

Datadog

What it does

Datadog is the leading cloud 'observability' platform that helps customers make sense of their technical environment through real-time infrastructure, application and log data. Cloud migration, distributed working and growing digitisation have accelerated the pace of change within the IT environment but have also contributed to overwhelming complexity and monitoring fatigue among personnel using legacy tools. Datadog's product offers a comprehensive monitoring functionality that also allows its customers to push more software and secure their environment at scale, enhancing efficiency and driving cost savings.

Why we own it

- The move to the cloud brings new complexities to monitoring IT infrastructure, Datadog provides a solution.
- With R&D spend at 40% of revenue, Datadog stays ahead of the competition by developing new tools to manage new challenges as they arise. Cadence of product development to date has been phenomenal.
- With the global cloud market expected to reach \$1 trillion, it is in the unique position of addressing an already enormous market with the possibility of use cases expanding in perpetuity.

How it could be worth many times more

- Datadog grows as a side effect of cloud migration, which positions it to benefit from comparable tailwinds to the likes of Amazon Web Services or Microsoft's Azure.
- We estimate that cloud migration of traditional applications is roughly 20% complete, leaving significant runway for continued growth in the core business.
- Beyond the core, Datadog has leveraged its visibility over enterprise data to expand into security and revenue-generating applications. These remain comparatively nascent but potentially materially expansive to the company's addressable market in the long run.

Where we might be wrong

- Migration to the cloud stalls over a protracted period.
- Users do not broaden adoption across the suite of products available.
- The company fails to keep pace with developments in Artificial Intelligence.

Short 10 questions

Can sales double in the next five years?

1

Yes- cloud migration continues, driving customer acquisition combined with wallet expansion of existing users.

Ten years and beyond?

2

Datadog's ubiquity makes it a dominant player in cybersecurity and accelerates the flywheel of product development.

Competitive advantage?

3

First mover. Easy implementation. Key contracts with the largest cloud providers.

Is the business culture different?

4

Founder-led company; built on pragmatism, low ego, and collaboration. Adaptability is attributed to bottom-up engineering, with developers empowered to work on solutions unguided.

Customers like you? Contribute to society?

5

Net retention rates of >130%. Monitoring produces cost savings by maximising efficiency and performance, bolstered by revenue-generating analytics.

Are returns worthwhile?

6

Mission-critical product servicing a global cloud market estimated to reach \$1 trillion.

Will they rise or fall?

7

Leverage in sales and marketing enables continued R&D deployment, reinforcing their competitive advantage.

How is capital allocated?

8

Healthy cash conversion enables the company to support R&D with M&A to expand the product suite.

Could it be worth 5x as much?

9

Revenue compounds at 40% p.a.

What doesn't the market understand?

10

Datadog is much more than an observability tool, it has the potential to become the central hub for IT operations.

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