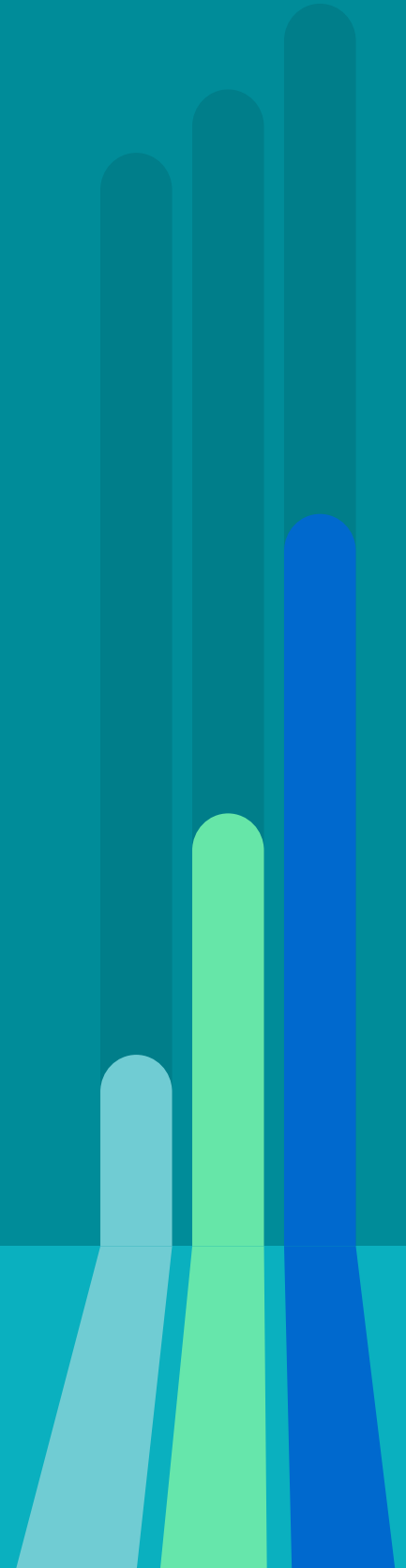


# Investor Letter

First Quarter Fiscal Year 2021  
August 4, 2020





## The Beginning

When New Relic was founded in 2008, we firmly believed that applications would become the center of daily living, and thus, every business. We understood that Application Performance Monitoring (APM) gave developers the ability to see into the health and performance of these crucial applications, ensuring that their customers had a great experience every time they clicked, scrolled, or swiped. Data showed that great application experiences—whether in the browser or, increasingly, on a mobile device—drove customer adoption, conversion, and affinity, allowing some companies to pull away from competitors as customer expectations were reset higher and higher. New Relic was at the forefront of this inflection point. By delivering comprehensive APM capabilities as a fully-managed SaaS offering, New Relic established market leadership and revolutionized both the time-to-value for developers and scale, speed, and performance by designing the product atop a massively scalable, multi-tenant architecture—the same architecture that has laid the foundation for our next chapter.

## The Present

Over the past decade, the way software gets delivered and operated has fundamentally changed, particularly as traditional, monolithic apps have been redesigned according to cloud-native, micro-service patterns, in which the lifetime of some parts is measured in minutes (or less), and the number of discrete components to be monitored has exploded into the hundreds and thousands *per application*. Modern cloud-native applications are built with loosely-coupled components that reduce hard-coded dependencies for more flexibility, with APIs providing access to data and services that come together to provide functionality. Serverless computing further allows developers to build applications that abstract away underlying infrastructure, with cloud service providers delivering as-used incremental resources to power functionality. Added to this complexity is the emergence of DevOps and continuous delivery, where software changes are now happening fast and frequently, into the hundreds and thousands per day in some organizations.

The market has evolved into a variety of monitoring tools to address these discrete problems, creating product categories around log management, infrastructure monitoring (including both cloud and traditional on-premises infrastructure), and software delivery orchestration in addition to APM. Accordingly, vendors in these categories today swarm IT and development teams with an array of adjacent and overlapping tools. Each of these tools employs a different technique and fundamental architecture, promising visibility, proactive detection, and a mythical “single pane of glass” through which teams can allegedly see the entirety of their application and infrastructure footprint.

The pricing system based on “hosts” (applications or systems on which one would deploy an agent to collect data) that predated New Relic’s founding, and remains the staple of monitoring providers, has become increasingly costly and difficult to estimate in an age of distributed architectures.

