Fred Lee:
All right, well, good afternoon. It was a great win for the USA over Iran. I think everybody was watching out in the lobby. My name is Fred Lee, and I'm the small and mid-cap software analyst here at Credit Suisse. Welcome to our 26th Annual Technology Conference and with us today, we have David Barter, who's a new CFO at New Relic. Welcome.

David Barter:
Well, thank you so much for having us.

Fred Lee:
This is your first time to our conference?

David Barter:
It is. I'm thrilled to be here. This is fantastic.

Fred Lee:
All right. Yeah, it's great to have you. So listen, we just have a few questions for you today, and we would love to know what's surprised you the most over the first few months in your role and some of the key changes that you're making within the organization?

David Barter:
Oh, it's a great question. I think when I came to New Relic, for me, there were a lot of elements that were actually very familiar. Having worked with Bill Staples and at Microsoft, I felt really comfortable with the values, felt really comfortable with the idea that it was a business model transition.

The piece that really kind of caught my attention, actually, is just how mission critical the software is and what really, I'd say surprised me, and this was after having an old audit committee chair was actually over at AppDynamics. I just hadn't appreciated in a world of cloud adoption, digital transformation and how important that digital business has become, just how important monitoring is to the success of any digital footprint. And that, really, I think as I've worked with customers really has kind of called my attention to just how fundamental we are to our customers.

Fred Lee:
And what would you say are some of your priorities within the organization, some of the earlier priorities, things you've identified that could use some oversight or some CFO expertise?

David Barter:
Well, I think something that kind of really caught my attention, actually, is really maybe part and parcel of this conference where I realized that as we began our transition, we actually really never took time to break our business apart in two pieces. And I always think of Michael Gordon, I think, at Mongo did a really nice job as Atlas was a very nascent part of MongoDB, breaking that piece out. And so I think there's an opportunity actually just from an IR perspective around helping people understand with the journey to consumption and also, the journey with unified observability, how to actually look at the company between almost the new world and the old world, just so that the operating metrics and the modeling almost are easier.

And then I think just from the role of the CFO, and we talked a little bit about this on our last earnings call, just our focus on profitable growth. A common thread that we've been asked to pull is do we have to yield profitability in order to accelerate and drive higher levels of growth? And I think as we kind of showcased in the queue in some of the areas outside the US that are already growing at high rates, profitability and growth can really go hand in hand.

Fred Lee:
One thing I actually probably should have started with, and I would love to learn a little bit more about, is your experience and your background, so we can better understand what you bring to the table. Can you talk about your time with Bill, your experience at Microsoft and prior, and just a little bit about your background?

David Barter:

Absolutely. Well, I'm probably a little bit of the unusual CFOs in the sense that, for at least for small and midcap software, where I spent the first 10 years of my career at General Electric back in the 90s and early 2000s, which I think back then, I don't know that there were too many companies that were much larger than General Electric.

Spent a couple years at the Boston Consulting Group and then was very lucky, actually, to find my way to Microsoft where I guess my wife and I started and started raising our family, but was able to build out a wonderful career in tech. And my experience started off in developer tools of all places. So kind of part and parcel with the community we sell into today. And gosh, between the human capital side of Microsoft, but also the enterprise components around how we built products, how we sell products, that really kind of came to inform a lot of my perspective.

Fred Lee:

So almost a bit of a homecoming to developer tools, right?

David Barter:

Exactly. Well, it's funny. Back in... it was '07 or '08, we started to work on Azure and that was kind of my first introduction into a business model transition. Little did I know about 14 years later, I'd still be working on business model transitions.

Fred Lee:

Well, I'd love to talk a little bit about that and your business model transition and transformation. It's beginning to show up in report of metrics. It's taken a few years and you're on the other side of it now. Churn is at a historic low and that revenue retention has rebounded into the high teens. Can you walk us through the product and go to market changes the company’s put into place?

David Barter:

Absolutely.

Fred Lee:

And what further changes, if any, need to be made?

David Barter:

Well, I think the company really... and it's always difficult when you do this as a public company, where we started on, I think about almost as several very fundamental changes in the company. First, when you looked at the market, it grew up with lots of tool silos. So we started to make that shift from APM to unified observability. And what we really wanted to do in a very unique way was have one telemetry cloud. No need to sign extra order forms. All of your telemetry data is in one place. All of your telemetry data is accessed and you have the availability of having over 30 tools. So I think that shift from siloed tools to one unified environment, I think, was very important to the company's future.

We then made the shift from private data centers to growing and scaling through the hyperscalers, and that's been very effective. And then finally, the shift to consumption, really, this commitment that there was so much shelfware out there and to be able to provide people with an economic platform where you pay for exactly what you use. If you think about a digital business, your revenue stream is perfectly in sync with your cost, whether you’re in gaming, media, financial services, there's a perfect linkage. Our customers are getting value and they're generating revenue every time they use our platform.
Fred Lee:
[inaudible 00:05:48], I know it's only been four months, but as it relates to how the consumption model has played out relative to the company's expectations even prior to your tenure, where do you think that sort of lies relative to expectations?

David Barter:

Well, I think we're becoming much, much better students. I think in the early days when there were no consumption contracts and we were going from subscription to consumption, that those were the days where it was almost very heady in the sense that we signed one-year contracts. We enabled everybody to really, quite frankly, burn very quickly through those contracts, and we started to see some of the elements associated with customers that were burning at a rate of 130 to 200%. And I think Bill, our CEO, did a great job calling this out to investors six to nine months ago saying, "Gosh, this element of consumption really does go hand in hand with signing contracts and starting to uplift contracts" and that's what compelled in the prior quarter to start that pilot of early renewals, starting to shift customers back onto two- and three-year paper.

