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Snowflake, Inc. (SNOW)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by, and welcome to the Q1 FY 2022 Snowflake Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker for today, Mr. Jimmy Sexton, Head of Investor Relations. Thank you, sir, please go ahead.

Jimmy Sexton

Head-Investor Relations, Snowflake, Inc.

Good afternoon and thank you for joining us on Snowflake's Q1 fiscal 2022 earnings call. Joining me are Frank Slootman, our Chairman and Chief Executive Officer; and Mike Scarpelli, our Chief Financial Officer.

During today's call, we will review our financial results for first quarter fiscal 2022 and discuss our guidance for the second quarter and full year fiscal 2022. During today's call, we will make forward-looking statements, including statements related to the expected performance of our business, future financial results, strategy, products and features, long-term growth, and overall future prospects. These statements are subject to risks and uncertainties which could cause them to differ materially from actual results.

Information concerning those risks is available in our earnings press release distributed after market close today and in our SEC filings, including our most recently filed Form 10-K for the fiscal year ended January 31, 2021 and the form 10-Q for the quarter ended April 30, 2021 that we will file with the SEC. We caution you to not place undue reliance on forward-looking statements and undertake no duty or obligation to update any forward-looking statements as a result of new information, future events, or changes in our expectations.

We'd also like to point out that on today's call we will report both GAAP and non-GAAP results. We use these non-GAAP financial measures internally for financial and operational decision-making purposes and as a means to evaluate period-to-period comparisons. Non-GAAP financial measures are presented in addition to and not as a substitute for financial measures calculated in accordance with GAAP. To see the reconciliations of these non-GAAP financial measures, please refer to our earnings press release distributed earlier today and our investor presentation which are posted at investors.snowflake.com. A replay of today's call will also be posted on the website.

With that, I would now like to turn the call over to Frank.

Frank Slootman

Chairman & Chief Executive Officer, Snowflake, Inc.

Thanks, Jimmy, and good afternoon, everybody. We reported a strong Q1 results with a 110% year-on-year growth to $214 million in product revenues, reflecting strength in Snowflake consumption. Remaining performance obligations grew 206% year-on-year to $1.4 billion and they're gaining strength in sales across the board.

While maintaining a net revenue retention rate of 168%, we also generated $23 million of adjusted free cash flow in the quarter.

We are expanding our geographical scope in all three major theaters, both EMEA and APJ have [ph] break out (03:27) bookings quarters. EMEA grew more than 200% and Asia Pacific grew more than 300% year-over-year.

At the end of Q1, we had 104 customers with over $1 million in product revenue, an increase from 77 customers in the previous quarter. During Q1, we had key enterprise wins including Datadog, Equifax and Walgreens Boots Alliance.

Our growth trajectory is a function of several factors. First, the modernization from on-premise to cloud computing is changing the landscape. Customers are moving workloads to public cloud to take advantage of unlimited capacity and scale and the utility model [indiscernible] (04:05). Secondly, through Snowflakes' cloud-native software architecture, customers achieved remarkable gains in performance, economy, and data governance. Third, customers are now seeking to transform from a world where data informs people to one in which data drives operations directly. The data drives digital transformation. Data is the beating heart of the modern enterprise, and Snowflake is becoming core infrastructure to the digital economy.

The data economy has seen some lift from the pandemic dislocation but these are long-term secular trends enabled by new technology. Aside from pent-up demand, the possibilities are only limited now by one's imagination and budgets.

Part of our growth at scale strategy has been our transition to the Data Cloud. Our original focus of targeting legacy data warehouse workload is growing strong and that will continue indefinitely. It has been a tried and true strategy for Snowflake. Snowflake has now processed more than 1 billion queries in a day and that number grew more than 100% year-on-year.

But our view of the future is more ambitious. We seek to build and deploy core infrastructure for the digital economy and the Data Cloud is exactly that. Data Cloud is an active, dynamic hub of thousands of data relationships between Snowflake parties. Many of these relationships are with data providers to the Snowflake Data Marketplace and many others are with key business partners. Data providers like ZoomInfo and Foursquare are using the Data Cloud to unlock more value to their business. Healthcare organizations are using data insights to improve quality of patient care.

Retailers like Albertsons are sharing data with consumer packaged goods companies and media companies are accelerating advertising revenue with the Snowflake Data Marketplace. Historically, data warehouses refreshed through large batch processes on a periodic basis, that's because data was [ph] force-fed (06:10) into them from different sources. Today, the Data Cloud is near real time with data continuously pulsing through the clouds being analyzed and acted on, lights out and at light speed. There are no limits anymore on how many analytical processes can run concurrently against the same data and how frequently they are run. This has changed people's perceptions of what is possible.

