S&P Global
Market Intelligence

MongoDB, Inc. NasdaqGM:MDB

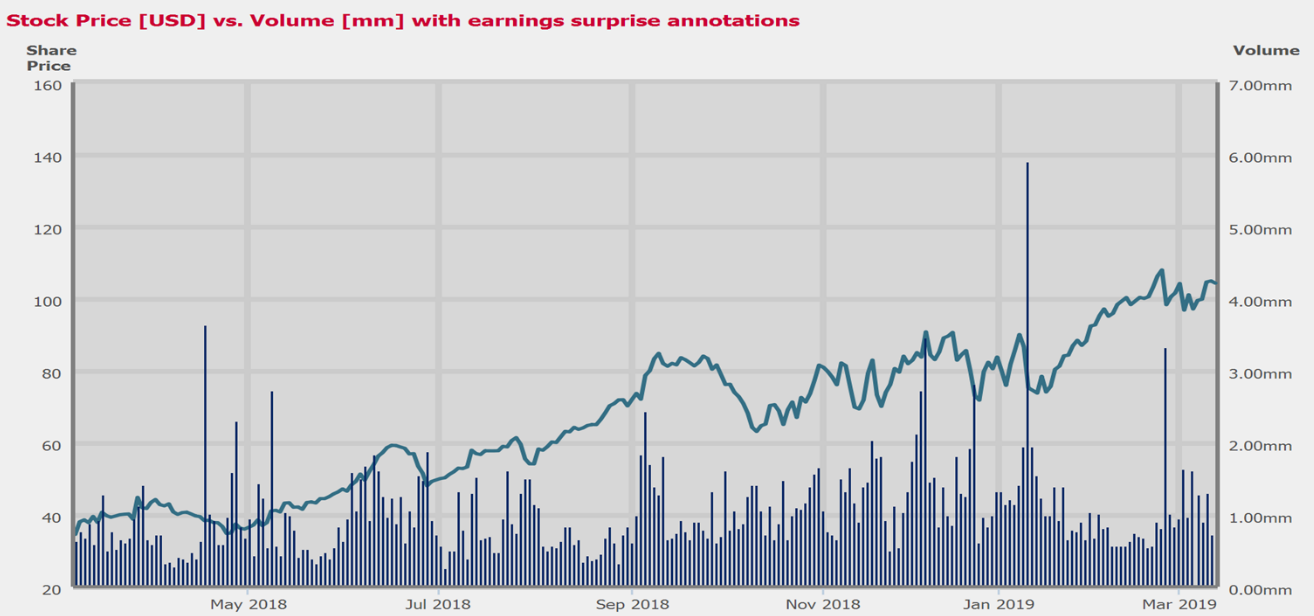
FQ4 2019 Earnings Call Transcripts

Wednesday, March 13, 2019 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	(0.38)	(0.17)	NM	(0.37)	(1.52)	(1.00)	
Revenue (mm)	74.02	85.48	▲15.48	74.96	244.68	267.02	

Currency: USD
Consensus as of Mar-12-2019 10:36 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	(0.43)	(0.43)	NM
FQ2 2019	(0.45)	(0.41)	NM
FQ3 2019	(0.40)	(0.30)	NM
FQ4 2019	(0.38)	(0.17)	NM

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Call Participants

EXECUTIVES

Dev C. Ittycheria
President, CEO & Director

Michael Lawrence Gordon
COO & CFO

ANALYSTS

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Barclays Bank PLC, Research Division

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ATTENDEES

Brian Denyeau
ICR, LLC

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the MongoDB Fourth Quarter Fiscal 2019 Earnings Call. Today's conference is being recorded.

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

Brian Denyeau
ICR, LLC

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

During this call, we may make statements related to our business 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 first quarter and full year fiscal 2020; our fiscal 2020 priorities; our market opportunity; database market dynamics; the anticipated benefits of our products to our customers; our ability to expand our leadership position; our growth strategy; the impact of the adoption of ASC 606 on the future financial results; and our ability to generate margin expansion.

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 construed 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 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, our quarterly reports on Form 10-Q filed on September 7 and December 6, 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. A replay of this call will also be available there for a limited time.

Additionally, non-GAAP financial measures will be discussed in the 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 the 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

Thank you, Brian, and thank you to all of you for joining us today to review our fourth quarter and full year results. The fourth quarter was a tremendous finish to what was a milestone year for MongoDB. Our results reflect broad-based performance in all geographies across industries and among small, midsized and enterprise customers through our sales-led and self-serve channels. I will be discussing our results for the fourth quarter and full year on an ASC 605 basis only. Later, Michael will review our results under ASC 606.

To quickly summarize our fourth quarter results, we generated revenue of $83.1 million, an 85% year-over-year increase, which was above the high end of our guidance. We grew subscription revenue 87%

year-over-year. Atlas revenue grew more than 400% year-over-year and now represents 34% of revenue, and we ended the quarter with over 13,400 customers, up approximately 130% compared to a year ago.

For the full year, we generated revenue of $253.8 million, a 64% year-over-year increase, which was above the high end of our guidance. We grew subscription revenue 67% year-over-year, and Atlas revenue grew more than 400% year-over-year and represented 24% of annual revenue.

While we constantly seek to get better at what we do, we are quite pleased with our performance last quarter and last year and are well positioned for fiscal 2020 and beyond. We have established MongoDB as the next-generation database platform of choice, and our goal is to maximize the massive market opportunity in front of us. We believe our wide appeal, the success of our customers and our financial performance continue to clearly highlight that MongoDB's document database offers the best way to work with data.

