
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)



QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 2021

OR



TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-38675

Elastic N.V.

The Netherlands
(State or other jurisdiction of
incorporation or organization)

Not Applicable
(I.R.S. Employer
Identification No.)

800 West El Camino Real, Suite 350
Mountain View, California 94040
(Address of principal executive offices)
(650) 458-2620

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary shares, Par Value €0.01 Per Share	ESTC	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of February 24, 2021, the registrant had 89,764,796 ordinary shares, €0.01 par value per share, outstanding.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which statements involve substantial risk and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- the impact of the 2019 novel coronavirus disease (“COVID-19”) on our business, operations, hiring and financial results, and on the businesses of our customers and partners, including their spending priorities, the effect of governmental lockdowns, restrictions and new regulations;
- our future financial performance, including our expectations regarding our revenue, cost of revenue, gross profit or gross margin, operating expenses (which include changes in sales and marketing, research and development and general and administrative expenses), and our ability to achieve and maintain future profitability;
- our ability to continue to deliver and improve our offerings and successfully develop new offerings, including security-related product offerings and SaaS offerings;
- the impact of changes to our licensing of our products, specifically Elasticsearch and Kibana;
- our assessments of the strength of our solutions and products;
- customer acceptance and purchase of our existing offerings and new offerings, including the expansion and adoption of our SaaS offerings;
- our service performance and security, including the resources and costs required to prevent, detect and remediate potential security breaches, including by bad actors;
- our ability to maintain and expand our user and customer base;
- the market for our products continuing to develop;
- competition from other products and companies with more resources, recognition and presence in our industry;
- the impact of foreign currency exchange rate and interest rate fluctuations on our results;
- the pace of change and innovation in the markets in which we participate and the competitive nature of those markets;
- our business strategy and our plan to build our business;
- our ability to effectively manage our growth, including any changes to our pace of hiring;
- our international expansion strategy;
- our operating results and cash flows;
- our strategy of acquiring complementary businesses and our ability to successfully integrate acquired businesses and technologies, including the successful integration of Endgame, Inc. and its subsidiary (“Endgame”);
- the potential impact on our operating margin from the acquisition of Endgame;
- the impact of acquisitions on our future product offerings;
- our beliefs and objectives for future operations;
- our relationships with and reliance on third parties, including partners;
- our ability to protect our intellectual property rights;
- our ability to develop our brands;
- the impact of expensing stock options and other equity awards;
- the sufficiency of our capital resources;
- our ability to successfully defend litigation brought against us;
- our ability to successfully execute our go-to-market strategy, including the positioning of our solutions and products, and expand in our existing markets and into new markets;

- sufficiency of cash to meet cash needs for at least the next 12 months;
- our ability to comply with laws and regulations that currently apply or become applicable to our business both in the United States and internationally;
- our ability to attract and retain qualified employees and key personnel;
- our ability to onboard, provide training to and integrate new employees;
- the effect of the loss of key personnel;
- our expectations about the impact of natural disasters and public health epidemics and pandemics, on our business, results of operations and financial condition;
- expectations about seasonality;
- the future trading prices of our ordinary shares;
- and general market, political, economic and business conditions (including developments and volatility arising from the ongoing COVID-19 pandemic).

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. Any additional or unforeseen effect from the ongoing COVID-19 pandemic may exacerbate these risks. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which such statements are made. We undertake no obligation to update any forward-looking statements after the date of this Quarterly Report on Form 10-Q or to conform such statements to actual results or revised expectations, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Elastic N.V.

Condensed Consolidated Balance Sheets *(in thousands, except share and per share data)* *(unaudited)*

	As of January 31, 2021	As of April 30, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 393,134	\$ 297,081
Restricted cash	2,355	2,308
Accounts receivable, net of allowance for credit losses of \$1,831 and \$1,247 as of January 31, 2021 and April 30, 2020, respectively	120,049	128,690
Deferred contract acquisition costs	29,596	19,537
Prepaid expenses and other current assets	28,906	32,623
Total current assets	574,040	480,239
Property and equipment, net	8,665	7,760
Goodwill	198,665	197,877
Operating lease right-of-use assets	29,340	32,783
Intangible assets, net	39,823	50,455
Deferred contract acquisition costs, non-current	42,591	24,012
Deferred tax assets	3,970	3,164
Other assets	2,886	7,621
Total assets	\$ 899,980	\$ 803,911
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,825	\$ 11,485
Accrued expenses and other liabilities	25,224	22,210
Accrued compensation and benefits	42,507	48,409
Operating lease liabilities	8,176	7,639
Deferred revenue	289,689	243,324
Total current liabilities	371,421	333,067
Deferred revenue, non-current	44,321	16,378
Operating lease liabilities, non-current	23,769	27,827
Other liabilities, non-current	4,888	12,992
Total liabilities	444,399	390,264
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Convertible preference shares, €0.01 par value; 165,000,000 shares authorized, 0 shares issued and outstanding as of January 31, 2021 and April 30, 2020	—	—
Ordinary shares, par value €0.01 per share; 165,000,000 shares authorized; 89,644,940 and 82,856,978 shares issued and outstanding as of January 31, 2021 and April 30, 2020, respectively	937	856
Treasury stock	(369)	(369)
Additional paid-in capital	1,033,598	898,788
Accumulated other comprehensive loss	(8,568)	(1,377)
Accumulated deficit	(570,017)	(484,251)
Total shareholders' equity	455,581	413,647
Total liabilities and shareholders' equity	\$ 899,980	\$ 803,911

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Elastic N.V.
Condensed Consolidated Statements of Operations
(in thousands, except share and per share data)
(unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
Revenue				
License - self-managed	\$ 15,280	\$ 14,495	\$ 45,673	\$ 36,674
Subscription - self-managed and SaaS	131,969	89,703	357,127	241,593
Total subscription revenue	147,249	104,198	402,800	278,267
Professional services	9,866	8,983	28,079	25,730
Total revenue	157,115	113,181	430,879	303,997
Cost of revenue				
Cost of license - self-managed	346	347	1,039	602
Cost of subscription - self-managed and SaaS	31,426	23,196	86,464	60,832
Total cost of revenue - subscription	31,772	23,543	87,503	61,434
Cost of professional services	10,196	9,862	27,744	26,983
Total cost of revenue	41,968	33,405	115,247	88,417
Gross profit	115,147	79,776	315,632	215,580
Operating expenses				
Research and development	51,400	46,119	143,766	119,779
Sales and marketing	71,087	54,829	191,712	160,860
General and administrative	27,121	21,096	72,555	71,472
Total operating expenses	149,608	122,044	408,033	352,111
Operating loss	(34,461)	(42,268)	(92,401)	(136,531)
Other income (expense), net	(2,377)	(1,339)	8,424	1,276
Loss before income taxes	(36,838)	(43,607)	(83,977)	(135,255)
Provision for income taxes	1,136	674	2,156	768
Net loss	\$ (37,974)	\$ (44,281)	\$ (86,133)	\$ (136,023)
Net loss per share attributable to ordinary shareholders, basic and diluted	\$ (0.43)	\$ (0.55)	\$ (1.00)	\$ (1.75)
Weighted-average shares used to compute net loss per share attributable to ordinary shareholders, basic and diluted	88,341,038	80,737,237	86,296,028	77,713,604

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Elastic N.V.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
Net loss	\$ (37,974)	\$ (44,281)	\$ (86,133)	\$ (136,023)
Other comprehensive income (loss):				
Foreign currency translation adjustments	3,346	1,876	(7,190)	825
Other comprehensive income (loss)	3,346	1,876	(7,190)	825
Total comprehensive loss	<u>\$ (34,628)</u>	<u>\$ (42,405)</u>	<u>\$ (93,323)</u>	<u>\$ (135,198)</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Elastic N.V.
Condensed Consolidated Statements of Shareholders' Equity
(in thousands, except share data)
(unaudited)

	Ordinary Shares		Treasury Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount					
Balances at October 31, 2020	87,204,991	\$ 908	\$ (369)	\$ 986,076	\$ (11,914)	\$ (532,043)	\$ 442,658
Issuance of ordinary shares upon exercise of stock options	2,157,149	26	—	22,298	—	—	22,324
Issuance of ordinary shares upon release of restricted stock units	282,800	3	—	(3)	—	—	—
Stock-based compensation	—	—	—	25,227	—	—	25,227
Net loss	—	—	—	—	—	(37,974)	(37,974)
Foreign currency translation	—	—	—	—	3,346	—	3,346
Balances at January 31, 2021	89,644,940	\$ 937	\$ (369)	\$ 1,033,598	\$ (8,568)	\$ (570,017)	\$ 455,581

	Ordinary Shares		Treasury Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount					
Balances at October 31, 2019	80,412,842	\$ 829	\$ (369)	\$ 843,997	\$ (2,482)	\$ (408,819)	\$ 433,156
Issuance of ordinary shares upon exercise of stock options	1,090,261	12	—	11,040	—	—	11,052
Issuance of ordinary shares upon release of restricted stock units	71,708	1	—	—	—	—	1
Vesting of ordinary shares subject to repurchase	—	—	—	1,118	—	—	1,118
Stock-based compensation	—	—	—	15,520	—	—	15,520
Net loss	—	—	—	—	—	(44,281)	(44,281)
Foreign currency translation	—	—	—	—	1,876	—	1,876
Balances at January 31, 2020	81,574,811	\$ 842	\$ (369)	\$ 871,675	\$ (606)	\$ (453,100)	\$ 418,442

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Elastic N.V.
Condensed Consolidated Statements of Shareholders' Equity
(in thousands, except share data)
(unaudited)

	Ordinary Shares		Treasury Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount					
Balances at April 30, 2020	82,856,978	\$ 856	\$ (369)	\$ 898,788	\$ (1,377)	\$ (484,251)	\$ 413,647
Cumulative-effect adjustment from adoption of ASU 2016-13	—	—	—	—	—	367	367
Issuance of ordinary shares upon exercise of stock options	6,192,264	73	—	67,481	—	—	67,554
Issuance of ordinary shares upon release of restricted stock units	595,698	8	—	(8)	—	—	—
Stock-based compensation	—	—	—	64,634	—	—	64,634
Reclassification of liability-classified awards	—	—	—	2,703	—	—	2,703
Net loss	—	—	—	—	—	(86,133)	(86,133)
Foreign currency translation	—	—	—	—	(7,191)	—	(7,191)
Balances at January 31, 2021	89,644,940	\$ 937	\$ (369)	\$ 1,033,598	\$ (8,568)	\$ (570,017)	\$ 455,581

	Ordinary Shares		Treasury Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount					
Balances at April 30, 2019	73,675,083	\$ 754	\$ (369)	\$ 581,135	\$ (1,431)	\$ (317,077)	\$ 263,012
Issuance of ordinary shares upon exercise of stock options	5,560,487	64	—	50,558	—	—	50,622
Issuance of ordinary shares upon release of restricted stock units	125,132	1	—	—	—	—	1
Ordinary shares issued in connection with the acquisition of Endgame	1,983,663	21	—	167,316	—	—	167,337
Ordinary shares issued in connection with the acquisition of Endgame held in escrow	235,031	2	—	19,824	—	—	19,826
Assumption of stock option plan as consideration for acquisition of Endgame	—	—	—	9,309	—	—	9,309
Repurchase of unvested RSAs	(4,585)	—	—	—	—	—	—
Vesting of ordinary shares subject to repurchase	—	—	—	2,730	—	—	2,730
Stock-based compensation	—	—	—	40,803	—	—	40,803
Net loss	—	—	—	—	—	(136,023)	(136,023)
Foreign currency translation	—	—	—	—	825	—	825
Balances at January 31, 2020	81,574,811	\$ 842	\$ (369)	\$ 871,675	\$ (606)	\$ (453,100)	\$ 418,442

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Elastic N.V.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Nine Months Ended January 31,	
	2021	2020
Cash flows from operating activities		
Net loss	\$ (86,133)	\$ (136,023)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation and amortization	12,856	8,573
Amortization of deferred contract acquisition costs	28,455	20,581
Non-cash operating lease cost	5,256	5,170
Stock-based compensation expense	65,305	42,775
Non-cash acquisition expense settled with shares	—	8,834
Deferred income taxes	(288)	(621)
Foreign currency transaction gain	(9,463)	—
Other	11	1,132
Changes in operating assets and liabilities:		
Accounts receivable, net	15,246	10,873
Deferred contract acquisition costs	(54,612)	(26,441)
Prepaid expenses and other current assets	4,817	(4,345)
Other assets	5,237	3,780
Accounts payable	(6,321)	7,104
Accrued expenses and other liabilities	1,696	1,520
Accrued compensation and benefits	(5,859)	3,377
Operating lease liabilities	(5,402)	(4,586)
Deferred revenue	53,309	33,666
Net cash provided by (used in) operating activities	<u>24,110</u>	<u>(24,631)</u>
Cash flows from investing activities		
Purchases of property and equipment	(2,732)	(4,237)
Business acquisition, net of cash acquired	—	(24,373)
Other	1,320	—
Net cash used in investing activities	<u>(1,412)</u>	<u>(28,610)</u>
Cash flows from financing activities		
Proceeds from issuance of ordinary shares upon exercise of stock options	67,554	50,622
Payment of withholding taxes related to acquisition expense settled in shares	—	(2,834)
Repayment of notes payable	—	(90)
Net cash provided by financing activities	<u>67,554</u>	<u>47,698</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	5,848	1,630
Net increase (decrease) in cash, cash equivalents, and restricted cash	96,100	(3,913)
Cash, cash equivalents, and restricted cash, beginning of period	299,389	300,280
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 395,489</u>	<u>\$ 296,367</u>
Supplemental disclosures of cash flow information		
Cash paid (refund received) for income taxes	\$ (1,217)	\$ 3,333
Cash paid for operating lease liabilities	\$ 6,628	\$ 5,415
Supplemental disclosures of non-cash investing and financing information		
Property and equipment included in accounts payable	\$ 175	\$ 487
Operating lease right-of-use assets for new lease obligations	\$ 1,120	\$ 11,373
Vesting of shares subject to repurchase	\$ —	\$ 2,730
Issuance of ordinary shares for business combination	\$ —	\$ 178,329
Assumption of stock option plan as consideration for business combination	\$ —	\$ 9,309

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Elastic N.V.
Notes to Condensed Consolidated Financial Statements
(unaudited)

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1. Organization and Description of Business

Elastic N.V. (“Elastic” or the “Company”) was incorporated under the laws of the Netherlands in 2012. Elastic is a search company. It created the Elastic Stack, a powerful set of software products that ingest and store data from any source and in any format, and perform search, analysis, and visualization in milliseconds or less. Developers build on top of the Elastic Stack to apply the power of search to their data and solve business problems. The Company also offers software solutions built on the Elastic Stack: Enterprise Search, Observability, and Security. The Elastic Stack and the Company’s solutions are designed to run in public or private clouds, in hybrid environments, or in traditional on-premises environments.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed consolidated balance sheet as of January 31, 2021, the interim condensed consolidated statements of operations and of comprehensive loss, interim condensed statements of shareholders’ equity for the three and nine months ended January 31, 2021 and 2020 and the interim condensed consolidated statements of cash flows for the nine months ended January 31, 2021 and 2020, are unaudited. These interim condensed consolidated financial statements have been prepared on a basis consistent with the annual consolidated financial statements and, in the opinion of management, include all adjustments necessary to fairly state the Company’s financial position as of January 31, 2021, and the results of the Company’s operations, its statements of shareholders’ equity for the three and nine months ended January 31, 2021 and 2020, and its statements of cash flows for the nine months ended January 31, 2021 and 2020. The financial data and other financial information disclosed in the notes to these interim condensed consolidated financial statements related to the three and nine month periods are also unaudited. The results for the nine months ended January 31, 2021 are not necessarily indicative of the operating results expected for the fiscal year ending April 30, 2021, or any future period.

The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include the financial statements of the Company and its wholly-owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the applicable rules and regulations of the Securities and Exchange Commission (“SEC”). Therefore, these unaudited interim condensed consolidated financial statements and accompanying footnotes should be read in conjunction with the Company’s annual consolidated financial statements and related footnotes included in the Company’s Annual Report on Form 10-K for the fiscal year ended April 30, 2020 filed with the SEC on June 26, 2020 (“the Company’s Annual Report on Form 10-K”).

Fiscal Year

The Company’s fiscal year ends on April 30. References to fiscal 2021, for example, refer to the fiscal year ending April 30, 2021.

Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Such estimates include, but are not limited to, allocation of revenue between recognized and deferred amounts, deferred contract acquisition costs, allowance for credit losses, valuation of stock-based compensation, fair value of ordinary shares in periods prior to the Company’s initial public offering, fair value of acquired intangible assets and goodwill, useful lives of acquired intangible assets and property and equipment, whether an arrangement is or contains a lease, the discount rate used for operating leases and valuation allowance for deferred income taxes. The Company bases these estimates on historical and anticipated results, trends and various other assumptions that it believes are reasonable under the circumstances, including assumptions as to future events.

In March 2020, the World Health Organization declared the 2019 novel Coronavirus Disease (“COVID-19”) a pandemic. The pandemic has resulted in a global slowdown of economic activity that is likely to decrease demand for a broad variety of goods and services, including from certain of the Company’s customers, while also disrupting sales channels and marketing activities for an unknown period of time. The full extent to which COVID-19 may impact the Company’s financial condition or results of operations is uncertain.

Estimates and assumptions about future events and their effects cannot be determined with certainty and therefore require the exercise of judgment. As of the date of issuance of these financial statements, the Company is not aware of any

specific event or circumstance that would require the Company to update its estimates, judgments or revise the carrying value of the Company's assets or liabilities. These estimates may change, as new events occur and additional information is obtained, and are recognized in the consolidated financial statements as soon as they become known. Actual results could differ from those estimates and any such differences may be material to the Company's financial statements.

Significant Accounting Policies

Other than as described below, there have been no changes to the Company's significant accounting policies described in the Company's Annual Report on Form 10-K that have had a material impact on its consolidated financial statements and related notes.

Accounts Receivable and Allowance for Credit Losses

The Company records a receivable when an unconditional right to consideration exists, such that only the passage of time is required before payment of consideration is due. Timing of revenue recognition may differ from the timing of invoicing to customers. If revenue recognized on a contract exceeds the billings, then the Company records an unbilled receivable for that excess amount, which is included as part of accounts receivable, net in the Company's condensed consolidated balance sheets.

The Company is exposed to credit losses primarily through the sales of subscriptions and services, which are recorded as accounts receivable, inclusive of unbilled receivables. The Company performs initial and ongoing evaluations of its customers' financial position and generally extends credit without collateral. Accounts receivable are recorded at amortized cost, net of an allowance for credit losses, and do not bear interest.

The allowance for credit losses represents the best estimate of lifetime expected credit losses against the existing accounts receivable, inclusive of unbilled receivables, based on certain factors including past collection experience, credit quality of the customer, current aging of the receivable balance, current economic conditions, reasonable and supportable forecasts, as well as specific circumstances arising with individual customers. Judgment is required in assessing these factors. Due to the short-term nature of the Company's accounts receivable, forecasts have limited relevance to the Company's expected credit loss estimates. Accounts receivable are written off against the allowance when management determines a balance is uncollectible and the Company no longer actively pursues collection of the receivable. The Company's estimates of the allowance for credit losses may not be indicative of the Company's actual credit losses requiring additional charges to be incurred to reflect the actual amount collected.

Recently Adopted Accounting Pronouncements

Goodwill Impairment: In January 2017, the FASB issued ASU No. 2017-4, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The new standard will simplify the measurement of goodwill impairment by eliminating step two of the two-step impairment test. Step two measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The new guidance requires an entity to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The Company adopted ASU No. 2017-4 on May 1, 2020. The Company's adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

Fair Value Measurements: In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*, which modifies, removes and adds certain disclosure requirements on fair value measurements based on the FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The Company adopted ASU No. 2018-13 on May 1, 2020. The Company's adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

Intangible Assets: In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this ASU. The Company adopted ASU No. 2018-15 on May 1, 2020 and applied it prospectively to implementation costs incurred after the

date of adoption. The Company's adoption of this ASU had no material impact on the Company's condensed consolidated financial statements.

Credit Losses: In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and has since issued various amendments including ASU No. 2018-19, ASU No. 2019-4, and ASU No. 2019-5. The standard and related amendments modify the accounting for credit losses for most financial assets and requires an entity to utilize a new impairment model known as current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized costs basis of the financial asset, presents the amount expected to be collected on the financial asset. Additionally, ASU No. 2016-13 amends the current available-for-sale security impairment model for debt securities held for investment. The new model requires an estimate of expected credit losses when the fair value is below the amortized cost of the asset. The credit-related impairment (and subsequent recoveries) are recognized as an allowance on the balance sheet with a corresponding adjustment to the income statement. Non-credit related losses will continue to be recognized through OCI. This guidance also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company adopted ASU No. 2016-13 on May 1, 2020. The Company's adoption of this ASU resulted in a \$0.4 million reduction to accumulated deficit.

Reclassification

In connection with the preparation of the Company's condensed consolidated financial statements for the quarter ended January 31, 2021, the Company identified an immaterial misclassification in the prior year balance sheet, which understated short term deferred revenue and overstated long term deferred revenue by \$11.6 million as of April 30, 2020. The Company has corrected for this immaterial misclassification in the accompanying condensed consolidated balance sheet by revising the April 30, 2020 deferred revenue balances. This change in classification has no effect on previously reported cash flows in the condensed consolidated statement of cash flows and has no effect on previously reported condensed consolidated statements of operations for any period.

New Accounting Pronouncements Not Yet Adopted

Income Taxes: In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, eliminating certain exceptions to the general principles in ASC 740 related to intra-period tax allocation, deferred tax liability and general methodology for calculating income taxes. Additionally, the ASU makes other changes for matters such as franchise taxes that are partially based on income, transactions with a government that result in a step up in the tax basis of goodwill, separate financial statements of legal entities that are not subject to tax, and enacted changes in tax laws in interim periods. The new guidance becomes effective for the Company for the fiscal year ending April 30, 2022. Early adoption is permitted. The Company does not expect the adoption of the new accounting standard to have a material impact on its consolidated financial statements.

3. Revenue and Remaining Performance Obligations

Disaggregation of Revenue

The following table presents revenue by category (in thousands):

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2021		2020		2021		2020	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	% of Total Revenue
Self-managed subscription	\$ 102,320	65 %	\$ 79,105	70 %	\$ 287,816	66 %	\$ 214,947	71 %
License	15,280	10 %	14,495	13 %	45,673	11 %	36,674	12 %
Subscription	87,040	55 %	64,610	57 %	242,143	55 %	178,273	59 %
SaaS	44,929	29 %	25,093	22 %	114,984	27 %	63,320	21 %
Total subscription revenue	147,249	94 %	104,198	92 %	402,800	93 %	278,267	92 %
Professional services	9,866	6 %	8,983	8 %	28,079	7 %	25,730	8 %
Total revenue	\$ 157,115	100 %	\$ 113,181	100 %	\$ 430,879	100 %	\$ 303,997	100 %

Remaining Performance Obligations

As of January 31, 2021, the Company had \$705.7 million of remaining performance obligations. As of January 31, 2021, the Company expects to recognize approximately 84% of its remaining performance obligations as revenue over the next 24 months and the remainder thereafter.

4. Fair Value Measurements

The Company measures financial assets and liabilities that are measured at fair value on a recurring basis at each reporting period using a fair value hierarchy that prioritizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table summarizes assets that are measured at fair value on a recurring basis as of January 31, 2021 and April 30, 2020 (in thousands):

January 31, 2021	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and cash equivalents:				
Money market funds	\$ 175,007	—	—	\$ 175,007
April 30, 2020				
Financial Assets:				
Cash and cash equivalents:				
Money market funds	\$ 197,314	—	—	\$ 197,314

The Company considers all highly liquid investments, including money market funds with an original maturity of three months or less at the date of purchase, to be cash equivalents. The Company uses quoted prices in active markets for identical assets to determine the fair value of its Level 1 investments in money market funds.

5. Acquisitions

Fiscal Year Ended April 30, 2020

Endgame, Inc.

On October 8, 2019, the Company acquired all outstanding shares of Endgame, a security company offering endpoint protection technology, for a total acquisition price of \$234.0 million. Elastic paid the purchase price through (i) the issuance of 2,218,694 ordinary shares in respect of Endgame's outstanding capital stock, warrants, convertible notes, and certain retention awards, (ii) the cash repayment of Endgame's outstanding indebtedness of \$20.4 million, (iii) the assumption of Endgame's outstanding stock options, (iv) a \$0.4 million cash deposit to an expense fund for the fees and expenses of the representative and agent of Endgame securityholders, (v) the cash payment of Endgame's transaction expenses of \$5.9 million, and (vi) the cash payment of withholding taxes related to acquisition expense settled in shares of \$2.8 million. Approximately 11% of the ordinary shares issued, or 235,031 shares, is being held in an indemnity escrow fund for 18 months after the acquisition close date. For purposes of determining the total acquisition price of \$234.0 million, the Company used the ordinary share price of \$89.3836 which was determined on the basis of the volume weighted average price per share rounded to four decimal places for the twenty (20) consecutive trading days ending with the complete trading day ending five (5) trading days prior to the date upon which the acquisition was consummated.

The fair value of the shares transferred as consideration was \$84.12 per share and was determined on the basis of the closing stock price of the Company's ordinary shares on the date of acquisition. The fair value of the assumed stock options was determined by using a Black-Scholes option pricing model with the applicable assumptions as of the acquisition date.

The stock options assumed on the acquisition date will continue to vest as the Endgame employees provide services in the post-acquisition period. The fair value of these awards will be recorded as share-based compensation expense over the respective vesting period of each stock option.

The acquisition was accounted for as a business combination and the total purchase price was allocated to the net tangible and intangible assets and liabilities based on their respective fair values on the acquisition date and the excess was recorded as goodwill.

The following table summarizes the components of the U.S. GAAP purchase price and the allocation of the purchase price at fair value (in thousands):

Cash paid	\$	26,633
Ordinary shares		178,331
Assumption of stock option plan		9,309
Total consideration	\$	214,273

The above U.S. GAAP purchase price consideration does not include ordinary shares of Elastic issued as part of acceleration of equity awards and participation in the retention bonus pool.

The following table summarizes the fair values of assets acquired and liabilities assumed (in thousands):

Cash and cash equivalents	\$	2,220
Restricted cash		40
Accounts receivable		2,661
Prepaid and other current assets		549
Operating lease right-of-use assets		4,363
Property and equipment		503
Intangible assets		53,800
Other assets		58
Goodwill		178,764
Accounts payable		(1,112)
Accrued expenses and other current liabilities		(3,035)
Accrued compensation and benefits		(5,042)
Operating lease liabilities, current		(981)
Deferred revenue, current		(3,532)
Deferred revenue, non-current		(2,661)
Operating lease liabilities, non-current		(3,551)
Other liabilities, non-current		(8,771)
Total purchase consideration	\$	214,273

Identifiable intangible assets include (in thousands):

	Total	Estimated life (in years)
Developed technology	\$ 32,700	5
Customer relationships	19,200	4
Trade name	1,900	4
Total intangible assets	\$ 53,800	

Developed technology consists of software products and security platform developed by Endgame. Customer relationships consists of contracts with platform users that purchase Endgame's products and services that carry distinct value. Trade names represent the Company's right to the Endgame trade names and associated design, as it exists as of the acquisition date.

The fair value assigned to developed technology was determined primarily using the multi-period excess earnings model, which estimates the revenue and cash flows derived from the asset and then deducts portions of the cash flow that can be attributed to supporting assets otherwise recognized. The fair value of the Company's customer relationships was determined using the income approach, which discounts expected future cash flows to present value using estimates and assumptions determined by management. The fair value assigned to trade name was determined using the relief from royalty method, where the owner of the asset realizes a benefit from owning the intangible asset rather than paying a rental or royalty rate for use of the asset. The acquired intangible assets are being amortized on a straight-line basis over their respective useful lives, which approximates the pattern in which these assets are utilized.

Recognized goodwill of \$178.8 million is not deductible for tax purposes and is primarily attributed to planned growth in new markets, synergies arising from the acquisition and the value of the acquired workforce.

Net tangible assets and liabilities assumed were valued at their respective carrying amounts as of the acquisition date, as the Company believes that these amounts approximate their current fair values.

Endgame has been included in the Company's consolidated results of operations since the acquisition date. Endgame's results were immaterial to the Company's consolidated results for the three and nine months ended January 31, 2021.

The following unaudited pro forma condensed consolidated financial information gives effect to the acquisition of Endgame as if it were consummated on May 1, 2018, including pro forma adjustments related to the valuation and allocation of the purchase price, primarily amortization of acquired intangible assets and deferred revenue fair value adjustments; share-based compensation expense; alignment of accounting policies; the impact of applying ASC Topic 606, *Revenue From Contracts With Customers*, to Endgame's historical financial statements; and direct transaction costs reflected in the historical financial statements. This data is presented for informational purposes only and is not intended to represent or be indicative of the results of operations that would have been reported had the acquisition occurred on May 1, 2018. It should not be taken as representative of future results of operations of the combined company.

	Three Months Ended January 31, 2020	Nine Months Ended January 31, 2020
Pro forma revenue ⁽¹⁾	\$ 111,757	\$ 312,598
Pro forma net loss ⁽¹⁾	\$ (45,685)	\$ (141,147)

⁽¹⁾ As if the acquisition of Endgame were consummated on May 1, 2018.

6. Balance Sheet Components

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	As of January 31, 2021	As of April 30, 2020
Prepaid hosting costs	\$ 8,342	\$ 12,228
Deposits	2,454	1,857
Prepaid software subscription costs	4,043	3,104
Prepaid taxes	1,451	3,612
Prepaid value added taxes	5,574	5,167
Other	7,042	6,655
Total prepaid expenses and other current assets	<u>\$ 28,906</u>	<u>\$ 32,623</u>

Property and Equipment, Net

The cost and accumulated depreciation of property and equipment were as follows (in thousands):

	Useful Life (in years)	As of January 31, 2021	As of April 30, 2020
Leasehold improvements	Lesser of estimated useful life or remaining lease term	\$ 8,281	\$ 8,405
Computer hardware and software	3	5,197	5,687
Furniture and fixtures	3 - 5	5,223	5,072
Assets under construction		3,057	1,661
Total property and equipment		21,758	20,825
Less: accumulated depreciation		(13,093)	(13,065)
Property and equipment, net		<u>\$ 8,665</u>	<u>\$ 7,760</u>

Depreciation expense related to property and equipment was \$0.8 million for each of the three months ended January 31, 2021 and 2020, respectively. Depreciation expense related to property and equipment was \$2.2 million and \$2.1 million for the nine months ended January 31, 2021 and 2020, respectively.