The Data Cloud is the sum of all data networking relationships that are active at any point in time. We track this relationship through what we call edges. At the end of the quarter, 15% of our rapidly expanding customer base had data edges in place with external Snowflake accounts compared to 10% a year ago.

And the number of edges this period grew 33% quarter-on-quarter. Customers share data for many reasons that are specific to them and their industries, but they all seek to enrich their data, gain more effective analytical insights and do so faster and more cost-effectively.

Snowflake's focus on vertical industries is well under way. We have organized our organization around six core verticals. They are financial services, healthcare and life sciences, retail and consumer packaged goods, advertising, media and entertainment, technology, and public sector. This vertical industry focus will intensify across our sales, marketing, alliances, product and service organizations. As a result, we expect Snowflake to become as visible in large enterprise IT environments as in the line of business themselves.

While the company maintains a geographical backbone in markets around the world, the industry aperture is rapidly coming into focus.

Partners are also stepping up to Snowflake which is a key element of our strategy. Deloitte crossed the $100 million mark on Snowflake business which was their fastest ramp ever from standing start for an alliance.

We will host the annual Snowflake Summit June 8 through June 10, more than 50,000 attendees are expected including 60 plus customers sessions with the likes of Adobe, BlackRock, Capital One, Goldman Sachs, Instacart, Kraft Heinz, JetBlue, Morgan Stanley and NBCUniversal.

We invite investors to attend, get a better understanding of our Data Cloud strategy, and hear the latest news and platform enhancements optimizations, data governance and vertical industry use cases.

In closing, Q1 was a great start to the fiscal year and we are much looking forward to the balance of the year. With that, I will now turn the call over to Mike.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

Thank you Frank, we saw continued momentum in Q1 with another quarter of great execution to start our fiscal year. Our Q1 product revenues were $214 million representing 110% year-over-year growth. Our remaining performance obligations were $1.4 billion. Media and telecom, technology, and financial services customers drove the outperformance and we saw meaningful growth from our healthcare customers. Our strong RPO results reflect more multimillion dollar relationships with particular strength in the telecom and technology sectors.

Of the $1.4 billion in RPO, we expect approximately 54% to be recognized as revenue in the next 12 months. Growth in our existing customer base continues to propel our results. We added 393 net new customers in Q1 including three seven-figure new logos. These customers only accounted for 1% of revenues. We are hyper-focused on penetrating the largest enterprises globally as we believe these organizations provide the largest opportunity for account expansion. We're already benefiting from our maturing enterprise sales efforts. In Q1, the number of customers with greater than $1 million in trailing 12 month product revenue increased to 104 up from 77 last quarter.

When we expand within our largest customers, we typically replace more than one solution. In many cases, we replaced on-premise and first-generation cloud solutions and we address new workloads. Snowflake creates use cases that were previously impossible. This is what fuels our 168% net revenue retention rate and we remain confident that our net revenue retention will stay above 160% for the fiscal year.

We continue to invest in our international opportunity and believe there are significant runway ahead of us. As Frank mentioned, we're seeing tremendous growth within EMEA and APAC geographies as our sales organization take shape. We believe we're in the early innings of addressing the largest enterprises abroad.

First quarter was a record hiring quarter for us. We onboarded 436 net new employees. We continue to target the highest performing employees prioritizing talent acquisition in product, engineering, and enterprise sales groups.

Turning to margins, on a non-GAAP basis our product gross margin was 72% up 600 basis points from last year, favorable cloud service agreements, growing scales across regions, and our enterprise customer success all contribute to steady gross margin improvement.

Operating margin was negative 16% benefiting from revenue outperformance. Our adjusted free cash flow margin was 10% positively impacted by strong collections from Q4 bookings and operating margin outperformance. As a reminder, adjusted free cash flow excludes the impact of net cash paid or received on both employee and employer payroll, tax related items on employee stock option transactions.

This quarter, we saw a $10 million impact from those items. While continue to focus on long-term margin expansion and profitability, we do experience free cash flow seasonality. In fiscal 2021, Q1 and Q4 were our strongest free cash flow quarters while Q2 was our weakest. We expect to experience this seasonality in future periods.

We maintained our strong cash position with approximately $5.1 billion in cash, cash equivalents and short-term and long-term investments.

Snowflake Ventures leverages this position to evaluate strategic opportunities with announced investments in ThoughtSpot and Dataiku in the quarter, we continue to provide high-growth companies with capital to engage more with the Data Cloud.

Now let's turn to our guidance and outlook. For the second quarter of fiscal 2022, we expect product revenues between $235 million and $240 million representing year-over-year growth between 88% and 92%. Turning to margins, we expect on a non-GAAP basis negative 19% operating margin and we expect 297 million weighted average shares outstanding.

For the full year fiscal 2022, we expect product revenues between $1.02 and $1.035 billion representing year-over-year growth between 84% and 87%. This includes an estimated negative $13 million impact from a storage compression improvement we just introduced that benefits our customers.