Documents correspond directly to objects in mainstream object-oriented programming languages, so developers can store and organize data according to the natural relationships among entities in the real world. This enables developers to focus on building applications the way it makes the most sense, not on working around the limitations of their database. Our document-based architecture addresses a broad range of popular data models, enabling a wide variety of use cases.

As a result, MongoDB is experiencing accelerating adoption with developers. The total number of MongoDB downloads from our website alone is now more than 60 million, with more than 20 million occurring the last 12 months, up from more than 12 million in fiscal 2018. It should be noted that there are between 20 million to 25 million developers in the world today.

Clearly, developers, customers and the broader market are now starting to understand what we in MongoDB have known for a long time, that documents, not tables, are the future of this market. Because of our enormous popularity, there are other solutions that now try to emulate MongoDB's capabilities. However, none of these imitation databases are built on a true document architecture. Because there are fundamental architectural differences between MongoDB and these other imitation databases, customers have to deal with severe feature and performance trade-offs in addition to the deep vendor lock-in with these imitation offerings. Using MongoDB dramatically increases developer productivity, enabling organizations to innovate more easily and deliver more value more quickly to their own customers.

What was particularly exciting about our results in the fourth quarter and fiscal 2019 was the breadth of customer adoption and the wide variety of use cases employed. The common theme we see across our customer base is that businesses today are incredibly motivated to find new ways to innovate, either to pursue new market opportunities or to respond to new competitive threats, and need a platform that lets them do so quickly and efficiently. Increasingly, the answer for customers in nearly every industry and geography is MongoDB.

I'd like to spend a few minutes highlighting just a small sample of the customer wins and interesting use cases in the quarter. Last quarter, we added another business unit of IHS Markit's Financial Services division. The Fixed Income Pricing business selected MongoDB Atlas to support migration from legacy services and provide a data platform with rich querying capabilities, multiregion distribution and end-to-end encryption.

WirelessCar, the world's leading innovator of connected vehicle services, is migrating core components of their IoT platform, which gives automotive companies real-time visibility into vehicle performance. MongoDB Atlas will help reduce the time it takes to bring new features to market from weeks to days and dramatically cut onboarding times for new customers.

LINE, one of the biggest messaging platforms in Asia, is in process of expanding its offerings to financial services. They chose MongoDB for the scalability of the platform and how easy they can develop and manage their applications.

BBVA, a global banking group, has 37 applications running on MongoDB, including a financial aggregator, customer data hub and analytics. With MongoDB, BBVA is able to easily offload applications from their mainframe, develop new capabilities more quickly and leverage valuable data such as data on customer buying behavior in real time.

ULTA Beauty, the largest beauty retailer in the U.S., chose MongoDB Atlas to support a new artificial intelligence application. Transics, a WABCO company, develops fleet management systems for truck, driver, trailer, cargo and subcontractor management. They are using MongoDB as a platform for their IoT data hub.

Breuninger, a German top retailer, migrated from a monolithic legacy system to MongoDB Atlas in order to support their omni-channel integration plans. Catapult Sports, which creates technology to help athletes and teams reach their true potential, is migrating their IoT marketing platform to MongoDB Atlas. Atlas Global Clusters are expected to improve overall application performance and increase customer satisfaction in each region.

Nationwide, the U.K. financial institution and the world's largest building society, built an open banking mobile app and a data speed layer that has improved data resiliency and increased speed to value for new applications on MongoDB and MongoDB Atlas. Mizuho International relies on MongoDB as an integral part of its core backbone to help scale large amounts of trade data and provide a secure platform for risk reporting. The flexibility, dynamic schema and extensive querying capabilities allow Mizuho to make greater use of their own data.

As you can see from these examples, the common theme is our customers are increasingly selecting and expanding their use of MongoDB to innovate more easily and bring new capabilities to market more quickly. Furthermore, many of these customer wins cited above demonstrate the tremendous market event for MongoDB Atlas. We achieved a significant milestone in the quarter as MongoDB Atlas is now at an annualized revenue run rate in excess of $100 million and growing rapidly. The growth demonstrates the wide popularity of MongoDB and the strong product market fit of Atlas.

Before we move on to our 2020 priorities, I want to provide an update on the licensing change we announced last October with respect to MongoDB Community Server, the free-to-download version of our database. It is very important for investors to understand that since we own all our IP, unlike other open-source companies, we have full control over how we license our software. As big believers in open source, we introduced the Server Side Public License, or SSPL, to address the risk facing companies wanting to make significant investments in open source in the modern cloud era. In the months since we launched SSPL, it has become clear that many others in the open source community share our concern.

However, there is not currently a consensus around how to address the issue of open source strip mining. In lack of this consensus, we recently decided to withdraw the SSPL from the OSI license approval process. We have decided to focus our efforts on working with other stakeholders in the open source and broader tech community to either refine the SSPL or develop an alternative license that addresses these issues.

To be very clear, current and future versions of MongoDB Community Server, including patch releases to prior versions, will continue to be offered under SSPL until there's a broadly accepted alternative license that is designed for the cloud era.

Our performance in fiscal 2019 has given us even more confidence about our ability to capitalize in the large market opportunity in front of us. As a result, in fiscal 2020, we plan to focus on extending our product leadership as a modern general-purpose database, expanding our different go-to-market channels, including adding sales capacity in our field and inside sales channels, along with growing our Self-serve business, and increasing the number of partners and deepening our relationships with our existing partners to further increase our reach and improve our sales efficiency.

