

**Operator**

We'll hear now from Heather Bellini with Goldman Sachs.

**Heather Anne Bellini**

*Goldman Sachs Group Inc., Research Division*

I have 2 questions, if you will. I wanted to follow up on what you were talking about with Stitch and talking about serverless. I was just wondering if you could give any color on how you're seeing people who deploy applications, kind of momentum between serverless and containers, if you can just give us your take. And then also, I wanted to ask a little bit about the NoSQL competitive landscape and just see how you would kind of stack things up right now and kind of the breadth of your product offering and how it stacks up versus the competitive universe, if you've noticed any changes in you guys pulling ahead of the competition.

**Dev C. Ittycheria**

*President, CEO & Director*

Yes, sure. So I want to just clarify. So containers, basically, the world is moving to containers because it's just an easy way to manage infrastructure. Kubernetes has become the de facto platform that everyone is gravitating to. There were a few other options a few years ago, but Kubernetes has become the standard. What we have done is basically create an operator for Kubernetes where people from the Kubernetes platform can basically manage provisioning and orchestrating and basically migrating databases on a kind of a containerized environment. So that makes -- so customers are incredibly excited about that because as people move to containers, it becomes as easy to manage MongoDB because we support those containerized environments. Stitch is all about enabling developers to basically become much more productive and move much more quickly in building applications. Everyone is under pressure to try and increase development velocity of the development teams. And the way you can do that is by giving them a very modern platform that allows them to build applications quickly, to add features quickly and to basically reduce the need to do a lot of, what developers consider, a lot of mundane and tedious tasks. And so for example, with Stitch, you don't have to use an app server anymore because typically, the app server is where you program the application logic. Now you can do that from front-end code where the intelligence moves through the client-side and basically query a database and basically eliminate the need for that middle tier. So that makes the developer's life very easy. Plus, invariably, as you move to a microservices architecture, there may be third-party services or internal services you want to integrate to. Stitch makes that incredibly easy. There may be things that you want to do when, like, there are changes happening to your database. For example -- I'll use an example where like, say, you're an airline company and you decide to move the flights from New York to Phoenix from one gate to another. When that database event happens, you can automatically generate a trigger that sends a notification to everyone's mobile app saying this gate has changed. Today, it's done on a pull notification. Now you can push those notifications out. So these are all things that if you didn't have Stitch would make a developer's life a lot more complicated, and they'll have to spend a lot more time coding these applications. Stitch allows developers to really abstract all that mundane work and really focus on value-added development.

**Heather Anne Bellini**

*Goldman Sachs Group Inc., Research Division*

Great. And then just the competitive fear, kind of with all these that you're putting out there, have you noticed a widening in your lead? Any comments on kind of the competitive universe that you could share?

**Dev C. Ittycheria**

*President, CEO & Director*

Yes, I mean, we do not, frankly, see other NoSQL vendors and deals anymore. I mean, I'm sure that they're getting deals, but we, frankly, see them less and less. I can't remember the last time I have a sales rep complained to me about a competitive situation with another NoSQL competitor. I think it's become clear to everyone that we have become the de facto leader in the modern database space. And now customers are just contemplating what workloads have been moved to cloud and what new apps have been built on MongoDB. And that's where our salespeople are spending the most time.

**Operator**

From Stifel, we'll hear from Brad Reback.

**Brad Robert Reback**

*Stifel, Nicolaus & Company, Incorporated, Research Division*

Dev, the last few quarters, I think the last 3 in a row, you've added about 1,000 Atlas customers sequentially. Should we think about that as the sustainable rate going forward? Or is there an opportunity to step that up?

**Dev C. Ittycheria**

*President, CEO & Director*

Again, there's 2 parts to our Atlas business. It's our self-serve business and our [ sales load ] business. Our self-serve business, we started first, and we got a lot of traction very, very quickly and for the last, I would say, year have been really focused on enabling our sales force to drive Atlas deals. And those deals tend to be significantly bigger than the self-serve deals. And so we're seeing -- we've seen material progress and growth on the sales side. I think you're going to see us continue to invest and innovate on both sides of the business. We think the [ sales load ] channel is a very unique channel for us. It's basically servicing the long tail of our business, especially markets that we don't necessarily have a presence in. And so you'll see us, and we already are, investing even more aggressively in our self-serve business. So you're going to see us invest in both parts of the business. But I think what we're really pleased with today is just the uptick on the sales side where we're seeing material contribution and bigger and bigger deals, deals happening more quickly and quicker upsells from the sales organization, which we're very happy about.