We regularly introduce product and performance enhancements that lower the cost for our customers to run Snowflake and we believe this will drive more compute within the platform longer-term.

Turning to profitability. We expect on a non-GAAP basis 72% product gross margin, negative 17% operating margin, and breakeven adjusted free cash flow. And we expect 299 million weighted average shares outstanding.

Our outlook still assumes that we will add more than 1,200 net new employees during the fiscal year. With respect to COVID, our forecast assumes that we will continue to work remotely for the foreseeable future with an increase to travel expenses in the back half of the year. While we anticipate an eventual return to the office, we do not have a specific timeline for that goal.

And lastly, we will host our first virtual Investor Day on June 10 in conjunction with Snowflake Summit. You can register for the event at investors.snowflake.com.

With that, operator, you can now open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you [Operator Instructions] Your first question comes from the line of Brent Bracelin with Piper Sandler.

Brent A. Bracelin
Analyst, Piper Sandler & Co.

Q

Thanks. Mike, maybe to start with you and I have a quick follow-up for Frank. Consumption in Q1 here was very strong $35 million increase in product revenue and another triple digit product growth quarter. As you look at kind of Q1 consumption trends, any seasonality clearly didn't show up. Was that surprising, any other surprises just as you look at individual customer consumption trends here that drove the down performance in Q1?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Remember, our revenue is based on actual customer consumption. It's not a ratable recognition. So we did have – as I mentioned, we did have some outperformance in some specific customers and part of that is tied to certain projects they're working on. And just because a customer consumes a certain amount one quarter doesn't mean they're going to consume that same amount next quarter if they're not running those same projects. And so we are very happy with the revenue outperformance in Q1, and our guidance reflects where we think we're going to be for the balance of the year.

Brent A. Bracelin
Analyst, Piper Sandler & Co.

Q

Got it. And then Frank just following it up for you here. As you think about kind of the data sharing opportunity, clearly it seems to be catching on like wildfire so much so, you're starting to see the creation of even new open source projects that are also tied to data sharing. As you think about the 27 net new million dollar plus customers, do you think data sharing is now contributing to these million dollars plus customers, or do you think a bulk of that big spend is still tied to kind of replacement opportunity around data warehousing, and the data share driver is still to come?

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.

A

Well, Brent, the answer is really both. Customer need to walk before they run. So a lot of their initial focus is on workload transitions, and so on, but everybody has a very, very keen view in terms of where they want to be, where they're going to be over time, and you're exactly right. Data sharing is absolutely essential. It will really enable data sciences in order to create context around data in order to enrich data, to really fully reach that potential. I mean it's taken us some time to really evangelize this whole idea, but as you said it is resonating very, very aggressively in the marketplace. We have a lot going on in our vertical markets that are very specific to those contexts, very specific to the unique circumstances of vertical industry. So we're really excited. We're very well positioned for it. And we have really developed our Data Cloud, and our Snowflake Data Marketplace to the point where it's completely operational, and hope we'll see you at our Investor Day, because not only we want to talk about it. We're also going to show you a bunch of stuff, and see how far we've come in that area.

Brent A. Bracelin
Analyst, Piper Sandler & Co.

Q

Looking forward to it. Thanks Frank, Mike for another great quarter here. Thanks. Bye.

Operator: Your next question comes from the line of Keith Weiss with Morgan Stanley.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

[ph] Excellent guys (17:57). Thank you guys and very nice quarter. Frank, I wanted to continue the discussion on edges, and the percentage of customers that are kind of adding the edges from 10% to 15%, and the amount of edges up 33% quarter-on-quarter. Is there something we should think about as is going to directly impact consumption? Have you seen the more edges the customer have, the move more data consumption is going on within their data warehouse? Or is this more of a construct about stickiness? Once [indiscernible] (18:30) with all these partners, you're never going to stop using the Snowflake solution? How should we think about the like a financial impact of this growth in edges?

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.

