



Q2 2022 Supplemental Financial Information

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Non-GAAP Financial Measures

This supplemental financial information contains financial statements that have not been prepared in accordance with generally accepted accounting principles in the United States (GAAP). We use these non-GAAP financial measures and other key metrics internally to facilitate analysis of our financial and business trends and for internal planning and forecasting purposes. We believe these non-GAAP financial measures, when taken collectively, may be helpful to investors because they provide consistency and comparability with past financial performance by excluding certain items that may not be indicative of our business, results of operations, or outlook. However, non-GAAP financial measures have limitations as an analytical tool and are presented for supplemental informational purposes only. They should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP.

A reconciliation of our non-GAAP financial measures to the most directly comparable GAAP measures has been provided in the financial statement tables included in this supplemental financial information, and investors are encouraged to review these reconciliations.

Confluent, Inc.
Condensed Consolidated Statements of Operations - Fiscal Quarters
(in thousands, except percentages, share and per share data)
(unaudited)

	Three Months Ended							
	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22
Revenue:								
Subscription	\$ 54,498	\$ 63,219	\$ 67,992	\$ 78,516	\$ 92,400	\$ 108,191	\$ 113,920	\$ 127,018
Services	6,999	7,105	9,036	9,822	10,170	11,737	12,219	12,389
Total revenue	61,497	70,324	77,028	88,338	102,570	119,928	126,139	139,407
Cost of revenue:								
Subscription	12,373	14,162	15,757	20,292	25,489	33,322	33,603	35,608
Services	6,683	6,755	8,081	9,717	11,810	12,824	12,174	13,901
Total cost of revenue	19,056	20,917	23,838	30,009	37,299	46,146	45,777	49,509
Gross profit	42,441	49,407	53,190	58,329	65,271	73,782	80,362	89,898
Subscription	77.3%	77.6%	76.8%	74.2%	72.4%	69.2%	70.5%	72.0%
Services	4.5%	4.9%	10.6%	1.1%	(16.1%)	(9.3%)	0.4%	(12.2%)
Total gross margin	69.0%	70.3%	69.1%	66.0%	63.6%	61.5%	63.7%	64.5%
Operating expenses:								
Research and development	44,921	21,861	24,313	33,225	47,701	56,686	57,661	64,472
Sales and marketing	43,759	47,838	58,509	73,206	86,991	100,625	106,702	112,754
General and administrative	93,758	12,009	15,512	37,943	25,330	30,151	27,481	29,979
Total operating expenses	182,438	81,708	98,334	144,374	160,022	187,462	191,844	207,205
Operating loss	(139,997)	(32,301)	(45,144)	(86,045)	(94,751)	(113,680)	(111,482)	(117,307)
Interest income	1,259	1,108	844	688	299	189	566	2,618
Other expense, net	(153)	(302)	(336)	(643)	(530)	(518)	(1,382)	(1,432)
Loss before income taxes	(138,891)	(31,495)	(44,636)	(86,000)	(94,982)	(114,009)	(112,298)	(116,121)
Provision for (benefit from) income taxes	(750)	261	(110)	2,170	684	430	689	1,510
Net loss	\$ (138,141)	\$ (31,756)	\$ (44,526)	\$ (88,170)	\$ (95,666)	\$ (114,439)	\$ (112,987)	\$ (117,631)
Net loss per share, basic and diluted	\$ (1.34)	\$ (0.30)	\$ (0.41)	\$ (0.74)	\$ (0.37)	\$ (0.43)	\$ (0.41)	\$ (0.42)
Weighted-average shares used to compute net loss per share, basic and diluted	102,852,461	105,294,029	108,731,605	118,648,655	259,152,303	265,480,761	272,890,829	278,268,980

