

Datadog, Inc. (NASDAQ: DDOG)

Equity Research — Initiation of Coverage | Observability & Security Software

Report date: 25 July 2026 · Prices as of close 24 July 2026 · Horizon: 12–24 months

USD 246.86

Mkt cap USD 87.9bn

RECOMMENDATION

WATCHLIST

INVESTMENT SCORE

72 / 100

12-MO FAIR VALUE (PROB-WTD)

\$239 (–3%)

ACCUMULATION ZONE

\$185–215

Investment summary

Datadog is, by most operating measures, the best-executing company in enterprise infrastructure software today. First-quarter 2026 revenue of \$1,006m grew 32% year on year — the fourth consecutive quarter of acceleration, from 25% a year ago through 28%, 29% and now 32% — while free cash flow of \$289m held a 29% margin and annual recurring revenue crossed \$4bn. Crucially, the acceleration was not confined to the AI-native cohort: revenue from customers excluding AI natives grew in the mid-20% range, up from 23% the prior quarter and 19% a year earlier. That is the single most important number in the release, because it says the reacceleration is a broad cloud- and AI-adoption cycle rather than a handful of frontier-lab contracts.

The market has repriced the equity accordingly. The shares have compounded 71% over twelve months and roughly 134% from the 3 March 2026 low of \$105.37, including a 31% single-session gap on the Q1 print. At \$246.86 the enterprise value of \$84.4bn equates to 19.5x guided FY2026 revenue and roughly 70x FY2026 estimated free cash flow. Those multiples are not absurd for a business growing 30%+ with 80% gross margin and mid-to-high-90s gross retention — but they leave no margin for the deceleration that consensus itself models, with three-year forward revenue growth pencilled at 24%.

A scenario-weighted valuation built on FY2028 revenue and free cash flow, blending EV/Sales and EV/FCF exit multiples, produces a fair value of approximately \$239 — 3% below the current quote. The distribution is what matters more than the point estimate: a bull path to \$339 (+37%) against a bear path to \$133 (–46%). Reward and risk are close to symmetric in magnitude but the downside arrives faster, because a usage-based revenue model with a ~10–12% single-customer concentration re-rates violently on one soft sequential print. The recommendation is therefore Watchlist rather than Buy: own the business, but not at 19.5x forward sales with momentum already rolling over into a 6 August earnings date.

Price (24 Jul 2026) \$246.86	52-week range \$98.01 – \$278.71	Market cap \$87.87bn	Enterprise value \$84.40bn
Shares outstanding 355.96m	Net cash \$3.47bn (\$9.76/sh)	FY26E revenue (guide) \$4.30–4.34bn	FY26E revenue growth 25–27%
EV / FY26E sales 19.5x	EV / FY26E FCF ~70x	Forward P/E (non-GAAP) ~103x	Next earnings 6 Aug 2026 (BMO)
Consensus PT (47 analysts) \$265.53 (+7.6%)	Beta (5Y) 1.54	Short interest 4.14% of shares out	Dividend None

Sources: Alpha Vantage GLOBAL_QUOTE (price, 24 Jul 2026); Datadog Q1 2026 press release (7 May 2026); StockAnalysis.com statistics page (checked 25 Jul 2026).

The debate in one table

The bull case rests on	The bear case rests on
Four consecutive quarters of revenue acceleration — 25% → 28% → 29% → 32% — at a \$4bn ARR base, which is close to unprecedented at this scale.	A full-year guide of 25–27% that implies the 32% quarter is the peak, against comparison bases that get materially harder in Q3 and Q4.
Acceleration excluding AI-native customers to the mid-20s%, from 19% a year ago — evidence of a broad cycle, not a frontier-lab artefact.	Roughly 85% of revenue is still non-AI, and a single account at approximately 10–12% of revenue whose spend Datadog explicitly discounts in guidance.
Two eight-figure-class training-workload lands opening an addressable market that did not exist two years ago, plus FedRAMP High unlocking federal.	Multiple expansion from roughly 11x to 19.5x forward sales in eleven weeks, leaving intrinsic valuation methods \$45–100 below the market price.

1. How Datadog makes money, and the framework used to judge it

Datadog sells a unified observability and security platform for cloud applications. Customers install an agent and connect integrations — more than 700 of them — and Datadog 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 GB indexed, generally against an annual committed spend. That model is the source of both the upside and the fragility in the story. When customers deploy more compute, Datadog's revenue rises without a sales cycle; when they optimise, it falls the same way.

