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GTLB.OQ - Q2 2026 GitLab Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day everyone, and welcome to today's GitLab second quarter fiscal year 2026 conference call. (Operator Instructions) It is now my pleasure to turn the conference over to Cassidy Fuller-Patterson.

Cassidy Fuller-Patterson - *GitLab Inc - Senior Investor Relations Analyst*

Good afternoon. We appreciate you joining us for GitLab's second quarter fiscal year 2026 financial results conference call. With me are Bill Staples, our CEO; and Brian Robins, our CFO. During this afternoon's call, we will provide an overview of the business, commentary on our second quarter results, and guidance for the third quarter and fiscal year 2026.

Before we begin, I'll cover the Safe Harbor statement. I'd 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 and 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 the 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*

Thank you, Cassidy, and hello, everyone. Thank you for joining us today. I'm pleased to report strong second quarter results, with revenue that increased 29% year-over-year to \$236 million, and non-GAAP operating margin reaching 17%.

Before we get into the broader business update, I want to call out that we're maintaining this year's revenue outlook while raising non-GAAP operating profit, demonstrating our commitment to responsible growth and operating discipline. This is to account for the ongoing go-to-market evolution under new leadership and an updated view on small business. We'll go into more detail shortly.

As a reminder, we started our fiscal year with three objectives to help us focus on the things that we believe will help us drive our next leg of growth with improved operational efficiency, to continue to scale and become a generational company in our category.

Here's an update. Our first objective is to add more new paying customers, especially in the mid-market and enterprise segments. To be a multibillion-dollar growth business, we need to add new customers every quarter who can grow with us.

All cohorts since the inception of the company continued to expand with us at about the same rate, but new business cohort member sizes have been getting smaller. It's time to balance our expansion efforts with discrete motions focused on new customer acquisition.

To achieve this, we're establishing two parallel tracks, sales-led growth and product-led growth. On the sales-led side, Ian Steward, our CRO, just completed his first quarter and delivered strong results. He is leading several strategic initiatives to help set us up for continued scale as we grow beyond the \$1 billion revenue mark, including establishing a global new business team focused on first orders and a post sales motion to support rapid module adoption and value realization.

We'll ramp this initiative over H2 with the goal of starting to provide benefits for FY27. Our startup program has contributed to new customer growth this quarter, with a 72% quarter-over-quarter increase in the number of new startups joining the program, of which 56% were AI companies.

A powerful example of a new customer win is our Q2 deal with chaos, a provider of world-class visualization and design solutions used across multiple industries, including architecture and design, media and entertainment and product e-commerce.

In a highly competitive evaluation, chaos selected GitLab Ultimate for our end-to-end DevSecOps capabilities, including built-in security scanning and SOC 2 readiness which are essential to chaos' growth strategy following several recent acquisitions and mergers.

On the product-led side, we will begin a growth motion focused on customer acquisition through self-service experience. I'm pleased to share that I've hired Manav Khurana as our new Chief Product and Marketing Officer.

Manav and I worked together for four years at New Relic. He has held executive roles in product-led growth, marketing and product management, and he's an expert in product-led growth. At New Relic, he built a large high-growth self-service business from scratch, that contributed nearly 50% of customers to the overall base in three years.

I have confidence in Manav's ability to drive results at GitLab and expect this to gradually ramp over multiple quarters. Our second objective is to help customers realize the value of our platform faster, helping to drive revenue expansion. Here again, we're pursuing a dual sales-led growth and product-led growth strategy.

On the sales-led side, we've strengthened our bench and are implementing multiple programs to reinforce sales and post sales excellence. This includes better processes, sophistication around pipeline generation and price control.

We're also improving our training enablement efforts, particularly around AI. And we're developing new sales plays that will provide more focused outbound activities based on actions where we've previously seen results. This is all complemented by enhanced customer success and post sales playbook designed to accelerate customer value realization and platform adoption.

On the product-led side, our product-led growth motion will increasingly trigger qualified lead signals to our sales force. This will help them understand moments when our field can engage customers and better support their journey towards more value.

We had good success with expansions in Q2 with customers like adesso, Clario and Virgin Media O2. For example, Virgin Media O2, one of the largest mobile network operators in the United Kingdom, has increased their ultimate investment by more than 5 times since 2022, as they've embraced our comprehensive platform approach. Virgin Media O2 has become one of the most prolific adopters across source code management, CI/CD and security scanning, and also recently enabled GitLab Ultimate with Duo.

Our GitLab Ultimate and dedicated products represent the highest value offers for purchase. GitLab Ultimate now represents 53% of our total ARR, with 8 of our 10 largest deals in the quarter, including Ultimate. Customers are increasingly recognizing our abilities in security and requiring that security be embedded with code development.

The compelling security capabilities of the GitLab platform continue to be a strong driver of ultimate adoption. Our new customer win with the major European fintech company is a great example, with Ultimate, they expect to reduce mean time to recovery from two to four days to two to four hours and achieve 100% security scanning across all projects.

We also continue to see strong adoption of GitLab Dedicated, now contributing approximately \$50 million in ARR, growing 92% year-over-year. Let me provide a couple of additional examples from the quarter of major customers and how they're realizing platform value.

This quarter, we expanded our relationship with a top US bank that upgraded to GitLab Dedicated after seeing success with GitLab Premium. They are also deploying 1,000 new seats of GitLab Duo Enterprise, enabling them to automate compliance enforcement and giving the power back to developers to innovate at the speed they need.

