

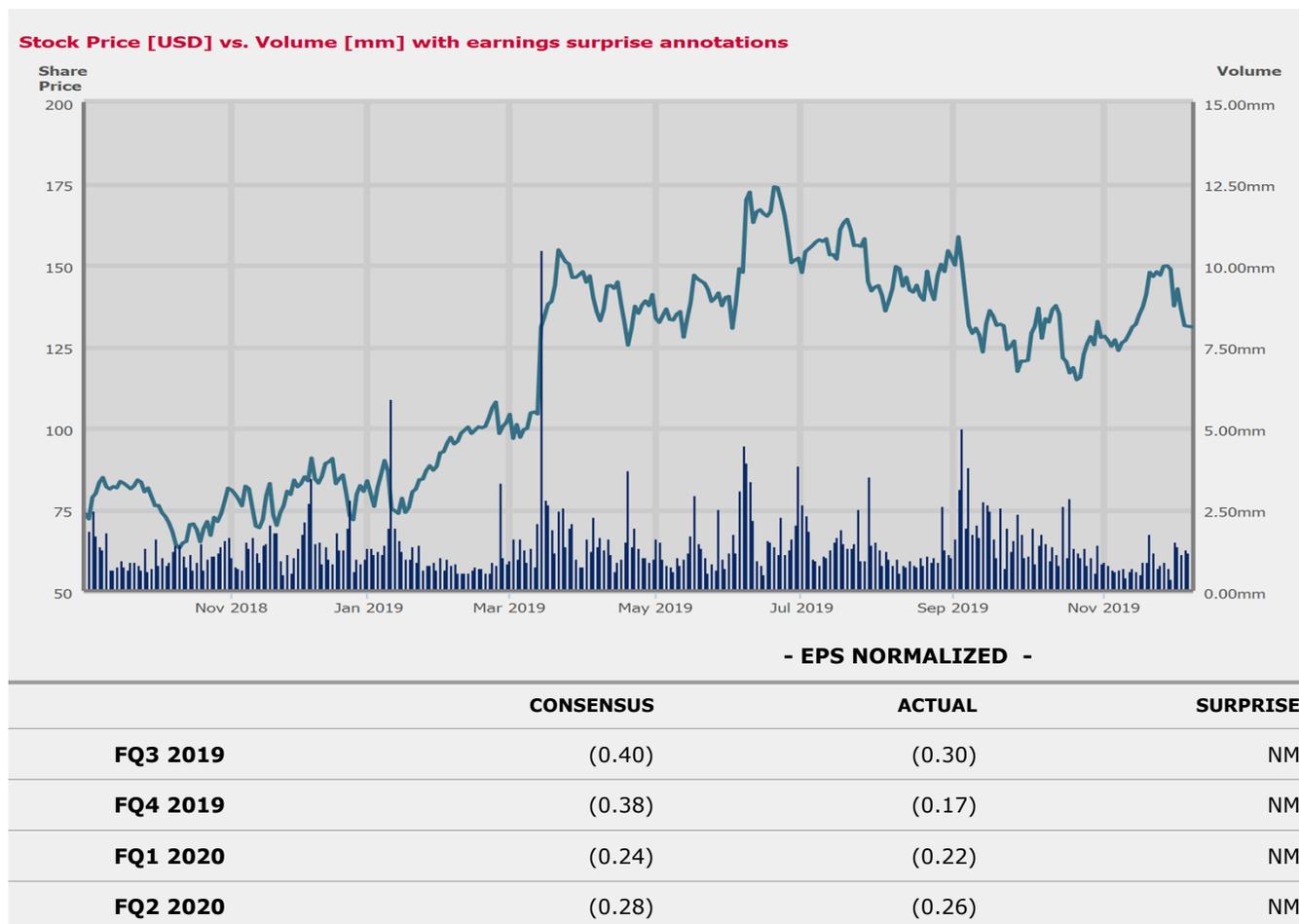
# MongoDB, Inc. NasdaqGM:MDB

## FQ3 2020 Earnings Call Transcripts

**Monday, December 09, 2019 10:00 PM GMT**  
S&P Global Market Intelligence Estimates

	-FQ2 2020-	-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	CONSENSUS	CONSENSUS	CONSENSUS
<b>EPS Normalized</b>	(0.28)	(0.28)	(1.07)	(0.76)
<b>Revenue (mm)</b>	91.70	97.47	394.22	510.90

Currency: USD  
Consensus as of Dec-03-2019 11:12 PM GMT



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# Call Participants

## EXECUTIVES

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

**Michael Lawrence Gordon**  
*COO & CFO*

## ANALYSTS

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

**Brent Alan Bracelin**  
*Piper Jaffray Companies, Research  
Division*

**Daniel Peter Church**  
*Goldman Sachs Group Inc.,  
Research Division*

**Jon Philip Andrews**  
*Needham & Company, LLC,  
Research Division*

**Patrick D. Walravens**  
*JMP Securities LLC, Research  
Division*

**Raimo Lenschow**  
*Barclays Bank PLC, Research  
Division*

**Rishi Nitya Jaluria**  
*D.A. Davidson & Co., Research  
Division*

**Sanjit Kumar Singh**  
*Morgan Stanley, Research Division*

**Tyler Maverick Radke**  
*Citigroup Inc, Research Division*

**Vinod Krish Srinivasaraghavan**  
*Oppenheimer & Co. Inc., Research  
Division*

## ATTENDEES

**Brian Denyeau**  
*ICR, LLC*

# Presentation

## Operator

Good afternoon, and welcome to the MongoDB Third Quarter Fiscal 2020 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Brian Denyeau of ICR. Please go ahead.