Twenty-six products are now shipped. Five exceed \$100m of ARR, three sit between \$50m and \$100m, and eighteen are sub-scale. Land-and-expand is the engine: 85% of customers use two or more products, 56% use four or more (from 51%), 35% use six or more (from 28%) and 20% use eight or more (from 13%). About 4,550 customers spend \$100k+ annually and generate roughly 90% of ARR; the total base is approximately 33,200 accounts. Non-North American revenue is about 28% of the total, so international remains a genuine expansion vector rather than a saturated one.

The five variables that will determine shareholder returns to 2028

Variable	Why it decides the outcome	Current reading	Verdict
Net revenue retention	Usage-based expansion is the compounding mechanism; every point of NRR is roughly a point of organic growth.	Low 120s%, up from ~120% in Q4 2025 and from the ~111% trough in 2023.	Improving
Breadth of the AI tailwind	If AI revenue is concentrated in frontier labs it is lumpy and negotiable; if it lifts the mainstream base it is a durable secular driver.	Non-AI-native cohort accelerated to mid-20s% from 23% and 19%. 6,500+ customers now send AI-integration data (20% of customers, 80% of ARR).	Broad
Largest-customer concentration	The single account (widely identified as OpenAI) was disclosed at 12% of revenue in Q3 2025; a flat renewal removes several points of group growth.	Company applies explicit extra conservatism to this account in guidance. Sell-side estimates now place it just under 10%.	Key risk
Gross and operating margin trajectory	AI telemetry is data-heavy; ingest and GPU-adjacent workloads can dilute the 80% gross margin and cap operating leverage.	Gross margin 80.2% in Q1 vs 81.4% in Q4 2025 and 80.3% a year ago. Non-GAAP operating margin 22%, flat year on year despite 32% growth.	Watch
Valuation multiple	At 19.5x forward sales, multiple compression can overwhelm strong operating results — as it did through 2022 and 2024.	EV/Sales has moved from ~11x pre-Q1 to 19.5x. Consensus already models a 24% three-year growth rate.	Stretched

Evaluation criteria were set from these five variables before the analysis below; the scorecard in section 9 weights them accordingly, with growth durability and valuation carrying the largest weights.

2. Industry: a \$34bn market that AI is enlarging and complicating at once

Third-party estimates put the observability tools and platforms market at roughly \$28.5bn in 2025 and \$34.1bn in 2026, compounding near 20% into the next decade. Two forces are reshaping it. The first is favourable: agentic and LLM-based applications generate far more machine-to-machine traffic, far more non-determinism, and far more failure modes than traditional request-response software. Datadog's own State of AI Engineering 2026 report found roughly 5% of AI model requests fail in production, with about 60% of those failures caused by capacity limits — which is precisely the class of problem an observability vendor monetises. AI-written code also expands the volume of software in production, and software in production is Datadog's billing unit.

The second force is less favourable. The vendor field has largely converged on feature parity — metrics, logs, traces, RUM, synthetics and some flavour of AI anomaly detection are table stakes at Datadog, Dynatrace, Grafana, Elastic, New Relic, Splunk (Cisco) and Sumo Logic alike. OpenTelemetry has commoditised instrumentation, lowering the switching cost that used to protect proprietary agents. Meanwhile AWS, Google and Microsoft bundle native monitoring into their platforms at prices Datadog cannot match, and Grafana's open-source stack has become the default cost-containment alternative for engineering teams whose Datadog bill has become a line item the CFO can see. Datadog has answered by moving up the stack — security, CI visibility, product analytics, data observability, Bits AI agents — where differentiation is defensible and where the eighteen sub-scale products live.