Another example is the government technology agency of Singapore, which uses GitLab Dedicated for its [Singpass] platform that support Singapore's digital government services. In Q2, GovTech Singapore expanded its deployment to include GitLab-managed hosted runners fully integrated with its dedicated instance. This will allow GovTech Singapore through its Singpass platform to redirect technical expertise towards improving developer experience rather than maintaining infrastructure.

Finally, our third objective is to accelerate customer-focused innovation by focusing in our core DevOps, security and AI areas, with an aim to provide higher quality, more complete market-leading solutions in all three areas.

I'm excited at the accelerating pace of innovation that our teams are delivering. Some highlights of what we've delivered over the last few months include 28 new features in GitLab Premium, 33 new features in GitLab Ultimate, and 11 new features in GitLab Duo Pro and Enterprise. That's a total of 72 new features across our paid tiers and offerings.

For example, in core DevOps, we're simplifying dependency management with our Maven virtual registry now in beta for GitLab Premium and Ultimate customers. We also released GitLab Runner 18.1, a cornerstone feature of GitLab CI/CD pipelines which we continue to enhance and invest in, and we've added immutable container tags, a new merger quest homepage, and custom workflow statuses for issues and tasks. These features extend GitLab's competitive advantage over the best-of-breed solutions.

In security and compliance, we continue to strengthen our capabilities. Today, customers can now use GitLab's new CICD components to support SLSA Level 1 compliance. We've also added PHP support for advanced SaaS, increased SaaS coverage for GitLab Duo vulnerability resolution, a new group overview compliance dashboard and the beta of centralized security policy management.

And we rolled out compromised password protection to 100% of GitLab.com users which helps protect all user accounts from credential-based attacks. Our innovation to embed security seamlessly within development is a key driver for why large customers continue to expand with us.

For example, one of the largest wireless operators in the US is using the security policies and GitLab Ultimate to implement comprehensive shift left practices that automate security scanning, enforced guardrails across their CICD pipelines, and require merge approvals tied to scan results, all without slowing down innovation.

In Q2, they expanded their GitLab Ultimate deployment by adding 4,000 new users as part of their initiative to standardize on GitLab as the organization's primary software development platform for all engineering teams.

Customers are really excited by the rapid development and promise of AI tools. GitLab customers are actively testing multiple tools and developing their internal use strategies. GitLab Duo Agent Platform is resonating with customers who see immediate value in our agentic AI capabilities as one senior software architect at the leading communications industry supplier put it. I've been impressed watching GitLab's agentic AI capabilities evolve with the new Duo Agent Platform.

The autonomous task delegation and rent tools functionality are genuinely useful additions to our workflow. Our expansion with Emirates, the world's largest international airline demonstrates the competitive advantage of our integrated AI approach with GitLab Duo Enterprise.

After comparing Duo with other solutions, including GitHub CoPilot, Emirates decided to go all in with GitLab, renewing their investment and upgrading to Duo Enterprise. We're also seeing traction with our GitLab Duo with Amazon Q offering. Our AWS partnership delivered a significant milestone this quarter with HFM, a global retail broker serving over 2.5 million client accounts.

Originally, at GitLab, a Community Edition user, HFM, was looking to replace point solutions such as Jenkins with GitLab. At the same time, they were actively evaluating AI cogeneration tools such as Amazon Q developer, Gemini and GitHub CoPilot. Our GitLab Duo with Amazon Q offering was a natural choice since it allows HFM to leverage Amazon agents where their developers are already working in GitLab's DevSecOps platform.

Now I want to address three common questions I've been hearing from investors recently regarding the impacts of AI and our strategy. First, we've received questions about the balance of our growth between pricing and seat growth. I'm pleased to share that seat growth has accounted for more than 70% of our revenue growth. And in fact, we've seen accelerating double-digit paid seat growth rates over the past year.

Every customer cohort since inception continues to expand with us. We've shared this one-time metric to help you understand the trends that we're seeing in the business. The second question is how AI will impact seat growth in monetization.

There are some who assume that AI will reduce engineering head count and impact our seat growth. During the quarter, we conducted a third-party survey of nearly 400 customers to better understand the impact of AI on their use of GitLab.

91% of customers we surveyed believe AI-native dev tools will increase their use of GitLab within the next 24 months, 88% expect their developer headcount to increase or stay the same within the next 12 months and 78% of those expected to increase.

GitLab's monetization opportunity doesn't end with seat growth. With the Duo Agent Platform, we are enabling engineers to collaborate with AI agents, and do many tasks automatically and in parallel instead of manually or one at a time as they do today.

We plan to charge for all of this work done via usage charges, whether that work is done by our agents or our partners' agents hosted and integrated into our platform. This means our business model will evolve from a purely seat-based model to a hybrid seat plus usage-based model.

When launched customers will receive some included usage with their base subscriptions so they can easily begin to adopt Duo Agent Platform, pay as they go beyond the included amount, and commit in advance to additional usage to receive the very best pricing.

Finally, I'd like to expand on the competitive environment. It seems with each passing month, there's a new start-up or large new vendor shipping AI cogeneration tools. With GitLab Duo Agent Platform, we're positioning ourselves differently from code generation-focused AI tools.

Multiple independent studies have highlighted significant issues related to the current generation of coding assistance. This quarter, there were multiple reports that show the code these tools generate isn't always high quality or secured.

And research has shown that almost right code isn't having the positive effect on developer productivity that organizations had hoped for. These are the same challenges human engineers already have and the mission GitLab was built around.

