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GTLB.OQ - Q2 2027 GitLab Inc. Earnings Call

EVENT DATE/TIME: SEPTEMBER 01, 2026 / 8:30PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Nic Edwards *GitLab Inc. - Vice President - Finance, Strategy and Operations*

William Staples *GitLab Inc. - Chief Executive Officer, Director*

Jessica Ross *GitLab Inc. - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Kingsley Crane *Canaccord Genuity Corp - Analyst*

Matthew Hedberg *RBC Capital Markets Inc - Analyst*

Sanjit Singh *Morgan Stanley & Co Ltd - Equity Analyst*

Ethan Weeks *Piper Sandler & Co. - Analyst*

Koji Ikeda *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Radi Sultan *UBS AG - Analyst*

Derrick Wood *Cowen and Company LLC - Analyst*

Nicholas Altmann *BTIG LLC - Equity Analyst*

Zachary Schneider *Robert W. Baird & Co., Inc. - Analyst*

Lucky Schreiner *D.A. Davidson & Co. - Associate Vice President*

PRESENTATION

Operator

Good day, everyone, and welcome to today's GitLab's second quarter fiscal year 2027 conference call. (Operator Instructions) Please note, this call is being recorded.

It is now my pleasure to turn the conference over to Nic Edwards.

Nic Edwards - *GitLab Inc. - Vice President - Finance, Strategy and Operations*

Good afternoon, and welcome to GitLab's second quarter 2027 financial results earnings call. I'm Nic Edwards, VP of Finance, Strategy and Operations. And with me are Bill Staples, our CEO; and Jessica Ross, our CFO.

During this afternoon's call, we will provide an overview of the business, commentary on our second quarter and full year results and guidance for the second quarter and fiscal year 2027. In addition to our prepared remarks on this call, additional information can be found in our shareholder letter, press release and investor presentation and SEC filings on our Investor Relations website at ir.gitlab.com.

Before we begin, I'll cover the safe harbor statement. I would like to direct you to the cautionary statement regarding forward-looking statements on page 2 of our presentation and in our earnings release, issued earlier today, both of which are available under the Investor Relations section of our website. The presentation and earnings release include a discussion of certain risks, uncertainties, assumptions and other factors that could cause our results to differ from those expressed in any forward-looking statements within the meaning of the Private Securities Litigation Reform Act. As is customary, the content of today's call and presentation will be governed by this language.

In addition, during today's call, we will be discussing certain non-GAAP financial measures. These non-GAAP financial measures exclude certain unusual or nonrecurring items that management believes impact the comparability of the periods referenced. Please refer to our earnings release and presentation materials for additional information regarding these non-GAAP financial measures and the reconciliations to the most directly comparable GAAP measure.

I will now turn the call over to Bill. Bill?

William Staples - *GitLab Inc. - Chief Executive Officer, Director*

Thanks, Nic, and good afternoon, everyone. Q2 was an exceptional quarter. Let me start with just some of the highlights. Revenue was $286.3 million, up 21% year-over-year, and non-GAAP operating income was $42.6 million, representing a 15% operating margin. Our sales team delivered the largest gross bookings quarter in company history, and net ARR grew more than 40% year-over-year, our highest in several years. We also beat all of our targets on first orders, which grew more than 100% year-over-year.

Underneath those highlights, I'd like to share a brief update on each of the five growth initiatives that we laid out for this year. First, we told it was important that we accelerate first orders. Q2 was our largest first order quarter in three years. First order count grew more than 100% year-over-year and first order net ARR increased nearly 40%.

Our dedicated first order organization is building more repeatable sales motions, while our product-led investments are widening the top of the funnel. The combination is bringing significantly more new customers into GitLab. It's important to win customers of all sizes, including AI start-ups and others with small orders to begin with because more than half of our current $1 billion plus in run rate revenue comes from customers whose first order was less than $5,000. Our strategy is to land customers wherever they're ready to start and grow with them over time.

Second, we said increased predictive sales capacity would be an important driver of reacceleration. And in Q2, we saw that thesis begin to pay off. Account executive capacity increased approximately 30% year-over-year, while productivity per rep improved approximately 10%. Attrition also improved year-over-year for the second consecutive quarter. Adding capacity while simultaneously increasing productivity is difficult, and we believe it demonstrates that the investments that we've made into our sales organization are beginning to compound. The result was the largest gross bookings quarter in GitLab history and net ARR growth of more than 40%.

Third, we told you it was important for us to expand our monetization vectors. Our seat-based business continues to grow and AI is creating an additional opportunity for GitLab to monetize an increasing amount of work happening across the software life cycle. Flex is an important enabler of that strategy. After only six weeks in market, more than 130 customers committed more than $20 million to Flex. That early response reinforces our belief that customers want a simpler way to allocate their GitLab spend across seats and new consumption products as their needs evolve.

Prior to Flex, customers committed dollars to fixed quantities of seats for premium or ultimate access to our platform. Flex changes that. Customers now make a dollar commitment and each month, they could decide how to put it to work across seats and all of our consumption products. The commitment is fixed and can be used for any product in the platform. With work accelerating due to agents and more builders coming into the picture, we have a tremendous opportunity ahead to create and capture value. Anything we can do to shorten the time between customer interest and realized value is good for customers and it's good for GitLab. Flex was designed to do this in three important ways.