In fact, in the fourth quarter, we deepened our partnership with IBM by expanding our technology and go-to-market agreement on the heels of a number of customer wins, including a large hospitality brand, a notable bank, a large government agency and a recognizable health care company. Clients are responding to the combination of IBM's product suite and MongoDB as a modern multicloud data architecture.

We are fortunate to have a highly scalable business model, so even as we invest more in the business, we expect to continue to generate operating margin expansion in 2020. To build a world-class software business, a company needs a large market, strong product-market fit and a highly effective distribution channel. While the first 2 elements are evident for MongoDB, we are also very proud to have built a formidable go-to-market organization that has yielded strong results.

To lead our sales organization for the next stage of growth, we were pleased to recently announce the promotion of Cedric Pech to the role of Chief Revenue Officer. Cedric previously led our EMEA sales team, which has delivered compelling results over the past 2 years. Prior to joining MongoDB, he was a CRO at Fuze, a cloud communications and collaboration company. Earlier in his career, Cedric worked with me at both BladeLogic and BMC. He is one of the best sales executives I know, and I believe he will do a terrific job scaling our sales team to drive sustained growth.

To summarize, the fourth quarter was a great finish to a terrific year. We entered fiscal 2020 in our strongest position yet. We are at the early stages of a once-in-a-generation shift in the database market. We are confident that if we continue to execute at a high level, MongoDB will be one of the clear winners.

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

Michael Lawrence Gordon
COO & CFO

Thanks, Dev. As mentioned, we're very pleased with our fourth quarter performance, which reflects strong, continued growth at significant scale. I'll 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 2020.

Before I jump into the numbers, I'd like to take a minute to explain the impact of the adoption of ASC 606 that we'll have on our financial results. We've implemented ASC 606 on a full retrospective basis, which means we have recast our prior results for fiscal 2019 and prior periods under the new revenue recognition standard. There are 2 primary ways ASC 606 impacts our financial results.

First, revenue recognition. Enterprise Advanced transactions will now have a portion of the contract value recognized up front, while the remainder will be recognized ratably over the contract term. As a reminder, most contracts are annual. However, for an illustrative 3-year contract under 606, we will now recognize the term license component for all 3 years up front. This will result in greater variability and reduced comparability in our quarterly revenue results. It's important to note that the adoption of 606 will not impact how Atlas revenue is recognized.

Second, sales commission capitalization. 606 broadens the scope of capitalized commissions. Now under 606, all incremental costs, including commissions and payroll taxes as a result of closing a deal are capitalized. Previously, only direct, deal-specific commissions were capitalized under 605. Additionally, the estimated amortization period is generally longer under 606 as compared to 605. This has the impact of modestly lowering our reported sales and marketing expense.

For fiscal 2019, the adoption of ASC 606 resulted in a $13.2 million increase in revenue or approximately 5%, a $6.6 million reduction in sales and marketing expense and a $19.9 million increase in both non-GAAP operating and net income loss.

There are additional dynamics that investors should keep in mind under 606. First, when we sign multiyear Enterprise Advanced deals, we will need to recognize the term license portion of the future year license revenue upon initial delivery regardless of whether they prepaid the entirety of that contract.

Second, as a result, our year-over-year growth at any given period may be more variable when the year-over-year -- when the year-ago compare had a greater amount of upfront revenue due to the timing of multiyear deal signings. To be clear, this would not be indicative of slowing business momentum but a function of revenue recognition accounting dynamics. One example of this will occur in Q3 of fiscal '20, which faces a very difficult compare under 606 as we sign several very large multiyear deals in Q3 of fiscal '19.

Third, revenue will more closely follow the pattern of historic bookings trends. Q3 has historically been our largest quarter for new bookings, and consequently, subsequent renewals, with Q1 historically the lowest. As a result of this, sometimes Q1 revenue under 606 will decrease in the prior Q4. This happened in Q1 of fiscal '18.

I'll turn to our fourth quarter results, which I'll first review on an ASC 606 basis. Total revenue for the quarter was $85.5 million, up 71% year-over-year. Subscription revenue was $80.6 million, up 73% year-over-year, and professional services revenue was $4.9 million, up 37% year-over-year.

This was the first quarter of results that included the acquisition of mLab. We were pleased that mLab performed modestly better than our expectations for the quarter. This is on top of very strong organic results, which drove the large majority of the outperformance relative to guidance and reflected accelerated organic revenue growth rates.

Our revenue performance was strong across the board and also benefits from stronger-than-expected Atlas consumption, including a number of customers who consumed well in excess of their contractual run rates. The strong growth in the quarter was driven by a healthy mix of new logos and upsell activity by Enterprise Advanced customers as well as the rapid adoption of Atlas.

Atlas represented 32% of revenue during the quarter, up from 10% in the fourth quarter last year and up from 21% last quarter.

During the fourth quarter, we grew our customer base by over 5,000 customers, bringing our total customer count to over 13,400 customers, which is up from over 5,700 in the year-ago period and over 8,300 at the end of last quarter. This reflects the broad appeal of MongoDB and the diversified customer base across industries and geographies.

Of our total customer count, over 1,750 are direct sales customers, which compares to over 1,700 at the end of the prior quarter and over 1,450 in the year-ago period. The growth in our total customer count is being driven in large part by Atlas, which had over 11,400 customers at the end of the quarter compared to over 6,200 at the end of the third quarter. This includes approximately 4,200 customers acquired from mLab.

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 EA customers adding incremental Atlas workloads.

