



PagerDuty Announces Second Quarter Fiscal Year 2020 Financial Results

*Revenue increased 45% year-over-year to a record \$40.4 million
Over 12,000 customers now using PagerDuty to power their digital transformations
Best in class gross margins of 85%*

SAN FRANCISCO – (BUSINESS WIRE) – September 5, 2019 – PagerDuty, Inc. (NYSE:PD), a global leader in digital operations management, today announced financial results for the second quarter of fiscal year 2020 ended July 31, 2019.

“We are pleased to report strong second quarter results, driven by our continued growth across industry verticals, geographies and use cases, particularly in the mid-market and enterprise segments,” said Jennifer Tejada, Chief Executive Officer of PagerDuty. “This was our first \$40 million quarter and a record quarter for growth in accounts investing over \$100,000. We’re excited to see a growing number of customers around the world utilize the PagerDuty platform to continually improve their digital operations.”

Second Quarter Fiscal 2020 Financial Highlights

- **Revenue:** Total revenue was \$40.4 million, up 45% year-over-year.
- **Gross Margin:** GAAP gross margin was 84.9%. Non-GAAP gross margin was 85.7% compared to Non-GAAP gross margin of 86.2% in the second quarter of fiscal 2019.
- **Operating Loss:** GAAP operating loss was \$14.4 million, or 35.6% of revenue, compared to a \$13.0 million loss, or 46.7% of revenue, in the second quarter of fiscal 2019. Non-GAAP operating loss was \$7.1 million, or 17.7% of revenue, compared to a \$4.2 million loss, or 15.2% of revenue, in the second quarter of fiscal 2019.
- **Net Loss:** GAAP net loss was \$12.6 million, compared to \$12.6 million in the second quarter of fiscal 2019. GAAP net loss per share was \$0.17, compared to \$0.59 in the second quarter of fiscal 2019. Non-GAAP net loss was \$5.3 million, compared to \$3.8 million in the second quarter of fiscal 2019. Non-GAAP net loss per share was \$0.07, compared to \$0.18 in the second quarter of fiscal 2019.
- **Cash Flow:** Net cash provided by operations was \$2.2 million, or 5.3% of revenue, compared to net cash used in operations of \$4.7 million, or 17.1% of revenue, in the second quarter of fiscal 2019. Free cash flow was positive \$1.3 million, or 3.3% of revenue, compared to negative \$5.0 million, or 18.1% of revenue, in the second quarter of fiscal 2019.
- **Cash and Cash Equivalents and Investments** were \$341.1 million as of July 31, 2019.

The section titled “Non-GAAP Financial Measures” below contains a description of the non-GAAP financial measures and reconciliations between historical GAAP and non-GAAP information.

Recent Highlights

- **Customer Growth:** PagerDuty had over 12,000 customers as of July 31, 2019. New and expansion customers include Marks and Spencer, Vanguard, WooliesX (Woolworths), Stripe, IHS Markit, Monzo, DoorDash, and Clover Health.
- **Product Innovation:** PagerDuty released Business Response, which enables responders to seamlessly keep business stakeholders apprised with actionable status updates as incidents unfold. Additionally, we enhanced our search capabilities to provide improved context for IT and DevOps teams so they can easily navigate large organizations to find the right teams, users and escalation policies to resolve incidents faster.
- **Ecosystem Expansion:** PagerDuty released a new integration with Amazon EventBridge to help customers create and trigger event-driven workflows without having to spend valuable engineering hours setting up configurations and integrations. The company also released an integration with AWS Security Hub further providing real-time support for Security Operations and DevOps teams using AWS.

Financial Outlook

For the third quarter of fiscal 2020, PagerDuty currently expects:

- Total revenue of \$41.5 million - \$42.5 million, representing a growth rate of 33% - 36% year-over-year
- Non-GAAP net loss per share of \$0.09 - \$0.10, assuming approximately 76 million shares

For the full fiscal year 2020, PagerDuty currently expects:

- Total revenue of \$162 million - \$164 million, representing a growth rate of 37% - 39% year-over-year
- Non-GAAP net loss per share of \$0.36 - \$0.37, assuming approximately 65 million shares

These statements are forward-looking and actual results may differ materially. Please refer to the Forward-Looking Statements safe harbor below for information on the factors that could cause our actual results to differ materially from these forward-looking statements.

