We’ll go ahead and get started. Thanks, everybody, for joining this morning. My name is Adam Tindle, and this is part of my cybersecurity and infrastructure software coverage here at Raymond James. Very happy to have Bill Staples, who is CEO of New Relic. This is one that’s gotten a lot of interest, especially here lately, kind of a turning point in profitability that we’ll talk about, so heavy investor interest, glad that everybody is joining.

In terms of format, it’s just a fireside chat. We’re going to keep it fairly open. If you do have questions, please feel free to raise your hand, and we’ll get those questions over to Bill. So we’d love to keep it as interactive as possible. I tried to organize the discussion because I know that some of you may not be as familiar with New Relic and because there’s been so many changes here, exciting changes.

We’ll talk a little bit about the past, the present, and the future in terms of organizing the discussion. So certainly, if you’re newer and you have questions on the past, raise your hands and ask those during that time. Present and future is kind of how we’ll walk through the discussion.

So with that, Bill, again, thank you so much for joining us today.

Thank you.

For investors, like I said, that are not as familiar with the story, maybe we’ll start with kind of where you’ve come from, setting up the context to where we are today, so just a brief overview of the company and core market would be great.

All right. Well, thank you all for being with us today. It’s a pleasure to be here. New Relic was founded in 2008. Lew Cirne was our Founder and current Chairman. He is known for having created this application performance monitoring category that observability is part of or supersedes.

And the company went public in 2015, I joined in 2020 as the Chief Product Officer. Before joining New Relic, I was part of Adobe for several years, helping Shantanu with the enterprise software business that he has. And prior to that at Microsoft for many years, I spent more than
two decades building software with engineering teams, being an engineer myself and serving developers and engineers as customers.

So New Relic was really an exciting opportunity for me because it’s the union of building cloud software. The company was founded as kind of the first as a visionary product service delivered from the cloud to help application engineers, understand their software. And it’s a company focused on engineers as the customer.

So it was a perfect fit for me. I was really excited to join back in 2020 to help move New Relic forward. From a category space, what we do is we basically stand for data for engineers. We help engineers make decisions with data. And when you think about engineers, you might think, oh, it’s a type, it’s a role, it’s a profession.

There’s actually a lot of different kinds of engineers. We estimate about 25 different specialized engineering roles within any large company or organization. Some specialize in infrastructure. Some specialize in mobile applications. Some on backend services, some on front-end websites and web applications. Each of those different constituencies need to understand how their software is performing and how to make decisions in their job every day.

And up until this point or in recent years, many were flying blind without data. They would get feedback from the support team, from the sales team, from QA, from their product managers, from project managers, from executives. Everyone wants to tell engineers, go faster and build better stuff, because we need to grow our business.

And what they have done engineers loved to solve problems with software, right? So what they’ve done over time is they’ve built monitoring tools that measure that software’s performance and then they use that to try to keep the systems up and running and support their ongoing innovation.

Well, what observability does is a couple of things. What it – what we do is we help instrument every layer of the stack, everything from the infrastructure and hardware you run on, your public cloud, all the way up to your devices and customer experiences and mobile applications. And we ingest all of that data about the performance of that software stack, we correlate it and we connect it, so that the engineers can look at their piece of the software in connection with all of the other systems and teams that they depend on, and then we help them make decisions based on that data.

Is that a good enough overview?

<<Adam Tindle, Analyst, Raymond James & Associates, Inc.>>

Yeah. I think that’s a good start, and we’re going to dig into some of the differences between how you did that in the past and what you’re doing now.

<<Bill Staples, Chief Executive Officer>>
Sure.

<<Adam Tindle, Analyst, Raymond James & Associates, Inc.>>

So maybe we’ll start from a technology perspective. You had sort of this – what investors think of as like a re-platforming type event with New Relic One. Can you take us through what the key opportunities you saw at that time and particularly how the platform is different from peers? And for those of you not as familiar from an investor standpoint, oftentimes people or investors think about Datadog, you may be very familiar with very high multiple fast-growing company.