**Brad Robert Reback**

*Stifel, Nicolaus & Company, Incorporated, Research Division*

And then maybe one quick follow-up. As you think about your future acquisition strategy with the recent capital raise, are there any real pressing needs? Or will it be very much a tactical type of execution going forward?

**Dev C. Ittycheria**

*President, CEO & Director*

Yes, we really consider the ability to raise capital last quarter as really opportunistic. We didn't have any kind of near-term kind of needs to use that -- deploy that capital for either M&A or any other kind of operational needs. We just saw an opportunity to raise a lot of cheap capital. It clearly allows us to be more aggressive should the opportunity arise. But right now we have no near-term pressing needs to use that capital.

**Operator**

[Operator Instructions] We'll hear now from Jack Andrews with Needham.

**Jon Philip Andrews**

*Needham & Company, LLC, Research Division*

Dev, on the last earnings call, you talked about -- you referenced some 20-plus conversations you were having with some C-level executives in terms of just the increasing strategic importance of MongoDB. I was wondering if you could kind of update us on those -- the amount of conversations you're having and just -- what is the -- where are those conversations leading today?

**Dev C. Ittycheria**

*President, CEO & Director*

I would say that those conversations are, frankly, increasing. We have changed our sales methodology where we are asking our salespeople, once they do sufficient kind of homework on an account, to go high in utilization as quickly possible for a number of reasons. One, to qualify where the real demand and

interest is in kind of potentially using MongoDB; two, to kind of educate those senior-level stakeholders on our differentiation and value proposition; and three, to basically increase the velocity of business. Even as you get a deal, if you have the air cover, it's much easier to go ask for the follow-on deal because the C-level stakeholders are now fully aware of the value we can add. So now we've changed our engagement model where we kind of institutionalized that, where we try and get high very early in the sales process. And that's starting to pay big dividends for us.

**Jon Philip Andrews**

*Needham & Company, LLC, Research Division*

And then as a follow-up, could you update us in terms of how you're thinking about the mainframe modernization opportunity, in particular? I mean, what's the sense of urgency from customers around mainframe-based applications?

**Dev C. Ittycheria**

*President, CEO & Director*

Yes, I mean, so it really varies. As I said, we do have some customers who are happily running the mainframes and want to run MongoDB because at some point in time, they do recognize that there's a certain half-life to their mainframe real estate. And so they want to potentially migrate their applications while running on the mainframe, but then have an easy glide path to a more modern compute environment, whether it's on-prem or in the cloud. That's point number one. Point number two, we do see many situations where the use cases or the changing nature of the needs of the business is requiring them to consider offloading workloads from the mainframe to a more modern kind of computing architecture. And that's where customers are very interested. We have lots of proof points where we have customers -- large banks, large tech companies, service companies and so forth -- who are moving workloads off the mainframe on to MongoDB. And so what we try and figure out is what is the problem or the pain that customers are having, whether it's a cost problem because the mix utilization on the mainframe is getting too high, whether it's a performance problem because they can't really address the needs of the users. And then we will then obviously work with them and help them think through all the available options. And so the mainframe offload use case is a very popular one in our sales force but there are many others as well. So it's really depending on what's going on in that particular account.

**Operator**

We'll hear next from Brent Bracelin with KeyBanc.

**Brent Alan Bracelin**

*KeyBanc Capital Markets Inc., Research Division*

Dev, maybe for you, I wanted to go back to the quarter. If I look at just the revenue growth, 61% growth is the highest we've seen here in 2 years. On a sequential basis, 19% growth is the highest we've seen also on record here in the last couple years. So my question is why now? Why are you seeing this acceleration in the business? Is it a confluence of internal factors that are driving it? Even if I look at the Mongo business ex-Atlas, it also accelerated. So walk us through why you think this is happening. How much of it is kind of company specific, things you're doing internally versus just the external factors and the market being kind of ready for a more modern database?

**Dev C. Ittycheria**

*President, CEO & Director*

Thank you. So we do feel good about our position. We do feel good that every quarter, we're getting more and more credible with customers in being really the default modern database for all their use cases. We do feel like we, as an organization, are executing better. We're getting -- the efficacy of our go-to-market efforts are just getting better. We're expanding to different regions. We also think that product road map and product execution has been incredibly strong. And so we feel very good about not just the core product, but obviously Atlas has grown really, really quickly. We've added new features, new capabilities. We've rolled out new products like Stitch and Mobile. So we feel like it's not one thing. I would also say, and Michael talked a little bit about this in his prepared remarks, there were some onetime events that

happened, I would say, in Q2 that we just didn't expect. So I wouldn't want you to extrapolate that this is the new normal, but we obviously feel very good about the state of the business and the trajectory of the business.