A

Well, the answer is both. Obviously it's going to make things incredibly sticky, but for us to designate something as an edge, it has to have a minimal amount of time in terms of durable consumption, so there is very much a consumption dimension to these edges that we track, and monitor, otherwise we don't consider it an edge in our world. In other words, they have to be durable and stable, because a lot of data relationships are transient. They exist for a period of time. They exist for a project, maybe a trial, whatever it is, but that's not – that's also a metric that we follow what we really look for what we call stable, or durable edges. Though they exist over periods of time, they drive consistent consumption. So the answer is absolutely both to your question.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Got it. If I can sneak in one follow-up for Mike. The 27 customers getting to that million-dollar plus level this quarter. That's a real eye popping number. I think that's more than you did in the first three quarters all of last year. Anything in particular getting that motion going faster? And on the other side of the equation, is that a number we could expect to see on a go forward basis, or is that kind of too high of an expectation to have for the remainder of the year?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Well, I'm not going to guide to million-dollar customers. All I will say is there's a number of – as there was going into this quarter, we had a number of customers on the cusp of going to $1 million, and we continue to see a number, and I think it's going to be very strong growth. But what I want to remind people is when we land a customer, it takes many times six to nine months. I think it's closer to nine months before a customer actually starts to consume at their contract rate. And so a lot of this is the impact of really focusing on larger customers over the last year and a half that we're starting to see that pay off. But what I will say is of that 104 customers, only I think about 25% of those are actually majors, and then the balance is enterprise customers. So think about Fortune 500, only about 25% are Fortune 500. The others are across the board in customers. And my point there is even small companies can be big consumers of Snowflake, and there is a lot of them as I said that are just on that cusp, but we expect that to continue.

Keith Eric Weiss
Analyst, Morgan Stanley & Co. LLC

Q

Awesome. Thanks so much guys.

Operator: Your next question comes from the line of Derrick Wood with Cowen.

J. Derrick Wood
Analyst, Cowen & Co. LLC

Q

Great. Congrats on a great quarter. Frank, would love to hear about what's causing the breakout and growth in international regions. I know you guys had some leadership changes. I'm sure you're feeding more head count there. So how much is kind of your own efforts versus other factors like market awareness, or growing cloud acceptance, or anything else you'd call out?

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.

A

No, it's exactly what you just said. I mean we just needed to properly operationalize ourselves in these geographies. As you know it's market-by-market. We have to have the correct leadership in place. We have made a lot of leadership changes in these regions that we're very pleased with. When you have a great product like Snowflake, I mean the impact of that is going to come fast, and furiously. So I'm personally going to invest a bunch of time in Europe given my own background, because I think the opportunity is tremendous. So we're excited that we actually see these regions coming online, and contributing. And we expect that to continue. We're very happy with the leadership changes we made in Asia Pacific as well. We have very high expectations of Japan obviously ANZ, and there's other markets where we're going to be start [ph] looking up (22:40) as well.

J. Derrick Wood
Analyst, Cowen & Co. LLC

Q

That's great and maybe one for Mike. I mean numbers look great across the board. The one outlier was the Fortune 500, which looked like a kind of slower net add in Q1. Anything you could kind of speak to this number, and maybe seasonality, or thoughts around what to expect going forward?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Well, these large accounts are very, very long sales cycles and you are going to see lumpiness in the additions. Obviously Q4 was a strong quarter and as one would expect. That's just landing the customer. That doesn't mean it contributed to revenue. As I said, most of those Fortune 500 we landed in Q4, we've seen virtually no revenue from them yet today. I can't stress that enough. And given Q4 is the end of the commission year for people and accelerators, reps do everything natural to close everything in the end of that commission year. So I fully expect we'll continue to close Fortune 500 the balance of the year, and it's all based upon when the customer is ready to begin that journey.

J. Derrick Wood
Analyst, Cowen & Co. LLC

Q

That's great. Okay thanks.

Operator: Your next question comes from the line of Kash Rangan with Goldman Sachs.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC

Q

Thank you very much. Congratulations on the quarter. Two questions. One is that you talked about never ending replacement of data warehousing. If you could just expand on that. I'm fascinated by that because we seem to think – at least I seem to think that data warehousing is just a small sub segment of a database market. But your comments seem to suggest that it's a longer term, longer tailed growth opportunity at that very core of the business. And once again Mike I know that for your guidance, it doesn't looks like you're assuming a big flow through of this [ph] speed (24:37). Is that again, because you do not want to forecast increases in consumption revenue, that's why the revenue forecast for the upcoming quarter is conservative? Thank you so much.

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.
A

Yeah Kash, it's Frank. Yeah. We're actually super early innings on replacing these legacy on-premise data warehouses [ph] and license. Textually (24:56) and actually you see that in some of Teradata's numbers that are actually hanging on to their business. One of the reasons has been we think Snowflake has really been the only company that's been successful in transitioning these legacy systems. I mean we've not seen it done successfully by the public cloud companies. So mostly an opportunity is still there and is still coming. That's why I think it is for all intents and purposes indefinitely. So, so much of our business is actually not coming from those sources, but our expectation is that it will continue to contribute materially to our business for a very long period of time.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.
A

On your question Kash on the beat, did flow the beat through to the full year guide, plus about $1 million more, but we also had the headwind going to the full year. As I mentioned, we introduced new storage compression technology that we literally just rolled out. And based upon the early feedback of that, it's going to take about $13 million of our revenue away from the company, because the economics of our storage is so much better for our customer with that compression. [indiscernible] (26:09) much higher than we were expecting it to be, which is a good thing for our customers, and longer term it's going drive more. It's going to cause customers to put more data in Snowflake which will ultimately drive more consumption.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC
Q

Wonderful. Thank you [ph] so much (26:24). And Frank, if I could just follow very quickly. The cloud base, the hyperscalers have their own data warehouse cloud offerings. Why is it that Snowflake has been able to keep them at bay? I know they are partners of yours, but doesn't get in the way of them trying to compete in this market. Are there any structural barriers and advantages that you [ph] bullish guys (26:41) have against them, the hyperscalers that have their own cloud based data warehouses? Thank you so much and that's it.