Confluent, Inc.
Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

	June 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 529,667	\$ 1,375,932
Marketable securities	1,427,859	640,085
Accounts receivable, net	149,394	137,491
Deferred contract acquisition costs	29,491	27,646
Prepaid expenses and other current assets	55,612	44,919
Total current assets	2,192,023	2,226,073
Property and equipment, net	21,813	14,428
Operating lease right-of-use assets	32,613	37,281
Deferred contract acquisition costs, non-current	54,661	51,178
Other assets, non-current	23,807	13,769
Total assets	<u>\$ 2,324,917</u>	<u>\$ 2,342,729</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 15,527	\$ 7,591
Accrued expenses and other liabilities	93,917	98,974
Operating lease liabilities	7,846	9,236
Deferred revenue	255,064	220,920
Liability for early exercise of unvested stock options	3,826	11,467
Total current liabilities	376,180	348,188
Operating lease liabilities, non-current	27,975	31,645
Deferred revenue, non-current	30,667	25,557
Convertible senior notes, net	1,082,583	1,080,701
Other liabilities, non-current	10,888	6,357
Total liabilities	1,528,293	1,492,448
Stockholders' equity:		
Preferred stock	-	-
Class A common stock	1	1
Class B common stock	2	2
Additional paid-in capital	1,785,640	1,599,962
Accumulated other comprehensive loss	(9,547)	(830)
Accumulated deficit	(979,472)	(748,854)
Total stockholders' equity	796,624	850,281
Total liabilities and stockholders' equity	<u>\$ 2,324,917</u>	<u>\$ 2,342,729</u>

Confluent, Inc.
Condensed Consolidated Statements of Cash Flows - Fiscal Quarters
(in thousands)
(unaudited)

	Three Months Ended							
	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22
CASH FLOWS FROM OPERATING ACTIVITIES								
Net loss	\$ (138,141)	\$ (31,756)	\$ (44,526)	\$ (88,170)	\$ (95,666)	\$ (114,439)	\$ (112,987)	\$ (117,631)
Adjustments to reconcile net loss to cash used in operating activities:								
Depreciation and amortization	488	380	787	756	897	1,192	1,250	1,810
Net amortization (accretion) of premiums (discounts) on marketable securities	436	516	505	459	536	770	705	(469)
Amortization of debt issuance costs	-	-	-	-	-	187	936	947
Amortization of deferred contract acquisition costs	4,125	5,776	5,535	6,048	6,739	8,375	8,470	8,925
Non-cash operating lease costs	2,943	2,866	2,856	2,748	2,962	2,424	2,275	2,200
Common stock charitable donation expense	-	-	-	13,290	-	-	-	-
Stock-based compensation, net of amounts capitalized	120,074	9,744	13,353	34,516	49,683	58,072	57,369	68,866
Deferred income taxes	(906)	(297)	(567)	2,297	(1)	(394)	(4)	30
Other	110	331	439	209	1,023	157	204	355
Changes in operating assets and liabilities:								
Accounts receivable	1,738	(18,013)	5,734	(17,587)	979	(21,642)	12,782	(25,244)
Deferred contract acquisition costs	(9,548)	(14,654)	(10,866)	(15,482)	(11,244)	(20,332)	(12,080)	(10,643)
Prepaid expenses and other assets	(3,829)	(10,391)	(2,355)	(12,368)	(2,616)	(14,027)	(7,985)	(12,136)
Accounts payable	1,530	(222)	839	(468)	1,366	4,406	177	7,275
Accrued expenses and other liabilities	5,915	7,638	1,433	11,460	18,597	29,642	(22,853)	24,609
Operating lease liabilities	(2,726)	(2,731)	(2,721)	(2,661)	(2,834)	(2,650)	(2,497)	(2,413)
Deferred revenue	8,616	30,418	9,565	21,787	11,550	44,383	19,207	20,047
Net cash used in operating activities	(9,175)	(20,395)	(19,989)	(43,166)	(18,029)	(23,876)	(55,031)	(33,472)
CASH FLOWS FROM INVESTING ACTIVITIES								
Capitalization of internal-use software costs	(870)	(643)	(596)	(1,215)	(2,052)	(1,479)	(2,509)	(2,256)
Purchases of marketable securities	(52,730)	(46,196)	(41,688)	(14,283)	(322,941)	(284,683)	(403,883)	(763,479)
Maturities of marketable securities	70,226	45,433	56,763	66,211	57,693	91,275	95,545	275,114
Purchases of property and equipment	(209)	(347)	(643)	(1,030)	(563)	(1,364)	(887)	(1,184)
Other	-	-	9	-	3	-	-	-
Net cash provided by (used in) investing activities	16,417	(1,753)	13,845	49,683	(267,860)	(196,251)	(311,734)	(491,805)
CASH FLOWS FROM FINANCING ACTIVITIES								
Proceeds from initial public offering, net of underwriting discounts and commissions	-	-	-	786,600	-	-	-	-
Proceeds from issuance of common stock upon exercise of vested options	4,413	5,376	6,215	12,490	10,421	22,611	16,436	7,947
Proceeds from issuance of common stock upon early exercise of unvested options	2,502	1,423	7,447	11,309	186	512	345	71
Repurchases of unvested options	(9)	(76)	(49)	(164)	(162)	(107)	(12)	(683)
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	10,000	(50)	-	-	-	-	-	-
Payments of deferred offering costs	-	(111)	(153)	(767)	(2,205)	-	-	-
Proceeds from convertible senior notes, net of issuance costs	-	-	-	-	-	1,081,300	(786)	-
Payment for purchase of capped calls	-	-	-	-	-	(90,970)	-	-
Proceeds from issuance of common stock under employee stock purchase plan	-	-	-	-	-	-	22,485	-
Net cash provided by financing activities	16,906	6,562	13,460	809,468	8,240	1,013,346	38,468	7,335
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	51	(25)	(8)	(2)	(1)	16	(46)	20
Net (decrease) increase in cash, cash equivalents, and restricted cash	24,199	(15,611)	7,308	815,983	(277,650)	793,235	(328,343)	(517,922)
Cash, cash equivalents, and restricted cash at beginning of period	29,218	53,417	37,806	45,114	861,097	583,447	1,376,682	1,048,339
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 53,417</u>	<u>\$ 37,806</u>	<u>\$ 45,114</u>	<u>\$ 861,097</u>	<u>\$ 583,447</u>	<u>\$ 1,376,682</u>	<u>\$ 1,048,339</u>	<u>\$ 530,417</u>
Reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets to the amounts shown above:								
Cash and cash equivalents	\$ 52,400	\$ 36,789	\$ 44,097	\$ 860,347	\$ 582,697	\$ 1,375,932	\$ 1,047,589	\$ 529,667
Restricted cash included in other assets, current and non-current	1,017	1,017	750	750	750	750	750	750
Total cash, cash equivalents, and restricted cash	<u>\$ 53,417</u>	<u>\$ 37,806</u>	<u>\$ 45,114</u>	<u>\$ 861,097</u>	<u>\$ 583,447</u>	<u>\$ 1,376,682</u>	<u>\$ 1,048,339</u>	<u>\$ 530,417</u>