**Brent Alan Bracelin**

*KeyBanc Capital Markets Inc., Research Division*

Helpful. And then as a follow up for Michael maybe, if I look at the gross margin profile here, I guess, it's a little surprising that you're able to kind of hold the gross margins even with the strength that you're seeing in Atlas. So can you just walk us through, with that material mix shift to Atlas, how you are able to kind of sustain the gross margin profile here?

**Michael Lawrence Gordon**

*Chief Financial Officer*

Yes, sure. So as I mentioned earlier, we've made very good progress on Atlas gross margins relative to our expectations, and we're tracking well ahead of plan. In terms of gross margins, Atlas is still lower gross margin than the balance of the business, and so we still have plenty of levers to flip or turn and dials to adjust on the business. We mentioned that the first thing that we had done, which we'd said we'd do by the end of the year, is we've introduced some of the premium features in Enterprise Advanced, meaning, principally, the advanced security features into available in Atlas. We've not yet seen the benefit of that because we only just introduced that. But over time, that should be very accretive both from a revenue perspective as well as from a gross margin perspective. And there are some internal cost optimizations that are also available to us. So I think the short answer is we've had very strong execution relative to our kind of margin game plan for Atlas, but we've got more work we want to do on that front. But we're very pleased with the progress to date.

**Operator**

And from JMP Securities, we'll hear from Pat Walravens.

**Dev C. Ittycheria**

*President, CEO & Director*

I think we lost you, Pat.

[Technical Difficulty]

**Operator**

We'll move on to Brian White with Monness, Crespi.

**Brian John White**

*Monness, Crespi, Hardt & Co., Inc., Research Division*

Dev, I'm wondering how we should think about competition from the leading public cloud vendors. They both had conferences over the summer. Database was a major focus, a lot of new innovations. And I know Google was playing up the Cloud Firestore NoSQL database and they did an update recently. So maybe if you could just give us some color on how we should think about these big competitors.

**Dev C. Ittycheria**

*President, CEO & Director*

Yes, obviously, we have great relationships with the cloud providers themselves. They're the ones -- just to remind you, they're the ones who help fund the development of Atlas on to their particular cloud platform, and they did so because they saw the amount of MongoDB usage on their specific clouds. I think the second thing I would say is that one of the things that's always been a strength of MongoDB is the developer mind share that we've had and the popularity of the platform. And so I would say that doesn't happen overnight, and we've been shipping product for over 10 years now -- almost 10 years now. And so that's -- people are very familiar with the product. It's a -- the feature set is far superior to any other kind of modern database. I would say most of the database offerings from the cloud providers have 2

core limitations. One, they tend to be built on key value stores, which have a lot -- have far more limited functionality in terms of the expressiveness of the query language and other features that they just don't have. And the second thing is they really lock in a customer onto that specific cloud platform. And I think most customers today are much more sensitive about lock in than they have in the past especially given the state of their relationships with legacy database vendors. And so that's another consideration. So with MongoDB, you truly have the freedom to run MongoDB anywhere. It is truly one of the most -- in fact, it's the most popular modern database in the world today. And they are also seeing just the rapid innovations that we have to offer. And so we feel very good about our positioning.

**Brian John White**

*Monness, Crespi, Hardt & Co., Inc., Research Division*

And with support for ACID on 4.0, are there new use cases -- I know it's early, but -- that are coming in to the conversation that maybe you didn't see before?

**Dev C. Ittycheria**

*President, CEO & Director*

Most definitely. The level of conversations and the tone of conversations has changed radically since we announced support for ACID. And so I think it's taken off the -- the potential objection people had is that could they really use us for certain use cases where ACID-type data guarantees was required. And so it's really helped change the nature of the conversations, and we feel like it really expanded the aperture of use cases we can go after.

**Operator**

[Operator Instructions] We'll move next to Tyler Radke with Citi.

**Tyler Maverick Radke**

*Citigroup Inc, Research Division*

I just wanted to ask you about the -- among your existing customers, just what that looks -- I guess, in terms of Atlas, what that looks like in terms of adoption by existing customers that are using the self-managed version of MongoDB versus net new, how that's kind of split today?

