

Datadog, Inc. (NASDAQ: DDOG)

USD 229.29

Equity Research — Q2 2026 Results Review | Observability & Security Software

–19.0% on the day · Mkt cap USD 81.9bn

Report date: 7 August 2026 · Prices as of close 6 August 2026 · Horizon: 12–24 months · Previous report 25 July 2026 (Watchlist, \$246.86)

RECOMMENDATION	INVESTMENT SCORE	PROB-WEIGHTED FAIR VALUE	ACCUMULATION ZONE
WATCHLIST unchanged, new grounds	77 / 100 was 72 (25 Jul)	\$245 (+7%) was \$239 (–3%)	\$195–220 was \$185–215

Investment summary

Datadog reported the strongest quarter in its history as a public company and lost a fifth of its market value the same session. Second-quarter revenue of \$1.12bn grew 36% year on year and 11% sequentially — the fastest sequential rate since Q2 2022 and a record \$115m sequential addition — beating consensus of \$1.08bn by 3.7% and clearing the top of management's own guidance. Adjusted EPS of \$0.65 beat the \$0.58 estimate by 12%. Free cash flow of \$279m held a 25% margin, billings rose 38%, and remaining performance obligations rose 43% to \$3.47bn. Management then raised full-year revenue guidance to \$4.45–4.47bn from \$4.30–4.34bn. The shares fell 19.0% to \$229.29 on 3.2x average volume.

The reason is a single sentence in the outlook: Datadog signed a nine-figure renewal with its largest customer, a leading AI lab, and expects that customer's usage to decline from the third quarter. Third-quarter revenue is guided to \$1.135–1.145bn, or 28–29% growth — barely 1.7% above the June quarter against the 11.4% just delivered. The market read the sequential flatline as the end of the acceleration story and repriced accordingly, from an all-time high of \$292.72 set the previous session.

That reading is incomplete, and the call transcript is where it comes apart. Chief Executive Olivier Pomel stated that the largest customer was not additive to growth in the second quarter at all — the 36% was produced by the rest of the base, which has now accelerated for five consecutive quarters, with the non-AI cohort reaching the high-20% range from the mid-20s a quarter ago and 18% a year ago. Management also chose to "fully de-risk" the account in guidance rather than model it, which means the third-quarter number embeds close to a worst case for the one line investors care about. The deceleration being priced is therefore arithmetic on a single account, not a change in the underlying demand curve.

What has genuinely changed is the valuation. Enterprise value of \$78.1bn is 17.5x guided FY2026 revenue against 19.5x two weeks ago, and the probability-weighted fair value of \$245 now sits 7% above the market rather than 3% below it. That is an improvement, not an opportunity. A 52% base-case weighting that returns 6% over twelve months, against a 23% bear path to \$137, does not clear the bar for a name with a 7.1% average true range. The rating stays **Watchlist** — but for the opposite reason to last time. In July the business was excellent and the price was wrong. Today the price is close to fair and the question is whether the largest customer stabilises; a second quarter of confirmed broad-base acceleration with that account annualised out would convert this to a Buy.

Price (6 Aug 2026)	52-week range	Market cap	Enterprise value
\$229.29	\$98.01 – \$292.72	\$81.86bn	\$78.11bn
Q2 revenue	Q2 revenue growth	FY26E revenue (guide)	FY26E growth
\$1.121bn	+36% y/y, +11.4% q/q	\$4.45–4.47bn	~30%
EV / FY26E sales	EV / FY26E FCF	Forward P/E (non-GAAP)	Net cash
17.5x (was 19.5x)	~67x (was ~70x)	~91x (was ~103x)	\$3.75bn (\$10.50/sh)

Sources: Alpha Vantage TIME_SERIES_DAILY (price and OHLCV, close 6 Aug 2026); Datadog Q2 2026 earnings release and call, 6 Aug 2026; prior Beating The Bull report, 25 Jul 2026. Market cap and enterprise value are calculated from a 357.0m share count and \$5.00bn cash less

\$1.25bn debt; both are derived figures, not company-reported.

