



Q3 2021 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							
	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21
Revenue:								
Subscription	\$ 41,807	\$ 43,943	\$ 46,973	\$ 54,498	\$ 63,219	\$ 67,992	\$ 78,516	\$ 92,400
Services	6,293	6,961	6,879	6,999	7,105	9,036	9,822	10,170
Total revenue	<u>48,100</u>	<u>50,904</u>	<u>53,852</u>	<u>61,497</u>	<u>70,324</u>	<u>77,028</u>	<u>88,338</u>	<u>102,570</u>
Cost of revenue:								
Subscription	9,678	11,014	11,734	12,373	14,162	15,757	20,292	25,489
Services	6,577	6,799	5,956	6,683	6,755	8,081	9,717	11,810
Total cost of revenue	<u>16,255</u>	<u>17,813</u>	<u>17,690</u>	<u>19,056</u>	<u>20,917</u>	<u>23,838</u>	<u>30,009</u>	<u>37,299</u>
Gross profit	<u>31,845</u>	<u>33,091</u>	<u>36,162</u>	<u>42,441</u>	<u>49,407</u>	<u>53,190</u>	<u>58,329</u>	<u>65,271</u>
Subscription	76.9%	74.9%	75.0%	77.3%	77.6%	76.8%	74.2%	72.4%
Services	(4.5%)	2.3%	13.4%	4.5%	4.9%	10.6%	1.1%	(16.1%)
Total gross margin	<u>66.2%</u>	<u>65.0%</u>	<u>67.2%</u>	<u>69.0%</u>	<u>70.3%</u>	<u>69.1%</u>	<u>66.0%</u>	<u>63.6%</u>
Operating expenses:								
Research and development	18,052	19,742	18,875	44,921	21,861	24,313	33,225	47,701
Sales and marketing	37,886	38,317	36,447	43,759	47,838	58,509	73,206	86,991
General and administrative	7,615	8,415	8,334	93,758	12,009	15,512	37,943	25,330
Total operating expenses	<u>63,553</u>	<u>66,474</u>	<u>63,656</u>	<u>182,438</u>	<u>81,708</u>	<u>98,334</u>	<u>144,374</u>	<u>160,022</u>
Operating loss	(31,708)	(33,383)	(27,494)	(139,997)	(32,301)	(45,144)	(86,045)	(94,751)
Interest income	548	443	1,303	1,259	1,108	844	688	299
Other income (expense), net	383	(307)	(211)	(153)	(302)	(336)	(643)	(530)
Loss before income taxes	(30,777)	(33,247)	(26,402)	(138,891)	(31,495)	(44,636)	(86,000)	(94,982)
Provision for (benefit from) income taxes	(165)	388	(106)	(750)	261	(110)	2,170	684
Net loss	<u>\$ (30,612)</u>	<u>\$ (33,635)</u>	<u>\$ (26,296)</u>	<u>\$ (138,141)</u>	<u>\$ (31,756)</u>	<u>\$ (44,526)</u>	<u>\$ (88,170)</u>	<u>\$ (95,666)</u>
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (0.31)</u>	<u>\$ (0.33)</u>	<u>\$ (0.25)</u>	<u>\$ (1.34)</u>	<u>\$ (0.30)</u>	<u>\$ (0.41)</u>	<u>\$ (0.74)</u>	<u>\$ (0.37)</u>
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	<u>100,004,073</u>	<u>103,196,156</u>	<u>105,532,865</u>	<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>

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

	September 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 582,697	\$ 36,789
Marketable securities	448,245	251,756
Accounts receivable, net of allowance	116,006	105,971
Deferred contract acquisition costs	23,120	14,403
Prepaid expenses and other current assets	37,481	18,775
Total current assets	1,207,549	427,694
Property and equipment, net	11,892	6,718
Operating lease right-of-use assets	39,705	48,273
Deferred contract acquisition costs, non-current	43,748	33,196
Other assets, non-current	6,926	10,238
Total assets	\$ 1,309,820	\$ 526,119
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 3,327	\$ 1,646
Accrued expenses and other liabilities	66,721	33,711
Operating lease liabilities	9,819	10,492
Deferred revenue	179,696	142,901
Liability for early exercise of unvested stock options	13,238	5,049
Total current liabilities	272,801	193,799
Operating lease liabilities, non-current	33,720	40,440
Deferred revenue, non-current	22,398	16,292
Other liabilities, non-current	9,760	7,203
Total liabilities	338,679	257,734
Redeemable convertible preferred stock	-	574,634
Stockholders' equity (deficit):		
Preferred stock	-	-
Common stock	-	1
Convertible founder stock	-	-
Class A common stock	1	-
Class B common stock	2	-
Additional paid-in capital	1,605,341	99,575
Accumulated other comprehensive income	212	228
Accumulated deficit	(634,415)	(406,053)
Total stockholders' equity (deficit)	971,141	(306,249)
Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)	\$ 1,309,820	\$ 526,119