Intangible Assets, Net

Intangible assets consisted of the following as of January 31, 2021 and April 30, 2020 (in thousands):

	Gross Fair Value	Accumulated Amortization	Net Book Value	Weighted Average Remaining Useful Life (in years)
January 31, 2021				
Developed technology	\$ 44,830	\$ 18,742	\$ 26,088	3.5
Customer relationships	19,598	7,091	12,507	2.7
Trade names	2,872	1,644	1,228	2.7
Total	<u>\$ 67,300</u>	<u>\$ 27,477</u>	<u>\$ 39,823</u>	3.2
April 30, 2020				
Developed technology	\$ 44,830	\$ 12,412	\$ 32,418	4.1
Customer relationships	19,598	3,210	16,388	3.4
Trade names	2,872	1,223	1,649	3.4
Total	<u>\$ 67,300</u>	<u>\$ 16,845</u>	<u>\$ 50,455</u>	3.9

Amortization expense for the intangible assets for the three and nine months ended January 31, 2021 and 2020 was as follows (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
Cost of revenue—cost of license—self-managed	\$ 346	\$ 347	\$ 1,039	\$ 602
Cost of revenue—cost of subscription—self-managed and SaaS	1,764	2,660	5,289	4,057
Sales and marketing	1,428	1,451	4,302	1,859
Total amortization of acquired intangible assets	<u>\$ 3,538</u>	<u>\$ 4,458</u>	<u>\$ 10,630</u>	<u>\$ 6,518</u>

The expected future amortization expense related to the intangible assets as of January 31, 2021 was as follows (in thousands, by fiscal year):

Remainder of 2021	\$ 3,537
2022	12,947
2023	11,890
2024	8,715
2025	2,734
Total	<u>\$ 39,823</u>

Goodwill

The following table represents the changes to goodwill (in thousands):

	Carrying Amount
Balance as of April 30, 2020	\$ 197,877
Foreign currency translation adjustment	788
Balance as of January 31, 2021	<u>\$ 198,665</u>

There was no impairment of goodwill during the nine months ended January 31, 2021 and 2020.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following (in thousands):

	As of January 31, 2021	As of April 30, 2020
Accrued expenses	\$ 13,280	\$ 10,864
Value added taxes payable	5,808	7,230
Other	6,136	4,116
Total accrued expenses and other liabilities	<u>\$ 25,224</u>	<u>\$ 22,210</u>

Accrued Compensation and Benefits

Accrued compensation and benefits consisted of the following (in thousands):

	As of January 31, 2021	As of April 30, 2020
Accrued vacation	\$ 22,200	\$ 17,971
Accrued commissions	9,220	16,259
Accrued payroll taxes and withholding taxes	6,535	7,588
Other	4,552	6,591
Total accrued compensation and benefits	<u>\$ 42,507</u>	<u>\$ 48,409</u>

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers. For annual contracts, the Company typically invoices customers at the time of entering into the contract. For multi-year agreements, the Company generally invoices customers on an annual basis prior to each anniversary of the contract start date. The Company records unbilled accounts receivable related to revenue recognized in excess of amounts invoiced as the Company has an unconditional right to invoice and receive payment in the future related to those fulfilled obligations. Invoicing customers prior to performance creates a contract liability, deferred revenue, which is recognized in accordance with the Company's revenue recognition policy.

The following table provides information about unbilled accounts receivable, deferred contract acquisition costs and deferred revenue from contracts with customers (in thousands):

	As of January 31, 2021	As of April 30, 2020
Unbilled accounts receivable, included in accounts receivable, net	\$ 5,837	\$ 2,622
Deferred contract acquisition costs	\$ 72,187	\$ 43,549
Deferred revenue	\$ 334,010	\$ 259,702

Significant changes in the unbilled accounts receivable and the deferred revenue balances were as follows (in thousands):

	Unbilled Accounts Receivable Nine Months Ended January 31,	
	2021	2020
Beginning balance	\$ 2,622	\$ 1,710
Amounts transferred to accounts receivable from unbilled accounts receivable presented at the beginning of the period	(2,622)	(1,710)
Additions through acquisition	—	321
Revenue recognized during the period in excess of invoices issued	5,837	1,774
Ending balance	<u>\$ 5,837</u>	<u>\$ 2,095</u>

	Deferred Revenue	
	Nine Months Ended January 31,	
	2021	2020
Beginning balance	\$ 259,702	\$ 170,666
Increases due to invoices issued, excluding amounts recognized as revenue during the period	274,292	175,469
Amounts transferred to deferred revenue from accrued expenses and other liabilities upon entering into contracts with customers, net of revenue recognized during the period	5,424	—
Increase from acquisition, net of revenue recognized	—	6,147
Revenue recognized that was included in deferred revenue balance at beginning of period	(205,408)	(142,488)
Ending balance	\$ 334,010	\$ 209,794

Deferred Contract Acquisition Costs

Deferred contract acquisition costs represent costs that are incremental to the acquisition of customer contracts, which consist mainly of sales commissions and associated payroll taxes. The Company determines whether costs should be deferred based on sales compensation plans, if the commissions are in fact incremental and would not have occurred absent the customer contract.

The Company determines the period of benefit for commissions paid for the acquisition of an initial subscription contract by taking into consideration its initial estimated customer life and the technological life of its software and related significant features. Sales commissions for renewal of a subscription contract are not considered commensurate with the commissions paid for the acquisition of the initial subscription contract given the substantive difference in commission rates in proportion to their respective contract values. Accordingly, commissions paid upon the initial acquisition of a contract are amortized over an estimated period of benefit of five years while commissions paid related to renewal contracts are amortized based on the pattern of the associated revenue recognition over the related contractual renewal period. Commissions paid on professional services are typically amortized in accordance with the associated revenue as the commissions paid on new and renewal professional services are commensurate with each other. Amortization of deferred contract acquisition costs is recognized in sales and marketing expense in the consolidated statement of operations.

The Company periodically reviews the carrying amount of deferred contract acquisition costs to determine whether events or changes in circumstances have occurred that could impact the period of benefit of these deferred costs. The Company did not recognize any impairment of deferred contract acquisition costs during the nine months ended January 31, 2021.

The following table summarizes the activity of the deferred contract acquisition costs (in thousands):

	Nine Months Ended January 31,	
	2021	2020
Beginning balance	\$ 43,549	\$ 26,150
Capitalization of contract acquisition costs	57,093	26,331
Amortization of deferred contract acquisition costs	(28,455)	(20,581)
Ending balance	\$ 72,187	\$ 31,900

Allowance for Credit Losses

The following is a summary of the changes in the Company's allowance for credit losses (in thousands):

Balance at April 30, 2020	\$ 1,247
Cumulative-effect adjustment from adoption of ASU 2016-13	(367)
Provision	3,441
Write-offs	(2,490)
Balance at January 31, 2021	\$ 1,831

7. Commitments and Contingencies

Cloud Hosting Commitments

During the nine months ended January 31, 2021, there were no material changes, outside the ordinary course of business, to the Company's contractual obligations and commitments reported in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2020.

Letters of Credit

The Company had a total of \$2.2 million in letters of credit outstanding in favor of certain landlords for office space as of January 31, 2021.

Legal Matters

From time to time, the Company has become involved in claims and other legal matters arising in the ordinary course of business. The Company investigates these claims as they arise. Although claims are inherently unpredictable, the Company is currently not aware of any matters that, if determined adversely to the Company, would individually or taken together have a material adverse effect on its business, results of operations, financial position or cash flows.

The Company accrues estimates for resolution of legal and other contingencies when losses are probable and reasonably estimable.

Although the results of litigation and claims are inherently unpredictable, the Company does not believe that there were any matters under litigation or claims with a reasonable possibility of the Company incurring a material loss as of January 31, 2021.

Indemnification

The Company enters into indemnification provisions under its agreements with other companies in the ordinary course of business, including business partners, landlords, contractors and parties performing its research and development. Pursuant to these arrangements, the Company agrees to indemnify, hold harmless, and reimburse the indemnified party for certain losses suffered or incurred by the indemnified party as a result of the Company's activities. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the fair value of these agreements is not material. The Company maintains commercial general liability insurance and product liability insurance to offset certain of the Company's potential liabilities under these indemnification provisions.

In addition, the Company indemnifies its officers, directors and certain key employees while they are serving in good faith in their respective capacities. To date, there have been no claims under any indemnification provisions.

8. Leases

The Company's leases are composed of corporate office spaces under non-cancelable operating lease agreements that expire at various dates through 2025. The Company does not have any finance leases.

Lease Costs

Components of lease costs included in the condensed consolidated statement of operations were as follows (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
Operating lease cost	\$ 2,234	\$ 2,317	\$ 6,518	\$ 6,280
Short-term lease cost	507	867	1,859	2,398
Variable lease cost	182	1,310	471	1,618
Total lease cost	<u>\$ 2,923</u>	<u>\$ 4,494</u>	<u>\$ 8,848</u>	<u>\$ 10,296</u>

Lease term and discount rate information are summarized as follows:

	As of January 31, 2021
Weighted average remaining lease term (years)	4.07
Weighted average discount rate	5.01 %

Future minimum lease payments under non-cancelable operating leases on an undiscounted cash flow basis as of January 31, 2021 were as follows (in thousands):

Years Ending April 30,		
2021 (remaining three months)	\$	2,353
2022		9,041
2023		8,535
2024		7,272
2025		5,891
Thereafter		2,802
Total minimum lease payments		35,894
Less imputed interest		(3,949)
Present value of future minimum lease payments		31,945
Less current lease liabilities		(8,176)
Operating lease liabilities, non-current	\$	23,769

9. Ordinary Shares

Each holder of ordinary shares has the right to one vote per ordinary share. The holders of ordinary shares are also entitled to receive dividends whenever funds are legally available and when declared by the board of directors, subject to the prior rights of holders of all classes of shares outstanding having priority rights to dividends. No dividends have been declared by the Company's board of directors from inception through January 31, 2021.

Ordinary Shares Reserved for Issuance

The Company had reserved shares of ordinary shares for issuance as follows:

	As of January 31, 2021	As of April 30, 2020
Stock options issued and outstanding	8,494,795	15,260,506
RSUs issued and outstanding	3,367,818	2,472,092
Remaining shares available for future issuance under the 2012 Plan	15,685,244	12,461,850
Total ordinary shares reserved	27,547,857	30,194,448

Convertible Preference Shares

The Company's board of directors has the authority, for a period of five years from October 10, 2018, without further action by the Company's shareholders, to issue up to 165 million shares of undesignated convertible preference shares with rights and preferences, including voting rights, designated from time to time by the board of directors. As of January 31, 2021, there were no convertible preference shares issued or outstanding.

10. Equity Incentive Plans

In September 2012, the Company's board of directors adopted and the Company's shareholders approved the 2012 Stock Option Plan, which was amended and restated in September 2018 (as amended and restated, the "2012 Plan"). Under the 2012 Plan, the board of directors, the compensation committee, as administrator of the 2012 Plan, and a duly authorized committee may grant stock options and other equity-based awards, such as Restricted Stock Awards ("RSAs") or Restricted Stock Units ("RSUs"), to eligible employees, directors, and consultants to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, directors and consultants, and to promote the success of the Company's business. The Company's board of directors, compensation committee or a duly authorized committee determines the vesting schedule for all equity-based awards. Stock options granted to new employees under the 2012 Plan generally vest over four years with 25% of the option shares vesting one year from the vesting commencement date and then ratably over the following 36 months subject to the employees continued service to the Company. Refresh grants to existing employees generally vest monthly over four years subject to the employees continued service to the Company. RSUs granted to new employees generally vest over a period of four years with 25% vesting on the one-year anniversary of the vesting start date and the remainder vesting semi-annually over the next three years, subject to the grantee's continued service to the Company. RSUs granted to existing employees generally vest semi-annually over a period of four years, subject to the

grantee's continued service to the Company. The Company's compensation committee may explicitly deviate from the general vesting schedules in its approval of an equity-based award, as it may deem appropriate. Stock options expire ten years after the date of grant. Stock options, RSAs and RSUs that are canceled under certain conditions become available for future grant or sale under the 2012 Plan unless the 2012 Plan is terminated.

The equity awards available for grant for the periods presented were as follows:

	Nine Months Ended January 31, 2021
Available at beginning of period	12,461,850
Awards authorized	4,142,849
Stock options granted	(194,098)
Stock options cancelled	766,067
RSUs granted	(1,809,891)
RSUs cancelled	318,467
Available at end of period	15,685,244

Endgame Stock Incentive Plan Assumed in Acquisition

In connection with its acquisition of Endgame, the Company assumed all in-the-money stock options issued under Endgame's Amended and Restated 2010 Stock Incentive Plan that were outstanding on the date of acquisition. The assumed stock options will continue to be outstanding and will be governed by the provisions of their respective plan and are included in the stock option activity table below.

Stock Options

The following table summarizes stock option activity (in thousands, except share and per share data):

	Stock Options Outstanding			
	Number of Stock Options Outstanding	Weighted- Average Exercise Price	Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance as of April 30, 2020	15,260,506	\$ 14.17	7.27	\$ 767,795
Stock options granted	194,098	\$ 136.31		
Stock options exercised	(6,192,264)	\$ 10.94		
Stock options cancelled	(766,067)	\$ 18.51		
Stock options assumed in acquisition cancelled	(1,478)	\$ 71.98		
Balance as of January 31, 2021	8,494,795	\$ 18.90	6.93	\$ 1,130,286
Exercisable as of January 31, 2021	4,620,718	\$ 13.77	6.60	\$ 638,537

Stock options exercisable include 182,296 stock options that were unvested as of January 31, 2021.

Aggregate intrinsic value represents the difference between the exercise price of the stock options to purchase ordinary shares and the fair value of the Company's ordinary shares. The weighted-average grant-date fair value of stock options granted was \$83.71 and \$78.06 for the three and nine months ended January 31, 2021, respectively. The weighted-average grant-date fair value of stock options granted was \$50.92 for the nine months ended January 31, 2020.

As of January 31, 2021, the Company had unrecognized stock-based compensation expense of \$43.6 million related to unvested stock options that the Company expects to recognize over a weighted-average period of 1.72 years.

RSUs

During the nine months ended January 31, 2021, the Company granted 1,809,891 RSUs at a weighted-average grant date fair value of \$124.54 per unit.

During the nine months ended January 31, 2021, the Company cancelled 80,839 cash settled RSUs and contemporaneously granted 80,839 equity settled RSUs. The modification of the awards and related change in the classification of awards from liability-classified to equity-classified was accounted under the provisions of ASC 718 - *Stock Compensation*. Prior to the conversion, the Company performed a final measurement of its stock-based compensation liability under the fair

value method, which resulted in a non-cash stock-based compensation expense of \$2.5 million. Additionally, upon modification of the awards, the Company reclassified \$2.7 million stock-based compensation liability to additional-paid in capital.

As of January 31, 2021, the Company had unrecognized stock-based compensation expense of \$303.5 million related to equity settled RSUs that the Company expects to recognize over a weighted-average period of 3.22 years.

The following table summarizes RSU activity for the 2012 Plan:

	Number of Awards	Weighted-Average Grant Date Fair Value
Outstanding and unvested at April 30, 2020	2,472,092	\$ 66.78
RSUs granted	1,809,891	\$ 124.54
RSUs released	(595,698)	\$ 71.77
RSUs cancelled	(318,467)	\$ 64.01
Outstanding and unvested at January 31, 2021	3,367,818	\$ 97.20

Stock-Based Compensation Expense

Total stock-based compensation expense recognized in the Company's condensed consolidated statements of operations was as follows (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
Cost of revenue—cost of subscription—self-managed and SaaS	\$ 1,839	\$ 1,008	\$ 5,065	\$ 2,869
Cost of revenue—professional services	1,359	879	3,287	2,078
Research and development	9,516	6,256	24,309	17,087
Sales and marketing	8,372	4,540	22,519	13,506
General and administrative	4,141	2,905	10,125	7,235
Total stock-based compensation expense	\$ 25,227	\$ 15,588	\$ 65,305	\$ 42,775

11. Net Loss Per Share Attributable to Ordinary Shareholders

The following table sets forth the computation of basic and diluted net loss per share attributable to ordinary shareholders (in thousands, except share and per share data):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
Numerator:				
Net loss	\$ (37,974)	\$ (44,281)	\$ (86,133)	\$ (136,023)
Denominator:				
Weighted-average shares used in computing net loss per share attributable to ordinary shareholders, basic and diluted	88,341,038	80,737,237	86,296,028	77,713,604
Net loss per share attributable to ordinary shareholders, basic and diluted	\$ (0.43)	\$ (0.55)	\$ (1.00)	\$ (1.75)

The following outstanding potentially dilutive ordinary shares were excluded from the computation of diluted net loss per share attributable to ordinary shareholders for the periods presented because the impact of including them would have been antidilutive:

	Nine Months Ended January 31,	
	2021	2020
Stock options	8,494,795	16,836,324
Equity settled RSUs	3,345,305	2,223,605
Contingently issuable shares	235,031	235,031
Total	12,075,131	19,294,960

12. Income Taxes

The Company is incorporated in the Netherlands but operates in various countries with differing tax laws and rates. The Company recorded a provision for income taxes of \$1.1 million and \$0.7 million for the three months ended January 31, 2021 and 2020, respectively, and a provision of \$2.2 million and \$0.8 million for the nine months ended January 31, 2021 and 2020, respectively. The provision for income taxes was primarily due to foreign taxes. The calculation of income taxes is based upon the estimated annual effective tax rates for the year applied to the current period loss before tax plus the tax effect of any significant unusual items, discrete events or changes in tax law.

The Company assesses uncertain tax positions in accordance with ASC 740-10, *Accounting for Uncertainties in Tax*. The Company anticipates that the amount of reasonably possible unrecognized tax benefits that could decrease over the next twelve months due to the expiration of certain statutes of limitations and settlement of tax audits is not material to the Company's interim unaudited condensed consolidated financial statements.

13. Employee Benefit Plans

The Company has a defined-contribution plan in the U.S. intended to qualify under Section 401 of the Internal Revenue Code (the "401(k) Plan"). The Company has contracted with a third-party provider to act as a custodian and trustee, and to process and maintain the records of participant data. Substantially all the expenses incurred for administering the 401(k) Plan are paid by the Company. This 401(k) Plan covers substantially all employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. The Company makes contributions to the 401(k) Plan up to 6% of the participating employee's W-2 earnings and wages. The Company recorded \$2.7 million and \$2.0 million of expense related to the 401(k) Plan during the three months ended January 31, 2021 and 2020, respectively and \$8.2 million and \$5.7 million for the nine months ended January 31, 2021 and 2020, respectively.

The Company also has defined-contribution plans in certain other countries for which the Company recorded \$1.5 million and \$1.1 million of expense during the three months ended January 31, 2021 and 2020, respectively and \$3.8 million and \$2.7 million for the nine months ended January 31, 2021 and 2020, respectively.

14. Segment Information

The following table summarizes the Company's total revenue by geographic area based on the billing address of the customers (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
United States	\$ 83,153	\$ 63,195	\$ 235,188	\$ 169,658
Rest of world	73,962	49,986	195,691	134,339
Total revenue	<u>\$ 157,115</u>	<u>\$ 113,181</u>	<u>\$ 430,879</u>	<u>\$ 303,997</u>

Other than the United States, no other individual country exceeded 10% or more of total revenue during the periods presented.

The following table presents the Company's long-lived assets, including property and equipment, net, and operating lease right-of-use assets, by geographic region (in thousands):

	As of January 31, 2021	As of April 30, 2020
United States	\$ 26,904	\$ 30,373
United Kingdom	2,945	5,854
The Netherlands	7,223	3,529
Rest of world	933	787
Total long-lived assets	<u>\$ 38,005</u>	<u>\$ 40,543</u>

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and with our Management’s Discussion and Analysis of Financial Condition and Results of Operations and audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended April 30, 2020. As discussed in the section titled “Note Regarding Forward-Looking Statements,” the following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such difference include, but are not limited to, those identified below and those discussed in the section titled “Risk Factors” under Part II, Item 1A in this Quarterly Report on Form 10-Q. Our fiscal year end is April 30, and our fiscal quarters end on July 31, October 31, January 31, and April 30. Our fiscal year ended April 30, 2020 is referred to as fiscal 2020 and our fiscal year ending April 30, 2021 is referred to as fiscal 2021.

Overview

Elastic is a search company. We deliver technology that enables users to search through massive amounts of structured and unstructured data for a wide range of consumer and enterprise applications. Our primary offering is the Elastic Stack, a powerful set of software products that ingest and store data from any source, and in any format, and perform search, analysis, and visualization in milliseconds or less. The Elastic Stack is designed for direct use by developers to power a variety of use cases. We also offer three software solutions – Enterprise Search, Observability, and Security – built on the Elastic Stack. Our solutions are designed to be deployed everywhere: in public or private clouds, in hybrid environments, or in traditional on-premises environments. Our products are used by individual developers and organizations of all sizes across a wide range of industries.

Elasticsearch is the heart of the Elastic Stack. It is a distributed, real-time search and analytics engine and datastore for exploring all types of data including textual, numerical, geospatial, structured, and unstructured. The first public release of Elasticsearch was in 2010 by our co-founder Shay Banon as an open source project. The Company was formed in 2012. Since then, we have added new products, released new features, acquired companies, and created new solutions to expand the functionality of our products.

Our business model is based on a combination of open source and proprietary software. We market and distribute the Elastic Stack and our solutions using a free and open distribution strategy. Developers are able to download our software directly from our website. Some features of our software can be downloaded and used free of charge. Others are only available through paid subscriptions, which include access to specific proprietary features and also include support. These paid features can be unlocked without the need to re-deploy the software. There is no free subscription tier in our cloud offerings, where all subscriptions are paid.

In February 2021, with the release of version 7.11 of the Elastic Stack, we changed the way we license Elasticsearch and Kibana, the visualization layer for data stored in Elasticsearch. We moved the source code that had historically been licensed under the Apache License, Version 2.0 open source license (“Apache 2.0”), to be dual licensed under the Elastic License 2.0 (“ELv2”), our proprietary source available license, and the Server Side Public License Version 1.0 (“SSPL”), at the user’s election. ELv2 is a permissive source available license, allowing free use, modification, creation of derivative works, and redistribution, while providing protection from cloud service providers who offer these products as a service without collaborating with us. SSPL is a source available license that provides many of the freedoms of an open source license, but with certain restrictions. This source code license change had no effect on our customers or the vast majority of our users.

We believe that our free and open distribution strategy drives a number of benefits for our users, our customers, and our company. It facilitates rapid and efficient developer adoption, particularly by empowering individual developers to download and use our software without payment, registration, or the friction of a formal sales interaction. It fosters a vibrant developer community around our products and solutions, which drives adoption of our products and increased interaction among users. Further, this approach enables community review of our code and products, which allows us to improve the reliability and security of our software.

We generate revenue primarily from sales of subscriptions for our software. We offer various paid subscription tiers that provide different levels of access to proprietary features and support. We do not sell support separately. Our subscription agreements for self-managed deployments typically have terms of one to three years and we usually bill for them annually in advance. Elastic Cloud customers may purchase subscriptions either on a month-to-month basis or on a committed contract of at least one year in duration. Subscriptions accounted for 93% and 92% of total revenue in the nine months ended January 31, 2021 and 2020, respectively. We also generate revenue from consulting and training services.

We had over 13,800 customers as of January 31, 2021 compared to over 10,500 as of January 31, 2020. We define a customer as an entity that generated revenue in the quarter ending on the measurement date from an annual or month-to-month

subscription. All affiliated entities are typically counted as a single customer. The annual contract value (“ACV”) of a customer’s commitments is calculated based on the terms of that customer’s subscriptions, and represents the total committed annual subscription amount as of the measurement date. Month-to-month subscriptions are not included in the calculation of ACV. The number of customers who represented greater than \$100,000 in ACV was over 670 as of January 31, 2021 compared to over 570 as of January 31, 2020.

We engage in various sales and marketing efforts to extend our free and open distribution model. We employ multi-touch marketing campaigns to nurture our users and customers and keep them engaged after they download our software. Additionally, we maintain direct sales efforts focused on users and customers who have adopted our software, as well as departmental decision-makers and senior executives who have broad purchasing power in their organizations. Our sales teams are primarily segmented by geographies and secondarily by the employee count of our customers. They focus on both initial conversion of users into customers and additional sales to existing customers. In addition to our direct sales efforts, we also maintain partnerships to further extend our reach and awareness of our products around the world.

We continue to make substantial investments in developing the Elastic Stack and our solutions and expanding our global sales and marketing footprint. With a distributed team spanning over 35 countries, we are able to recruit, hire, and retain high-quality, experienced technical and sales personnel and operate at a rapid pace to drive product releases, fix bugs, and create and market new products. We had 2,084 employees as of January 31, 2021.

COVID-19

In March 2020, the World Health Organization declared COVID-19 a pandemic. Efforts to control its spread have significantly curtailed the movement of people, goods and services worldwide, including in most or all of the regions in which we sell our products and services and conduct our business operations, negatively impacting worldwide economic activity. The full extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on certain developments, including the duration and spread of the virus, impact on our customers and our sales cycles, impact on our customer, employee or industry events, effect on our vendors, and the uneven impact of the COVID-19 pandemic to certain industries, all of which continue to remain uncertain and cannot be predicted.

The continuing COVID-19 pandemic has resulted in a global slowdown of economic activity and its impact has varied significantly across different industries with certain industries experiencing increased demand for their products and services, while others have struggled to maintain demand for their products and services consistent with historical levels. There have been delays in purchasing decisions from existing and prospective customers, longer sales cycles, delayed implementation of professional services, reduced renewals of subscriptions by existing customers, and changes in approaches to creating sales pipeline in the absence of in-person marketing events, resulting in headwinds for calculated billings and our Net Expansion Rate.

Notwithstanding the potential and actual adverse impacts described above, as the pandemic has caused more of our customers to shift to a virtual workforce or accelerate their digital transformation efforts, we believe the value of our solutions is becoming even more evident. In addition, we have benefited from lower spending on travel due to COVID-19 travel restrictions and from holding events virtually, and we expect lower travel costs to continue in the near-term.

In response to the COVID-19 pandemic and in an effort to focus on maintaining business continuity and preparing for the future and long-term success of our business, we have taken precautionary measures intended to help minimize the risk of the virus to our employees, our customers, and the communities in which we operate, including modifying our business practices, such as suspending employee travel, adapting employee work locations, and holding events and trainings virtually. Further, we also temporarily reduced the pace of our investments in our business in response to the COVID-19 pandemic in the first quarter of fiscal 2021, but began to gradually increase our investments in our business since then. We intend to continue to increase the pace of our investments in the business in the fourth quarter of fiscal 2021 and in fiscal 2022. We continue to monitor the major impacts of the COVID-19 pandemic and make changes in our business as appropriate, in response to such impacts. See “Risk Factors” included in Part II, Item 1A of this Quarterly Report on Form 10-Q for a discussion of additional risks.

Key Factors Affecting Our Performance

We believe that the growth and future success of our business depends on many factors, including those described below. While each of these factors presents significant opportunities for our business, they also pose important challenges that we must successfully address in order to sustain our growth and improve our results of operations.

Growing the Elastic community. Our strategy consists of providing access to source available software, on both a free and paid basis and fostering a community of users and developers. Our strategy is designed to pursue what we believe to be significant untapped potential for the use of our technology. After developers begin to use our software and start to participate in our developer community, they become more likely to apply our technology to additional use cases and evangelize our

technology within their organizations. This reduces the time required for our sales force to educate potential leads on our solutions. In order to capitalize on our opportunity, we intend to make further investments to keep the Elastic Stack accessible and well known to software developers around the world. We intend to continue to invest in our products and support and engage our user base and developer community through content, events, and conferences in the U.S. and internationally. Our results of operations may fluctuate as we make these investments.

Developing new features to expand the use cases to which the Elastic Stack can be applied. The Elastic Stack is applied to various use cases both directly by developers and through the solutions we offer. Our revenue is derived primarily from subscriptions of Enterprise Search, Observability and Security built on the Elastic Stack. We believe that releasing additional features of the Elastic Stack and additional features for our solutions on top of the Elastic Stack drives usage of our products and ultimately drives our growth. To that end, we plan to continue to invest in building new features and solutions that expand the capabilities of our solutions and the Elastic Stack and make it easier to apply to additional use cases. These investments may adversely affect our operating results prior to generating benefits, to the extent that they ultimately generate benefits at all.

Growing our customer base by converting users of our software to paid subscribers. Our financial performance depends on growing our paid customer base by converting free users of our software into paid subscribers. Our distribution model has resulted in rapid adoption by developers around the world. We have invested, and expect to continue to invest, heavily in sales and marketing efforts to convert additional free users to paid subscribers. Our investment in sales and marketing is significant given our large and diverse user base. The investments are likely to occur in advance of the anticipated benefits resulting from such investments, such that they may adversely affect our operating results in the near term.

Expanding within our current customer base. Our future growth and profitability depend on our ability to drive additional sales to existing customers. Customers often expand the use of our software within their organizations by increasing the number of developers using our products, increasing the utilization of our products for a particular use case, and expanding use of our products to additional use cases. We focus some of our direct sales efforts on encouraging these types of expansion within our customer base.

An indication of how our customer relationships have expanded over time is through our Net Expansion Rate, which is based upon trends in the ACV of customers that have entered into annual subscription agreements. To calculate an expansion rate as of the end of a given month, we start with the ACV from all such customers as of twelve months prior to that month end, or Prior Period Value. We then calculate the ACV from these same customers as of the given month end, or Current Period Value, which includes any growth in the value of their subscriptions and is net of contraction or attrition over the prior twelve months. We then divide the Current Period Value by the Prior Period Value to arrive at an expansion rate. The Net Expansion Rate at the end of any period is the weighted average of the expansion rates as of the end of each of the trailing twelve months. We believe that our Net Expansion Rate provides useful information about the evolution of our business' existing customers. The Net Expansion Rate includes the dollar-weighted value of our subscriptions that expand, renew, contract, or attrit. For instance, if each customer had a one-year subscription and renewed its subscription for the exact same amount, then the Net Expansion Rate would be 100%. Customers who reduced their annual subscription dollar value (contraction) or did not renew their annual subscription (attrition) would adversely affect the Net Expansion Rate. Our Net Expansion Rate continued to be over 130% for the three months ended January 31, 2021.