It also correlates poorly to customer value. When considering other related tools beyond APM, teams have to estimate and budget according to a number of different pricing metrics, resulting in a friction-filled provisioning process that often forces sub-optimal usage in order to keep purchasing in line with budgets. We have seen current monitoring pricing create a financial disincentive for teams to instrument all of their applications and infrastructure, fundamentally undermining the holistic visibility that drives teams to consider these solutions in the first place. Furthermore, customers who adopt these tools encounter surprise overage charges that may cause them to de-instrument software to scale back costs, further restricting the visibility provided by today's monitoring offerings.

Open source tools are installed alongside commercial tools, sometimes augmenting and sometimes overlapping functionality. Fragments of critical operational data can get trapped in siloed tools, creating acute blind spots that can cripple a team's ability to deliver and operate software effectively. The average organization can end up with dozens of tools to monitor different parts of their stack, forcing engineers to scramble and switch between these disconnected tools to investigate issues while precious time passes in which end-users are stuck and disgruntled.

We believe this model no longer works. Engineers deserve better. End-users deserve better. Customers deserve better.

## The Future

Traditional monitoring techniques are no longer sufficient to provide visibility into modern systems. Complex, punitive pricing from monitoring vendors flies in the face of the mission to deliver critical operational visibility. It's time for a new approach, one predicated on a connected, real-time view of the entirety of an organization's operational data from one central store. This approach must be flexible enough to deliver answers to questions one did not even know they need to, or even could, ask across all of their operational data. This approach must do more than just notify teams when an issue occurs, but also illuminate what caused that issue and why. This approach must scale endlessly, with pricing that encourages teams to instrument all of their applications and infrastructure and to collect all of their operational data in one central store in near real time. As the lines between infrastructure and applications continue to blur, it's more critical than ever to be able to see across your entire software system and get traceability through your entire stack.

## The Need for Observability

New Relic defines this approach as **observability**. Observability describes how well teams can understand the behavior of a complex digital system. If monitoring tells you when something is wrong, observability lets you ask why and is predicated upon your software being able to deliver the data to provide an answer, supporting questions that lead to other questions that ultimately return an answer.

For a shift from traditional monitoring to observability to happen, our experience shows that these customers require:

- a single source of truth for all operational data (Metrics, Events, Logs, and Traces);
- comprehensive visibility across the software stack in one unified experience;
- AI and Machine learning-driven capabilities to detect anomalies and extract insights in real time and at petabyte scale; and
- extensibility so customer and third-party developers can build applications and connectors to add functionality, creating an ecosystem of developers and partners.

Furthermore, observability requires pricing and technical enablement such that teams can readily instrument all of their applications and infrastructure, then collect that data. These are the design principles behind **New Relic One**. When we first announced New Relic One last year, we began a journey to reimagine what we offer customers from the ground up, starting with the user experience and extending to how customers do business with us. Simplicity is key to our strategy across packaging, pricing, adoption, and user experience. Unlike other commercial monitoring tools or related open source projects, we see New Relic well positioned to offer the convenience of SaaS with industry-best scale and performance at the data platform layer, extensibility, and full integration for open source projects to help engineers build and troubleshoot faster.

