# Corporate Overview and Q1FY24 Financial Results

August 31, 2023

# Forward Looking Statements and Non-GAAP Disclaimer

This presentation and the accompanying oral presentation contain forward-looking statements that involve substantial risks and uncertainties, which include, but are not limited to, statements regarding our expected financial results for the fiscal quarter ending October 31, 2023 and the fiscal year ending April 30, 2024, our strategic areas of focus, expectations and plans regarding our future growth, our go-to-market and growth strategies and the effectiveness of such strategies, assessments of our strategic partnerships, the expected performance or benefits of our offerings, our assessments of our competitive advantages, the strength of and demand for our solutions and products, and growth opportunities, and our ability to address those opportunities. Actual outcomes and results may differ materially from those contemplated by these forward-looking statements due to uncertainties, risks, and changes in circumstances, including but not limited to those related to: 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 develop new offerings (including innovations around AI use cases); customer acceptance and purchase of our new and existing offerings; the expansion and adoption of our Elastic Cloud offerings; our ability to realize value from investments in the business; our ability to maintain and expand our user and customer base; the impact of the uncertain macroeconomic environment and ongoing conflict between Russia and Ukraine on our business, operations, hiring and financial results, and on businesses and spending priorities of our customers and partners; bank failures; the impact of our pricing model strategies on our business; the impact of foreign currency exchange rate fluctuations and the uncertain inflation and interest rate environment on our results; our international expansion strategy; our operating results and cash flows; the sufficiency of our capital resources; our ability to successfully execute our go-to-market strategy, our forecasts regarding our business; and general market, political, economic and business conditions.

Any additional or unforeseen effect from the uncertain macroeconomic environment or ongoing conflict between Russia and Ukraine may exacerbate these risks. Additional risks and uncertainties that could cause actual outcomes and results to differ materially are included in our filings with the Securities and Exchange Commission (the “SEC”), including our Annual Report on Form 10-K for the fiscal year ended April 30, 2023 and subsequent reports filed with the SEC. SEC filings are available on the Investor Relations section of Elastic’s website at ir.elastic.co and the SEC’s website at www.sec.gov. Elastic assumes no obligation to, and does not currently intend to, update any such forward-looking statements, except as required by law.

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# We live in a world **powered by data**





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# But the **Mountain of Data** is Enormous

# People can’t find **what they’re looking for**

480EB

1 EB = 1000 PB = 1,000,000 TB

Data produced
daily by 2025

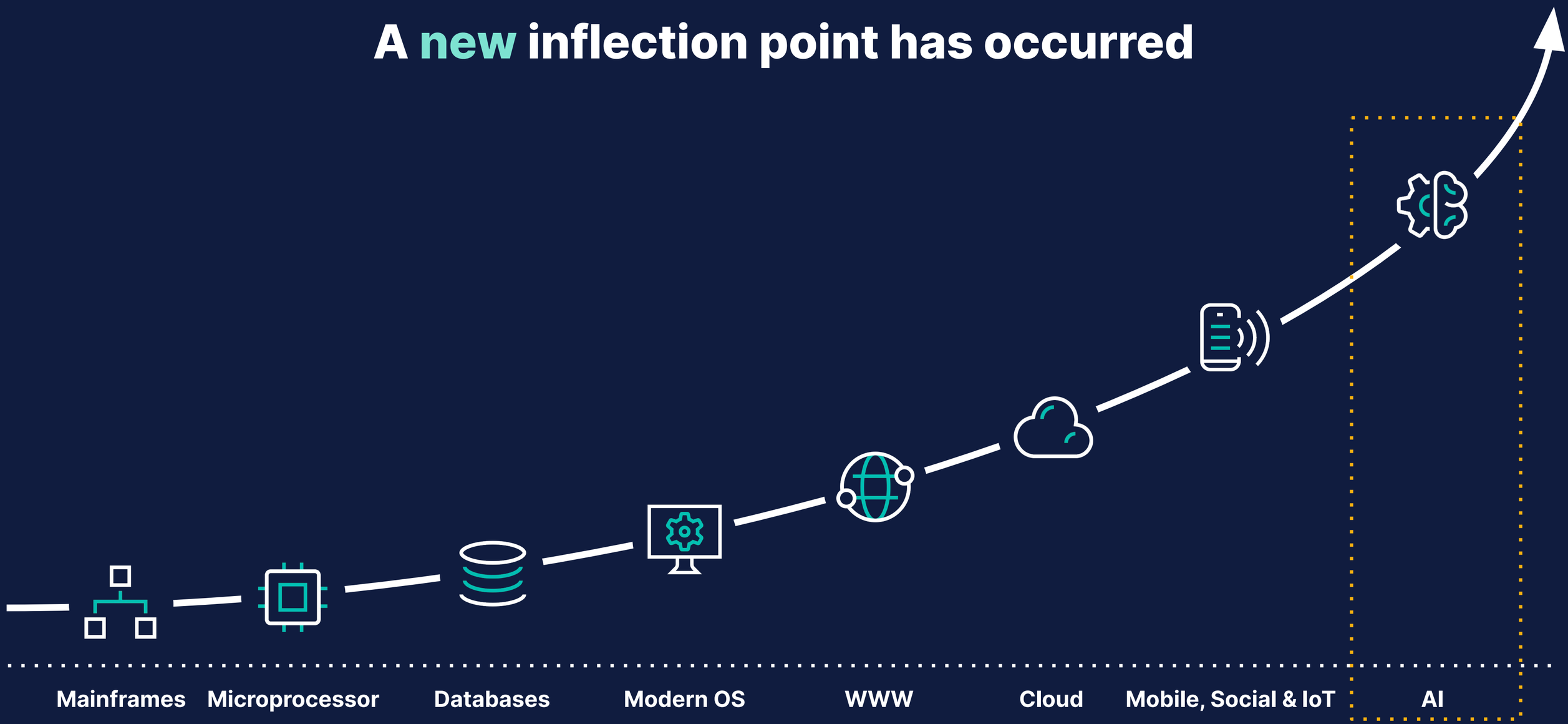



*Source: IDC Global DataSphere and StorageSphere Forecasts



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# A new inflection point has occurred






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# Generative AI will disrupt every business

**100M**

## Chat GPT growth

User adoption in less than 2 months

**300M**

## Jobs automated

Forecasted impact of Generative AI*

**$10^n$**

## Technology shifts

Personalization, automation & productivity

*Source: Goldman Sachs Economics Research, March 2023



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# Search is critical for Generative AI



**Relevance & natural language understanding**

Search is at the forefront of latest advancements



**Optimized to scale large data volumes**

Search delivers results with speed and at a lower cost



**Foundational framework for AI apps**

Search is an investment in harvesting data and building for the future



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# Generative AI is revolutionizing search



## Excels at human-like, iterative content creation

Natural language processing of large data sets used for creating human-like conversations, writing content, and providing code examples

## Limited by public training data, generic context

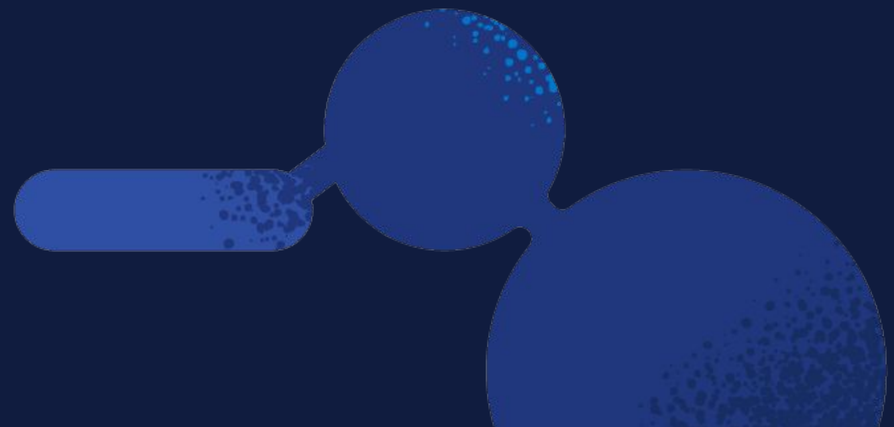
It’s only as good and as up-to-date as the data it was trained on. It can hallucinate (confident-sounding but erroneous output) especially when asked domain-specific questions

Elastic enables everyone to find the answers that matter.

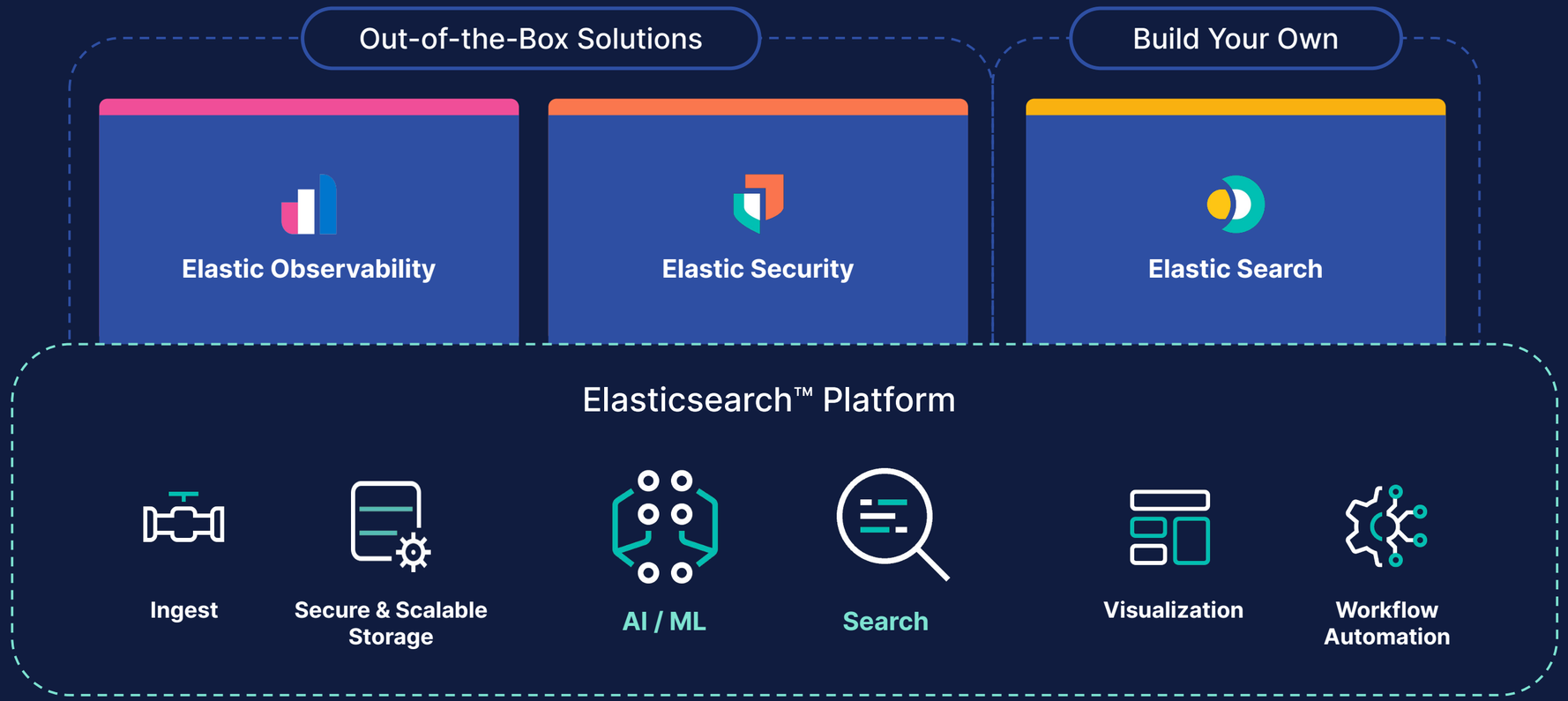
# From all data.