As large organizations expand their use of the Elastic Stack across multiple use cases, projects, divisions and users, they often begin to require centralized provisioning, management and monitoring across multiple deployments. To satisfy these requirements, we offer the Elastic Enterprise subscription. We will continue to focus some of our direct sales efforts on driving adoption of our paid offerings.

Increasing adoption of Elastic Cloud. Elastic Cloud, our family of SaaS products that includes Elasticsearch Service, Site Search Service, and App Search Service, is an important growth opportunity for our business. Organizations are increasingly looking for SaaS deployment alternatives with reduced administrative burdens. In some cases, users of our source available software that have been self-managing deployments of the Elastic Stack subsequently become paying subscribers of Elastic Cloud. Elastic Cloud contributed 27% and 21% to our total revenue for the nine months ended January 31, 2021 and 2020, respectively. We believe that offering a SaaS deployment alternative is important for achieving our long-term growth potential, and we expect Elastic Cloud's contribution to our subscription revenue to increase over time. However, an increase in the relative contribution of Elastic Cloud to our business could adversely impact our gross margin as a result of the associated hosting costs.

Components of Results of Operations

Revenue

Subscription. Our revenue is primarily generated through the sale of subscriptions to software, which is either self-managed by the user or hosted and managed by us in the cloud. Subscriptions provide access to paid proprietary software features and access to support for our paid and unpaid software.

A portion of the revenue from self-managed subscriptions is generally recognized up front at the point in time when the license is delivered. This revenue is presented as License – self-managed in our condensed consolidated statements of operations. The remainder of revenue from self-managed subscriptions is recognized ratably over the subscription term while revenue from subscriptions that require access to the cloud or that are hosted and managed by us in the cloud is recognized ratably over the subscription term or on a usage basis; both are presented within Subscription – self-managed and SaaS in our condensed consolidated statements of operations.

Professional services. Professional services is composed of consulting services as well as public and private training. Consulting services are generally time-based arrangements. Revenue for professional services is recognized as these services are performed.

Cost of Revenue

Subscription. Cost of license – self-managed consists of amortization of certain intangible assets. Cost of subscription – self-managed and SaaS consists primarily of personnel and related costs for employees associated with supporting our subscription arrangements, certain third-party expenses, and amortization of certain intangible and other assets. Personnel and related costs, or personnel costs, comprise cash compensation, benefits and stock-based compensation to employees, costs of third-party contractors, and allocated overhead costs. Third-party expenses consist of cloud hosting costs and other expenses directly associated with our customer support. We expect our cost of subscription – self-managed and SaaS to increase in absolute dollars as our subscription revenue increases.

Professional services. Cost of professional services revenue consists primarily of personnel costs directly associated with delivery of training, implementation and other professional services, costs of third-party contractors, facility rental charges and allocated overhead costs. We expect our cost of professional services revenue to increase in absolute dollars as we invest in our business and as professional services revenue increases.

Gross profit and gross margin. Gross profit represents revenue less cost of revenue. Gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by a variety of factors, including the timing of our acquisition of new customers and our renewals with existing customers, the average sales price of our subscriptions and professional services, the amount of our revenue represented by hosted services, the mix of subscriptions sold, the mix of revenue between subscriptions and professional services, the mix of professional services between consulting and training, transaction volume growth and support case volume growth. We expect our gross margin to fluctuate over time depending on the factors described above. We expect our revenue from Elastic Cloud to increase as a percentage of total revenue, which we expect will adversely impact our gross margin as a result of the associated hosting costs.

Operating Expenses

Research and development. Research and development expense mainly consists of personnel costs and allocated overhead costs for employees and contractors. We expect our research and development expense to increase in absolute dollars for the foreseeable future as we continue to develop new technology and invest further in our existing products.

Sales and marketing. Sales and marketing expense mainly consists of personnel costs, commissions, allocated overhead costs and costs related to marketing programs and user events. Marketing programs consist of advertising, events, brand-building and customer acquisition and retention activities. We expect our sales and marketing expense to increase in absolute dollars as we expand our salesforce and increase our investments in marketing resources. We capitalize sales commissions and associated payroll taxes paid to internal sales personnel that are related to the acquisition of customer contracts. Sales commissions costs are amortized over the expected benefit period.

General and administrative. General and administrative expense mainly consists of personnel costs for our management, finance, legal, human resources, and other administrative employees. Our general and administrative expense also includes professional fees, accounting fees, audit fees, tax services and legal fees, as well as insurance, allocated overhead costs, and other corporate expenses. We expect our general and administrative expense to increase in absolute dollars as we increase the size of our general and administrative functions to support the growth of our business. We also anticipate that we will continue to incur additional costs for employees and third-party consulting services related to operating as a public company.

Other Income (Expense), Net

Other income, net primarily consists of gains and losses from transactions denominated in a currency other than the functional currency and interest income (expense).

Provision for Income Taxes

Provision for income taxes consists primarily of income taxes related to the Netherlands, U.S. federal, state and foreign jurisdictions in which we conduct business. Our effective tax rate is affected by recurring items, such as tax rates in jurisdictions outside the Netherlands and the relative amounts of income we earn in those jurisdictions, and non-deductible stock-based compensation.

Results of Operations

The following tables set forth our results of operations for the periods presented in dollars:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
	(in thousands)			
Revenue				
License - self-managed	\$ 15,280	\$ 14,495	\$ 45,673	\$ 36,674
Subscription - self-managed and SaaS	131,969	89,703	357,127	241,593
Total subscription revenue	147,249	104,198	402,800	278,267
Professional services	9,866	8,983	28,079	25,730
Total revenue	157,115	113,181	430,879	303,997
Cost of revenue ⁽¹⁾⁽²⁾⁽³⁾				
Cost of license - self-managed	346	347	1,039	602
Cost of subscription - self-managed and SaaS	31,426	23,196	86,464	60,832
Total cost of revenue - subscription	31,772	23,543	87,503	61,434
Cost of professional services	10,196	9,862	27,744	26,983
Total cost of revenue	41,968	33,405	115,247	88,417
Gross profit	115,147	79,776	315,632	215,580
Operating expenses ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾				
Research and development	51,400	46,119	143,766	119,779
Sales and marketing	71,087	54,829	191,712	160,860
General and administrative	27,121	21,096	72,555	71,472
Total operating expenses	149,608	122,044	408,033	352,111
Operating loss ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	(34,461)	(42,268)	(92,401)	(136,531)
Other income (expense), net	(2,377)	(1,339)	8,424	1,276
Loss before income taxes	(36,838)	(43,607)	(83,977)	(135,255)
Provision for income taxes	1,136	674	2,156	768
Net loss	\$ (37,974)	\$ (44,281)	\$ (86,133)	\$ (136,023)

(1) Includes stock-based compensation expense as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
	(in thousands)			
Cost of revenue				
Cost of subscription - self managed and SaaS	\$ 1,839	\$ 1,008	\$ 5,065	\$ 2,869
Cost of professional services	1,359	879	3,287	2,078
Research and development	9,516	6,256	24,309	17,087
Sales and marketing	8,372	4,540	22,519	13,506
General and administrative	4,141	2,905	10,125	7,235
Total stock-based compensation expense	<u>\$ 25,227</u>	<u>\$ 15,588</u>	<u>\$ 65,305</u>	<u>\$ 42,775</u>

(2) Includes employer payroll taxes on employee stock transactions as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
	(in thousands)			
Cost of revenue				
Cost of subscription - self managed and SaaS	\$ 267	\$ 21	\$ 487	\$ 321
Cost of professional services	322	16	424	136
Research and development	1,243	238	2,702	1,886
Sales and marketing	1,723	335	3,494	2,816
General and administrative	2,130	129	3,329	1,489
Total employer payroll taxes on employee stock-based transactions	<u>\$ 5,685</u>	<u>\$ 739</u>	<u>\$ 10,436</u>	<u>\$ 6,648</u>

(3) Includes amortization of acquired intangible assets as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
	(in thousands)			
Cost of revenue				
Cost of license - self-managed	\$ 346	\$ 347	\$ 1,039	\$ 602
Cost of subscription - self-managed and SaaS	1,764	2,660	5,289	4,057
Sales and marketing	1,428	1,451	4,302	1,859
Total amortization of acquired intangibles	<u>\$ 3,538</u>	<u>\$ 4,458</u>	<u>\$ 10,630</u>	<u>\$ 6,518</u>

(4) Includes acquisition-related expenses as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
	(in thousands)			
Research and development	\$ —	\$ —	\$ —	\$ 34
Sales and marketing	—	395	—	508
General and administrative	—	933	—	17,220
Total acquisition-related expenses	<u>\$ —</u>	<u>\$ 1,328</u>	<u>\$ —</u>	<u>\$ 17,762</u>

The following table sets forth selected condensed consolidated statements of operations data for each of the periods indicated as a percentage of total revenue:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
Revenue				
License - self-managed	10 %	13 %	10 %	12 %
Subscription - self-managed and SaaS	84 %	79 %	83 %	80 %
Total subscription revenue	94 %	92 %	93 %	92 %
Professional services	6 %	8 %	7 %	8 %
Total revenue	100 %	100 %	100 %	100 %
Cost of revenue ⁽¹⁾⁽²⁾⁽³⁾				
Cost of license - self-managed	0 %	0 %	0 %	0 %
Cost of subscription - self-managed and SaaS	20 %	21 %	20 %	20 %
Total cost of revenue - subscription	20 %	21 %	20 %	20 %
Cost of professional services	7 %	9 %	7 %	9 %
Total cost of revenue	27 %	30 %	27 %	29 %
Gross profit	73 %	70 %	73 %	71 %
Operating expenses ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾				
Research and development	33 %	41 %	33 %	39 %
Sales and marketing	45 %	48 %	45 %	53 %
General and administrative	17 %	18 %	17 %	24 %
Total operating expenses	95 %	107 %	95 %	116 %
Operating loss ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	(22)%	(37)%	(22)%	(45)%
Other income (expense), net	(1)%	(2)%	3 %	0 %
Loss before income taxes	(23)%	(39)%	(19)%	(45)%
Provision for income taxes	1 %	0 %	1 %	0 %
Net loss	(24)%	(39)%	(20)%	(45)%

⁽¹⁾ Includes stock-based compensation expense as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
Cost of revenue				
Cost of subscription - self managed and SaaS	1 %	1 %	1 %	1 %
Cost of professional services	1 %	1 %	1 %	1 %
Research and development	6 %	5 %	6 %	6 %
Sales and marketing	5 %	4 %	5 %	4 %
General and administrative	3 %	3 %	2 %	2 %
Total stock-based compensation expense	16 %	14 %	15 %	14 %

⁽²⁾ Includes employer payroll taxes on employee stock transactions as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
Cost of revenue				
Cost of subscription - self managed and SaaS	0 %	0 %	0 %	0 %
Cost of professional services	0 %	0 %	0 %	0 %
Research and development	1 %	0 %	0 %	1 %
Sales and marketing	1 %	1 %	1 %	1 %
General and administrative	2 %	0 %	1 %	0 %
Total employer payroll taxes on employee stock-based transactions	4 %	1 %	2 %	2 %

⁽³⁾ Includes amortization of acquired intangible assets as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
Cost of revenue				
Cost of license - self-managed	0 %	0 %	0 %	0 %
Cost of subscription - self-managed and SaaS	1 %	3 %	1 %	1 %
Sales and marketing	1 %	1 %	1 %	1 %
Total amortization of acquired intangibles	2 %	4 %	2 %	2 %

⁽⁴⁾ Includes acquisition-related expenses as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
Research and development	0 %	0 %	0 %	0 %
Sales and marketing	0 %	0 %	0 %	0 %
General and administrative	0 %	1 %	0 %	6 %
Total acquisition-related expenses	0 %	1 %	0 %	6 %

Non-GAAP Financial Measures

In addition to our results determined in accordance with U.S. GAAP, we believe the following non-GAAP measures are useful in evaluating our operating performance. We use the following non-GAAP financial information to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance. However, non-GAAP financial information is presented for supplemental informational purposes only, has limitations as an analytical tool and should not be considered in isolation or as a substitute for financial information presented in accordance with U.S. GAAP. In particular, free cash flow is not a substitute for cash used in operating activities. Additionally, the utility of free cash flow as a measure of our financial performance and liquidity is further limited as it does not represent the total increase or decrease in our cash balance for a given period. In addition, other companies, including companies in our industry, may calculate similarly-titled non-GAAP measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with U.S. GAAP. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures, and not to rely on any single financial measure to evaluate our business.

We believe that these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding our performance by excluding certain items that may not be indicative of our business, operating results or future outlook.

Non-GAAP Gross Profit and Non-GAAP Gross Margin

We define non-GAAP gross profit and non-GAAP gross margin as GAAP gross profit and GAAP gross margin, respectively, excluding stock-based compensation expense, employer payroll taxes on employee stock transactions, and amortization of acquired intangible assets. We believe non-GAAP gross profit and non-GAAP gross margin provide our management and investors consistency and comparability with our past financial performance and facilitate period-to-period comparisons of operations, as these metrics generally eliminate the effects of certain variables from period to period for reasons unrelated to overall operating performance.

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
	(dollars in thousands)			
Gross profit	\$ 115,147	\$ 79,776	\$ 315,632	\$ 215,580
Stock-based compensation expense	3,198	1,887	8,352	4,947
Employer payroll taxes on employee stock transactions	589	37	911	457
Amortization of acquired intangibles	2,110	3,007	6,328	4,659
Non-GAAP gross profit	<u>\$ 121,044</u>	<u>\$ 84,707</u>	<u>\$ 331,223</u>	<u>\$ 225,643</u>
Gross margin	73 %	70 %	73 %	71 %
Non-GAAP gross margin (non-GAAP gross profit as a percentage of revenue)	77 %	75 %	77 %	74 %

Non-GAAP Operating Loss and Non-GAAP Operating Margin

We define non-GAAP operating loss and non-GAAP operating margin as GAAP operating loss and GAAP operating margin, respectively, excluding stock-based compensation expense, employer payroll taxes on employee stock transactions, amortization of acquired intangible assets, and acquisition-related expenses. We believe non-GAAP operating loss and non-GAAP operating margin provide our management and investors consistency and comparability with our past financial performance and facilitate period-to-period comparisons of operations, as these metrics generally eliminate the effects of certain variables from period to period for reasons unrelated to overall operating performance.

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
	(dollars in thousands)			
Operating loss	\$ (34,461)	\$ (42,268)	\$ (92,401)	\$ (136,531)
Stock-based compensation expense	25,227	15,588	65,305	42,775
Employer payroll taxes on employee stock transactions	5,685	739	10,436	6,648
Amortization of acquired intangibles	3,538	4,458	10,630	6,518
Acquisition-related expenses	—	1,328	—	17,762
Non-GAAP operating loss	<u>\$ (11)</u>	<u>\$ (20,155)</u>	<u>\$ (6,030)</u>	<u>\$ (62,828)</u>
Operating margin	(22)%	(37)%	(21)%	(45)%
Non-GAAP operating margin (non-GAAP operating loss as a percentage of revenue)	— %	(18)%	(1)%	(21)%

Free Cash Flow and Free Cash Flow Margin

Free cash flow is a non-GAAP financial measure that we define as net cash provided by (used in) operating activities less purchases of property and equipment. Free cash flow margin is calculated as free cash flow divided by total revenue. We believe that free cash flow and free cash flow margin are useful indicators of liquidity that provide information to management and investors about the amount of cash generated from our core operations that, after the purchases of property and equipment, can be used for strategic initiatives, including investing in our business and selectively pursuing acquisitions and strategic investments. We further believe that historical and future trends in free cash flow and free cash flow margin, even if negative, provide useful information about the amount of net cash provided by (used in) operating activities that is available (or not available) to be used for strategic initiatives. For example, if free cash flow is negative, we may need to access cash reserves or other sources of capital to invest in strategic initiatives. One limitation of free cash flow and free cash flow margin is that they do not reflect our future contractual commitments. Additionally, free cash flow does not represent the total increase or decrease in our cash balance for a given period.

The following table presents our cash flows for the periods presented and a reconciliation of free cash flow and free cash flow margin to net cash provided by (used in) operating activities, the most directly comparable financial measure calculated in accordance with GAAP:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
(dollars in thousands)				
Net cash provided by (used in) operating activities	\$ 19,401	\$ (23,227)	\$ 24,110	\$ (24,631)
Purchases of property and equipment	(1,076)	(1,007)	(2,732)	(4,237)
Free cash flow	\$ 18,325	\$ (24,234)	\$ 21,378	\$ (28,868)
Net cash used in investing activities	\$ (1,076)	\$ (1,007)	\$ (1,412)	\$ (28,610)
Net cash provided by financing activities	\$ 22,324	\$ 11,024	\$ 67,554	\$ 47,698
Net cash provided by (used in) operating activities (as a percentage of total revenue)	13 %	(20)%	6 %	(8)%
Less: Purchases of property and equipment (as a percentage of total revenue)	(1)%	(1)%	(1)%	(1)%
Free cash flow margin	12 %	(21)%	5 %	(9)%

Calculated Billings

We define calculated billings as total revenue plus the increase in total deferred revenue as presented on or derived from our condensed consolidated statements of cash flows less the (increase) decrease in total unbilled accounts receivable in a given period. Calculated billings exclude deferred revenue and unbilled accounts receivable acquired through acquisitions in the period of the acquisition. We typically invoice our customers annually in advance, and to a lesser extent multi-year in advance, quarterly in advance, monthly in arrears or upon delivery. Our management uses calculated billings to understand and evaluate our near-term cash flows and operating results.

The following table presents our calculated billings for the periods presented and a reconciliation of calculated billings to total revenue, the most directly comparable financial measure calculated in accordance with GAAP:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2021	2020	2021	2020
(in thousands)				
Total revenue	\$ 157,115	\$ 113,181	\$ 430,879	\$ 303,997
Add: Increase in deferred revenue	18,877	9,188	53,309	33,666
Less: Decrease (increase) in unbilled accounts receivable	(2,790)	535	(3,214)	(64)
Calculated billings	\$ 173,202	\$ 122,904	\$ 480,974	\$ 337,599

Calculated billings increased 41% for the three months ended January 31, 2021 over the three months ended January 31, 2020 and 42% for the nine months ended January 31, 2021 over the nine months ended January 31, 2020. As calculated billings continue to grow in absolute terms, we expect our calculated billings growth rate to trend down over time. We also expect that calculated billings will be affected by quarterly fluctuations and seasonality based on the timing of entering into new agreements with customers, the timing of renewals, and the mix between annual and monthly contracts entered in each reporting period. Foreign exchange rate movements may also impact calculated billings.

Comparison of Three Months Ended January 31, 2021 and 2020

Revenue

	Three Months Ended January 31,		Change	
	2021	2020	\$	%
(dollars in thousands)				
Revenue				
License - self-managed	\$ 15,280	\$ 14,495	\$ 785	5 %
Subscription - self-managed and SaaS	131,969	89,703	42,266	47 %
Total subscription revenue	147,249	104,198	43,051	41 %
Professional services	9,866	8,983	883	10 %
Total revenue	\$ 157,115	\$ 113,181	\$ 43,934	39 %

Total revenue increased by \$43.9 million, or 39%, in the three months ended January 31, 2021, compared to the same period of the prior year.

Total subscription revenue increased \$43.1 million, or 41%, in the three months ended January 31, 2021 compared to the same period of the prior year. The increase in revenue was primarily caused by volume-driven increases from new business, as existing customers purchased additional subscriptions, and we grew our subscription customer base to over 13,800 customers compared to over 10,500 customers in the same period of the prior year.

Professional services revenue increased by \$0.9 million, or 10%, in the three months ended January 31, 2021, compared to the same period of the prior year. The increase in professional services revenue was attributable to increased adoption of our professional services offerings. However, growth slowed in the three months ended January 31, 2021 as some services projects were delayed primarily due to the effects of the COVID-19 pandemic.

Cost of Revenue and Gross Margin

	Three Months Ended January 31,		Change	
	2021	2020	\$	%
(dollars in thousands)				
Cost of revenue				
Cost of license - self-managed	\$ 346	\$ 347	\$ (1)	— %
Cost of subscription - self-managed and SaaS	31,426	23,196	8,230	35 %
Total cost of revenue - subscription	31,772	23,543	8,229	35 %
Cost of professional services	10,196	9,862	334	3 %
Total cost of revenue	\$ 41,968	\$ 33,405	\$ 8,563	26 %
Gross profit	\$ 115,147	\$ 79,776	\$ 35,371	44 %
Gross margin:				
License - self-managed	98 %	98 %		
Subscriptions - self-managed and SaaS	76 %	74 %		
Total subscription margin	78 %	77 %		
Professional services	(3)%	(10)%		
Total gross margin	73 %	70 %		

Total cost of subscription revenue increased by \$8.2 million, or 35%, in the three months ended January 31, 2021 compared to the same period of the prior year. This increase was primarily due to an increase of \$6.3 million in cloud hosting costs, an increase of \$2.3 million in personnel and related costs, and an increase of \$0.3 million in partner fees. These increases were partially offset by a decrease of \$0.9 million in amortization of acquired intangibles. The increase in personnel and related costs includes an increase of \$1.3 million in salaries and related taxes and \$0.8 million in stock-based compensation.

Total subscription margin increased to 78% for the three months ended January 31, 2021 from 77% for the three months ended January 31, 2020.

Cost of professional services revenue increased by \$0.3 million, or 3%, in the three months ended January 31, 2021 compared to the same period of the prior year. This increase was due to an increase of \$1.5 million in personnel and related costs, primarily due to growth in headcount, offset by a decrease of \$0.8 million in travel costs due to COVID-19 travel restrictions and a \$0.4 million decrease in facilities costs as we shifted to virtual delivery of professional services in light of restrictions due to COVID-19.

Gross margin for professional services revenue was (3)% in the three months ended January 31, 2021 compared to (10)% for the three months ended January 31, 2020. The increase in margin is primarily due to the increase in revenue, and a lower than proportionate increase in cost of professional services revenue. The cost of professional services remained relatively flat due to a decrease in travel related costs as we shifted to virtual delivery of professional services in light of travel restrictions due to COVID-19. We continue to invest in headcount for our professional services organization that we believe will be needed as we continue to grow and expect travel related costs will increase in the future once travel restrictions lift. Our gross margin for professional services may fluctuate, decline or be negative in the near-term as we seek to expand our professional services business.

Operating Expenses

Research and development

	Three Months Ended January 31,		Change	
	2021	2020	\$	%
	(dollars in thousands)			
Research and development	\$ 51,400	\$ 46,119	\$ 5,281	11 %

Research and development expense increased by \$5.3 million, or 11%, in the three months ended January 31, 2021 compared to the same period of the prior year as we continued to invest in the development of new and existing offerings. Personnel and related costs increased \$7.5 million and software and equipment expense increased \$0.9 million primarily as a result of growth in headcount. These increases were partially offset by a decrease in travel expenses of \$3.1 million due to COVID-19 travel restrictions and holding events virtually. The increase in personnel and related costs included an increase of \$4.0 million in salaries and related taxes and an increase of \$3.3 million in stock-based compensation expense.

Sales and marketing

	Three Months Ended January 31,		Change	
	2021	2020	\$	%
	(dollars in thousands)			
Sales and marketing	\$ 71,087	\$ 54,829	\$ 16,258	30 %

Sales and marketing expense increased by \$16.3 million, or 30%, in the three months ended January 31, 2021 compared to the same period of the prior year. This increase was primarily due to an increase of \$16.4 million in personnel and related costs and a \$0.5 million increase in software and equipment expense as we continued to increase our sales and marketing headcount. In addition, marketing expenses increased by \$1.8 million. These increases were partially offset by a decrease of \$2.8 million in travel expenses due to COVID-19 travel restrictions and holding events virtually. The increase in personnel and related costs included an increase of \$8.6 million in salaries and related taxes, an increase of \$3.8 million in stock-compensation expense costs and an increase of \$3.4 million in commissions expense related to the amortization of contract acquisition costs.

General and administrative

	Three Months Ended January 31,		Change	
	2021	2020	\$	%
	(dollars in thousands)			
General and administrative	\$ 27,121	\$ 21,096	\$ 6,025	29 %

General and administrative expense increased by \$6.0 million, or 29%, in the three months ended January 31, 2021 compared to the same period of the prior year. This increase was primarily due to an increase of \$3.6 million in personnel and related costs, including increases of \$2.9 million in salaries and related taxes and \$1.2 million in stock-based compensation, due to growth in headcount. In addition, bad debt expense increased by \$2.0 million due to expected credit losses on accounts receivable as of January 31, 2021.

Other Expense, Net

	Three Months Ended January 31,		Change	
	2021	2020	\$	%
(dollars in thousands)				
Other expense, net	\$ (2,377)	\$ (1,339)	\$ (1,038)	78 %

Other expense, net increased \$1.0 million in the three months ended January 31, 2021 compared to the same period of the prior year. This net increase in expense was primarily due to a decrease of \$0.9 million in interest income and a decrease of \$0.3 million in other income. These were partially offset by a decrease in foreign currency loss by \$0.1 million relating to remeasurement of certain asset and liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded.

Provision for Income Taxes

	Three Months Ended January 31,		Change	
	2021	2020	\$	%
(dollars in thousands)				
Provision for income taxes	\$ 1,136	\$ 674	\$ 462	69 %

The provision for income taxes was \$1.1 million in the three months ended January 31, 2021 compared to \$0.7 million for the same period in the prior year. Our effective tax rate was (3)% and (2)% of our net loss before taxes for the three months ended January 31, 2021 and 2020, respectively. Our effective tax rate is affected by recurring items, such as tax rates in jurisdictions outside the Netherlands and the relative amounts of income we earn in those jurisdictions.

Comparison of Nine Months Ended January 31, 2021 and 2020

Revenue

	Nine Months Ended January 31,		Change	
	2021	2020	\$	%
(dollars in thousands)				
Revenue				
License - self-managed	\$ 45,673	\$ 36,674	\$ 8,999	25 %
Subscription - self-managed and SaaS	357,127	241,593	115,534	48 %
Total subscription revenue	402,800	278,267	124,533	45 %
Professional services	28,079	25,730	2,349	9 %
Total revenue	\$ 430,879	\$ 303,997	\$ 126,882	42 %

Total revenue increased by \$126.9 million, or 42%, in the nine months ended January 31, 2021, compared to the same period of the prior year.

Total subscription revenue increased \$124.5 million, or 45%, in the nine months ended January 31, 2021 compared to the same period of the prior year. The increase in revenue was primarily caused by volume-driven increases from new business, as existing customers purchased additional subscriptions and we grew our subscription customer base to over 13,800 customers compared to over 10,500 customers in the same period of the prior year.

Professional services revenue increased by \$2.3 million, or 9%, in the nine months ended January 31, 2021, compared to the same period of the prior year. The increase in professional services revenue was attributable to increased adoption of our professional services offerings.

Cost of Revenue and Gross Margin

	Nine Months Ended January 31,		Change	
	2021	2020	\$	%
(dollars in thousands)				
Cost of revenue				
Cost of license - self-managed	\$ 1,039	\$ 602	\$ 437	73 %
Cost of subscription - self-managed and SaaS	86,464	60,832	25,632	42 %
Total cost of revenue - subscription	87,503	61,434	26,069	42 %
Cost of professional services	27,744	26,983	761	3 %
Total cost of revenue	\$ 115,247	\$ 88,417	\$ 26,830	30 %
Gross profit	\$ 315,632	\$ 215,580	\$ 100,052	46 %
Gross margin:				
License - self-managed	98 %	98 %		
Subscriptions - self-managed and SaaS	76 %	75 %		
Total subscription margin	78 %	78 %		
Professional services	1 %	(5)%		
Total gross margin	73 %	71 %		

Total cost of subscription revenue increased by \$26.1 million, or 42%, in the nine months ended January 31, 2021 compared to the same period of the prior year. This increase was primarily due to an increase of \$18.4 million in cloud hosting costs and an increase of \$6.0 million in personnel and related costs due to growth in headcount in our support organization. In addition, amortization of acquired intangible assets increased by \$1.2 million. These increases were partially offset by a decrease of \$1.5 million in travel expenses due to COVID-19 related travel restrictions. The increase in personnel and related costs includes an increase of \$3.0 million in salaries and related taxes, an increase of \$2.2 million in stock-based compensation expense and a \$0.5 million increase in employee benefits expense.

Total subscription margin was flat at 78% for the each of the nine months ended January 31, 2021 compared to the nine months ended January 31, 2020.

Cost of professional services revenue increased by \$0.8 million, or 3%, in the nine months ended January 31, 2021 compared to the same period of the prior year. This increase was primarily due to an increase of \$4.7 million in personnel and related costs, including increases of \$3.7 million in salaries and related taxes and \$1.2 million in stock-based compensation. These increases were partially offset by a decrease of \$3.0 million in travel expenses and a decrease of \$1.0 million in training facility costs due to COVID-19 related restrictions.

Gross margin for professional services revenue was 1% in the nine months ended January 31, 2021 compared to (5)% in the nine months ended January 31, 2020. The increase in margin is primarily due to the increase in revenue, and a lower than proportionate increase in cost of professional services. The cost of professional services remained relatively flat due to a decrease in travel related costs as we shifted to a virtual delivery of professional services in light of travel restrictions due to COVID-19. In recent periods, we have invested in headcount for our professional services organization that we believe will be needed as we continue to grow and expect travel related costs will increase in the future once travel restrictions lift. Our gross margin for professional services may fluctuate, decline or be negative in the near-term as we seek to expand our professional services business.

Operating Expenses

Research and development

	Nine Months Ended January 31,		Change	
	2021	2020	\$	%
(dollars in thousands)				
Research and development	\$ 143,766	\$ 119,779	\$ 23,987	20 %

Research and development expense increased by \$24.0 million, or 20%, in the nine months ended January 31, 2021 compared to the same period of the prior year as we continued to invest in the development of new and existing offerings. Personnel and related costs increased \$26.1 million and software and equipment expense increased \$2.4 million primarily as a result of growth in headcount. Cloud hosting costs also increased \$1.4 million. These increases were partially offset by a

decrease in travel expenses of \$6.8 million due to COVID-19 travel restrictions and holding events virtually. The increase in personnel and related costs includes an increase of \$16.5 million in salaries and related taxes, an increase of \$7.2 million in stock-based compensation expense and an increase of \$2.1 million in employee benefits expense.