3. Financial analysis

Revenue and growth trajectory

Quarter	Revenue	YoY	QoQ add	Non-GAAP op. margin	FCF	FCF margin
Q1 2025	\$761.6m	25%	—	22%	\$244m	32%
Q2 2025	\$827m	28%	\$65m	—	—	—
Q3 2025	\$886m	28%	\$59m	—	—	—
Q4 2025	\$953m	29%	\$67m	24%	—	—
Q1 2026	\$1,006m	32%	\$53m	22%	\$289m	29%
Q2 2026E (guide)	\$1,070–1,080m	29–31%	\$64–74m	21–22%	—	—
FY2025A	\$3,427m	28%	—	—	—	~30%
FY2026E (guide)	\$4,300–4,340m	25–27%	—	22–23%	—	—

Q1 2026 sequential add of \$53m was the largest Q1 add in the company's history and the strongest Q1 sequential growth rate (6%) since 2022. Guidance implies a further \$64–74m sequential add in Q2. Sources: Datadog quarterly press releases and Q1 2026 earnings call.

Quality of earnings

The headline profitability picture depends entirely on which convention is used, and the gap deserves to be stated plainly. On a GAAP basis Q1 2026 operating income was \$7.3m on \$1,006m of revenue — a 1% margin — and trailing-twelve-month GAAP operating income is negative \$22m. On a non-GAAP basis operating income was \$223m, a 22% margin. The entire bridge is stock-based compensation: \$196.8m in the quarter, equal to 19.6% of revenue and roughly \$790m annualised. Free cash flow of \$1.06bn on a trailing basis is likewise flattered, since SBC is a real economic cost that simply does not pass through the cash flow statement.

The mitigating fact is that dilution has been modest in practice: shares outstanding rose 0.96% year on year, and at the current \$87.9bn market capitalisation annual SBC represents about 0.9% of the equity base. The re-rating has, mechanically, made the compensation programme far less dilutive in percentage terms than it was at \$100 a share. An investor should nonetheless underwrite this business on roughly \$1.06bn of reported FCF less a meaningful SBC haircut — not on the headline number — and should recognise that the argument cuts the other way if the multiple contracts.

Metric (TTM unless noted)	Value	Metric	Value
Revenue	\$3.67bn (+29.5%)	Gross margin	79.9% (80.2% Q1 non-GAAP)
GAAP operating income	−\$22.4m (−0.6% margin)	Non-GAAP op. margin (Q1)	22%
GAAP net income	\$135.7m	Operating cash flow	\$1.11bn
Free cash flow	\$1.06bn (28.9% margin)	SBC (Q1, annualised)	~\$790m (19.6% of rev.)
Cash & securities	\$4.76bn	Total debt (0% converts, 2029)	\$1.29bn
Net cash	\$3.47bn (\$9.76/sh)	Current ratio	3.40x
ROE / ROIC	3.9% / −3.7%	Altman Z-score	10.61
Billings (Q1)	\$1.03bn (+37%)	RPO (Q1)	\$3.48bn (+51%)
Net revenue retention	Low 120s%	Gross revenue retention	Mid-to-high 90s%
Revenue per employee	\$453k (8,100 staff)	Buyback / dividend	None

RPO growth of 51% versus revenue growth of 32% reflects a lengthening contract duration as multi-year deals increased in the mix — supportive of visibility, though management explicitly cautions that revenue is a better indicator of underlying trend than billings or RPO. Sources: Q1 2026 10-Q and press release; StockAnalysis.com.

Capital allocation

Datadog runs a fortress balance sheet — \$4.76bn of cash and securities against \$1.29bn of zero-coupon converts due 2029 — and deploys it almost entirely into research and development, which absorbed 43% of revenue on a GAAP basis in Q1. Acquisitions are frequent but small and technology-led: Eppo and Metaplane in the recent past, and Adaptive ML on 30 June 2026 to staff an internal AI lab. No dividend and no buyback; the buyback yield is in fact negative 0.96% because of net share issuance. For a company generating a billion dollars of annual free cash flow, the absence of any offset to equity issuance is a legitimate governance criticism, though redirecting cash from R&D at this point in the cycle would be the wrong trade.

4. Competitive position

Datadog was named a Leader in the 2026 Gartner Magic Quadrant for Observability Platforms for a sixth consecutive year and was positioned highest for Ability to Execute among all vendors evaluated (15 July 2026). The moat is real but it is a breadth-and-workflow moat rather than a technology moat: once four, six or eight products are wired into a customer's incident response, dashboards, on-call rotations and audit trail, migration is an organisational project, not a procurement decision. Mid-to-high-90s gross retention is the evidence. What the moat does not do is protect price.