## Brian Denyeau

*ICR, LLC*

Thank you, Andrea. Good afternoon, and thank you for joining us today to review MongoDB's Third Quarter Fiscal 2020 Financial Results, which we announced in our press release issued after the close of the market today. Joining the call today are Dev Ittycheria, President and CEO of MongoDB; and Michael Gordon, MongoDB's COO and CFO.

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 fourth quarter and full year fiscal 2020; our market opportunity and our ability to capture a meaningful share of the global database software market; the opportunity created by and scalability of our go-to-market and growth strategies; the potential advantages, timing and likelihood of success of our new products; product enhancements and planned integrations, including as a result of our recent acquisition of Realm; the anticipated impact of Atlas sales expansion on our gross margins and other financial results and our anticipated investments in the business and their impact on future cash flows.

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 material risks and other important factors that could affect our actual results, please refer to those in our quarterly report on Form 10-Q filed with the SEC on September 5, 2019, and our other periodic filings with the SEC. These documents are available on the Investor Relations section of our website at [www.mongodb.com](http://www.mongodb.com). A replay of this call also will be available there for a limited time.

Additionally, non-GAAP financial measures will be discussed on 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.

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

## Dev C. Ittycheria

*President, CEO & Director*

Thanks, Brian, and thanks to everyone for joining us today to review our third quarter results. MongoDB continued to deliver terrific financial and operational results that further strengthen our position as the most popular modern data platform in the world. Our performance is driven by the unique capabilities of our technology and our go-to-market strategy that enables customers of all sizes to consume MongoDB how they see fit. We are in the early stages of a once-in-a-generation shift in database technology and we remain confident in our ability to capture a meaningful share of the \$64 billion global database software market.

Looking quickly at our third quarter financial results, we generated revenue of \$109.4 million, a 52% year-over-year increase and above the high end of our guidance. We grew subscription revenue 56% year-over-year. Atlas revenue grew more than 185% year-over-year and now represents 40% of revenue.

And we had another strong quarter of customer growth, ending the quarter with over 15,900 customers. This was another outstanding quarter for Atlas, which is now \$175 million revenue run rate business, just over 3 years from launch, but that's only the tip of the iceberg. Atlas is driving change across our entire business as we increasingly become a cloud-first company. I would like to showcase 3 ways in which Atlas is making us a better company. As our business shifts towards the cloud, we are able to increase our pace of innovation with new products, features and capabilities. Cloud services give us better insight into how customers use our products, and cloud services enable us to expand the different ways we go to market, increasing our ability to pursue a larger variety of customers around the world. All 3 together create a flywheel effect for our business.

First, since we deliver MongoDB as a cloud service through Atlas, we can deploy new features continuously rather than on an annual release cadence of an on-premise product. Furthermore, since new products are initially built for the cloud, our product teams can work quickly and independently to introduce new products and features, increasing the pace of innovation and providing more value to our customers more quickly. A great example of our continuous innovation is the recent introduction of auto scaling on Atlas, which we announced in September. This feature brings automated capacity management to Atlas. When enabled, Atlas will now attract key resource utilization metrics in real time and autonomously adjust instant sizes, up or down, as needed by using predictive modeling and proven management practices developed from matching tens of thousands of MongoDB deployments. With this feature, Atlas now efficiently and elastically scales the customers' deployment to match their business needs without the need for manual intensive monitoring, analysis and intervention. Early customer feedback provides a great validation for this feature, and in the future, it will influence how we introduce this capability for private clouds.

Second, with Atlas, we also get granular visibility to future adoption and user behavior. This continuous and data-driven feedback loop allows us to understand what features customers find most valuable, where the product they may get stuck or where they're not taking advantage of all the capabilities available. This enables us to iterate more often and more intelligently, ensuring that our product teams are focused on the most important opportunities. As a result, we can identify in real time ways we can help customers optimize their MongoDB deployments with more timely and relevant assistance. For example, we realized that a premier global financial institution was running an internal HR application without mission-critical scalability and security features, which negatively impacted the application performance and created significant risk. By proactively identifying these issues and sharing best practices, we developed a deep and trusted relationship with this large customer. As another example, through database usage metrics, such as increased IO throughput or turning on backup, we can infer when an application is likely to go into production. These types of insights allow us to scalably engage with our customers at key moments when they are likely to increase the complexity and criticality of their MongoDB deployments.

Moreover, when -- we learn a great deal from how beta customers interact with our new cloud products, including Atlas Data Lake and, Full-Text Search. And we expect the same benefits to introduce future products, such as the public beta of the revamped Realm product. Our confidence in the successful GA rollout of these new products will only increase after learnings from beta customers. We regularly incorporate these learnings into our enterprise advanced release, improving the value of our on-premises product as well. Consequently, we're looking to further invest in technology and data science to harness these types of signals to build even stronger relationships and find more opportunities to win more business. Ultimately, this positive feedback cycle gives us greater confidence in the returns on the R&D investments and the durability of; our customer relationships.

Finally, Atlas is broadening our reach into the global database market. MongoDB is not only one of the most popular databases but Atlas also enables customers anywhere in the world to easily use MongoDB through our free tier and self-service offerings, whether they're start-ups or development teams or large organizations. Since Atlas is available in 1 of the 3 largest cloud providers outside of Mainland China, AWS, Azure and GCP, it is the most widely available managed cloud database service in the world. By having relationships with all 3 cloud providers, we benefit from access to their customers and geographic reach, and we are seeing positive results with all 3.