As an AI-native DevSecOps orchestration platform, we welcome engineers, and AI cogeneration tools with open arms. Our platform helps engineers and AI agents and tools they choose to build, verify, secure and deploy enterprise-grade software that meets the world's toughest privacy, security and compliance standards. If you're running a business and you want to embrace AI as part of your engineering process, we believe you need GitLab.

This is why just a few weeks ago with GitLab 18.3, we announced agentic partnerships with Anthropic, OpenAI, Google, Amazon and Cursor and shipped native integrations with Claude Code, Codex, Amazon Q, Gemini CLI and open source agents.

We also delivered our first model context protocol server with partnership support from Cursor. We see these strategic partnerships as a strong affirmation of the value of our platform. True to our roots, we are the only vendor to provide this level of interoperability.

GitLab Duo weekly active usage has increased nearly 6x so far this year, albeit off a small base. One quarter of this usage are new Duo users on the capabilities included in premium and Ultimate, enhanced with 18.0, and these users now have access to Duo Agent Platform in beta.

We are on track for Duo Agent Platform GA by the end of this year. This is a very bold and ambitious target, and I want to set proper expectations. We'll ship when we reach our quality bar and customers are ready to pay for the service.

In addition, it is important to remember that adoption of an on-premises software like GitLab can take time. Approximately 70% of our revenue is from self-managed deployments and customers often take many quarters, sometimes years to upgrade. Our flexible deployment options and vibrant partner ecosystem is part of what makes GitLab unique.

As a public company, not controlled by a single cloud hyperscaler, GitLab stands for independence, the independence of our customers to build software in the cloud of choice and with their choice of AI providers and using their choice of AI cogeneration tools.

We stand alone in that promise. The world needs GitLab today more than ever. To close, I want to address the leadership news we announced this afternoon. By now, you all should have seen the news that Brian Robins will step down as Chief Financial Officer to pursue another opportunity.

They'll stay with us until September 19 to help ensure a smooth transition. On behalf of the entire company, I want to thank you, Brian, for your many contributions and wish you all the best. We've initiated a search for a successor and are fortunate to have a deep bench of talent throughout our finance organization during this period.

We expect to name James Chen, Vice President of Finance as Interim CFO; and to promote Controller, Simon Mundy, as Chief Accounting Officer. James has been with us since 2021 and has played an integral role in shaping our business, strategy and financial principles.

We're confident this will be a seamless handoff. I'm really excited by the fresh energy and new perspectives from new team members, which will complement the experience and strength of our existing team. I feel confident in the health of the business, our competitive position in the market, and the increasing strength of our AI strategy. I'll keep you updated as we progress each quarter.

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

Brian Robins - *GitLab Inc - Chief Financial Officer*

Thank you, Bill. It's been a life-changing opportunity and a real privilege to be able to contribute to GitLab's success and growth in this chapter of my career. I want to thank the entire GitLab team and the Board for their partnership throughout my tenure, and let me be part of this journey.

Sid and Bill, thank you for your support and trust you place in me as a partner. We built a category-defining leader and architected the company for global scale, with improving margins and free cash flow generation. The world needs GitLab today more than ever. I'm confident in GitLab's future and look forward to tracking our continued success for decades to come.

Now let's turn to the results. I'm pleased with our second quarter results, which resulted in 29% revenue growth and significant year-over-year operating margin expansion. Our continued growth underscores the incredible value customer realized with our AI native DevSecOps platform.

Second quarter revenue reached \$236 million, an increase of 29% from Q2 of the prior year. We now have 10,338 customers with ARR of at least \$5,000, which contributed over 95% of total ARR in Q2. Our larger customer cohort of \$100,000 plus an ARR increased 25% year-over-year and reached 1,344. We continue to have a diversified customer base both by industry and geography and new single customer accounts for more than 2% of ARR.

On the expansion front, we ended the quarter with a dollar-based net retention rate, or DBNRR of 121%. Q2 DBNRR was driven by a combination of seat expansion at approximately 80%, increased customer yield at approximately 5%, and the balance due to tier upgrades.

I'd like to reiterate some of the onetime disclosures on seats that Bill discussed. Over 70% of our revenue growth in FY26 is due to paid seat growth. And over the last four quarters, we've seen an accelerating double-digit rate of paid seat year-over-year growth. Less than 10% of the FY26 revenue growth was derived from the premium price increase.

I'd like to take a moment to discuss the power of our business model. Our customer retention metrics continue to reflect the strength and durability of our platform value proposition. We maintain consistently strong net dollar retention rates across our customer cohorts.

Most importantly, our historical customer cohorts continue to expand, speaking to the value of the proposition of our platform even in challenging environments. Our 2016 cohort, now nearly a decade old showcases this trend, growing 103.6 times in ARR since its inception.

This continued expansion from one of our oldest cohorts demonstrates the power of our land and expand model, validating that our customers continue to drive value from our AI native platform long after initial deployment.

Total RPO grew 32% year-over-year to \$988.2 million, while CRPO grew 31% year-over-year to \$621.6 million. We encourage investors to look at these numbers over a multi-quarter period. Non-GAAP gross margin was 90% for the quarter.

The team continues to do a good job of driving operating efficiencies to maintain our best-in-class gross margin even as our SaaS business is quickly scaled, driven in part by the strength of the GitLab Dedicated. SaaS now represents approximately 30% of the total revenue and grew 39% year-over-year. Once again, we saw a significant increase in operating leverage.

Q2 non-GAAP operating income was \$39.6 million compared to \$18.2 million in Q2 of last year. Non-GAAP operating margin was 16.8% compared to 10% in Q2 of last year, an increase of approximately 682 basis points year-over-year.