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.
A

Well, I can go on and on about what all the reasons are, but for the purposes of this call one of the things that makes Snowflake completely different is that our founding team started with a clean sheet of paper. Obviously, we're deeply steeped in database technology over a very long period of time, and they were looking to absolutely not carry any legacy forward that they didn't like, and really reinvent architecturally for cloud scale computing which is very, very different from on-premise. So it was incredibly different, very, very innovative. As a result, we're not straddling the on-premise and public cloud environments. We're only in the public cloud. And it's very important. I mean you look at a lot of the public cloud companies, they have carried not only architecture, but actual code forward from on-premise environment and they've tried to evolve that and adapt that. The thing that we always say is, look it's hard to catch up when you're not sitting on a good architecture. You're only going to get further behind. Architecture matters, it matters a whole lot. And this is really – the strength of Snowflake is rooted in its core architecture, something you should never lose sight of. Yeah.

Operator: Your next question comes from the line of Kirk Materne with Evercore ISI.

Kirk Materne
Analyst, Evercore Group LLC

Q

Yeah. Thanks very much and congrats on the quarter. Frank, I was wondering if you could maybe just expand a little bit on your comments on the verticals. It seems to me when we started thinking about the data sharing opportunity, landing some of those key beachhead clients in each verticals could be really important to sort of build out beyond that. And I guess along those lines, I was just kind of curious where you think you are in each of those six verticals, if there's a couple that are maybe ahead of the game on sort of building out sort of real market knowledge, having sales people that understand the intricacies of each of these verticals versus maybe the ones that you still need to do some work on. Thanks.

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.

A

Yeah. That's kind of a broad ranging question, and again, definitely come and see us at Summit, because we're going to showcase a lot of customers in these verticals. You can hear directly from them in terms of what they're doing, and how they're doing it. But our largest vertical, and this may actually surprise some people, is actually in media, is in streaming content, and advertising. It's actually not that much of a surprise, because they are a digital to consumer business.

[ph] Another way (29:27) for companies like Hulu and Disney, and Comcast, and NBCUniversal to run their businesses, and they are very sophisticated, very advanced. And obviously because of the dominance in advertising of the likes of Amazon, Facebook, and Google this is very, very important to them, how to develop their businesses. And Snowflake is really a key enabler for that for many reasons. And so that's just one example of the business that is extremely active with Snowflake at this point because of the strategic challenges that are going on over there.

Second largest vertical is actually financial it might not be – large financial institutions, that may not be much of a surprise because they tend to be for most software companies. Healthcare and life sciences, retail obviously in consumer packaged goods is very, very big for us for similar reasons because digital transformation is so large in that part of the world. Of course, you know advertising side a very big thing over there as well. Public sector – software companies is a very large component of our business because many, many software companies out there and you'll see a lot of that at our Summit event.

Our re-platforming on top of Snowflake, Snowflake becoming a core part of their stack so there's a lot of moving parts in our world. We're really excited about progress we have made as a company that we no longer sell exclusively on architectural distinction. But we really crossed over into the customer's business and really enabling their challenges, their outcomes and it makes us a much higher value added partner than we historically have been when we were just focused on shifting and lifting workloads from on-premise to the cloud. Yeah.

Kirk Materne
Analyst, Evercore Group LLC

Q

That's really helpful. And Mike if I could just squeeze in a really quick one. Given your consumption model and we're heading into the summer season, is there anything to think about in terms of seasonality from just consumption over the summer? Over the years, we've seen sort of bookings trends obviously come down a little bit in say the third quarter. Is there anything we should consider in terms of your full year guidance on that front?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

First of all its factored into that but there is no – you see more seasonality on weekends obviously because there's not as many employees in the office. But a lot of our workloads still run on weekends too so it's not like it drops to zero. So clearly around holidays you do see some but it's not a profound in terms of people taking vacation in the summer that you see a big drop off in consumption, we really haven't seen that.

Kurt Matera with Evercore ISI

Q

Thank you all. Congrats.

Operator: Your next question comes from the line of Karl Keirstead with UBS.

Karl E. Keirstead
Analyst, UBS Securities LLC

Q

Oh great. Thank you. Maybe two for Mike. Mike, any noticeable change in the revenue mix between Snowflake on AWS versus Snowflake on Azure? And then I got a quick follow-up?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

I will still say at AWS is still our biggest but Azure from new bookings, as we get into large enterprise, that continues to increase as a percent but still AWS is far our biggest from new bookings.