The third quarter was the first full quarter of our expanded partnership with GCP, and we are encouraged by the number of deals closed and the level of pipeline activity. As the latest example of our successful partners strategy, we announced a new partnership with Alibaba Cloud. Together, we are providing the first authorized MongoDB as a service in Mainland China. Partnering with the largest tech company in China extends our reach into 1 of the largest markets in software and validates the value of our IT and the strength of the SSPL licensing model. Thanks to these types of partnerships, we continue to propel MongoDB as a leading data platform around the world.

I'd like to spend a few minutes reviewing some customer wins and interesting use cases from the third quarter. We continue to see an increasing wide array of customers choosing MongoDB to run mission-critical applications. Axiata, one of the leading telecom groups in Asia, selected MongoDB Atlas, an enterprise advance, to power Axiata's digital key fintech application. MongoDB was chosen for its flexibility and how cost-effective it was compared to the company's legacy Oracle database. MongoDB provides the high performance, availability and scalability that the application needs to bring cashless convenience to the fingertips of both consumers and merchants throughout Malaysia. The Washington Post has chosen MongoDB to provide mission-critical support for its primary digital content management platform, Arc Publishing. MongoDB Enterprise Advanced serves as the backbone for its more than 750 million unique visitors a month and helps content teams power their businesses through innovation, better customer experiences and storytelling on an integrated suite of tools. MongoDB gives them the flexibility to run both on-premises and in the cloud.

Foursquare, a location technology platform dedicated to powering business solutions and consumer products through a deep understanding of locations, chose MongoDB Atlas to power all of its B2B enterprise location services. These services, which include tools for developers, location analytics, advertising, targeting, measurement and more, have been chosen by more than 50% of the Fortune 100. As Foursquare completes the digital transformation, MongoDB will continue to scale with them in the cloud.

Keller Williams Realty, one of the world's largest real estate franchises, selected MongoDB Atlas as the core database to power its new game-changing real estate mobile app. The app gives Keller Williams' real estate brokers a competitive advantage by using AI to reveal the most relevant information to potential buyers at the right time.

Netskope is a next-generation cloud security platform that helps customers manage evolving security needs driven by digital transformation. They chose MongoDB to provide security and scale they needed to expand internationally. MongoDB gives Netskope the critical data ingestion and visualization capabilities to provide unrivaled visibility, real-time data and threat protection when accessing cloud services, websites and private applications.

To summarize, MongoDB's third quarter performance was strong across the board. We are executing well on our strategic priorities and believe we are well positioned to continue gaining share in the global database market. Before I transition to Michael, I want to add that we are thrilled to welcome Frank D'Souza, the co-founder and former CEO of Cognizant to our Board. Frank scaled Cognizant from inception to a \$16 billion global professional services company. His experience and insight, in particular, massively scaling a technology company will be invaluable to us given our long-term aspirations.

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

**Michael Lawrence Gordon**

*COO & CFO*

Thanks, Dev. As mentioned, we delivered another strong performance in the third quarter, both financially and operationally. I'll begin with a detailed review of our third quarter results and then finish with our outlook for the fourth quarter and full fiscal year 2020.

First, I'll start with our third quarter results. Total revenue in the quarter was \$109.4 million, up 52% year-over-year. Subscription revenue was \$103.8 million, up 56% year-over-year, and professional services revenue was \$5.6 million, up 8% year-over-year. Our performance in the quarter benefited

from broad-based strengths from both Atlas and Enterprise Advanced as well as positive demand trends in all major regions. We continue to benefit from an attractive combination of new logo additions and continued strength in up-sell activity, which we believe positions us well going forward. The rapid adoption of Atlas continues to be the largest contributor to our growth. Atlas grew over 185% in the quarter and now represents 40% of total revenue compared to 21% in the third quarter of fiscal 2019 and 37% last quarter. Atlas' continued strong growth and an increasing scale reflects a strong product market fit and a clear market shift amongst customers of all sizes for the fully managed global database offer -- cloud database offering. We are confident that these positive market trends, coupled with the operational initiatives Dave mentioned earlier, can drive continued strong growth in Atlas for the foreseeable future.

During the third quarter, we grew our customer base by over 900 customers sequentially, bringing our total customer count to over 15,900, which is up from over 8,300 in the year ago period. Of our total customer count, over 1,900 are direct sales customers, which compares to over 1,700 in the year ago period. The growth in our total customer count is being driven in large part by Atlas, which had over 14,200 customers at the end of the quarter compared to over 6,200 in the year ago period. The sequential growth in total customers includes growth in our Enterprise Advanced customers as well as new Atlas customers. It's important to keep in mind that the growth in our Atlas customer count reflects new customers to MongoDB, in addition to existing Enterprise Advanced customers adding incremental Atlas workloads. We also continue to see healthy expansion from existing customers, which is a key component of our growth strategy. Our net AR expansion rate in the third quarter remained above 120% for the 20th consecutive quarter. We ended the quarter with 688 customers with at least \$100,000 in ARR and annualized MRR, which is up from 490 in the year ago period.

Moving down the P&L, I'll be discussing our results on a non-GAAP basis unless otherwise noted. Gross profit in the third quarter was \$79.3 million, representing a gross margin of 72% compared to 72% last quarter and 77% in the year ago period. As a reminder, the year ago period benefited from the larger license mix from multiyear Enterprise Advanced transactions, and the current period margin is impacted by the mLab acquisition.

Overall, we are pleased with our gross margin performance, which reflects greater efficiency and scale in our Atlas business. However, we continue to expect that we will see some modest reduction in overall gross margin as Atlas continues to become a bigger portion of our revenue. Our operating loss was \$14.3 million or negative 13% operating margin for the third quarter compared to a negative 11% margin in the year ago period. Given the size and early stage of our market opportunity and our demonstrated product market fit, our primary focus will to be -- continued to be on investing in the business. Net loss in the third quarter was \$14.6 million or \$0.26 per share, based on 56.4 million weighted average shares outstanding. This compares to a loss of \$0.13 per share on 52.7 million shares outstanding in the year ago period.