Confluent, Inc.
Reconciliation of GAAP to Non-GAAP Measures - Fiscal Quarters
(in thousands, except percentages, share and per share data)
(unaudited)

	Three Months Ended							
	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22
Reconciliation of GAAP total gross profit to non-GAAP total gross profit:								
Total gross profit on a GAAP basis	\$ 42,441	\$ 49,407	\$ 53,190	\$ 58,329	\$ 65,271	\$ 73,782	\$ 80,362	\$ 89,898
<i>Total gross margin on a GAAP basis</i>	<i>69.0%</i>	<i>70.3%</i>	<i>69.1%</i>	<i>66.0%</i>	<i>63.6%</i>	<i>61.5%</i>	<i>63.7%</i>	<i>64.5%</i>
Add: Stock-based compensation expense	1,554	1,115	1,519	3,227	5,735	7,508	7,175	8,346
Add: Employer taxes on employee stock transactions	24	-	-	326	166	521	410	150
Non-GAAP total gross profit	<u>\$ 44,019</u>	<u>\$ 50,522</u>	<u>\$ 54,709</u>	<u>\$ 61,882</u>	<u>\$ 71,172</u>	<u>\$ 81,811</u>	<u>\$ 87,947</u>	<u>\$ 98,394</u>
<i>Non-GAAP total gross margin</i>	<i>71.6%</i>	<i>71.8%</i>	<i>71.0%</i>	<i>70.1%</i>	<i>69.4%</i>	<i>68.2%</i>	<i>69.7%</i>	<i>70.6%</i>
Reconciliation of GAAP subscription gross profit to non-GAAP subscription gross profit:								
Subscription gross profit on a GAAP basis	\$ 42,125	\$ 49,057	\$ 52,235	\$ 58,224	\$ 66,911	\$ 74,869	\$ 80,317	\$ 91,410
<i>Subscription gross margin on a GAAP basis</i>	<i>77.3%</i>	<i>77.6%</i>	<i>76.8%</i>	<i>74.2%</i>	<i>72.4%</i>	<i>69.2%</i>	<i>70.5%</i>	<i>72.0%</i>
Add: Stock-based compensation expense	883	703	975	2,172	3,945	5,479	5,313	6,018
Add: Employer taxes on employee stock transactions	8	-	-	38	117	481	333	70
Non-GAAP subscription gross profit	<u>\$ 43,016</u>	<u>\$ 49,760</u>	<u>\$ 53,210</u>	<u>\$ 60,434</u>	<u>\$ 70,973</u>	<u>\$ 80,829</u>	<u>\$ 85,963</u>	<u>\$ 97,498</u>
<i>Non-GAAP subscription gross margin</i>	<i>78.9%</i>	<i>78.7%</i>	<i>78.3%</i>	<i>77.0%</i>	<i>76.8%</i>	<i>74.7%</i>	<i>75.5%</i>	<i>76.8%</i>