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	\$ (95,666)	\$ (138,141)	\$ (228,362)	\$ (198,072)
Adjustments to reconcile net loss to cash used in operating activities:				
Depreciation and amortization	897	488	2,440	1,187
Net amortization of premiums or discounts on marketable securities	536	436	1,500	778
Amortization of deferred contract acquisition costs	6,739	4,125	18,322	10,253
Non-cash operating lease costs	2,962	2,943	8,566	9,045
Common stock charitable donation expense	-	-	13,290	-
Stock-based compensation, net of amounts capitalized	49,683	120,074	97,552	133,597
Deferred income taxes	(1)	(906)	1,729	(1,038)
Other	1,023	110	1,671	379
Changes in operating assets and liabilities:				
Accounts receivable	979	1,738	(10,874)	(23,599)
Deferred contract acquisition costs	(11,244)	(9,548)	(37,592)	(23,475)
Prepaid expenses and other assets	(2,616)	(3,829)	(17,339)	(3,977)
Accounts payable	1,366	1,530	1,737	(105)
Accrued expenses and other liabilities	18,597	5,915	31,490	8,199
Operating lease liabilities	(2,834)	(2,726)	(8,216)	(8,493)
Deferred revenue	11,550	8,616	42,902	33,659
Net cash used in operating activities	(18,029)	(9,175)	(81,184)	(61,662)
CASH FLOWS FROM INVESTING ACTIVITIES				
Capitalization of internal-use software costs	(2,052)	(870)	(3,863)	(2,967)
Purchases of marketable securities	(322,941)	(52,730)	(378,912)	(283,420)
Sales of marketable securities	-	-	-	4,988
Maturities of marketable securities	57,693	70,226	180,667	106,986
Purchases of property and equipment	(563)	(209)	(2,236)	(693)
Other	3	-	12	-
Net cash (used in) provided by investing activities	(267,860)	16,417	(204,332)	(175,106)
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	10,421	4,413	29,126	7,000
Proceeds from issuance of common stock upon early exercise of unvested options, net of repurchases	24	2,493	18,567	3,331
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	-	10,000	-	259,865
Payments of deferred offering costs	(2,205)	-	(3,125)	-
Net cash provided by financing activities	8,240	16,906	831,168	270,196
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(1)	51	(11)	18
Net (decrease) increase in cash, cash equivalents, and restricted cash	(277,650)	24,199	545,641	33,446
Cash, cash equivalents, and restricted cash at beginning of period	861,097	29,218	37,806	19,971
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 583,447</u>	<u>\$ 53,417</u>	<u>\$ 583,447</u>	<u>\$ 53,417</u>
Reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets to the amounts shown above:				
Cash and cash equivalents	\$ 582,697	\$ 52,400	\$ 582,697	\$ 52,400
Restricted cash included in other assets, non-current	750	1,017	750	1,017
Total cash, cash equivalents, and restricted cash	<u>\$ 583,447</u>	<u>\$ 53,417</u>	<u>\$ 583,447</u>	<u>\$ 53,417</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							
	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21
Reconciliation of GAAP total gross profit to non-GAAP total gross profit:								
Total gross profit on a GAAP basis	\$ 31,845	\$ 33,091	\$ 36,162	\$ 42,441	\$ 49,407	\$ 53,190	\$ 58,329	\$ 65,271
<i>Total gross margin on a GAAP basis</i>	<i>66.2%</i>	<i>65.0%</i>	<i>67.2%</i>	<i>69.0%</i>	<i>70.3%</i>	<i>69.1%</i>	<i>66.0%</i>	<i>63.6%</i>
Add: Stock-based compensation expense	863	812	836	1,554	1,115	1,519	3,227	5,735
Add: Employer taxes on employee stock transactions	1	1	-	24	-	-	326	166
Non-GAAP total gross profit	<u>\$ 32,709</u>	<u>\$ 33,904</u>	<u>\$ 36,998</u>	<u>\$ 44,019</u>	<u>\$ 50,522</u>	<u>\$ 54,709</u>	<u>\$ 61,882</u>	<u>\$ 71,172</u>
<i>Non-GAAP total gross margin</i>	<i>68.0%</i>	<i>66.6%</i>	<i>68.7%</i>	<i>71.6%</i>	<i>71.8%</i>	<i>71.0%</i>	<i>70.1%</i>	<i>69.4%</i>
Reconciliation of GAAP subscription gross profit to non-GAAP subscription gross profit:								
Subscription gross profit on a GAAP basis	\$ 32,129	\$ 32,929	\$ 35,239	\$ 42,125	\$ 49,057	\$ 52,235	\$ 58,224	\$ 66,911
<i>Subscription gross margin on a GAAP basis</i>	<i>76.9%</i>	<i>74.9%</i>	<i>75.0%</i>	<i>77.3%</i>	<i>77.6%</i>	<i>76.8%</i>	<i>74.2%</i>	<i>72.4%</i>
Add: Stock-based compensation expense	455	462	524	883	703	975	2,172	3,945
Add: Employer taxes on employee stock transactions	-	1	-	8	-	-	38	117
Non-GAAP subscription gross profit	<u>\$ 32,584</u>	<u>\$ 33,392</u>	<u>\$ 35,763</u>	<u>\$ 43,016</u>	<u>\$ 49,760</u>	<u>\$ 53,210</u>	<u>\$ 60,434</u>	<u>\$ 70,973</u>
<i>Non-GAAP subscription gross margin</i>	<i>77.9%</i>	<i>76.0%</i>	<i>76.1%</i>	<i>78.9%</i>	<i>78.7%</i>	<i>78.3%</i>	<i>77.0%</i>	<i>76.8%</i>