Karl E. Keirstead
Analyst, UBS Securities LLC

Q

Yeah. Okay makes sense. And then, Mike, just as a follow-up, interesting on the storage compression change and the delta in terms of the revenues. I'm just wondering whether that's symbolic of any change in pricing strategy. Maybe you, Frank, and the team have a greater willingness now to pass these types of cost savings on to customers to drive future growth or was this changed a little bit more onetime as opposed to a real high-level pricing strategy change. Thank you.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Well, I'll be transparent. I learned a lot in this process. So this is something the company has historically done about every two years. There's a big focus on new compression technology for storage. And the impact of it was bigger than we would have thought and we only knew that once we actually got real-life examples from customers. And our philosophy has always been to pass that on to customers, but there are other performance improvements as well. For instance, we're working on new chip technology that will dramatically increase performance or improve performance and we do expect that to have an impact and that's more next year. You'll see that and we have always done that and continue to improve the performance of our product that goes directly to the benefit of our customers.

Karl E. Keirstead
Analyst, UBS Securities LLC

Q

Got it. Makes sense. Okay. Thanks for that feedback.

Operator: Your next question comes from the line of Gregg Moskowitz with Mizuho.

Gregg Moskowitz
Analyst, Mizuho Securities USA LLC

Q

All right. Congratulations and thanks for taking the questions. I had a follow-up on Secure Data Sharing. So as that ramps, naturally, your consumption is going to rise by a lot but so too will the complexity of all the datasets being shared and all kinds of intricate ways. And so I'm wondering do you have any concerns about maintaining a high level of security and governance on the platform as that unfolds?

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.

A

It's Frank. The answer is no, not really because Data Sharing is completely integral to our architecture. In other words, we're deploying the exact same security model that we deploy for internal as we do for external security. So, as I said earlier, architecture matters and this is one product that is just beautifully designed for doing exactly what it does. It's not a bolt-on. It's not a hack. It's just incredibly well-implemented. So the answer would be no to your question. No.

Gregg Moskowitz
Analyst, Mizuho Securities USA LLC

Q

Okay. That's helpful. Thanks, Frank. And then a quick follow-up for Mike. So you mentioned that EMEA bookings grew over 200%, Asia Pac over 300%. Does this reflect acceleration? Can you say what the growth looked like in fiscal 2021?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

What I will say is both EMEA and APAC exceeded their plan, had very strong quarter as we saw $1 million-plus, it was actually a multimillion dollar deal we did in EMEA with a big pharmaceutical company and we landed a nice – very nice customer in Japan as well. And saw very strong across the board I would say performance in EMEA and APAC.

Gregg Moskowitz
Analyst, Mizuho Securities USA LLC

Q

All right. That's great. Thanks very much.

Operator: Your next question comes from the line of Raimo Lenschow from Barclays.

Raimo Lenschow
Analyst, Barclays Capital, Inc.

Q

Hey. Thanks for squeezing me in and congrats from me as well. Quick question, as you – Frank, as you look into the replacement cycle and you kind of pointed out here the one that actually does it properly, where are you – what do you think around the partner capacity to help you there? You mentioned Deloitte already, obviously, as kind of one big one. But I assume just getting [indiscernible] (36:35) is actually quite a big job with kind of lot of extra work involved. Where are you – how happy are you with the channel data and then I have one follow-up for Mike.

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.

A

Well, we're happy in places. I highlighted our relationship with Deloitte who is our lead partner. They went from a standing start, a little bit over a year ago to $100 million in business which is an absolutely [ph] rip in (37:02) trajectory that they're on. This shows you that demand for these migrations is enormous. We have a lot of engagements from all the other big names out there whether it's Capgemini or Infosys, obviously, Accenture and so on but they're all scrambling to certify to staff to provision.

Our professional services organization is actually, by far, the best at this and that's, obviously, a logical consequence of the fact because this is all we do. So we're really using our own abilities to help leverage them into the business and it's not easy because the ramp is so steep for everybody and we got to make sure that we do an absolutely terrific job for our customers because these migrations are not easy, they're not cheap, there's risk involved and so on. That's really the friction in the marketplace. So it's actually very welcome that the system integrators are leaning in as hard as they are but the enablement for them to become really effective, large, growing business is sort of a day-to-day challenge that we have. But I view it as all good work that we do.

Raimo Lenschow
Analyst, Barclays Capital, Inc.