First, it helps customers get more value from every dollar they commit to GitLab. Instead of leaving unused capacity stranded as shelfware, customers can redirect dollars toward products creating the most value for them. We believe better utilization should strengthen our already healthy retention profile by reducing the potential for churn and contraction driven by unused spend.

Flex also reduces sales and procurement friction because once the financial commitment is in place, customers can allocate dollars across existing and new products on their own timing throughout the year without requiring a new commercial agreement each time. We've already increased sales capacity and productivity. Flex should help us make that capacity even more productive by allowing our teams to spend less time on incremental contracting and more time helping customers realize value.

And third, it lets usage expand seamlessly as customer needs grow. Customers can consume any eligible product on demand above reserve capacities, including premium and ultimate seats and any usage above their commitment or reservation is billed in the month it occurs. That removes many of the true-up and contracting cycles that are required today to capture that incremental usage and gives customers more flexibility. It creates another potential growth tailwind for GitLab as usage expands.

Paid consumption run rate ended the quarter above $40 million, up from $15 million existing in Q1, thanks to the introduction of Flex. As a reminder, paid CRR is a point-in-time annualized measure that includes GitLab credit commitments, Flex commitments and paid on-demand consumption. It excludes trials and promotional credits.

We believe paid CRR gives investors a useful way to track the dollars moving through our consumption model as it scales. Our objective is to exceed $100 million of paid CRR by the end of this fiscal year. We entered this year with a business monetized entirely through seat subscriptions and we now expect to exit it with seats continuing to grow alongside a meaningful and scaling consumption business.

Fourth, we need to improve our performance in our price-sensitive customer segments. And I'm pleased to report that we now have seen stabilization in SMB and mid-market this quarter with performance ahead of our targets for both of those segments in both expansion and first orders. Our thesis was increased focus and investment in this segment could improve performance, and this quarter's results are encouraging. We want to see that performance sustained over the next few quarters, but we're increasingly confident that we're on the right path.

Fifth, we're executing a bold AI strategy. This quarter, Duo Agent Platform CRR grew roughly 50% quarter-over-quarter, inclusive of credit commitments, paid on-demand credits and flex reservations. We also broadened adoption geographically after a more US-centric first quarter. And one top 20 US commercial bank expanded its AI credit pool nearly tenfold this quarter.

But I think the broader AI story is even more important. For more than a decade, GitLab has brought together the context of how software is built, secured and shipped across source code, issues, merge requests, pipelines, vulnerabilities, policies, approvals and deployments. As AI becomes more capable, we believe that connected context becomes even more valuable, and we're seeing early evidence of that with GitLab Orbit, our context graph for the software life cycle.

Since opening the beta in June, more than 2,200 organizations have enabled orbit indexing, an increase of 70% in four weeks. Customers have generated more than 170,000 queries and roughly 80% of customer query volume comes from customers connecting Orbit to external agents such as Claude Code and Codex.

We're also beginning to see evidence that better context improves agent performance. Compare the market tested Orbit against traditional RAG with 79 real merger requests and saw accuracy improve from 58% to 70% and the same dynamic is visible across our platform. Year-over-year, secure repositories grew 60%, code pushes grew 50%, CI/CD pipelines grew 40%. Among some customers moving aggressively into AI-assisted development, we've seen code bases grow as much as 500%.

The pattern is increasingly clear. As enterprises adopt more AI development tools, they use more of GitLab. That matters because our core business remains very strong. Ultimate now represents 59% of ARR and 8 of our top 10 deals this quarter. Premium and Ultimate are the foundation of a business now exceeding $1 billion in trailing four-quarter revenue, and we continue to see significant opportunity ahead. AI gives us the opportunity to build on top of that foundation with new products, new consumption and entirely new kinds of work flowing through GitLab.

Before I turn it over to Jessica, I want to recognize two important groups. First, Ian Steward, our CRO, and the entire sales organization. Ian has now been with GitLab for five quarters. The results we're seeing today reflect many quarters of disciplined work, building the fundamentals, sharpening our strategy and creating a team capable of executing against it.

I especially also want to recognize the entire GitLab team because at the beginning of this quarter, we made the difficult decision to restructure the company. Many people chose to stay and help build GitLab's next chapter. Together, we delivered one of the strongest quarters in our company's history. To everyone at GitLab, thank you for your hard work, your resilience and your trust. I'm so incredibly proud of you and what we've accomplished.

We're entering Act 2 from a position of strength, a healthy core business, accelerating customer growth, new products gaining traction and a consumption model designed for a world where humans and agents increasingly build software together.

With that, I'll turn it over to Jessica.

Jessica Ross - *GitLab Inc. - Chief Financial Officer*

Thanks, Bill, and thanks to everyone joining us today. Q2 was an exceptional quarter, and we believe an important inflection point for this business. Revenue was $286.3 million, up 21% year-over-year and roughly 5 points ahead of our guidance. We delivered the strongest gross bookings quarter in company history. Net ARR grew 42% year-over-year, our second highest growth quarter in the last four years. Dollar-based net retention accelerated sequentially for the first time since 2024, and we did all of this while also beating our profitability expectations.