We ended the quarter with \$426.4 million in cash, cash equivalents, short-term investments and restricted cash. Operating cash flow in the third quarter was negative \$11.5 million. After taking into consideration approximately \$1.6 million in capital expenditures and principal repayments of finance lease liabilities, free cash flow was negative \$13.1 million in the quarter. This compares to negative free cash flow of \$9.7 million in the third quarter of fiscal 2019. As a reminder, the continuing growth of Atlas as a percentage of our overall business impacts our reported financial results in several ways. First, Atlas revenue is recorded on a consumption basis, whereas Enterprise Advanced includes a term license component that is recognized upfront. So for a comparable dollar-sized contract, both enterprise Advanced and Atlas will recognize the same amount over the contract term, but the Atlas contract will generate less initial revenue, and as Atlas grows as a percentage of our revenue over time, this timing impact is greater.

Second, Atlas has a lower overall gross margin Enterprise Advanced because of its infrastructure component. That said, on an apples-to-apples functionality basis, Atlas is accretive to dollars of gross profit.

Finally, self-service Atlas customers and a growing portion of our direct sales Atlas customers pay us monthly in arrears versus annually upfront for Enterprise Advanced. We would expect the percentage of customers paying monthly in arrears to grow over time as we increase our focus on driving adoption of

Atlas. We believe that facilitating the ease of consumption will ultimately maximize long-term revenues and cash flow.

I'd now like to turn to our outlook for the fourth quarter of fiscal 2020. For the fourth quarter, we expect revenue to be in the range of \$109 million to \$111 million. We expect non-GAAP loss from operations to be \$16.5 million to \$15.5 million, and non-GAAP net loss per share to be in the range of \$0.29 to \$0.27 based on 56.8 million weighted average shares outstanding. As a reminder, we anniversaried the acquisition of mLab on November 1.

For the full fiscal year 2020, we now expect revenue to be in the range of \$407 million to \$409 million compared to our previous guidance of \$390 million to \$395 million. For the full fiscal year 2020, we expect non-GAAP loss from operations to be \$58 million to \$57 million and non-GAAP net loss per share to be in the range of \$1.04 to \$1.02 per share based on 55.9 million weighted average shares outstanding.

To summarize, MongoDB delivered excellent third quarter results. Our focus on executing on our product road map and expanding our go-to-market reach is driving high levels of growth at scale. The steps we have taken to establish MongoDB as the modern general data platform of choice positions us for continued success.

And with that, we'd like to open it up to questions. Operator?

# Question and Answer

## Operator

[Operator Instructions]

And our first question comes from Raimo Lenschow of Barclays.

## Raimo Lenschow

*Barclays Bank PLC, Research Division*

Congratulations on another strong quarter. Dev, first question for you and one for Mike. We obviously had big AWS conference last week, and I'm just wondering like what was interesting there is just the lack of, kind of, focus from the competing product, they kind of launched. Can you just talk a little bit about like how the last year has played out for you in terms of, like, initially some noise and now it looks like it's kind of somewhat going away? Like what are you seeing in the market in terms of customers understanding really the advantages of going with kind of Mongo rather than some kind of duplication of that? And then for Mike, since billing, if I listened to you correctly, then billing it's probably -- it's going to have more and more noise in there. Have you thought about giving us different metrics? Or how should we think about the future of the business if we want to kind of analyze that?

## Dev C. Ittycheria

*President, CEO & Director*

Thanks, Raimo. So with regards to DocumentDB, I think it was January of this year that Amazon officially launched DocumentDB. And I know there was some trepidation with investors about the potential impact on our business. And as you can -- as you've seen now for the last 4 quarters, our business has performed really, really well. I think there's been a number of reasons for that. One, this market is truly massive. It's one of the largest markets in enterprise software and I think there's room for a lot of people. Two, unlike lot of other open source technologies, we have a strong moat around our business, especially our own IP. So it's very difficult. Actually, it's illegal for a cloud provider to take our native code and wrap it into their platform and offer it as a service. So what Amazon did was basically try to emulate MongoDB through a different architecture, which has severe performance and feature trade-offs. Last count DocumentDB failed about 65% of the correctives, the test, compatibility test against MongoDB. So for those customers who have primitive requirements, DocumentDB could work. But for most customers, who have mission-critical requirements and want the breadth of use cases that MongoDB supports, MongoDB is by far the best choice, and I think you see that reflected in our numbers. And you're right, we didn't see any real news about DocumentDB. We just heard a lot of other announcements, and so we feel quite good about our position in the marketplace.

## Michael Lawrence Gordon

*COO & CFO*

And then, Raimo, on your kind of billings-related question, yes, I think from the very beginning and outside of our life as a public company, we've highlighted how that's not a metric that we use internally or one that we focus on. I, obviously, understand that it's a popular one that investors and other folks look at. We tend to focus on the revenue, specifically, in the business. I think the other piece that's particularly challenging about billings, which we've talked about is, we're looking at sort of the revenue plus the change in deferred; historically, the change in deferred has really been the place where people have chosen to -- or people had a chance to outperform in recurring revenue subscription businesses, and I think Atlas sort of changes that. And so looking at deferreds in isolation, in particular, we've heavily discouraged people from billing. We also are going to be, as I mentioned in the prepared remarks, continuing to focus on driving ease of adoption and ease of use of adopting Atlas, and that will continue to most likely involve a higher percentage of Atlas-related customers paying monthly for invoicing in arrears rather than signing big, large commitments upfront and paying for those, which would generate incremental deferred revenue. So I think while it's not a metric that we've ever focused on, I think you're correct it's of decreasing value or insight relative to understanding the business. We have looked at other

metrics to try to discern or determine other metrics that are useful. Unfortunately, we haven't found anything that actually provides an incrementally helpful view of the world, but we'll continue to look.