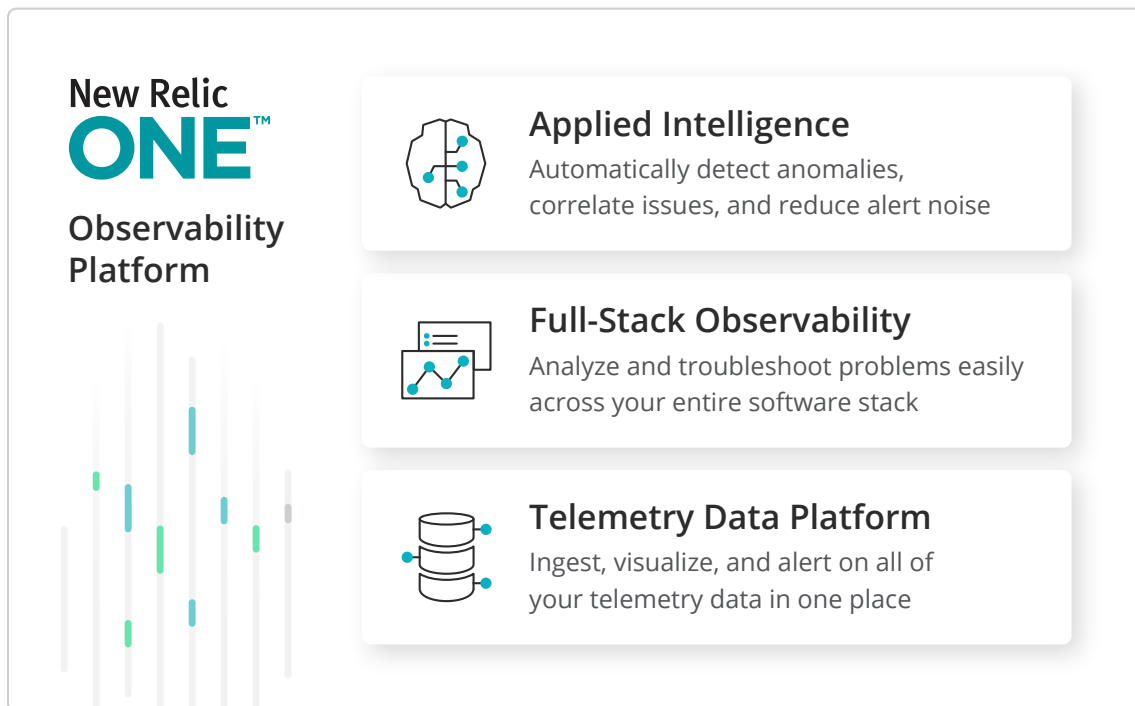
## Moving Rapidly and Leading the Market Forward

July 2020 was perhaps the most important moment in New Relic's thirteen year history, with the possible exception of our initial launch in June of 2008. In the last two weeks alone, we have announced:

- our commitment to the open source release of our agents for APM, Mobile, Browser, Infrastructure, and all of our Infrastructure Integrations;
- the dramatic simplification of the New Relic product portfolio from eleven SKUs to just three powerful, comprehensive products in one unified platform;
- a new, customer-friendly pricing model that we believe will define how companies will prefer to consume observability platforms going forward;
- the complete transition of all of our products, features, and capabilities into New Relic One, with 100% of our customers transitioned over to the New Relic One user interface; and
- a new, powerful, perpetual free tier of the New Relic One Observability Platform that we believe competes effectively with solutions that could cost in the range of \$10,000 per year.

## New Relic One is Observability Made Simple

New Relic One is how we deliver observability to the market in a way that is unique from any other commercial vendor or open source stack. New Relic One includes the **Telemetry Data Platform** to ingest, visualize, and alert on all your metrics, events, logs, and traces from any source in one place at pennies per gigabyte. **Full-Stack Observability** collects and correlates data from APM, logs, infrastructure monitoring, client-side monitoring, and distributed tracing to easily analyze and troubleshoot your entire software stack in one connected, curated experience priced per user, rather than by a confusing matrix of host-, span-, or compute-based pricing. From our pilot customers, we have already seen that the price-point for data ingestion for the Telemetry Data Platform and user-based pricing for Full-Stack Observability with New Relic One removes friction and complexity from the purchasing process, allowing teams to instrument everything and collect all of their data in a single source. Customers no longer have to juggle siloed tools with the varying, confusing pricing metrics that have led to selective instrumentation, tool sprawl, and disconnected silos of critical operational data. Furthermore, New Relic One offers **Applied Intelligence** to detect, understand, and resolve incidents faster with machine learning models trained using the entirety of a customer's operational data in the Telemetry Data Platform instead of sampling and summing of data in other tools.



## Instrument Everything: The Value of the Telemetry Data Platform

The Telemetry Data Platform allows teams to ingest, analyze, and alert on all of their metrics, events, logs, and traces from any source in one place. The Telemetry Data platform collects data from over 300 agents and integrations, including OpenTelemetry, so teams can ingest and store all of their critical operational data. With a single source of truth for all of their operational data—not just logs or just metrics like other solutions—teams can query any data with a lightning-fast response time, to get quick answers to questions as they arise, as well as configure real-time alerts based on critical metrics and thresholds. Built on the foundational New Relic Database, the Telemetry Data Platform allows teams to leverage their existing investments in open source tools like Grafana and Prometheus to maintain continuity and support innovation. In addition, the Telemetry Data Platform's pennies-per-gigabyte ingestion pricing is designed to make it so cost-effective that it upends any business or technology case to invest the personnel and resources to develop such capabilities with an open source time-series data store.