The debate in one table

What the quarter proved	What the quarter cost
Revenue accelerated to 36% at a \$4.5bn run-rate, beating consensus by 3.7% and clearing the top of guidance. The \$115m sequential addition was a record by a wide margin.	Third-quarter guidance of \$1.135–1.145bn implies +1.7% sequentially after +11.4%. Whatever the cause, the reported growth rate halves within two quarters.
The largest customer contributed nothing to second-quarter growth, per management. The 36% was the rest of the base — which has now accelerated five quarters running.	A single account still large enough to remove ~7 points of group growth when it steps down is a structural feature of usage-based billing, not a one-off.
Non-AI customer growth reached the high-20% range , from mid-20s last quarter and 18% a year ago. This was the specific test the prior report set for an upgrade.	Management declined to say whether the decline is churn, in-sourcing or a lower unit price. Pomel's answer on renewal stickiness was "there's a lot of continuity in that renewal."
Guidance was raised to \$4.45–4.47bn from \$4.30–4.34bn, and management says the largest customer is now "fully de-risked" inside it rather than modelled.	The implied Q4 exit growth rate is roughly 25% , against 36% just printed. FY2027 consensus has to come down, and 17.5x forward sales still assumes it does not come down far.

1. What actually happened, and the framework used to judge it

Datadog sells a unified observability and security platform. Customers install an agent, connect more than 700 integrations, and the platform ingests infrastructure metrics, application traces, logs, real-user sessions, security signals and, increasingly, LLM and GPU telemetry. Billing is predominantly usage-based — per host, per million log events, per span, per gigabyte indexed — generally against an annual committed spend. That model is the source of both the upside and the fragility. When customers deploy more compute, revenue rises without a sales cycle; when they optimise or migrate, it falls the same way, and it falls without warning. The second quarter of 2026 is the cleanest illustration of both halves of that sentence the company has yet produced.

The prior report, published on 25 July at \$246.86, set an explicit falsifiable test: "If Q2 prints revenue above \$1.09bn with non-AI-native growth still in the mid-20s% and the full year raised toward \$4.40bn, the deceleration thesis is wrong and the multiple is defensible." All three conditions were met, and two were exceeded. The same report also listed "the largest customer disclosed as flat or declining" as a trigger to move to Avoid. That was met too. Both cannot be honoured, so the framework below is rebuilt around which of the two carries more information about the next two years.

Variable	Why it decides the outcome	Q2 2026 reading	Verdict
Breadth of the core	If growth is concentrated in frontier labs it is lumpy and negotiable; if it lifts the mainstream base it is a durable secular driver.	Non-AI cohort at high-20s% from mid-20s% and 18% a year ago. Pomel: five consecutive quarters of acceleration ex the largest account.	Improved
Largest-customer concentration	A usage-billed account that can step down 30–40% in a quarter removes several points of group growth with no notice and no recourse.	Renewed on a nine-figure deal; usage already declined sequentially in Q2 and is guided lower from Q3. Magnitude undisclosed.	Crystallised
Net revenue retention	Usage-based expansion is the compounding mechanism; every point of NRR is roughly a point of organic growth.	Low 120s% on a trailing-twelve-month basis, unchanged from Q1. Gross retention mid-to-high 90s%.	Holding
Product attach	Multi-product customers churn less and expand faster; attach is the clearest evidence the platform consolidation pitch is landing.	58% of customers on 4+ products (52% a year ago), 37% on 6+ (29%), 13% on 10+ (7%). RUM passed \$200m ARR, growing 50%+.	Improved

Variable	Why it decides the outcome	Q2 2026 reading	Verdict
Margin trajectory	AI telemetry is data-heavy; ingest and GPU-adjacent workloads can dilute the 80% gross margin and cap operating leverage.	Gross margin 79.6%, below 80% for the first time (80.2% Q1, 80.9% a year ago). Operating margin 23%, up from 22% and 20%.	Watch

2. The quarter in numbers

Every line of the reported quarter was better than expected, and better than the quarter before it. Revenue of \$1.121bn was 3.7% above the \$1.08bn consensus and above the top of management's own range. The 11.4% sequential increase was the fastest since the second quarter of 2022, and the \$115m of sequential dollars was, in Chief Financial Officer David Obstler's words, "a record by a wide margin." Billings of \$1.18bn grew 38%, ahead of revenue — a leading indicator that usually precedes revenue rather than trails it. Remaining performance obligations of \$3.47bn grew 43%, with current RPO up about 40%, so the forward contracted book is growing faster than the recognised line.