**Operator**

Our next question comes from Sanjit Singh of Morgan Stanley.

**Sanjit Kumar Singh**

*Morgan Stanley, Research Division*

Another great quarter from you guys. Dev, I wanted to talk a little bit about Atlas. From my perspective, this is one of the stronger Atlas quarters and that has been strong for quite some time, but it really felt like this quarter was even stronger than we expected. And I was wondering if you could sort of break out the strengths between the self-service part of the business on Atlas and what you're seeing on the enterprise expansion side? Any details there?

**Dev C. Ittycheria**

*President, CEO & Director*

Yes. Thanks, Sanjit. I would just say that I think we saw broad performance and good performance across the board. I think we're feeling really good about sales sold Atlas. Our sales teams, as you know, have really found a lot of success with Atlas with both midsized and large enterprises and that business -- and that channel is doing very well with Atlas. And we're also seeing increasing success in our self-serve business. We continue to increase the velocity of experimentation, to test and test in terms of like search and paid search and organic search. We're looking -- we're expanding our business more and more overseas, and we're seeing a lot of similarities in terms of needs. We're seeing registration from corporate accounts increase, well, nicely for us, so that these are sometimes development teams in large organizations who are -- or testing Atlas maybe as a precursor to doing a big deployment. And we're also getting better at using our data and analytics to get more insight into our business. So our self-service business is also very iterative, but we feel really good about that channel and the sales sold channels. I wouldn't say there's only one channel that outperformed the other.

**Sanjit Kumar Singh**

*Morgan Stanley, Research Division*

Understood. You mentioned in your script about the traction you're seeing across the 3 major public cloud providers. I was wondering if you could contextualize the opportunity with the Alibaba partnership, in terms of what did sort of MongoDB traction look like historically in China? And what do you see the opportunity? If you could sort of frame out the opportunity with Alibaba going forward in the Chinese market.

**Dev C. Ittycheria**

*President, CEO & Director*

Yes. So we have seen, just through downloads, that China be -- is a very, very big and popular market for MongoDB. And I've been to China multiple times. We have a number of large enterprise customers there. When we run our user conferences, they tend to be packed. So we know that there's lot of interest and appetite for using MongoDB for a wide variety of applications, use cases. The challenge we've had in China is that due to the regulations there, we could not offer Atlas directly in China because there's rules about owning data centers directly, and obviously, we did not until recently have any relationships with any local entities. And candidly, we've been in discussions with Alibaba for some time and -- but there was clearly interest on both sides to do something. One, Alibaba recognized the value of working with us, recognized the value of getting -- working with a team that's building the code and also getting another level of support. And we wanted to, frankly, work with the largest tech company in China because they obviously have massive reach in that market. And so I would say, we're very excited about the opportunity. It's still very early days. We just had some people in China 2 weeks ago doing some events there, and the interest level and activity level is very, very high.

**Operator**

Our next question comes from Heather Bellini of Goldman Sachs.

**Daniel Peter Church**

*Goldman Sachs Group Inc., Research Division*

This is Dan Church on for Heather Bellini. Earlier this year in MongoDB World, you guys announced a number of new products and features, like Data Lake, Full-Text Search. Can you give us an update on the traction you're seeing and what the early feedback has been? And for something like Full-Text Search, how are you thinking about the potential uplift in customer spend?

**Dev C. Ittycheria**

*President, CEO & Director*

Yes. Look -- thanks for the question. So just to remind everyone, so we announced Atlas Data Lake and Full-Text Search at MongoDB World this past summer. It's still in beta. So we're engaging with hundreds of customers who are right now using the product. We expect it to go GA next year at our World Conference around the May time frame. And the feedback has been really, really positive. We're really excited about the feedback because it helps us sharpen the product, understand how customers are using the product, understand potentially details around user experience as well as the full feature and functionality and the use cases that people may be using, and we're very excited. And just to remind everyone, Atlas Data Lake really enables customers to use the same semantics with MongoDB to basically query off-line data as they do with online data. So it's a very easy product to use, adds immediate value. It's a pay-as-you-go model. So the upfront investment or there's very low entry-level of cost, and the ROI is very compelling, and we're really excited about that product. Full-Text Search is basically a request that customers have asked, making of us for some time, because rather than using disparate systems, they rather use one platform. And so we're excited about that opportunity as well, and the feedback there has also been incredibly positive. And so it's hard for me to tell you what the uplift will be, but we're feeling very bullish about both products.

**Daniel Peter Church**

*Goldman Sachs Group Inc., Research Division*

Helpful. And then last quarter, I believe you called out a tough comp coming up in 4Q, just based on a handful of Atlas customers that were consuming in excess of the run rate. I was wondering if you could put a little context or commentary as to the size and what you're seeing in terms of utilization today? And then how the pipeline looks as we get into 4Q and out into fiscal '21?

**Michael Lawrence Gordon**

*COO & CFO*

Yes. I think there are 3 things to keep in mind in terms of the difficult compare that we have in Q4. First is, this is the first quarter where we'll have the anniversary of mLab as the base period and recall that the mLab cohorts are declining. So that's sort of the first point to make sure that you keep in mind. Secondly, we did call out last year that we did have a handful of accounts who are overconsuming relative to their commitment levels, and we don't have any reason to believe that, that's seasonal or anything else related to that. So I think we should look at that as sort of not reproducible or replicatable. And then third, it was just a really great quarter, frankly, last year. And so while we're eager to have more good quarters, we don't want to count on all of them looking like that.