We believe we have a very strong business model that gives us the flexibility to continue to invest in the business and expand operating margins. Q2 FY26 adjusted free cash flow was \$46 million, with adjusted free cash flow margins of 20% compared to \$10.8 million in the prior year.

We ended the quarter with \$1.2 billion in cash and investments, providing us with a significant flexibility to navigate market fluctuations while continuing to invest in both our AI capabilities platform enhancements and go-to-market organization.

Separately, I'd like to provide an update on JiHu, our China joint venture. In Q2 FY26, non-GAAP expenses related to JiHu were \$3.3 million compared to \$3.3 million in Q2 of last year. Our goal remains to deconsolidate JiHu.

However, we cannot predict the likelihood or timing of when this may potentially occur. Thus, for FY26 modeling purposes, we forecast approximately \$18 million of expenses related to JiHu compared with \$13 million from last year.

Now turning to guidance. For the third quarter of FY26, we expect total revenue of \$238 million to \$239 million, representing a growth rate of approximately 23% year-over-year. We expect non-GAAP operating income of \$31 million to \$32 million, and we expect a non-GAAP net income per share of \$0.19 to \$0.20, assuming 171 million weighted average diluted shares outstanding.

For the full year of FY26, we expect total revenue of \$936 million to \$942 million, representing a growth rate of approximately 24% year-over-year. We expect a non-GAAP operating income of \$133 million to \$136 million, and we expected non-GAAP net income per share of \$0.82 to \$0.83, assuming 171 million weighted average diluted shares outstanding.

We're maintaining our full year revenue guidance at the present time to account for the go-to-market organizational changes we are implementing that Bill discussed earlier. We see these changes as foundational for the company and expect they will position us for strong future performance.

Additionally, we are seeing incremental softness in SMB that we expect will persist through the rest of this year. While GitLab continues to benefit from consolidation versus point solutions, budget pressures as a whole are weighing on this segment. Against this, we have raised our full year profit outlook, reflecting strong operating leverage in the business and a commitment to responsible, sustainable growth.

In summary, I'm pleased with our second quarter results. GitLab stands uniquely positioned as the only cloud-agnostic model neutral DevSecOps platform with comprehensive contextual AI capabilities that span planning through deployment, capable of running anywhere, including air gap environments.

Our TAM continues to grow, and we are investing strategically against opportunities that we expect will drive long-term value. We are delivering sustainable growth while enhancing profitability and free cash flow. We're positioning GitLab for long-term success regardless of market conditions.

With that, I'll turn the call over to Cassidy, who will moderate the Q&A.

QUESTIONS AND ANSWERS

Cassidy Fuller-Patterson - *GitLab Inc - Senior Investor Relations Analyst*

(Event Instructions) Rob Owens, Piper Sandler. Our following question will be from Matt Hedberg with RBC.

Rob Owens - *Piper Sandler - Analyst*

Great. Thank you for taking the question. I guess given I only have one, I will annoy Brian with a two-parter here and congrats, Brian. Bill, on the first part of the question, obviously, since you joined about nine months ago, a lot of executive turnover.

Maybe just help us get comfort directionally with what's changing, what's not changing in your view because from a product development, go-to-market standpoint and a financial standpoint now, I guess you have new chiefs across all those different divisions.

And then Brian, for you, I appreciate some of the conservatism relative to the go-to-market organizational changes and incremental softness in SMB. But if I look at the first half versus the second half, just from a growth perspective. You saw about 28% growth in the first half and only 21% forecast in the second half.

So is there incremental conservatism that we should think that's built into the second half around these factors or that the same amount of conservatism with, I guess, the reality of what you're seeing in SMB? Thanks for taking those guys.

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

Thanks, Rob, for the question. I'll take the first part around the management changes. I'm really grateful for the many team members who've helped make GitLab the company it is today, including Brian. I'm here to bring stability and scale to GitLab and the combination of new executives that we've brought in and the experienced team members that are here creates a really exciting and dynamic environment that I believe will help us scale.

The AI cycle represents both a tremendous opportunity and a risk if we don't capitalize it. So as we see our first \$1 billion in revenue coming into site, scaling to our second \$1 billion and beyond is really our focus. And I'm excited about the road ahead.

Brian Robins - *GitLab Inc - Chief Financial Officer*

Yeah, thanks, Bill, and Rob, I'll -- let me just touch on guidance a little bit. For Q2, we're pleased with the execution on the financial results and the metrics across the board. We did have some outperformance related to linearity, and so we had the strongest first month of bookings than we had in the last two years in this quarter, over 20% was booked in month one.

And then we also -- the mix of SaaS versus self-managed was opposite of 1Q. So we got more recognition in the quarter for that as well. We raised profitability for the year. In Bill's prepared remarks, he talked about some of the changes that Ian's making and go to market after he's been here one quarter.

So just to be prudent as we source the foundation up for next year, we held guidance at the same for the full year. And so mechanically, I took a little from 3Q and the rest from 4Q, and that's where the number shaped out that you alluded to in your question.

Rob Owens - *Piper Sandler - Analyst*

Thanks.

Cassidy Fuller-Patterson - *GitLab Inc - Senior Investor Relations Analyst*

Matt Hedberg, RBC. And our following question will be from Kash Rangan at Goldman Sachs.