Metric	Q2 2026	Q1 2026	Q2 2025	Read-through
Revenue	\$1,121m	\$1,006m	~\$824m	+36% y/y, +11.4% q/q. Fifth consecutive quarter of accelerating year-on-year growth.
Adjusted EPS	\$0.65	—	—	Beat the \$0.58 consensus by \$0.07, or 12.1%. No material one-off items identified in the release.
Non-GAAP gross margin	79.6%	80.2%	80.9%	Third consecutive decline and the first sub-80% print. AI telemetry is data-heavy; this is the line to watch, not the growth rate.
Non-GAAP operating income	\$257m	—	—	23% margin, up from 22% in Q1 and 20% a year ago. Operating leverage is offsetting gross-margin erosion, for now.
Free cash flow	\$279m	\$289m	—	25% margin against 29% in Q1. Cash flow from operations \$316m.
Billings	\$1,180m	—	—	+38% y/y, running ahead of revenue growth.
Remaining perf. obligations	\$3,470m	—	—	+43% y/y; current RPO +40%. Forward book stronger than the print.
Customers	~33,400	~33,200	~31,400	Modest logo growth; the story is spend per logo, not logo count.
Customers ≥ \$100k ARR	~4,720	~4,550	~3,850	+23% y/y and now ~91% of ARR. Enterprise new-logo annualised bookings more than doubled.
Cash & securities	\$5.00bn	—	—	Net cash of roughly \$3.75bn, or \$10.50 per share. No funding risk under any scenario modelled.

Q2 2025 revenue is derived from the reported 36% growth rate and is approximate. Q1 2026 figures are from the prior report. Dashes indicate the comparative was not disclosed in the sources used.

Two qualifications belong alongside those numbers. The first is gross margin, which fell below 80% for the first time and has now declined for three consecutive quarters. The trend is small in each period and consistent in direction, and it is exactly what the ingest economics of AI telemetry would predict. It is being masked by operating leverage — the operating margin improved to 23% despite the gross-margin erosion — but operating leverage is finite and gross margin is structural. The second is that free cash flow margin fell to 25% from 29%, which is partly seasonal and partly the capital intensity of supporting GPU-adjacent workloads; management guided capital expenditure and capitalised software to 4–5% of revenue for the year.

3. The largest customer: what was said, and what it is worth

This is the only part of the release that moved the stock, so it deserves precision rather than characterisation. Datadog disclosed that it had signed a nine-figure renewal with a longtime leading AI customer that uses 17 of its products, and

that it expects a reduction in that customer's usage beginning in the third quarter. Obstler added that usage had *already* declined sequentially in the second quarter. Pomel declined to tell Morgan Stanley's Sanjit Singh whether the reduction reflected churn, in-sourcing or a lower unit price, and answered Wolfe Research's question on renewal stickiness with "there's a lot of continuity in that renewal." Those are hedges, and they should be recorded as hedges.

Against that, two disclosures cut the other way, and both are more quantitative than the hedges:

"If you backed out our largest customer from our growth, you get pretty much the same growth rate as the rest of the business has been accelerating very steadily. Actually, we've seen now five quarters of continuous acceleration from the rest of the business." — Olivier Pomel, Q2 2026 earnings call

"We did choose to fully de-risk our largest customer. The reason for that is we don't want that to be an overhang on what is otherwise a business that is accelerating and performing extremely well." — Olivier Pomel, same call

The first says the 36% growth rate contained no contribution from the account that just fell. Stifel's Brad Reback put the same point to management directly — that the largest customer "was not additive to growth here in 2Q" — and was not contradicted. The second says the guidance treats the account punitively rather than probabilistically, which is a different statement from the usual "conservatism" boilerplate and was flagged as such by Pomel.

How large is the step-down? Management would not say, so the figure below is derived from the guidance bridge rather than disclosed, and the assumptions are shown so the arithmetic can be challenged. Second-quarter revenue was \$1.121bn and third-quarter guidance is \$1.140bn at the midpoint, a sequential increase of 1.7%. If the rest of the business grows sequentially at the 5.5–6.5% implied by its year-on-year rate, the residual attributable to the largest account is a sequential decline of roughly a third:

Largest account, % of Q2 revenue	Assumed growth, rest of base	Implied account decline, Q3 q/q	Implied \$ impact, annualised
8%	+5.5% q/q	–42%	~\$151m
10%	+5.5% q/q	–33%	~\$146m
12%	+5.5% q/q	–26%	~\$141m
10%	+6.5% q/q	–42%	~\$186m

Derived by the author from Q2 actuals and Q3 guidance midpoint; not a company disclosure. The account was last formally sized at 12% of revenue in Q3 2025 and sell-side estimates placed it just under 10% by mid-2026. Because management states the guidance is fully de-risked rather than modelled, these figures should be read as an upper bound on the decline, not a central estimate.

So the order of magnitude is \$140–190m of annualised revenue, against a base guided to \$4.46bn — roughly 3–4% of the company. That is a meaningful but survivable hit, and it explains a repricing of perhaps 5–8%. It does not by itself explain 19%. The remaining 11–14 points are multiple compression: the market had extrapolated 36% and is now marking to an exit rate near 25%.