And I think that is the area where we're at right now where we're maybe halfway through the journey of figuring out how to be really, really good students of consumption. It's something that we monitor every day. We look across our entire base of customers, looking at how people are using our platform, and then making sure that we're contracting with them on a way that's just very natural to... whether it's their cloud strategy or their digital transformation.

Fred Lee:

Got it. One of the things I love to ask is considering the environment, your philosophy between growth and profitability and how that's evolved at the company level and then also, in your mind, what the right balance is to strike there.

David Barter:

Well, I think the environment inspires probably two thoughts. One, I think our orientation around this environment is always be humble. The leadership team's been through several recessions at this point. I think we understand the playbook, and so I think our coaching to our team is always be humble. Anytime you're in this environment, be humble. Also, be humble at the doorstep of your customer, but also be hungry. And it is one where just as a company, we feel like we got the right product. We feel like the relationship with the hyperscalers is really starting to work well, starting to get the consumption model working well. And so I think we feel like we have an incredible opportunity right now in this market.

And what we love about consumption is it does immediately respond to the needs of our customer, responds to the needs of their business and so appreciate that. Be a good partner. And so we'll always be humble. We'll be hungry. When we think about the P&L, I'll be frank, I kind of manage in good times and bad the P&L the same way. I'm still grounded in just driving growth and doing it in a profitable way. So profitable growth, good economy, bad economy, we'll kind of be the same kind of company.

Fred Lee:

Makes sense. Within infrastructure consumption models, there's an increasing number of pricing units in the industry, including the number of hosts, the number of containers, the amount of data ingest, the amount of computation performed, events observed, et cetera. Why are the data ingest and users the right two parameters for your customers? What direction do you see the industry evolving towards?

David Barter:
Well, I think there are kind of two elements underneath there. One was the idea of shift left and the idea of observability for all. And so when I think about what our proposition is, we don’t want to be about the host. We want to be about the human and the workflow and the integration that takes place between the developer community, security, ops and making sure that that collaboration is always working well and that the tools that are used on a daily basis are always informed by the telemetry and the monitoring so they know exactly what’s going on and it’s not the old world of is your app up or is it down. But we want you to be really in sync with the quality of the software across all platforms and know that it’s high performing. It’s secure. It’s providing that compelling experience that really powers whether your business is digitally native or it’s going through a digital transformation. So observability for all is one central tenet in our belief.

The other central tenet that we have in addition to observability for all is it is something that can be metered. It’s something that can be consumed. You don’t need to pay at the high water mark of your hosts and at any given month or some customers pay based on the max number of metrics in any given month. That seems economically inefficient to us. If you’re... well, let’s take what’s going on right now with the World Cup. If your experience and your advertising are peaking on one particular day for one particular game, we want to be able to maximize your monitoring for that particular moment, and then you can bring it back down to where it needs to be. And that’s what we love about our business is we will get all users using observability and we'll maximize observability for each moment in time that you need as a business.

Fred Lee:

Makes sense. I'm going to ask one more question and then I'll open it up for Q&A. In the quarter, New Relic stood out amongst its peers in that you haven’t yet seen impact from macro and any deterioration in your business. And so what are you seeing today and why do you stand out amongst your peers?

David Barter:

Well, I think we do see some element of macro in our business. And I think what I tried to call out, being the new CFO, was we've had great growth out of New Relic K.K., our subsidiary in Japan. We saw some Forex pressure kind of coming out of that particular business unit, so we incorporated that into our guide. And then I think we really did try to find the right balance, I’d say, between just being prudent in the world and knowing that in the prior year, consumption had tailed off a little bit after we got through the holiday season. So we tried to bring that into our guide and tried to find that right balance, I'd say, between being prudent and just being thoughtful around how to think about the outlook of the business.

And so it is one where, again, after a couple of recessions, I think we... again, humble but hungry. We’re going to keep growing our business and doing the right things, but I think being thoughtful about everything our customers are going through and the economy at large.

Fred Lee:

Understood. With that, I'd like to open up for questions?

Speaker 3:

Can you talk about your approach to capital allocation?

David Barter:

That's a great question. I think when it comes to our guiding principles, it really comes down to the idea that we're going to invest in our business in a way that we think yields really good profit, really good cash flow. So at our framework right now is really oriented. We have some investments that we're going to be making into our cloud and specifically, having a full multi-cloud strategy that we think comes with
a very compelling gross margin. As we've moved from private data centers to hyperscalers, we think there's an opportunity to continue allocating some capital to making that successful. We have some strong feelings around sales and marketing and getting to a very compelling set of unit economics. The way we look at it when we allocate capital is through product-led growth. That's the way we initiate relationships, and then we graduate them up through sales-led. I think what we shared on our last earnings call, we feel like there's an opportunity for 20% efficiency. And so we'll kind of keep pressing for funding efficiency and ultimately driving towards either a better magic number, if that's your measure, or a better [inaudible 00:13:11].

And then finally, I really look a lot at R&D and trying to map our customers consumption going into R&D and making sure that we're really putting the right investment behind the key workloads of APM, [inaudible 00:13:24] logs, and VM, but also some of the Tier Two functionality that our customers require. But I think you'll find that from a capital allocation perspective, we try to use it very judiciously internally and then put ourselves in a spot to return it to shareholders.

Fred Lee:
Any other questions? All right. Well, I know you have time constraints. This works out. Thank you very much. Thank you very much for your time.
David Barter:
Thank you so very much.
Fred Lee:
All right.
David Barter:
We really appreciate you inviting us. This is wonderful.
Fred Lee:
And enjoy the rest of your conference.