# In real time.

# At scale.



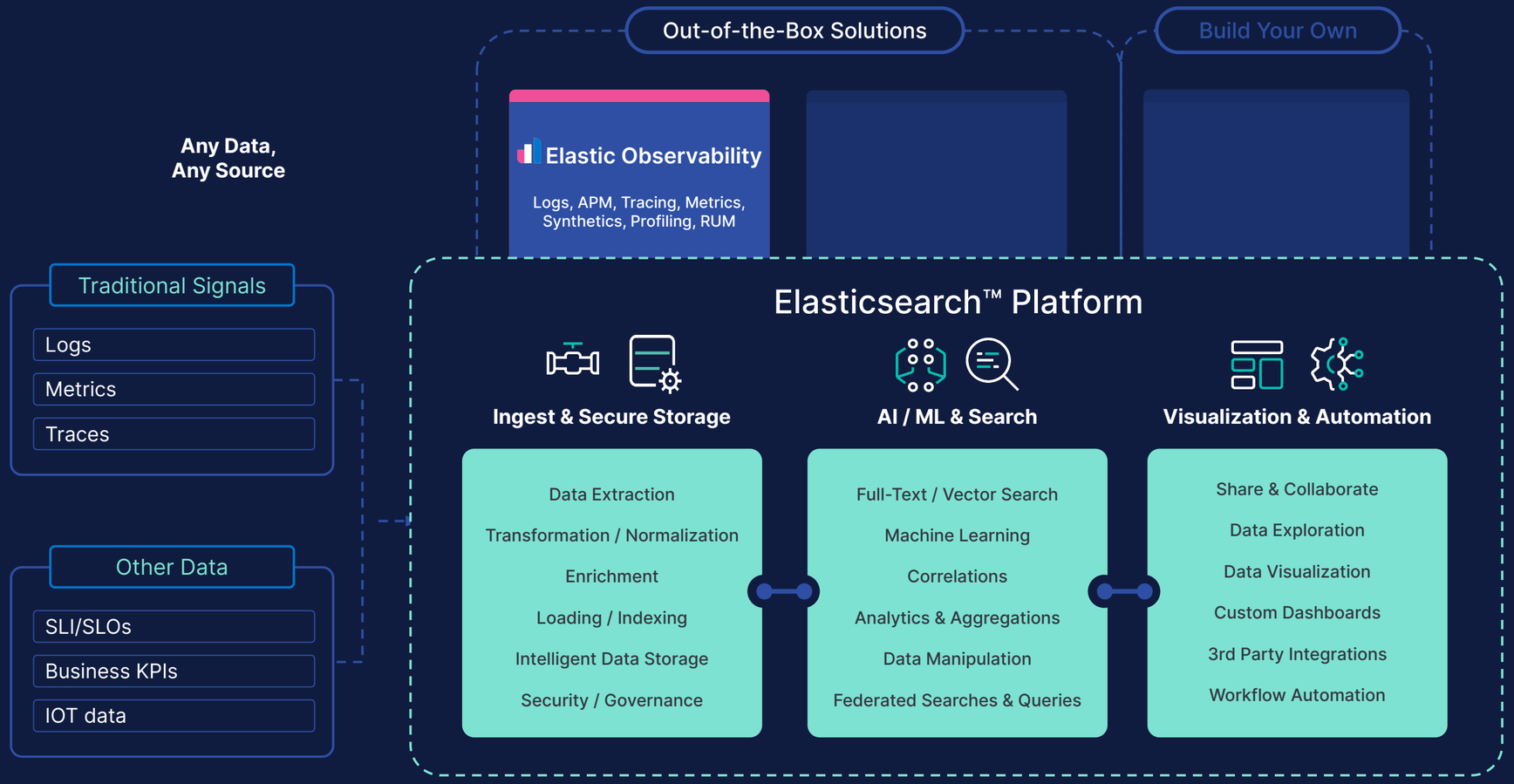
# Meet Elastic






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# A Comprehensive Observability Solution



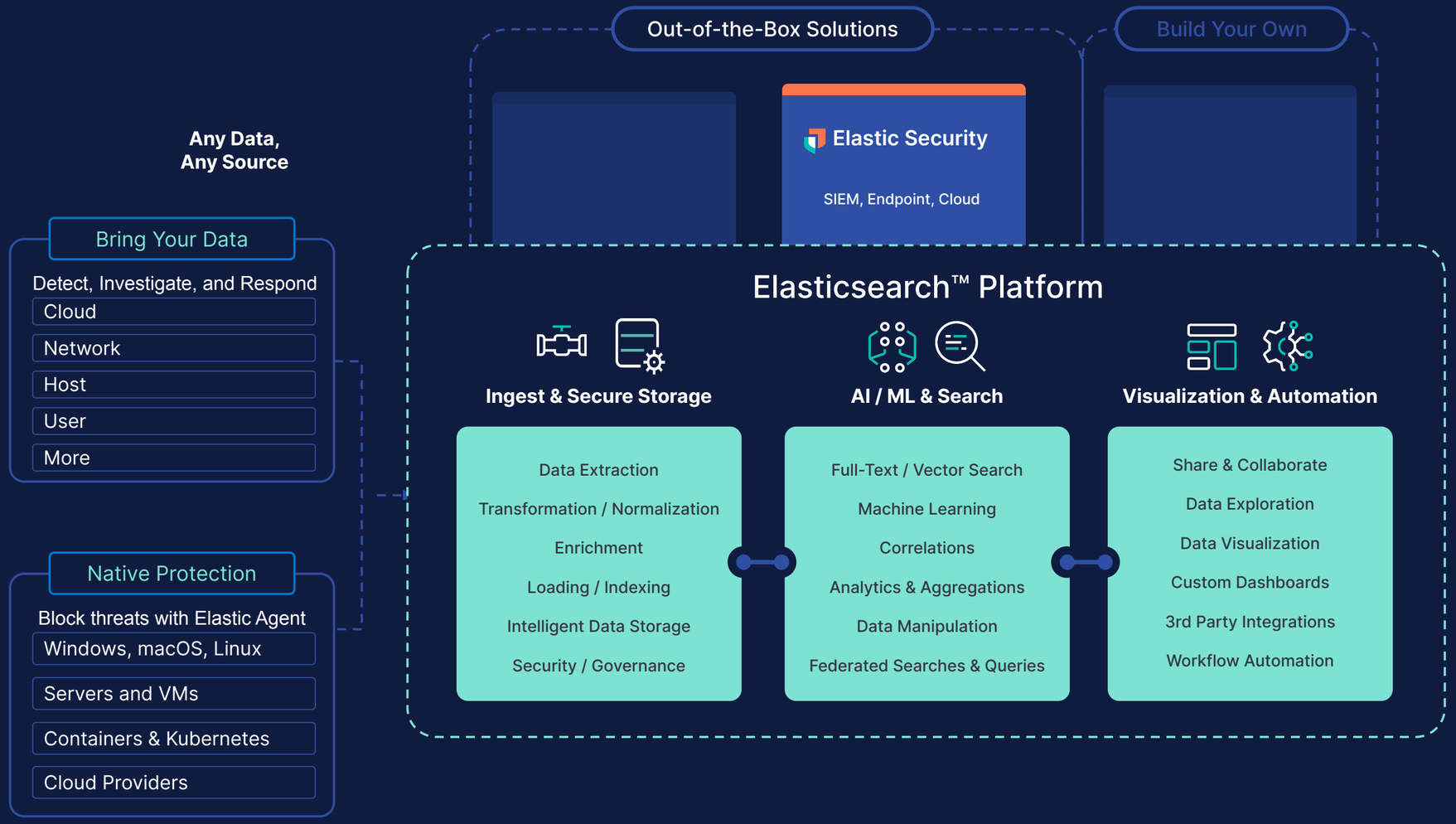

## WHY CUSTOMERS CHOOSE ELASTIC OBSERVABILITY

COMCAST

+ Ingests 400 terabytes of telemetry data per day with Elastic Observability
+ Provides a single view across infrastructure, monitoring changes including more than 50,000 software builds a day
+ “Elastic provides us with the essential feedback that enables our engineers to iterate faster and increase the speed of innovation”

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# A Comprehensive Security Solution