The strength in our business was broad-based across new and existing customers and multiple geographies, every customer size and across our core platform. That breadth is why we're increasingly confident in the underlying trajectory of this business.

Our go-to-market team executed at an extremely high level. We closed significantly more large deals than we forecasted. We saw better-than-expected linearity and sales attainment improved. Deals of $500,000 or more grew more than 150% year-over-year, a clear signal that our largest customers are deepening their commitment to GitLab.

Public sector also rebounded meaningfully in the quarter, and we see room for that recovery to continue as buying patterns normalize through the back half of the year. We also saw a genuine step change in new customer formation. We had approximately 1,700 first orders in the quarter, more than double a year ago, and new logo net ARR grew 39% year-over-year.

The magnitude of this quarter's performance exceeded even our own ambitious expectations. We care about all the customers that choose GitLab, large and small. More than half of our $1 billion-plus run rate revenue base today came from customers whose very first order was under $5,000. Landing them early and growing with them is part of our competitive advantage. It allows us to acquire customers efficiently and grow with them over time.

GitLab Ultimate had an exceptional quarter as well. Ultimate ARR grew approximately 35% year-over-year and now represents 59% of our total ARR.

Security, governance and compliance are becoming more central to buying decisions as artificial intelligence proliferates across the software development life cycle. We're starting to see demand extend beyond the traditional developer seat entirely as AI makes software creation accessible to a much broader set of builders across the enterprise. We think that expands who GitLab can ultimately serve.

Turning to customer metrics. Gross retention stayed well above 90%, consistent with our historical trends. Dollar-based net retention was 117%, up sequentially for the first time since 2024. Total RPO grew 16% year-over-year to $1.2 billion and current RPO grew 20% to $744.7 million. Calculated billings grew 24%, doubling the 12% growth rate we posted just last quarter.

Our emerging products are gaining real traction. Duo Agent Platforms paid CRR grew 50% sequentially and platform-wide paid consumption run rate exceeded $40 million exiting the quarter. Usage trends tell the same story. CI pipelines created and push actions were both up more than 40% year-over-year.

Moving down the income statement. Non-GAAP gross margin was 86.5%. SaaS was 34% of total revenue and grew 36% year-over-year, powered by continued strength in GitLab Dedicated and Duo. Non-GAAP operating income was $42.6 million, up from $39.6 million a year ago for a non-GAAP operating margin of approximately 15%, ahead of our expectations, driven by improved sales and marketing productivity and the timing of certain investments. We incurred approximately $23.3 million in restructuring charges, in line with what we outlined last quarter.

On JiHu, Q2 non-GAAP expenses were essentially flat year-over-year at $3.0 million. Our goal remains to deconsolidate JiHu, though we can't predict if or when that will happen. Adjusted free cash flow was $9.8 million, a 3% margin with the timing of collections weighing on the number this quarter.

We returned capital to shareholders by repurchasing approximately 3.5 million shares. We have about $245 million remaining under our current authorization. We ended Q2 with $1.3 billion in cash and investments.

Before I get to guidance, I want to spend some time on Flex because it is central to where this business is going and because it changes how some of our results will show up in reported financials. This is the first quarter Flex shows up in our results, and the impact was therefore immaterial relative to the size of our existing revenue base. However, in the first six weeks on the market, over 130 customers committed more than $20 million to Flex. That is a fast emphatic signal of demand for a fundamentally better way to buy from us.

At its core, Flex is a single annual or multiyear dollar commitment that customers draw down flexibly across premium and ultimate seats, GitLab credits and other usage-based capabilities without renegotiating a contract or restarting procurement every time their needs shift. We think this is simply a better model for customers, and we believe over time, it becomes the default way customers transact with GitLab.

It's a better model for us, too. It means our growth is tied to how much value customers get from the whole platform, not just how many seats they buy. Given the strong signal we are seeing from our customers, we have become more convicted in the growth and adoption of Flex. It also means Flex may become materially impactful to our financial results as this commercial model becomes our customers' first choice for transacting with us.

From that standpoint, there are two reporting implications investors will need to understand clearly when it comes to the impact of a more material adoption of Flex by our customer base, revenue recognition and RPO.

First, revenue recognition. Today, approximately 15% of a traditional self-managed license is recognized upfront. Under Flex, the license fee is no longer recognized upfront. Since customers can shift product mix within their committed dollars, that revenue is instead recognized over the contract term.

To help you model this, for every $50 million of our self-managed available to renew that converts to Flex in FY27, we estimate approximately $5 million of revenue that would otherwise have landed in FY27 instead shifts to be recognized over future periods. Given the size of the available-to-renew pool in the back half of the year as well as our visibility into the H2 pipeline, we expect the maximum potential impact on our revenue to be approximately $13 million in FY27.

To be clear, this is just a timing change in revenue recognition. It is not a change in the underlying customer commitment, and it is not a change in cash economics. Customer commitments are unchanged and cash billings continue to be billed annually upfront regardless of which model a customer is on. Because Flex is a contractual dollar commitment, the full committed amount is captured in total RPO. However, Flex is excluded from current RPO because of signing, the customer controls the timing, product mix and pace of future consumption, so we can't reliably say how much relates to the next 12 months. That means as Flex scales, you may see total RPO and revenue growth move at different paces, and you should expect that.