Competitor	Scale & growth	Positioning versus Datadog	Threat level
Dynatrace (DT)	~\$2.0bn revenue, +19% y/y; ARR just past \$2bn growing 16% in constant currency.	Strongest in automatic dependency mapping and AI root-cause for large regulated enterprises. Growing at roughly half Datadog's rate and trading near 9x EV/sales — a useful read on where DDOG's multiple lands if growth converges.	Moderate

Competitor	Scale & growth	Positioning versus Datadog	Threat level
Grafana Labs (private)	Open-source LGTM stack; the default cost-containment migration path.	Wins on price and on OpenTelemetry-native architecture. Directly targets the 'our Datadog bill is out of control' conversation, which is the single most common complaint in the category.	High
Hyperscaler native tools	AWS CloudWatch, Google Cloud Operations, Azure Monitor.	Bundled, effectively subsidised, and improving. Commoditise basic infrastructure monitoring; weakest at cross-cloud and at the higher-value security and developer-workflow layers where Datadog is expanding.	High
Elastic (ESTC), Splunk/Cisco, Sumo Logic	Established log and SIEM franchises.	Compete mainly on log volume economics. Splunk under Cisco has enterprise distribution but has ceded developer mindshare.	Moderate
New Relic, Chronosphere, Sentry, Honeycomb	Mid-market and specialist.	New Relic competes on price-performance for smaller teams; Chronosphere on metrics cost control at scale; Sentry owns error tracking mindshare among developers.	Low–Moderate

The structurally new competitive datapoint from Q1 2026 is that two of the world's largest AI research teams signed seven- and eight-figure annualised deals, both adopting GPU monitoring for training workloads. Training infrastructure was historically instrumented in-house with bespoke tooling. Management's argument — that training has moved from an artisanal research activity to an always-on production workload where every failed run costs a week against a competitor — is credible, and it opens an addressable market that did not exist two years ago. The counter-argument, put directly to management on the call by Bernstein, is that the very largest customers have historically brought other workloads in-house once spend became material, and nothing about AI structurally prevents that.

5. Management and execution

Datadog remains founder-led: Olivier Pomel (CEO) and Alexis Le-Quoc (CTO) have run the company since 2010, with David Obstler as CFO. The execution record is close to unimpeachable — revenue has beaten the top end of guidance in every recent quarter, the guidance philosophy is explicitly conservative and consistently applied, and management volunteered the additional conservatism on the largest customer rather than being forced to disclose it. Product cadence is exceptional: MCP Server, Bits AI Security Analyst, GPU Monitoring and Experiments all reached general availability in a single quarter, alongside FedRAMP High certification and a new UK data centre.

The blemish is insider selling. Pomel sold approximately 127,000 shares on 13 July 2026 for about \$32.9m at a weighted average of \$259, following 26,012 shares on 2 June; Le-Quoc sold 43,224 shares on 20 July for about \$11.5m and 53,912 shares on 8 July for roughly \$13.9m. All were executed under Rule 10b5-1 plans adopted in December 2025 and June 2025 respectively, so the trades were scheduled well before the price ran. Over the trailing eighteen months net insider selling exceeds 1.9m shares for Pomel and 1.8m for Le-Quoc, and insiders still hold 5.63% of the company. This is diversification by founders sitting on enormous concentrated positions, not a signal — but the volume of selling into strength is worth noting when the stock trades at 19.5x forward sales.

6. Growth drivers

Driver	Mechanism	Likelihood	Impact
AI workloads moving into production	Agentic applications generate materially more telemetry per unit of business activity. LLM Observability span volume nearly tripled sequentially; MCP server calls quadrupled; SRE agent investigations more than doubled.	High	High
AI training-infrastructure observability	GPU Monitoring converts frontier-lab training clusters from in-house tooling into a Datadog line item. Two eight-figure-class lands in Q1 2026.	Medium	High
Product attach in the sub-scale portfolio	Eighteen of 26 products remain below \$50m ARR; management believes each can exceed \$100m. Eight-or-more-product adoption rose from 13% to 20% of customers in a year.	High	Medium
Security and Cloud SIEM	Highest-value adjacency, competing against Wiz, CrowdStrike and Palo Alto rather than monitoring vendors. Bits AI Security Analyst now GA.	Medium	Medium
Public sector and regulated verticals	FedRAMP High certification plus a UK data centre unlock federal agencies, contractors and UK financial services — segments previously unaddressable.	Medium	Medium
Record new-logo bookings converting to revenue	New-logo annualised bookings set an all-time record and more than doubled year on year; average land size also doubled. Lands convert to expansion over 4–12 quarters.	High	Medium