## WHY CUSTOMERS CHOOSE ELASTIC SECURITY

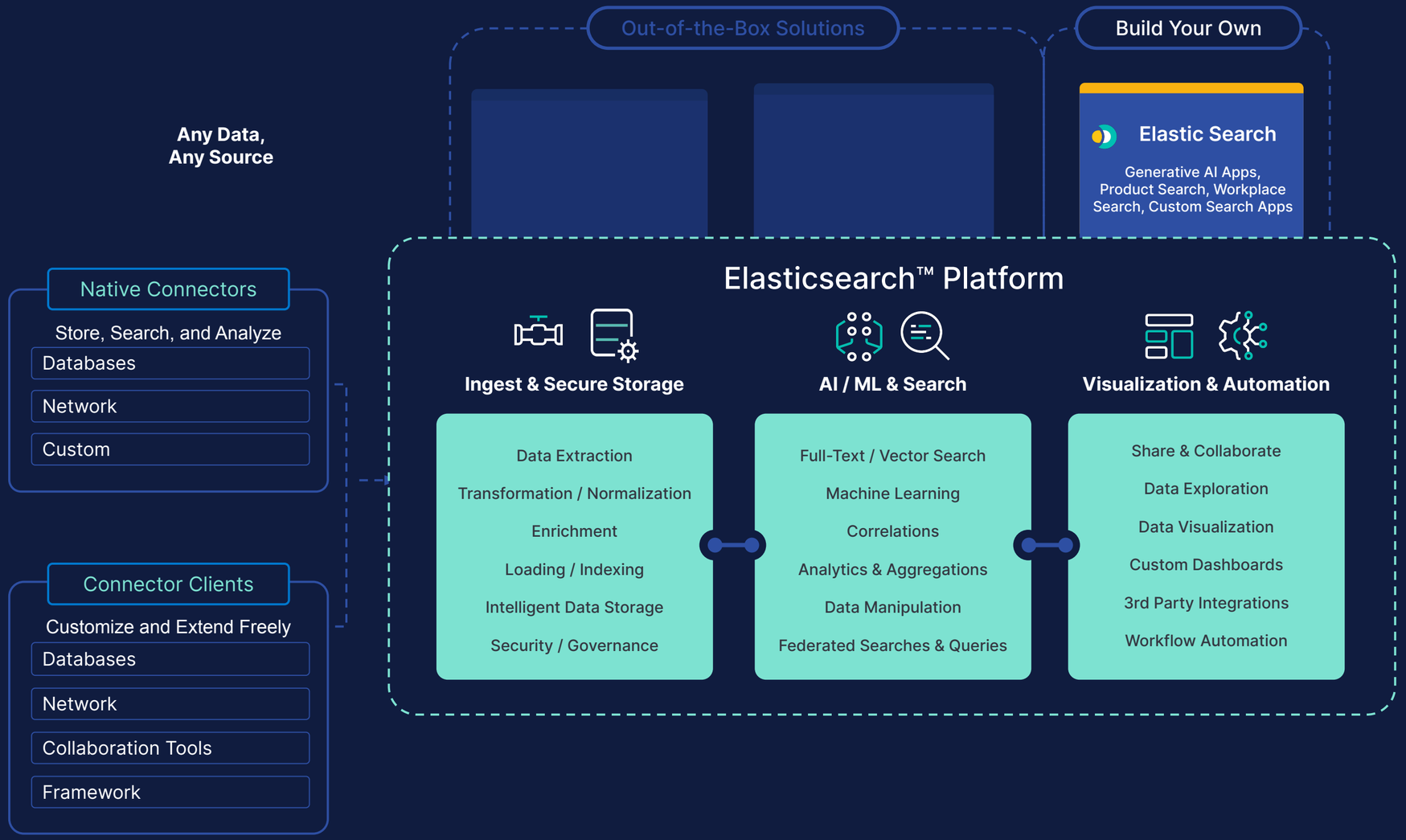
orange™ Business Services

+ Over 1,000 pieces of internal network equipment and multiple security data silos
+ Chose Elastic for the ability to ingest all their security data, standardize it, and automatically detect threats
+ Now they can concentrate all their security workflows into a single solution - reducing MTTX



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# The Flexibility to Build Your Own Solution




## WHY CUSTOMERS CHOOSE ELASTICSEARCH

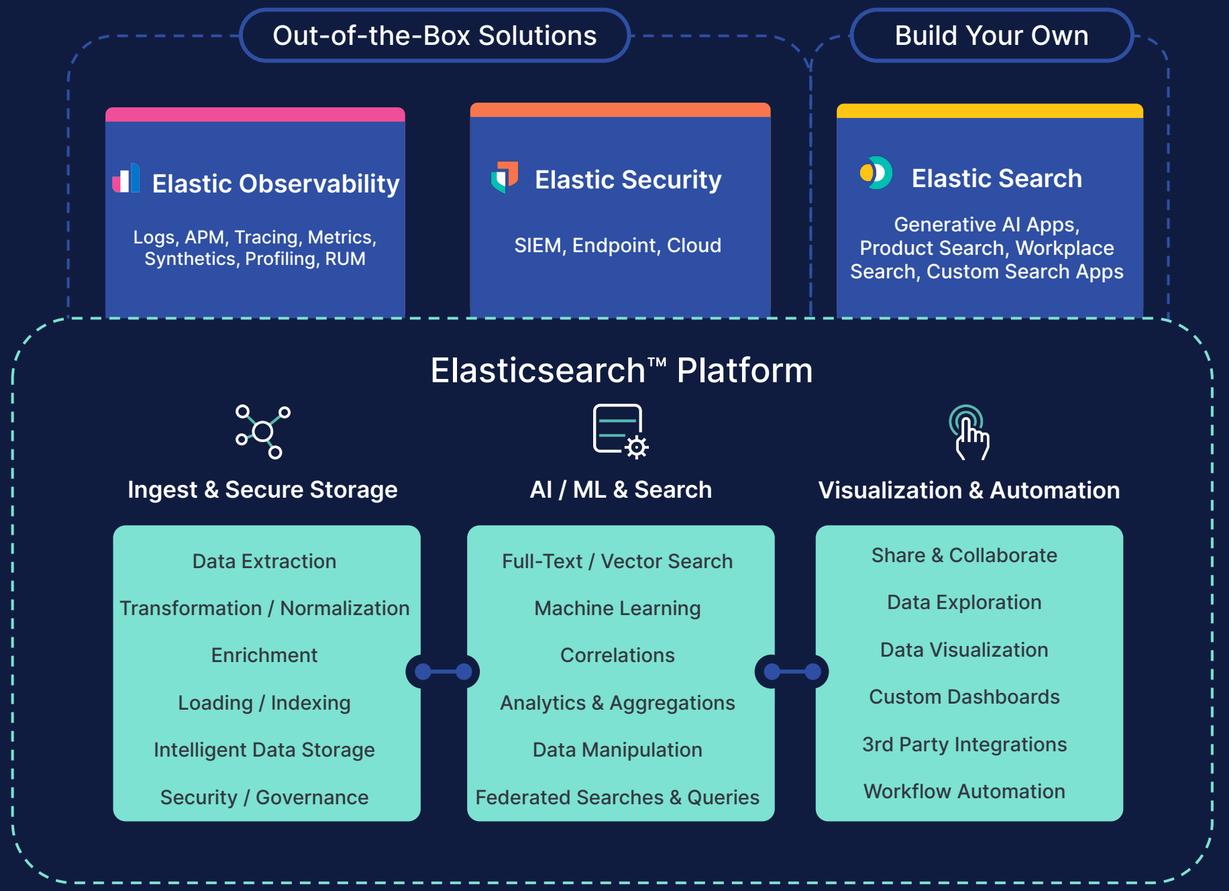
+ Customers worldwide searching across millions of unique permutations of car configurations
+ Chose Elastic for the ability to deliver a centralized, searchable repository, tailored to different sales channels, markets, and audiences
+ Now they can drive increased revenue across the globe

# The Speed, Scale, and Flexibility of the Platform

## WHY CUSTOMERS CHOOSE THE ELASTICSEARCH PLATFORM

**Booking.com**

+ One of the world's leading digital travel companies, ingesting 100 terabytes of data per day to support customers
+ Chose Elastic to tackle the challenges of unparalleled growth, complexity, and scale with Elastic Security, Search, and Observability on Elastic Cloud
+ Now they can minimize risk and fraud while reducing the chance of damage to the reputation of the Booking.com brand

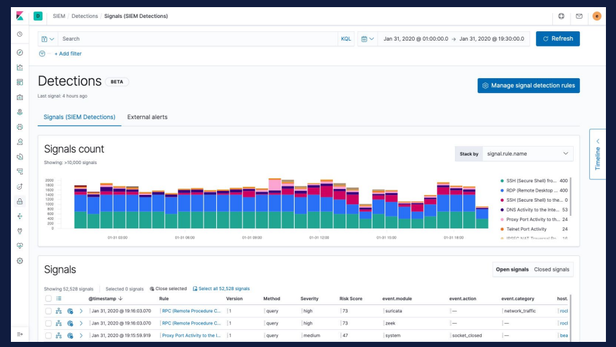





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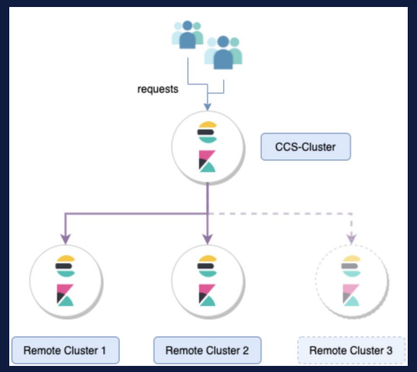
# The Performance Today's Organizations Need to Win

## Speed



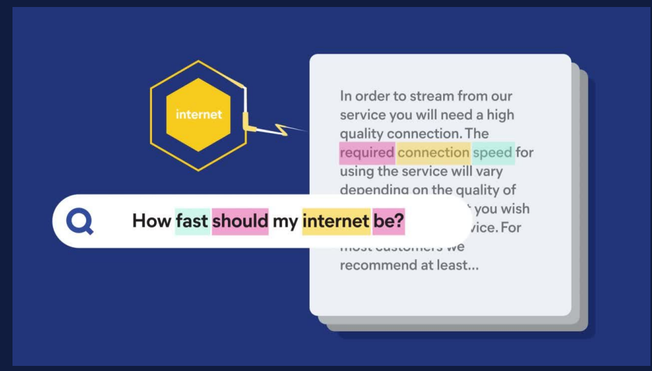

Millisecond Response Times across Solutions

## Scale




Multi-Petabyte Scale Across Environments

## Relevance




AI Powered Relevance Engine - ESRE



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# Years of ML & AI Expertise



Foundational technical building blocks within the Elastic Stack

**2018**

Support for supervised and unsupervised learning

**2021**

Bring your own transformer models (e.g. Hugging Face, or proprietary)

**2022**

Native support for vector search and embedding creation

**2023+**

Support for domain- specific generative AI models



AI-powered features that enhance our solutions

**2018**

Support for forecasting in Observability

**2019**

Support for anomaly detection and AIOps

**2022**

Support for ML-powered detection rules in Security

**2023+**

Support for GAI-powered security playbooks and O11y runbooks



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# Foundational AI tools — why Elastic?

