



Market Insight Report Reprint

Datadog buys startup Undefined Labs to push left into development environments

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The target's Scope product is designed to offer deep visibility into software testing and release cycles with the goal of enabling faster and more quality code deployments. The move should help the acquirer expand its scope by offering utility long before production.

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Introduction

Datadog has scooped up Undefined Labs on the cusp of a broader market trend around building ways to use monitoring tools to deliver more insight into code in development. The move should enable the acquirer to expand its scope by offering utility long before production.

Snapshot

Acquirer	Datadog
Target	Undefined Labs
Subsector	Monitoring / Observability
Deal value	Undisclosed
Date announced	August 6, 2020
Advisers	None disclosed

THE 451 TAKE

With Undefined Labs' Scope, Datadog broadens its use case beyond production, the typical target for monitoring tools. While some teams do deploy monitoring tools to help analyze test results or to tag new code that's pushed to production, most monitoring tools don't offer the capabilities required to track code from its genesis in an IDE, running locally or in a CI tool. The technology developed by Undefined Labs can enable users to see which commits developed by which individuals are part of a deployment, and trace the development of that code back through the pipeline. This is the kind of insight that Datadog plans to offer to its users once it digests the acquisition and integrates the target's technology.

Deal details

Undefined Labs marks Datadog's first purchase since its IPO, although the extra publicity hasn't changed its M&A habits. Datadog remains an infrequent acquirer of small startups. According to 451 Research's M&A KnowledgeBase, its previous three acquisitions got it a data integration vendor that had raised \$3m in seed funding, a log analysis provider with 20 employees, and an application testing business with seven employees. In Undefined Labs, it adds another nine members to its team. The target raised an undisclosed amount of funding from Amplify Partners and CRV.

Deal rationale

Testing has been a sore point in many organizations for a few years. Traditional testing processes are too slow to keep up with the current rapid release cadence that many teams aspire to. With this deal, Datadog is targeting a particular challenge around a lack of visibility into testing as well as into the broader release cycle. While monitoring vendors are well-suited to delivering insight into these kinds of performance problems, they typically aren't capable of collecting data about code performance in environments before the code is running on servers. This type of application is a natural fit for a monitoring provider, particularly if it enables users to track production performance problems back to issues in the release cycle that should be resolved, ultimately allowing developers to ship cleaner code that's less likely to cause production performance problems.

Target profile

Undefined Labs' Scope offering was designed to deliver the kind of insight that monitoring tool users get in production environments, but in code development environments. It collects distributed traces to show users where latency is occurring in tests and pulls in logs to help with troubleshooting. Scope also features dashboards that offer insight into historical test performance, as well as metrics like mean time to resolve and mean time between failure, both of which can help teams focus their work. Other capabilities are designed to help with test automation with the goal of driving efficiencies. Additionally, Undefined Labs has a Docker build product called `ctr.run` that Datadog does not expect to put much focus on, at least initially.

Acquirer profile

Founded in 2010, New York City-based Datadog went public a year ago and reported revenue of \$140m for the quarter ending in June. Over the past year, the company has just about doubled the number of customers bringing in \$100,000 or more per year.

While Datadog started out doing infrastructure monitoring, it has rapidly expanded horizontally and now also offers distributed tracing, log analytics, network performance monitoring, synthetic monitoring, real-user monitoring (RUM) and threat detection. With Scope, it moves left into pre-production environments, a logical expansion albeit an early one in the market. Other future expansion potential includes incident management capabilities, as well as further development of existing offerings.

Competition

We don't know of many stand-alone products like Undefined Labs' Scope that are designed around visibility into tests and code in development. Scope's most notable rivals will be the testing tool providers that offer some level of visibility into test results and that may build additional integrations with monitoring vendors to deliver the kind of insight that Scope supplies.

We are seeing monitoring specialists increasingly eyeing opportunities in pre-production and anticipate that Datadog's acquisition of Undefined Labs will spur more activity here. Most of the current dealmaking that we've seen is around monitoring tool integrations with continuous integration and deployment CI/CD tools that are designed to offer insight into performance of the CI/CD tool itself to provide high-level insight into the software delivery cycle or for the purposes of release validation, although some of them may have features that overlap with several supplied by Scope. Dynatrace has been vocal about its capabilities within the development process and is spearheading an open source project, Keptn, that allows users to integrate monitoring tools into their CI/CD pipelines for release validation. That project is focused primarily on supporting automating workflows in the development and release cycle.

Broadly speaking, in the monitoring space Datadog vies with New Relic, which also offers distributed tracing, full-fledged APM, infrastructure monitoring, logging, RUM and synthetic monitoring. SolarWinds is a contender as well with its suite of SaaS monitoring products. Datadog faces a long list of competitors for each of its point products, including LogicMonitor, Zenoss, Dynatrace, SignalFx and others.

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