7. Risks

Risk	Description	Prob.	Severity
Valuation compression	The dominant risk, and it does not require anything to go wrong operationally. At 19.5x FY26E sales and ~70x FY26E FCF, a reversion toward 12–13x forward sales — still a premium to Dynatrace — implies a share price near \$200 even on unchanged estimates.	High	High
Largest-customer renewal	The single largest account was 12% of revenue at Q3 2025 (from 11% and ~6% a year prior); sell-side now models just under 10%. A flat or declining renewal removes roughly 2–3 points of group growth and would break the acceleration narrative outright.	Medium	High
AI capex digestion	Datadog's AI-native revenue is a derivative of frontier-lab spending. A funding slowdown or a shift of training spend toward cheaper inference would compress the fastest-growing cohort with little warning.	Medium	High
Usage-model downside convexity	Consumption billing means cost-optimisation campaigns reduce revenue immediately and without a renewal event — as happened across the base in 2023, when NRR fell to ~111%.	Medium	Medium
Hyperscaler bundling and OpenTelemetry	Native cloud monitoring plus OTel-standardised instrumentation erode both price and switching cost at the infrastructure layer, pushing Datadog to defend margin further up the stack.	Medium	Medium
Gross-margin dilution from AI telemetry	AI and GPU telemetry is storage- and compute-intensive. Gross margin fell 120bp sequentially to 80.2%; sustained erosion would cap the operating-leverage story that supports the multiple.	Medium	Medium
Stock-based compensation	SBC at 19.6% of revenue is the entire difference between a 1% GAAP and 22% non-GAAP operating margin. Percentage dilution is currently masked by the high share price.	High	Low–Med
Concentrated event risk (6 Aug)	With a 5% average true range and no buyback, a single guidance miss can remove 20%+ in one session — the mirror image of the 31% gap in May.	Medium	High

8. Valuation

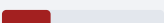
Earnings-based multiples are not informative here: the trailing P/E of 648x reflects a GAAP number that is essentially an accounting residual, and EV/EBITDA of 2,233x is meaningless. The defensible methods are EV/Sales benchmarked against growth, EV/FCF, and a discounted cash flow — with the DCF read as a sanity check rather than a target, because a decade of compounding assumptions dominates the answer for a company like this.

Method	Basis	Assumption	Implied value	Read
EV / Sales	FY2026E revenue \$4.32bn	Current 19.5x	\$246.86 (spot)	vs ~11x pre-Q1 and 9x for Dynatrace
EV / Sales	FY2027E revenue ~\$5.31bn	13x on 19% FY28 growth	~\$220	Base-case exit multiple
EV / FCF	FY2026E FCF ~\$1.21bn	Current ~70x	\$246.86 (spot)	Rich for a decelerating grower
EV / FCF	FY2028E FCF ~\$1.96bn	42x exit	~\$241	Base case
DCF	FCF base \$1.21bn, 10-yr fade	26%→8%, WACC 10.5%, g 3.0%	~\$145	Well below spot; assumes no SBC add-back benefit
DCF (bull)	FCF base \$1.21bn, 10-yr fade	30%→10%, WACC 10.0%, g 3.5%	~\$202	Still below spot
Scenario blend	FY2028E revenue & FCF	Probability-weighted (section 13)	\$239	Primary valuation output
Sell-side consensus	47 analysts	Mean 12-month target	\$265.53	Street high \$330 (Benchmark); low ~\$226 (Bernstein)

Two observations follow. First, every intrinsic method lands below the market price while every relative method lands near it — which is the classic signature of a momentum-driven re-rating in which the multiple, not the cash flow, is doing the work. Second, the sell-side consensus target of \$265.53 sits only 7.6% above spot despite a cluster of July upgrades to \$300–\$330 (KeyBanc \$320, UBS \$315, Citizens \$311, BofA \$305, Guggenheim, Mizuho and Oppenheimer \$300, Benchmark \$330), because the mean still carries stale targets. The dispersion is the point: Jefferies moved to Hold on 21 July with a \$280 target on the view that the AI-beneficiary thesis is now consensus, and Bernstein moved to Market Perform on 6 July arguing expectations had run ahead of a business where roughly 85% of revenue is still non-AI. Both downgrades came with raised targets — an unusually explicit statement that the business is fine and the price is not.