Matthew Hedberg - *RBC Capital Markets Inc - Analyst*

Great, thanks for taking my question guys. And Brian, congrats on everything you've done here and best of luck at Snowflake. A lot of great commentary this quarter. Thanks for the one-time disclosures on seat-based growth. That's great to hear. And obviously, a lot of exciting things around Duo Agent Platform.

And I think we're all excited to hear about what the consumption element may add to that as we go, understanding it's going to take time to roll into the model. But I guess my question is, there's a lot of go-to-market changes that were announced here and kind of rethinking how to accelerate

new customer lands. I guess how long should we expect some of those changes to take place and ultimately drive sort of the positive implications that Bill, you noted on the call.

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

Yeah, great question, Matt. Thank you. I'm really excited to have Ian join the team. He hit the ground running, really happy with how the team handled the transition. It went really smoothly, and we're pleased with what the team did this quarter.

Ian is a really thoughtful, strategic and data-driven leader that's optimizing for both the mid- to long term as we look past the \$1 billion revenue mark. And setting up the organization to be able to scale to multibillions in revenue while making the best of every quarter.

So the changes that he's envisioning and kind of the time lines that we have in mind are really about ramping kind of three things over H2 as we look to FY27 and beyond. Specifically, first, as I shared, we're focusing on a new -- ramping a new business division.

This is really focused on the first order acquisition and post sales motion to accelerate value realization and module adoption by enterprise customers, that will ramp across H2, and then we hope to see some results early in FY27.

Second, he's also evolving our enterprise sales motion with more sophistication. That means increasing our pipeline coverage, and improving sales playbooks to account for the AI opportunity and stronger coverage of our entire product portfolio. It was only a few years ago, we kind of had two SKUs, Premium, Ultimate. Now we've got a lot more in the bag and a customer journey to help our customers navigate and those are all really needed.

The third, he's also looking at sales capacity, and we're good on capacity this year, everything is in the guidance. But we're starting again to look ahead and make adjustments to help us scale beyond that \$1 billion mark.

That means things like deeper coverage in established markets and installed base, stronger investment in growth markets and more verticalization and specialization as part of our coverage model. So those are all, I think, really meaningful and strategic changes that we're managing in -- across the H2 time frame as we start to ramp up and prepare for FY27.

Brian Robins - *GitLab Inc - Chief Financial Officer*

And Matt, the only thing I'll add on to that, 100% correct is that we stuck to the full year guidance, right? So in the second quarter, we had some one-time events that elevated second quarter by the beat. And so we're going to deliver those changes and still deliver the full year revenue number that we committed to last quarter.

Cassidy Fuller-Patterson - *GitLab Inc - Senior Investor Relations Analyst*

Perfect. Thank you. Kash Rangan, Goldman Sachs. And our following question will be from Koji Ikeda with Bank of America.

Kash Rangan - *Goldman Sachs - Analyst*

Hello, can you hear me okay?

Cassidy Fuller-Patterson - *GitLab Inc - Senior Investor Relations Analyst*

Yes, I think.

Kash Rangan - *Goldman Sachs - Analyst*

All right, great. Thank you so much. Sorry about the confusion for earnings conference call, it's happening at the same time. So Brian, sorry to see you go to another opportunity. Bill, can you talk a little bit more about the go-to-market transition, a little bit more color on what exactly you're trying to accomplish?

What does success look like the transition time to achieve the desired results from a go-to-market perspective? And it's good to see the reacceleration of the business. So congrats on that. Thank you.

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

Kash, the previous question I covered some of those changes already, just to recap them quickly, new business division focused on first order motion and accelerating module adoption for value realization. Second around our enterprise sales motion, increasing pipeline coverage, sales playbooks across our product portfolio.

And then third, looking at more sophistication in how we look at sales capacity. We've got everything we need for this year, but looking ahead, how do we evolve for deeper coverage in established markets, but also investment in growth markets as well as verticalization and specialization. Those are all changes that, again, will be ramping on H2 as we look towards FY27, and scaling beyond the \$1 billion mark.

Cassidy Fuller-Patterson - *GitLab Inc - Senior Investor Relations Analyst*

Perfect, thank you. Koji Ikeda, Bank of America. And our following question will be from Derrick Wood with TD Cowen.

Koji Ikeda - *Bank of America - Analyst*

Yeah, can you hear me okay? Is it better?

Cassidy Fuller-Patterson - *GitLab Inc - Senior Investor Relations Analyst*

Yeah.

Koji Ikeda - *Bank of America - Analyst*

Sorry about that. So I wanted to ask a question on the SMB. In the prepared remarks you talked about SMB softness potentially persisting for the rest of the year. And a little part of me can't help but think that maybe cogeneration tools or other hype dev tools out there are potentially creating some budget shifting with the SMBs out there as they're trying to look for the most efficient -- efficiency gaining tools right now.

And so what are you seeing out there from the SMB side specifically that is driving that softness kind of statement out there, how long could this softness persist? And what needs to happen out there outside of the macro for maybe the SMB segment to get bigger? And maybe last question on the SMB is how big is the SMB as a percentage of revenue today? Thank you.

Brian Robins - *GitLab Inc - Chief Financial Officer*

Yeah, Koji, thanks for the question. I was going to touch on the size of it. And so it's only roughly about 8% of the total business. And so the size itself is relatively small. Since we did the price increase, we talked about the SMB being a little bit more price sensitive.

And we've run a number of promos and promotions, and we've played around with pricing and packaging a little. And so it came in lighter than expected. It's sort of a no topic onto the web store. And so we don't have a big team on it, trying to push it, but we're continuing to play with pricing and packaging and so forth. And so -- we just wanted to call it out. It was something that we've seen prior quarters. It is a smaller piece of our business, and it's something that we're continuing to pay attention to.