Dynatrace would be another peer. Splunk would be another peer. There’s a host of others. So if you’re thinking about sort of the peer group here from New Relic and the investment standpoint, you can look at sort of the valuation multiples of those that I just mentioned relative to New Relic, and you can see why investors are excited about the potential opportunity. Sorry, that was a long lead into that, but tossing you to the softball.

<<Bill Staples, Chief Executive Officer>>

Yes. Let’s talk about the differences. I’m going to start with technology differences, and then we’ll talk about go-to-market differences that align with that. First, I joined the company in 2020, as I mentioned, as Chief Product Officer, running product management, engineering and design.

And when I joined, the company had started a journey to unify its systems into a platform. What was obvious to me is this space, observability, it’s often thought about as a bundle of monitoring capabilities, right? You’ve heard of APM or application monitoring, if not before, then five minutes ago when I introduced it.

You’ve heard of infrastructure monitoring that made Datadog famous. I’m sure you’ve heard of log management and SIEM, which Splunk and Elastic are famous for. Well, each of those capabilities has come together and is often bundled as an observability suite or observability platform. That’s what all of our competitors do.

At New Relic, though, we saw, starting with the technology, a different road. What we believe is that all of these data sets the data from your infrastructure, the data from your applications, the data from your mobile, et cetera, they’re all really important. And engineers need a single source of truth for that data.

They need it connected and correlated. Because as an engineer, a former engineer, I guess I should say at this point, one of the most difficult things for an engineer to do is to manage their dependencies with an organization, right? I’m building, for example, a mobile app, but I depend on lots of services below me and the infrastructure underneath that to be healthy, where my customer for the mobile application isn’t happy.

And so understanding how the full stack of software is performing and how the teams that I depend on around me are doing is really important. And the problem with a bundle of monitoring
SKUs is it doesn’t give you that. The bundle of SKU approach that Datadog and Dynatrace, and all the other competitors have, has siloed products with siloed data sets underneath. So the data is never connected at the lowest level.

And addressing that problem is a long-lead investment. We had begun, as I said. When I joined, but we began moving all data sets at New Relic for all data sources and all data types into a common underlying data platform. And we have now completed that, as well as we’ve been moving into the public cloud so that we can support massive scale and data locality, data residency in any region.

So New Relic is the only observability vendor in this space that has that unified data platform. We believe that’s a strong technical moat for us that over time will serve us and our customers well. It’s a large, cloud-scale, multi-tenant platform, meaning we get the economies of scale with all of our customers’ data. For some of our customers, we ingest petabytes of data every month.

We’ve shared that we are at over 2 exabyte run rate. That’s a billion gigabytes of data every year that we ingest on behalf of our customers. And because we run this thing at massive scale, we can do it very, very economically per gigabyte. And we passed that low incremental cost on to customers.

That helps me transition maybe to the go-to-market model. One of the differences of New Relic as well is when we shifted to a common underlying data platform, we also shifted to a common user experience for all engineers, so they can again see all of their data and see their dependencies between teams.

To support this new platform, we shifted from selling individual products like APM, logs, infra like our competitors, to only sell the platform. So you pay New Relic only in two ways, based on the data that you send us and the engineers logging in to use the data. And those are our two price meters.

There’s a little bit more nuance to it than that in terms of SKUs and whatnot, but we shifted our go-to-market to be entirely platform-driven. We’re the only all-in-one platform. When you buy New Relic, you don’t have to worry about managing applications separate from infra, separate from logs, you just pay us per gigabyte and per user.

<<Adam Tindle, Analyst, Raymond James & Associates, Inc.>>

Okay. So that was a lot to cover. So if I could just kind of summarize, the competitive set is selling individual SKUs for infrastructure monitoring. So I want to see what’s going on with my cloud or my servers and I’ve got to buy a SKU for that. Application monitoring, the application itself, I’ve got to buy a separate SKU for that. That’s how the market currently works at the competitors.

And what New Relic has done is kind of broken down those silos completely, where you don’t have to buy these individual ones, you buy the platform as a whole and then the data all feeds
into a single source of truth. Whereas for competitors, many times, their data for infrastructure resides in a separate silo, application in a separate silo.