Sales and marketing

	Nine Months Ended January 31,		Change	
	2021	2020	\$	%
	(dollars in thousands)			
Sales and marketing	\$ 191,712	\$ 160,860	\$ 30,852	19 %

Sales and marketing expense increased by \$30.9 million, or 19%, in the nine months ended January 31, 2021 compared to the same period of the prior year. This increase was primarily due to an increase of \$33.9 million in personnel related costs and a \$0.6 million increase in software and equipment charges as we continued to increase our sales and marketing headcount. In addition, marketing expenses increased \$4.9 million, primarily related to our virtual user conference held during the nine months ended January 31, 2021, and amortization of intangible assets increased \$2.4 million due to addition of intangible assets acquired through the Endgame acquisition in the nine months ended January 31, 2020. These increases were partially offset by a decrease of \$11.9 million in travel expenses due to COVID-19 travel restrictions and holding events virtually. The increase in personnel and related costs includes an increase of \$14.7 million in salaries and related taxes, an increase of \$9.0 million in stock-based compensation expense, an increase of \$6.9 million in commissions expense related to the amortization of contract acquisition costs and an increase of \$2.3 million in employee benefits expense.

General and administrative

	Nine Months Ended January 31,		Change	
	2021	2020	\$	%
	(dollars in thousands)			
General and administrative	\$ 72,555	\$ 71,472	\$ 1,083	2 %

General and administrative expense increased by \$1.1 million, or 2%, in the nine months ended January 31, 2021 compared to the same period of the prior year. This increase was primarily due to an increase of \$2.3 million in bad debt expense related to expected credit losses on accounts receivable, an increase of \$1.1 million in insurance and related taxes, and an increase of \$1.0 million in consulting expense. Additionally, software and equipment expense increased by \$0.4 million. These increases were largely offset by a decrease in legal and professional fees of \$1.8 million due to the acquisition activities in the nine months ended January 31, 2020, a decrease of \$1.5 million in travel expenses due to COVID-19 travel restrictions and a decrease of \$1.2 million in personnel related costs. Personnel and related costs include a decrease of \$12.3 million due to acquisition related compensation during the nine months ended January 31, 2020. This decrease was largely offset by an increase of \$6.9 million in salaries and related taxes, an increase of \$2.9 million in stock-based compensation expense and an increase of \$0.5 million in employee benefits expense.

Other Income, Net

	Nine Months Ended January 31,		Change	
	2021	2020	\$	%
	(dollars in thousands)			
Other income, net	\$ 8,424	\$ 1,276	\$ 7,148	560 %

Other income, net increased \$7.1 million, or 560%, in the nine months ended January 31, 2021 compared to the same period of the prior year. This increase was due to a foreign currency gain of \$8.3 million in nine months ended January 31, 2021 compared to a foreign currency loss of \$2.4 million in the nine months ended January 31, 2020 primarily relating to remeasurement of certain asset and liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. The foreign currency gains were partially offset by a decrease of \$3.5 million in interest income due to lower interest rates.

Provision for Income Taxes

	Nine Months Ended January 31,		Change	
	2021	2020	\$	%
	(dollars in thousands)			
Provision for income taxes	\$ 2,156	\$ 768	\$ 1,388	181 %

The provision for income taxes increased \$1.4 million in the nine months ended January 31, 2021 compared to the same period in the prior year. Our effective tax rate was (3)% and (1)% of our net loss before taxes for the nine months ended January 31, 2021 and 2020, respectively. Our effective tax rate is affected by recurring items, such as tax rates in jurisdictions outside the Netherlands and the relative amounts of income we earn in those jurisdictions. The increase in tax provision expense from the prior year is due to increase in income in foreign jurisdictions and increase in withholding taxes.

Liquidity and Capital Resources

Through January 31, 2021, we have financed our operations principally through sales of our equity securities, as well as payments received from customers.

As of January 31, 2021, we had cash and cash equivalents and restricted cash of \$393.1 million and \$2.4 million, respectively, and working capital of \$202.6 million. Our restricted cash consists primarily of cash on deposit with financial institutions in support of letters of credit in favor of landlords for non-cancelable lease agreements. We have generated significant operating losses from our operations as reflected in our accumulated deficit of \$570.0 million as of January 31, 2021. We have historically incurred, and expect to continue to incur, operating losses and generate negative cash flows from operations on an annual basis for the foreseeable future due to the investments we intend to make as described above, and as a result, we may require additional capital resources to execute on our strategic initiatives to grow our business.

We believe that our existing cash and cash equivalents will be sufficient to fund our operating and capital needs for at least the next 12 months. Our assessment of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties. Our actual results could vary as a result of, and our future capital requirements, both near-term and long-term, will depend on, many factors, including our growth rate, the timing and extent of spending to support our research and development efforts, the expansion of sales and marketing activities, the timing of new introductions of solutions or features, and the continuing market acceptance of our solutions and services. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights. We have based this estimate on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, or if we cannot expand our operations or otherwise capitalize on our business opportunities because we lack sufficient capital, our business, operating results and financial condition would be adversely affected.

The following table summarizes our cash flows for the periods presented:

	Nine Months Ended January 31,	
	2021	2020
	(in thousands)	
Net cash provided by (used in) operating activities	\$ 24,110	\$ (24,631)
Net cash used in investing activities	\$ (1,412)	\$ (28,610)
Net cash provided by financing activities	\$ 67,554	\$ 47,698

Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities during the nine months ended January 31, 2021 was \$24.1 million, which resulted from a net loss of \$86.1 million adjusted for non-cash charges of \$102.1 million and net cash inflow of \$8.1 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of \$65.3 million for stock-based compensation expense, \$28.5 million for amortization of deferred contract acquisition costs, \$12.9 million of depreciation and intangible asset amortization expense and \$5.3 million in non-cash operating lease costs which were partially offset by a foreign currency transaction gain of \$9.5 million and an increase in deferred income taxes of \$0.3 million. The net cash inflow from changes in operating assets and liabilities was the result of an increase of \$53.3 million in deferred revenue, a decrease in accounts receivable of \$15.2 million and a decrease of \$10.1 million in prepaid expenses and other assets. These inflows were partially offset by an increase in deferred contract acquisition costs of \$54.6 million as our sales commissions increased due to the addition of new customers and expansion of our existing customer subscriptions, a net decrease of \$10.5 million in accounts payable, accrued expenses, accrued compensation and benefits and a \$5.4 million decrease in operating lease liabilities.

Net cash used in operating activities during the nine months ended January 31, 2020 was \$24.6 million, which resulted from a net loss of \$136.0 million adjusted for non-cash charges of \$86.4 million and net cash inflow of \$24.9 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of \$42.8 million for stock-based compensation expense, \$20.6 million for amortization of deferred contract acquisition costs, \$8.8 million of non-cash acquisition-related

costs, \$8.6 million of depreciation and intangible asset amortization expense and \$5.2 million in non-cash operating lease costs. The net cash inflow from changes in operating assets and liabilities was the result of an increase of \$33.7 million in deferred revenue, a net increase of \$12.0 million in accounts payable, accrued expenses, accrued compensation and benefits and a \$10.9 million decrease in accounts receivable. These inflows were partially offset by an increase in deferred contract acquisition costs of \$26.4 million as our sales commissions increased due to the addition of new customers and expansion of our existing customer subscriptions, a \$4.6 million decrease in operating lease liabilities and an increase of \$0.6 million in prepaid expenses and other assets.

Net Cash Used in Investing Activities

Net cash used in investing activities during the nine months ended January 31, 2021 was \$1.4 million due to \$2.7 million of capital expenditures, offset by cash provided by other investing activities of \$1.3 million.

Net cash used in investing activities during the nine months ended January 31, 2020 was \$28.6 million due to \$24.4 million used in the acquisition of Endgame and \$4.2 million of capital expenditures during the period.

Net Cash Provided by Financing Activities

Net cash provided by financing activities during the nine months ended January 31, 2021 was \$67.6 million due to proceeds from option exercises during the period.

Net cash provided by financing activities of \$47.7 million during the nine months ended January 31, 2020 was due to \$50.6 million proceeds from option exercises during the period, which was partially offset by payment of withholding taxes of \$2.8 million of acquisition expense that was settled in ordinary shares of the Company.

Off Balance Sheet Arrangements

We did not have during the periods presented and we do not currently have any off balance sheet financing arrangements or any relationships with any unconsolidated entities or financial partnerships, including entities referred to as structured finance or special purpose entities, which were established for the purpose of facilitating off balance sheet arrangements or other contractually narrow or limited purposes.

Contractual Obligations and Commitments

Our principal commitments consist of obligations under our operating leases, which are primarily for office space, and purchase commitments to our cloud hosting providers. There have been no material changes to our contractual obligations and commitments discussed in our Annual Report on Form 10-K for the year ended April 30, 2020.

Recently Issued Accounting Pronouncements

Refer to Note 2 of our accompanying Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for recently adopted accounting pronouncements and new accounting pronouncements not yet adopted as of the date of this report.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations both within the United States and internationally, and we are exposed to market risk in the ordinary course of our business.

Interest Rate Risk

We had cash, cash equivalents, and restricted cash of \$395.5 million as of January 31, 2021. Our cash, cash equivalents, and restricted cash are held in cash deposits and money market funds. The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs and the fiduciary control of cash and investments. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these instruments, we do not believe that an immediate 10% increase or decrease in interest rates would have a material effect on the fair value of our investment portfolio. Declines in interest rates, however, would reduce our future interest income.

Foreign Currency Risk

Our revenue and expenses are primarily denominated in U.S. dollars. To date, we have not had a formal hedging program with respect to foreign currency, but we may do so in the future if our exposure to foreign currency should become more significant. For business conducted outside of the United States, we may have both revenue and costs incurred in the local

currency of the subsidiary, creating a partial natural hedge. Changes to exchange rates therefore have not had a significant impact on our operating results to date; however, we will continue to reassess our foreign exchange exposure as we continue to grow our business globally.

We have experienced and will continue to experience fluctuations in net loss as a result of transaction gains or losses related to remeasurement of certain asset and liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. An immediate 10% increase or decrease in the relative value of the U.S. dollar to other currencies could have a material effect on our net loss. As a component of other income, net, we recognized a foreign currency transaction gain of \$8.3 million and a foreign currency transaction loss of \$2.4 million in the nine months ended January 31, 2021 and January 31, 2020, respectively.

As of January 31, 2021, our cash, cash equivalents, and restricted cash were primarily denominated in U.S. dollars, Euros, and Great British Pounds. A 10% increase or decrease in current exchange rates would have an impact of approximately \$8.9 million on our cash, cash equivalents, and restricted cash balances.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations because our sales and our operating expenses that are denominated in currencies other than U.S. dollars have not been subject to material currency inflation.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of January 31, 2021, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act (a) is recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms and (b) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based

in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information called for by this Item is incorporated herein by reference to Note 7 of our accompanying Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business, including patent, commercial, product liability, employment, class action, whistleblower and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. In addition, third parties may from time to time assert claims against us in the form of letters and other communications. We are not currently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, results of operations, financial condition or cash flows. Future litigation may be necessary to defend ourselves, our partners and our customers by determining the scope, enforceability and validity of third-party proprietary rights, or to establish our proprietary rights. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

ITEM 1A. RISK FACTORS

A description of the risks and uncertainties associated with our business, industry and ownership of our ordinary shares is set forth below. You should carefully consider the following risks, together with all of the other information in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and the related notes thereto, before making a decision to invest in our ordinary shares. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect us. If any of the following risks occur, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the price of our ordinary shares could decline, and you could lose part or all of your investment. In addition, the impact of the ongoing COVID-19 pandemic and any worsening of the economic environment may exacerbate the risks described below, any of which could have a material impact on us. This situation continues to change rapidly and additional impacts may arise that we are not aware of currently.

Summary of Risk Factors

The following is a summary of the key risks and uncertainties associated with our business, industry and ownership of our ordinary shares. The below summary does not contain all of the information that may be important to you, and you should read this summary together with the more detailed description of each risk factor contained in the subheadings below.

- The ongoing COVID-19 pandemic could harm our business and results of operations.
- If we do not appropriately manage future growth or are unable to improve our systems and processes, our business and results of operations will be adversely affected.
- We have a history of losses and may not be able to achieve profitability or positive cash flows on a consistent basis or at all.
- Our future growth, business and results of operations will be harmed if we are not able to keep pace with technological and competitive developments, increase sales of our subscriptions to new and existing customers, renew existing customers' subscriptions, increase adoption of our SaaS offerings, or offer high quality support services.
- Our decision to no longer offer Elasticsearch and Kibana under an open source license may harm the adoption of Elasticsearch and Kibana.
- We could be negatively impacted if the Elastic License or the Server Side Public License under which some of our software is licensed are not enforceable.
- Because of the permissive rights accorded to third parties under our open source and source available licenses, there are limited technological barriers to entry into the markets in which we compete.
- We may not be able to effectively develop and expand our sales and marketing capabilities.
- Because we recognize a significant portion of the revenue from subscriptions over the term of the relevant subscription period, downturns or upturns in sales are not immediately reflected in full in our results of operations.

- A real or perceived defect, security vulnerability, error, or performance failure in our software could cause us to lose revenue, damage our reputation, and expose us to liability.
- Incorrect implementation or use of our software could negatively affect our business, operations, financial results, and growth prospects.
- Third parties may offer inadequate or defective implementations of software that we have previously made available under an open source license and our reputation could be harmed.
- Breaches of security measures or unauthorized access to private or proprietary data may result in our software being perceived as not secure, customers reducing or stopping usage of our products, and we may incur significant liabilities.
- Interruptions or performance problems, and our reliance on technologies from third parties may adversely affect our business operations and financial results.
- If our channel partners fail to perform or we are unable to maintain successful relationships with them or our other partners, our ability to market, sell and distribute our solution will be more limited, and our results of operations could be harmed.
- Failure to protect our proprietary technology and intellectual property rights could substantially harm our business and results of operations.
- We could incur substantial costs as a result of any claim of infringement, misappropriation or violation of another party's intellectual property rights, including as a result of the indemnity provisions in various agreements.
- Our use of third-party open source software within our products could negatively affect our ability to sell our products and subject us to possible litigation.
- One of our marketing strategies is to offer some of our product features for free and to provide free trials to some of our paid features, and we may not be able to realize the benefits of this strategy.
- A portion of our revenue is generated by sales to government entities, which are subject to a number of challenges and risks.
- Our business is subject to a variety of government and industry regulations, as well as other obligations, related to privacy, data protection and information security and compliance with anti-bribery, anti-corruption, and anti-money laundering laws.
- The market price for our ordinary shares has been and is likely to continue to be volatile.
- The concentration of our share ownership with insiders will likely limit your ability to influence corporate matters.
- Dutch law and our articles of association include certain anti-takeover provisions.
- If industry or financial analysts do not publish research or reports about our business, or if they issue inaccurate or unfavorable research regarding our ordinary shares, our share price and trading volume could decline.
- We may fail to maintain an effective system of disclosure controls and internal control over financial reporting.
- Claims of U.S. civil liabilities may not be enforceable against us.

Risks Related to our Business and Industry

The ongoing COVID-19 pandemic could harm our business and results of operations.

The ongoing COVID-19 pandemic and efforts to control its spread have significantly curtailed the movement of people, goods and services worldwide, including in most or all of the regions in which we sell our products and services and conduct our business operations, negatively impacting worldwide economic activity. We have taken precautionary measures intended to help minimize the risk of the virus to our employees, our customers, and the communities in which we operate. The continued spread of the COVID-19 pandemic and the resurgence of infection rates has caused us to continue to modify our business practices (including suspending employee travel, adapting employee work locations, and holding events and trainings virtually), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers, and business partners. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or otherwise be satisfactory to government authorities. The full extent to which COVID-19 and our precautionary measures may continue to impact our business will depend on future developments, which continue to be highly uncertain and cannot be predicted at this time, including but not limited to, the duration and geographic spread of the pandemic, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic

and operating conditions can resume. It has been and, until the COVID-19 pandemic is contained and global economic activity stabilizes, will continue to be more difficult for us to forecast our operating results. The magnitude and duration of the disruption and resulting decline in business activity remains uncertain and could negatively impact our sales and marketing efforts, our ability to enter into customer contracts in a timely manner, our international expansion efforts, our ability to deliver professional services, our ability to recruit employees across the organization which, in turn, could have longer term effects on our sales pipeline, or create operational or other challenges, any of which could harm our business. Additionally, as we begin to re-open certain of our offices where local authorities have indicated it is safe to do so, our efforts to re-open them safely may not be successful, could expose our personnel to health risks and could involve additional costs that may adversely affect our business.

In addition, the COVID-19 pandemic has disrupted, and may continue to disrupt, the operations of our customers, channel partners and government entities for an indefinite period of time, including as a result of travel restrictions and/or business shutdowns, all of which could negatively impact our business and results of operations, including cash flows. Further, the impact of the COVID-19 pandemic has varied significantly across different industries with certain industries experiencing increased demand for their products and services as the needs of the economy shift, while others have struggled to maintain demand for their products and services consistent with historical levels. Because we have a limited history in understanding these impacts, our ability to adapt our sales and marketing initiatives to such changes may be uncertain and our ability to forecast rates of customer retention and expansion may be negatively impacted.

Even after the COVID-19 pandemic has subsided, we may continue to experience materially adverse impacts to our business as a result of its global economic impact, including any recession, economic downturn, or increased unemployment that has occurred or may occur in the future. There has been increased scrutiny of business (including technology) spending by our customers and prospective customers, particularly in industries most impacted by the COVID-19 pandemic, longer sales cycles, as well as reduced demand for our solutions, customers failing to pay us under the terms of our agreements, increased cyber threats, lower renewal rates by our customers and increased competition, all of which could result in a material adverse impact on our business operations and financial condition.

While we have developed and continue to develop plans intended to help mitigate the negative impact of the pandemic on our business, these efforts may not be effective and a protracted economic downturn may limit the effectiveness of our mitigation efforts.

Our business and operations have experienced rapid growth, and if we do not appropriately manage future growth, if any, or are unable to improve our systems and processes, our business, financial condition, results of operations, and prospects will be adversely affected.

We have experienced rapid growth and increased demand for our offerings. Our employee headcount and number of customers have increased significantly. For example, our total number of customers has grown from over 2,800 as of April 30, 2017 to over 13,800 as of January 31, 2021. As the COVID-19 pandemic continues, our number of customers may fluctuate. Further, our employee headcount may continue to change as we assess and modify as necessary our pace of hiring in light of our growth plans as well as any uncertainties related to the COVID-19 pandemic. The growth and expansion of our business and offerings places a continuous and significant strain on our management, operational, and financial resources. In addition, as customers adopt our technology for an increasing number of use cases, we have had to support more complex commercial relationships. We must continue to improve and expand our information technology and financial infrastructure, our operating and administrative systems, our relationships with various partners and other third parties, and our ability to manage headcount and processes in an efficient manner to manage our growth to date and any future growth effectively.

We may not be able to sustain the diversity and pace of improvements to our offerings successfully or implement systems, processes, and controls in an efficient or timely manner or in a manner that does not negatively affect our results of operations. Our failure to improve our systems, processes, and controls, or their failure to operate in the intended manner, may result in our inability to manage the growth of our business and to forecast our revenue, expenses, and earnings accurately, or to prevent losses.

As we expand our business and operate as a public company, we may find it difficult to maintain our corporate culture while managing our employee growth. Any failure to manage our anticipated growth and related organizational changes in a manner that preserves our culture could negatively impact future growth and achievement of our business objectives. Additionally, our productivity and the quality of our offerings may be adversely affected if we do not integrate and train our new employees quickly and effectively. Failure to manage any future growth effectively could result in increased costs, negatively affect our customers' satisfaction with our offerings, and harm our results of operations.

We have a history of losses and may not be able to achieve profitability or positive cash flows on a consistent basis or at all. If we cannot achieve profitability or positive cash flows, our business, financial condition, and results of operations may suffer.

We have incurred losses in all years since our incorporation. We incurred a net loss of \$86.1 million in the nine months ended January 31, 2021 and \$167.2 million, \$102.3 million and \$52.7 million in the years ended April 30, 2020, 2019 and 2018, respectively. As a result, we had an accumulated deficit of \$570.0 million as of January 31, 2021. We anticipate that our operating expenses will increase substantially in the foreseeable future as we continue to enhance our offerings, broaden our customer base and pursue larger transactions, expand our sales and marketing activities, expand our operations, hire additional employees, and continue to develop our technology. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently, or at all, to offset these higher expenses. We have, however, experienced in the quarter ended January 31, 2021 and may continue to experience net decreases in certain operating expenses as a result of the COVID-19 pandemic due to a decrease in travel and related expenses. Revenue growth may slow or revenue may decline for a number of possible reasons, including slowing demand for our offerings, increasing competition, or economic downturns, including as a result of the COVID-19 pandemic. You should not consider our revenue growth in recent periods as indicative of our future performance. Any failure to increase our revenue as we grow our business could prevent us from achieving profitability or positive cash flow at all or on a consistent basis, which would cause our business, financial condition, and results of operations to suffer.

We may not be able to compete successfully against current and future competitors.

The market for our products is highly competitive, quickly evolving, and subject to rapid changes in technology. We believe that our ability to compete depends upon many factors both within and beyond our control, including the following:

- product capabilities, including speed, scale, and relevance, with which to power search experiences;
- an extensible product “stack” that enables developers to build a wide variety of solutions;
- powerful and flexible technology that can manage a broad variety and large volume of data;
- ease of deployment and ease of use;
- ability to address a variety of evolving customer needs and use cases;
- strength and execution of sales and marketing strategies;
- flexible deployment model across public or private clouds, hybrid environments, or traditional on-premises environments;
- productized solutions engineered to be rapidly adopted to address specific applications;
- mindshare with developers and IT executives;
- adoption of products by many types of users (developers, architects, DevOps personnel, IT professionals, security analysts, and departmental and organizational leaders);
- enterprise-grade technology that is secure and reliable;
- size of customer base and level of user adoption;
- quality of training, consulting, and customer support;
- brand awareness and reputation; and
- low total cost of ownership.

We face competition from both established and emerging competitors. Our current primary competitors generally fall into the following categories:

- For Enterprise Search (app search, site search, and workplace search): incumbent offerings such as Solr (open source offering), Lucidworks Fusion, search tools including Google Custom Search Engine (an advertisement-based site search tool with limited user controls), and workplace search tools including Coveo, Endeca (owned by Oracle) and Autonomy (owned by Micro Focus).
- For Observability (logging, metrics, APM, and uptime monitoring): software vendors with specific observability solutions to analyze logging data, metrics, APM data, or infrastructure uptime, such as Splunk, New Relic, Dynatrace, AppDynamics (owned by Cisco Systems) and Datadog.

- For Security (SIEM and endpoint security): security analytics solutions vendors such as Splunk and ArcSight SIEM (owned by Micro Focus) and endpoint security vendors such as CrowdStrike, Carbon Black (owned by VMware), McAfee and Symantec (owned by Broadcom).
- Certain cloud hosting providers, including Amazon Web Services, that offer SaaS products based on components of the Elastic Stack licensed under an open source license. These offerings are not supported by Elastic and come without any of Elastic's proprietary features, whether free or paid.

Some of our current and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, stronger brand recognition, broader global distribution and presence, more established relationships with current or potential customers and partners, and larger customer bases than we do. These factors may allow our competitors to respond more quickly than we can to new or emerging technologies and changes in customer preferences. These competitors may engage in more extensive research and development efforts, undertake more far-reaching and successful sales and marketing campaigns, have more experienced sales professionals, and adopt more aggressive pricing policies which may allow them to build larger customer bases than we have. New start-up companies that innovate and large competitors that are making significant investments in research and development may develop similar offerings that compete with our offerings or that achieve greater market acceptance than our offerings. This could attract customers away from our offerings and reduce our market share. If we are unable to anticipate or react to these competitive challenges, our competitive position would weaken, which would adversely affect our business and results of operations.

Our limited operating history makes it difficult to evaluate our current business and prospects and may increase the risks associated with your investment.

We were founded in 2012. Our limited operating history makes it difficult to evaluate our current business and our future prospects, including our ability to plan for and model future growth. We have encountered and will continue to encounter risks and difficulties frequently experienced by rapidly growing companies in constantly evolving industries, including the risks described in this Quarterly Report on Form 10-Q. If we do not address these risks successfully, our business and results of operations will be adversely affected, and the market price of our ordinary shares could decline.

Further, we have limited historical financial data, and we operate in a rapidly evolving market. As such, any predictions about our future revenue and expenses may not be as accurate as they would be if we had a longer operating history or operated in a more predictable market.

If we are not able to keep pace with technological and competitive developments, our business will be harmed.

The market for search technologies, including enterprise search, observability and security, is subject to rapid technological change, evolving industry standards, and changing regulations, as well as changing customer needs, requirements and preferences. Our success depends upon our ability to enhance existing products, expand the use cases of our products, anticipate and respond to changing customer needs, requirements and preferences, and develop and introduce in a timely manner new offerings that keep pace with technological and competitive developments. We have in the past experienced delays in releasing new products, deployment options and product enhancements and may experience similar delays in the future. As a result, in the past, some of our customers deferred purchasing our products until the next upgrade was released. Future delays or problems in the installation or implementation of our new releases may cause customers to forgo purchases of our products and purchase those of our competitors instead.

Additionally, the success of new product introductions depends on a number of factors including, but not limited to, timely and successful product development, market acceptance, our ability to manage the risks associated with new product releases, the availability of software components for new products, the effective management of development and other spending in connection with anticipated demand for new products, the availability of newly developed products, and the risk that new products may have bugs, errors, or other defects or deficiencies in the early stages of introduction. We have in the past experienced bugs, errors, or other defects or deficiencies in new products and product updates and may have similar experiences in the future. Furthermore, our ability to increase the usage of our products depends, in part, on the development of new use cases for our products, which is typically driven by our developer community and may be outside of our control. We also have invested, and may continue to invest, in the acquisition of complementary businesses, technologies, services, products and other assets that expand the products that we can offer our customers, such as our acquisition of Endgame in October 2019. We may make these investments without being certain that they will result in products or enhancements that will be accepted by existing or prospective customers. Additionally, even if we are able to develop new products and product enhancements, we cannot ensure that they will achieve market acceptance. If we are unable to successfully enhance our existing products to meet evolving customer requirements, increase adoption and usage of our products, develop new products, or if our efforts to increase the usage of our products are more expensive than we expect, then our business, results of operations and financial condition would be adversely affected.

The markets for some of our products are new, unproven and evolving, and our future success depends on the growth and expansion of these markets and our ability to adapt and respond effectively to evolving markets.

The markets for certain of our products, such as our Enterprise Search, Observability and Security solutions, are relatively new, rapidly evolving or unproven. Accordingly, it is difficult to predict customer adoption and renewals for these products, customers' demand for these products, the size, growth rate, expansion, and longevity of these markets, the entry of competitive products, or the success of existing competitive products. Our ability to penetrate these new and evolving markets depends on a number of factors, including the cost, performance, and perceived value associated with our products. If these markets do not continue to grow as expected, or if we are unable to anticipate or react to changes in these markets, our competitive position would weaken, which would adversely affect our business and results of operations.

Our operating results are likely to fluctuate from quarter to quarter, which could adversely affect the trading price of our ordinary shares.

Our results of operations, including our revenue, cost of revenue, gross margin, operating expenses, cash flow and deferred revenue, have fluctuated from quarter-to-quarter in the past and may continue to vary significantly in the future so that period-to-period comparisons of our results of operations may not be meaningful. Accordingly, our financial results in any one quarter should not be relied upon as indicative of future performance. Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control, may be difficult to predict, and may or may not fully reflect the underlying performance of our business. Factors that may cause fluctuations in our quarterly financial results include:

- our ability to attract new and retain existing customers;
- the loss of existing customers;
- customer renewal rates;
- our ability to successfully expand our business in the U.S. and internationally;
- our ability to foster an ecosystem of developers and users to expand the use cases of our products;
- our ability to gain new partners and retain existing partners;
- fluctuations in the growth rate of the overall market that our products address;
- fluctuations in the mix of our revenue, which may impact our gross margins and operating income;
- the amount and timing of operating expenses related to the maintenance and expansion of our business and operations, including investments in sales and marketing, research and development and general and administrative resources;
- network outages or performance degradation of Elastic Cloud;
- actual or perceived breaches of, or failures relating to, privacy, data protection or information security;
- additions or departures of key personnel;
- the impact of catastrophic events, man-made problems such as terrorism, natural disasters and public health epidemics and pandemics;
- general political, economic, industry and market conditions, including developments resulting from the recent United States presidential and congressional elections and change of administration in the United States;
- increases or decreases in the number of elements of our subscriptions or pricing changes upon any renewals of customer agreements;
- changes in our pricing policies or those of our competitors;
- the budgeting cycles and purchasing practices of customers;
- decisions by potential customers to purchase alternative solutions;
- decisions by potential customers to develop in-house solutions as alternatives to our products;
- insolvency or credit difficulties confronting our customers, which could adversely affect their ability to purchase or pay for our offerings;
- our ability to collect timely on invoices or receivables;
- delays in our ability to fulfill our customers' orders;
- the cost and potential outcomes of future litigation or other disputes;

- future accounting pronouncements or changes in our accounting policies;
- our overall effective tax rate, including impacts caused by any reorganization in our corporate tax structure and any new legislation or regulatory developments;
- fluctuations in stock-based compensation expense;
- fluctuations in foreign currency exchange rates;
- the timing and success of new offerings introduced by us or our competitors or any other change in the competitive dynamics of our industry, including consolidation among competitors, customers or partners;
- the timing of expenses related to the development or acquisition of technologies or businesses and potential future charges for impairment of goodwill from acquired companies; and
- other risk factors described in this Quarterly Report on Form 10-Q.