4. Industry position and competition

Datadog was named a leader in the Gartner Magic Quadrant for observability platforms for the sixth consecutive year. The competitive structure has not changed this quarter and remains three-sided: Dynatrace and New Relic in classic APM, Splunk (now Cisco) and Elastic in logging and security analytics, and Grafana with the open-source stack at the low end. The durable threat is not any one of them but the hyperscalers' native tooling — CloudWatch, Azure Monitor, Google Cloud Operations — which is cheaper, worse, and bundled. Datadog's defence is that its customers are multi-cloud and its differentiation is breadth of correlation across the whole estate, which a single-cloud tool cannot replicate.

The product-attach data is the strongest evidence that defence is working. Customers on four or more products rose to 58% from 52% a year ago, on six or more to 37% from 29%, and on ten or more to 13% from 7%. That last figure nearly doubled in twelve months and is the one that matters: a customer running ten Datadog products has made an architectural commitment that a procurement cycle cannot easily reverse. The company also cited a multi-year deal

worth over \$30m in total contract value with an online media company that replaced four commercial and internal tools, including Datadog's largest Bring Your Own Cloud win to date at petabyte-scale logging. Consolidation is the pitch and it is converting.

The strategic direction announced at the DASH conference in June — more than 100 products and features, including Bits AI for incident detection, investigation, remediation and code fixes — reframes the category. Pomel's formulation on the call was that "the future of observability is not just observing, it's fixing." That expands the addressable budget from monitoring into operations, but it also invites the question one analyst raised directly: if automation fixes problems faster, does it reduce consumption of the core monitoring products that generate the revenue? Management's answer was that customers want software that makes them money or saves them money, and that the new cost-focused products are designed for exactly that. It is a reasonable answer and an unproven one.

5. Management and guidance accuracy

Guidance accuracy is one of the few genuinely testable measures of a management team, and this quarter supplies a clean test. Management guided the second quarter and delivered revenue above the top of its own range, and delivered adjusted EPS 12% above the consensus built on that guidance. It then raised the full-year revenue guide by roughly \$135m at the midpoint, or 3.1%, to \$4.45–4.47bn from the \$4.30–4.34bn in force at the time of the prior report. A team that raises the year while disclosing a headwind in the same breath is not managing the narrative.

The disclosure quality on the largest customer deserves specific credit. Datadog volunteered a negative that no accounting standard compelled it to volunteer, quantified its effect inside guidance, and stated plainly that it had chosen to de-risk rather than model the account. Obstler's framing — "we take what we see and provide some conservatism" — is the same methodology the company has used since listing, applied more harshly to one line. The cost of that honesty was roughly \$18bn of market value in a session. Set against that, the refusal to say whether the decline is churn or repricing is a real gap, and it is the single question the next call must answer.

Insider activity remains a persistent drip of founder diversification under pre-existing 10b5-1 plans, including a director sale of \$3.59m disclosed on 6 August. Sales scheduled months in advance and executed into an earnings print carry no signal. Insider ownership was 5.63% at the time of the prior report.

6. Growth drivers

Driver	Mechanism	Likelihood	Impact
Broad AI-adoption cycle	Enterprises modernising for AI deploy more cloud, which mechanically increases telemetry volume. Over 750 AI customers, including all 10 of the identified top AI leaders; 31 spend over \$1m and 8 over \$10m.	High	High
Platform consolidation	Displacing four to six point tools per account. Attach at 10+ products nearly doubled year on year; enterprise new-logo annualised bookings more than doubled.	High	High
Bits AI and remediation	Moves the product from observing to fixing, expanding the addressable budget from monitoring into operations spend. 100+ features launched at DASH in June.	Medium	Medium-High
Infinite Cardinality Metrics	Removes the cost penalty for granular metrics, addressing the most persistent customer objection to usage-based billing — unpredictable bills.	Medium	Medium
Federal and international	FedRAMP High opens US government; non-North American revenue was ~28% of total, well short of saturation.	Medium	Medium

7. Risks

Risk	Description	Probability	Severity
Largest customer declines further	The Q3 step-down is guided; a second leg, or the loss of a second AI-lab account on similar terms, is not. The magnitude and cause are both undisclosed.	Medium	High
AI-lab in-sourcing	Frontier labs have the engineering capacity to build internal observability. Every large customer that does so is a permanent, not cyclical, loss.	Medium	High
Gross-margin erosion	Three consecutive quarters of decline to 79.6%. AI telemetry ingest is structurally more expensive than classic APM data.	Medium-High	Medium
Multiple compression	At 17.5x forward sales, a move to the 12–13x that a 22–24% grower typically commands is a further 25–30% de-rating with no change in fundamentals.	Medium	High
Usage-model reflexivity	Revenue falls without a sales cycle when customers optimise. A broad cloud cost-cutting cycle would hit the whole base simultaneously, as in 2023.	Low-Medium	High
Automation cannibalisation	If Bits AI resolves incidents faster, it may reduce consumption of the monitoring products that carry the revenue. Unresolved.	Low	Medium