PagerDuty has not reconciled its expectations as to non-GAAP net loss per share to GAAP net loss per share because certain items are out of its control or cannot be reasonably predicted. Accordingly, a reconciliation for forward-looking non-GAAP net loss per share is not available without unreasonable effort.

Conference Call Information:

PagerDuty will host a conference call and live webcast for analysts and investors at 2:00 p.m. Pacific Time on September 5, 2019. This news release with the financial results will be accessible from PagerDuty's website at investor.pagerduty.com prior to the conference call. Interested parties can access the call by dialing (833) 227-5837 or (647) 689-4067 for callers outside North America, and using the conference ID 1448205.

A live webcast of the conference call will be accessible from the PagerDuty investor relations website at investor.pagerduty.com. A telephonic replay of the conference call will be available through September 19, 2019 and may be accessed by dialing (800) 585-8367 or (416) 621-4642 for callers outside North America, and using the conference ID: 1448205.

Supplemental Financial and Other Information:

Supplemental financial and other information can be accessed through PagerDuty's investor relations website at investor.pagerduty.com. PagerDuty uses the investor relations section on its website as the means of complying with its disclosure obligations under Regulation FD. Accordingly, we recommend that investors should monitor PagerDuty's investor relations website in addition to following PagerDuty's press releases, SEC filings, social media, including PagerDuty's Twitter account (twitter.com/pagerduty), the Twitter account @jenntejada and Facebook page (facebook.com/pagerduty), and public conference calls and webcasts.

Non-GAAP Financial Measures:

This press release and the accompanying tables contain the following non-GAAP financial measures: non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating loss, non-GAAP operating margin, non-GAAP net loss, non-GAAP net loss per share, and free cash flow.

PagerDuty believes that non-GAAP financial measures, when taken collectively, may be helpful to investors because they provide consistency and comparability with past financial performance and can assist in comparisons with other companies, some of which use similar non-GAAP financial measures to supplement their GAAP results. The non-GAAP financial information is presented for supplemental informational purposes only, and should not be considered a substitute for financial information presented in accordance with GAAP, and may be different from similarly-titled non-GAAP measures used by other companies.

The principal limitation of these non-GAAP financial measures is that they exclude significant expenses and income that are required by GAAP to be recorded in PagerDuty's financial statements. In addition, they are subject to inherent limitations as they reflect the exercise of judgment by PagerDuty's management about which expenses and income are excluded or included in determining these non-GAAP financial measures. A reconciliation is provided below for each historical non-GAAP financial measure to the most directly comparable financial measure presented in accordance with GAAP.

PagerDuty defines non-GAAP operating loss as GAAP loss from operations excluding stock-based compensation expense and non-cash charitable contribution expense. PagerDuty defines non-GAAP net loss (which is used in calculating non-GAAP net loss per share) as GAAP net loss excluding stock-based compensation expense and non-cash charitable contribution expense. There are a number of limitations related to the use of these non-GAAP measures as compared to GAAP operating loss and net loss, including that the non-GAAP measures exclude stock-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense in PagerDuty's business and an important part of its compensation strategy.

PagerDuty defines free cash flow as net cash provided by (used in) operating activities, less cash used for purchases of property and equipment and capitalized internal-use software. In addition to the reasons stated above, PagerDuty believes that free cash flow is useful to investors as a liquidity measure because it measures PagerDuty's ability to generate or use cash in excess of its capital investments in property and equipment to enhance the strength of its balance sheet and further invest in its business and potential strategic initiatives. PagerDuty uses free cash flow in conjunction with traditional GAAP measures as part of its overall assessment of its liquidity, including the preparation of PagerDuty's annual operating budget and quarterly forecasts, to evaluate the effectiveness of its business strategies, and to assess its liquidity.