This quarter, cRPO saw a 3-point headwind relative to RPO purely from the absence of Flex commitments in that metric. Every quarter, as Flex adoption grows, we will explicitly quantify its impact so you can cleanly separate the accounting effect of Flex from the underlying performance of the business.

Now turning to our outlook. Our confidence in the underlying trajectory of this business has increased following our first half performance.

A few things to keep in mind as you think about the second half. First, we're taking a more constructive view of public sector given the improved buying patterns we saw this quarter, and we expect that recovery to continue gradually through the rest of the year.

Second, Q2 benefited from exceptional execution, more large deals than forecasted, improved linearity and our best pipeline conversion ever. Our second half outlook assumes a more normalized pace of bookings from here, not a repeat of Q2's exceptional levels.

Third, on Duo Agent Platform, we assume limited contribution in FY27 relative to our large existing revenue base. Our focus this year remains on adoption, converting pilots into production deployments and building the foundation for monetization ahead.

And finally, to remain consistent with the guidance philosophy and forecasting methodology we have had all year, we have not incorporated the potential impact of Flex in our guide, but we do intend to quantify the revenue recognition impacts through the rest of the year.

With these points in mind, I am pleased to share that we are raising our guidance to reflect the strong momentum we experienced in the first half of the year as well as the momentum we anticipate will continue into the back half.

For Q3 FY27, we expect total revenue of $281 million to $283 million, representing approximately 15% to 16% year-over-year growth. We expect non-GAAP operating income of $35 million to $37 million and non-GAAP net income per share of $0.19 to $0.20, assuming approximately 172 million weighted average diluted shares outstanding.

For the full year, we now expect total revenue of $1.129 billion to $1.133 billion, representing approximately 18% to 19% year-over-year growth. We expect non-GAAP operating income of $148 million to $152 million and non-GAAP net income per share of $0.85 to $0.87, assuming approximately 172 million weighted average diluted shares outstanding. There's no change to our underlying investment priorities or how we're balancing growth and profitability.

I'd also like to provide a few additional points for modeling purposes. First, we continue to expect full year gross margins to be between 85% to 87%. We expect approximately $15 million of JiHu-related expenses for the year compared with $13 million last year.

Stepping back, this was a genuinely exceptional quarter, and it gives a strong foundation as we begin the transition to Flex. We believe Flex is the right long-term model for our customers and for GitLab, even though the transition will introduce some near-term noise in revenue timing and reported metrics. Our job through that transition is to give you the transparency to see through those timing effects to the performance underneath.

During this quarter, we saw record bookings, accelerating net ARR growth, strong retention, broad-based strength across the business and profitability ahead of plan. This performance is what gives us real confidence in where the business is headed.

Thank you for joining us today. I will now turn it over to Nic to open it up for Q&A.

QUESTIONS AND ANSWERS

Nic Edwards - *GitLab Inc. - Vice President - Finance, Strategy and Operations*

(Operator Instructions) Kingsley Crane, Canaccord Genuity.

Kingsley Crane - *Canaccord Genuity Corp - Analyst*

Congrats on what is truly a monumental quarter. Bill, you've talked about how AI labs are building custom systems around their Git providers because Git wasn't designed for agent scale operations. And since then, you're now rebuilding source code management to better service agents. So I was wondering if you could just expand on that strategy. Is this for all customers? Does this allow you to do more with AI natives or labs that you otherwise may not have?

William Staples - *GitLab Inc. - Chief Executive Officer, Director*

Thanks, Kingsley. This quarter's performance really demonstrated what we've always believed possible with GitLab. And now we're focused on systematically executing that opportunity to repeat that performance. In terms of the product road map, the demands of AI are really creating tailwinds for GitLab and some really exciting opportunities. As you mentioned, one of those is the next-generation Git product.

But let me put it into context because we started this year by introducing our first consumption product, Duo Agent Platform. It's been now in market for two quarters and been performing really well. Last month, in August, we also launched Secrets Manager and Dedicated Runners, our second and third new consumption products this year.

Adding to that, now we've also got GitLab Orbit, which entered public beta in Q2. That's our Knowledge Graph. It's really the secret sauce of GitLab as we connect code, issues, MRs, pipeline, security findings so that agents and humans get better answers to questions and higher quality Agentic outcomes at lower cost. We highlighted on the call, early beta adoption is really promising. Over 2,200 organizations enabled it, 70% increase in just four weeks and 80% of the queries come from external tools like Claude Code and Codex. They drive more consumption of GitLab platform.

The other one that you mentioned is the next-generation Git product. As experts in Git, we're one of the leading contributors to that project. We're now in the middle of rearchitecting that Git infrastructure to achieve roughly 100x scale what humans have ever required. That's really important because agents operate at that machine scale level with one engineer or builder invoking dozens and sometimes hundreds of agents to accomplish a particular task.

The other product road map item I want to highlight in addition to next-generation Git is our artifact management product, which is in private beta now, but we expect will be coming in public beta this quarter. It extends our platform to allow for our customers to store, version, govern and sign binaries in artifacts so that we can complete the software supply chain. We already have their source code. We already build and test that source code, and we help them deploy it.