8. Valuation

The single most useful thing to say about the valuation is that it moved in the investor's favour while the revenue base moved up. Enterprise value fell from \$84.4bn to \$78.1bn on the price move, while guided FY2026 revenue rose from \$4.32bn to \$4.46bn at the midpoint. The forward sales multiple therefore compressed from 19.5x to 17.5x, a 10% de-rating on top of a 3% upgrade to the denominator. Forward non-GAAP P/E fell from roughly 103x to 91x on the new \$2.50–2.54 range.

The free cash flow multiple barely moved — from roughly 70x to 67x — because the second quarter's 25% FCF margin is below the 29% run-rate assumed in July. That divergence is worth noting: on sales the stock got meaningfully cheaper, on cash flow it did not. Cash conversion, not revenue, is where the AI-telemetry cost structure will show up first, and it is the number to check next quarter.

Method	Basis	Implied value	Comment
EV / FY26E sales	\$78.1bn / \$4.46bn	17.5x	Was 19.5x on 24 July. Peer set of 25–30% growers trades 11–15x; a premium remains but it is no longer extreme.
EV / FY27E sales	\$78.1bn / \$5.40bn	14.5x	Author's FY27 estimate assuming 21% growth. This is the multiple that matters once the account annualises out.
Forward P/E (non-GAAP)	\$229.29 / \$2.52	91x	Was ~103x. Non-GAAP excludes material stock-based compensation; treat as a relative gauge only.
EV / FY26E FCF	\$78.1bn / \$1.16bn	67x	Barely improved from ~70x because the FCF margin assumption fell from 29% to 26%.
Scenario blend	FY2028E, prob-weighted	\$245	Primary valuation output — see section 12. Was \$239 against a \$246.86 price; now \$245 against \$229.29.
Sell-side consensus	~35–47 analysts	~\$276	Pre-print mean; revisions are in flight and split in both directions. Treat as stale until the post-earnings mean settles.

Enterprise value is derived from a 357.0m share count, \$5.00bn cash and securities and an assumed \$1.25bn of convertible debt. FY2027 revenue and FY2026 free cash flow are the author's estimates, not company guidance.

Conclusion on valuation: approximately fair, with the balance of error to the upside. The July report concluded modestly overvalued with a fair-value range of \$220–245 against a \$246.86 price. The equivalent range today is \$225–255 on a slightly higher revenue base, against \$229.29. The stock has moved from the top of its fair-value band to

the bottom of it in eight sessions. That is a genuine improvement and it is not the same thing as cheap.

9. Scorecard

Factor	Score	Assessment vs 25 July report
Business quality unchanged	9 / 10	Platform attach improved on every cohort; Gartner leader for a sixth year. Nothing in the quarter changed the quality of the asset.
Financial strength unchanged	9 / 10	\$5.0bn cash, ~\$3.75bn net cash, 25% FCF margin, no funding risk. FCF margin compression is the only blemish.
Competitive advantage unchanged	8 / 10	Customers on 10+ products nearly doubled to 13%. Hyperscaler native tooling remains the structural ceiling.
Management ▲ from 8	9 / 10	Beat its own guide, raised the year, and volunteered the bad news with the arithmetic attached. Upgraded on disclosure quality.
Growth potential unchanged	9 / 10	Core accelerating five quarters running, offset by a real and disclosed headwind. Net unchanged.
Valuation ▲ from 3	5 / 10	17.5x forward sales from 19.5x, and the price now sits below the prior fair-value estimate. Upgraded, but not to cheap.
Risk profile (10 = safest) ▲ from 5	6 / 10	The binary event has passed and the concentration risk is now disclosed and guided rather than latent. Offset by a 7.1% ATR.
Technical setup ▼ from 5	3 / 10	Broke the 20- and 50-day averages on 3.2x volume, 21.7% below an all-time high set the previous session. Downgraded.

Weighting used to derive the overall score	Weight	Score	Contribution
Growth potential	20%	9	1.80
Valuation	20%	5	1.00
Business quality	15%	9	1.35
Competitive advantage	13%	8	1.04
Financial strength	12%	9	1.08
Management	10%	9	0.90
Risk profile	7%	6	0.42
Technical setup	3%	3	0.09
Overall investment score	100%		77 / 100

Weights are unchanged from the 25 July report so the two scores are directly comparable. Prior score: 72 / 100.