Koji Ikeda - *Bank of America - Analyst*

Thank you.

Cassidy Fuller-Patterson - *GitLab Inc - Senior Investor Relations Analyst*

Derrick Wood, TD Cowen. And our following question will come from Sanjit Singh from Morgan Stanley.

Derrick Wood - *TD Cowen - Analyst*

Okay, I'm here. Brian, congrats on the next chapter. And my question is for Bill here. And Bill, you mentioned a lot of questions around competitive conditions and really interested to hear some of the findings you had from your survey.

One question we get, I'd love to hear your answer on is some worry that these new AI coding vendors will move from the IDE to more parts of the life cycle that you guys play in. So could you just -- could you talk about the defensibility of your platform and how you feel about the risk of those vendors ultimately competing with your core offering or the defensibility that you guys have?

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

Yeah. Thanks, Derrick. GitLab really does something different than the cogeneration tools. And they generate code. And as we've shared previously, that accounts for about 20% of the developers' time, while 80% of the time is really managing change of that code across the software life cycle to the conserve customers' needs.

So we really pick up where those cogeneration tools leave off. And it's sort of like a great ideas, they're pretty easy, but executing them and delivering results is where all the hard work comes in. You can think of GitLab as basically change management for source code that's generated either by humans, or by AI tools.

Our embracing of those tools is really part of the Duo Agent Platform strategy. So as you saw in 18.3 released last month, we've got a great partnership going now with Cursor so that there's seamless integration between Cursor and GitLab, so that code can flow and developers can have a great experience across GitLab and Cursor.

But also, we've taken the CLI-based cogeneration tools that are really popular right now like Claude Code, like Gemini CLI, like Amazon Q, and we're bringing those into GitLab natively. So those engineering teams are building incredible AI-based dev tools.

Now those are embedded within GitLab. Customers can choose to use them or our own agents seamlessly within GitLab and take advantage of all of the data and workflows that are already in our platform. So we really think of it as additive and creating more opportunity for us, not a competitive threat.

Derrick Wood - *TD Cowen - Analyst*

Understood, thank you.

Cassidy Fuller-Patterson - *GitLab Inc - Senior Investor Relations Analyst*

Thank you. Sanjit Singh, Morgan Stanley. And our following question will be from Brian Essex with JPMorgan.

Sanjit Singh - *Morgan Stanley - Analyst*

Thank you for taking the questions and congrats, Brian. It was great working with you and all the best in your future role. I had a question for you, Bill. On sort of new logo, new business side of the house. So when you look at the absolute level of growth in terms of how fast your base customers are growing, it's in double digits, which I would say is not bad, probably average or slightly above average for the rest of software.

But when you look at the trend line over the last several years, we've seen, I think, a string double-digit quarters of year-over-year deceleration in terms of customer adds and net new adds. And so I wanted to get your prognosis for why that was the case. And as we look forward and as you bring on the new leadership team, how do you -- what do you think the timeline is for turning that back around?

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

Yeah. That's very great question, Sanjit. It's why our number one objective as a company is to focus on that first order and new customer and acquisition because of that trend line you mentioned. It's really important that we do that because if you look at the cohort data that we shared, our 2016 cohort has grown at 100x. And every quarter, we build new cohorts of future growth.

And it has been decelerating. I would say that probably the primary cause of it is we have not incentivized or created a specialized sales force focused on first order. And we've let our reps bring in net ARR growth, the way that they're able to do that each quarter. And over time, as our revenue base has grown. Obviously, that has come in more and more through expansion as opposed to first order.

That's why I mentioned in the prepared remarks, it's time to balance our investments there and have more specialized sellers focused on first order as well as a new product-led growth approach to bring in customers through a self-service experience, both of those in terms of timeline will begin ramping now throughout H2. And we hope to see early returns on that in FY27.

Sanjit Singh - *Morgan Stanley - Analyst*

Appreciate the thoughts.

Cassidy Fuller-Patterson - *GitLab Inc - Senior Investor Relations Analyst*

Thank you. Brian Essex, JPMorgan. And our following question will be from Gray Powell with BTIG.

Brian Essex - *JPMorgan Chase & Co - Analyst*

Hi. Good afternoon, and thank you for taking the question. Brian, congrats for me as well. Bill, I was wondering if you could maybe expand on maybe the last question a little bit in terms of the hiring of Manav or appointment of Manav to Chief Product and Marketing Officer.

Any commonalities or analogies that you saw with New Relic with respect to the way that you anticipate similar efforts to benefit GitLab with planned go-to-market changes? Just love to get your take on college initiatives might affect the growth trajectory of the business as well as the expense associated with incremental investment? Thank you.

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

Yeah. I've been building developer tools and platforms for about 30 years, and it represents a really unique challenge because you've got a community of engineers who are very passionate about the tools they use, and they don't have budget, and therefore, you've got to work with both a top-down selling motion where you can talk to economic buyers, have a relationship with those who do have the budgets and lead those engineers.

But also have a continual effort to reach them with your new technology and innovation and win their hearts in mind so that they're passionate about your products and advocate for that internally. So there's a commonality there between New Relic and GitLab, but also most developer tools.

That's why as you look at the explosive growth of new AI tools like Claude Code and Cursor, you see that kind of rapid adoption and revenue growth but a product line growth approach can bring, which then drives more enterprise adoption over time.