There are a number of limitations related to the use of free cash flow as compared to net cash provided by (used in) operating activities, including that free cash flow includes capital expenditures, the benefits of which are realized in periods subsequent to those when expenditures are made.

PagerDuty encourages investors to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures, which it includes in press releases announcing quarterly financial results, including this press release, and not to rely on any single financial measure to evaluate PagerDuty's business.

Please see the reconciliation tables at the end of this release for the reconciliation of GAAP and non-GAAP results.

Forward-Looking Statements:

This press release contains “forward-looking statements” within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, including but not limited to, statements regarding our GAAP and non-GAAP guidance for the third fiscal quarter and full fiscal 2020 and financial outlook and market positioning. Words such as “expect,” “anticipate,” “should,” “believe,” “hope,” “target,” “project,” “goals,” “estimate,” “potential,” “predict,” “may,” “will,” “might,” “could,” “intend,” “shall” and variations of these terms or the negative of these terms and similar expressions are intended to identify these forward-looking statements. Forward-looking statements are subject to a number of risks and uncertainties, many of which involve factors or circumstances that are beyond our control. Our actual results could differ materially from those stated or implied in forward-looking statements due to a number of factors, including but not limited to, risks detailed in our Form 10-Q filed with the Securities and Exchange Commission (SEC) on June 7, 2019. Additional information will be made available in our quarterly report on Form 10-Q for the quarter ended July 31, 2019 and other filings and reports that we may file from time to time with the SEC. In particular, the following risks and uncertainties, among others, could cause results to differ materially from those expressed or implied by such forward-looking statements: total revenue, non-GAAP net loss per share and shares outstanding for the third quarter and full year of fiscal 2020, our ability to achieve and maintain future profitability, our ability to attract new customers and retain and sell additional functionality and services to our existing customers, our ability to sustain and manage our growth, our dependence on revenue from a single product, our ability to compete effectively in an increasingly competitive market, and general market, political, economic, and business conditions.

Past performance is not necessarily indicative of future results. The forward-looking statements included in this press release represent our views as of the date of this press release. We anticipate that subsequent events and developments will cause our views to change. We undertake no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this press release.

About PagerDuty

PagerDuty, Inc. (NYSE:PD) is a leader in digital operations management. In an always-on world, organizations of all sizes trust PagerDuty to help them deliver a perfect digital experience to their customers, every time. Teams use PagerDuty to identify issues and opportunities in real time and bring together the right people to fix problems faster and prevent them in the future. Notable customers including GE, Vodafone, Box, and American Eagle Outfitters. To learn more and try PagerDuty for free, visit www.pagerduty.com. Follow our blog and connect with us on [Twitter](#), [LinkedIn](#), [YouTube](#) and [Facebook](#).

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PagerDuty, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(in thousands, except per share data)

(unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Revenue	\$ 40,361	\$ 27,744	\$ 77,675	\$ 52,764
Cost of revenue ⁽¹⁾	6,106	3,912	11,592	7,797
Gross profit	34,255	23,832	66,083	44,967
Operating expenses:				
Research and development ⁽¹⁾	11,635	7,804	22,541	15,523
Sales and marketing ⁽¹⁾	23,786	15,319	44,953	28,613
General and administrative ⁽¹⁾	13,215	13,672	25,699	20,788
Total operating expenses	48,636	36,795	93,193	64,924
Loss from operations	(14,381)	(12,963)	(27,110)	(19,957)
Interest income	1,967	148	2,856	278
Other income, net	80	326	101	715
Loss before provision for income taxes	(12,334)	(12,489)	(24,153)	(18,964)
Provision for income taxes	(236)	(91)	(481)	(195)
Net loss and comprehensive loss	\$ (12,570)	\$ (12,580)	\$ (24,634)	\$ (19,159)
Net loss per share, basic and diluted	\$ (0.17)	\$ (0.59)	\$ (0.45)	\$ (0.91)
Weighted-average shares used in calculating net loss per share, basic and diluted	75,433	21,190	54,327	21,036

(1) Includes stock-based compensation expense and non-cash charitable contribution expense as follows (in thousands, unaudited):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Cost of revenue	\$ 327	\$ 70	\$ 470	\$ 131
Research and development	1,437	398	2,297	1,113
Sales and marketing	2,326	914	3,790	1,766
General and administrative	3,143	7,364	5,488	8,893
Total	\$ 7,233	\$ 8,746	\$ 12,045	\$ 11,903

PagerDuty, Inc.