## Advantages of Machine Learning with Elastic



### Comprehensive

**Vector Search**
HNSW, Approximate Nearest Neighbors (ANN)

**Transformer Models & NLP**
Embedding, Sentiment, Named Entity Recognition,  Zero Shot recall

**Supervised & Unsupervised**
Classification, Regression, Anomaly Detection, and Clustering



### Enterprise Scale

**Automate and Manage**
ML APIs , Data Frames, Inference Pipeline, Model Management, Visualization

**Scale Up**
Cloud Infrastructure, Auto Scaling, Model Optimization, Cost Management & Optimization



### Fast Time to Value

**Custom**
Code: Train, engineer and deploy model

**Guided**
Low Code: Start quickly and customize

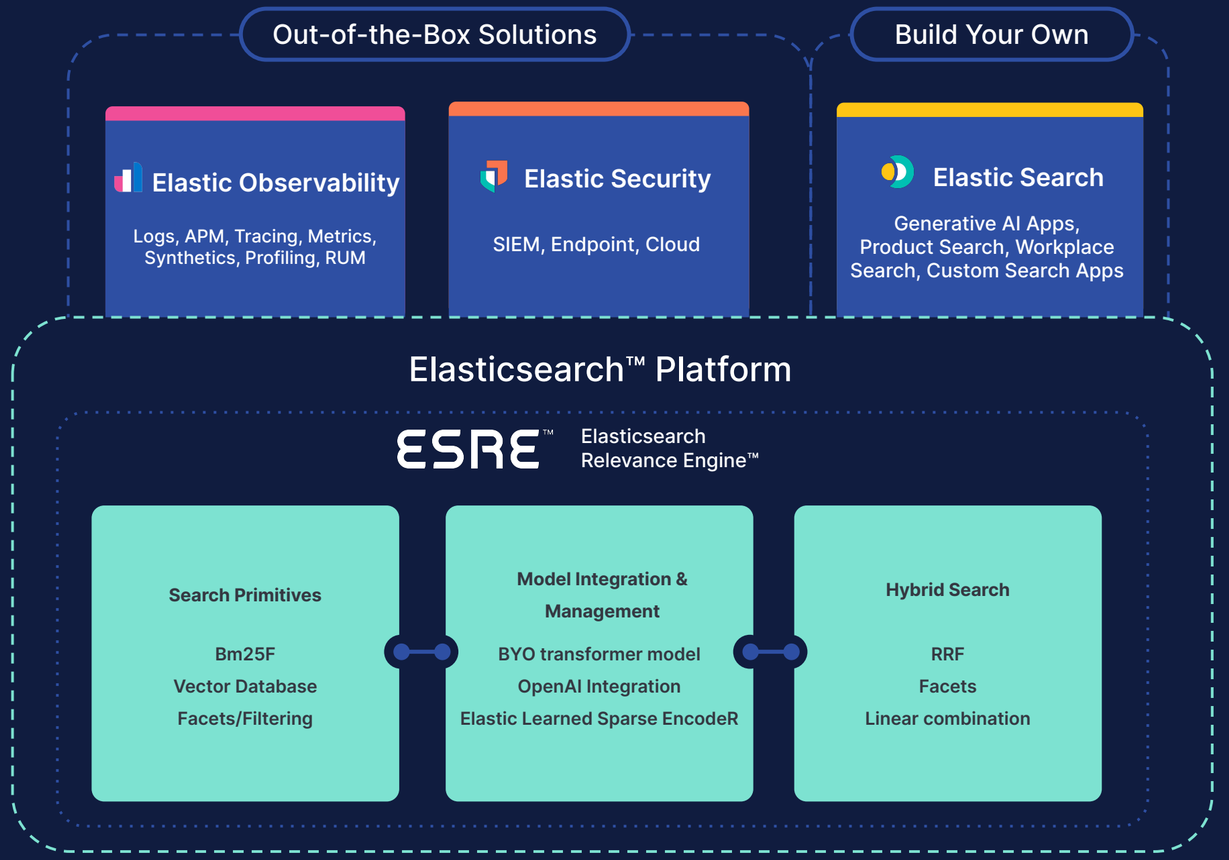
**Pre Built**
No Code: Get results instantly with ML



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# Elasticsearch Relevance Engine, Democratizing AI

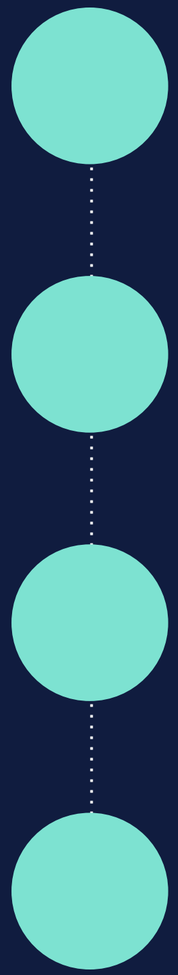
Gives developers a powerful set of **machine learning tools** to **build AI-powered search applications** that **integrate with large language models**






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# Four key investments that add up



**Vector Database**

Native support for fast similarity search in vector space, alongside the existing retrieval models built into Elasticsearch

**Bring-your-own Transformer Model**

Create vector embeddings from natural language text directly in your Elasticsearch deployment

**Native transformer model**

Elastic's proprietary model, ELSER, improves out-of-the-box ("zero-shot") relevance for any text-based retrieval application

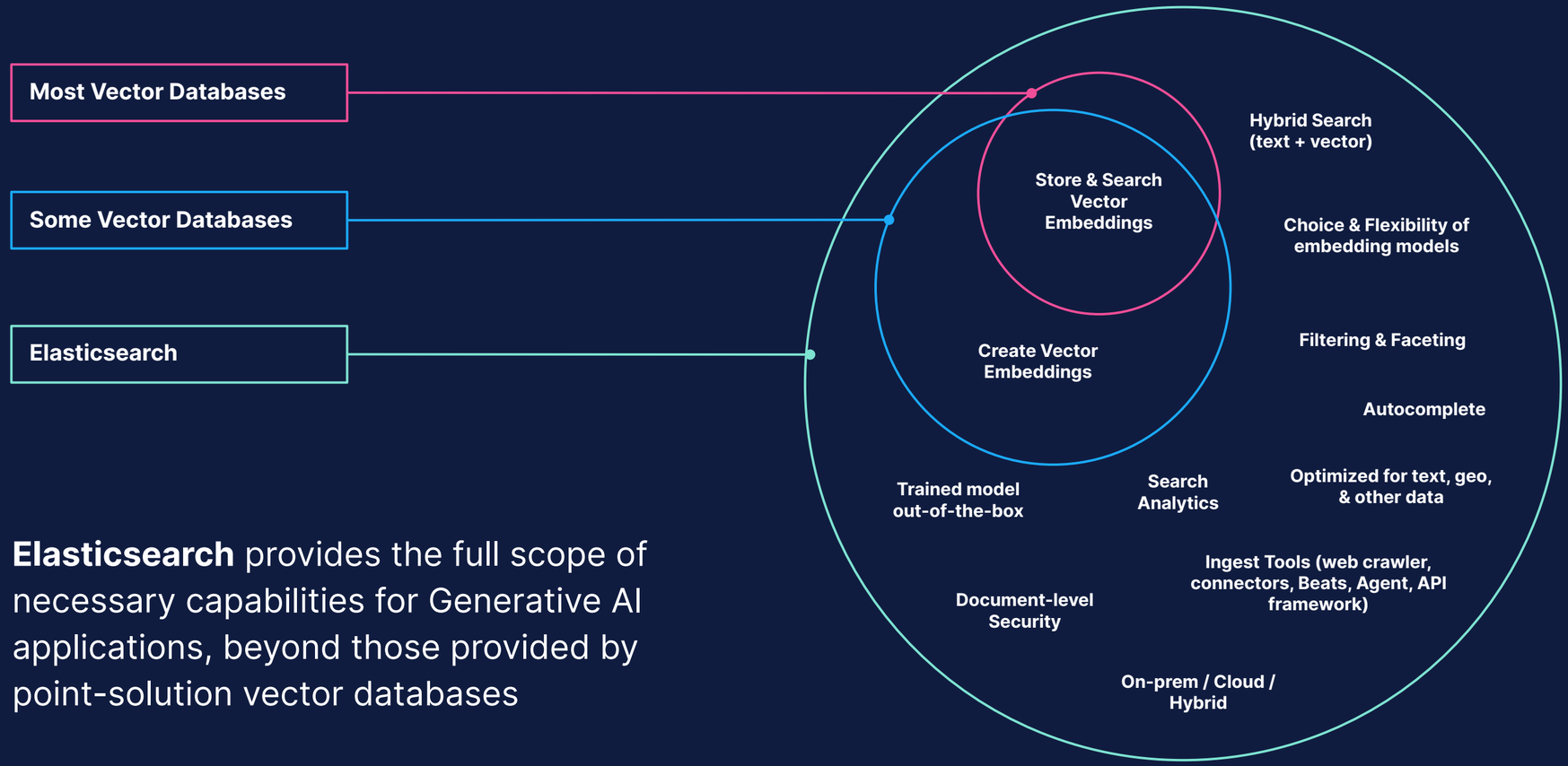
**Integrated Relevance Engine**

Intuitively integrated into `_search` API and RRF for best-in-class ranking, filtering, document-level permission enforcement



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# Broad scope of capabilities needed for Generative AI

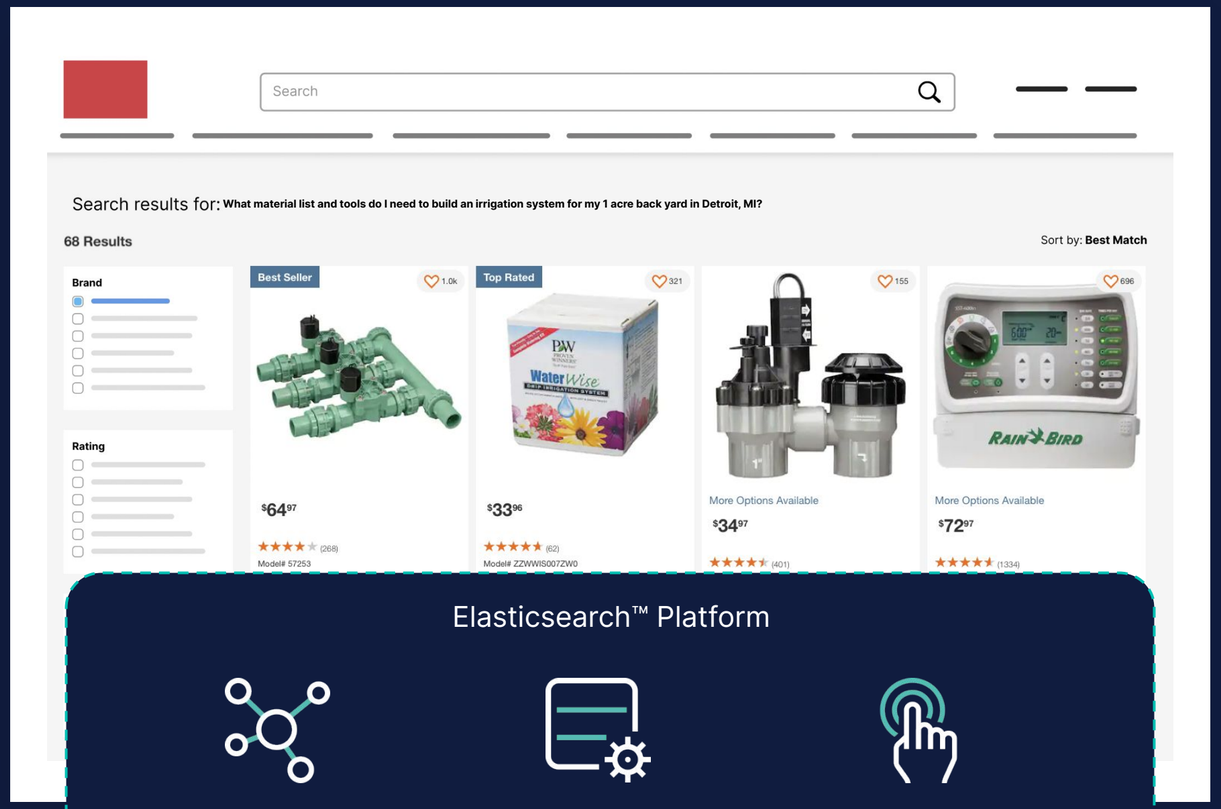



**Elasticsearch** provides the full scope of necessary capabilities for Generative AI applications, beyond those provided by point-solution vector databases



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# Enabling the creation of new contextual Generative AI applications




**TRADITIONAL**

pvc plumbing t-joints pvc

**AI-POWERED**

What material list and tools do I need to build an irrigation system for my 1 acre back yard in Detroit, MI?