**Operator**

Our next question comes from Brad Reback of Stifel.

**Brad Robert Reback**

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

So some of our customer work has shown that some large customers out there are beginning to take existing enterprise advanced installs and move them over to Atlas. So maybe you can give us a sense of what type of opportunity that is for you from a financial standpoint?

**Dev C. Ittycheria**

*President, CEO & Director*

Yes. So Brad, thanks for the question. I would say that the scenario you outlined is still one that's, I would say, more of an exception than a rule that tends to happen less frequently. And that's really more driven by the fact that customers have decided that rather than managing their own infrastructure, they rather consume MongoDB as a service. And we still believe in the value of offering an on-prem product because there are many customers who either have a lot of sunk cost and want to preserve those investments or they are in certain regulated industries that prevent them from using cloud services or, frankly, are just taking a more conservative approach to the cloud and are on a slower path to move into the cloud. And what MongoDB does is just enable them to use MongoDB in whatever -- wherever they are in that journey from on-prem to the cloud. And so while there are definitely some customers who may be migrating their Enterprise Advanced implementation on-premise to the cloud that's driven typically by their own needs, the desire to maybe move to the cloud themselves, desire to reduce the amount of investments in their own infrastructure and maybe the ability to iterate and innovate more quickly, but it's not driven by us.

**Operator**

Our next question comes from Brent Bracelin of Piper Jaffrey.

**Brent Alan Bracelin**

*Piper Jaffray Companies, Research Division*

One for Dev and a follow-up for Michael, if I could. Dev, I wanted to go back to the prepared remarks. I mean we heard a lot of talk around your now cloud-first strategy, very similar to the commentary we heard at MongoDB World where you're now adding features to the cloud version, Atlas version of Mongo here first. My question is really around the customer response to that. As you look at your pipeline, are you seeing a greater mix of customers and a customer appetite to also go cloud first? Just trying to understand as you make this pivot, as you make a broader narrative around your own cloud for a strategy, is that really customer-driven? Or is there a variance in customer appetite around Enterprise Advanced in Atlas?

**Dev C. Ittycheria**

*President, CEO & Director*

Yes, great question. I would say that we tend to be very customer-centric or customer-obsessed organization. So we tend to listen to our customers very, very carefully. And it's no secret that many customers do desire to move to the cloud. The pay-as-you-go model, the low-entry costs, the ability to elastically scale are all compelling reasons to move to the cloud. And so -- and what's also interesting is smaller customers and early-stage customers tend to prefer to go to the cloud as fast as possible because that allows them to avoid and having to invest in their own infrastructure and really allows them to focus their limited resources on the work that really differentiates their business. And so what Atlas has done is really open the aperture of the customers we can go after, and frankly, monetize. And so as you may remember, with Atlas, we can monetize every interaction with every customer, depending if they're an early stage start-up in a garage or a large-scale enterprise in the Fortune 500. And so -- and what Atlas does is basically enable them to start in whatever scale they want to start and then grow from there. And what we find is customers may just have 1 app and then that app grows. But more typically, we find as soon as they launch one app, they very quickly start launching other apps because they find the value of Atlas so compelling. And so our growth and expansion of Atlas is very, very strong.

**Brent Alan Bracelin**

*Piper Jaffray Companies, Research Division*

And then just quick follow-up here for Michael. As we think about Enterprise Advanced, we have that modeled about 15% growth this quarter. I know it was a tough compare. You have 606. Next quarter, we have implied growth closer to 5%. Should we think about this as being the new norm for kind of Enterprise Advanced with the customer appetite shifting to Atlas? Should we think about Enterprise Advanced as kind of a lower growth type business, just given the mix shift going on? Any color there would be helpful.

**Michael Lawrence Gordon**

*COO & CFO*

Yes. I think the key thing to think about Enterprise Advanced is unfortunately relies in the 606 accounting. It's very much driven by the components of the term license revenue, which is driven off of when the subscription start date is. And as we've talked about previously, it can also be influenced by the mix of multiyear contracts or not, which certainly affects the Q3 base period, as we previously indicated. So I think it's much more an indicator of sort of the variability that we'll see quarter-to-quarter and year-over-year that make those kinds of comparisons either sequentially or annually, very difficult to make just as a result of the 606 accounting.

**Brent Alan Bracelin**

*Piper Jaffray Companies, Research Division*

Got it. So more noise than anything else.

**Michael Lawrence Gordon**

*COO & CFO*

Yes.

**Operator**

Our next question comes from Tyler Radke of Citi.

**Tyler Maverick Radke**

*Citigroup Inc, Research Division*

Dev, I was hoping you could talk about just how looking back maybe on the last 3, 4 years of Atlas, just how the customer use cases have evolved? Maybe how the quality of customer, quality of revenue has evolved? And then maybe for Michael. You talked about potentially a higher mix of customers paying in arrears. Just how are you thinking about that from a guidance perspective? Because obviously, if you're having less of that Atlas revenue come from deferred, I presume it makes it a little bit more difficult to guide?

**Dev C. Ittycheria**

*President, CEO & Director*

Sure. Thanks, Tyler. So just to be clear, we launched Atlas about a little over 3 years ago, and so -- in the summer of 2016. And so the first year was really driven predominantly by self-service, where we had a lot of demand, organic demand, from developers around the world who really wanted to leverage MongoDB as a service. It took us about a good year to really enable our sales force to know how to sell a cloud service because historically that all that we have been doing was selling enterprise product. And then the sales force kicks in, in the second year, and that's when we really start seeing penetration in large and small-to-medium accounts. I would actually say that our traction was first in small-to-medium market, where those cohort customers really saw the value of Atlas because they had very little interest in investing in their own operational infrastructure. And slowly, we started to pick away use cases and workloads with the very large enterprise customers. And now we're kind of seeing a healthy mix across all 3 channels. And so that's essentially how that business has evolved.