And with artifact management, we'll also help them store those artifacts so that they can have secure end-to-end software supply chain all within GitLab. That's one of the top concerns of enterprises today is how do they trust their software supply chain in an Agentic era where agents are doing a lot of the work. So DAP is our agentic layer.

And underneath that, we've got these new consumption-based products, including like you asked, next-generation Git, GitLab Orbit and Artifact Management, all coming into the market this coming year with capabilities that help software engineers and their agents operate at much higher scale. It's a pretty exciting time. And maybe it's a good time for me to also tee up our GitLab Transcend event coming in just about six weeks. We hope you tune in for more information on the road map ahead.

Nic Edwards - *GitLab Inc. - Vice President - Finance, Strategy and Operations*

Matt Hedberg, RBC.

Matthew Hedberg - *RBC Capital Markets Inc - Analyst*

Can you hear me okay?

Jessica Ross - *GitLab Inc. - Chief Financial Officer*

Yes.

Matthew Hedberg - *RBC Capital Markets Inc - Analyst*

Congrats on the results. Really, really good to see. I guess for Bill or Jessica, a lot of things to think about here. The seat growth is really, really exciting to see. And I think when we think about that plus the optimism around Flex, it feels like there could be some increased durability here. I guess I'm wondering on the seat side of it, obviously, developers are a focus. But could you talk about that non-developer opportunity? I mean I think we all think that that could be a pretty significant driver as well. But could you touch on that piece as well?

William Staples - *GitLab Inc. - Chief Executive Officer, Director*

Absolutely. AI is proving to be a real durable secular tailwind for GitLab and really not just the seats, but every component of our growth algorithm. Maybe this is also a good time for a quick plug. New to this quarter, we published an investor letter, which Jessica and I wrote to give you a look into how we think about the growth algorithm for GitLab going forward.

I'll give you a quick summary and cover as part of that, your question around the opportunity for seats. So the growth algorithm really touches on three components. First, more customers. And within more customers, more builders than ever. We believe GitLab's opportunity here is enormous. We're underpenetrated in the global market, and we've been building a stronger competitive position as evidenced by our first -- by this quarter's results. We added more than 1,700 first orders this quarter. That's more than double a year ago, and first order net ARR is up nearly 40%.

One of the things that's also inside of that more new customers number is really an increased demand for seats. AI has significantly enabled anyone to become a builder. I'm guessing many people on this call have experimented with AI tools and been able to create dashboards or applications with code entirely written by the agent.

Well, that code has to be stored somewhere. It has to be governed by the organization if it belongs to an enterprise. It has to meet those organizational compliance and security standards, and that's what GitLab is best at. So AI is creating a secular tailwind for more customers and more builders within every one of our customer accounts.

Second part of our growth algorithm is around more products. And you've heard me talk in response to Kingsley's question about some of the exciting product road maps ahead. But this is an important part of our growth strategy because we're expanding beyond just the platform seats capabilities that we've had that led to a $1 billion run rate business that's still growing strong. The proof that this part of our growth algorithm is working is also evidenced in this quarter. We've shared, for example, that secure repositories are growing at 60%, code pushes 50% and CI/CD pipelines at over 40% year-over-year. That's our core platform in action.

Also exciting beyond just the core platform is the introduction of our consumption model and credits. Evidence of this in the quarter, we can highlight is our Duo Agent Platform growth, where sequentially, we saw a 50% increase.

Finally, the third part of our growth algorithm is all around unlocking consumption for every customer. That's where Flex comes in because it unlocks friction-free usage across both seats and credits with a single commitment that allows customers to choose every month how they want to consume the platform to solve their specific problems.

Jessica highlighted in our last six weeks of Q2, more than 130 customers opted into Flex. They committed more than $20 million and our paid CRR went up, thanks to Flex from $15 million exiting Q1 to over $40 million exiting Q2. So stepping back, AI is dramatically lowering the bar to build software. Anyone can become a builder. Customers are needing more of GitLab than ever, and we've seen that pattern now for several quarters in a row. Thanks for the question.

Nic Edwards - *GitLab Inc. - Vice President - Finance, Strategy and Operations*

Sanjit Singh, Morgan Stanley.

Sanjit Singh - *Morgan Stanley & Co Ltd - Equity Analyst*

Congrats on an excellent quarter. It's great to see. When I think about how the business model, the pricing model evolves, you guys have a lot of things that you're working on. Bigger picture, Bill, when we think about ultimate versus premium, is that still a relevant construct? I mean you guys have -- you're growing seats. It sounds like the non-developer population could be a secular driver for that. So does the model potentially just simplify to seats and then you have these other monetization vectors with these product add-ons, and I'm sure there's going to be a lot more of that over the next couple of years. So just wanted to think kind of bigger picture on how the business model pricing model progresses from here.

William Staples - *GitLab Inc. - Chief Executive Officer, Director*

Yes. Thanks, Sanjit. Seats absolutely core to our business, continue to grow healthy, and we're excited about continuing to offer those premium and ultimate capabilities that have led to a $1 billion run rate business continuing to grow strong.