“The expertise of Elastic in enterprise search is evident in the way the company thinks about how to incorporate generative AI into it. We’re working closely together to help companies leverage the power of Azure OpenAI and ChatGPT over all of an organization's proprietary data in Elasticsearch to help our joint customers deliver a richer and more seamless experience.”

President of Microsoft’s Developer Division
**Julia Liuson**



“Ensuring our customers and partners have industry-leading search capabilities is vital to our mission to help them organize data, discover the truth and act on it. To that end, I’m thrilled about the benefits we can bring to customers through our investments to harness Elasticsearch within RelativityOne. We're experimenting with ESRE right now and are excited about its potential to deliver powerful, AI-augmented search results to our customers."

Chief Product Officer at Relativity
**Chris Brown**



“Enterprises are excited about the potential for generative AI in their applications and workflows, but are all also swamped by the pace of innovation in the field. ESRE is designed to ease adoption of transformers, homemade and third-party LLM models, building on the original core strengths of Elastic in search.”

Co-founder of RedMonk
**James Governor**



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# AI Expertise Built into Each Elastic Solution

## From Observability to Security to Search

**Observability**

Anomaly Detection

AIOps

Interactive Root Cause Analysis

Integrated Case Management

**Security**

Threat Intelligence

Automated Alerting

Security chatbot

**Search**

Semantic Search

Image Search

Sentiment Analysis

Recommendations

Named Entity Recognition



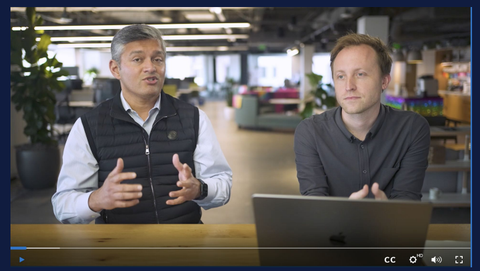
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# Generative AI in Action

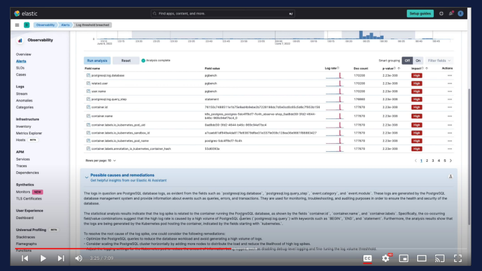
## ESRE - Executive Intro



## ESRE - Demo



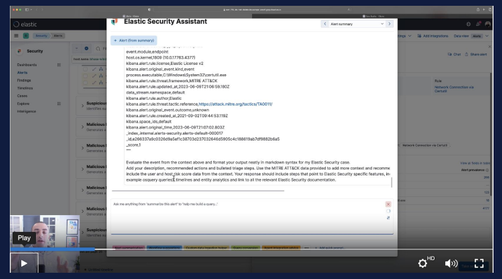
## Elastic AI Assistant Demo - Observability



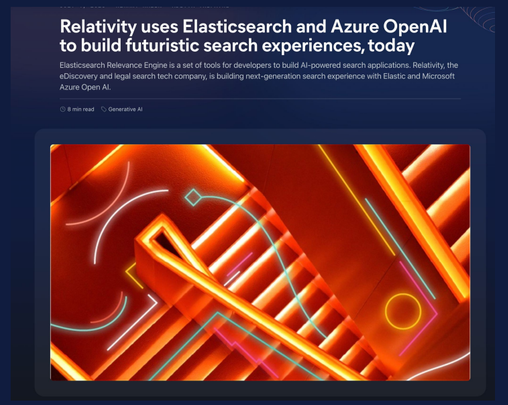
## IDC Market Perspective - Elastic



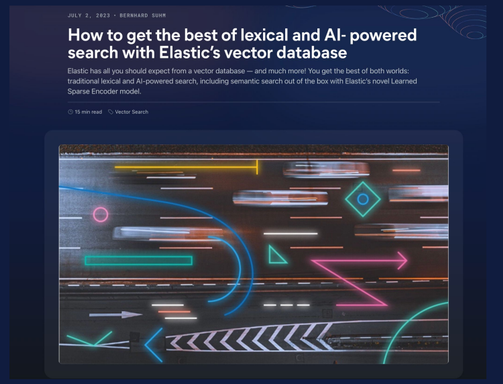

## Elastic AI Assistant Demo - Security



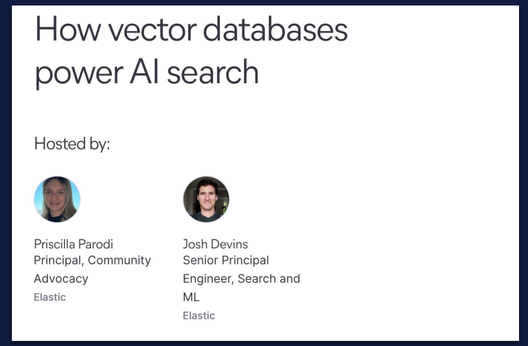
## Customer Story - Relativity



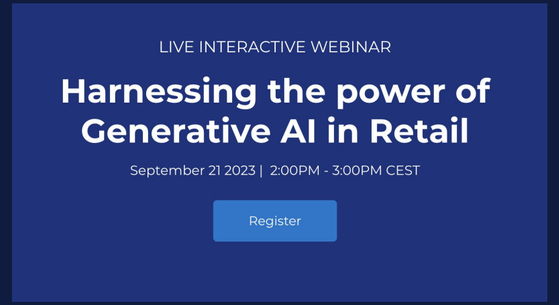

## AI-Powered Search with Elastic



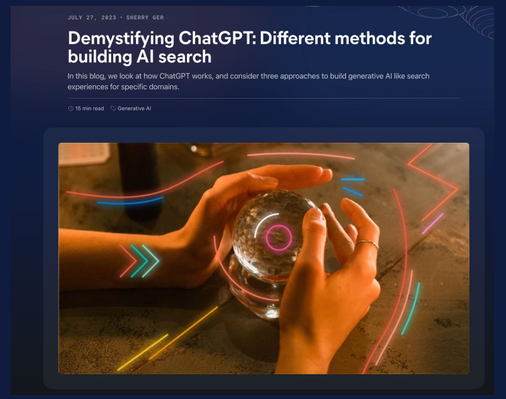

## Vetor Database webinar




## Generative AI in Retail webinar




## Demystifying ChatGPT Blog






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# Leadership in Security Analytics, Log Analytics, and Search

### Observability

Strong Performer in The Forrester Wave™: **AIOps**, Dec. 2022

Visionary in the Gartner® Magic Quadrant™ for **APM and Observability**, Dec. 2022

### Security

Leader in The Forrester Wave™: **Security Analytics Platforms**, Dec. 2022

Visionary in Gartner® Magic Quadrant™ for **SIEM**, Oct. 2022

Major Player in the IDC MarketScape: Worldwide **SIEM** 2022 Vendor Assessment

### Search

Leader in the Gartner® Magic Quadrant™ for **Insight Engines**, Dec. 2022

Leader in The Forrester Wave™: **Cognitive Search**, Jul. 2021

Gartner® FORRESTER® IDC



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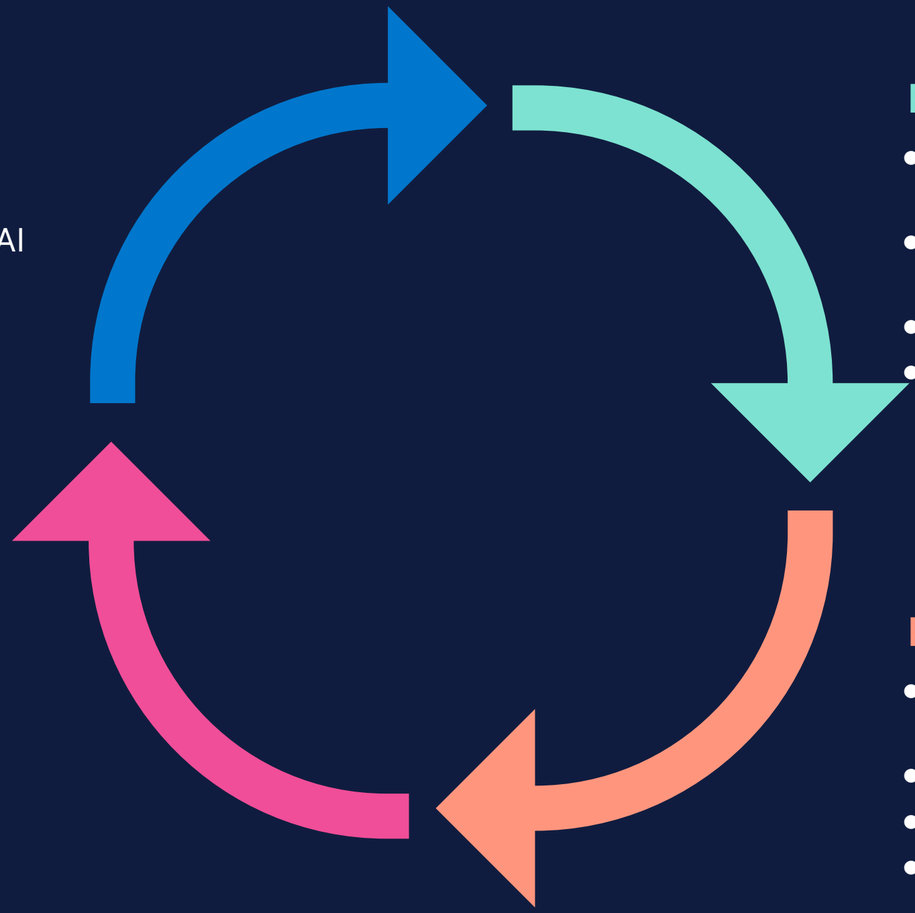
# Trusted by Organizations Around the World

| TECHNOLOGY | FINANCE | TELCO | CONSUMER | HEALTHCARE | PUBLIC SECTOR | AUTOMOTIVE / TRANSPORTATION | RETAIL |
|---|---|---|---|---|---|---|---|
| Adobe | BARCLAYS | orange | Uber | VITAS Healthcare | Lawrence Livermore National Laboratory | VOLVO Volvo Group | AutoZone |
| CISCO | ZURICH | dish media | Grab | UCLA Health | OAK RIDGE National Laboratory | Airbus | The Home Depot |
| workday | USAA | COMCAST | Miles & More Lufthansa | Yale NewHaven Health | United States Census Bureau | Travelport | ebay |
| Microsoft | collector bank | verizon | Activision Blizzard | MAYO CLINIC | JPL Jet Propulsion Laboratory | BMW | Kroger |
| INGRAM MICRO | Postbank | T-Mobile | lyft | Pfizer | WILSON NORTH CAROLINA | Volkswagen | Walgreens |