Q

Yeah. Okay. It makes sense. Hey. Good luck. And then, Mike, the storage compression is such a – like does that impact gross margins? Might be a stupid question but like the 72% is really, really high. So now, everyone is wondering like how they managed to get so quickly there and is there kind of more upside next year with compression et cetera or is it totally unrelated?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Well, from what I will say is the – it does improve margins. And the way it improves margin is because storage becomes more efficient, storage is a smaller component of the overall mix of the revenue and compute is the real value of our software that drives more margin.

And I will say we did roll this out in April. And you do see some of that coming into impact on last quarter but we did say at our IPO if you remember, we thought we could get to the mid-70s. I feel very good that we'll get to the mid-70s. It's going to take some time and stay tuned for our Investor Day and we'll talk more about that later.

I would say the biggest improvement we've seen to date in the gross margin has really been the renegotiation of our contracts with our cloud vendors and the discipline in our sales organization around discounting. And coupled with the fact as we move into larger enterprises, we're selling more business-critical enterprise which attract the higher contribution margin.

Raimo Lenschow
Analyst, Barclays Capital, Inc.

Q

Okay. Mike, thank you.

Operator: Your next question comes from the line of Brent Thill with Jefferies.

Brent Thill
Analyst, Jefferies LLC

Q

Mike, just on quota-carrying reps this year, if you're not giving a number, can you just give us a sense of are you going to keep the same trajectory of growth you had last year or trying to get more productivity [ph] on the reps you're adding (40:08)? Just any color around the quota-carrying side would be helpful. Thanks.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Well, we don't disclose quota-carrying reps and what I will say is we're going to add about 1,200 net employees for the full year and we do expect that we'll add about the same level into our sales organization this year as we did last year.

Brent Thill
Analyst, Jefferies LLC

Q

So same number of absolute reps?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Correct.

Brent Thill
Analyst, Jefferies LLC

Q

Great. Thank you, Mike.

Operator: Our next question comes from the line of DJ Hynes with Canaccord Genuity.

David Hynes
Analyst, Canaccord Genuity LLC

Q

Hey. Thanks. Frank, I want to ask about Snowflake Ventures, you called out ThoughtSpot, Dataiku. I know DataRobot is in the portfolio. So obviously, analytics and ML, AI are logical targets. Curious like where else are you seeing interesting stuff happening in the ecosystem as it pertains to driving volumes to Snowflake?

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.

A

Yeah. Areas like governance. Obviously, governance is just beginning such a huge aspect of data operations in large institutions. When I say governance, it really relates to security as well as privacy compliance. So we actually acquired a company last year by the name of CryptoNumerics and that is now actually flowing into our platform. We have the ability to anonymize PI, data and things of that sort. Super, super important that customers can really feel safe on our platform that when they allow data on our platform, that it is fully governed. I mean, it's been a big issue but it's literally growing in importance quarter-on-quarter. And a lot of our large customers are really organizing themselves to maintain that kind of a posture. There's sort of – there are areas in data cataloging – I mean, there's a whole ecosystem around our platforming. What we like about investing is not just the upside in terms of the investments but we get to build closer relationship with these customers on the basis of the investments, much more seamless integration, better customer experiences.

And that's what we like to. I mean, we're very much an ecosystem-oriented company rather than we have one flavor and that's what you're going to use. We want to make sure that the whole ecosystem feels like a very good experience to our customer. So we look for opportunities. We see a lot and we're happy with the number of investments that we've done and we're looking at new stuff continually.

David Hynes
Analyst, Canaccord Genuity LLC

Q

Yeah. Yeah. Obviously, some good ones in the portfolio already. Mike, a follow-up to you, so Raimo asked about gross margins as it pertains to kind of the storage compression technology, I was going to ask if I think about the trajectory is kind of you guys expand into doing more with unstructured data, I think there are heavy demands on storage there, like how should we think about the trajectory of gross margins as we get to the that mid-70s target? I mean, is it fair to think they could dip in the interim or what's the right way to think about that?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

I don't see a dip happening in our product gross margins at all but there is a limit to where you can get to. And when we were going through our IPO, people were asking questions, I did say I don't see us getting into the 80s. I can see us a path to the mid-70s. We may one day be able to get into the high-70s but given the storage component and we are passing the cost associated with the public clouds that are in there, it's pretty hard to get beyond that.

David Hynes
Analyst, Canaccord Genuity LLC

Q

Yeah. Makes sense. Okay. Thanks. Nice numbers, guys.

Operator: Your next question comes from the line of Brad Reback with Stifel.

Brad Robert Reback
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thanks very much. Mike, I think last quarter you talked about investments in FedRAMP. Can you maybe give us an update where you stand and you think the Federal vertical could be contributor in fiscal [indiscernible] (44:18)?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

So, there's FedRAMP High we're working on, ITAR is going to be out mid this year, FedRAMP High end of the year. And obviously, if we didn't see a big opportunity because there is a big cost associated with doing that, we wouldn't be doing it and we have a very good pipeline within the public sector and we're very focused on it. As of today, it's not a big driver of revenue so that's a lot of upside there.