But to up-level the question a little bit, I think the way that investors should think about our growth going forward is to understand the customer benefits and the GitLab benefits of Flex. So let me unpack the GitLab strategy here because that's core to understanding our business model going forward.

We introduced Flex in Q2, and I already highlighted some of the early wins, 130 customers, more than $20 million committed. And you might ask yourself like, why are we introducing that? What is driving customers to adopt at such a rapid early rate? The benefits are pretty clear. For customers, Flex represents more value for every dollar because every month, they get a chance to redirect unused capacity from shelfware towards whatever products that create the most value for them.

So for example, with the emerging need to give GitLab to non-engineering users, they can flex capacity on to more premium or ultimate seats. In addition, those users may have a need for a Duo Agent Platform to provide agents that assist their work across the software life cycle, they can allocate a reservation on Duo Agent Platform.

Second, it also gives them the ability to adopt new products without going through a new contract cycle, without securing more new budget from procurement. This is one of the major benefits of the Flex model because right inside the Flex portal, new products show up, they can allocate reservations against them, and they can even set budgets so they have control over where they spend their commitment.

And finally, it also allows customers to seamlessly expand usage even beyond their commitment. So if they see the demand, they can provision more seats and more credits as needed going beyond their commitment, and those are then billed each month.

For GitLab then, the benefits are pretty clear. First, we believe Flex will help us drive an already healthy profile around retention even better. It allows for us to capture any unused capacity into a Flex commitment and then allow customers to redirect that as needed increasing our retention that's already, as Jessica mentioned, gross retention already above 90%. This also stands to help us with improving our already improving productive sales capacity.

I mentioned that we've increased capacity 30% this quarter and a 10% increase in per rep productivity. Well, now reps can spend more time helping customers realize value and less time negotiating contracts and true-ups and working through procurement.

And finally, this also represents a new growth tailwind since customers can unlock usage on demand and we bill them immediately as that usage is incurred, giving us another monetization tailwind. So the strategy around the business model is pretty clear. We want to see customers shifting to Flex because it gives them more value, it reduces sales and contracting friction and allows for on-demand consumption.

We started the year with 100% seat-based subscription business. And now we're focusing on ending the year, continuing to grow that core platform, but also want to focus on exiting the year with a meaningful consumption business scaling toward our second billion as we monetize the work that humans and agents are doing together.

Nic Edwards - *GitLab Inc. - Vice President - Finance, Strategy and Operations*

Ethan Weeks, Piper Sandler.

Ethan Weeks - *Piper Sandler & Co. - Analyst*

This is Ethan filling in for Rob tonight. Bill, I wanted to ask just how much of the strength in the quarter do you think was driven by internal execution improving versus kind of the overall demand environment just accelerating as all organizations really start to think about the tool chain that they're enabling their developers with?

William Staples - *GitLab Inc. - Chief Executive Officer, Director*

Yes. Great question. As we mentioned, a record gross bookings quarter in company history. Net ARR growing more than 40% year-over-year. It's our second highest growth quarter in the last four years to give you a sense of that. And I think it's really a result of many quarters of investment and some tailwinds kicking in across multiple dimensions.

As Jessica mentioned, PubSec rebounded meaningfully. This is a really strong signal after a few quarters of less-than-ideal results given government shutdowns and other things. We also see AI tailwinds, though, helping drive large deals. Jessica mentioned our $500,000 and above deals grew more than 150% year-over-year. Our largest customers deepening their commitment with GitLab. Those commitments span both seats and credits for our new consumption products.

Underneath all of this, we really do see AI beginning to be a durable tailwind for GitLab. And it really impacts all three levers of our growth algorithm. It's leading to more customers. It's leading to the new products getting early adoption as we highlighted with GitLab Orbit and it's leading to more consumption. You should think of net ARR as that output metric for the growth algorithm because it takes into account all three of those dimensions compounding one another.

Nic Edwards - *GitLab Inc. - Vice President - Finance, Strategy and Operations*

Koji Ikeda, Bank of America.

Koji Ikeda - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Really nice job here with the commentary and the growth bookings. And so with a lot of the focus on Flex over the next, call it, a couple of years, there's a lot of moving pieces in the financial model with Flex. And so what would be the single best metric to gauge the performance of Flex?

And just one quick, I guess, housekeeping question on the guide, would the guide have been raised $13 million more if there was no Flex this year? Just around the question of is the guide actually understating what's happening in the business because of what's happening in the shifting with Flex?

Jessica Ross - *GitLab Inc. - Chief Financial Officer*

Thanks, Koji. Let me just step back and give you some thoughts about like how we thought about guidance this quarter. So first, again, Flex has only been in the market for 10 weeks. So it's just too new to bake into our guidance with precision. At the same time, we've been really pleasantly surprised by customer demand and how potentially impactful Flex could be in the back half of the year. So as we thought about our guide, we didn't want the accounting mechanics to distort the guidance conversation or investors' views of the underlying health of the business. So we've really applied I'd say two key principles to our approach, consistency and transparency.

So first on consistency. We wanted to guide the same way all year. So we started FY27 guiding without the accounting timing impact of Flex, and we've stayed consistent with that methodology rather than changing course midyear. Second, on transparency. In line with our commitment to transparency, we are providing a couple of key data points to help you think about your models.