This explains in part some of the delta between what you see with those new modern tools that have taken largely a product line growth approach and GitLab with Duo, which in its first few years, has taken more of a sales-led approach, where we've had a multi-quarter sales cycle, full year contractual commitments, upfront payment required, platform adoption.

Those are all gating factors right now with our dual strategy which in turn slows product feedback and iteration. So by moving to this product line growth and sales line growth approach, which Manav and I both have years of experience with, we're really confident that we can have the best of both worlds.

We'll continue to service the large Fortune 100 customers that we have today with a high cash sales approach but then also increase customer acquisition, adoption and innovation velocity with a more direct feedback channel from customers with our product-led growth approach.

Brian Essex - *JPMorgan Chase & Co - Analyst*

That's super helpful color. Thank you.

Cassidy Fuller-Patterson - *GitLab Inc - Senior Investor Relations Analyst*

Thank you. Gray Powell, BTIG. And our following question will come from Mike Cikos with Needham.

Gray Powell - *BTIG LLC - Analyst*

Alright, great, thanks, just want to make sure you can hear me okay. I know some others have had some issues there. Alright, awesome thank you. Thanks for taking the question. Okay. I know you've gotten a lot of the changes to the go-to-market sales motion. I'm a little bit confused, so I apologize in advance, but I'm going to ask another one.

I'm just trying to get a sense as to like the potential disruption in the second half of the year. And specifically, like how dramatically are your reps having their account packages changed? And then it is just the middle of the year, like are you changing sales incentives for fiscal '26? I'm just trying to like think through the mechanics of how this works.

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

Yeah. No changes to the compensation plan. No changes to the territories and customer assignments. This is really about beginning to ramp up and hire new teams and adjustments to the enablement and training and the sales place that they go execute every quarter.

So I don't expect them to be disruptive. We've included all of that factored into our guidance for the remainder of the year. And yeah, we're looking forward to really setting up for a stronger FY27.

Gray Powell - BTIG LLC - Analyst

Okay. And then just to be clear, is it going to a hunter-farmer model? Or like -- I just want to make sure that I start to keep pressing, but I just want to --

William Staples - GitLab Inc - Chief Executive Officer, Director

Yeah. Sometimes people use that terminology. Hunter is being sort of focused on new customer acquisition and farmers focusing on more customer value realization and expansion. You can think of that as not purely -- it's not going to let purely that way or not kind of the vision.

But the new team will definitely be focused on customer acquisition as the only focus that they have. And then our existing team members with existing customers are largely focused on expansion as well as opportunistic new customer acquisition as the opportunity allows.

Gray Powell - BTIG LLC - Analyst

Understood. Okay, thank you very much.

Cassidy Fuller-Patterson - GitLab Inc - Senior Investor Relations Analyst

Thank you. Mike Cikos, Needham. And our following question will be from Jonathan Ruykhaver from Cantor Fitzgerald.

Mike Cikos - Needham & Company LLC - Analyst

Hey, you have Mike Cikos here. Thanks for taking the questions, guys. And I'm going to circle around on the go-to-market as well here since it seems like we're touching on it with Sanjit and Gray's questioning. But for that go-to-market dynamic, can you help us think about where you're -- how you're incentivizing the proper behavior by using comp as a tool?

I would argue that GitLab's historical choice of letting the reps go after bookings or ARR is probably would that led us to over index towards the expansion with existing customers at the risk of the new logo. So how are you looking to use comp as a tool in that endeavor on these new initiatives? And then I have a follow-up.

William Staples - GitLab Inc - Chief Executive Officer, Director

Yeah, a really good question. It's a line compensation is an important factor in terms of driving the right behaviors and motivations. And while we've done some light touches to incentivize new customer growth this quarter, it's largely the same compensation model that we've had for years. And it works for a company that's, I'd say, sub billion in scale. And obviously, GitLab has enjoyed lots of rapid growth.

But now that we're reaching that \$1 billion scale mark, and we aspire to go to the second \$1 billion and beyond, more specialization is just a natural evolution of the enterprise go-to-market motion. We've got to invest in new customer acquisition as a dedicated motion while continuing to service existing customers and drive expansion.

We've also got to drive more specialization in terms of verticals. We've got a great public sector business. We've now got a nice financial services vertical as well, and we'll continue to build those businesses out as large customer bases with discrete go-to-market motion. So I'd characterize really what we're doing is a pretty natural evolution for enterprise sales, and it's going to help set us up for that second \$1 billion and beyond.

Mike Cikos - *Needham & Company LLC - Analyst*

That's great. And just a quick follow-up. I know you guys are going through the hiring and putting these initiatives in place in the back half of the year. But can you just remind us what is typical timeline for a new hire on that go-to-market side to ramp? Just so we can make sure that we're thinking about the contribution next year accordingly. Thank you.

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

Yeah. Our ramp-up period for enterprise sales rep is between six and nine months.

Cassidy Fuller-Patterson - *GitLab Inc - Senior Investor Relations Analyst*

Perfect, thank you. Jonathan Ruykhaver, Cantor Fitzgerald. And our following question from Raimo Lenschow with Barclays.

Jonathan Ruykhaver - *Cantor Fitzgerald LP - Analyst*

Yeah, thank you. And then Brian, congratulations, and it was great getting to know you and working with you. So looking at GitLab 18 and to be the Duo Agent Platform, I think what stands out to me is just how pervasive AI is becoming across the platform. And it's not just the code suggestion and review, it's around project management and orchestration.

And to me, it really seems like it's shifting the value proposition or has the potential to shift that value proposition away from these code suggestion tools to a more platform approach. And so I realize it's early with Duo Agent, but any telltale signs that indicate this recognition might be coming to the surface.