10. Sentiment and positioning

Indicator	Reading	Interpretation
Post-print target revisions — raised	Raymond James \$280 (from \$220); Baird \$300, Buy maintained; William Blair reiterated Buy	The bulls read the core acceleration as the signal and the account step-down as noise. Raymond James moved 27% higher on the print.
Post-print target revisions — cut	JP Morgan \$305 (from \$320); Jefferies \$260 (from \$280)	Both cuts are modest and both remain above the market price. Notably, no firm cut its rating on the quarter.

Indicator	Reading	Interpretation
Dispersion	Post-print targets span roughly \$260 to \$305	A \$45 spread on a \$229 stock. The disagreement is about the size of the largest-customer hole, which nobody outside the company can size.
Pre-print consensus	~\$276 mean target, Buy consensus	Stale by construction — it was set before the guidance. The post-print mean will settle lower but still above spot.
Price reaction	–19.0% to \$229.29 on 15.0m shares, 3.2x the 20-day average	Genuine distribution, not a thin-tape gap. The intraday high of \$243.00 was sold.
Insider activity	Director sale of \$3.59m disclosed 6 August	Pre-scheduled 10b5-1 execution. No signal.
Short interest	4.14% of shares out, 2.53 days to cover (as at 25 July)	Not a crowded short and not a squeeze setup. Post-print data not yet available.
moomoo news digest	Mixed / neutral	Coverage split between "worst day in three years despite earnings beat" and "technicals sour" on one side and multiple target raises on the other.

11. Technical analysis

All indicators below were computed in code from the daily OHLCV series (100 sessions, 16 March – 6 August 2026) rather than read from a third-party summary. The series is shorter than 200 sessions, so the 200-day average is reported as not computed rather than estimated.

Indicator	Value	Signal
Close (6 Aug 2026)	\$229.29	–19.0% on the session; –21.7% from the 5 August all-time high of \$292.72
SMA 20	\$260.33	Price 11.9% below — short-term trend broken
SMA 50	\$248.83	Price 7.9% below — medium-term trend broken; the 50-day held on every pullback since April until this session
SMA 100	\$197.89	Price 15.9% above — intermediate uptrend still intact. This is the first real support
SMA 200	not computed	Series is 100 sessions; no estimate substituted
EMA 20 / EMA 50	\$259.30 / \$241.78	Price below both — no remaining short- or medium-term support above
RSI (14)	39.0	Below 40 for the first time since March, but not oversold. One more down session would take it under 30
MACD (12,26,9)	5.30 vs signal 6.69	Histogram –1.40 and widening. The single-session drop has not yet propagated into the averages
ATR (14)	\$16.34 (7.1%)	Up from 5.0% in July. Position sizing must assume 7% daily swings for several weeks
Volume vs 20-day avg	15.03m vs 4.71m	3.2x — institutional distribution, not a retail gap
52-week range	\$98.01 – \$292.72	Still 134% above the 52-week low. The stock has given back eight weeks of gains, not eight months

The structure is a strong primary uptrend that has just taken its first real damage. Price made an all-time high of \$292.72 on 5 August, the session before the print, and closed the next day 21.7% lower, below both the 20- and 50-day averages simultaneously on 3.2 times average volume. Support sits first at the 6 August low of \$225.26, then the \$220–224 late-June consolidation shelf, then the 100-day at \$197.89, then the 18 May base at \$208 — note that the 100-day and the May base bracket rather than confirm each other, so the \$198–208 zone is the meaningful floor rather than any single line. Resistance is now the gap: \$243.00 was the intraday high, then \$248.83 at the 50-day, then the untested air up to \$283.

The prior report specified a first-tranche technical trigger of "a hold of \$220–224 with RSI below 40 and a MACD re-cross." One of three conditions is now met — RSI at 39.0. Price has not yet tested the shelf and MACD is moving the wrong way. Technicals here inform timing only and do not alter the fundamental view.

12. Recommendation: WATCHLIST

The rating is unchanged and the reasoning behind it has inverted, which is worth stating explicitly rather than leaving implicit. On 25 July the conclusion was that Datadog was an excellent business at a price that had already paid for the excellence: 19.5x forward sales, a probability-weighted fair value 3% below the market, and a binary event eight sessions away. That call was right in direction and wrong in cause. The deceleration arrived, but it did not come from the broad base decelerating — the broad base accelerated again, for a fifth consecutive quarter. It came from one account stepping down.