Brad Robert Reback
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thanks very much.

Operator: Your next question comes from the line of Tyler Radke with Citi.

Tyler Radke
Analyst, Citigroup Global Markets, Inc.

Q

Hey. Thanks very much for taking my question. Maybe to start with Frank, I think earlier in the call you talked about how kind of the legacy data warehouse migration has been a really important go-to-market motion. I'm curious given your focus on the Data Cloud like are you changing at all in terms of the initial use case that you're leading with? Perhaps given the success you're seeing with Data Sharing and Data Marketplace, do you find that those are easier to perhaps land a new customer with given that it's more green field and less of a large scale legacy database migration?

Frank Slootman
Chairman & Chief Executive Officer, Snowflake, Inc.

A

The thing that happens is when people move these legacy workloads to the cloud and you're running a platform like Snowflake and all of a sudden you're finding out that workloads can run orders of magnitude faster, in other words, not like, oh after three weeks, [ph] it got populated my warehouse (46:02), I'm now populating the dash board running the reports, people are almost – they've already moved on by the time they get data.

When you accelerate that timeframe, we often talk about this whole concept, the time value of data. If you get data, most of our customers are now on the 24-hour cycle but that's not moving up, right, where people are seeing data in hours sand minutes, we're very aggressively working to event architectures where you get to sort of near real time, not in the computer science sense of real time. But into this [indiscernible] (46:36) it's near real time. So, you're now looking the data very differently than you did before where you had to wait for days and weeks for it to see it. Now, it's showing up very quickly. That completely changes people's perspective what they can do with it, right? And that is what is so different.

Now, these are enabled by the public cloud coupled with Snowflake's architecture, that is what's driving the consumption of high net revenue retention rates because people are discovering completely new use cases and things that can do that were never a consideration in previous times. It's very important that this whole static batch-oriented way of thinking we have in data warehouse is completely different now, okay?

Tyler Radke
Analyst, Citigroup Global Markets, Inc.

Q

Thanks. And then a follow-up for Mike. I know the current – you don't really have it, the current RPO because, obviously, it's a consumption-oriented model. But in terms of your comments on the percentage of RPOs, it's expected to be recognized in the next 12 months, I just wanted to confirm, it seemed like that the growth in that number picked up quite a bit from the last few quarters. So, number one, just wanted to confirm that the growth rate on that number and, number two, just understand kind of the factors that drove what seems like a good bookings performance here in Q1.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Well, it was a strong Q1 in bookings performance. And we estimate that 54% of that RPO [ph] flow off (48:13) into revenue over the next 12 months and it was 54%, 55% last quarter and [indiscernible] (48:22) there is to say about that. But [indiscernible] (48:25) how we see it rolling off the revenue.

Tyler Radke
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Operator: Our last question comes from the line of Kamil Mielczarek with William Blair.

Kamil Mielczarek
Analyst, William Blair & Co. LLC

Q

Hi, everyone. Congrats on the great start to the year, and thanks for taking my question. I have a follow-up on the targeted 1,200 head count increase this year. Can you update us on the execution to date and should we expect that to be front-end loaded and maybe could you provide the split between the first half and second of the year?

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Well, as I said in the remarks, we onboarded 436 net employees in the first half of the year and so 1,200 is definitely front-end loaded. We always try to add a lot of people into our sales and marketing organization in the first month of the year to take the benefit of our sales kickoff. But I – definitely, we're going to continue to add in the first half is – it's going to be more skewed to that.

Kamil Mielczarek
Analyst, William Blair & Co. LLC

Q

That's helpful. And you've delivered incredible RPO growth over the past – it's been over 200%, I guess for the past few years now. Can you provide an update on contract duration, how that's changing, is that something being pushed by your sales team or is that just a function of more penetration at the enterprise level? Thank you.

Michael P. Scarpelli
Chief Financial Officer, Snowflake, Inc.

A

Well, last year was the first year we really incentivized our sales force to sell multi-year contracts. And what I would say is, now, it's getting more into the normal sales motion of our sales people, it's more natural for them to be going in and asking customers to sign a three-year contract. Historically, we use to sell one-year contracts only. And so we still do have renewals in customer. There are still some customers on renewals and they only want to do one-year renewal because that's what they've always done. And there are some customers especially ones where they're new customers who want to do a one-year contract because they want to get to know us more. Generally, those newer customers we're finding on renewals are doing the multi-year renewals with us as they're seeing everything they can do on Snowflake. But that's fully reflected in our RPO.

Kamil Mielczarek
Analyst, William Blair & Co. LLC

Q

That makes sense. All right. Thank you and congrats again.

Operator: And ladies and gentlemen, this concludes today's conference call. We thank you for your participation. You may now disconnect.