Conclusion on valuation: modestly overvalued. Fair value approximates \$220–\$245 on base-case assumptions; the shares trade at \$246.86.

9. Scorecard

Factor	Score	Assessment
Business quality	 9/10	80% gross margin, low-120s NRR, mid-to-high-90s gross retention, 26 products, 33,200 customers. Mission-critical by installation.
Financial strength	 9/10	\$3.47bn net cash, 29% FCF margin, 3.40x current ratio, Altman Z of 10.6. Only debt is a zero-coupon convertible due 2029.
Competitive advantage	 8/10	Sixth straight Gartner MQ Leader, highest Ability to Execute. Workflow lock-in is strong; pricing power is not, given OTel and hyperscaler bundling.
Management	 8/10	Founder-led, consistent guidance beats, disciplined tuck-in M&A. Marked down for heavy 10b5-1 selling into strength and no offset to dilution.
Growth potential	 9/10	Four consecutive quarters of acceleration to 32%; RPO +51%; record new-logo bookings; 18 sub-scale products; training-workload TAM newly opened.
Valuation	 3/10	19.5x FY26E sales, ~70x FY26E FCF, ~103x forward earnings, PEG 3.69. DCF and scenario blend both sit below the market price.
Risk profile (10 = safest)	 5/10	~10–12% single-customer concentration, usage-based revenue, 5.0% average true range, beta 1.54, binary event on 6 August.
Technical setup	 5/10	Above the 50- and 200-day averages but below the 20-day; MACD has crossed bearish; 11.4% below the 1 June high of \$278.71.

Weighting used to derive the overall score	Weight	Score	Contribution
Growth potential	20%	9	1.80
Valuation	20%	3	0.60
Business quality	15%	9	1.35
Competitive advantage	13%	8	1.04
Financial strength	12%	9	1.08
Management	10%	8	0.80
Risk profile	7%	5	0.35
Technical setup	3%	5	0.15
Overall investment score	100%	7.17 / 10	72 / 100

10. Sentiment and positioning

Indicator	Reading	Interpretation
Analyst consensus	Strong Buy across 47 analysts; mean target \$265.53 (+7.6%)	Rating is bullish but the mean target implies single-digit upside — the Street is positive on the company and neutral on the stock.
Recent target revisions	KeyBanc \$320, UBS \$315, Citizens \$311, BofA \$305, Guggenheim/Mizuho/Oppenheimer \$300, Benchmark \$330 (Street high)	A wave of pre-earnings raises in the 15–21 July window driven by partner surveys and channel checks pointing to a Q2 beat.
Downgrades	Bernstein to Market Perform (6 Jul, PT \$180→\$226); Jefferies to Hold (21 Jul, PT \$210→\$280)	Both raised targets while cutting ratings — a valuation call, not a fundamentals call. Bernstein's argument: ~85% of revenue is non-AI and Q3/Q4 comparisons toughen.
Institutional ownership	84.2% of shares outstanding	Fully institutionally owned; limited incremental buying power from that channel.
Insider ownership / activity	5.63% held; Pomel –127k shares (13 Jul, ~\$32.9m); Le-Quoc –43.2k (20 Jul) and –53.9k (8 Jul)	All under pre-existing 10b5-1 plans. Founder diversification rather than a signal, but persistent and large.
Short interest	14.73m shares, 4.14% of shares out, 2.53 days to cover	Modest and slightly higher month on month. Not a squeeze setup; not a crowded short.
Options / event risk	Q2 2026 results 6 August 2026, before market open	The dominant near-term determinant of the next 20% move in either direction.

11. Technical analysis

All indicators below were computed from the daily OHLCV series (100 sessions, 3 March – 24 July 2026) rather than read from a third-party summary. The 200-day average is cited from market data because the retrieved series is shorter than 200 sessions.