**Michael Lawrence Gordon**

*COO & CFO*

Yes. Then just on the guidance, I would say, the key thing is where we guide to really is on the income statement, so the revenue and the net loss position. And whether -- given that Atlas is all consumption-based as opposed to Enterprise Advanced, which has that term license component. Given that Atlas is all consumption based, whether it's signed forward in annual contract with an annual commitment that's paid upfront, that would generate that deferred revenue or whether or not it's monthly invoicing and arrears, the revenue recognition is consumption based. So it doesn't really impact or affect our guidance.

**Operator**

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Our next question comes from Jack Andrews of Needham.

**Jon Philip Andrews**

*Needham & Company, LLC, Research Division*

Dev, I was wondering if you could give us an update on maybe the depth and breadth of strategic C-level conversations you're having these days. To the extent that you're having them, are they still more all about digital transformations or are there some other drivers that are happening there? And just how does that translate into your -- how do these conversations translate into your business? Should we be thinking about potentially larger deal sizes over time?

**Dev C. Ittycheria**

*President, CEO & Director*

Yes. So as I had mentioned in the past, we have tended to go a lot higher organization than historically we've ever done as a company. But we also spend a lot of time focused on the developer community, driving awareness and making sure that they're fully updated on all our products and services. I would say, over the last, I would say, 18 months or so, one of the big themes with the senior level stakeholders and key accounts is the increasing awareness of multi-cloud. Customers are obviously very sensitive about being locked into any one platform. They also value the ability to arbitrage between one cloud provider and other cloud provider, and they also want the opportunity to maybe have certain access to different capabilities and strengths of each of the different cloud providers, and so that's been a big theme.

I would say the other big theme is obviously being able to drive developer productivity. Every organization is under a tremendous pressure to innovate quickly, either disrupt or be disrupted. And so using MongoDB to drive developer throughput and developer velocity has also become very, very important. The rise of mobile, the rise of new use case, like IOT, machine learning, deep learning, et cetera, are also top of mind of these customers. And then obviously analytics. That's an area that they're always very interested in because they want to gain deeper insights in their business, so something like Atlas Data Lake becomes very, very interesting to them because they can leverage the existing investments they've made in their people and get the value of a deep analytics platform to basically run analytics on both your online and off-line data. So I would say, obviously, every customer has own unique requirements and priorities, but those are some of the themes that we hear from senior stakeholders in these organizations.

**Jon Philip Andrews**

*Needham & Company, LLC, Research Division*

I appreciate the color. And just as a quick follow-up, are you seeing any change in appetite for just the whole legacy application modernization opportunities? Is there any inflection in demand on those types of use cases?

**Dev C. Ittycheria**

*President, CEO & Director*

That's going in full force. We see legacy monetization as one of the key drivers to our business, the move to the cloud as another. That could be tied to some legacy modernization initiative, but it could be also just a desire to get more and more of the infrastructure off-premise and into the cloud. So those are huge, huge initiatives for us. And a lot of times, we're helping customers think through which applications to monetize first and where we can be most helpful, and so those are some of the conversations we're having.

**Operator**

[Operator Instructions]

And our next question comes from Rishi Jaluria of D.A. Davidson.

**Rishi Nitya Jaluria**

*D.A. Davidson & Co., Research Division*

First, I just wanted to maybe follow-up and thinking about China. I appreciate it's obviously a huge opportunity. But maybe can you help us understand from the licensing perspective, what gives you the confidence in Atlas sale being able to protect you and not having a situation where the code is either replicated or emulated to a heavy extent? And then I've got a follow-up.

**Dev C. Ittycheria**

*President, CEO & Director*

Yes. Well, thanks for your question. I mean one, China is obviously a massive market. It's got a huge number of developers. There's a big focus in China to using software to drive lot of innovation. We are an open source company, so our source code is available to all. And as we said, when we introduced our new SSPL licensing. In certain parts of the world, it's very hard to adjudicate those issues. But Alibaba felt it was important for them to have a direct relationship with us to get access to the latest features, to get access to engineers and our support infrastructure because they see such a big opportunity for MongoDB in that market. And so I want to be clear, it is -- the Alibaba relation is not Atlas. It's a separate OEM relationship. It's based on some minimums that we expect every year, and then we will true-ups on an annual basis, and it will not be counted as Atlas revenue. And so -- but it is a way to access the Chinese market in a way that we've never been able to do before by having the largest tech company in China partner with you. And we think that's a very compelling reason to go into partnership with Alibaba.

**Rishi Nitya Jaluria**

*D.A. Davidson & Co., Research Division*

All right. I appreciate that. And then just if we were to think about -- you're clearly seeing strength in both Atlas as well as Enterprise Advanced, and then you've put up 20 quarters of 120% plus net expansion rate. I think just directionally, if we were to think about -- how would expansion rates look like with Enterprise Advanced customers versus with those using Atlas, anything direction, I think, would be helpful?