If you think about that separate silo approach in these data in separate silos versus one unified platform, what does it – tell us about the future of that? And I know this is not on the script, but tell us about what that means for the future, right, of having that different backend, that unified backend?

<<Bill Staples, Chief Executive Officer>>

Yeah. So the advantage of the common underlying data backend is we can now connect all of that data, correlate it and then serve the insights from it into any number of experiences. Today, the use cases which we use that data for are still very production-oriented. Meaning, if you think about the day in the life of an engineer, they plan what they’re going to go build, they prioritize those investments.

They architect and design the software they’re going to go implement. And then they deploy it, they may test it and validate it first and then they deploy it, and then it’s in production. And today, when it’s in production is when they collect this data, and they use the data to make sure that it keeps running healthy, because if the software goes down, if the customer is not being served, oftentimes the business is being impacted.

Well, a common underlying data backend, what that allows us to do is to take that data and to project it across the software life cycle to say, we’re going to help you plan better. We’re going to help you prioritize better, architect better, design better software, deploy with more confidence. So that when it reaches production the next time, the next version of your software, it’s better software.

That is incredibly difficult to do if you’re dealing with multiple data silos and disconnected data. Because we’ve got the strength of that unified data, we’re now building those software connections across the software life cycle to help every engineer make use of the data.

<<Adam Tindle, Analyst, Raymond James & Associates, Inc.>>

Okay. So we’ve talked about tech, now we’re going to talk about how you sell it, how you price it.

<<Bill Staples, Chief Executive Officer>>

Sure.

<<Adam Tindle, Analyst, Raymond James & Associates, Inc.>>

And then we’re going to stop for questions. So please, again, if you have questions, raise your hand. But let’s talk about how you sell it. From a go-to-market standpoint, this was another key difference that you’ve implemented, this sales motion with a free tier. Talk about what
organizational changes were made to help facilitate that new motion, and the key metrics that you use to judge the health and progress of that? How do you convert this free tier, just having to start pay, et cetera, et cetera.

<<Bill Staples, Chief Executive Officer>>

Yeah. I’ve seen many start-ups in my day, enterprise software start-ups, as they make their way into the $100 million towards the $1 billion category, and maybe you’ve seen this, too, they hit walls of growth. And oftentimes, their growth strategy becomes focused on the largest customers and making them happy to get higher and higher commitments.

Of course, we love large customers. We love large commitments. But what’s really critical to fuel a multi-billion dollar business, especially in this category is winning the hearts and minds of the practitioners. If the users of your software don’t love you, it is incredibly difficult to get buyers to buy you.

And as I mentioned earlier, I spent more than a few decades building software for developers and engineers. And if there’s one thing I can tell you definitively is most engineers hate salespeople. They don’t want to talk to a salesperson. They don’t want to feel like they’re being sold to. They just want to roll up their sleeves, get their hands on the software, use it, fall in love with it and then they’ll ask a procurement person or an executive to go buy it for them. We have a go-to-market that perfectly complements that mindset.

So as Adam mentioned, we have a free tier that allows anyone in the world to sign up for New Relic for free, no credit card required, and start using. That’s a high-volume, very efficient motion that has driven down our sales and marketing spend and increased our sales efficiency already. And we’re now adding new customers at record rates for our company and near the best in the industry. We’re growing new paying customers faster than almost every one of our competitors. And it’s very efficient because it’s entirely product-led. All of our digital marketing and all of our documentation leads them into this product funnel where they just start using it for free. They add their credit card when they hit the required limits, and they start paying.

From there, we have a number of increasingly sophisticated signals that look at their usage and look at their potential as a customer, and we nurture them into technical services and a sales team that can help them make commitments to get better economic rates, and to help them secure budget so that they can continue to grow consumption. And right now, it’s around the $50,000 annual spend. They shift into what we call our sales-led business, which is a different organization with a more traditional enterprise selling set of roles, an account executive, a solution consultant, a technical account manager. And those people nurture the customer to help them be successful into the eight-figure and above range. So that’s the go-to-market. We have a bottom-up, product-led approach to acquire new customers. And we have a top-down, sales-led approach to nurture expansion.