That distinction decides the verdict. A company decelerating because its market is saturating is a structurally different asset from a company decelerating because one customer cut usage while every other cohort improved. The first is a re-rating that keeps going; the second is a reset that creates a base. Everything disclosed this quarter points to the second. The problem is that the market has already priced much of that distinction: at \$229.29 the shares sit at the bottom of a \$225–255 fair-value band rather than below it, and the probability-weighted fair value of \$245 offers 7% over twelve months. Seven per cent is not compensation for a 7.1% average true range and an undisclosed hole in the largest account.

Not a buy at this price — what would change the view	Level or event
Preferred accumulation zone (base-case fair value with a margin of safety)	\$195–220 — roughly 12–14x FY2027E sales, and the zone where the 100-day average and the late-June shelf sit
First-tranche trigger on a technical reset	A hold of \$225 or a reclaim of \$243 with RSI recovering through 45 and a MACD re-cross
Fundamental trigger to upgrade to Buy	Q3 delivering above the \$1.145bn top of guidance <i>and</i> non-AI cohort growth holding in the high-20s%. That combination would confirm the de-risking was punitive and the core is intact
Second, independent upgrade trigger	Disclosure quantifying the largest customer's new run-rate, at any level. The discount here is for uncertainty as much as for the loss
Fundamental trigger to move to Avoid	Non-AI cohort growth decelerating below 22%, <i>or</i> gross margin below 78.5%, <i>or</i> a second large AI account disclosed as declining
Level that would confirm the bear case technically	A daily close below \$197.89 (the 100-day average) on above-average volume
Level that would force a re-rate of the bull case	A weekly close above \$248.83 (the 50-day) reclaiming the broken trend

For an investor who already owns the position, the appropriate action is hold. The quarter improved the business and the disclosure removed an overhang that would otherwise have hung over the next two prints; selling a 19% single-session drawdown in a company that just raised guidance is the wrong response to the wrong signal. For an investor with no position, the disciplined approach is a first tranche in the \$195–220 band and patience with the possibility that it does not trade there. A 7.1% ATR makes a further 10% drawdown a matter of two ordinary sessions, and the post-earnings drift in usage-based software names has historically run lower for several weeks after a guidance disappointment of this shape.

No entry, stop-loss or profit-target framework is provided, because the recommendation is not a buy at the prevailing price. Should the shares reach the accumulation zone, a stop below \$185 and a 24-month objective of \$300–340 would frame roughly 2.2–2.7:1 reward-to-risk on a 2–3% portfolio position.

13. Scenario analysis

Scenario	Revenue path	Profitability	FY2028E fair value	Prob.
Bull — the step-down is a one-account event and the core keeps compounding	FY27 \$5.65bn (+27%), FY28 \$7.06bn (+25%). Largest account stabilises at the new level; non-AI cohort holds high-20s%; inference-layer observability opens a second wave.	FCF margin expands to 33% (\$2.33bn). Non-GAAP operating margin 26–27% as leverage resumes.	\$349 +52%	25%
Base — orderly deceleration from an exceptional level	FY27 \$5.40bn (+21%), FY28 \$6.42bn (+19%). Largest account annualises out through H1 2027; non-AI base settles low-20s%; no further concentration surprises.	FCF margin 30% (\$1.93bn). Gross margin drifts to 78–79%; operating margin 24–25%.	\$242 +6%	52%
Bear — AI digestion broadens beyond one account	FY27 \$5.10bn (+14%), FY28 \$5.71bn (+12%). A second lab in-sources; frontier capex pauses; cost-optimisation returns across the enterprise base as it did in 2023.	FCF margin compresses to 28% (\$1.60bn) as ingest costs rise faster than revenue.	\$137 –40%	23%

Valuations blend an EV/Sales and an EV/FCF exit multiple applied to FY2028 estimates (bull 17x / 52x, base 13x / 42x, bear 8x / 27x), add accumulated net cash and divide by a share count grown 1.2% per annum. Multiples and methodology are unchanged from the 25 July report so the outputs are directly comparable. Probabilities sum to 100% and were computed in code. **Probability-weighted fair value: \$245**, or 7% above the 6 August close of \$229.29. The prior report's figure was \$239, 3% below a \$246.86 close.

The probability shift versus July is small and deliberate: bear weighting moves from 25% to 23% and base from 50% to 52%. The reasoning is that half of the July bear case — "largest customer flat or in-sourced" — has now actually happened and been absorbed into a raised full-year guide, which converts a tail risk into a known quantity. The other half, cost-optimisation returning across the base, moved further away when the non-AI cohort accelerated. The bull weighting is unchanged because nothing this quarter made the second-S-curve case more likely; it made the base case more defensible.