The impact of one or more of the foregoing or other factors may cause our operating results to vary significantly. For example, the full impact of the COVID-19 pandemic is unknown and continues to evolve rapidly, and could result in material adverse changes in our results of operations for an unknown period of time as the virus and its related political, social and economic impacts spread. Such fluctuations could cause us to fail to meet the expectations of investors or securities analysts, which could cause the trading price of our ordinary shares to fall substantially, and we could face costly lawsuits, including securities class action suits.

If we are unable to increase sales of our subscriptions to new customers, sell additional subscriptions to our existing customers, or expand the value of our existing customers' subscriptions, our future revenue and results of operations will be harmed.

We offer certain features of our products with no payment required. Customers purchase subscriptions in order to gain access to additional functionality and support. Our future success depends on our ability to sell our subscriptions to new customers, including to large enterprises, and to expand the deployment of our offerings with existing customers by selling paid subscriptions to our existing users and expanding the value and number of existing customers' subscriptions. Our ability to sell new subscriptions depends on a number of factors, including the prices of our offerings, the prices of products offered by our competitors, and the budgets of our customers. We also face difficulty in displacing the products of incumbent competitors. In addition, a significant aspect of our sales and marketing focus is to expand deployments within existing customers. The rate at which our customers purchase additional subscriptions and expand the value of existing subscriptions depends on a number of factors, including customers' level of satisfaction with our offerings, the nature and size of the deployments, the desire to address additional use cases, and the perceived need for additional features, as well as general economic conditions. We rely in large part on our customers to identify new use cases for our products in order to expand such deployments and grow our business. If our customers do not recognize the potential of our offerings, our business would be materially and adversely affected. If our efforts to sell subscriptions to new customers and to expand deployments at existing customers are not successful, our total revenue and revenue growth rate may decline and our business will suffer.

If our existing customers do not renew their subscriptions, it could have an adverse effect on our business and results of operations.

We expect to derive a significant portion of our revenue from renewals of existing subscriptions. Our customers have no contractual obligation to renew their subscriptions after the completion of their subscription term. Our subscriptions for self-managed deployments typically range from one to three years, while many of our Elastic Cloud customers purchase subscriptions either on a month-to-month basis or on a committed contract of at least one year in duration.

Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction with our products and our customer support, our products' ability to integrate with new and changing technologies, the frequency and severity of product outages, our product uptime or latency, and the pricing of our, or competing, products. If our customers renew their subscriptions, they may renew for shorter subscription terms or on other terms that are less economically beneficial to us. We may not accurately predict future renewal trends. If our customers do not renew their subscriptions, or renew on less favorable terms, our revenue may grow more slowly than expected or decline and our Net Expansion Rate may decline.

Our decision to no longer offer Elasticsearch and Kibana under an open source license may harm the adoption of Elasticsearch and Kibana.

In February 2021, with the release of version 7.11 of the Elastic Stack, we moved the source code that had historically been licensed under Apache 2.0, to be dual licensed under ELv2 and SSPL, at the user's election. Neither the Elastic License nor the SSPL has been approved by the Open Source Initiative or is included in the Free Software Foundation's list of free

software licenses. Further, neither has been interpreted by any court. While the vast majority of downloads of Elasticsearch and Kibana from mid-2018 through early 2021 were licensed under the Elastic License, the removal of the Apache 2.0 alternative could negatively impact certain developers for whom the availability of an open source license was important. In addition, some developers and the companies for whom they work may be hesitant to download or upgrade to new versions of Elasticsearch or Kibana under the Elastic License or SSPL because of uncertainty around how these licenses may be interpreted and enforced. Other developers, including competitors of Elastic such as Amazon, have announced that they will “fork” Elasticsearch and Kibana. In doing so, they will develop a new product based on the software, which they claim will continue to be licensed under Apache 2.0. The combination of uncertainty around our dual license model and the potential competition from the forked versions of our software may negatively impact adoption of Elasticsearch and Kibana, which in turn could lead to reduced brand and product awareness, ultimately leading to a decline in paying customers, which could harm our ability to grow our business or achieve profitability.

We could be negatively impacted if the Elastic License or SSPL under which some of our software is licensed are not enforceable.

We make the source code of our products available under Apache 2.0, the Elastic License, or dual licensed under the Elastic License and SSPL, depending on the product and version. Apache 2.0 is a permissive open source license that allows licensees to freely copy, modify and distribute Apache 2.0-licensed software provided that they meet certain conditions. The Elastic License is our proprietary source available license. The Elastic License permits licensees to use, copy, modify and distribute the licensed software provided that they do not offer access to the software as a cloud service, interfere with the license key or remove proprietary notices. SSPL is a source available license that is based on the GNU Affero General Public License (“AGPL”) open source license and permits licensees to copy, modify and distribute SSPL-licensed software, but expressly requires licensees that offer the SSPL-licensed software as a third-party service to open source all of the software that they use to offer such service. We rely upon the enforceability of the restrictions set forth in the Elastic License and SSPL to protect our proprietary interests. It is possible that a court could hold that the Elastic License or SSPL are unenforceable. If a court held that the Elastic License or SSPL or certain aspects of these licenses are unenforceable, others may be able to use our software to compete with us in the marketplace in a manner not subject to the restrictions set forth in the Elastic License or SSPL.

Because of the permissive rights accorded to third parties under our open source and source available licenses, there are limited technological barriers to entry into the markets in which we compete and it may be relatively easy for competitors, some of whom may have greater resources than we have, to enter our markets and compete with us.

Anyone may obtain access to source code for the features of our software that we have licensed under open source or source available licenses. Depending on the product and version of the Elastic software, this source code is either available under Apache 2.0, SSPL, or the Elastic License. Each of these licenses allow anyone, subject to compliance with the conditions of the applicable license, to redistribute our software in modified or unmodified form and use it to compete in our markets. Such competition can develop without the degree of overhead and lead time required by traditional proprietary software companies, due to the rights granted to licensees of open source and source available software. It is possible for competitors to develop their own software, including software based on our products, potentially reducing the demand for our products and putting pricing pressure on our subscriptions. For example, Amazon offers some of the features that we had previously made available under an open source license as part of its Amazon Web Services offering. As such, Amazon competes with us for potential customers, and while Amazon cannot provide our proprietary software, Amazon’s offerings may reduce the demand for our offerings and the pricing of Amazon’s offerings may limit our ability to adjust the price of our products. We cannot guarantee that we will be able to compete successfully against current and future competitors or that competitive pressure or the availability of new software will not result in price reductions, reduced operating margins and loss of market share, any one of which could harm our business, financial condition, results of operations and cash flows.

If we do not effectively develop and expand our sales and marketing capabilities, including expanding and training our sales force, we may be unable to add new customers, increase sales to existing customers or expand the value of our existing customers’ subscriptions and our business will be adversely affected.

We dedicate significant resources to sales and marketing initiatives, which require us to invest significant financial and other resources, including in markets in which we have limited or no experience. Our business and results of operations will be harmed if our sales and marketing efforts do not generate significant revenue increases or increases that are smaller than anticipated.

We may not achieve revenue growth from expanding our sales force if we are unable to hire, train, and retain talented and effective sales personnel. We depend on our sales force to obtain new customers and to drive additional sales to existing customers. We believe that there is significant competition for sales personnel, including sales representatives, sales managers, and sales engineers, with the requisite skills and technical knowledge. Our ability to achieve significant revenue growth will

depend, in large part, on our success in recruiting, training and retaining sufficient sales personnel to support our growth, and as we introduce new products, solutions and marketing strategies, we may need to re-train existing sales personnel. New hires require significant training and may take significant time before they achieve full productivity. Our recent hires and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business. In addition, particularly as we continue to grow rapidly, a large percentage of our sales force will have relatively little experience working with us, our subscriptions, and our business model. If we are unable to hire and train sufficient numbers of effective sales personnel, our new and existing sales personnel are unable to achieve desired productivity levels in a reasonable period of time, our sales personnel are not successful in obtaining new customers or increasing sales to our existing customer base, or our sales and marketing programs are not effective, our growth and results of operations could be negatively impacted and our business will be harmed.

Our ability to increase sales of our offerings is highly dependent on the quality of our customer support, and our failure to offer high quality support would have an adverse effect on our business, reputation and results of operations.

After our products are deployed within our customers' IT environments, our customers depend on our technical support services to resolve issues relating to our products. If we do not succeed in helping our customers quickly resolve post-deployment issues or provide effective ongoing support and education on our products, our ability to sell additional subscriptions to existing customers or expand the value of existing customers' subscriptions would be adversely affected and our reputation with potential customers could be damaged. Many larger enterprise and government entity customers have more complex IT environments and require higher levels of support than smaller customers. If we fail to meet the requirements of these enterprise customers, it may be more difficult to grow sales with them.

Additionally, it can take several months to recruit, hire, and train qualified technical support employees. We may not be able to hire such resources fast enough to keep up with demand, particularly if the sales of our offerings exceed our internal forecasts. Further, due to the ongoing uncertainty related to the COVID-19 pandemic, we have taken steps to moderate the pace of hiring, and there may also be delays in hiring, onboarding and training new employees. To the extent that we are unsuccessful in hiring, training, and retaining adequate support resources, our ability to provide adequate and timely support to our customers, and our customers' satisfaction with our offerings, will be adversely affected. Our failure to provide and maintain, or a market perception that we do not provide or maintain, high-quality support services would have an adverse effect on our business, financial condition, and results of operations.

We rely significantly on revenue from subscriptions and, because we recognize a significant portion of the revenue from subscriptions over the term of the relevant subscription period, downturns or upturns in sales are not immediately reflected in full in our results of operations.

Subscription revenue accounts for the substantial majority of our revenue, comprising 93%, 92% and 91% of total revenue in the nine months ended January 31, 2021 and the years ended April 30, 2020 and 2019, respectively. We recognize a significant portion of our subscription revenue monthly over the term of the relevant time period. As a result, much of the subscription revenue we report each fiscal quarter is the recognition of deferred revenue from subscription contracts entered into during previous fiscal quarters. Consequently, a decline in new or renewed subscriptions in any one fiscal quarter will not be fully or immediately reflected in revenue in that fiscal quarter and will negatively affect our revenue in future fiscal quarters. Accordingly, the effect of significant downturns in new or renewed sales of our subscriptions is not reflected in full in our results of operations until future periods.

A real or perceived defect, security vulnerability, error, or performance failure in our software could cause us to lose revenue, damage our reputation, and expose us to liability.

Our products are inherently complex and, despite extensive testing and quality control, have in the past and may in the future contain defects or errors, especially when first introduced, or otherwise not perform as contemplated. These defects, security vulnerabilities, errors or performance failures could cause damage to our reputation, loss of customers or revenue, product returns, order cancellations, service terminations, or lack of market acceptance of our software. As the use of our products, including products that were recently acquired or developed, expands to more sensitive, secure, or mission critical uses by our customers, we may be subject to increased scrutiny, potential reputational risk, or potential liability should our software fail to perform as contemplated in such deployments. We have in the past and may in the future need to issue corrective releases of our software to fix these defects, errors or performance failures, which could require us to allocate significant research and development and customer support resources to address these problems.

Any limitation of liability provisions that may be contained in our customer and partner agreements may not be effective as a result of existing or future applicable law or unfavorable judicial decisions. The sale and support of our products entail the risk of liability claims, which could be substantial in light of the use of our products in enterprise-wide environments. In addition, our insurance against this liability may not be adequate to cover a potential claim.

Incorrect implementation or use of, or our customers' failure to update, our software could result in customer dissatisfaction and negatively affect our business, operations, financial results, and growth prospects.

Our products are often operated in large scale, complex IT environments. Our customers and some partners require training and experience in the proper use of and the benefits that can be derived from our products to maximize their potential. If our products are not implemented, configured, updated or used correctly or as intended, or in a timely manner, inadequate performance, errors, loss of data, corruptions and/or security vulnerabilities may result. For example, there have been and may in the future continue to be, reports of our customers not properly securing implementations of our products, which can result in unprotected data. Because our customers rely on our software to manage a wide range of operations, the incorrect implementation, use of, or our customers' failure to update, our software or our failure to train customers on how to use our software productively may result in customer dissatisfaction, negative publicity and may adversely affect our reputation and brand. Failure by us to effectively provide training and implementation services to our customers could result in lost opportunities for follow-on sales to these customers and decrease subscriptions by new customers, and adversely affect our business and growth prospects.

If third parties offer inadequate or defective implementations of software that we have previously made available under an open source license, our reputation could be harmed.

Certain cloud hosting providers, including Amazon Web Services, provide SaaS offerings based on components of the Elastic Stack licensed under an open source license, using the names of those open source components in marketing such offerings. These offerings are not supported by us and come without any of our proprietary features. We do not control how these third parties may use or offer our open source technology. These third parties could inadequately or incorrectly implement our open source technology, or fail to update such technology in light of changing technological or security requirements, which could result in real or perceived defects, security vulnerabilities, errors, or performance failures with respect to their offerings. Users, customers, and potential customers could confuse these third-party products with our products, and attribute such defects, security vulnerabilities, errors, or performance failures to our products. Any damage to our reputation and brand from defective implementations of our open source software could result in lost sales and lack of market acceptance of our products and could adversely affect our business and growth prospects.

We rely on traditional web search engines to direct traffic to our website. If our website fails to rank prominently in unpaid search results, traffic to our website could decline and our business would be adversely affected.

Our success depends in part on our ability to attract users through unpaid Internet search results on traditional web search engines, such as Google. The number of users we attract to our website from search engines is due in large part to how and where our website ranks in unpaid search results. These rankings can be affected by a number of factors, many of which are not in our direct control, and they may change frequently. For example, a search engine may change its ranking algorithms, methodologies or design layouts. As a result, links to our website may not be prominent enough to drive traffic to our website, and we may not know how or otherwise be in a position to influence the results. Any reduction in the number of users directed to our website could reduce our revenue or require us to increase our customer acquisition expenditures.

If our security measures are breached or unauthorized access to private or proprietary data is otherwise obtained, our software may be perceived as not being secure, customers may reduce the use of or stop using our products, and we may incur significant liabilities.

Any security breach, including those resulting from a cybersecurity attack, phishing attack, or any unauthorized access, unauthorized usage, virus or similar breach or disruption to our networks and systems, or those of third parties upon which we rely, could result in the loss of confidential information, damage to our reputation, litigation, regulatory investigations or other liabilities. These attacks may come from individual hackers, criminal groups, and state-sponsored organizations. As a provider of security solutions, we may be specifically targeted by bad actors for attacks intended to circumvent our security capabilities as an entry point into customers' endpoints, networks, or systems. If our security measures are breached as a result of third-party action, employee error, defect or bug in our products, malfeasance or otherwise and, as a result, someone obtains unauthorized access to our confidential information or personal information or the confidential information or personal information of our customers, our reputation may be damaged, our business may suffer and we could incur significant liability. Even the perception of inadequate security may damage our reputation and negatively impact our ability to win new customers and retain existing customers. Further, we could be required to expend significant capital and other resources to address any data security incident or breach.

In addition, many of our customers may use our software for processing their sensitive and proprietary information, including business strategies, financial and operational data, personal or identifying information and other related data. As a result, unauthorized access or use of this data could result in the loss, compromise, corruption or destruction of our customers' sensitive and proprietary information and lead to litigation, regulatory investigations and claims, indemnity obligations, and other liabilities. It could also hinder our ability to obtain and maintain information security certifications that support

customers' adoption of our products and our retention of those customers. We have implemented administrative, technical and physical measures designed to protect the integrity of customer information and prevent data loss, misappropriation and other security breaches and incidents and may incur significant costs in connection with the implementation of additional preventative measures in the future.

We engage third-party vendors and service providers to store and otherwise process some of our and our customers' data, including sensitive and personal information. There have been and may continue to be significant supply chain cyber attacks generally, and our third-party vendors and service providers may be targeted or impacted by such attacks. We cannot guarantee that our or our third-party vendors and service providers' systems and networks have not been breached or that they do not contain exploitable defects or bugs that could result in a breach of or disruption to our systems and networks or the systems and networks of third parties that support us and our services. Our ability to monitor our third-party vendors and service providers' data security is limited, and, in any event, third parties may be able to circumvent those security measures, resulting in the unauthorized access to, misuse, disclosure, loss or destruction of our and our customers' data, including sensitive and personal information.

Techniques used to sabotage or obtain unauthorized access to systems or networks are constantly evolving and, in some instances, are not identified until launched against a target. We and our service providers may be unable to anticipate these techniques, react in a timely manner, or implement adequate preventative measures. Security risks are also heightened during the current COVID-19 pandemic as more individuals are working remotely and utilizing home networks for transmitting information. In addition, laws, regulations, government guidance, and industry standards and practices in the United States and elsewhere are rapidly evolving to combat these threats. We may face increased compliance burdens regarding such requirements with regulators and customers regarding our products and services and also incur additional costs for oversight and monitoring of our own supply chain. We and our customers also may experience increased costs associated with security measures and increased risk of suffering cyberattacks.

Further, we cannot assure that any limitations of liability provisions in our customer and user agreements, contracts with third-party vendors and service providers or other contracts would be enforceable or adequate or would otherwise protect us from any liabilities or damages with respect to any particular claim relating to a security breach or other security-related matter. We also cannot be sure that our existing insurance coverage will continue to be available on acceptable terms or will be available in sufficient amounts to cover claims related to a security incident or breach, or that the insurer will not deny coverage as to any future claim. The successful assertion of claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, including our financial condition, operating results, and reputation.

Interruptions or performance problems associated with our technology and infrastructure, and our reliance on technologies from third parties, may adversely affect our business operations and financial results.

We rely on third-party cloud platforms to host our cloud offerings. If we experience an interruption in service for any reason, our cloud offerings would similarly be interrupted. An interruption in our services to our customers could cause our customers' internal and consumer-facing applications to not function properly, which could have a material adverse effect on our business, results of operations, customer relationships and reputation.

In addition, our website and internal technology infrastructure may experience performance issues due to a variety of factors, including infrastructure changes, human or software errors, website or third-party hosting disruptions, capacity constraints, technical failures, natural disasters or fraud or security attacks. Our use of third-party open source software may increase this risk. If our website is unavailable or our users are unable to download our products or order subscriptions or services within a reasonable amount of time or at all, our business could be harmed. We expect to continue to make significant investments to maintain and improve website performance and to enable rapid releases of new features and applications for our products. To the extent that we do not effectively upgrade our systems as needed and continually develop our technology to accommodate actual and anticipated changes in technology, our business and results of operations may be harmed.

We rely on third-party service providers for many aspects of our business, and any failure to maintain these relationships could harm our business.

Our success depends upon our relationships with third-party service providers, including providers of cloud hosting infrastructure, customer relationship management systems, financial reporting systems, human resource management systems, credit card processing platforms, marketing automation systems, and payroll processing systems, among others. If any of these third parties experience difficulty meeting our requirements or standards, become unavailable due to extended outages or interruptions, temporarily or permanently cease operations, face financial distress or other business disruptions, increase their fees, if our relationships with any of these providers deteriorate, or if any of the agreements we have entered into with such third parties are terminated or not renewed without adequate transition arrangements, we could suffer liabilities, penalties, fines,

increased costs and delays in our ability to provide customers with our products and services, our ability to manage our finances could be interrupted, receipt of payments from customers may be delayed, our processes for managing sales of our offerings could be impaired, our ability to generate and manage sales leads could be weakened, or our business operations could be disrupted. Any of such disruptions may adversely impact our business and our financial condition, results of operations or cash flows could be adversely affected until we replace such providers or develop replacement technology or operations. In addition, if we are unsuccessful in identifying high-quality service providers, negotiating cost-effective relationships with them or effectively managing these relationships, it could adversely affect our business and financial results.

The length of our sales cycle can be unpredictable, particularly with respect to sales through our channel partners or sales to large customers, and our sales efforts may require considerable time and expense.

Our results of operations may fluctuate, in part, because of the length and variability of the sales cycle of our subscriptions and the difficulty in making short-term adjustments to our operating expenses. Our results of operations depend in part on sales to new customers, including large customers, and increasing sales to existing customers. The length of our sales cycle, from initial contact with our sales team to contractually committing to our subscriptions can vary substantially from customer to customer based on deal complexity as well as whether a sale is made directly by us or through a channel partner. Our sales cycle can extend to more than a year for some customers, and the length of sales cycles may be further impacted due to the COVID-19 pandemic. We generally expect that some customers will scrutinize their spending more carefully given a challenging economic environment, and this might cause sales cycles to become longer. As we target more of our sales efforts at larger enterprise customers, we may face greater costs, longer sales cycles, greater competition and less predictability in completing some of our sales. A customer's decision to use our solutions may be an enterprise-wide decision, which may require greater levels of education regarding the use cases of our products or prolonged negotiations. In addition, larger customers may demand more configuration, integration services and features. It is difficult to predict exactly when, or even if, we will make a sale to a potential customer or if we can increase sales to our existing customers. As a result, large individual sales have, in some cases, occurred in quarters subsequent to those we anticipated, or have not occurred at all. The loss or delay of one or more large transactions in a quarter could affect our cash flows and results of operations for that quarter and for future quarters. Because a substantial proportion of our expenses are relatively fixed in the short term, our cash flows and results of operations will suffer if revenue falls below our expectations in a particular quarter, which could cause the price of our ordinary shares to decline.

We depend on our executive officers and other key employees, and the loss of one or more of these employees or an inability to attract and retain highly skilled employees could harm our business.

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel. The loss of the services of any of our key personnel, the inability to attract or retain qualified personnel, or delays in hiring required personnel, particularly in engineering and sales, may seriously harm our business, financial condition, and results of operations. Further, our ability to attract additional qualified personnel may be impacted by the economic uncertainty and insecurity caused by the COVID-19 pandemic. The loss of services of any of our key personnel also increases our dependency on other key personnel who remain with us. Although we have entered into employment offer letters with our key personnel, their employment is for no specific duration and constitutes at-will employment. We are also substantially dependent on the continued service of our existing engineering personnel because of the complexity of our products.

Our future performance also depends on the continued services and continuing contributions of our senior management, particularly our Chief Executive Officer and Chairman, Shay Banon, to execute on our business plan and to identify and pursue new opportunities and product innovations. We do not maintain key person life insurance policies on any of our employees. The loss of services of senior management could significantly delay or prevent the achievement of our development and strategic objectives, which could adversely affect our business, financial condition, and results of operations. Any search for senior management in the future or any search to replace the loss of any senior management may be prolonged, and we may not be able to attract a qualified candidate or replacement, as applicable, in a timely manner or at all, particularly as potential candidates may be wary to transition during the unstable economic conditions caused by the COVID-19 pandemic. Furthermore, the COVID-19 pandemic could make it more difficult to onboard, provide training to and integrate any executive officers or key employees, which could adversely affect their productivity and our business. If we are unable to mitigate these or other similar risks as we experience management turnover, our business, results of operation and financial condition may be adversely affected.

Additionally, the industry in which we operate is generally characterized by significant competition for skilled personnel as well as high employee attrition. We may not be successful in attracting, integrating, or retaining qualified personnel to fulfill our current or future needs. We may need to invest significant amounts of cash and equity to attract and retain new employees, and we may never realize returns on these investments. Also, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited, that they have divulged proprietary or other confidential information, or that their former employers own their inventions or other work product.

If we are not able to maintain and enhance our brand, especially among developers, our business and operating results may be adversely affected.

We believe that developing and maintaining widespread awareness of our brand, especially with developers, is critical to achieving widespread acceptance of our software and attracting new users and customers. Brand promotion activities may not generate user or customer awareness or increase revenue, and even if they do, any increase in revenue may not offset the expenses we incur in building our brand. For instance, our continued focus and investment in Elastic{ON} and similar investments in our brand, user engagement, and customer engagement may not generate a sufficient financial return. If we fail to successfully promote and maintain our brand, we may fail to attract or retain users and customers necessary to realize a sufficient return on our brand-building efforts, or to achieve the widespread brand awareness that is critical for broad customer adoption of our products.

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity and entrepreneurial spirit we have worked to foster, which could harm our business.

We believe that our culture has been and will continue to be a key contributor to our success. We expect to continue to hire as we expand. If we do not continue to maintain our corporate culture as we grow, we may be unable to foster the innovation, creativity, and entrepreneurial spirit we believe we need to support our growth. Moreover, many of our existing employees may be able to receive significant proceeds from sales of our ordinary shares in the public markets, which could lead to employee attrition and disparities of wealth among our employees that adversely affects relations among employees and our culture in general. Additional headcount growth may result in a change to our corporate culture, which could harm our business.

We rely on channel partners to execute a portion of our sales; if our channel partners fail to perform or we are unable to maintain successful relationships with our channel partners, our ability to market, sell and distribute our solution will be more limited, and our results of operations could be harmed.

A portion of our revenue is generated by sales through our channel partners, especially to U.S. federal government customers and in certain international markets, and these sales may grow and represent a larger portion of our revenues in the future. We provide certain of our channel partners with specific training and programs to assist them in selling our offerings, but there can be no assurance that these steps will be effective. In addition, our channel partners may be unsuccessful in marketing and selling our offerings, particularly in light of the effects of the COVID-19 pandemic. If we are unable to develop and maintain effective sales incentive programs for our channel partners, we may not be able to incentivize these partners to sell our offerings to customers.

Some of these partners may also market, sell, and support offerings that compete with ours, may devote more resources to the marketing, sales, and support of such competitive offerings, may have incentives to promote our competitors' offerings to the detriment of our own or may cease selling our offerings altogether. Our agreements with our channel partners typically have a duration of one to three years, and generally may be terminated for any reason by either party with advance notice prior to each renewal date. We cannot assure you that we will retain these channel partners or that we will be able to secure additional or replacement channel partners. The loss of one or more of our significant channel partners or a decline in the number or size of orders from any of them could harm our results of operations. In addition, many of our new channel partners require extensive training and may take several months or more to achieve productivity. Our channel partner sales structure could subject us to lawsuits, potential liability, and reputational harm if, for example, any of our channel partners misrepresents the functionality of our offerings to customers or violates laws or our or their corporate policies. If our channel partners are unsuccessful in fulfilling the orders for our offerings, or if we are unable to enter into arrangements with and retain high quality channel partners, our ability to sell our offerings and results of operations could be harmed.

If we are unable to maintain successful relationships with our partners, our business operations, financial results and growth prospects could be adversely affected.

We maintain partnership relationships with a variety of partners, including cloud providers, systems integrators, channel partners, referral partners, OEM and MSP partners, and technology partners, to jointly deliver offerings to our end customers and complement our broad community of users. In particular, we work with systems integrators and referral partners to market and sell our subscriptions.

Our agreements with our partners are generally non-exclusive, meaning our partners may offer customers the offerings of several different companies, including offerings that compete with ours, or may themselves be or become competitors. If our partners do not effectively market and sell our offerings, choose to use greater efforts to market and sell their own offerings or those of our competitors, fail to meet the needs of our customers, or fail to deliver professional services to our customers particularly in light of the effects of the COVID-19 pandemic, our ability to grow our business and sell our offerings may be harmed. Our partners may cease marketing our offerings with limited or no notice and with little or no penalty. The loss of a

substantial number of our partners, our possible inability to replace them, or the failure to recruit additional partners could harm our results of operations.

Our ability to achieve revenue growth in the future will depend in part on our success in maintaining successful relationships with our partners and in helping our partners enhance their ability to market and sell our subscriptions. If we are unable to maintain our relationships with these partners, our business, results of operations, financial condition or cash flows could be harmed.

The sales prices of our offerings may decrease, which may reduce our gross profits and adversely affect our financial results.

The sales prices for our offerings may decline or we may introduce new pricing models for a variety of reasons, including competitive pricing pressures, discounts, in anticipation of or in conjunction with the introduction of new offerings, or promotional programs. For example, during the year ended April 30, 2019, we reduced prices for some of our Elastic Cloud offerings in conjunction with launching new offerings. Competition continues to increase in the market segments in which we operate, and we expect competition to further increase in the future, thereby leading to increased pricing pressures. Larger competitors with more diverse offerings may reduce the price of offerings that compete with ours or may bundle them with other offerings. Additionally, currency fluctuations in certain countries and regions may negatively impact actual prices that customers and channel partners are willing to pay in those countries and regions. Any decrease in the sales prices for our offerings, without a corresponding decrease in costs or increase in volume, would adversely impact our gross profit. Gross profit could also be adversely impacted by a shift in the mix of our subscriptions from self-managed to our cloud offering, which has a lower gross margin, as well as any increase in our mix of professional services relative to subscriptions. We cannot assure you that we will be able to maintain our prices and gross profits at levels that will allow us to achieve and maintain profitability.

We expect our revenue mix to vary over time, which could harm our gross margin and operating results.

We expect our revenue mix to vary over time due to a number of factors, including the mix of our subscriptions for self-managed and our cloud offerings and our professional services revenue. Due to the differing revenue recognition policies applicable to our subscriptions and professional services, shifts in our business mix from quarter to quarter could produce substantial variation in revenue recognized. Further, our gross margins and operating results could be harmed by changes in revenue mix and costs, together with numerous other factors, including entry into new markets or growth in lower margin markets; entry into markets with different pricing and cost structures; pricing discounts; and increased price competition. Any one of these factors or the cumulative effects of certain of these factors may result in significant fluctuations in our gross margin and operating results. This variability and unpredictability could result in our failure to meet internal expectations or those of securities analysts or investors for a particular period. If we fail to meet or exceed such expectations for these or any other reasons, the market price of our ordinary shares could decline.

Our ability to grow our business will depend, in part, on the expansion and adoption of our SaaS Offerings.

We believe our future success will depend, in part, on the growth in the adoption of Elastic Cloud, our family of SaaS products. We have and will continue to incur substantial costs to develop, sell and support our Elastic Cloud offerings. We believe that we must offer a family of SaaS products to address the market segment that prefers a cloud-based solution to a self-managed solution and that there will be increasing demand for cloud-based offerings of our products. In the nine months ended January 31, 2021 and the years ended April 30, 2020 and 2019, Elastic Cloud contributed 27%, 22% and 17% of our total revenue, respectively. However, as the use of cloud-based computing solutions is rapidly evolving, it is difficult to predict the potential growth, if any, of general market adoption, customer adoption and retention rates of our cloud-based offerings. There could be decreased demand for our cloud-based offerings due to reasons within or outside of our control, including, among other things, lack of customer acceptance, technological challenges with bringing cloud offerings to market and maintaining those offerings, security or privacy concerns, our inability to properly manage and support our cloud-based offerings, competing technologies and products, weakening economic conditions, and decreases in corporate spending. For example, Amazon Web Services provides SaaS offerings based on components of the Elastic Stack licensed under an open source license. As such, Amazon competes with us for potential customers, and while Amazon cannot provide our proprietary software, Amazon's offerings may reduce the demand for our offerings and the pricing of Amazon's offerings may limit our ability to adjust the price of our products. If we are not able to develop, market or deliver cloud-based offerings that satisfy customer requirements technically or commercially, or if our investments in cloud-based offerings do not yield the expected return, or if we are unable to decrease the cost of providing our cloud-based offerings, our business, competitive position, financial condition and results of operations may be harmed. You should consider our business and prospects in light of the risks and difficulties we encounter in this new and evolving market.