# Why Elastic Wins

## Power of the Platform

- Solving problems from a search and AI lens: speed, scale, relevance
- Strong foundation in AI/ML, with support for AI across solutions
- Unstructured data from any source
- All solutions on a single stack
- Deploy anywhere - cloud, hybrid, on-prem



## Power of the Community

- Millions of developers with billions of downloads
- Facilitates bottom up adoption within enterprises
- Generates an entry point into new markets
- Engaging with open communities across solutions (Open Security, OpenTelemetry)

## Power of the Commercial Model

- Compelling TCO advantages and greater business value
- Uniform resource-based pricing model
- Consumption-based model for Cloud

## Power of Partnerships

- Strategic partnerships with hyperscalers, including co-investments
- Powerful technology integrations
- Preferential access and relationships
- Joint sales pursuits



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# Elastic’s Growth Vectors



New customers adopt Elastic



Customer data volume grows



Customers adopt more use cases



Customers adopt more solutions



Customers adopt the cloud



Customers adopt higher subscription tiers



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# Distribution and Monetization Model

## Elastic Cloud

Paid

| Standard | Gold | Platinum | Enterprise |
|---|---|---|---|

## Self-managed

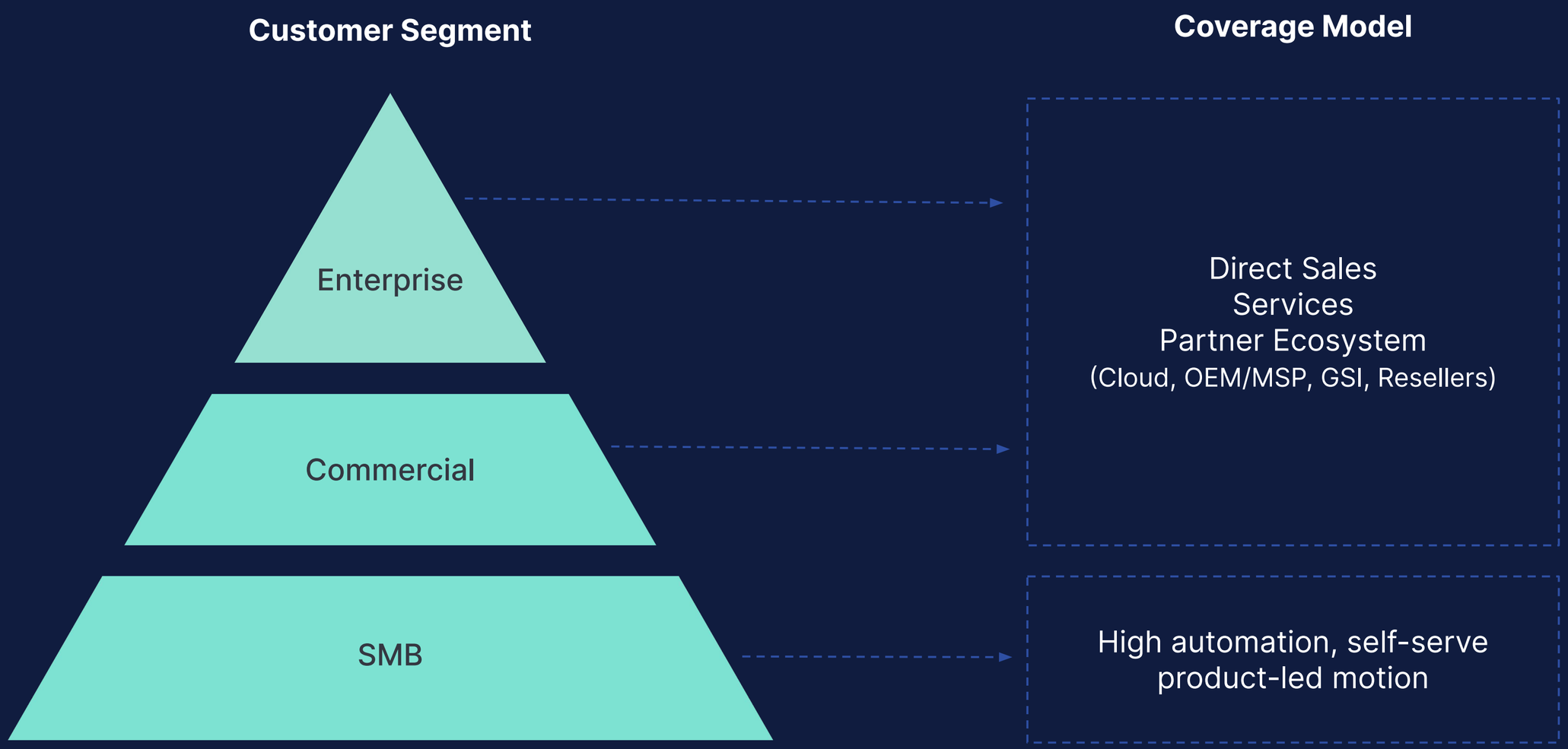
| Free & Open | Paid | |
|---|---|---|
| No Support | Platinum | Enterprise |

- Resource-based pricing model ↔ Consumption-based subscriptions on Elastic Cloud
- Subscriptions generally 1 to 3 years, invoiced annually in advance
- Elastic Cloud also has month-to-month web-based self-service option



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# Low-friction Go-to-Market Model

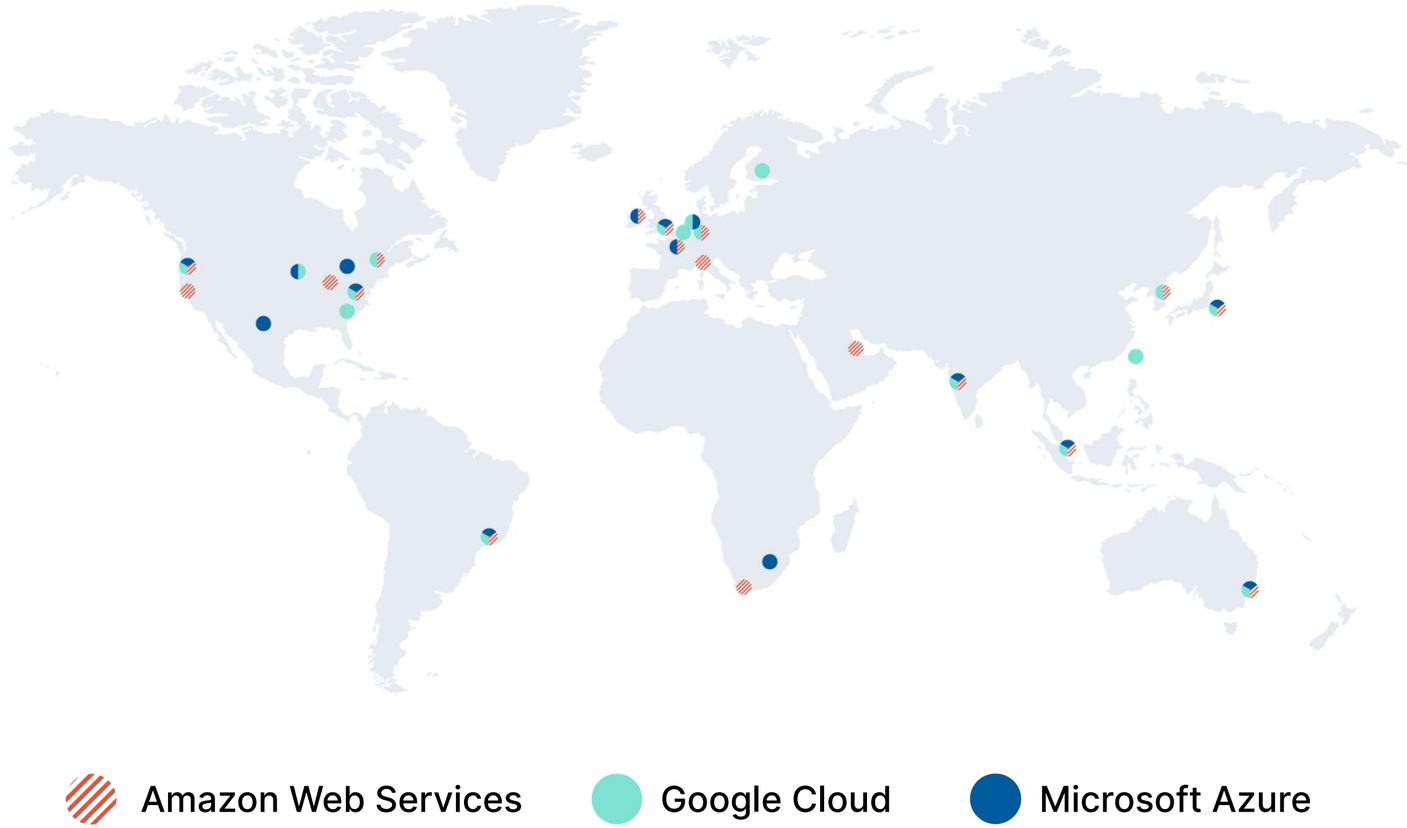





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# The flexibility to deploy wherever our customers are

- Public Cloud
- Hybrid
- On-Premises






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# Scaling with Hyperscaler Cloud Partners










- Multi-year strategic agreements with co-investments
- Powerful technology integrations to accelerate Elastic Cloud adoption
- Preferential access and relationships under ISV programs
- Joint sales pursuits with sales incentives for hyperscaler sales teams

# Recent Recognition from our Hyperscaler Partners

Microsoft Azure

Microsoft Worldwide and US Partner of the Year, Commercial Marketplace

Google

Google Cloud Global Technology Partner of the Year

aws

AWS US ISV Rising Star Partner of the Year



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# Sustaining the Cloud Momentum