We continue to see healthy expansion from existing customers. Our net ARR expansion rate in the fourth quarter remained above 120% for the 16th consecutive quarter. We ended the quarter with 557 customers with at least $100,000 in ARR and annualized MRR, which is up from 490 in the third quarter and 354 in the year-ago period. We also saw a significant increase in consumer spending more than $1 million annually, which increased from 22 last year to 39 this year. Driving expanded adoption and spend among existing customers is a key component of our growth strategy and has been a consistent area of success.

Moving down the P&L. I'll be discussing our ASC 606 results on a non-GAAP basis, unless otherwise noted. Gross profit in the fourth quarter was $61 million, representing a gross margin of 71% compared to 76% in the year-ago period. As expected, gross margin in the quarter was negatively impacted by mLab, which has a lower gross margin than Atlas. This impact will dissipate by the end of fiscal 2020 as we migrate mLab customers to Atlas.

Overall, we're very pleased with the continued gross margin improvement of organic Atlas during the fourth quarter. However, we continue to expect that we will see some modest reduction in overall gross margin as Atlas continues to be a bigger portion of our revenue.

Our operating loss was $9.7 million or negative 11% operating margin for the fourth quarter compared to a negative 29% margin in the year-ago period. The more than 1,800 basis points improvement in our operating margin reflects the significant operating leverage we drove in the business this year while investing in our continued growth. Net loss in the fourth quarter was $9.1 million or $0.17 per share based on 53.8 million weighted average shares outstanding.

I will now quickly review our results on a 605 basis. Please note that we will no longer be reporting our financial results under 605 beginning with the first quarter of fiscal 2020.

Total revenue in the quarter was $83.1 million, up 85% year-over-year. Subscription revenue was $78.3 million, up 87% year-over-year, and professional services revenue was $4.9 million, up 54% year-over-year. Again, we were pleased with the modest beat in mLab. But the organic results powered the quarter, resulting in an acceleration of our organic growth to the highest year-over-year rate in our publicly reported results.

Gross profit in the fourth quarter was $58.6 million, representing a gross margin of 71% compared to 73% in the year-ago period. Operating loss was $14.6 million or negative 18% operating margin for the fourth quarter compared to a negative 46% margin in the year-ago period. Net loss in the fourth quarter was $14 million or $0.26 per share based on 53.8 million weighted average shares outstanding.

Turning to the GAAP balance sheet and cash flow. We ended the quarter with $466.5 million in cash, cash equivalents, short-term investments and restricted cash. Operating cash flow in the fourth quarter was negative $9.5 million. After taking into account approximately $3.1 million in capital expenditures, free cash flow was negative $12.6 million in the quarter. Short-term deferred revenue on a 606 basis was $122.3 million, up 45% year-over-year, while total deferred revenue of $137.7 million was up 36% year-over-year.

Please note that the adoption of 606 had a material impact to our deferred revenue balance. This is a result of some Enterprise Advanced revenue that was previously deferred under 605 that is now recognized up front at the time of the subscription start date. We have provided recast balance sheets by quarter for fiscal 2019, which reflects changes to deferred revenue as well as modest changes to other assets and deferred commissions. We've also provided deferred revenue balances for the past 8 quarters on a 606 basis.

Also keep in mind that Atlas is a usage-based model and generates less deferred revenue than Enterprise Advanced. As a reminder, Atlas is often billed monthly in arrears versus the annual and advanced billing terms we see with our Enterprise Advanced customers.

Lastly, quarter-to-quarter comparisons of deferred revenue can also have some level of variability due to timing.

I'd now like to turn to our outlook for the first quarter and full year fiscal 2020, which as a reminder, is being provided on a 606 basis. For the first quarter, we expect revenue to be in the range of $82 million to $84 million. We expect non-GAAP loss from operations to be negative $14 million to negative $13 million and non-GAAP net loss per share to be in the range of negative $0.25 to negative $0.23 based on 54.5 million weighted average shares outstanding.

For the full fiscal year of 2020, we expect revenue to be in the range of $363 million to $371 million. This includes an updated revenue forecast from customers acquired from mLab of $20 million for fiscal '20, up from $18 million we indicated at the time of acquisition.

As mentioned earlier, year-over-year growth comparisons and quarter-to-quarter results will likely be more variable under 606 due in part to the timing of multiyear contract signings in prior periods. As you'll notice when you update your models for 606 results, we are facing notice -- notably larger compares in the second half of fiscal '20, particularly in the third quarter.

We expect non-GAAP loss from operations to be negative $59 million to negative $55 million, non-GAAP net loss per share to be in the range of negative $1.06 to negative $0.98 per share based on 55.2 million weighted average shares outstanding.

As Dev mentioned, we are investing additional resources into our product development and go-to-market efforts in 2020. Given the size of our market opportunity, the strength of our product market fit and the attractiveness of our unit economics, we believe these investments will generate strong returns for the company. We expect to again generate operating leverage in fiscal '20 even as we make these investments, which underscores the inherent scalability of our business model.

In closing, MongoDB finished fiscal 2019 with its strongest quarterly performance in years. We are executing at a high level and generating best-in-class growth. The database market is in the early stages of a transformational shift, and MongoDB is well positioned to be one of the primary beneficiaries of it. With that, we'd like to open up to questions. Operator?

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Raimo Lenschow with Barclays.

Preetam Gadey
Barclays Bank PLC, Research Division

This is Pree Gadey for Raimo Lenschow. My first question, can you talk about the product evolution for Atlas in terms of enterprise features, what you've achieved so far? And where do you see Atlas evolving to in fiscal '20?