First, the heuristic, which I mentioned in my prepared remarks. So for every $50 million of self-managed customers that convert to Flex, there is about a $5 million revenue recognition timing impact that shifts out of FY27 into the future period and then the maximum FY27 impact of $13 million.

So going forward, we will continue to explicitly and transparently quantify the flex accounting timing impact each quarter so you all can separate the accounting effect from the underlying business performance. We are committed.

And I think just in terms of that $13 million, the other thing I'd highlight is we've got a lot of visibility into our business. So in calculating that amount for us, we feel confident in the precision because, one, we understand our self-managed available-to-renew for the back half of the year, and we've also got very clear line of sight on pipeline.

William Staples - *GitLab Inc. - Chief Executive Officer, Director*

And Koji, in terms of the other part of your question around what metric to look at, that paid CRR metric that we introduced last quarter and updated this quarter with more than $40 million of paid CRR is really the best way to understand how dollars are flowing through our consumption model. Paid CRR captures both Flex commitments, credit commitments as well as on-demand paid usage. So all three of those inside of that metric. It does not take into account promotional usage or trials or other unpaid usage. And as we mentioned on the prepared remarks, we are setting a bold target to achieve more than $100 million paid CRR by the end of this fiscal year.

Nic Edwards - *GitLab Inc. - Vice President - Finance, Strategy and Operations*

Radi Sultan, UBS.

Radi Sultan - *UBS AG - Analyst*

Awesome. Now that you have some data points on conversion to Flex, I mean, in sizing those initial Flex deals you convert customers, like is there a higher propensity to upsize their deals because of the increased flexibility and sort of new product consumption? I'm trying to understand how much is just a form factor shift to Flex versus baking in anticipated new product consumption or seat expansion would be great.

Jessica Ross - *GitLab Inc. - Chief Financial Officer*

Yes. No, again, we're really excited about it. It's been about 10 weeks in market, so it's too early for us to tell. But I just -- I think really leaning into the strategy, Bill, is there anything you want to add there from that lens?

William Staples - *GitLab Inc. - Chief Executive Officer, Director*

Yes. From a sales strategy perspective, it's an opportunity to do multiple things. First, some customers are early adopters and already testing our beta products. And Flex gives us a way not only to renew their seat-based subscription but shift that commitment into a Flex agreement where they can create headroom to start using those products as soon as they become generally available. And wherever we can do that, create headroom for customers and their commitment, obviously, we want to take advantage of that.

It also lets us look at customers who may have unused capacity because they were previously forced to commit to a seat forecast for the full year and rather than take some contraction on the account, keep their commitment the same or even higher and redeploy that budget onto new consumption-based products. So it really helps us on both the upside as well as reducing or mitigating potential downside, which we're really excited about deploying anywhere we can align with customers on the value of their GitLab commitment.

Nic Edwards - *GitLab Inc. - Vice President - Finance, Strategy and Operations*

Derrick Wood, TD Cowen.

Derrick Wood - *Cowen and Company LLC - Analyst*

Congrats from me. Bill, could you touch on just what you're seeing across the competitive landscape when it comes to both new AI natives coming on to the scene as well as what's going on with your traditional competitors? And where you feel that you're competing better or gaining share right now?

William Staples - *GitLab Inc. - Chief Executive Officer, Director*

Yes. Great question. Competitive dynamics have been really consistent in this quarter. We still have one primary competitor. Our position versus that competitor is, I think, stronger than it's ever been. They've struggled with reliability and meeting the needs of customers in this new Agentic era with security and trust and other dimensions. And so we're seeing higher win rates. We're seeing both wins on the first order side as well as the expansion side as reflected in our numbers, 100% growth in first orders and more than 40% net ARR expansion.

In terms of AI natives, what I would say there is really, this is an opportunity. They're creating tailwinds for us. They've dramatically simplified the ability for anyone to create code and all of that code needs GitLab. And so we're now seeing, as I've mentioned, our customers coming to us and saying they need more GitLab seats because of non-engineering people who need access to the platform. And those same users who are now needing seats will ultimately also need credits in order to use our consumption-based products. So we're happy to partner with any Agentic coding tools out there because we see it as creating tailwinds for the business that we have.

Nic Edwards - *GitLab Inc. - Vice President - Finance, Strategy and Operations*

Nick Altmann, US Bancorp.

Nicholas Altmann - *BTIG LLC - Equity Analyst*

Awesome. I wanted to follow up on Radi's earlier question. How much of the interest in Flex or the $100 million CRR target is being driven by some of the newer products like Duo Agent Platform, Orbit, Secrets Manager and the Dedicated Hosted Runners? Because I think you mentioned that not all of it will be incremental to revenue, but presumably some of those newer products should be incremental. So just any color on how much those newer products are driving some of the interest in Flex or that $100 million CRR target would be super helpful.

Jessica Ross - *GitLab Inc. - Chief Financial Officer*

Just on the financial piece of it, it's really too early to tell, but I'll let Bill speak to a little bit more in terms of the interest that we're seeing so far.