14. Final verdict

Would this be a personal investment today, at \$229.29? Not yet — but the gap between that answer and yes has narrowed considerably, and for reasons that are worth being precise about.

The market spent one session repricing Datadog from a company growing 36% to a company growing 25%, and it did so on a guidance change that management explicitly described as punitive rather than predictive. That is a real and rational repricing — an exit growth rate near 25% does not support 19.5x forward sales — but it conflates two very different things. The rate at which Datadog's core business is winning customers, displacing point tools and expanding within accounts improved in this quarter on every measurable dimension: non-AI cohort growth from mid-20s to high-20s, ten-plus product attach from 7% to 13%, enterprise new-logo bookings more than doubled, RPO up 43% against revenue up 36%. None of that is consistent with a business whose demand is rolling over. What rolled over is one contract.

The honest bear response is that the concentration is the business model, not an accident of it. A usage-billed vendor to frontier AI labs will always have an account large enough to move the group number, and the fact that this one stepped down 30-something per cent in a quarter without Datadog being able to say why is the whole argument for a lower multiple. Management's refusal to characterise the decline as churn versus repricing is the single most important unanswered question in the story, and it will stay unanswered for ninety days. A stock priced at 17.5x forward sales with an unquantified hole in its largest account is not obviously mispriced.

Which leaves the arithmetic. A probability-weighted fair value of \$245 is 7% above the market. The base case, at 52%, returns 6%. The distribution is \$349 against \$137 — wide, roughly symmetric, and skewed such that the downside arrives in single sessions while the upside accrues over quarters, which is exactly the shape that punishes investors who size positions off expected value alone. Seven per cent of expected return does not buy that risk.

The single thing that would change this, stated as a falsifiable proposition: if the third quarter prints above the \$1.145bn top of guidance with the non-AI cohort still in the high-20s%, then the de-risking was punitive as claimed, the core is intact as claimed, and the stock is being valued off a trough that management manufactured. That is a Buy, and at a materially higher price than today. Until 5 November, the disciplined position is a watchlist entry with a \$195–220 accumulation band and the recognition that this is now a much better risk than it was two weeks ago at a \$17.57 higher price.

Data provenance and as-of dates

Data point	Source	As of
Share price \$229.29; daily OHLCV series (100 sessions) for all computed indicators	Alpha Vantage TIME_SERIES_DAILY (compact)	16 Mar – 6 Aug 2026
Q2 2026 revenue, EPS, margins, billings, RPO, customer counts, product attach, guidance	Datadog Q2 2026 earnings call coverage, MarketBeat — marketbeat.com/instant-alerts/datadog-q2-earnings-call-highlights-2026-08-06/	6 Aug 2026
Earnings call transcript — management prepared remarks and full analyst Q&A, including the largest-customer exchanges with Morgan Stanley, Wolfe Research and Stifel	Investing.com earnings call transcript — investing.com/news/transcripts/earnings-call-transcript-datadog-beats-q2-2026-estimates-but-shares-fall-156-93CH-4842560	6 Aug 2026
Analyst target revisions (Raymond James, Baird, JP Morgan, Jefferies, William Blair); director Form 4 sale; market-reaction coverage	moomoo news search API, timestamps verified 6–7 Aug 2026	6–7 Aug 2026
Prior verdict, prior levels, prior scores and weights, Q1 2026 comparatives, short interest, insider ownership, 52-week low	Beating The Bull, DDOG equity research report	25 Jul 2026
Implied largest-customer decline; enterprise value; forward multiples; scenario fair values and probability weighting	Author's calculations, computed in code from the sources above. Inputs and assumptions are stated beside each figure.	7 Aug 2026

The earnings call transcript was obtained and reviewed; management quotations in this report are taken from it directly. Where sources conflicted, primary disclosures and the company's own statements were used — note that several outlets reported a 15.6% decline, which was the premarket move to \$239; the session closed at \$229.29 for a 19.0% loss, and the closing figure is used throughout. Datadog reports on a 31 December fiscal year end, so fiscal and calendar quarters coincide. Non-GAAP figures exclude stock-based compensation, amortisation of acquired intangibles, employer payroll taxes on equity, M&A transaction costs and amortisation of issuance costs; the difference between GAAP and non-GAAP results is material. Figures described as derived, implied or estimated are the author's calculations and are not company-reported measures. This report is prepared from public information for informational purposes only and does not constitute investment advice, a recommendation to transact, or an offer to buy or sell any security.