Dev C. Ittycheria
President, CEO & Director

Yes. So thank you for the questions. So obviously, we're really pleased with the growth of Atlas. I think what it really speak to is the popularity of MongoDB and the strong product market fit of Atlas because customers really want to focus on differentiated work, being able to focus on innovating and building applications and not have to deal with the burden of operational and database management. In terms of the enterprise features, we've added a number of security features. And I think we've signaled since the IPO that we were in the process of moving a bunch of features in Enterprise Advanced to Atlas. And we've done that, including a lot of security features, things like auditing, access control, authorization, et cetera, including things like monitoring and auto-scaling and so forth. So all those features now are embedded in Atlas. And there's a variety of different service offerings depending on the SLAs and the features that customers want.

Preetam Gadey
Barclays Bank PLC, Research Division

Okay. And as my follow-up, a little bit more of a boring question. But on 606, what percentage of the total contract are you recognizing up front for the enterprise contracts? And does your guidance assume a similar percentage of multiyear contracts for FY '20 versus FY '19?

Michael Lawrence Gordon
COO & CFO

Yes, sure. So there'll certainly be some variability. We have not seen any major changes in terms of the mix, although certainly to the extent that, that mix varies, that will impact the results. It varies -- in terms of the question of how much of the upfront license, obviously, it affects the duration of the contract as well as on the product mix. But in general, it's roughly in the area of a quarter is the current estimate, although obviously, as things continue to move and change, we will update that accordingly. And as you can see, from a macro perspective, if you look at the full year, it has an effect of about 5% on overall revenue.

Operator

We'll take our next question from Sanjit Singh with Morgan Stanley.

Keith Weiss
Morgan Stanley, Research Division

Excellent. This is actually Keith Weiss sitting in for Sanjit. Two questions, one kind of looking backwards on Q4. That was a pretty amazing quarter, really strong acceleration. Anything in particular kind of turn on for you guys? Any kind of catalyst to that acceleration in your performance that you can point out to us on what happened in Q4? And then the second part of the question, kind of looking forward to FY '20, with Pech now sort of taking that Chief Revenue Officer and heading into the new fiscal year, any significant changes you guys are making in the sales structure or go-to-market strategy with sort of the new sales leadership into the new fiscal year?

Dev C. Ittycheria
President, CEO & Director

Yes, thanks, Keith. Glad to have a big dog on the call. I just wanted to respond to the 2 questions. So I would say our performance was really a function of the flywheel effect. I think you'll be seeing a number of advancements on the product. And so that's given customers a lot of confidence, especially around asset transactions and the fact that we are now -- it's clearly understood that we are truly a general-purpose database, and a wide variety of use cases that customers employ us for is clear evidence of that. I think the fact that we have notable marquee references across a wide variety of industries gives customers even more confidence. And I would say the efficacy of our go-to-market channel has just gotten better and better over time. Clearly, there's a little bit of seasonality in our business, and so the fourth quarter tends to be a big quarter in general, but we were quite pleased with the performance that we saw. And I still believe that there's lots of things that we can get better at over time. And in terms of Cedric's appointment, I was quite thoughtful about looking at a successor for our last CRO, and I did talk to a number of people outside the organization. But as I looked at how quickly our business was changing and the complexity of our business, it made much more sense to promote someone from within. Cedric is also someone I've known for a long time. He did a fantastic job in really driving the European business. And since his appointment, he's really won over the rest of the sales force. I would say that there's going to be no major changes to the sales force. We have a really strong bench in North America and Asia and the rest of the world. I think what Cedric is really going to focus on is just taking our sales process and our ability to scale the sales organization to the next level to drive sustained growth. So you're not really going to see any wild changes in terms of how we go to market.

Keith Weiss
Morgan Stanley, Research Division

More just about scaling the current organization?

Dev C. Ittycheria
President, CEO & Director

Exactly.

Operator

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

Heather Anne Bellini
Goldman Sachs Group Inc., Research Division

I was just wondering if you could share with us. There's been a lot of debate in the market about mLab and customers potentially leaving. And I was just wondering if you could help set the record straight and just kind of walk us through whether or not you do expect some customer migration. I mean, there's been different versions of what's going on in the market. I was just wondering since we're on this call, if maybe you could just kind of level the playing field for everybody, just kind of tell us what you're expecting from that acquisition. And if you did have 1 or 2 customers leave, what would be the driving force in that? And kind of any other feedback you've heard from their installed base?

Dev C. Ittycheria
President, CEO & Director

Thanks, Heather. The recently acquired mLab was really -- they were the pioneers in the MongoDB-as-a-service offering and they did that way ahead of us. And the other thing that they did a really good job of is build their entire business on a self-serve basis. They didn't have one salesperson. So those things were really big reasons why we acquired that business, and the talents that we've acquired from Will Shulman on down has been very impressive and really pleased to have that team as part of MongoDB. When we did our diligence, there's clearly some understanding that there were some customers who may be moving in different directions. Candidly, some of those customers were working on really old releases of MongoDB. They had not upgraded to more recent versions of MongoDB. And so we factored in some of that attrition into our guidance and estimates. And so we don't see any material impact to any of the potential changes that you may have heard. And we are now starting to build relationships with many of these customers. Obviously, some of them are very small customers. Some of them are larger customers. And it's going to take some time for us to get them to understand the benefits of upgrading to the latest releases of MongoDB. And we shall see about how those relationships involved. But we have taken a very conservative posture, and there's no impact on our guidance.