Condensed Consolidated Balance Sheets
(in thousands)

	<u>As of July 31,</u> <u>2019</u> <u>(unaudited)</u>	<u>As of January 31,</u> <u>2019</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 306,316	\$ 127,875
Accounts receivable, net of allowance for doubtful accounts of \$1,558 and \$2,360 as of July 31, 2019 and January 31, 2019, respectively	36,079	33,538
Investments, current	34,805	—
Deferred contract costs, current	7,367	6,002
Prepaid expenses and other current assets	9,126	5,422
Total current assets	<u>393,693</u>	<u>172,837</u>
Property and equipment, net	10,135	5,772
Deferred contract costs, non-current	13,353	11,470
Other assets	1,131	7,155
Total assets	<u>\$ 418,312</u>	<u>\$ 197,234</u>
Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	\$ 4,302	\$ 7,657
Accrued expenses and other current liabilities	8,378	7,145
Accrued compensation	12,081	10,050
Deferred revenue, current	75,739	63,957
Total current liabilities	<u>100,500</u>	<u>88,809</u>
Deferred revenue, non-current	2,058	147
Other liabilities	6,591	4,185
Total liabilities	<u>109,149</u>	<u>93,141</u>
Redeemable convertible preferred stock	—	173,023
Stockholders' equity (deficit):		
Common stock	—	—
Additional paid-in-capital	462,665	59,938
Accumulated deficit	(153,502)	(128,868)
Total stockholders' equity (deficit)	<u>309,163</u>	<u>(68,930)</u>
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	<u>\$ 418,312</u>	<u>\$ 197,234</u>

PagerDuty, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six Months Ended July 31,	
	2019	2018
Cash flows from operating activities		
Net loss	(24,634)	\$ (19,159)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,046	795
Amortization of deferred contract costs	3,442	1,841
Stock-based compensation	12,045	5,686
Warrant issued in conjunction with charitable contribution	—	6,217
Other	83	451
Changes in operating assets and liabilities:		
Accounts receivable	(2,733)	(8,087)
Deferred contract costs	(6,690)	(5,692)
Prepaid expenses and other assets	(3,411)	(3,923)
Accounts payable	(2,712)	(529)
Accrued expenses and other liabilities	2,433	(694)
Accrued compensation	2,031	2,639
Deferred revenue	13,693	11,408
Net cash used in operating activities	(5,407)	(9,047)
Cash flows from investing activities		
Purchases of property and equipment	(2,019)	(564)
Capitalized internal-use software costs	—	(92)
Purchases of held-to-maturity investments	(34,696)	—
Net cash used in investing activities	(36,715)	(656)
Cash flows from financing activities		
Proceeds from initial public offering, net of underwriters' discounts and commissions	220,086	—
Payments of costs related to initial public offering	(5,208)	—
Proceeds from repayment of promissory note	515	—
Proceeds from issuance of common stock upon exercise of stock options	2,785	598
Proceeds from early exercised stock options, net of repurchases	—	2,234
Employee payroll taxes paid related to net share settlement of restricted stock units	(10)	—
Net cash provided by financing activities	218,168	2,832
Net increase (decrease) in cash, cash equivalents and restricted cash	176,046	(6,871)
Cash, cash equivalents and restricted cash at beginning of year	130,323	46,451
Cash, cash equivalents and restricted cash at end of year	\$ 306,369	\$ 39,580

PagerDuty, Inc.