Track record of growth at scale



Organic Growth



Strong customer acquisition



Robust expansion



Strong Consumption Patterns



Sustained, Organic Mix Shift to Cloud



GTM Momentum



Thriving Hyperscaler Partnerships



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# Q1 FY24 Results

# Q1 FY24 Results At a Glance

**Q1 FY24**



**17%**
Total Revenue Growth year-over-year



**24%**
Elastic Cloud Revenue Growth year-over-year

**41%** of Total Revenue



**10%**
Non-GAAP Operating Margin



**>1,190**
Customers with ACV > $100K



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# Revenue Highlights

| *$ millions* | Q1 FY24 | Y/Y | Y/Y CC |
|---|---|---|---|
| Total Revenue | $294 | 17% | 17% |
| Total Subscription Revenue | $270 | 17% | 16% |
| Elastic Cloud Revenue | $121 | 24% | 24% |
| Subscription % of Total Revenue | 92% | | |
| Professional Services Revenue | $24 | 29% | 29% |

CC = Constant Currency



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# Strong track record of driving growth

## Total Revenue

*$ millions*




*As Reported Y/Y Growth %*

*Constant Currency Y/Y Growth %*

■ Professional Services ■ Subscription Revenue

## Cloud Revenue

*$ millions*




*As Reported Y/Y Growth %*

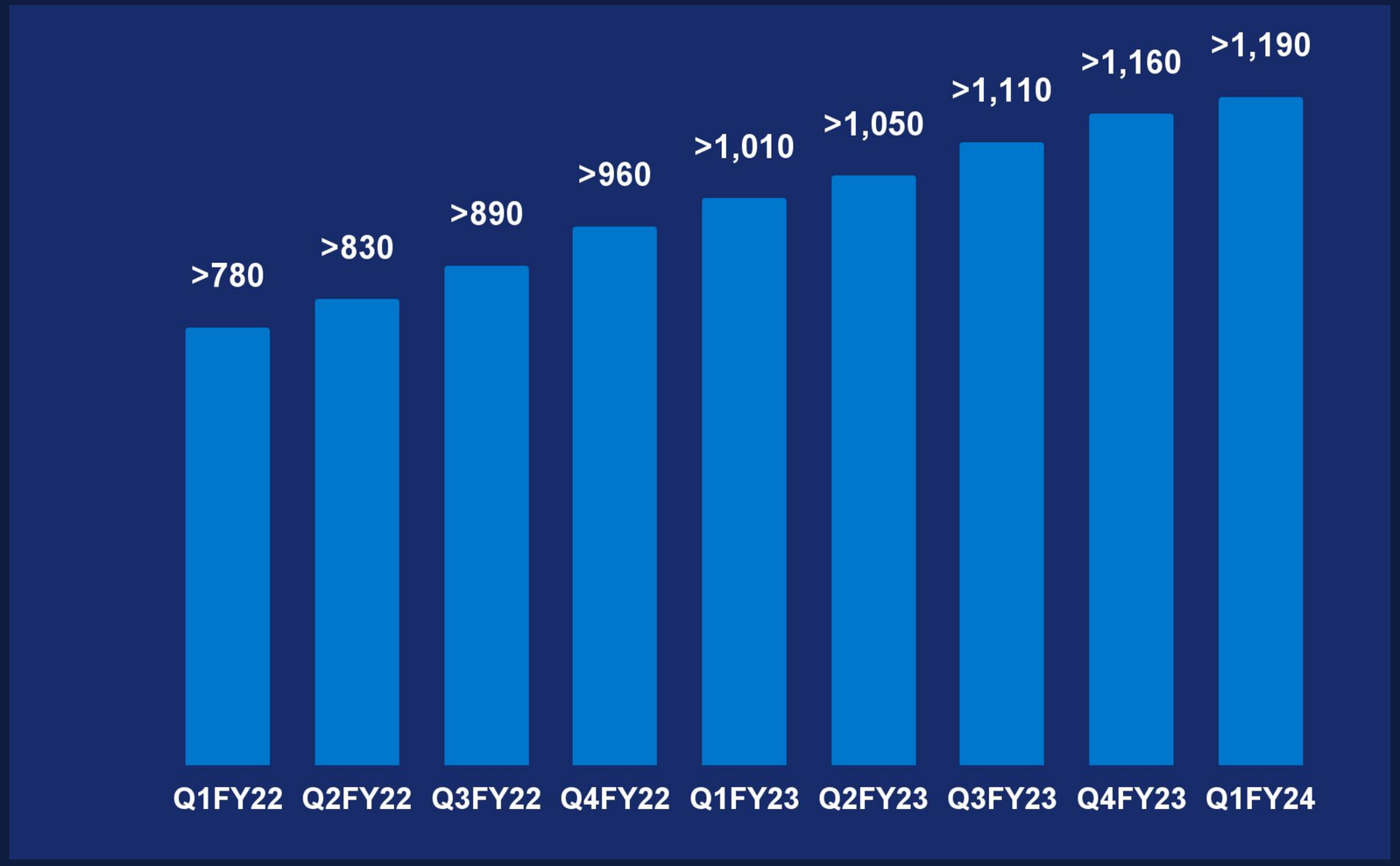
*Constant Currency Y/Y Growth %*

*Cloud Revenue as a % of Total Revenue*



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# >$100K ACV Customer Trend

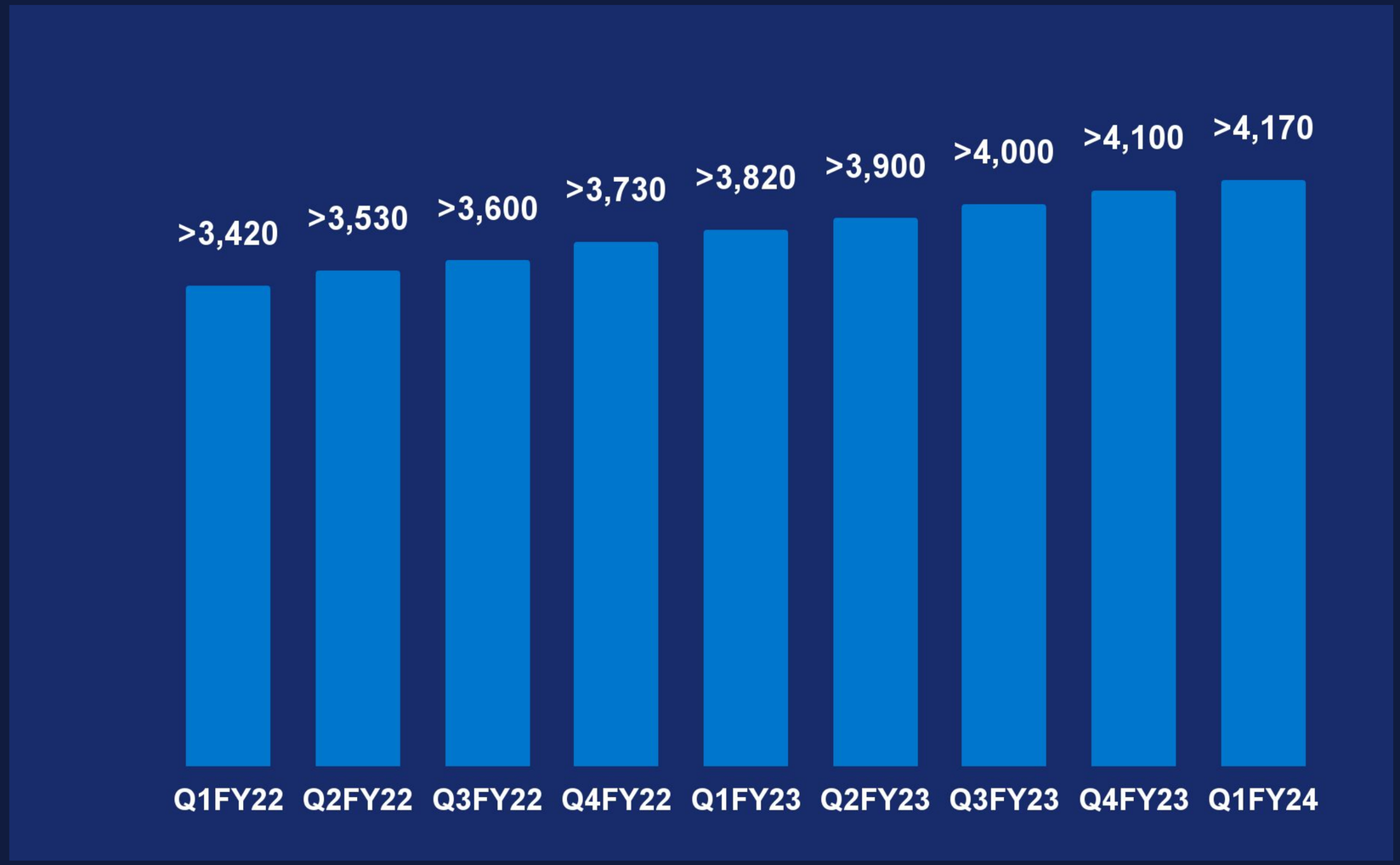



| Change from Prior Quarter | 50 | 50 | 60 | 70 | 50 | 40 | 60 | 50 | 30 |
|---|---|---|---|---|---|---|---|---|---|



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# >$10K ACV Customer Trend




| Change from Prior Quarter | 110 | 110 | 70 | 130 | 90 | 80 | 100 | 100 | 70 |
|---|---|---|---|---|---|---|---|---|---|



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# Healthy Net Expansion Rate