## Full-Stack Observability: One Place to See your Entire Environment

Building off the power of the New Relic Telemetry Data Platform, Full-Stack Observability provides the analytics and context engineers need to easily analyze and troubleshoot problems across all of their applications and infrastructure by correlating capabilities like APM, logs, infrastructure monitoring, distributed tracing, synthetics, mobile, and browser monitoring in one fully-integrated user experience. Whether they have servers running on-premises, virtual machines running in the cloud, or containers running in Kubernetes, teams can gain true holistic visibility through prebuilt, curated visualizations. Engineers no longer have to switch between disparate tools, frantically trying to stitch data together to figure out what went wrong. Full-Stack Observability provides engineers with a single, unified UI, allowing teams to leave behind their mishmash of disconnected dashboards.

## Applied Intelligence: Put Your Data to Work For You

As the complexity of production systems grows, the teams responsible for identifying and solving production problems need faster and easier ways to resolve incidents. Observability accounts for systems that are so complex and emit so much operational data that people can't possibly scan and search everything to catch all the issues manually. AIOps functionality must be in place to augment and streamline the work of engineers. Applied Intelligence helps teams detect, understand, and resolve incidents faster and find insights in their data that would otherwise go unnoticed. With Applied Intelligence, teams can proactively detect and explain anomalies before they become incidents by receiving real-time failure warnings in the tools in which they already work, like Slack and PagerDuty. Applied Intelligence employs purpose-built machine learning algorithms to reduce alert fatigue so engineers can diagnose and respond to incidents faster by enriching them with intelligence.

## The Next Chapter for New Relic

A major tenet of our strategy is a renewed commitment to developers at a grassroots level by providing a robust free tier to encourage usage and adoption, as well as furthering our support of key open source projects like Prometheus and OpenTelemetry. Additionally, we are making our agents, integrations, and SDKs available under an open source license to increase the pace of innovation and quality of our products by engaging the broader developer community. It is with this community that New Relic was born and first came to prominence, and it will be with this community that New Relic ascends in the next chapter of our company. New Relic One offers a convergence, a simple solution for instrumenting and collecting all operational data in a single source of truth.

We reimagined the New Relic One platform in order to return New Relic to the head of the pack in this fast-growing space, giving shape to the promise of observability for teams struggling with current monitoring offerings. Engineers building, delivering, and operating complex, highly-distributed software have to do their jobs with data scattered across various tools and under a flood of often redundant alerts. Neither cost nor functional gaps need to stand in the way of organizations seeking observability any longer. New Relic One provides the ability to collect, search, visualize, and alert on all operational data via the Telemetry Data Platform at massive scale and speed, and at a data ingestion price point previously unimaginable in this market. Full-Stack Observability delivers hyper-connected, curated views of that data to speed insights priced per user, which is customer-friendly compared to the array of metrics our competitors continue to use. The collection and analysis of all of our customers' data enables New Relic One to deliver AI- and ML-driven value like anomaly detection and alert suppression via Applied Intelligence, making the day in, day out work of engineers more efficient and of higher value. We believe our strategy is one that competitors can neither copy nor best.

## **Forward-Looking Statements**

*This investor letter contains “forward-looking” statements, as that term is defined under the federal securities laws, including but not limited to statements regarding the anticipated need to shift away from traditional monitoring techniques, the value proposition behind the simplification of the New Relic One platform into three core products, the ability for New Relic’s new customer-friendly pricing model to define customer preferences and remove friction and gaps from purchasing processes, the potential competitive advantage gained by the introduction of a perpetual free tier, the timing and availability of our agents, integrations and SDKs under open source licenses, expectations that the reimagined New Relic One platform and simplified pricing model will increase New Relic’s presence and standing in the observability market and developer community, and any expected increase in customer usage or adoption as a result of these changes. The achievement or success of the matters covered by such forward-looking statements are based on New Relic’s current assumptions, expectations, and beliefs and are subject to substantial risks, uncertainties, assumptions, and changes in circumstances that may cause New Relic’s actual results, performance, or achievements to differ materially from those expressed or implied in any forward-looking statement. Further information on factors that could affect New Relic’s financial and other results and the forward-looking statements in this press release is included in the filings New Relic makes with the SEC from time to time, including in New Relic’s most recent Form 10-K, particularly under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Copies of these documents may be obtained by visiting New Relic’s Investor Relations website at <http://ir.newrelic.com> or the SEC’s website at [www.sec.gov](http://www.sec.gov). New Relic assumes no obligation and does not intend to update these forward-looking statements, except as required by law.*