Reconciliation of GAAP to Non-GAAP Data
(in thousands, except percentages and per share data)
(unaudited)

Three Months Ended July 31, 2019

	GAAP	Stock-based Compensation	Non-GAAP
Cost of revenue	\$ 6,106	\$ (327)	\$ 5,779
Gross profit	34,255	327	34,582
Gross margin	84.9 %	0.8%	85.7 %
Operating expenses:			
Research and development	11,635	(1,437)	10,198
Sales and marketing	23,786	(2,326)	21,460
General and administrative	13,215	(3,143)	10,072
Operating loss	(14,381)	7,233	(7,148)
Operating margin	(35.6)%	17.9%	(17.7)%
Net loss	\$ (12,570)	\$ 7,233	\$ (5,337)
Net loss per share	\$ (0.17)		\$ (0.07)

Three Months Ended July 31, 2018

	GAAP	Stock-based Compensation ⁽¹⁾	Non-GAAP
Cost of revenue	\$ 3,912	\$ (70)	\$ 3,842
Gross profit	23,832	70	23,902
Gross margin	85.9 %	0.3%	86.2 %
Operating expenses:			
Research and development	7,804	(398)	7,406
Sales and marketing	15,319	(914)	14,405
General and administrative	13,672	(7,364)	6,308
Operating loss	(12,963)	8,746	(4,217)
Operating margin	(46.7)%	31.5%	(15.2)%
Net loss	\$ (12,580)	\$ 8,746	\$ (3,834)
Net loss per share	\$ (0.59)		\$ (0.18)

(1) Stock-based compensation expense above includes \$6.2 million of non-cash charitable contribution expense.

PagerDuty, Inc.

Reconciliation of GAAP to Non-GAAP Data
(in thousands, except percentages and per share data)
(unaudited)

Six Months Ended July 31, 2019

	GAAP	Stock-based Compensation	Non-GAAP
Cost of revenue	\$ 11,592	\$ (470)	\$ 11,122
Gross profit	66,083	470	66,553
Gross margin	85.1 %	0.6%	85.7 %
Operating expenses:			
Research and development	22,541	(2,297)	20,244
Sales and marketing	44,953	(3,790)	41,163
General and administrative	25,699	(5,488)	20,211
Operating loss	(27,110)	12,045	(15,065)
Operating margin	(34.9)%	15.5%	(19.4)%
Net loss	\$ (24,634)	\$ 12,045	\$ (12,589)
Net loss per share	\$ (0.45)		\$ (0.23)

Six Months Ended July 31, 2018

	GAAP	Stock-based Compensation ⁽¹⁾	Non-GAAP
Cost of revenue	\$ 7,797	\$ (131)	\$ 7,666
Gross profit	44,967	131	45,098
Gross margin	85.2 %	0.2%	85.5 %
Operating expenses:			
Research and development	15,523	(1,113)	14,410
Sales and marketing	28,613	(1,766)	26,847
General and administrative	20,788	(8,893)	11,895
Operating loss	(19,957)	11,903	(8,054)
Operating margin	(37.8)%	22.6%	(15.3)%
Net loss	\$ (19,159)	\$ 11,903	\$ (7,256)
Net loss per share	\$ (0.91)		\$ (0.34)

(1) Stock-based compensation expense above includes \$6.2 million of non-cash charitable contribution expense.

Note: Certain figures in the tables above may not sum due to rounding.

PagerDuty, Inc.

Reconciliation of GAAP to Non-GAAP Financial Measures

(in thousands, except percentages and per share data)

(unaudited)

Free Cash Flow

	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Net cash provided by (used in) operating activities	\$ 2,159	\$ (4,737)	\$ (5,407)	\$ (9,047)
Less:				
Purchases of property and equipment	(829)	(182)	(2,019)	(564)
Capitalization of internal-use software	—	(92)	—	(92)
Free cash flow	<u>\$ 1,330</u>	<u>\$ (5,011)</u>	<u>\$ (7,426)</u>	<u>\$ (9,703)</u>
Net cash used in investing activities	(35,525)	(274)	(36,715)	(656)
Net cash (used in) provided by financing activities	(750)	2,533	218,168	2,832
Free cash flow margin	3.3%	(18.1)%	(9.6)%	(18.4)%