Michael Lawrence Gordon
COO & CFO

The only other thing I would -- the only thing I would add just so people understand is we just shared the customer count for mLab, which is approximately 4,200 customers. And when you look at the revenue that, that's driving, the math of that works out to be around $5,000 a year. So these are typically not large customers. Yes, there are a couple of outlier customers that are larger and have brand names. But the vast, vast majority of the customer base is of a much smaller level. And clearly, we've been pleased. There was a modest beat in Q4. We upped the fiscal '20 guidance just on this call from the $18 million to the $20 million. So I think it's going sort of well and better than expected. And so that's all, I think, very healthy.

Heather Anne Bellini
Goldman Sachs Group Inc., Research Division

Okay, great. And my one [indiscernible] follow-up would be, is there any way you could share with us your land -- kind of the pace of your lands and how the initial lands might be increasing, especially with some of the new enhancements to the product over the last year?

Dev C. Ittycheria
President, CEO & Director

Yes, I would say our lands are definitely increasing. I think it's for a number of factors. One I would say is we clearly made some pretty significant product enhancements over the last few years. Has given customers more confidence to use us for mission-critical workloads. I would say, two, I think I mentioned this on prior calls, we've become clearly viewed as a very strategic partner to many customers. So the level at which we engage with in these organizations tends to be at a -- quite a higher level, and so that allows us to go after bigger deals. And then I would just say in general, the efficacy of our go-to-market process where we try and do a lot of discovery early on in the engagement with the customer but then use that information to go high in the organization to present the potential benefits we could offer and a clear understanding of the pain that they're going through, whether it's trying to consider building a new application or they're struggling with the performance or the brittleness of an existing legacy application. All those things are impacting our ability to get bigger lands. So that is definitely happening. But this is still a land-and-expand business because this is not a winner-take-all market. We still have a very small percentage of wallet share of some of the largest customers that we have, and we still have to go and earn more business from them. But we feel very, very confident about our ability to do so given our track record to date.

Operator

We'll take our next question from Brad Reback with Stifel.

Brad Robert Reback
Stifel, Nicolaus & Company, Incorporated, Research Division

Dev, with respect to the DocumentDB announcement, have you seen that have any impact on your ability to build top-of-funnel pipeline?

Dev C. Ittycheria
President, CEO & Director

We've seen no impact, Brad. In fact, I think it's, frankly, raised MongoDB's awareness. I have to remind people that 98% of the market today is built on relational databases, a technology that's over 40 years old. So when you have people now trying to emulate MongoDB, what it really signals is, one, that we've become incredibly popular. And the reason we've become incredibly popular is that the document approach is now being viewed as the best way to work with data. And so now if customers are starting to say, "Well, instead of using relational databases, I want to use document databases," and they want to do a bake-off, we feel very confident about our ability to go head-to-head with any other alternative out there. And so we think that actually this has been great for awareness and great for customer education, and we see no impact on a negative basis whatsoever.

Brad Robert Reback
Stifel, Nicolaus & Company, Incorporated, Research Division

Great. And just one quick follow-up, and I know it's sort of asked in aggregate, but the Atlas business accelerated 100 basis points sequentially to 400% growth from 300% last quarter. Is that a function of some year-end true-ups with customer contracts or just a function of that level of acceleration in the installed base?

Michael Lawrence Gordon
COO & CFO

Yes. So Atlas benefited from a number of dynamics, and we're very, very pleased with the quarter. Obviously, we had the addition of mLab for the first time in the quarter, but even if you strip that out, it was a very strong and accelerating quarter from an overall Atlas performance. It's strong addition of new customers. It's consumption of existing customers. The other thing that we did try and call out in the prepared remarks though was that we did benefit from a number of customers in Q4 who were consuming Atlas at rates in excess of their contracted amounts. And so we always keep an eye to that in terms of like what is the relative run rate and how does that compare relative to the contracted rate. And so we don't have enough history with Atlas yet to know as to how much of that is sort of pulling forward or actually establishing a new run rate level. And so we just -- we want to keep an eye on that and want to make sure that sort of expectations don't go out of control as you all extrapolate things because I do think that, that's a dynamic that's at play. But it was really very, very strong across the board.

Operator

[Operator Instructions] We'll take our next question from Brent Bracelin with KeyBanc Capital Markets.

Brent Alan Bracelin
KeyBanc Capital Markets Inc., Research Division

I have one for Dev and a follow-up for Michael. Dev, I wanted to drill down on Atlas. It's kind of hard not to discuss just given the momentum of the business here. Few businesses we see at $100 million run rate growing this fast. And even if I back out mLab's, it looks like growth accelerated again. You talked a little bit about kind of consumption, but I was wondering if you could just drill down a little bit more relative to why this business is accelerating now and at this pace. Is there something that happened in the quarter? Are you seeing higher attach rates of the add-on security services? Any sort of additional color on Atlas? And I know you talked a little bit about the customer spend over $1 million going into 39. Are there any Atlas customers now spending $1 million plus on that category? So any color on what drove the momentum of Atlas would be helpful.