<<Adam Tindle, Analyst, Raymond James & Associates, Inc.>>
Okay. We’re going to talk about pricing here in a second. But just to kind of frame that again, new customer acquisition is effectively accelerating to best-in-class levels under this new pricing model. We’re going to talk about pricing here shortly. And then also, we’re going to talk about operational improvements in a minute. So if I’m kind of summing up why there’s so much interest in New Relic right now, it’s this acceleration of all of these hard transitions that the company has done over the past couple of years starting to show up in the model. First quarter of profitability this past quarter and years, so an exciting time to be here.

On pricing, the way I wanted to ask this, since we kind of talked about you’ve got users and consumption. But one of the things I get asked about is recently you’ve actually increased the pricing of your consumption from $0.25 a gig to $0.30 a gig. And as investors think about that, if there’s some positive elasticity dynamics in this model that are showing that’s really potentially interesting. As we’ve gone through that pricing transition, we haven’t seen customer churn, so people aren’t leaving essentially, but we’re still early days in that. So maybe just talk about the elasticity dynamics, raising prices on consumption and, ultimately, how this will play out in the model, because I don’t think it’s really shown up fully in financials yet, right?

<<Bill Staples, Chief Executive Officer>>

Right. Yes. So I’ll take a half step back on the pricing strategy. To begin with, I mentioned we went away from the siloed product pricing into the user and data pricing model. The way we structured the price is we have a high user price, because what that does is it aligns to the value of the engineer logging in to use the software, and we have a very low data price. The reason it’s low is we wanted to be effectively a kind of a cost-plus model that incentivizes them to add more data into our platform, which would draw more users into the platform.

If you – the advantage of the low data price is the incremental cost as you scale your infrastructure and scale your applications is low. And that makes us a more attractive platform, obviously. As you look at the array of tools you’re currently buying as a customer and you’re saying why am I paying Splunk this much, Datadog that much, Elastic this much and New Relic when I could expand the set of things I’m sending New Relic and have a lower incremental cost, really sets up that tool consolidation that I talked about earlier as an inevitability in a very nice way.

So we started at $0.25, very low price. If you look at the incremental unit cost, we are oftentimes 3 to 5 times less expensive on the incremental unit of data. And we launched at $0.25. We since added a ton of innovation on top of that data platform. And in addition, our costs have been increasing. I mentioned we’ve moved fully to data – to the public cloud as our data platform infrastructure, and so we’ve passed that cost along to customers. It went from $0.25 to $0.30, we announced in June. We announced it in May and it started taking effect in June.

It does not take effect in all customers at the same time. It takes effect, obviously, when their contract comes up for renewal. And for New Relic, our largest renewal quarter is Q4, that’s next quarter. Our second largest is Q3, that’s this quarter. And then Q2, we had a few. And Q1, even fewer because of the June announcement date or effective date. So when a customer signs up for their renewal, we negotiate with them on the new data price. It’s been fairly well received so far.
We’re also in the process, though, of negotiating multiyear contracts with customers. This go around because now they’ve got a full year in the platform, they understand their consumption patterns, and we’re incentivizing that multiyear commitment.

And so once the customer signs the new agreement on the new price, then that revenue increase would start to occur. And think of this quarter, Q3, is really where significant amount of renewals will be negotiated with the new price and then Q4 as well. I’d say it feathered – it starts feathering in now from last quarter, and you’ll see it incrementally in Q4. And then FY2024, our next fiscal year, is where it will really begin to show up.

But as I said, we’re being a good partner with our customers. We’re looking at these multiyear contracts. And in some of the negotiation, we look at how that cost increase feathers in over time, especially given the economic climate that our customers are in. So every customer is a little bit of a different story. But overall, the price increase has been very well accepted because of that low incremental cost that we started out with.

<<Adam Tindle, Analyst, Raymond James & Associates, Inc.>>

Yes, I think that’s a scary part for investors as you’re raising costs in the face of two big renewal quarters coming up, oh boy, how does that play out?

<<Bill Staples, Chief Executive Officer>>

Yes. That’s why I said the context, like the majority of the cost for most customers is in their users. And the advantage there is it’s very predictable. They know how many engineering headcount they have far better than how many hosts and applications they’re going to build and how that infrastructure is going to scale over the year. So that’s a very predictable cost. The incremental data charges in this price increase are less of a concern because of that.

