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GitLab Q2 FY 27 Earnings Call

Prepared Remarks

Sep 1, 2026

Nic Edwards:

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, 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 non-recurring 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…

Bill Staples Remarks:

Thanks Nic, and good afternoon everyone.

Q2 was an exceptional quarter, let me start with 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 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 we laid out for this year.

First, accelerating 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 onto GitLab. It is important to win customers of all sizes, including AI start-ups and others with small orders to begin with, 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 productive 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 we've made in 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 the increasing amount of work happening across the software lifecycle.

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 change.

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 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 good for GitLab. Flex was designed to do this in three important ways:

1. **It helps customers get more value from every dollar they commit to GitLab.** Instead of leaving unused capacity stranded as shelfware, customers can redirect those dollars toward the products creating the most value for them. We believe better utilization should strengthen an already healthy retention profile by reducing the potential for churn and contraction driven by unused spend.
2. **It reduces sales and procurement friction.** 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.
3. **It lets usage expand seamlessly as customer needs grow.** Customers can consume any eligible product on demand, including Premium and Ultimate seats, and usage above their commitment is billed in the month it occurs. That removes many of the true-up and contracting cycles required today, gives customers more flexibility, and creates another potential growth tailwind for GitLab as usage expands.

Paid Consumption Run Rate ended the quarter above $40 million, up from $15 million exiting 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 primarily through seat subscriptions. We expect to exit it with seats continuing to grow alongside a meaningful and scaling consumption business.

Fourth, we needed to improve our performance in our price-sensitive customer segments.

I'm pleased to report we saw stabilization in SMB and mid-market this quarter, with performance ahead of our targets in both expansion and First Orders.

Our thesis was that increased focus and investment in this segment could improve performance, and this quarter's results are encouraging. We want to see that performance sustain over the next few quarters, but we're increasingly confident we're on the right path.

Fifth, we are executing our bold AI strategy.

This quarter, Duo Agent Platform Paid 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 U.S.-centric first quarter. And one top-20 U.S. commercial bank expanded its committed AI credit pool nearly tenfold during the 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 more valuable.

We're seeing early evidence of that with GitLab Orbit, our context graph for the software lifecycle.

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 across 79 real merge requests and saw accuracy improve from 58% to 70%.

And the same dynamic is visible across our core platform.

Year over year, secure repositories grew 60%, code pushes grew 50%, and CI/CD pipelines grew 40%. Among some customers moving most aggressively into AI-assisted development, we've seen codebases grow as much as 500%.

The pattern we're seeing is increasingly clear:

As enterprises adopt more AI development tools, they use more GitLab.

That matters because our core business remains very strong. Ultimate now represents 59% of ARR and eight of our top ten 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 groups.

First, Ian Steward and our 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.

And I especially want to recognize our entire GitLab team.

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, they 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 incredibly proud of you 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 CFO Remarks:

Financial Results:

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 five 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 lifecycle.

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 Platform's 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 $1.257 billion in cash and investments.

Flex

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 multi-year — 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 this 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 customer's 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 $13M 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 at 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 twelve 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.

Conclusion

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.