Dev C. Ittycheria
President, CEO & Director

Yes, I would say the fundamentals -- thanks for the question. I would say the fundamentals are the following. One, obviously, MongoDB has become incredibly popular. And two, the product market fit of Atlas has been incredibly strong. I mean, we've seen high growth rate since we launched the product about 2.5 years ago. So it's just exceeded our expectations. I would say what's also now kicked in is 2 things. One, our sales organization, it took some time for our sales organization to know how to sell a cloud service. And what you've seen by the results is that the sales organization's acumen around doing that has become better and better. And the other thing is the introduction of the enterprise features. The enterprise features have allowed 2 things to happen. One, allowed us to get bigger deals and also has given comfort to a certain type of customer who's very, very concerned about, say, things like security and data security in the cloud. In fact, we had a very large notable financial services institution who basically contracted quite a large deal with Atlas. And they tend to be pretty conservative. They're moving very slowly into the cloud. And this was a consumer-facing application. So it had very, very sensitive consumer data. And they spent an enormous amount doing a lot of assessment and -- of our technical architecture, and they got convinced about the strength of the product and the best-in-class security features. And that resulted in a large transaction. So that's just one anecdote, but there's lots of anecdotes like that where large, sophisticated customers who now want to move workloads to the cloud are moving towards Atlas. And the other big benefit for customers is that there's no lock-in to any particular cloud provider. So while they may choose one cloud provider today, they recognize that those relationships may evolve over time. And they like the flexibility of having to -- being able to move from one cloud to another cloud, and so that gives -- and frankly, moving that application back in-house without having to rewrite one line of code. So that gives customers enormous amount of comfort and optionality in terms of what they can do in the future. So all those factors are driving, I think, the acceleration of MongoDB Atlas.

Brent Alan Bracelin
KeyBanc Capital Markets Inc., Research Division

Very helpful color there. Encouraging to hear some larger opportunities pop into Atlas as well, too. I guess for Michael as a follow-up. Gross margins kind of looked like it did downtick. I know this is the first quarter with mLabs. Is that the big contributor there? And how should we think about kind of the gross margin here in the low 70s? Is this kind of the sustainable rate? Or do we still have a little bit of a mix shift we need to think about relative to that gross margin profile going into '20 -- fiscal 2020?

Michael Lawrence Gordon
COO & CFO

Yes. Thanks, Brent. Yes, there will definitely continue to still be mix shift. The higher percentage that's driven by Atlas is acting as a short-term drag on the overall gross margin. mLab, though, to your point, is meaningfully lower gross margin than Atlas. And so that's a particular kind of incremental drag that by the end of the year should dissipate. But I would not say that this is -- this is not the bottom. We'll continue to see -- as Atlas -- assuming it continues to grow faster, we will see some short-term gross margin compression. But we continue to see increases in organic Atlas ex mLab gross margins. And we've been very pleased with the performance there, and we'll continue to work towards driving those higher over the next several quarters.

Operator

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

Richard Hugh Davis
Canaccord Genuity Limited, Research Division

So I think you guys recently partnered with Datadog. I think it was on Atlas. But just could you talk briefly about that relationship? But just more broadly, could you provide some like color as to kind of whether obvious places where future technology partnerships make sense? Because obviously, you don't need to build every single item out there.

Dev C. Ittycheria
President, CEO & Director

Yes, so thanks, Richard. Just in full disclosure, I am actually on the board of Datadog, and I've been there for quite some time. But frankly, this announcement we just made was really a function of organic interest by our customers. Obviously, Datadog has done incredibly well as a private company, and their monitoring tool has become very popular. And so being able to get visibility into MongoDB database statistics because the database is probably deemed most important layer and the application is critically important for customers, and so providing that integration made a lot of sense for customers. And so in terms of other partnerships or potential integrations is -- integration to other complementary management tools that may help customers, for example, we integrate with Kubernetes. That has become the container of choice for lots of customers to orchestrate and virtualize their application environments. We built that integration so customers have a Kubernetes operator to basically invoke MongoDB and all the functionality within MongoDB. So there's a bunch of other types of integrations that we've done. And so we feel -- basically, we work backwards from what are customers are looking for, how can we help customers better manage the infrastructure or how can we do better on their behalf and make it easy for them to build new applications, and that drives our integration priorities.

Operator

We'll take our next question from Ittai Kidron with Oppenheimer.

Ittai Kidron
Oppenheimer & Co. Inc., Research Division

It's Ittai. A couple of questions from me. First, on the Services revenue and another one on [mix], [indiscernible]. It was such a great quarter but growing only a miserable 37%. Help me understand the disconnect between the add-on subscription? Is it just because Atlas is a little bit more self-service than the rest of the business? How do I think about the correlation of that going forward to subscription revenue?

Michael Lawrence Gordon
COO & CFO

Thanks, Ittai. I think the most simple explanation is the Subscription revenue is recurring revenue whereas the Services revenue is typically onetime. And so you're really sort of starting all over again. And so when you think about the amount of services that you're delivering in the aggregate, it's actually a pretty healthy growth rate given the fact that you're usually starting over. That's probably the biggest factor. Qualitatively, we do also see a little bit lower Services attach rate on Atlas, but the principal driver really is around how much of this is recurring revenue versus onetime revenue.

Ittai Kidron
Oppenheimer & Co. Inc., Research Division

Very good. And as a follow-up, Dev, I just want to make sure I understand your IP comment about SSPL, your withdrawal from the OSI approval process. Can you explain, are there any implications for this outside of just a headline that you, I guess, you cannot call yourself right now open source officially? What's the implication of this?

Dev C. Ittycheria
President, CEO & Director

I would say the implication is the following. We own all our IP. So this is important. So at -- like any other software who owns their own -- all IP, we can control how we license our software. We're also big believers in open source. And so it's clear that the concerns we raised, and we tried to codify those concerns in our new license called SSPL, there's been a lot of receptivity to that. But it's clear that the industry needs more time to coalesce around what the right answer is long term. So rather than trying to force people to use SSPL as the answer, we said let's rather be a good partner to the rest of the community. We want to work with the community and come up with an answer that makes sense for everyone. And so long story short, our software is still licensed under SSPL, not only current and future versions, but also any patch releases to prior versions will be licensed under SSPL. So that's an important point. And we believe we're still open source. Whatever name you may want to apply to it, source available, free to use, we still conform to the 4 software freedoms that the open source principles point out: the freedom to run for any purpose, the freedom to study, change and have access to the source code, the freedom to redistribute copies and the freedom to distribute copies of modified versions. And all those freedoms still apply. So from that point of view, we are still an open source company.