	Three Months Ended							
	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22
Reconciliation of GAAP operating expenses to non-GAAP operating expenses:								
Research and development operating expense on a GAAP basis	\$ 44,921	\$ 21,861	\$ 24,313	\$ 33,225	\$ 47,701	\$ 56,686	\$ 57,661	\$ 64,472
Less: Stock-based compensation expense	26,522	2,937	3,511	8,932	16,310	20,298	20,085	25,337
Less: Employer taxes on employee stock transactions	45	27	121	277	601	1,279	1,039	342
Non-GAAP research and development operating expense	<u>\$ 18,354</u>	<u>\$ 18,897</u>	<u>\$ 20,681</u>	<u>\$ 24,016</u>	<u>\$ 30,790</u>	<u>\$ 35,109</u>	<u>\$ 36,537</u>	<u>\$ 38,793</u>
<i>Non-GAAP research and development operating expense as a percentage of total revenue</i>	29.8%	26.9%	26.8%	27.2%	30.0%	29.3%	29.0%	27.8%
Sales and marketing operating expense on a GAAP basis	\$ 43,759	\$ 47,838	\$ 58,509	\$ 73,206	\$ 86,991	\$ 100,625	\$ 106,702	\$ 112,754
Less: Stock-based compensation expense	6,379	3,247	4,976	11,155	18,516	20,859	21,062	24,746
Less: Employer taxes on employee stock transactions	35	214	103	610	1,236	2,317	680	1,048
Non-GAAP sales and marketing operating expense	<u>\$ 37,345</u>	<u>\$ 44,377</u>	<u>\$ 53,430</u>	<u>\$ 61,441</u>	<u>\$ 67,239</u>	<u>\$ 77,449</u>	<u>\$ 84,960</u>	<u>\$ 86,960</u>
<i>Non-GAAP sales and marketing operating expense as a percentage of total revenue</i>	60.7%	63.1%	69.4%	69.6%	65.6%	64.6%	67.4%	62.4%
General and administrative operating expense on a GAAP basis	\$ 93,758	\$ 12,009	\$ 15,512	\$ 37,943	\$ 25,330	\$ 30,151	\$ 27,481	\$ 29,979
Less: Stock-based compensation expense	85,619	2,445	3,347	11,202	9,122	9,407	9,047	10,437
Less: Employer taxes on employee stock transactions	92	2	39	222	436	1,835	310	130
Less: Common stock charitable donation expense	-	-	-	13,290	-	-	-	-
Non-GAAP general and administrative operating expense	<u>\$ 8,047</u>	<u>\$ 9,562</u>	<u>\$ 12,126</u>	<u>\$ 13,229</u>	<u>\$ 15,772</u>	<u>\$ 18,909</u>	<u>\$ 18,124</u>	<u>\$ 19,412</u>
<i>Non-GAAP general and administrative operating expense as a percentage of total revenue</i>	13.1%	13.6%	15.7%	15.0%	15.4%	15.8%	14.4%	13.9%