Indicator	Value	Signal
Close (24 Jul 2026)	\$246.86	—
SMA 20	\$257.24	Price 4.0% below — short-term downtrend
SMA 50	\$239.61	Price 3.0% above — medium-term uptrend intact
SMA 100	\$185.20	Price 33% above — strong intermediate trend
SMA 200 (market data, 25 Jul)	\$164.77	Price 50% above — long-term uptrend, but extended
EMA 20 / EMA 50	\$251.72 / \$231.68	Price between the two — consolidation
RSI (14)	49.2	Neutral. Momentum has fully reset from overbought without breaking trend
MACD (12,26,9)	4.82 vs signal 8.38, histogram –3.56	Bearish crossover — momentum deteriorating
ATR (14)	\$12.42 (5.0% of price)	Very high. Position sizing must assume 5% daily swings
Volume, 20-day vs 50-day average	4.35m vs 5.09m	Declining volume on the pullback — constructive, not distribution
52-week range / drawdown from high	\$98.01 – \$278.71; –11.4% from the 1 Jun high	Orderly consolidation after a 134% run off the 3 Mar low of \$105.37

The structure is a strong primary uptrend in a corrective phase. Price peaked at \$278.71 on 1 June, made a lower high at \$276.70 on 15 July, and has since printed a sequence of lower highs while holding above the rising 50-day average. Support sits at \$239.61 (50-day), then the \$220–224 late-June consolidation shelf, then \$208 (the 18 May base).

Resistance is \$257–264 (the 20-day average and the July lower highs), then \$270, then the \$278.71 all-time high. The bearish MACD crossover argues against chasing into the 6 August print; technicals here inform timing only and do not alter the fundamental view.

12. Recommendation: WATCHLIST

Datadog is a business worth owning and a stock worth waiting for. The operating case is close to the best available in software: accelerating growth at \$4bn of ARR, expanding into two genuinely new addressable markets (AI training infrastructure and federal), a fortress balance sheet, and a management team that has never once over-promised. The problem is arithmetic. At \$246.86 the shares discount that the acceleration continues, that the largest customer renews and grows, that gross margin holds near 80%, and that the multiple does not compress — four conditions that must all hold for a base-case return of roughly zero over twelve months.

The probability-weighted fair value of \$239 is 3% below the market price. That is not a bearish call on the company; it is the observation that the re-rating from roughly 11x to 19.5x forward sales has already paid the investor for the reacceleration that management delivered. Buying here requires underwriting the bull case as the modal outcome, and the bull case depends on frontier-lab spending that Datadog neither controls nor forecasts.

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)	\$185–215 — roughly 13–16x FY2027E sales
First-tranche trigger on a technical reset	A hold of \$220–224 (late-June shelf) with RSI below 40 and a MACD re-cross
Fundamental trigger to upgrade to Buy at any price	Q2 or Q3 2026 disclosure that the largest customer has renewed with growth, plus non-AI-native growth holding at or above the mid-20s%
Fundamental trigger to move to Avoid	Non-AI-native growth decelerating below 20%, or gross margin below 79%, or the largest customer disclosed as flat or declining
Level that would confirm the bear case technically	A daily close below \$208 (18 May base) on above-average volume
Level that would force a re-rate of the bull case	A weekly close above \$278.71 on expanding volume after the 6 August print

For an investor who already owns the position, the appropriate action is **hold and trim into strength** rather than exit: the compounding case remains intact and the tax and re-entry cost of a full exit is unlikely to be recovered. Trimming 25–30% above \$270 and re-establishing below \$215 is a defensible way to respect both the quality of the asset and the price being asked for it. For an investor with no position, waiting through the 6 August print costs nothing but the risk of a gap higher — and buys the option on a gap lower, which a 5% average true range makes materially likely.

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 \$175 and a 24-month objective of \$300–340 would frame roughly 2.0–2.5:1 reward-to-risk on a 2–3% portfolio position.

13. Scenario analysis

Scenario	Revenue path	Profitability	FY2028E fair value	Prob.
Bull — AI observability becomes a durable second S-curve	FY27 \$5.53bn (+28%), FY28 \$6.91bn (+25%). Training-workload lands compound; non-AI base holds mid-20s%; security crosses \$500m ARR.	FCF margin expands to 33% (\$2.28bn). Non-GAAP operating margin 26–27%.	\$339 (+37%)	25%
Base — orderly deceleration from an exceptional level	FY27 \$5.31bn (+23%), FY28 \$6.32bn (+19%). Largest customer grows modestly; AI-native cohort normalises; non-AI base settles low-20s%.	FCF margin 31% (\$1.96bn). Gross margin holds 79–80%; operating margin 24–25%.	\$241 (–2%)	50%
Bear — AI digestion plus multiple compression	FY27 \$5.01bn (+16%), FY28 \$5.56bn (+11%). Largest customer flat or in-sourced; frontier-lab capex pauses; cost-optimisation returns across the base.	FCF margin compresses to 28% (\$1.56bn) as ingest costs rise faster than revenue.	\$133 (–46%)	25%

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. Probabilities sum to 100%. Probability-weighted fair value: **\$239**, or 3% below the 24 July close.