Failure to protect our proprietary technology and intellectual property rights could substantially harm our business and results of operations.

Our success depends to a significant degree on our ability to protect our proprietary technology, methodologies, know-how and brand. We rely on a combination of trademarks, copyrights, patents, contractual restrictions, and other intellectual property laws and confidentiality procedures to establish and protect our proprietary rights. However, the steps we take to protect our intellectual property rights may be inadequate. We will not be able to protect our intellectual property rights if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property rights. The source code of the proprietary features for the Elastic Stack is publicly available, which may enable others to replicate our proprietary technology and compete more effectively. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our proprietary technology and our business may be harmed. In addition, defending our intellectual property rights might entail significant expense. Any patents, trademarks, or other intellectual property rights that we have or may obtain may be challenged by others or invalidated through administrative process or litigation. As of January 31, 2021, we had 21 issued U.S. patents, 48 pending U.S. patent applications, and 9 pending non-U.S. filings, including 1 patent cooperation treaty patent applications. There can be no assurance that our patent applications will result in issued patents. Even if we continue to seek patent protection in the future, we may be unable to obtain further patent protection for our technology. In addition, any patents issued in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights are uncertain. Despite our precautions, it may be possible for unauthorized third parties to copy our products and use information that we regard as proprietary to create offerings that compete with ours. Effective patent, trademark, copyright, and trade secret protection may not be available to us in every country in which our products are available. We may be unable to prevent third parties from acquiring domain names or trademarks that are similar to, infringe upon, or diminish the value of our trademarks and other proprietary rights. The laws of some countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. As we expand our international activities, our exposure to unauthorized copying and use of our products and proprietary information will likely increase. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with other parties. No assurance can be given that these agreements will be effective in controlling access to and distribution of our proprietary information. Further, these agreements may not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our products.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect our intellectual property rights. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. For example, on September 4, 2019, we filed suit against floragunn GmbH in the United States District Court for the Northern District of California for copyright infringement and contributory copyright infringement, and on September 27, 2019, we filed a suit against Amazon.com, Inc. in the United States District Court for the Northern District of California for trademark infringement and false advertising. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming, and distracting to management, and could result in the impairment or loss of portions of our intellectual property. Further, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our products, impair the functionality of our products, delay introductions of new products, result in our substituting inferior or more costly technologies into our products, or injure our reputation.

We could incur substantial costs as a result of any claim of infringement, misappropriation or violation of another party's intellectual property rights.

In recent years, there has been significant litigation involving patents and other intellectual property rights in the software industry. Companies providing software are increasingly bringing and becoming subject to suits alleging infringement, misappropriation or violation of proprietary rights, particularly patent rights, and to the extent we gain greater market visibility, we face a higher risk of being the subject of intellectual property infringement, misappropriation or violation claims. We do not currently have a large patent portfolio, which could prevent us from deterring patent infringement claims through our own patent portfolio, and our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we have. The risk of patent litigation has been amplified by the increase in the number of a type of patent holder, which we refer to as a non-practicing entity, whose sole or principal business is to assert such claims and against whom our own intellectual property portfolio may provide little deterrent value. We could incur substantial costs in prosecuting or defending any intellectual property litigation. If we sue to enforce our rights or are sued by a third party that claims that our

products infringe, misappropriate or violate their rights, the litigation could be expensive and could divert our management resources.

Any intellectual property litigation to which we might become a party, or for which we are required to provide indemnification, may require us to do one or more of the following:

- cease selling or using products that incorporate the intellectual property rights that we allegedly infringe, misappropriate or violate;
- make substantial payments for legal fees, settlement payments or other costs or damages;
- obtain a license, which may not be available on reasonable terms or at all, to sell or use the relevant technology; or
- redesign the allegedly infringing products to avoid infringement, misappropriation or violation, which could be costly, time-consuming or impossible.

If we are required to make substantial payments or undertake any of the other actions noted above as a result of any intellectual property infringement, misappropriation or violation claims against us or any obligation to indemnify our customers for such claims, such payments or actions could harm our business.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement, misappropriation, violation and other losses.

Our agreements with customers and other third parties may include indemnification provisions under which we agree to indemnify them for losses suffered or incurred as a result of claims of intellectual property infringement, misappropriation or violation, damages caused by us to property or persons, or other liabilities relating to or arising from our software, services or other contractual obligations. Large indemnity payments could harm our business, results of operations and financial condition. Although we normally contractually limit our liability with respect to such indemnity obligations, we may still incur substantial liability related to them. Any dispute with a customer with respect to such obligations could have adverse effects on our relationship with that customer and other existing customers and new customers and harm our business and results of operations.

Our use of third-party open source software within our products could negatively affect our ability to sell our products and subject us to possible litigation.

Our technologies incorporate open source software from other developers, and we expect to continue to incorporate such open source software in our products in the future. Few of the licenses applicable to open source software have been interpreted by courts, and there is a risk that these licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. Moreover, we cannot assure that we have not incorporated third-party open source software in our software in a manner that is inconsistent with the terms of the applicable license or our current policies and procedures. If we fail to comply with these licenses, we may be subject to certain requirements, including requirements that we offer our solutions that incorporate the open source software for no cost, that we make available source code for modifications or derivative works we create based upon, incorporating or using the open source software and that we license such modifications or derivative works under the terms of applicable open source licenses. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our products that contained the open source software and required to comply with onerous conditions or restrictions on these products, which could disrupt the distribution and sale of these products. In addition, there have been claims challenging the ownership rights in open source software against companies that incorporate open source software into their products, and the licensors of such open source software provide no warranties or indemnities with respect to such claims. In any of these events, we and our customers could be required to seek licenses from third parties in order to continue offering our products, and to re-engineer our products or discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely basis. We and our customers may also be subject to suits by parties claiming infringement, misappropriation or violation due to the reliance by our solutions on certain open source software, and such litigation could be costly for us to defend or subject us to an injunction. Some open source projects have known vulnerabilities and architectural instabilities and as provided on an “as-is” basis which, if not properly addressed, could negatively affect the performance of our product. Any of the foregoing could require us to devote additional research and development resources to re-engineer our solutions, could result in customer dissatisfaction, and may adversely affect our business, results of operations and financial condition.

One of our marketing strategies is to offer some of our product features for free and to provide free trials of some of our paid features, and we may not be able to realize the benefits of this strategy.

We are dependent upon lead generation strategies, including offering free use of some of our product features and free trials of some of our paid features. These strategies may not be successful in continuing to generate sufficient sales opportunities necessary to increase our revenue. Many users never convert from the free use model or from free trials to the paid versions of our products. To the extent that users do not become, or we are unable to successfully attract, paying customers, we will not realize the intended benefits of these marketing strategies and our ability to grow our revenue will be adversely affected.

With the acquisition of Endgame, we face risks related to the integration of combined businesses, our cash resources and financial results, undisclosed liabilities, and employee and customer retention.

Since the closing of the acquisition of Endgame in October 2019, we are devoting significant management attention and resources to integrating the business practices and operations of the former Endgame business with our business. Potential difficulties we may encounter as part of the integration process include those related to the costs of integration and compliance, diversion of management's attention, our ability to create and enforce uniform standards, procedures, policies and information systems, potential unknown liabilities, and unforeseen increased expenses or delays.

Our due diligence review in connection with the acquisition may not have discovered undisclosed liabilities of Endgame. If there are undisclosed liabilities, Elastic as a successor owner may be responsible for such undisclosed liabilities. Such undisclosed liabilities could have an adverse effect on the business and results of operations and may adversely affect the value of our ordinary shares.

The acquisition may also result in significant charges or other liabilities that could adversely affect our results of operations, such as cash expenses and non-cash accounting charges incurred in connection with the acquisition and/or integration of the combined businesses and operations.

Our international operations and expansion expose us to several risks.

As of January 31, 2021, we had customers located in over 100 countries, and our strategy is to continue to expand internationally. In addition, as a result of our strategy of leveraging a distributed workforce, as of January 31, 2021, we had employees located in over 35 countries. Our current international operations involve and future initiatives will involve a variety of risks, including:

- unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas, custom duties or other trade restrictions;
- different labor regulations, especially in the European Union, where labor laws are generally more advantageous to employees as compared to the United States, including deemed hourly wage and overtime regulations in these locations;
- exposure to many stringent, particularly in the European Union, and potentially inconsistent laws and regulations relating to privacy, data protection and information security;
- changes in a specific country's or region's political or economic conditions;
- political, economic and trade uncertainties or instability related to the effect of the United Kingdom's withdrawal from the European Union (Brexit), including the effects of the Trade and Cooperation Agreement between the European Union, the European Atomic Energy Community and the United Kingdom signed in December 2020, on the economies of United Kingdom, European Union, United States and other countries;
- the evolving relations between the United States and China;
- risks resulting from changes in currency exchange rates;
- the impact of public health epidemics or pandemics on our employees, partners and customers;
- challenges inherent to efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- risks relating to the implementation of trade and economic sanctions, including restrictions promulgated by the OFAC, and other similar trade protection regulations and measures in the United States or in other jurisdictions;
- reduced ability to timely collect amounts owed to us by our customers in countries where our recourse may be more limited;

- limitations on our ability to reinvest earnings from operations derived from one country to fund the capital needs of our operations in other countries;
- limited or unfavorable intellectual property protection; and
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act of 1977, as amended (“FCPA”), and similar applicable laws and regulations in other jurisdictions.

If we are unable to address these difficulties and challenges or other problems encountered in connection with our international operations and expansion, we might incur unanticipated liabilities or we might otherwise suffer harm to our business generally.

If we are not successful in sustaining and expanding our international business, we may incur additional losses and our revenue growth could be harmed.

Our future results depend, in part, on our ability to sustain and expand our penetration of the international markets in which we currently operate and to expand into additional international markets. We depend on direct sales and our channel partner relationships to sell our offerings in international markets. Our ability to expand internationally will depend upon our ability to deliver functionality and foreign language translations that reflect the needs of the international clients that we target. Our ability to expand internationally involves various risks, including the need to invest significant resources in such expansion, and the possibility that returns on such investments will not be achieved in the near future or at all in these less familiar competitive environments. We may also choose to conduct our international business through other partnerships. If we are unable to identify partners or negotiate favorable terms, our international growth may be limited. In addition, we have incurred and may continue to incur significant expenses in advance of generating material revenue as we attempt to establish our presence in particular international markets.

Our failure to raise additional capital or generate the significant capital necessary to expand our operations and invest in new offerings could reduce our ability to compete and could harm our business.

We expect that our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next twelve months. After that, we may need to raise additional funds, and we may not be able to obtain additional debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our shareholders may experience significant dilution of their ownership interests and the per share value of our ordinary shares could decline. Furthermore, if we engage in debt financing, the holders of debt would have priority over the holders of our ordinary shares, and we may be required to accept terms that restrict our ability to incur additional indebtedness. We may also be required to take other actions that would otherwise be in the interests of the debt holders and force us to maintain specified liquidity or other ratios, any of which could harm our business, results of operations, and financial condition. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- develop or enhance our products;
- continue to expand our sales and marketing and research and development organizations;
- acquire complementary technologies, products or businesses;
- expand operations in the United States or internationally;
- hire, train, and retain employees; or
- respond to competitive pressures or unanticipated working capital requirements.

Our failure to have sufficient capital to do any of these things could harm our business, financial condition, and results of operations.

A portion of our revenue is generated by sales to government entities, which are subject to a number of challenges and risks.

Sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive, and time-consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. Government certification requirements for products like ours may change, thereby restricting our ability to sell into the U.S. federal government sector, U.S. state government sector, or government sectors of countries other than the United States until we have attained the revised certification. For example, in July 2020, we obtained certification under the U.S. Federal Risk and Authorization Management Program at a moderate impact level; however, such certification is costly to maintain and if we were to lose our certification in the future, it would restrict our ability to sell to government customers. Government demand and payment for our offerings may be affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our offerings. Sales to government agencies, including classified contracts, are subject to complex regulations. Failure to comply with such regulations

could result in contract terminations or other adverse consequences, including but not limited to adversely affecting our eligibility to sell to government agencies in the future. Additionally, we rely on certain partners to provide technical support services to certain of our government entity customers to resolve any issues relating to our products. If our partners do not effectively assist our government entity customers in deploying our products, succeed in helping our government entity customers quickly resolve post-deployment issues, or provide effective ongoing support, our ability to sell additional offerings to new and existing government entity customers would be adversely affected and our reputation could be damaged.

Government entities may have statutory, contractual, or other legal rights to terminate contracts with us or our channel partners for convenience or due to a default, and any such termination may adversely affect our future results of operations. In addition, multi-year contracts with government entities are usually conditioned on annual fiscal funding actions that the relevant legislative or other decision-making body must take in order to fund each year of a contract. Such legislative or decision-making bodies may elect not to fund each year of a contract. Governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government refusing to continue buying our subscriptions, a reduction of revenue, or fines or civil or criminal liability if the audit uncovers improper or illegal activities, which could adversely affect our results of operations in a material way.

Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could expose us to greater than anticipated tax liabilities.

Our income tax obligations are based in part on our corporate structure and intercompany arrangements, including the manner in which we develop, value, and use our intellectual property and the valuations of our intercompany transactions. The tax laws applicable to our business, including the laws of the Netherlands, the United States and other jurisdictions, are subject to change and interpretation, and certain jurisdictions may aggressively interpret their laws in an effort to raise additional tax revenue. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, which could increase our worldwide effective tax rate and harm our financial position and results of operations. Tax authorities examine and may audit our income tax returns and other non-income tax returns, such as payroll, sales, value-added, net worth or franchise, property, goods and services, and excise taxes, in both the United States and foreign jurisdictions. It is possible that tax authorities may disagree with certain positions we have taken, and any adverse outcome of such a review or audit could have a negative effect on our financial position and results of operations. Further, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are transactions where the ultimate tax determination is uncertain. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our consolidated financial statements and may materially affect our financial results in the period or periods for which such determination is made.

Our corporate structure and intercompany arrangements are subject to the tax laws of various jurisdictions, and we could be obligated to pay additional taxes, which would harm our results of operations.

Based on our current corporate structure, we may be subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the application of which can be uncertain. The amount of taxes we pay in these jurisdictions could increase substantially as a result of changes in the applicable tax principles, including increased tax rates, new tax laws or revised interpretations of existing tax laws and precedents. In addition, the authorities in the jurisdictions in which we operate could review our tax returns or require us to file tax returns in jurisdictions in which we are not currently filing, and could impose additional tax, interest and penalties. These authorities could also claim that various withholding requirements apply to us or our subsidiaries, assert that benefits of tax treaties are not available to us or our subsidiaries, or challenge our methodologies for valuing developed technology or intercompany arrangements, including our transfer pricing. The relevant taxing authorities may determine that the manner in which we operate our business does not achieve the intended tax consequences. If such a disagreement was to occur, and our position was not sustained, we could be required to pay additional taxes, and interest and penalties. Any increase in the amount of taxes we pay or that are imposed on us could increase our worldwide effective tax rate and harm our business and results of operations.

Our ability to use our net operating loss carryforwards to offset future taxable income may be subject to certain limitations.

As of April 30, 2020 and 2019, we had net operating loss carryforwards in various jurisdictions of \$1.3 billion and \$485.7 million, respectively, which may be utilized against future income taxes. Limitations imposed by the applicable jurisdictions on our ability to utilize net operating loss carryforwards could cause income taxes to be paid earlier than would be paid if such limitations were not in effect and could cause such net operating loss carryforwards to expire unused, in each case reducing or eliminating the benefit of such net operating loss carryforwards. Furthermore, we may not be able to generate sufficient taxable income to utilize our net operating loss carryforwards before they expire. If any of these events occur, we may not derive some or all of the expected benefits from our net operating loss carryforwards.

We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations.

A portion of our subscriptions are generated and operating expenses are incurred outside the United States and denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly against the Euro. As a result of the COVID-19 pandemic, foreign currency exchange rates have been and could continue to be subject to increased volatility. The strengthening of the U.S. dollar increases the real cost of our offerings to our customers outside of the United States, leading to delays in the purchase of our offerings and the lengthening of our sales cycle. If the strength of the U.S. dollar increases, this could adversely affect our financial condition and results of operations. In addition, increased international sales in the future, including through our channel partners, may result in greater foreign currency denominated sales, increasing our foreign currency risk. Moreover, operating expenses incurred outside the United States and denominated in foreign currencies are increasing and are subject to fluctuations due to changes in foreign currency exchange rates. If we are not able to successfully hedge against the risks associated with currency fluctuations, our financial condition and results of operations could be adversely affected. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure, which could adversely affect our financial condition and results of operations.

Seasonality may cause fluctuations in our sales and results of operations.

Historically, we have experienced quarterly fluctuations and seasonality based on the timing of entering into agreements with new and existing customers and the mix between annual and monthly contracts entered in each reporting period. Trends in our business, financial condition, results of operations and cash flows are impacted by seasonality in our sales cycle which generally reflects a trend to greater sales in our second and fourth quarters and lower sales in our first and third quarters, though we believe this trend has been somewhat masked by our overall growth. We expect that this seasonality will continue to affect our results of operations in the future, and might become more pronounced as we continue to target larger enterprise customers.

Risks Related to Regulatory Matters

In connection with the operation of our business, we may collect, store, transfer and otherwise process certain personal data. As a result, our business is subject to a variety of government and industry regulations, as well as other obligations, related to privacy, data protection and information security.

Privacy, data protection and information security have become significant issues in various jurisdictions where we offer our products. The regulatory frameworks for these issues worldwide are rapidly evolving and are likely to remain uncertain for the foreseeable future. Federal, state, or non-U.S. government bodies or agencies have in the past adopted, and may in the future adopt, new laws and regulations or may make amendments to existing laws and regulations affecting data protection, data privacy and/or information security and/or regulating the use of the Internet as a commercial medium. For example, the recently enacted California Consumer Privacy Act (the “CCPA”) provides new data privacy rights for California residents. The enforcement of the CCPA by the California Attorney General commenced July 1, 2020. We cannot fully predict the impact of the CCPA on our business or operations, but we may be required to modify our data processing practices and policies and to incur substantial costs and expenses in connection with our compliance or the compliance of our customers or vendors. The CCPA also provides for civil penalties and a private right of action for violations, which may increase our compliance costs and potential liability. Additionally, a new privacy law, the California Privacy Rights Act (“CPRA”), was approved by California voters in the November 3, 2020 election. The CPRA creates obligations relating to consumer data beginning on January 1, 2022, with implementing regulations expected on or before July 1, 2022, and enforcement beginning July 1, 2023. We will continue to monitor developments related to the CPRA and anticipate additional costs and expenses associated with CPRA compliance. Other U.S. states also are considering omnibus privacy legislation and industry organizations regularly adopt and advocate for new standards in these areas. Many obligations under the CCPA and these other laws and legislative proposals remain uncertain, and we cannot fully predict their impact on our business. If we fail to comply with any of these laws or standards, we may be subject to investigations, enforcement actions, civil litigation, fines and other penalties, all of which may generate negative publicity and have a negative impact on our business.

Additionally, in the United States, we may be subject to investigation and/or enforcement actions brought by federal agencies and state attorneys general and consumer protection agencies. We publicly post statements and other documentation regarding our practices concerning the processing, use and disclosure of personally identifiable information. Although we endeavor to comply with our published statements and documentation, we may at times fail to do so or be alleged to have failed to do so. The publication of our privacy statement and other documentation that provide promises and assurances about privacy and security can subject us to potential state and federal action if they are found to be deceptive, unfair, or misrepresentative of our actual practices.

Internationally, most jurisdictions in which we operate have established their own privacy, data protection and information security legal frameworks with which we or our customers must comply. Within the European Union, the General Data Protection Regulation (“GDPR”) became fully effective on May 25, 2018, and applies to the processing (which includes the collection and use) of personal data. The GDPR imposes significant obligations and risk upon our business and provides for substantial penalties to which we could be subject in the event of any non-compliance. Administrative fines under the GDPR can amount up to 20 million Euros or four percent of the group’s annual global turnover, whichever is higher. Further, the United Kingdom has implemented legislation that substantially implements the GDPR in the United Kingdom, which legislation provides for penalties for violations of up to the greater of 17.5 million British Pounds or four percent of the group’s annual global turnover. Following the exit of the United Kingdom from the European Union however, aspects of U.K. data protection law and the relationship of the United Kingdom and the European Union in the medium to longer term remain unclear, including with respect to how data transfers to and from the United Kingdom will be regulated.

We have incurred substantial expense in complying with new data protection legal frameworks and we may be required to make additional, significant changes in our business operations, all of which may adversely affect our revenue and our business overall. Additionally, because these new regimes lack a substantial enforcement history, we are unable to predict how emerging standards may be applied to us. Despite our efforts to attempt to comply with new data protection obligations, a regulator may determine that we have not done so and subject us to fines and public censure, which could harm our company.

Among other requirements, the GDPR regulates transfers of personal data subject to the GDPR to third countries that have not been found to provide adequate protection to such personal data, including the United States. Some countries also are considering or have passed legislation requiring local storage and processing of data, or similar requirements, which could increase the cost and complexity of delivering our services. We have undertaken certain efforts to conform transfers of personal data from the European Economic Area (“EEA”), to the United States and other jurisdictions based on our understanding of current regulatory obligations and the guidance of data protection authorities, including standard contractual clauses approved by the European Commission (the “SCCs”). Despite this, we may be unsuccessful in maintaining conforming means of transferring such data from the EEA, in particular as a result of continued legal and legislative activity within the EEA that has challenged or called into question existing means of data transfers to countries that have not been found to provide adequate protection for personal data.

The regulatory environment applicable to handling of EEA residents' personal data, and our actions taken in response, may cause us to assume additional liabilities or incur additional costs. In the *Schrems II* decision issued by the Court of Justice of the European Union (“CJEU”) on July 16, 2020, the CJEU, among other things, imposed additional obligations on companies when relying on the SCCs. We and our customers may face EEA regulators applying different standards to certain data transfers or requiring additional steps in connection with data transfers, and may be required to engage in new contract negotiations with third parties that aid in processing data on our behalf. We may be unsuccessful in maintaining legitimate means for our transfer and receipt of personal data from the EEA, and may experience hesitancy, reluctance, or refusal by European or multi-national customers to continue to use our products due to the potential risk exposure to such customers as a result of sentiment in the EEA regarding international data transfers and data protection obligations imposed on them. We may find it necessary to establish systems to maintain personal data originating from the EEA in the EEA, or may need to take other steps with respect to data handling and data transfers, including means to provide for local data processing, which may involve substantial expense and may require us to divert resources from other aspects of our business, all of which may adversely affect our business. We and our customers may face a risk of enforcement actions by European data protection authorities until the time, if any, that personal data transfers to us and by us from the EEA are legitimized under European law. These and the other risks described above could result in harm to our business, operating results and financial condition. In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that may legally or contractually apply to us. One example of such a self-regulatory standard is the Payment Card Industry Data Security Standard (“PCI DSS”), which relates to the processing of payment card information. In the event we or our payment processors fail to comply with the PCI DSS, fines and other penalties could result, and we may suffer reputational harm and damage to our business. Further, our customers increasingly expect us to comply with more stringent privacy, data protection and information security requirements than those imposed by laws, regulations or self-regulatory requirements, and we may be obligated contractually to comply with additional or different standards relating to our handling or protection of data on or by our offerings. Any failure to meet our customers’ requirements may adversely affect our revenues and prospects for growth.

We also expect that there will continue to be changes in interpretations of existing laws and regulations, or new proposed laws, regulations, and other obligations concerning privacy, data protection and information security, which could impair our or our customers’ ability to collect, use or disclose information relating to consumers, which could decrease demand for our offerings, increase our costs and impair our ability to maintain and grow our customer base and increase our revenue. Because the interpretation and application of many laws and regulations relating to privacy, data protection and information security, along with industry standards, are uncertain, it is possible that these laws and regulations may be interpreted and applied in manners that are, or are alleged to be, inconsistent with our data management practices or the features of our products, and we could face fines, lawsuits, regulatory investigations and other claims and penalties, and we could be required

to fundamentally change our products or our business practices, any of which could have an adverse effect on our business. Any inability to adequately address privacy, data protection and information security concerns, even if unfounded, or any actual or perceived failure to comply with applicable privacy, data protection or information security laws, regulations and other obligations, could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations and policies that are applicable to the businesses of our customers may limit the use and adoption of, and reduce the overall demand for, our products. Privacy, data protection and information security concerns, whether valid or not valid, may inhibit market adoption of our products, particularly in certain industries and countries outside of the United States. If we are not able to adjust to changing laws, regulations and standards related to the Internet, our business may be harmed.

We are subject to governmental export and import controls and economic sanctions programs that could impair our ability to compete in international markets or subject us to liability if we violate these controls.

Our software and services, in some cases, are subject to U.S. export control laws and regulations including the Export Administration Regulations (“EAR”), and trade and economic sanctions maintained by the Office of Foreign Assets Control (“OFAC”). As such, an export license may be required to export or reexport our software and services to certain countries and end-users for certain end-uses. If we were to fail to comply with such U.S. export controls laws and regulations, U.S. economic sanctions, or other similar laws, we could be subject to both civil and criminal penalties, including substantial fines, possible incarceration for employees and managers for willful violations, and the possible loss of our export or import privileges. Obtaining the necessary export license for a particular sale or offering may not be possible and may be time-consuming and may result in the delay or loss of sales opportunities. Furthermore, U.S. export control laws and economic sanctions in many cases prohibit the export of software and services to certain U.S. embargoed or sanctioned countries, governments and persons, as well as for prohibited end-uses. Monitoring and ensuring compliance with these complex U.S. export control laws is particularly challenging because our offerings are widely distributed throughout the world and are available, in many cases, for download without registration. In addition, because we incorporate encryption functionality into our products, we are also subject to certain provisions of these laws that apply to encryption items. Even though we take precautions to ensure that we and our partners comply with all relevant export control laws and regulations, any failure by us or our partners to comply with such laws and regulations could have negative consequences for us, including reputational harm, government investigations and penalties.

In addition, various countries regulate the import of certain encryption software and technology, including through import permit and license requirements, and have enacted laws that could limit our ability to distribute our products and services or could limit our end-customers’ ability to implement our products in those countries. Changes in our products or changes in export and import regulations in such countries may create delays in the introduction of our products and services into international markets, prevent our end-customers with international operations from deploying our products globally or, in some cases, prevent or delay the export or import of our products and services to certain countries, governments or persons altogether. The following developments could result in decreased use of our products and services by, or in our decreased ability to export or sell our products to, existing or potential end-customers with international operations: any change in export or import laws or regulations, economic sanctions or related legislation; shift in the enforcement or scope of existing export, import or sanctions laws or regulations; or change in the countries, governments, persons, or technologies targeted by such export, import or sanctions laws or regulations. Any decreased use of our products or services or limitation on our ability to export to or sell our products or services in international markets could adversely affect our business, financial condition and operating results.

Failure to comply with anti-bribery, anti-corruption, and anti-money laundering laws could subject us to penalties and other adverse consequences.

We are subject to the FCPA, the U.K. Bribery Act and other anti-corruption, anti-bribery and anti-money laundering laws in various jurisdictions both domestic and abroad. We leverage channel partners to sell our offerings abroad and use other third parties, including recruiting firms, professional employer organizations, legal, accounting and other professional advisors, and local vendors to meet our needs associated with doing business abroad. We and these third parties may have direct or indirect interactions with officials and employees of government agencies, or state-owned or affiliated entities, and we may be held liable for the corrupt or other illegal activities of our channel partners and third-party representatives, as well as our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities. While we have policies and procedures to address compliance with such laws, we cannot assure you that the channel partners, third-party representatives, our employees, contractors or agents will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. Any violation of the FCPA, U.K. Bribery Act or other applicable anti-bribery, anti-corruption laws, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions, or suspension or debarment from U.S. government contracts, all of which may have an adverse effect on our reputation, business, operating results and prospects.

Risks Related to Ownership of our Ordinary Shares

The market price for our ordinary shares has been and is likely to continue to be volatile or may decline regardless of our operating performance.

The stock markets, and securities of technology companies in particular, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. The economic impact and uncertainty of the ongoing COVID-19 pandemic have exacerbated this volatility in both the overall stock markets and the market price of our ordinary shares. In the past, shareholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business. The market price of our ordinary shares may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated changes or fluctuations in our operating results;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- announcements by us or our competitors of new offerings or new or terminated significant contracts, commercial relationships or capital commitments;
- industry or financial analyst or investor reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- a gain or loss of investor confidence in the market for technology stocks or the stock market in general;
- future sales or expected future sales of our ordinary shares;
- investor perceptions of us, the benefits of our offerings and the industries in which we operate;
- price and volume fluctuations in the overall stock market from time to time;
- changes in operating performance and/or stock market valuations of other technology companies generally, or those in our industry in particular;
- failure of industry or financial analysts to maintain coverage of us, changes in financial estimates by any analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property rights or our solutions, or third-party proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- breaches of, or failures relating to, privacy, data protection or information security;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- any major changes in our management or our board of directors, particularly with respect to Mr. Banon;
- general economic conditions and slow or negative growth of our markets, including as a result of the COVID-19 pandemic; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which would cause our stock price to decline.