**~113%**

**Q1 FY24**

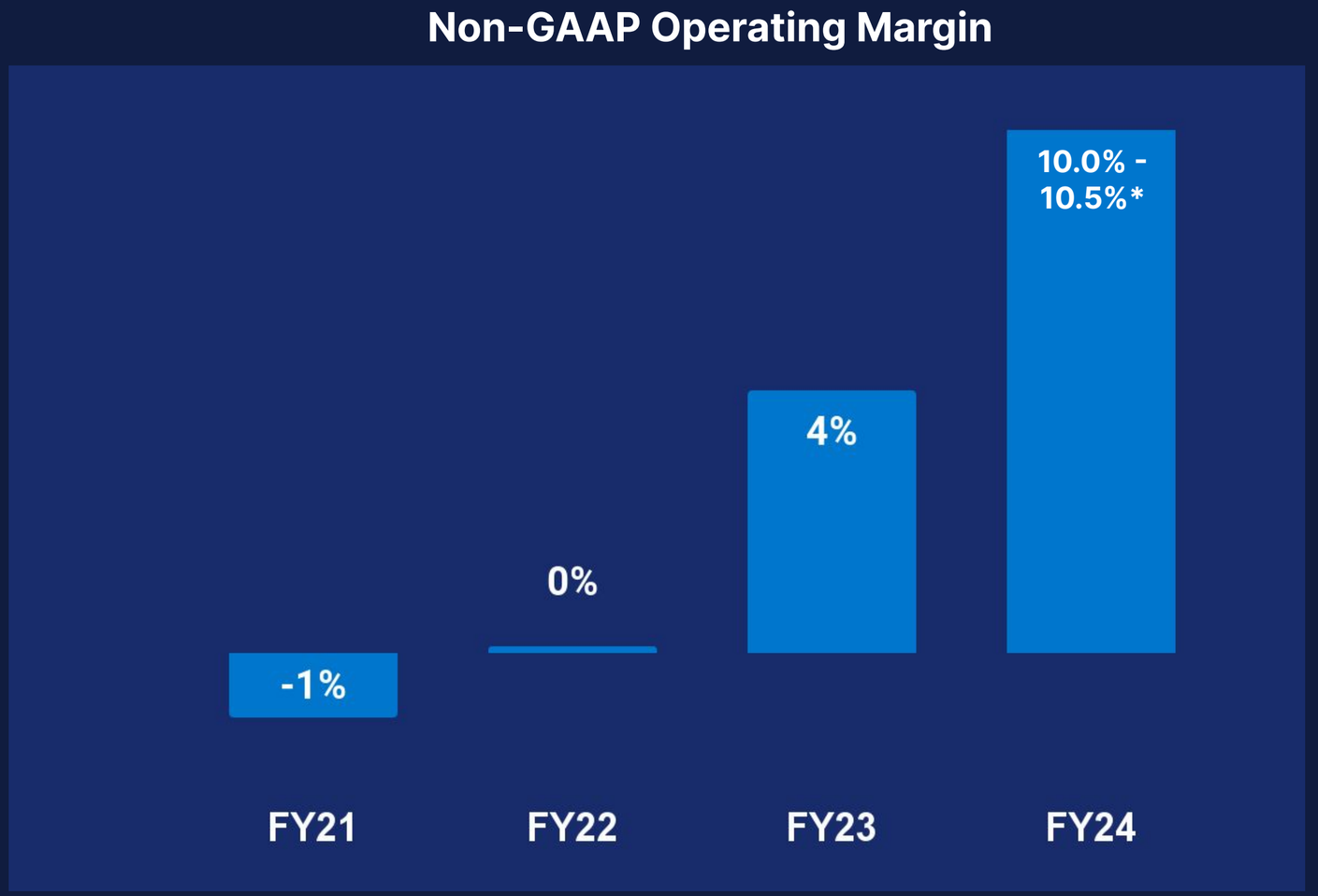
Trailing twelve month measure

Includes only consumption, not commitments, for customers on Cloud consumption contracts



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# Driving Profitable Growth




* Guidance provided on August 31, 2023.

See appendix for reconciliation. A reconciliation of non-GAAP guidance measures to corresponding GAAP measures for operating margin and net earnings/(loss) per share is not available on a forward-looking basis without unreasonable effort due to the uncertainty regarding, and the potential variability of, many of the costs and expenses that may be incurred in the future. These items necessary to reconcile such non-GAAP measures could be material and have a significant impact on the Company's results computed in accordance with GAAP.



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# Non-GAAP Income Statement Highlights

| *$ millions, except per share amounts* | Q1 FY24 | % OF REVENUE |
|---|---|---|
| Total Revenue | $294 | 100% |
| Gross Profit/Margin | $225 | 76% |
| Research & Development Expense | $57 | 19% |
| Sales & Marketing Expense | $112 | 38% |
| General & Administrative Expense | $27 | 9% |
| Operating Income/Margin | $29 | 10% |
| Earnings per share - Diluted | $0.25 | |

See appendix for reconciliation to GAAP



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# Select Financial Measures

| *$ millions, except employees* | Q1FY24 |
|---|---|
| Adjusted Free Cash Flow* | $49 |
| Cash, Cash Equivalents, and Marketable Securities | $957 |
| Total Deferred Revenue | $534 |
| Remaining Performance Obligations | $1,118 |
| Employees | 2,995 |

*See appendix for reconciliation to GAAP



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# Q2 and Full Year FY2024 Guidance

| | Q2 FY24 | FY24 |
|---|---|---|
| Total Revenue | $303M - $305M | $1.242B - $1.250B |
| *Year-over-year growth %* | 15% | 17% |
| *Constant currency year-over-year growth %* | 13% | 16% |
| Non-GAAP Operating Margin | 9.5% to 10.0% | 10.0% to 10.5% |
| Non-GAAP Net Earnings Per Share | $0.23 - $0.25 | $1.01 - $1.11 |
| Diluted Weighted Average Shares Outstanding | 101.5M - 102.5M | 102.0M - 104.0M |

A reconciliation of non-GAAP guidance measures to corresponding GAAP measures for operating margin and net earnings/(loss) per share is not available on a forward-looking basis without unreasonable effort due to the uncertainty regarding, and the potential variability of, many of the costs and expenses that may be incurred in the future. These items necessary to reconcile such non-GAAP measures could be material and have a significant impact on the Company's results computed in accordance with GAAP.



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# Appendix

# GAAP to Non-GAAP Reconciliations

## Operating Margin

| | FY21 | FY22 | FY23 |
|---|---|---|---|
| | | | |
| GAAP operating margin % | (21)% | (20)% | (21)% |
| Stock-based compensation | 15 % | 16 % | 19 % |
| Amortization of acquired intangibles | 2 % | 2 % | 2 % |
| Acquisition-related expenses | — % | 1 % | 1 % |
| Employer payroll taxes on employee stock transactions | 2 % | 1 % | 1 % |
| Restructuring and other related charges | — % | — % | 3 % |
| Non-GAAP operating margin % | (1)% | — % | 4 % |

Sums may not add to totals due to rounding



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# GAAP to Non-GAAP Reconciliations

## Gross Profit and Gross Margin

| $ in millions except percentages | Q1 FY24 |
|---|---|
| GAAP gross profit | $216 |
| Stock-based compensation expense and related employer taxes | 5 |
| Amortization of acquired intangibles | 3 |
| Non-GAAP gross profit | $225 |
| | |
| GAAP subscription gross margin % | 79% |
| Stock-based compensation expense and related employer taxes | 1% |
| Amortization of acquired intangibles | 1% |
| Non-GAAP subscription gross margin % | 81% |
| | |
| GAAP professional services gross margin % | 14% |
| Stock-based compensation expense and related employer taxes | 13% |
| Non-GAAP professional services gross margin % | 27% |
| | |
| GAAP gross margin % | 74% |
| Stock-based compensation expense and related employer taxes | 2% |
| Amortization of acquired intangibles | 1% |
| Non-GAAP gross margin % | 76% |

Sums may not add to totals due to rounding



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# GAAP to Non-GAAP Reconciliations

## Operating Expenses

| $ in millions except percentages | Q1 FY23 | Q1 FY24 |
|---|---|---|
| GAAP sales & marketing expenses | $125 | $133 |
| Stock-based compensation expense and related employer taxes | (16) | (20) |
| Amortization of acquired intangibles | (1) | (1) |
| Non-GAAP sales & marketing expenses | $107 | $112 |
| *Y/Y* | | *5%* |
| | | |
| GAAP research & development expenses | $79 | $81 |
| Stock-based compensation expense and related employer taxes | (20) | (23) |
| Acquisition-related expenses | (2) | (1) |
| Non-GAAP research & development expenses | $56 | $57 |
| *Y/Y* | | *— %* |
| | | |
| GAAP general & administrative expenses | $34 | $38 |
| Stock-based compensation expense and related employer taxes | (8) | (11) |
| Acquisition-related expenses | — | — |
| Non-GAAP general & administrative expenses | $26 | $27 |
| *Y/Y* | | *5%* |

Sums may not add to totals due to rounding



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# GAAP to Non-GAAP Reconciliations

## Operating Income (Loss), Operating Margin, and Earnings (Net Loss) per share

| $ in millions except percentages and per share amounts | Q1 FY23 | Q1 FY24 |
|---|---|---|
| GAAP operating loss | ($61) | ($36) |
| Stock-based compensation expense and related employer taxes | 49 | 60 |
| Amortization of acquired intangibles | 4 | 4 |
| Acquisition-related expenses | 3 | 1 |
| Restructuring and other related charges | — | 1 |
| Non-GAAP operating income | ($5) | $29 |
| | | |
| GAAP operating margin % | (24)% | (12)% |
| Stock-based compensation expense and related employer taxes | 20% | 20% |
| Amortization of acquired intangibles | 2% | 1% |
| Acquisition-related expenses | 1% | — % |
| Restructuring and other related charges | — % | — % |
| Non-GAAP operating margin % | (2)% | 10% |
| | | |
| GAAP net loss per share | ($0.74) | ($0.50) |
| Stock-based compensation expense and related employer taxes | 0.52 | 0.61 |
| Amortization of acquired intangibles | 0.04 | 0.04 |
| Acquisition-related expenses | 0.03 | 0.01 |
| Restructuring and other related charges | — | 0.01 |
| Tax adjustment | — | 0.09 |
| Non-GAAP earnings (loss) per share - Basic | ($0.15) | $0.26 |
| Non-GAAP earnings (loss) per share - Diluted | ($0.15) | $0.25 |

Sums may not add to totals due to rounding



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# GAAP to Non-GAAP Reconciliations

## Adjusted Free Cash Flow

| $ in millions | Q1 FY23 | Q1 FY24 |
|---|---|---|
| Net cash provided by (used in) operating activities | ($9.7) | $37.8 |
| Less: Purchase of property and equipment | (0.5) | (0.6) |
| Add: Interest paid on long-term debt | 11.9 | 11.9 |
| Adjusted free cash flow | $1.7 | $49.0 |
| | | |
| Net cash provided by (used in) operating activities (as a percentage of total revenue) | (4)% | 13% |
| Add: Interest paid on long-term debt (as a percentage of total revenue) | 5% | 4% |
| | | |
| Adjusted free cash flow margin* | 1% | 17% |

Sums may not add to totals due to rounding.

Adjusted free cash flow is a non-GAAP financial measure that we define as net cash provided by (used in) operating activities adjusted for cash paid for interest less cash used for investing activities for purchases of property and equipment, and capitalized internal-use software costs. Adjusted free cash flow margin is calculated as adjusted free cash flow divided by total revenue. Adjusted free cash flow does not represent residual cash flow available for discretionary expenditures since, among other things, we have mandatory debt service requirements.



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# GAAP to Non-GAAP Reconciliations

## Adjusted Free Cash Flow (continued)

| $ in millions | Q2 FY24 Low | Q2 FY24 High |
|---|---|---|
| Net cash provided by (used in) operating activities | ($9.0) | $1.0 |
| Less: Purchase of property and equipment | (1.0) | (1.0) |
| Add: Interest paid on long-term debt | 0.0 | 0.0 |
| Adjusted free cash flow | ($10.0) | $0.0 |

Sums may not add to totals due to rounding.

Adjusted free cash flow is a non-GAAP financial measure that we define as net cash provided by (used in) operating activities adjusted for cash paid for interest less cash used for investing activities for purchases of property and equipment, and capitalized internal-use software costs. Adjusted free cash flow does not represent residual cash flow available for discretionary expenditures since, among other things, we have mandatory debt service requirements.



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