And then you also mentioned quarterly updates to the product or I read that somewhere. Any color on where that innovation is heading would Duo Agent Platform would be appreciated.

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

Yeah. Thank you for the question. It's really exciting to see Duo Agent Platform shape up. We release every single month, and we launched Duo Agent Platform in 18.2. And then last month, with 18.3 provided an additional set of new features and capabilities, including the partnerships that I mentioned with Cursor, with Anthropic, with OpenAI, with Amazon.

And we're just going to continue each month to expand the scope and the quality of Duo Agent Platform. Each month, we continue to engage customers as well and get their feedback. And feedback has been really positive, personally involved in customer conversations pretty much every single week to get their feedback and also to make sure they're aware of the innovation direction we're going.

And there's really multiple things they're excited by. Number one, our platform approach makes us ideal for AI-based collaboration. What we bring with unified data platform is rich context. And with AI, context is king. So we bring all that context and can drive higher quality agentic outcomes and lower inference costs.

Second thing that they're really excited about is our open ecosystem approach. We ability for them to continue to use GitLab, but have native integrations with the leading AI dev tools integrated directly with GitLab gives them the best choice. Not only can they run their own cloud choice use their own AI providers of choice, but they can also access and use the best AI tools on the market.

And then third, the other value proposition to get -- Duo Agent platform is exciting for them is we're providing more than just purpose-built agents, we're providing an ability to create custom agents and custom agent flows that can solve specific engineering challenges that they have, challenges that are unique to their business and their software processes.

And that's really something -- again, I haven't seen any other vendor do -- and having built software for 30 years, I can tell you every engineering team has their set of challenges, but no general purpose LLM can solve.

So by providing the platform that allows for that level of customization and extensibility customers are going to have an incredible AI-based approach to solving their toughest challenges. Really excited by the beta feedback so far. Again, we're aiming for GA at the end of this year and can't wait to see what customers do with it.

Jonathan Ruykhaver - Cantor Fitzgerald LP - Analyst

Yeah, helpful. Thanks, Bill.

Cassidy Fuller-Patterson - GitLab Inc - Senior Investor Relations Analyst

Raimo Lenschow, Barclays.

Damon Coggin - Barclays - Analyst

Hey guys, this is [Damon Coggin] on for Raimo. Thanks for the question and congrats on the new role, Brian. I'd like to see the acceleration in subscription SaaS business in 2Q to 39%. Can you help us understand the drivers of this performance? Is this driven by some of the newer AI coding tools or maybe execution from the GitLab sales team?

And if I can squeeze maybe one more. Were there any one-time items in the quarter that we should keep in mind? And then should we use the implied 4Q growth rate as a proxy for growth for next year? Thanks, guys.

Brian Robins - GitLab Inc - Chief Financial Officer

This is Brian. Thank you. Yeah, three questions in the one, so I'll answer part A,B, and C. And so the implied growth rate for 4Q, we talked about due to the go-to-market changes that are going to set up for success in FY27 and beyond.

We held full year revenue guidance flat, and so we took the beat in 2Q and spread across 3Q and 4Q. And so I hope that gives you some insight on how the guidance is put together. What was -- there was -- I didn't know you're going to ask three questions. There was --

Damon Coggin - Barclays - Analyst

Any one-time items for the second quarter?

Brian Robins - *GitLab Inc - Chief Financial Officer*

Yeah. So in the second quarter, there was two things that impacted the quarter was a linearity. We had the strongest month on bookings in the last two years, booked over 20% in the quarter in month one. Typically, month three is more heavily weighted towards month three. And then also, we had a greater SaaS mix than we did self-manage it reverted back to historical norms.

Actually, the other way around self-managed versus SaaS. And so self-managed, we get to recognize some upfront and so they're one-time in the quarter. And then you talked about are we doing anything different on SaaS to push SaaS versus self-managed.

We're agnostic to how the customer actually buys the product. We want to meet the customer where they want us to meet them. SaaS is so much easier for them to get up and running and has a lower total cost of ownership for them.

And so we see SAS and dedicated on dedicated. It was 92% year-over-year growth. We see both of them really being a great motivation for customers. They don't have to have the infrastructure. They get up running faster, they can realize their ROI quicker and so forth.

Damon Coggin - *Barclays - Analyst*

Thanks, guys.

Cassidy Fuller-Patterson - *GitLab Inc - Senior Investor Relations Analyst*

Thank you. That concludes our Q&A. I would now like to turn the call over to Bill for closing remarks. Bill?

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

Thank you. As we wrap up today, there's really three things that I hope you take away from the call that I'm genuinely excited about. First, our opportunity is enormous and only getting bigger. Our financials are strong and demonstrate a strong combination of free cash flow, margin and revenue growth. Seats are growing. And Duo Agent Platform, we're adding a new growth vector beyond sea-growth by monetizing autonomous work done.

Second, we have a really unique value proposition with our unified DevSecOps platform that only gets stronger because of AI, context is king, and our unified platform provides that full life cycle context. As the only pure-play cloud and model neutral independent public company delivering DevSecOps, we offer the world independence. Build your software in your cloud of choice using your choice of AI vendors and tools and get the very best experience for your engineers.

And third and finally, we're building a fantastic team with a combination of new executives and experienced team members that are excited to aim past the first \$1 billion in revenue and scale toward our second and beyond. Thanks for joining the call today. I look forward to seeing you all in follow-up conversations throughout the quarter.

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