	Three Months Ended							
	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22
Reconciliation of GAAP operating loss to non-GAAP operating loss:								
Operating loss on a GAAP basis	\$ (139,997)	\$ (32,301)	\$ (45,144)	\$ (86,045)	\$ (94,751)	\$ (113,680)	\$ (111,482)	\$ (117,307)
Add: Stock-based compensation expense	120,074	9,744	13,353	34,516	49,683	58,072	57,369	68,866
Add: Employer taxes on employee stock transactions	196	243	263	1,435	2,439	5,952	2,439	1,670
Add: Common stock charitable donation expense	-	-	-	13,290	-	-	-	-
Non-GAAP operating loss	<u>\$ (19,727)</u>	<u>\$ (22,314)</u>	<u>\$ (31,528)</u>	<u>\$ (36,804)</u>	<u>\$ (42,629)</u>	<u>\$ (49,656)</u>	<u>\$ (51,674)</u>	<u>\$ (46,771)</u>
Non-GAAP operating margin	<u>(32.1%)</u>	<u>(31.7%)</u>	<u>(40.9%)</u>	<u>(41.7%)</u>	<u>(41.6%)</u>	<u>(41.4%)</u>	<u>(41.0%)</u>	<u>(33.5%)</u>
Reconciliation of GAAP net loss to non-GAAP net loss:								
Net loss on a GAAP basis	\$ (138,141)	\$ (31,756)	\$ (44,526)	\$ (88,170)	\$ (95,666)	\$ (114,439)	\$ (112,987)	\$ (117,631)
Add: Stock-based compensation expense	120,074	9,744	13,353	34,516	49,683	58,072	57,369	68,866
Add: Employer taxes on employee stock transactions	196	243	263	1,435	2,439	5,952	2,439	1,670
Add: Common stock charitable donation expense	-	-	-	13,290	-	-	-	-
Add: Amortization of debt issuance costs	-	-	-	-	-	187	936	946
Add: Income tax effects and adjustments	(987)	(206)	(671)	1,716	(20)	(181)	13	669
Non-GAAP net loss	<u>\$ (18,858)</u>	<u>\$ (21,975)</u>	<u>\$ (31,581)</u>	<u>\$ (37,213)</u>	<u>\$ (43,564)</u>	<u>\$ (50,409)</u>	<u>\$ (52,230)</u>	<u>\$ (45,480)</u>
Non-GAAP net loss per share, basic and diluted	<u>\$ (0.18)</u>	<u>\$ (0.21)</u>	<u>\$ (0.29)</u>	<u>\$ (0.31)</u>	<u>\$ (0.17)</u>	<u>\$ (0.19)</u>	<u>\$ (0.19)</u>	<u>\$ (0.16)</u>
Weighted-average shares used to compute net loss per share, basic and diluted	<u>102,852,461</u>	<u>105,294,029</u>	<u>108,731,605</u>	<u>118,648,655</u>	<u>259,152,303</u>	<u>265,480,761</u>	<u>272,890,829</u>	<u>278,268,980</u>

In connection with a tender offer and secondary sales of Confluent common stock and convertible founder stock, stock-based compensation for the three months ended Q3'20 included \$0.6 million, \$23.9 million, \$3.5 million, and \$83.9 million of expense within cost of revenue, research and development expense, sales and marketing expense, and general and administrative expense, respectively, for an aggregate of \$111.9 million of expense related to the amount paid in excess of the estimated fair value of common stock as of the date of the transactions.

	Three Months Ended							
	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22
Net cash used in operating activities	\$ (9,175)	\$ (20,395)	\$ (19,989)	\$ (43,166)	\$ (18,029)	\$ (23,876)	\$ (55,031)	\$ (33,472)
Capitalized internal-use software costs	(870)	(643)	(596)	(1,215)	(2,052)	(1,479)	(2,509)	(2,256)
Capital expenditures	(209)	(347)	(643)	(1,030)	(563)	(1,364)	(887)	(1,184)
Free cash flow	<u>\$ (10,254)</u>	<u>\$ (21,385)</u>	<u>\$ (21,228)</u>	<u>\$ (45,411)</u>	<u>\$ (20,644)</u>	<u>\$ (26,719)</u>	<u>\$ (58,427)</u>	<u>\$ (36,912)</u>
Free cash flow margin	<u>(16.7%)</u>	<u>(30.4%)</u>	<u>(27.6%)</u>	<u>(51.4%)</u>	<u>(20.1%)</u>	<u>(22.3%)</u>	<u>(46.3%)</u>	<u>(26.5%)</u>
Net cash (used in) provided by investing activities	\$ 16,417	\$ (1,753)	\$ 13,845	\$ 49,683	\$ (267,860)	\$ (196,251)	\$ (311,734)	\$ (491,805)
Net cash provided by financing activities	\$ 16,906	\$ 6,562	\$ 13,460	\$ 809,468	\$ 8,240	\$ 1,013,346	\$ 38,468	\$ 7,335