**Dev C. Ittycheria**

*President, CEO & Director*

Well, Atlas is -- and just so we're all clear, Atlas is a different consumption model. So you have to have chosen MongoDB for your database for your application before you would consider using Atlas. What Atlas does is allows you to basically outsource all of the ongoing provisioning, management, backup, patching, updating of your infrastructure and really allow you to focus on, allow you to build better apps, address the needs of your business. And so we tend to see customers who are -- we tend to see all types of customers. Customers moving new workloads onto Atlas. We see customers migrating existing workloads onto Atlas. We see customers who, using MongoDB on-prem, spin out new instances on Atlas. We see development workloads in Atlas, we see test workloads in Atlas and we see production workloads in Atlas. And we see this globally. So Atlas is the most widely available database and service offering. Today, I believe it's available in like 57 different regions. No other database or service vendor can claim that because of the virtue that we can run across Amazon, Google and Microsoft's real estate. And so in terms of geo coverage, we are the most widely available offering. And so we tend to have customers almost across every industry, nearly every geography using Atlas in some way, shape or form.

**Tyler Maverick Radke**

*Citigroup Inc, Research Division*

Great. So it sounds like combination of existing as well as new. Just to follow up, on the competitive environment, I was just wondering if there's any update there on either from the legacy players, maybe a comment. And I might have missed it, just maybe what percent of your deals are involved in legacy displacements? But also, I'd be curious to hear your take on the competitive environment in the non-legacy world and kind of the NoSQL world, if you will.

**Dev C. Ittycheria**

*President, CEO & Director*

Yes, so we tend to see about 30% of our business, typically on average every quarter, be migrations of legacy workloads to MongoDB. And so we continue to see lots of existing workloads move to MongoDB. And obviously, we also see lots of new workloads come to MongoDB because it's so much easier to build application in MongoDB than a relational database. In terms of the new vendors, this question was asked before, we typically are not seeing some of the other NoSQL players anymore. I think the market has clearly consolidated around MongoDB, and we feel -- we see that in terms of people kind of standardizing on MongoDB, but minimum, as one of the core database platforms that they're planning to use in their enterprise. And so from a competitive point of view, I would say the legacy vendors are more competitive from a wallet share where they have an existing share of the wallet. But from a technology point of view, they're becoming less and less relevant.

**Operator**

And we'll go back to the Pat Walravens.

**Patrick D. Walravens**

*JMP Securities LLC, Research Division*

So I guess I have 2 questions, one is sort of following up on these competitive questions. If you look specifically at like -- Oracle seems to be trying to react. They have the self-healing functionality, and they're pushing the database in the cloud and the database in the cloud is cheaper. What's the customer's reaction to that? Is it going to work? And do you think the pace of migration from Oracle to Mongo accelerates?

**Dev C. Ittycheria**

*President, CEO & Director*

Well, I mean, I would tell you that since I've been with the company now, I'm coming close to my 4-year anniversary, I would say the antipathy towards the legacy vendors has never been higher. So we could see customers very, very motivated to move off their legacy platforms as a function of their relationships with those vendors. And so that's one big reason. The second big reason is that the architecture of these legacy databases is, frankly, old. The relational database, the first white paper came out 50 years ago and Oracle was founded 41 years ago. And so yes, they've obviously added lots of features and capabilities. But if you want a very modern platform that allows you to scale gracefully, that allows you to add features very, very quickly, that allows you to move data easily all around the world to serve your user base, you can't really do that easily on a legacy database. And so when you look at like the computer science programs that the leading colleges have, MongoDB is one of the most popular technologies that students develop on today. I had one customer state publicly at MongoDB World that once you go MongoDB, you can't go back, right? So MongoDB is a much more compelling platform to build applications on than relational databases. And so we see that happening as well. That's a big driver to why customers are going with MongoDB.

**Patrick D. Walravens**

*JMP Securities LLC, Research Division*

Great. And then my follow-up is more specific. So how important are graph databases? And how does that work for Mongo?

**Dev C. Ittycheria**

*President, CEO & Director*

Yes, so graph databases were designed for certain use cases around mapping kind of, say, social profiles and independent relationships between who your friends are or social interconnections. We've actually already embedded a bunch of graph functionality into MongoDB, and you'll see us continue to add more functionality over time. And so we don't believe it makes sense for a customer to choose a net new database for every net new use case. It just doesn't become scalable. It's hard to manage, hard to support. It's hard for your developers to learn all the different technologies. And so we see customers

increasingly standardize on MongoDB because we address the widest set of use cases available in the marketplace.

**Operator**

And at this time, I'd like to turn things back over to Dev Ittycheria for any closing remarks.

**Dev C. Ittycheria**

*President, CEO & Director*

Well, thank you, again, for joining us on this call. I'd like to reiterate, we feel really good about the business. We're very proud about what we accomplished in Q2, but we know that we have a huge opportunity in front of us and it's back to the grindstone for us. So thank you, again, for joining the call, and we wish you well. Take care.

**Operator**

And that does conclude today's conference. Thank you all for joining us.

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