<<Adam Tindle, Analyst, Raymond James & Associates, Inc.>>

Time flies when you’re having fun. We’ve got five minutes left. Do we have questions in the audience? I know we covered a lot here. Surely, there’s at least one question. Go ahead, Ryan.

Q&A

<Q>: I understand that you’re one of the largest users of Confluent as you transition to Confluent Cloud. Can you just explain what are the initiatives that you’ll use going forward?

<A – Bill Staples>: Yes. Confluent is a great partner and customer as well. And they’re the innovators behind Kafka and, obviously, the world’s best Kafka vendor. We have currently been running in AWS, a lot of our infrastructure in AWS. But we announced in May that we’ve also arrived at a partnership with Azure and Microsoft, and in the process of previewing that with customers actually right now and then we’ll be launching that in early in the new year. And then following that, we anticipate being in Google Cloud as well next year. The reason that’s
important is Confluent will be our multi-cloud vendor for Kafka, and we will use them architecturally as a layer that spans clouds and provides us best-in-class Kafka service.

<Q – Adam Tindle>: Yes.

<Q>: Given all of the changes, what has been the competitive response?

<A – Bill Staples>: I think competitors are probably more focused on their own game than they are us so far. But I think, especially in this economic environment, that is going to change as customers look for more efficiency. Our core value proposition is all-in-one platform. We only sell the platform. And we are ideally optimized for tool consolidation, both from a product and go-to-market perspective.

And so when customers come to us and say, hey, I’ve got budget constraints this year, I need to watch my spend carefully. We say, we love that. We can help you save money. Not by reducing your New Relic spend, but by offsetting other competitive expenses that you have. And let’s talk about how we can bring all of your data and all of your users in one place.

<Q>: So you took a 20% price increase on the consumption side. And that’s less than, call it, 50% of the spend when you think of fixed, but it’s like a high single-digit effect as price increase. If you think about that, kick it out a few years and all the users are on that, like why hasn’t this easily, call it, low 120s dollar retention? Like what would be like the puts to the takes that say this can’t be that? And why shouldn’t it be low 120 dollar retention to accelerate in, call it, fiscal 2025?

<A – Bill Staples>: Excellent question. I’d love for it to be that. We have not given a long-term model yet. I should mention Dave Barter, our CFO – new CFO as of quarter and half ago is here with me today, and I know he and team are hard at work to build that long-term model and the key metrics for you all to look at our future growth. Right now, we’re in the middle of that. So I expect first half of next calendar year, we will be sharing that with you all and have you something to anchor on a little bit more formally than just what I can share today.

<Q – Adam Tindle>: Any others? Well, with that, Bill, why don’t we cede you the floor and let you deliver any kind of final message that you want to leave with investors as they think about New Relic.

<A – Bill Staples>: Yes. It’s an exciting time to be at New Relic, and I think it’s an exciting time for you to look at it as well. We’ve paid some very hard costs to pivot from this siloed product world into an all-in-one platform model, into a consumption business that is ideally suited with customers’ pressures, economic pressures, and drive for efficiency today. It’s also a great time because we have been able to pay for that transition and now pay for our own growth going forward. Last quarter, we announced, as Adam shared, our first profitable quarter in a few years.

And we see really three ways we can continue to drive increased profitability going forward. I mentioned the go-to-market motion is highly efficient for new customer acquisition. We see our ability to improve CAC for customers through our sales and marketing by 20% in the coming
years. Our product team is laser-focused, now that we’re in the public cloud, on driving efficiency on gross margin.

And then third, we’ve also shared, I think in the last earnings call, that we are looking at our office space and leases and just overall operational efficiency to improve. And so I think it’s a great time to be at New Relic because we’re expanding, we’re growing and we’re doing it more efficiently than ever and see a bright road ahead for profitable growth. So thanks for your interest and hope to talk with more of you throughout the day.

<<Adam Tindle, Analyst, Raymond James & Associates, Inc.>>

Thanks, Bill. Appreciate it. Thanks, everybody.