We have provided and may continue to provide guidance in our quarterly and annual earnings conference calls, quarterly and annual earnings releases, or otherwise, regarding our future performance. Guidance is forward-looking and represents our management's estimates as of the date of release and is based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive

uncertainties and contingencies on our business, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. One of those key assumptions relates to the impact of the ongoing COVID-19 pandemic and the associated economic uncertainty on our business, which is inherently difficult to predict. Furthermore, analysts and investors may develop and publish their own projections of our business, which may form a consensus about our future performance. Our actual business results may vary significantly from such guidance or that consensus due to a number of factors, many of which are outside of our control, including due to the global economic uncertainty and financial market conditions caused by the ongoing COVID-19 pandemic, and which could adversely affect our business and future operating results. There are no comparable recent events that provide insights as to the probable effect of the ongoing COVID-19 pandemic, and, as a result, the ultimate impact of the COVID-19 outbreak is highly uncertain and subject to change. Furthermore, if we make downward revisions of our previously announced guidance, if we withdraw our previously announced guidance, or if our publicly announced guidance of future operating results fails to meet expectations of securities analysts, investors or other interested parties, the price of our ordinary shares would decline. In light of the foregoing, investors are urged not to rely upon our guidance in making an investment decision regarding our ordinary shares.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this “Risk Factors” section in this report could result in the actual operating results being different from our guidance, and the differences may be adverse and material.

The concentration of our share ownership with insiders will likely limit your ability to influence corporate matters, including the ability to influence the outcome of director elections and other matters requiring shareholder approval.

Our executive officers and directors together beneficially owned 20.9% of our ordinary shares outstanding as of January 31, 2021. As a result, these shareholders, acting together, will have significant influence over matters that require approval by our shareholders, including matters such as adoption of the financial statements, declarations of dividends, the appointment and dismissal of directors, capital increases, amendment to our articles of association and approval of significant corporate transactions. Corporate action might be taken even if other shareholders oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of us that other shareholders may view as beneficial.

The issuance of additional shares in connection with financings, acquisitions, investments, our share incentive plans or otherwise will dilute all other shareholders.

Our articles of association authorize us to issue up to 165 million ordinary shares and up to 165 million preference shares with such rights and preferences as included in our articles of association. On September 28, 2018, our extraordinary general meeting of shareholders (the “2018 Extraordinary Meeting”) empowered our board of directors to issue ordinary shares and preference shares up to our authorized share capital for a period of five years from October 10, 2018. Subject to compliance with applicable rules and regulations, we may issue ordinary shares or securities convertible into ordinary shares from time to time in connection with a financing, acquisition, investment, our share incentive plans or otherwise. Any such issuance could result in substantial dilution to our existing shareholders unless pre-emptive rights exist and cause the market price of our ordinary shares to decline.

Certain holders of our ordinary shares may not be able to exercise pre-emptive rights and as a result may experience substantial dilution upon future issuances of ordinary shares.

Holders of our ordinary shares in principle have a pro rata pre-emptive right with respect to any issue of ordinary shares or the granting of rights to subscribe for ordinary shares, unless Dutch law or our articles of association state otherwise or unless explicitly provided otherwise in a resolution by our general meeting of shareholders (the “General Meeting”), or—if authorized by the annual General Meeting or an extraordinary General Meeting—by a resolution of our board of directors. Our 2018 Extraordinary Meeting has empowered our board of directors, to limit or exclude pre-emptive rights on ordinary shares for a period of five years from October 10, 2018, which could cause existing shareholders to experience substantial dilution of their interest in us.

Pre-emptive rights do not exist with respect to the issue of preference shares and holders of preference shares, if any, have no pre-emptive right to acquire newly issued ordinary shares. Also, pre-emptive rights do not exist with respect to the issue of shares or grant of rights to subscribe for shares to employees of the company or contributions in kind.

Sales of substantial amounts of our ordinary shares in the public markets, or the perception that they might occur, could reduce the price that our ordinary shares might otherwise attain.

Sales of a substantial number of shares of our ordinary shares in the public market, particularly sales by our directors, executive officers and significant shareholders, or the perception that these sales could occur, could adversely affect the market price of our ordinary shares and may make it more difficult for you to sell your ordinary shares at a time and price that you deem appropriate.

In addition, holders of an aggregate of 18,138,691 ordinary shares, based on shares outstanding as of January 31, 2021, are entitled to rights with respect to registration of these shares under the Securities Act pursuant to our amended and restated investors' rights agreement, dated July 19, 2016. If these holders of our ordinary shares, by exercising their registration rights, sell a large number of shares, they could adversely affect the market price for our ordinary shares. We have also filed registration statements on Form S-8 under the Securities Act registering all ordinary shares that we may issue under our equity compensation plan, which may in turn be sold and may adversely affect the market price for our ordinary shares.

Certain anti-takeover provisions in our articles of association and under Dutch law may prevent or could make an acquisition of our company more difficult, limit attempts by our shareholders to replace or remove members of our board of directors and may adversely affect the market price of our ordinary shares.

Our articles of association contain provisions that could delay or prevent a change in control of our company. These provisions could also make it difficult for shareholders to appoint directors that are not nominated by the current members of our board of directors or take other corporate actions, including effecting changes in our management. These provisions include:

- the staggered three-year terms of the members of our board of directors, as a result of which only approximately one-third of the members of our board of directors may be subject to election in any one year;
- a provision that the members of our board of directors may only be removed by a General Meeting by a two-thirds majority of votes cast representing at least 50% of our issued share capital if such removal is not proposed by our board of directors;
- a provision that the members of our board of directors may only be appointed upon binding nomination of the board of directors, which can only be overruled with a two-thirds majority of votes cast representing at least 50% of our issued share capital;
- the inclusion of a class of preference shares in our authorized share capital that may be issued by our board of directors, in such a manner as to dilute the interest of shareholders, including any potential acquirer or activist shareholder, in order to delay or discourage any potential unsolicited offer or shareholder activism;
- requirements that certain matters, including an amendment of our articles of association, may only be brought to our shareholders for a vote upon a proposal by our board of directors; and
- minimum shareholding thresholds, based on nominal value, for shareholders to call General Meetings of our shareholders or to add items to the agenda for those meetings.

We are subject to the Dutch Corporate Governance Code but do not comply with all the suggested governance provisions of the Dutch Corporate Governance Code. This may affect your rights as a shareholder.

As a Dutch company, we are subject to the Dutch Corporate Governance Code ("DCGC"). The DCGC contains both principles and suggested governance provisions for management boards, supervisory boards, shareholders and general meetings, financial reporting, auditors, disclosure, compliance and enforcement standards. The DCGC is based on a "comply or explain" principle. Accordingly, public companies are required to disclose in their annual reports, filed in the Netherlands, whether they comply with the suggested governance provisions of the DCGC. If they do not comply with those provisions (e.g., because of a conflicting requirement), the company is required to give the reasons for such noncompliance. The DCGC applies to all Dutch companies listed on a government-recognized stock exchange, whether in the Netherlands or elsewhere, including the NYSE. The principles and suggested governance provisions apply to our board of directors (in relation to role and composition, conflicts of interest and independency requirements, board committees and remuneration), shareholders and the General Meeting (for example, regarding anti-takeover protection and our obligations to provide information to our shareholders) and financial reporting (such as external auditor and internal audit requirements). We comply with all applicable provisions of the DCGC except where such provisions conflict with U.S. exchange listing requirements or with market practices in the United States or the Netherlands. This may affect your rights as a shareholder, and you may not have the same level of protection as a shareholder in a Dutch company that fully complies with the suggested governance provisions of the DCGC.

We do not intend to pay dividends in the foreseeable future. As a result, your ability to achieve a return on your investment will depend on appreciation in the price of our ordinary shares.

We have never declared or paid any cash dividends on our shares. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends on our ordinary shares in the foreseeable future. Were this position to change, payment of future dividends may be made only if our equity exceeds the amount of the paid-in and called-up part of the issued share capital, increased by the reserves required to be maintained by

Dutch law or by our articles of association. Accordingly, investors must rely on sales of their ordinary shares after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

Claims of U.S. civil liabilities may not be enforceable against us.

We are incorporated under the laws of the Netherlands and substantial portions of our assets are located outside of the United States. In addition, one member of our board of directors and certain experts named herein reside outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or such other persons residing outside the United States, or to enforce outside the United States judgments obtained against such persons in U.S. courts in any action, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States, rights predicated upon the U.S. federal securities laws.

There is no treaty between the United States and the Netherlands for the mutual recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon the U.S. federal securities laws, would not be enforceable in the Netherlands unless the underlying claim is re-litigated before a Dutch court of competent jurisdiction. In such proceedings, however, a Dutch court may be expected to recognize the binding effect of a judgment of a federal or state court in the United States without re-examination of the substantive matters adjudicated thereby, if (i) the jurisdiction of the U.S. federal or state court has been based on internationally accepted principles of private international law, (ii) that judgment resulted from legal proceedings compatible with Dutch notions of due process, (iii) that judgment does not contravene public policy of the Netherlands and (iv) that judgment is not incompatible with (x) an earlier judgment of a Dutch court between the same parties, or (y) an earlier judgment of a foreign court between the same parties in a dispute regarding the same subject and based on the same cause, if that earlier foreign judgment is recognizable in the Netherlands.

Based on the foregoing, there can be no assurance that U.S. investors will be able to enforce against us or members of our board of directors, officers or certain experts named herein, who are residents of the Netherlands or countries other than the United States, any judgments obtained in U.S. courts in civil and commercial matters, including judgments under the U.S. federal securities laws.

In addition, there can be no assurance that a Dutch court would impose civil liability on us, the members of our board of directors, our officers or certain experts named herein in an original action predicated solely upon the U.S. federal securities laws brought in a court of competent jurisdiction in the Netherlands against us or such members, officers or experts, respectively.

U.S. persons who hold our ordinary shares may suffer adverse tax consequences if we are characterized as a passive foreign investment company.

A non-U.S. corporation will generally be considered a passive foreign investment company (“PFIC”), for U.S. federal income tax purposes, in any taxable year if either (1) at least 75% of its gross income for such year is passive income or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during such year) is attributable to assets that produce or are held for the production of passive income (“the PFIC asset test”). For purposes of the PFIC asset test, the value of our assets will generally be determined by reference to our market capitalization. Based on our past and current projections of our income and assets, we do not expect to be a PFIC for the current taxable year or for the foreseeable future. Nevertheless, a separate factual determination as to whether we are or have become a PFIC must be made each year (after the close of such year). Since our projections may differ from our actual business results and our market capitalization and value of our assets may fluctuate, we cannot assure you that we will not be or become a PFIC in the current taxable year or any future taxable year. If we are a PFIC for any taxable year during which a U.S. person (as defined in Section 7701(a)(30) of the Internal Revenue Code of 1986, as amended) holds our ordinary shares, such U.S. person may be subject to adverse tax consequences. Each U.S. person who holds our ordinary shares is strongly urged to consult his, her or its tax advisor regarding the application of these rules and the availability of any potential elections.

If a U.S. person is treated as owning at least 10% of our ordinary shares, such U.S. person may be subject to adverse U.S. federal income tax consequences.

If a U.S. person is treated as owning (directly, indirectly, or constructively) at least 10% of the total combined voting power of our shares, or of the total value of our shares, such shareholder may be treated as a “United States shareholder” with respect to each “controlled foreign corporation” in our group (if any). Under changes implemented by the legislation commonly referred to as the Tax Cuts and Jobs Act of 2017, because our group includes one or more U.S. subsidiaries, certain of our non-U.S. subsidiaries could be treated as controlled foreign corporations (regardless of whether we are treated as a controlled foreign corporation). A United States shareholder of a controlled foreign corporation may be required to report annually and include in its U.S. taxable income its pro rata share of “Subpart F income,” “global intangible low-taxed income,” and

investments in U.S. property by controlled foreign corporations, regardless of whether we make any distributions. An individual that is a United States shareholder with respect to a controlled foreign corporation generally would not be allowed certain tax deductions or foreign tax credits that would be allowed to a United States shareholder that is a U.S. corporation. We cannot provide any assurances that we will assist investors in determining whether we or any of our non-U.S. subsidiaries is treated as a controlled foreign corporation or whether any investor is treated as a United States shareholder with respect to any such controlled foreign corporation or furnish to any investor who may be a United States shareholder information that may be necessary to comply with the aforementioned reporting and tax paying obligations. Failure to comply with these reporting obligations may subject a shareholder who is a United States shareholder to significant monetary penalties and may prevent from starting the statute of limitations with respect to such shareholder's U.S. federal income tax return for the year for which reporting was due. A U.S. person should consult its advisors regarding the potential application of these rules to an investment in our ordinary shares.

We may not be able to make distributions or repurchase shares without subjecting our shareholders to Dutch withholding tax.

Dutch dividend withholding tax may be levied on dividends and similar distributions made by us to our shareholders at the statutory rate of 15%. If dividend distributions are structured as a repayment of capital or a repurchase of shares, Dutch withholding tax may still be due at 15%. Such repayment of capital or repurchase of shares will be exempt from dividend withholding tax only in limited circumstances.

General Risk Factors

Unfavorable or uncertain conditions in our industry or the global economy or reductions in information technology spending, including as a result of the COVID-19 pandemic, could limit our ability to grow our business and negatively affect our results of operations.

Our results of operations may vary based on the impact of changes in our industry or the global economy on us or our customers. Current or future economic uncertainties or downturns could adversely affect our business and results of operations. Negative conditions in the general economy both in the United States and abroad, including conditions resulting from changes in gross domestic product growth, financial and credit market fluctuations, international trade relations, political instability or unrest and new developments resulting from recent elections and changes of administration, natural catastrophes, warfare, infectious diseases and terrorist attacks on the United States, Europe, the Asia Pacific region or elsewhere, could cause a decrease in business investments by our customers and potential customers, including spending on information technology, and negatively affect the growth of our business. For example, the COVID-19 pandemic has curtailed business spending by our customers, resulted in business disruptions for us and/or our customers, restricted travel to customer sites or result in a quarantine of affected populations impacting our employees, partners and customers. Additionally, mitigation and containment measures adopted by government authorities to contain the spread of COVID-19 in the U.S. and abroad may significantly impact business continuity for our partners and our customers, reduce our customers' business operations, delay their engagement with us (including due to travel restrictions and restrictions on in-person meetings) and could thereby adversely affect our business and financial results. Further, these measures by government authorities may continue to remain in place for a significant period of time or, even if lifted, could be reinstated at any time, and additional and/or extended measures could significantly impact the ability of our employees and customers and vendors to work productively.

To the extent our offerings are perceived by customers and potential customers as discretionary, our revenue may be disproportionately affected by delays or reductions in general information technology spending. Also, customers may choose to develop in-house software as an alternative to using our products. Moreover, competitors may respond to market conditions by lowering prices. We cannot predict the timing, strength or duration of any economic slowdown, instability or recovery, generally or within any particular industry. If the economic conditions of the general economy or markets in which we operate do not improve, or worsen from present levels, our business, results of operations and financial condition could be adversely affected.

We may acquire other businesses which could require significant management attention, disrupt our business, or dilute shareholder value. We may be unable to integrate acquired businesses and technologies, and acquisitions could adversely affect our results of operations.

As part of our business strategy, we may acquire or make investments in complementary companies, products, or technologies. We have in the past acquired, and expect in the future to acquire, businesses that we believe will complement or augment our existing business, such as our acquisition of Endgame in October 2019. The identification of suitable acquisition candidates is difficult, and we may not be able to complete such acquisitions on favorable terms, if at all. If we do complete future acquisitions, we may not ultimately strengthen our competitive position or achieve our goals and business strategy, we may be subject to claims or liabilities assumed from an acquired company, product, or technology, and any acquisitions we

complete could be viewed negatively by our customers, investors, and securities analysts. In addition, if we are unsuccessful at integrating Endgame or future acquisitions, or the technologies associated with such acquisitions, into our company, the revenue and results of operations of the combined company could be adversely affected. Any integration process may require significant time and resources, which may disrupt our ongoing business and divert management's attention, and we may not be able to manage the integration process successfully. We may not successfully evaluate or utilize acquired technology or personnel, realize anticipated synergies from acquisitions, or accurately forecast the financial impact of an acquisition transaction and integration of such acquisition, including accounting charges. We may have to pay cash, incur debt, or issue equity or equity-linked securities to pay for any future acquisitions, each of which could adversely affect our financial condition or the market price of our ordinary shares. The sale of equity or issuance of equity-linked debt to finance any future acquisitions could result in dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations. Additionally, we may acquire development stage companies that are not yet profitable, and that require continued investment, which could adversely affect our results of operations and liquidity. The occurrence of any of these risks could harm our business, results of operations, and financial condition.

Catastrophic events, or man-made problems such as terrorism, may disrupt our business.

A significant natural disaster, such as an earthquake, fire, flood, or significant power outage could have an adverse impact on our business, results of operations, and financial condition. We have a number of our employees and executive officers located in the San Francisco Bay Area, a region known for seismic activity and recent wildfires. In the event our or our partners' abilities are hindered by any of the events discussed above, sales could be delayed, resulting in missed financial targets for a particular quarter. In addition, acts of terrorism, other geo-political unrest or health issues, such as an outbreak of pandemic or epidemic diseases, such as the COVID-19 pandemic, or fear of such events, could cause disruptions in our business or the business of our partners, customers or the economy as a whole. Any disruption in the business of our partners or customers that affects sales in a given fiscal quarter could have a significant adverse impact on our quarterly results for that and future quarters. For example, the full extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted. In addition, the COVID-19 pandemic has adversely affected the economies of many countries, resulting in economic downturns that could affect demand for our products and likely impact our operating results. All of the aforementioned risks may be further increased if our disaster recovery plans prove to be inadequate. See the risk factor entitled "The ongoing COVID-19 pandemic could harm our business and results of operations."

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our results of operations could fall below expectations of securities analysts and investors, resulting in a decline in the trading price of our ordinary shares.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Quarterly Report on Form 10-Q, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue, and expenses that are not readily apparent from other sources. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in the market price of our ordinary shares. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, measurement of stock-based compensation expense, accounting of intangible assets, goodwill impairment test, and accounting for income taxes including deferred tax assets and liabilities.

If industry or financial analysts do not publish research or reports about our business, or if they issue inaccurate or unfavorable research regarding our ordinary shares, our share price and trading volume could decline.

The trading market for our ordinary shares is influenced by the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts, or the content and opinions included in their reports. If any of the analysts who cover us issues an inaccurate or unfavorable opinion regarding our company, our stock price would likely decline. In addition, the stock prices of many companies in the technology industry have declined significantly after those companies have failed to meet, or significantly exceed, the financial guidance publicly announced by the companies or the expectations of analysts or public investors. If our financial results fail to meet, or significantly exceed, our announced guidance or the expectations of analysts or public investors, our stock price may decline. Further, analysts could downgrade our ordinary shares or publish unfavorable research about us. If one or more of the analysts who cover our company ceases to cover us, or

fails to publish reports on us regularly, our visibility in the financial markets could decrease, which in turn could cause our stock price or trading volume to decline.

The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting and corporate governance requirements of the Exchange Act, the listing requirements of the NYSE and other applicable securities rules and regulations, including the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act. Compliance with these rules and regulations has increased, and we expect will continue increasing our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources.

Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and results of operations, and the Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight is required. As a result, management's attention may be diverted from other business concerns, which could harm our business, financial condition, results of operations and prospects. Although we have already hired additional personnel to help comply with these requirements, we may need to further expand our legal and finance departments in the future or hire outside consultants, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time-consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expense and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies, regulatory authorities may initiate legal proceedings against us and our business and prospects may be harmed. As a result of disclosure of information in the filings required of a public company and in this Quarterly Report on Form 10-Q, our business and financial condition will become more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business, financial condition, results of operations and prospects could be materially harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and materially harm our business, financial condition, results of operations and prospects.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud, and investor confidence and the market price of our ordinary shares may, therefore, be adversely affected.

As a public company in the United States, we are subject to the Sarbanes-Oxley Act, which requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended and anticipate that we will continue to expend significant resources, including accounting-related costs and significant management oversight. For example, since our IPO, we have hired additional accounting and financial staff with appropriate public company experience and technical accounting knowledge to assist in our compliance efforts. We have incurred and expect to continue to incur significant expenses and devote substantial management effort toward compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. To assist us in complying with these requirements we may need to hire more employees in the future, or engage outside consultants, which will increase our operating expenses.

Despite significant investment, our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future. Any failure to implement or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our results of operations or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting could also adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that are required to be included in our periodic reports that we file with the SEC.

Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, subject us to sanctions or investigations by the NYSE, the SEC or other regulatory authorities, and would likely cause the trading price of our ordinary shares to decline.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6 EXHIBITS

The documents listed below are incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

Exhibit No.	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Articles of Association of Elastic N.V. (English translation).	10-Q	001-38675	3.1	12/12/2018	
3.2	Deed of Amendment of the Articles of Association of Elastic N.V. (English translation).	10-Q	001-38675	3.2	12/12/2018	
3.3	Deed of Conversion and Amendment of the Articles of Association of Elastic N.V. Articles of Association (English translation).	10-Q	001-38675	3.3	12/12/2018	
10.1	Employment Letter between Elasticsearch, Inc. and Ashutosh Kulkarni, dated as of December 2, 2020.					X
10.2	Amended and Restated Employment Agreement between Elasticsearch, Inc. and Shay Banon, dated as of February 24, 2021.					X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.					
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.					
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).					

* The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Elastic N.V.

Date: March 3, 2021

By: /s/ Shay Banon

Shay Banon
Chief Executive Officer and Chairman
(Principal Executive Officer)

Date: March 3, 2021

By: /s/ Janesh Moorjani

Janesh Moorjani
Chief Financial Officer
(Principal Financial and Accounting Officer)

ELASTIC OFFER LETTER
27 November 2020

Ashutosh Kulkarni
3710 Clay Street
San Francisco, CA 94118

Dear Ashutosh,

Elasticsearch, Inc. (the “Company”), is pleased to offer you employment with the Company on the terms described below.

1. **Position.** Your position will be Chief Product Officer, reporting to the Chief Executive Officer, Shay Banon. As this offer is for a position that will be an “executive officer” position (as such term is defined in Rule 3b-7 under the Securities and Exchange Act of 1934 (the “’34 Act”)) and an “officer” position (as such term is defined in Section 16 of the ’34 Act), the terms of this offer letter and your appointment to the position contemplated hereby are subject to the approval of the board of directors of Elastic N.V. (the “Board”) and the Compensation Committee of the Board (the “Compensation Committee”).
 2. **Compensation.**
 - a. **Base Salary.** You will be paid a starting salary at the rate of \$500,000 per year, which will be paid in accordance with the Company’s standard payroll policies and subject to applicable withholdings and other required deductions.
 - b. **Sign-On Bonus.** The Company will also pay you a one-time, non-recurring sign-on bonus of \$200,000 which you will receive in the first month after your start date. The signing bonus is taxable, and all regular payroll taxes will be withheld. In the event that you resign, or are no longer actively providing services, or your employment with the Company terminates at any time within your first 12 months, you will be responsible for reimbursing the Company this amount pro-rated by 1/12th for every month of employment served, and you hereby consent. Any sign-on bonus paid will not be part of normal or expected salary or compensation for any purpose, including the calculation of severance, if any, upon termination.
 - c. **Annual Incentive Compensation.** Your annual target incentive compensation for fiscal year 2021 will be equal to 60% of your annual base salary, less applicable withholding, and will be subject to the terms and conditions of the Company’s Executive Incentive Compensation Plan or any successor plan or arrangement adopted and implemented by the Company.

You should note that the Company reserves the right to modify salaries and/or incentive compensation opportunities from time to time as it deems necessary.
 3. **Equity Award.** Subject to the approval of the Board or the Compensation Committee, you will be granted awards covering ordinary shares of Elastic N.V. with an aggregate approximate value of \$10,000,000 (each an “Equity Award”, and together, the “Equity Awards”). 75% of the value of the Equity Awards will be in the form of a restricted stock unit award, and 25% of the
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value of the Equity Awards will be in the form of a stock option grant to purchase shares of Elastic N.V. The dollar value of each Equity Award will be converted into a number of shares subject to the Equity Award at the time the award is granted in accordance with our equity grant practices in effect at that time. Each Equity Award will vest over a 4-year period with 25% of the total original number of shares subject to the applicable Equity Award vesting on the 1 year anniversary of your vesting commencement date, and the remainder vesting ratably thereafter on designated vesting dates over the following 3 years in accordance with our equity grant practices, subject to your continuous service with the Company or its affiliates through each vesting date. Each Equity Award will be subject to the terms and conditions set forth in the Elastic N.V. Amended and Restated 2012 Stock Option Plan or a future equity plan, a standard form of either a restricted stock unit award agreement or an option award agreement adopted under such plan, as applicable, and our equity grant practices in effect from time to time.

4. **Vacation and Holidays.** During your employment with the Company, you will be entitled to 4 weeks of paid vacation during each calendar year, which shall accrue ratably over the calendar year and be pro-rated for the remainder of this calendar year. Such vacation shall be subject to and taken in accordance with the vacation policies of the Company. We strongly encourage you to take the vacation that you accrue in a calendar year in the same calendar year. Vacation must be taken by you at such time or times as mutually agreed between you and the Company. You will also be entitled to the paid holidays as set forth in the Company's policies. Upon termination of your employment with the Company, you will be paid for any unused vacation accrued by you as of the termination date.
 5. **Employee Benefits.** As a regular employee of the Company, you will be eligible to participate in the employee benefit plans, if any, currently and hereafter maintained by the Company, subject in each case to the terms and conditions of the plan in question, including any eligibility requirements set forth therein, and the determination of any person or committee administering the plan. You should note that the Company may modify or terminate benefits from time to time as it deems necessary or appropriate.
 6. **Severance & Change of Control Benefits.** As an executive of the Company, you will be eligible to receive severance and change of control benefits under certain circumstances pursuant to a Change in Control and Severance Agreement to be entered into between you and the Company, in substantially the form of the Company's standard agreements with its executives (the "**Severance Agreement**"). Accordingly, your potential severance and change of control benefits and the terms and conditions thereof shall be set forth in the Severance Agreement.
 7. **Confidential Information and Invention Assignment Agreement.** Like all Company employees, you will be required as a condition of your employment with the Company, to sign the Company's standard Confidential Information and Invention Assignment Agreement.
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8. **Employment Relationship.** Employment with the Company is for no specific period of time. Your employment with the Company will be “at will,” meaning that either you or the Company may terminate your employment at any time and for any reason, with or without cause or notice. Any contrary representations which may have been made to you are superseded by this offer. This is the full and complete agreement between you and the Company on this term. Although your job duties, title, compensation and benefits, as well as the Company’s personnel policies and procedures, may change from time to time, the “at will” nature of your employment may only be changed in an express written agreement signed by you and the Company’s Chief Executive Officer.
9. **Location:** You will work from the Company’s Mountain View, CA Office.
10. **Outside Activities.** While you render services to the Company, you agree that you will not engage in any other employment, consulting, or other business activity without the written consent of the Company. In addition, while you render services to the Company, you will not assist any person or entity in competing with the Company, in preparing to compete with the Company, or in hiring any employees or consultants of the Company.
11. **Withholding and Required Deductions.** All forms of compensation referred to in this letter are subject to all withholding and any other deductions required by applicable law.
12. **Entire Agreement and Governing Law.** This letter supersedes and replaces any prior or contemporaneous understandings or agreements, whether oral, written or implied, between you and the Company regarding the matters described in this letter. This letter will be interpreted in accordance with the laws of the State of California without giving effect to provisions governing the choice of law.
13. **Counterparts.** This letter may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Execution of a facsimile, electronic, or scanned image will have the same force and effect as execution of an original, and a facsimile signature, electronic, or scanned image will be deemed an original and valid signature. If you wish to accept this offer, please sign electronically as presented.

As required by law, your employment with the Company is also contingent upon your providing legal proof of your identity and authorization to work in the United States. If visa sponsorship is needed, employment may not commence until an approval notice is received by the Company from USCIS. Employment may be contingent upon successfully obtaining an export license, if one is required for you to perform the duties you are being hired to perform. In addition, the Company may conduct a background verification and/or reference check, not to exceed the limitations of the law, and you acknowledge that this offer is contingent upon our receipt of satisfactory results of any and all performed checks. You acknowledge and agree that by signing this offer and returning it to the Company, you are consenting to the Company's performance of such background verification and/or reference checks.

[Signature page follows.]

This offer, if not accepted, will expire at the close of business on Wednesday December 20th, 2020.

We look forward to your favorable reply and to working with you at Elastic.

Very truly yours,

Elasticsearch, Inc.

/s/ Leah Sutton

Leah Sutton, SVP Global HR

November 27, 2020

Date

ACCEPTED AND AGREED:

/s/ Ashutosh Kulkarni

Ashutosh Kulkarni

December 2, 2020

Date

Anticipated Start Date:

ELASTICSEARCH, INC.

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (the “**Agreement**”) is entered into as of February 24, 2021 (the “**Effective Date**”) by and between Elasticsearch, Inc. (the “**Company**”) and Shay Banon (“**Executive**”).

1. Duties and Scope of Employment.

(a) Positions and Duties. As of the Effective Date, Executive will continue to serve as an employee of the Company and as the Executive Director designated as Chief Executive Officer and Chairman of the Board (as defined below) of Elastic N.V. (the “**Parent**”). Executive will render such business and professional services in the performance of his duties, consistent with Executive’s position within the Company and Parent, as will reasonably be assigned to him by the Board. The period of Executive’s employment under this Agreement is referred to herein as the “**Employment Term**.”

(b) Board Membership. During the Employment Term, Executive will serve as Executive Director designated as Chief Executive Officer and Chairman of the Board of Parent, subject to any required Board and shareholder approvals. Upon Executive ceasing to be the Parent’s Chief Executive Officer for any reason, he will be deemed to have resigned from his service on the Board, unless otherwise requested by the Board at that time to remain on the Board. The Executive’s board membership shall be subject to the Articles of Association of the Parent, the Board Rules of the Parent and any required Board and shareholder approvals.

(c) Obligations. During the Employment Term, Executive will perform his duties to the Company and Parent faithfully and to the best of his ability and will devote his full business efforts and time to the Company. For the duration of the Employment Term, Executive agrees not to engage in any other employment or consulting activity for any direct or indirect remuneration without the prior approval of the Board.

(d) Employment. The Company will employ Executive on the terms and conditions set forth herein. Executive will receive his cash compensation and benefits from the Company and the Company will maintain and distribute employment-related records. In the event that during the Employment Term Executive becomes employed by another member of the Company Group in the performance of Executive’s duties and obligations hereunder, any reference to the Company in this Agreement will be a reference to that member of the Company Group, unless the context clearly requires otherwise.