**Michael Lawrence Gordon**

*COO & CFO*

Yes. So what we've talked about before is the number that we give is really done by channels, so that's the direct sales channel. It's not really done by product, is the way to think about it. So we see strong expansion in enterprise customers, whether it's Enterprise Advanced and then staying with Enterprise Advanced, whether it's Enterprise Advanced and adding Atlas workloads, or whether the relation starts up with Atlas and expands either more Atlas or then Enterprise Advanced for certain workloads, sort of, regardless of sort of what the trajectory is because there's not one common monolithic pattern or a typical consistent pattern that people fall into. What we have publicly said is, if you separately look at the self-service cohort and the self-service behavior of customers who are signing up for Atlas, the net ARR expansion of those cohorts is even greater than the net ARR expansion we see in the direct sales channel. And so I think that sort of speaks to the incredibly strong product market fit that we see in Atlas, both in the direct channel as well as self-serve, but hopefully, that gives a little bit of incremental color that we shared.

**Operator**

Our next question comes from Pat Walravens of JMP Securities.

**Patrick D. Walravens**

*JMP Securities LLC, Research Division*

Congratulations. So Dev, the venture community seems to be advising their portfolio companies more and more to use a product-led growth strategy for their go-to-market as opposed to sales or marketing led? Is that basically what you're talking about here in terms of how Atlas is changing the business? And then I have a follow-up.

**Dev C. Ittycheria**

*President, CEO & Director*

I would say that -- yes, this is a product-like growth is clearly a new trend in terms of how people drive top line growth. I would say, a company that has done that well was Atlassian. And so -- and clearly, that's something that we're doing here, especially on the self-serve side of the business, where we're looking for data signals in terms of how people are using the product. And as I shared in my prepared remarks, there are certain signals that tell us if you're doing something really, really important. And we want to be there -- we want to know that in advance and know that as soon as that happens, because we want to be there with the customer so that we can help them through those important moments of their application, whether it's going to production or they're expanding their capacity or expanding geographically, et cetera, or -- and so those are the kind of signals that we use to help drive our business. And so those signals tell us if the customer is expanding. Another example would be, if for some reason, we suddenly see a spike in utilization, we don't automatically assume that's a good thing. That could be that they have misconfigured the MongoDB implementation and we could actually have a very grumpy customer. And identifying that customer quickly, making sure that they know what they're doing. And in many cases, they're very grateful that we quickly identify those issues, help them solve any misconfigurations because that builds only a deeper and more trusted relation with our customer. So those are examples of how we're using product signals to drive growth. And as you can imagine,

[Technical Difficulty]

data science because we have lots of customers around the world who can do this manually. And obviously, we add a lot of human resources, especially for larger customers and even some midsize customers.

**Patrick D. Walravens**

*JMP Securities LLC, Research Division*

That's super helpful. And then, Michael, for you, 52% growth of scale is obviously awesome. But one question I get a lot is, the business has decelerated a couple of quarters, PAT, where does that stop and even out? And I don't know if that's something that you would be willing to address or at least maybe how to think about it?

**Michael Lawrence Gordon**

*COO & CFO*

Yes. I think when you look at the Q4 guidance, I'd say, overall, we feel really good about the guidance. And clearly, when we gave our Q3 guidance and full year guidance on the September call, there was some implied or embedded Q4 guidance implied in that number. And clearly, we've raised that when you do the math. So I think that shows that we're feeling quite good. I would iterate what we've talked about in terms of the Q4, just remembering the mLab impact, both in terms of it being the first time that we hit the anniversary of that as well as those cohorts decelerating. But in general, I think we feel really good about where we are.

**Operator**

Our next question comes from Vinod Srinivasaraghavan of Oppenheimer.

**Vinod Krish Srinivasaraghavan**

*Oppenheimer & Co. Inc., Research Division*

Congrats on the strong quarter. I have a question on Atlas first. You had mentioned that expansion rates were strong with both self-serve and direct customers, but are you seeing new self-serve and direct sales lands come on board who are spending much more now within their first year compared to when you IPO'ed?

**Dev C. Ittycheria**

*President, CEO & Director*

No question. As Atlas becomes more popular, as we add new features and capabilities, as we add more coverage around the world, as customers themselves get more comfortable, the word-of-mouth and virality of the usage, we're clearly seeing deal sizes go up in Atlas.

**Michael Lawrence Gordon**

*COO & CFO*

And I think you can see that not just in the sales sold side of things, which are sort of the 2 channels within Atlas is actually the fastest-growing channel but also you can see increasing spend for self-service customer, which at this point is most -- the vast majority of which is Atlas related, and we report that level of detail in the Qs, and so you can see that there.

**Vinod Krish Srinivasaraghavan**

*Oppenheimer & Co. Inc., Research Division*

Okay. Great. And one more. Can you just give us an update on some of the sales capacity investments you've been making. How is your hiring new sales reps progressing?

**Dev C. Ittycheria**

*President, CEO & Director*

It's progressing well. Obviously, this is something that we focus a lot on, because a big vector for our growth is the amount of feet on the street that we have. And so we spend a lot of time recruiting the right people, and then spending a lot of time investing in them and developing those people to ultimately get them to produce results and produce results consistently over time. And so that's a big part of the attention of the management's bandwidth, is just about how we scale our infrastructure. As you can manage, not just hiring salespeople, the sales leadership, technical presales to complement our salespeople in the field, partner resources in different parts of the world, so that's all part and parcel of our formula in terms of how we scale the business.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to David Ittycheria (sic) [ Dev Ittycheria ] for any closing remarks.

**Dev C. Ittycheria**

*President, CEO & Director*

Thank you. Thanks, everyone -- to everyone for joining us today. Again, just to reiterate, we feel really good about our business. We think we had a terrific quarter, and we look forward to speaking to some of you in the next couple of days. I know that Michael and [ Serge ] will be at a couple of investor conferences. So I suspect some of you will be there as well. Talk to you soon. Take care. Bye-bye.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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