14. Final verdict

Would this be a personal investment today, at \$246.86? No — but the reasoning is narrower than that answer suggests, and it is worth stating precisely.

Everything that can be assessed about the business itself argues for ownership. Growth accelerated for four consecutive quarters to 32% at a \$4bn ARR base, which almost never happens at this scale. The acceleration is broad rather than concentrated: strip out every AI-native customer and the remaining base still grew in the mid-20s%, up from 19% a year ago. Gross retention in the mid-to-high 90s says the product is not discretionary. RPO up 51% and record new-logo bookings say the forward book is stronger than the reported revenue line. There is \$3.47bn of net cash, no meaningful debt, and a founder-CEO who has beaten his own guidance every quarter while explicitly flagging the one account that could embarrass him.

The objection is entirely about the price, and it has two components. The first is the multiple: 19.5x forward sales and roughly 70x forward free cash flow already capitalise the reacceleration. Enterprise value has expanded from roughly 11x forward sales in early May to 19.5x today, which means the market has paid for four more years of exceptional execution in eleven weeks. Every intrinsic method — a 10-year DCF at 26% fading to 8%, a bull-case DCF at 30% fading to 10% — lands between \$145 and \$202 against a \$246.86 quote. Only relative multiples support the price, and relative multiples are the first thing to go when growth decelerates.

The second component is the shape of the risk. This is a usage-billed business with a single customer at roughly 10–12% of revenue, whose spending is a derivative of frontier-lab capital expenditure that neither Datadog nor its investors can forecast. Management's decision to apply extra conservatism to that account in guidance is admirable disclosure and also a warning. Add a 5.0% average true range and a binary earnings event on 6 August, and the practical consequence is that the downside arrives in a single session while the upside accrues over quarters. A bear path to \$133 against a bull path to \$339 is not an unattractive spread in the abstract, but a 50% base case that returns approximately zero is not a compensated bet.

The single biggest concern, stated as a falsifiable proposition: the market has treated 32% growth as the new run rate when management has guided the full year to 25–27% and the comparison base gets materially harder in the third and fourth quarters. 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 — that is precisely what would need to change to convert this to a Buy. Until then, the disciplined position is a watchlist entry with a \$185–215 accumulation band, and the patience to accept that the stock may never trade there again. Missing a great company is

a smaller error than paying a price at which a great company produces a mediocre return.

Data provenance and as-of dates

Data point	Source	As of
Share price \$246.86, volume 2,628,029	Alpha Vantage GLOBAL_QUOTE	Close 24 Jul 2026
Daily OHLCV series (100 sessions) for all computed indicators	Alpha Vantage TIME_SERIES_DAILY (compact)	3 Mar – 24 Jul 2026
Q1 2026 income statement, balance sheet, cash flow, guidance	Datadog Q1 2026 earnings press release / Form 10-Q	7 May 2026
NRR, GRR, ARR, cohort growth, product adoption, RPO, billings	Datadog Q1 2026 earnings call transcript	7 May 2026
Market cap, EV, multiples, short interest, ownership, 200-day average	StockAnalysis.com (S&P Global Market Intelligence)	Checked 25 Jul 2026
Largest customer at 12% of revenue	Datadog Q3 2025 disclosure, via secondary reporting	Q3 2025
Analyst targets, upgrades and downgrades	TheFly / TipRanks summaries, Jul 2026	6–21 Jul 2026
Insider Form 4 transactions	SEC Form 4 filings, via secondary reporting	2 Jun – 20 Jul 2026
Observability market size and CAGR	Third-party market research aggregators	2025–2026 estimates

Where sources conflicted, primary filings and the company's own disclosures were used. 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, and apply an assumed 21% long-term tax rate; the difference between GAAP and non-GAAP results is material and is discussed in section 3. 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.