William Staples - *GitLab Inc. - Chief Executive Officer, Director*

Yes, we only had six weeks in Q2, so the 130 customers and $20 million is what we've already captured. But I think it's important to step back and understand the strategy because even when customers are shifting to Flex and drawing down on that commitment with seats, it changes the nature of the relationship. And it's an important part of the strategy to understand because the needs today of software engineering teams are changing dramatically every week, every month, every quarter. New tools emerge, new techniques emerge, new models come into market and customers want the flexibility to allocate their spend as their needs evolve.

If the current seat-based subscription model was meeting their needs, there would be no need for Flex. There'd be no demand for it. We wouldn't be seeing the rapid uptake and adoption that we've already seen. So clearly, customers see the benefit of it, and they may start to fund their Flex agreement with their previous seat-based subscription dollars, but they see the value proposition and having the flexibility to adapt and evolve that as our new products come into market.

And certainly, some of that is driven by our current consumption product, Duo Agent Platform that launched in January and then the new emerging ones that just launched in August, the Secrets Manager and the Dedicated Hosted Runners. But we have meaningful usage of our beta products already going on. And I think customers are also looking ahead and appreciating the flexibility that we're extending to them via the Flex agreement.

Nic Edwards - *GitLab Inc. - Vice President - Finance, Strategy and Operations*

Shrenik Kothari, Baird.

Zachary Schneider - *Robert W. Baird & Co., Inc. - Analyst*

This is Zach on for Srini. I'll echo our congrats on the strong quarter. So my question on gross margins. It's obviously come down a bit as the business has begun supporting more AI and usage-based workloads, while credits still increasingly monetize both the human and nonhuman activity. So I guess the question is just how much of the recent gross margin movement is actually related to AI inference and infrastructure versus other factors?

And then as agent usage scales, what gives you guys the confidence that pricing, model efficiency, orbit and just your ability to route workloads across models can drive attractive incremental economics maybe rather than creating a structurally lower margin revenue mix?

Jessica Ross - *GitLab Inc. - Chief Financial Officer*

Yes. No, thanks for the question. And just I think in terms of gross margins for the quarter, there's not really a big shift from what we've said previously. So our SaaS dedicated contribution is about 34%. That grew 36% year-over-year. And so that's really in line with what we've been messaging at the time of the IPO, we were at 22%. So we expect those margins to come down over time.

And then as we think about going forward, again, this is a year of investment and execution. We have intentionally invested in consumption products and pushing customers to focus on transitioning pilots to production. And so that's what you're seeing there.

But Bill, I don't know if you have anything to add there.

William Staples - *GitLab Inc. - Chief Executive Officer, Director*

Yes. On the -- you sort of alluded to tokens and AI optimization potential within how GitLab looks at AI-native products. So let me talk just a little bit about that because I think we're in the very early days, and we actually have several structural advantages versus maybe typical AI native tools whose almost entire monetization is based on tokens.

One of the beautiful things about Duo Agent Platform is that we provide it in a cloud-agnostic model-agnostic way, meaning we support all of the models, including open-source open-weight models, and we allow customers to deploy it and use it in any cloud, including, for example, air-gapped data center environments that they run.

And what that means is for many of our customers, the token or inference cost is actually not embedded in the GitLab agreement. They pay us for the access to the platform, and they pay for the work done in the platform, the context, the harness, the governance and auditability that we provide, not the inference. Those are all very high-margin products.

In addition to that, we're in the very early days of AI adoption. There's very simple things on the road map that we and others are approaching over time, which would allow for dynamic model routing, model optimization to deliver high-quality agentic outcomes in a more cost-efficient way. Those are also things that we want to provide to give customers the very best experience and price to value performance.

So I encourage you to think about gross margins maybe a little bit differently than maybe typical AI natives. And as Jessica alluded to, a lot of the margin changes that we've seen in the business have been driven more by the mix shift to SaaS than the early AI adoption.

Nic Edwards - *GitLab Inc. - Vice President - Finance, Strategy and Operations*

Lucky Schreiner, D.A. Davidson.

Lucky Schreiner - *D.A. Davidson & Co. - Associate Vice President*

Okay. Great. This is Lucky with D.A. Davidson. Maybe just on the customer story who expanded their monthly commitments by 10x, was that primarily driven by an increase in usage and the [are] they got? And how much of that was maybe from vendor consolidation and replacement of other tools? And how applicable do you view that kind of expansion motion across your customer base?

William Staples - *GitLab Inc. - Chief Executive Officer, Director*

Yes. It's a top US bank, and they previously had started with a fairly modest commitment to Duo Agent Platform. And once they started rolling it out across their engineers and seeing the value that it provides, saw the need to increase their commitment 10x this quarter, which we would love to replicate across every single customer. We believe that the value of Duo Agent Platform is there, and it's complementary to other AI native tools that are more focused on the coding aspects of software.

So yes, we're really excited by that lighthouse customer. We've got several now that are spending multiples in excess of their premium or ultimate seat price now in terms of credits. And it's a pattern that we're trying to learn and optimize for and repeat everywhere we can.

Nic Edwards - *GitLab Inc. - Vice President - Finance, Strategy and Operations*

All right. That's the end of our call. Thank you, everyone, for joining our Q2 call this quarter. We're really excited by the results we're able to deliver this quarter, and thank you for joining us. We'll see you in the investor conferences to come.