(e) Other Entities. Executive agrees to serve and may be appointed as an officer and director for any of the Parent’s subsidiaries, partnerships, joint ventures, limited liability companies and other affiliates, including entities in which the Parent has a significant investment as determined by the Parent. As used in this Agreement, the term “affiliates” will include any entity controlled by, controlling, or under common control of the Parent. Upon ceasing employment with the Company for any reason, Executive agrees that he will be deemed

to have resigned from all officer positions with the Parent, the Company and any affiliates and Executive agrees to execute such documents and take such actions as the Company reasonably requests to give effect to the same.

2. At-Will Employment. The parties agree that Executive's employment with the Company will be "at-will" employment and may be terminated at any time with or without cause or notice; provided that the Company will provide any notice required by applicable law or provide any payment in lieu of notice as required by applicable law. Executive understands and agrees that neither his job performance nor promotions, commendations, bonuses or the like from the Company give rise to or in any way serve as the basis for modification, amendment, or extension, by implication or otherwise, of his employment with the Company. However, as described in this Agreement, Executive may be entitled to severance benefits depending on the circumstances of Executive's termination of employment with the Company.

3. Compensation.

(a) Base Salary. During the Employment Term, the Company will pay Executive an annual salary of \$400,000 as compensation for his services (the "**Base Salary**"). The Base Salary will be paid in accordance with the Company's normal payroll practices and be subject to the usual, required withholdings, including paying compensation in the local currency where Executive is employed, as applicable. Executive's salary will be subject to review and may be increased (but not decreased) based upon the Company's normal performance review practices.

(b) Annual Bonus. Executive will be eligible to receive an annual bonus (the "**Target Bonus**") of up to 60% of his Base Salary, less applicable withholdings, upon achievement of performance objectives to be mutually agreed upon between the Board and Executive under the Company's Executive Incentive Compensation Plan or any successor plan or arrangement adopted and implemented by the Company. The Target Bonus, or any portion thereof, will be paid as soon as practicable after the Board determines that the Target Bonus has been earned, subject to Executive's continued employment with the Company through the payment date. Executive must be employed through the payment date to earn and receive any Target Bonus.

4. Employee Benefits. During the Employment Term, Executive will be entitled to participate in the employee benefit plans currently and hereafter maintained by the Company of general applicability to other senior executives of the Company and as applicable for the jurisdiction in which Executive is providing services, including any medical, dental, vision, life, flexible spending account, disability, and retirement plans, provided that Executive will be entitled to receive any statutory benefits required under applicable law. The Company reserves the right to cancel or change the benefit plans and programs it offers to its employees at any time.

5. Paid Time Off. During the Employment Term, Executive will be entitled to twenty-five (25) days of paid time off ("**PTO**"), in accordance with the Company's PTO policy, or such other period as required under applicable law. PTO shall be taken at such time as mutually and reasonably agreed by Executive and the Board and in accordance with the

Company's policies in effect from time to time for other similarly situated employees. For purposes of clarity, any PTO to which Executive is entitled by statute or other applicable law or regulation will offset and be counted against any contractual PTO provided in accordance with this Agreement and the Company's PTO policy. Executive will receive paid holidays in accordance with the Company's regular holiday practices.

6. Expenses. The Company will reimburse Executive for reasonable travel, entertainment or other expenses incurred by Executive in the furtherance of or in connection with the performance of Executive's duties hereunder, in accordance with the Company's expense reimbursement policy as in effect from time to time.

7. Severance Benefits.

(a) Qualifying Non-CIC Termination. On a Qualifying Non-CIC Termination (as defined below), the Executive will be eligible to receive the following payments and benefits from the Company, subject to Section 7(e):

(i) Salary Severance. A single, lump sum payment equal to six (6) months of the Executive's Salary (as defined below), less applicable withholdings.

(ii) Bonus Severance. A single, lump sum payment equal to 50% of the Executive's target annual bonus as in effect for the fiscal year in which the Qualifying Non-CIC Termination occurs, less applicable withholdings.

(iii) Health Insurance Coverage. Subject to Section 7(d), the Company will pay the premiums for coverage under COBRA (as defined below) for the Executive and the Executive's eligible dependents, if any, at the rates then in effect, subject to any subsequent changes in rates that are generally applicable to the Company's active employees (the "**Health Insurance Coverage**"), until the earliest of (A) a period of twelve (12) months from the date of the Executive's termination of employment, (B) the date upon which the Executive (and the Executive's eligible dependents, as applicable) becomes covered under similar plans, or (C) the date upon which the Executive ceases to be eligible for coverage under COBRA.

(b) Qualifying CIC Termination. On a Qualifying CIC Termination, the Executive will be eligible to receive the following payments and benefits from the Company, subject to Section 7(e):

(i) Salary Severance. A single, lump sum payment equal to twelve (12) months of the Executive's Salary, less applicable withholdings.

(ii) Bonus Severance. A single, lump sum payment equal to 100% of the Executive's Target Bonus as in effect for the fiscal year in which the Qualifying CIC Termination occurs, less applicable withholdings.

(iii) Health Insurance Coverage. Subject to Section 7(d), the Company will provide Health Insurance Coverage until the earliest of (A) a period of twelve (12) months

from the date of the Executive's termination of employment, (B) the date upon which the Executive (and the Executive's eligible dependents, as applicable) becomes covered under similar plans, or (C) the date upon which the Executive ceases to be eligible for coverage under COBRA.

(iv) Equity Vesting. Vesting acceleration (and exercisability, as applicable) as to 100% of the then-unvested shares subject to each of the Executive's then-outstanding Company equity awards. In the case of an equity award with performance-based vesting, unless otherwise specified in the applicable equity award agreement governing such award, all performance goals and other vesting criteria will be deemed achieved at the greater of actual performance measured as of the date of termination or 100% of target levels. For the avoidance of doubt, in the event of the Executive's Qualifying Pre-CIC Termination (as defined below), any unvested portion of the Executive's then-outstanding equity awards will remain outstanding until the earlier of (x) three (3) months following the Qualifying Termination or (y) the occurrence of a Change in Control, solely so that any benefits due on a Qualifying Pre-CIC Termination can be provided if a Change in Control occurs within three (3) months following the Qualifying Termination (provided that in no event will the Executive's stock options or similar equity awards remain outstanding beyond the equity award's maximum term to expiration). If no Change in Control occurs within three (3) months following a Qualifying Termination, any unvested portion of the Executive's equity awards automatically and permanently will be forfeited on the date that is three (3) months following the date of the Qualifying Termination without having vested.

(c) Termination Other Than a Qualifying Termination. If the termination of the Executive's employment with the Company Group is not a Qualifying Termination, then the Executive will not be entitled to receive severance or other benefits, except with respect to any statutory benefits required under applicable law.

(d) Conditions to Receipt of Health Insurance Coverage. The Executive's receipt of Health Insurance Coverage is subject to the Executive electing COBRA continuation coverage within the time period prescribed pursuant to COBRA for the Executive and the Executive's eligible dependents, if any. If the Company determines in its sole discretion that it cannot provide the Health Insurance Coverage pursuant to COBRA either (i) because COBRA is not available in the jurisdiction in which Executive is employed, or (ii) without potentially violating, or being subject to an excise tax under, applicable law (including, without limitation, Section 2716 of the Public Health Service Act), then in lieu of any Health Insurance Coverage, the Company will provide to the Executive a taxable monthly payment payable on the last day of a given month (except as provided by the immediately following sentence), in an amount equal to (A) if Health Insurance Coverage pursuant to COBRA is not available in the jurisdiction in which Executive is employed, an amount equal to the premium that was required to be paid for health coverage in effective immediately prior to Executive's termination, which will include employer and employee contributions to payment of those premiums), or (B) the monthly COBRA premium that the Executive would be required to pay to continue his or her group health coverage in effect on the date of his or her Qualifying Termination (which amount will be based on the premium rates applicable for the first month of Health Insurance Coverage for the

Executive and any of eligible dependents of the Executive) (each, a “**Health Coverage Replacement Payment**”), which Health Coverage Replacement Payments will be made regardless of whether the Executive elects COBRA continuation coverage, if applicable, and will end on the earlier of (x) the date upon which the Executive obtains other employment or (y) the date the Company has paid an amount totaling the number of Health Coverage Replacement Payments equal to the number of months in the applicable Health Insurance Coverage period. For the avoidance of doubt, the Health Insurance Replacement Payments may be used for any purpose, including, but not limited to continuation coverage under COBRA, and will be subject to any applicable withholdings as required by applicable law. Notwithstanding anything to the contrary under this Agreement, if the Company determines in its sole discretion at any time that it cannot provide the Health Insurance Replacement Payments without violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Executive will not receive the Health Insurance Replacement Payments or any further Health Insurance Coverage.

(e) Non-Duplication of Payment or Benefits. For purposes of clarity, in the event of a Qualifying Pre-CIC Termination, any severance payments and benefits to be provided to the Executive under Section 7(b) will be reduced by any amounts that already were provided to the Executive under Section 7(a). Notwithstanding any provision of this Agreement to the contrary, if the Executive is entitled to any cash severance, continued health coverage benefits, or vesting acceleration of any equity awards (other than under this Agreement) by operation of applicable law or under a plan, policy, contract, or arrangement sponsored by or to which any member of the Company Group is a party, including, but not limited to, Statutory Severance Benefits (collectively, “**Other Benefits**”), then the corresponding severance payments and benefits under this Agreement will be reduced by the amount of Other Benefits paid or provided to the Executive.

(f) Death of the Executive. In the event of the Executive’s death before all payments or benefits the Executive is entitled to receive under this Agreement have been provided, the unpaid amounts will be provided to the Executive’s designated beneficiary, if living, or otherwise to the Executive’s personal representative in a single lump sum as soon as possible following the Executive’s death.

(g) Transfer Between Members of the Company Group. For purposes of this Agreement, if the Executive is involuntarily transferred from one member of the Company Group to another, the transfer will not be a termination without Cause but may give the Executive the ability to resign for Good Reason.

(h) Exclusive Remedy. In the event of a termination of the Executive’s employment with the Company Group, the provisions of this Agreement are intended to be and are exclusive and in lieu of any other rights or remedies to which the Executive may otherwise be entitled, whether at law, tort or contract, or in equity. The Executive will be entitled to no benefits, compensation or other payments or rights upon termination of employment other than those benefits expressly set forth in this Agreement.

(i) Statutory Severance. In the event that Executive becomes eligible to receive statutory severance payments or benefits required under applicable law (“**Statutory Severance Benefits**”), such Statutory Severance Benefits will be provided to Executive in accordance with applicable law.

8. Accrued Compensation. On any termination of the Executive’s employment with the Company Group, the Executive will be entitled to receive all accrued but unpaid vacation, expense reimbursements, wages, and other benefits due to the Executive under any Company-provided plans, policies, and arrangements in accordance with applicable law.

9. Conditions to Receipt of Severance.

(a) Separation Agreement and Release of Claims. The Executive’s receipt of any severance payments or benefits upon the Executive’s Qualifying Termination under Section 7 is subject to the Executive signing and not revoking the Company’s then-standard separation agreement and release of claims (which may include an agreement not to disparage any member of the Company Group, non-solicit provisions, an agreement to assist in any litigation matters, and other standard terms and conditions) (the “**Release**”), which must become effective and irrevocable no later than the 60th day following the Executive’s Qualifying Termination (the “**Release Deadline**”). If the Release does not become effective and irrevocable by the Release Deadline, the Executive will forfeit any right to severance payments or benefits under Section 7.

(b) Payment Timing. Any lump sum Salary or bonus payments under Sections 7(a)(i), 7(a)(ii), 7(b)(i), and 7(b)(ii) will be provided on the first regularly scheduled payroll date of the Company following the date the Release becomes effective and irrevocable (the “**Severance Start Date**”), subject to any delay required by Section 9(d) below. Any restricted stock units, performance shares, performance units, and/or similar full value awards that accelerate vesting under Section 7(b)(iv) will be settled (x) on a date no later than ten (10) days following the date the Release becomes effective and irrevocable, or (y) if later, in the event of a Qualifying Pre-CIC Termination, on a date no later than the Change in Control.

(c) Return of Company Property. The Executive’s receipt of any severance payments or benefits upon the Executive’s Qualifying Termination under Section 7 is subject to the Executive returning all documents and other property provided to the Executive by any member of the Company Group (with the exception of a copy of the Company employee handbook and personnel documents specifically relating to the Executive), developed or obtained by the Executive in connection with his employment with the Company Group, or otherwise belonging to the Company Group.

(d) Section 409A. The Company intends that all payments and benefits provided under this Agreement or otherwise are exempt from, or comply with, the requirements of Section 409A of the Code and any guidance promulgated under Section 409A of the Code (collectively, “**Section 409A**”) so that none of the payments or benefits will be subject to the additional tax imposed under Section 409A, and any ambiguities in this Agreement will be interpreted in accordance with this intent. No payment or benefits to be paid to the Executive, if any, under this Agreement or otherwise, when considered together with any other severance

payments or separation benefits that are considered deferred compensation under Section 409A (together, the “**Deferred Payments**”) will be paid or otherwise provided until the Executive has a “separation from service” within the meaning of Section 409A. If, at the time of the Executive’s termination of employment, the Executive is a “specified employee” within the meaning of Section 409A, then the payment of the Deferred Payments will be delayed to the extent necessary to avoid the imposition of the additional tax imposed under Section 409A, which generally means that the Executive will receive payment on the first payroll date that occurs on or after the date that is 6 months and 1 day following the Executive’s termination of employment. The Company reserves the right to amend this Agreement as it considers necessary or advisable, in their sole discretion and without the consent of the Executive or any other individual, to comply with any provision required to avoid the imposition of the additional tax imposed under Section 409A or to otherwise avoid income recognition under Section 409A prior to the actual payment of any benefits or imposition of any additional tax. Each payment, installment, and benefit payable under this Agreement is intended to constitute a separate payment for purposes of U.S. Treasury Regulation Section 1.409A-2(b)(2). In no event will any member of the Company Group reimburse, indemnify, or hold harmless the Executive for any taxes, penalties and interest that may be imposed, or other costs that may be incurred, as a result of Section 409A.

(e) Resignation of Officer and Director Positions. The Executive’s receipt of any severance payments or benefits upon the Executive’s Qualifying Termination under Section 7 is subject to the Executive resigning from all officer and director positions with all members of the Company Group and the Executive executing any documents the Company may require in connection with the same.

10. Limitation on Payments.

(a) Reduction of Severance Benefits. If any payment or benefit that the Executive would receive from any Company Group member or any other party whether in connection with the provisions in this Agreement or otherwise (the “**Payment**”) would (i) constitute a “parachute payment” within the meaning of Section 280G of the Code and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then the Payment will be equal to the Best Results Amount. The “**Best Results Amount**” will be either (x) the full amount of the Payment or (y) a lesser amount that would result in no portion of the Payment being subject to the Excise Tax, whichever of those amounts, taking into account the applicable federal, state and local employment taxes, income taxes and the Excise Tax, results in the Executive’s receipt, on an after-tax basis, of the greater amount. If a reduction in payments or benefits constituting parachute payments is necessary so that the Payment equals the Best Results Amount, reduction will occur in the following order: (A) reduction of cash payments in reverse chronological order (that is, the cash payment owed on the latest date following the occurrence of the event triggering the excise tax will be the first cash payment to be reduced); (B) cancellation of equity awards that were granted “contingent on a change in ownership or control” within the meaning of Section 280G of the Code in the reverse order of date of grant of the awards (that is, the most recently granted equity awards will be cancelled first); (C) reduction of the accelerated vesting of equity awards in the reverse order of date of

grant of the awards (that is, the vesting of the most recently granted equity awards will be cancelled first); and (D) reduction of employee benefits in reverse chronological order (that is, the benefit owed on the latest date following the occurrence of the event triggering the excise tax will be the first benefit to be reduced). In no event will the Executive have any discretion with respect to the ordering of Payment reductions. The Executive will be solely responsible for the payment of all personal tax liability that is incurred as a result of the payments and benefits received under this Agreement, and the Executive will not be reimbursed, indemnified, or held harmless by any member of the Company Group for any of those payments of personal tax liability.

(b) Determination of Excise Tax Liability. Unless the Company and the Executive otherwise agree in writing, the Company will select a professional services firm (the “**Firm**”) to make all determinations required under this Section 10, which determinations will be conclusive and binding upon the Executive and the Company for all purposes. For purposes of making the calculations required by this Section 10, the Firm may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Executive will furnish to the Firm such information and documents as the Firm reasonably may request in order to make determinations under this Section 10. The Company will bear the costs and make all payments for the Firm’s services in connection with any calculations contemplated by this Section 10. The Company will have no liability to the Executive for the determinations of the Firm.

11. Definitions. The following terms referred to in this Agreement will have the following meanings:

(a) “**Board**” means the Parent’s Board of Directors.

(b) “**Cause**” means the occurrence of any of the following: (i) any willful, material violation by the Executive of any law or regulation applicable to the business of any Company Group member, the Executive’s conviction for, or plea of guilty or no contest to, a felony or a crime involving moral turpitude, or any willful perpetration by the Executive of a common law fraud, (ii) the Executive’s commission of an act of personal dishonesty which involves personal profit in connection with any Company Group member or any other entity having a business relationship with any Company Group member; (iii) any material breach by the Executive of any provision of any agreement or understanding between any Company Group member and the Executive regarding the terms of the Executive’s service as an employee, officer, director or consultant to any Company Group member, including without limitation, the willful and continued failure or refusal of the Executive to perform the material duties required of the Executive as an employee, officer, director or consultant of any Company Group member, other than as a result of having a Disability, or a breach of any applicable invention assignment and confidentiality agreement or similar agreement between any Company Group member and the Executive, (iv) the Executive’s disregard of the policies of any Company Group member so as to cause loss, damage or injury to the property, reputation or employees of any Company Group member, or (v) any other misconduct by the Executive which is materially injurious to the

financial condition or business reputation of, or is otherwise materially injurious to, any Company Group member.

(c) **“Change in Control”** means the occurrence of any of the following events:

(i) A change in the ownership of the Parent which occurs on the date that any one person, or more than one person acting as a group (“**Person**”), acquires ownership of shares in the capital of the Parent that, together with the shares held by such Person, constitutes more than 50% of the total voting power in the Parent; provided, however, that for purposes of this subsection, (A) the acquisition of additional shares by any one Person, who is considered to own more than 50% of the total voting power in the Parent will not be considered a Change in Control, and (B) if the shareholders of the Parent immediately before such change in ownership continue to retain immediately after the change in ownership, in substantially the same proportions as their ownership of shares in the capital of the Parent immediately prior to the change in ownership, the direct or indirect beneficial ownership of 50% or more of the total voting power in the Parent or of the ultimate parent entity of the Parent, such event will not be considered a Change in Control under this subsection (i). For this purpose, indirect beneficial ownership will include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Parent, as the case may be, either directly or through one or more subsidiary corporations or other business entities; or

(ii) A change in the effective control of the Parent which occurs on the date that a majority of members of the Board is replaced during any 12 month period by members of the Board whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this subsection (ii), if any Person is considered to be in effective control of the Parent, the acquisition of additional control of the Parent by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Parent’s assets which occurs on the date that any Person acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Parent that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Parent immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Parent’s assets: (A) a transfer to an entity that is controlled by the Parent’s shareholders immediately after the transfer, or (B) a transfer of assets by the Parent to: (1) a shareholder of the Parent (immediately before the asset transfer) in exchange for or with respect to the shares in the Parent’s share capital, (2) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Parent, (3) a Person, that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding shares in the capital of the Parent, or (4) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a Person described in

this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Parent, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar capital reorganization or business combination transaction with the Parent.

Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Section 409A.

Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the jurisdiction of the Parent's incorporation, (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Parent's securities immediately before such transaction, or (iii) its sole purpose is to effect a private financing of the Parent through a change in the ownership of the stock of the Parent that is approved by the Board.

(d) **"Change in Control Period"** means the period beginning three (3) months prior to a Change in Control and ending twelve (12) months following a Change in Control.

(e) **"COBRA"** means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

(f) **"Code"** means the Internal Revenue Code of 1986, as amended.

(g) **"Company Group"** means the Parent and its subsidiaries, including, for the avoidance of doubt, the Company.

(h) **"Confidentiality Agreement"** means the Company's Confidential Information and Invention Assignment Agreement for employees located in California.

(i) **"Disability"** means a total and permanent disability as defined in Section 22(e)(3) of the Code.

(j) **"Good Reason"** means the termination of the Executive's employment with the Company Group by the Executive in accordance with the next sentence after the occurrence of one or more of the following events without the Executive's express written consent: (i) a material reduction of the Executive's duties, authorities, or responsibilities relative to the Executive's duties, authorities, or responsibilities in effect immediately prior to the reduction; provided, however, that continued employment following a Change in Control with substantially the same duties, authorities, or responsibilities with respect to the Company Group's business and operations will not constitute "Good Reason" (for example, "Good

Reason” does not exist if the Executive is employed by the Company Group or a successor with substantially the same duties, authorities, or responsibilities with respect to the Company Group’s business that the Executive had immediately prior to the Change in Control regardless of whether the Executive’s title is revised to reflect the Executive’s placement within the overall corporate hierarchy or whether the Executive provides services to a subsidiary, affiliate, business unit or otherwise); (ii) a reduction by a Company Group member in the Executive’s rate of annual base salary by more than 10%; provided, however, that, a reduction of annual base salary that also applies to substantially all other similarly situated employees of the Company Group members will not constitute “Good Reason”; (iii) a material change in the geographic location of the Executive’s primary work facility or location by more than thirty-five (35) miles from the Executive’s then present location; provided, that a relocation to a location that is within thirty-five (35) miles from the Executive’s then-present primary residence will not be considered a material change in geographic location, or (iv) failure of a successor corporation to assume the obligations under this Agreement as contemplated by Section 12. In order for the termination of the Executive’s employment with a Company Group member to be for Good Reason, the Executive must not terminate employment without first providing written notice to the Company of the acts or omissions constituting the grounds for “Good Reason” within sixty (60) days of the initial existence of the grounds for “Good Reason” and a cure period of 30 days following the date of written notice (the “**Cure Period**”), the grounds must not have been cured during that time, and the Executive must terminate the Executive’s employment within thirty (30) days following the Cure Period.

(k) “**Qualifying Termination**” means a termination of the Executive’s employment either (i) by a Company Group member without Cause (excluding by reason of Executive’s death or Disability) or (ii) by the Executive for Good Reason, in either case, during the Change in Control Period (a “**Qualifying CIC Termination**”) or outside of the Change in Control Period (a “**Qualifying Non-CIC Termination**”).

(l) “**Qualifying Pre-CIC Termination**” means a Qualifying CIC Termination that occurs prior to the date of the Change in Control.

(m) “**Salary**” means the Executive’s annual base salary as in effect immediately prior to the Executive’s Qualifying Termination (or if the termination is due to a resignation for Good Reason based on a material reduction in base salary, then the Executive’s annual base salary in effect immediately prior to the reduction) or, if the Executive’s Qualifying Termination is a Qualifying CIC Termination and the amount is greater, at the level in effect immediately prior to the Change in Control.

12. Successors. This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors, and legal representatives of the Executive upon the Executive’s death, and (b) any successor of the Company. Any such successor of the Company will be deemed substituted for the Company under the terms of this Agreement for all purposes. For this purpose, “successor” means any person, firm, corporation, or other business entity which at any time, whether by purchase, merger, or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company. None of the rights of the Executive to

receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance, or other disposition of the Executive's right to compensation or other benefits will be null and void.

13. Notice.

(a) General. All notices and other communications required or permitted under this Agreement shall be in writing and will be effectively given (i) upon actual delivery to the party to be notified, (ii) upon transmission by email, (iii) 24 hours after confirmed facsimile transmission, (iv) 1 business day after deposit with a recognized overnight courier, or (v) 3 business days after deposit with the U.S. Postal Service by first class certified or registered mail, return receipt requested, postage prepaid, addressed (A) if to the Executive, at the address the Executive shall have most recently furnished to the Company in writing, (B) if to the Company, at the following address:

Elasticsearch, Inc.
800 West El Camino Real, Suite 350
Mountain View, CA 94040
Attention: Senior Vice President, Global Human Resources

(b) Notice of Termination. Any termination by a Company Group member for Cause will be communicated by a notice of termination to the Executive, and any termination by the Executive for Good Reason will be communicated by a notice of termination to the Company, in each case given in accordance with Section 13(a) of this Agreement. The notice will indicate the specific termination provision in this Agreement relied upon, will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and will specify the termination date (which will be not more than thirty (30) days after the later of (i) the giving of the notice or (ii) the end of any applicable cure period).

14. Resignation. The termination of the Executive's employment for any reason will also constitute, without any further required action by the Executive, the Executive's voluntary resignation from all officer and/or director positions held at any member of the Company Group, and at the Board's request, the Executive will execute any documents reasonably necessary to reflect the resignations.

15. Confidential Information. Executive agrees to enter into the Confidentiality Agreement on or promptly following executing this Agreement. Further, Executive and the Parent entered into the Assignment of Technology Agreement dated September 3, 2012 (the "**Assignment Agreement**"), which will continue in full force and effect.

16. Protected Activity Not Prohibited. Executive understands that nothing in this Agreement, or any other agreement or policy with or by the Company, will in any way limit or prohibit Executive from engaging in any Protected Activity. For purposes of this Agreement, "**Protected Activity**" will mean filing a charge, complaint, or report with, or otherwise

communicating, cooperating, or participating in any investigation or proceeding that may be conducted by, any federal, state or local government agency or commission, including the Securities and Exchange Commission, the Equal Employment Opportunity Commission, the Occupational Safety and Health Administration, and the National Labor Relations Board (“**Government Agencies**”). Executive understands that in connection with such Protected Activity, Executive is permitted to disclose documents or other information as permitted by law, and without giving notice to, or receiving authorization from, the Company. Notwithstanding the foregoing, Executive agrees to take all reasonable precautions to prevent any unauthorized use or disclosure of any information that may constitute Company confidential information under the Confidentiality Agreement to any parties other than the Government Agencies. Executive further understands that “**Protected Activity**” does not include the disclosure of any Company attorney-client privileged communications. Any language in the Confidentiality Agreement, or any other agreement or policy of the Company, regarding Executive’s right to engage in Protected Activity that conflicts with, or is contrary to, this paragraph is superseded by this provision. In addition, pursuant to the Defend Trade Secrets Act of 2016, Executive is notified that an individual will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (a) is made in confidence to a federal, state, or local government official (directly or indirectly) or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, or (b) is made in a complaint or other document filed in a lawsuit or other proceeding, if (and only if) such filing is made under seal. In addition, an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the individual’s attorney and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.

17. Miscellaneous Provisions.

(a) No Duty to Mitigate. The Executive will not be required to mitigate the amount of any payment contemplated by this Agreement, nor will any payment be reduced by any earnings that the Executive may receive from any other source except as specified in Section 7(e).

(b) Waiver; Amendment. No provision of this Agreement will be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by an authorized officer of the Company (other than the Executive) and by the Executive. No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party will be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Headings. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

(d) Entire Agreement. This Agreement, the Assignment Agreement, and the Confidentiality Agreement constitute the entire agreement of the parties and supersedes in their entirety all prior representations, understandings, undertakings or agreements (whether oral or written and whether expressed or implied) of the parties with respect to the subject matter of this

Agreement, including, for the avoidance of doubt, any other employment letter or agreement, severance policy or program, or equity award agreement.

(e) Choice of Law. This Agreement will be governed by the laws of the State of California without regard to California's conflicts of law rules that may result in the application of the laws of any jurisdiction other than California. To the extent that any lawsuit is permitted under this Agreement, Executive hereby expressly consents to the personal and exclusive jurisdiction and venue of the state and federal courts located in California for any lawsuit filed against the Executive by the Company. In the event Executive becomes employed by a member of the Company Group and is primarily providing services hereunder in a jurisdiction other than California, then the laws and venue of that jurisdiction will apply for purposes of this Agreement.

(f) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement will not affect the validity or enforceability of any other provision of this Agreement, which will remain in full force and effect.

(g) Taxation. All payments made pursuant to this Agreement will be subject to withholding of any applicable taxes. Executive acknowledges that he has reviewed with his own tax advisors the federal, state, local and foreign tax consequences of payments and transactions described in this Agreement, and he is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Executive understands that Executive (and not the Company or any other member of the Company Group) shall be responsible for any tax liability (other than employment tax liability owed by the Company or any other member of the Company Group) that may arise as a result of the payments and transactions contemplated by this Agreement.

(h) Acknowledgment. Executive acknowledges that he has had the opportunity to discuss this matter with and obtain advice from his private attorney, has had sufficient time to, and has carefully read and fully understands all the provisions of this Agreement, and is knowingly and voluntarily entering into this Agreement.

(i) Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year first above written.

COMPANY:

Elasticsearch, Inc.

By: /s/ Leah Sutton Date: February 24, 2021

Title: SVP, Global Human Resources

EXECUTIVE:

/s/ Shay Banon Date: February 23, 2021

Shay Banon

**[SIGNATURE PAGE TO BANON AMENDED AND RESTATED
EMPLOYMENT AGREEMENT]**

Name: Shay Banon
Title: Chief Executive Officer and Chairman
(Principal Executive Officer)

**Certification by the Principal Financial Officer pursuant to
Securities Exchange Act Rules 13a-14(a) and 15d-14(a)
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Janesh Moorjani, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Elastic N.V. (the “registrant”) for the fiscal quarter ended January 31, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 3, 2021

By: /s/ Janesh Moorjani

Name: Janesh Moorjani

Title: Chief Financial Officer

(Principal Financial and Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Shay Banon, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Elastic N.V. for the fiscal quarter ended January 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Elastic N.V.

Date: March 3, 2021

By:	<u>/s/ Shay Banon</u>
Name:	Shay Banon
Title:	Chief Executive Officer and Chairman <i>(Principal Executive Officer)</i>

This certification accompanies the Quarterly Report, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Elastic N.V. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Janesh Moorjani, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Elastic N.V. for the fiscal quarter ended January 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Elastic N.V.

Date: March 3, 2021

By:	<u>/s/ Janesh Moorjani</u>
Name:	Janesh Moorjani
Title:	Chief Financial Officer <i>(Principal Financial and Accounting Officer)</i>

This certification accompanies the Quarterly Report, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Elastic N.V. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.