Operator

We'll take our next question from Rishi Jaluria with D.A. Davidson.

Hannah Rudoff
D.A. Davidson & Co., Research Division

This is Hannah on for Rishi. First question, I was just wondering on functionality, have you gotten any feedback from customers or if on your end, there's any sort of functionalities you'd still like to build out on the core Enterprise Advanced product?

Dev C. Ittycheria
President, CEO & Director

Oh, yes. So we have -- I mean, obviously, we have a very strong and robust road map. We're investing a lot in R&D. And so for example, we are introducing asset transactions for -- asset for sharded clusters. So that adds another level of asset capability. We have field-level encryption coming out. We have something called retryable writes that adds more resiliency to your application so you don't have to worry about if a write fails, you don't have to worry about building in logic to deal with that. That's going to be built to the database. So there's a whole bunch of features that are coming out in our 2 release later this summer, and we're very excited about that release. Obviously, we continue to innovate on the Atlas front. We also have products like Stitch that enable developers to more quickly build applications. So you're seeing us continue to expand the aperture of what we do to help customers use MongoDB for more and more use cases. And I won't comment on this now, but I think you'll hear some really interesting announcements on something that we're going to be expanding into that we are really, really excited by. And I'll save that for another time.

Hannah Rudoff
D.A. Davidson & Co., Research Division

Okay. That's really helpful. And then second question, I was just wondering if you could expand a little on your deepened partnership with IBM and if the go-to-market strategy changed at all and how the partnership differs from what it was in previous quarters.

Dev C. Ittycheria
President, CEO & Director

Sure. So one of the reasons we struck an agreement with IBM is while we're growing really quickly and we're building out our sales force, relative to the market opportunity in front of us, we still have a fairly small sales organization. So one of the things that we are trying to solve for is reach because we see this once-in-a-generation shift happening to the database market. And the things that we worry about are deals that are happening that we are not even privy to. And so the thing that IBM does for us is really expand our reach, especially in markets that we don't have presence in or accounts that we don't have presence in. And the other way they help us is that because of the deep history and knowledge of key IBM accounts, they can also accelerate deals and make deals bigger more quickly than, say, we could do on our own. So both those factors has really allowed us to have a really win-win relationship. As I noted in my prepared remarks, we've closed a number of deals. Momentum is very strong. So we further deepened our relationship, and we feel very excited about what that relationship can deliver for us in fiscal 2020 and beyond.

Operator

We'll take Tyler Radke with Citi.

Tyler Maverick Radke
Citigroup Inc, Research Division

I was wondering if you could talk about the impact of the licensing changes. Have you seen that? Obviously, the companies that were using your software and reselling it like ScaleGrid, Compose, ObjectRocket, have you seen a positive impact from those customers actually moving over to Mongo or any other companies you're aware of where customers have transitioned because of the licensing change?

Dev C. Ittycheria
President, CEO & Director

So I would say that we've had some fruitful conversations and expanded some relationships with certain cloud providers who did not have a commercial relationship with us, and we're engaged with some of the others and hope to do so in the next few quarters. I would say that, in general, the receptivity of SSPL has been very positive. And I would also say that if you're a customer of MongoDB, SSPL doesn't really matter because you end up having a commercial relationship with us. So this is really for the people who are using our free-to-use download version of our software. And so as you see from results, we feel really good about the business today and how to position for the future.

Tyler Maverick Radke
Citigroup Inc, Research Division

Great. And then a follow-up. Just as you look at next year ahead, how big do you think Atlas could ultimately be as a percent of revenue? And sorry if I missed it, but are you making any changes just from a sales incentive plan around Atlas? I know you were comping on the same on dollars previously, but given that Atlas is typically 2x the ASP of Enterprise Advanced, just curious if you're making any changes there.

Dev C. Ittycheria
President, CEO & Director

Again, I want to remind people that one of our philosophies is to help customers run their workloads anywhere. So you literally could run MongoDB on your laptop if you're developing application. You could run it in on-premise and use Enterprise Advanced, and you can run in the cloud using Atlas. And so we are very committed to enabling customers to run those -- their workloads wherever they want. And obviously, you can choose your cloud provider, depending on where you want to run your workload in the cloud. And so that will not change. And so we have not given incremental incentives for our salespeople to sell Atlas over Enterprise Advanced. I think what we're seeing is that obviously the megatrend is people are moving more and more workloads to the cloud, and clearly, our customers are following that trend. And they like the fact that MongoDB Atlas is the most widely available global cloud database in the world. We're -- it's available in over 60 regions as a virtue of being able to run on AWS, Azure and GCP. And so the fact that customers not only have the choice of cloud providers but they can really choose to run their workloads almost anywhere in the world, that mix, along with the power and the benefits of MongoDB's document model and the query language. And so given all those benefits is the reason why Atlas has become so popular.

Operator

And ladies and gentlemen, this will conclude today's question-and-answer session. At this time, I'd like to turn the conference back to Dev Ittycheria for any additional or closing remarks.

Dev C. Ittycheria
President, CEO & Director

I want to thank everyone for joining us on our fourth quarter call. We really appreciate all the support, and we thank you, and we look forward to speaking with you again. Take care. Bye-bye.

Operator
Ladies and gentlemen, this does conclude today's conference. We appreciate your participation.