	Three Months Ended							
	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21
Reconciliation of GAAP operating expenses to non-GAAP operating expenses:								
Research and development operating expense on a GAAP basis	\$ 18,052	\$ 19,742	\$ 18,875	\$ 44,921	\$ 21,861	\$ 24,313	\$ 33,225	\$ 47,701
Less: Stock-based compensation expense	2,018	2,046	2,250	26,522	2,937	3,511	8,932	16,310
Less: Employer taxes on employee stock transactions	1	9	-	45	27	121	277	601
Non-GAAP research and development operating expense	<u>\$ 16,033</u>	<u>\$ 17,687</u>	<u>\$ 16,625</u>	<u>\$ 18,354</u>	<u>\$ 18,897</u>	<u>\$ 20,681</u>	<u>\$ 24,016</u>	<u>\$ 30,790</u>
<i>Non-GAAP research and development operating expense as a percentage of total revenue</i>	33.3%	34.7%	30.9%	29.8%	26.9%	26.8%	27.2%	30.0%
Sales and marketing operating expense on a GAAP basis	\$ 37,886	\$ 38,317	\$ 36,447	\$ 43,759	\$ 47,838	\$ 58,509	\$ 73,206	\$ 86,991
Less: Stock-based compensation expense	2,232	2,373	2,735	6,379	3,247	4,976	11,155	18,516
Less: Employer taxes on employee stock transactions	52	22	-	35	214	103	610	1,236
Non-GAAP sales and marketing operating expense	<u>\$ 35,602</u>	<u>\$ 35,922</u>	<u>\$ 33,712</u>	<u>\$ 37,345</u>	<u>\$ 44,377</u>	<u>\$ 53,430</u>	<u>\$ 61,441</u>	<u>\$ 67,239</u>
<i>Non-GAAP sales and marketing operating expense as a percentage of total revenue</i>	74.0%	70.6%	62.6%	60.7%	63.1%	69.4%	69.6%	65.6%
General and administrative operating expense on a GAAP basis	\$ 7,615	\$ 8,415	\$ 8,334	\$ 93,758	\$ 12,009	\$ 15,512	\$ 37,943	\$ 25,330
Less: Stock-based compensation expense	1,080	1,220	1,251	85,619	2,445	3,347	11,202	9,122
Less: Employer taxes on employee stock transactions	11	44	5	92	2	39	222	436
Less: Common stock charitable donation expense	-	-	-	-	-	-	13,290	-
Non-GAAP general and administrative operating expense	<u>\$ 6,524</u>	<u>\$ 7,151</u>	<u>\$ 7,078</u>	<u>\$ 8,047</u>	<u>\$ 9,562</u>	<u>\$ 12,126</u>	<u>\$ 13,229</u>	<u>\$ 15,772</u>
<i>Non-GAAP general and administrative operating expense as a percentage of total revenue</i>	13.6%	14.0%	13.1%	13.1%	13.6%	15.7%	15.0%	15.4%

	Three Months Ended							
	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21
Reconciliation of GAAP operating loss to non-GAAP operating loss:								
Operating loss on a GAAP basis	\$ (31,708)	\$ (33,383)	\$ (27,494)	\$ (139,997)	\$ (32,301)	\$ (45,144)	\$ (86,045)	\$ (94,751)
Add: Stock-based compensation expense	6,193	6,451	7,072	120,074	9,744	13,353	34,516	49,683
Add: Employer taxes on employee stock transactions	65	76	5	196	243	263	1,435	2,439
Add: Common stock charitable donation expense	-	-	-	-	-	-	13,290	-
Non-GAAP operating loss	<u>\$ (25,450)</u>	<u>\$ (26,856)</u>	<u>\$ (20,417)</u>	<u>\$ (19,727)</u>	<u>\$ (22,314)</u>	<u>\$ (31,528)</u>	<u>\$ (36,804)</u>	<u>\$ (42,629)</u>
<i>Non-GAAP operating margin</i>	<i>(52.9%)</i>	<i>(52.8%)</i>	<i>(37.9%)</i>	<i>(32.1%)</i>	<i>(31.7%)</i>	<i>(40.9%)</i>	<i>(41.7%)</i>	<i>(41.6%)</i>
Reconciliation of GAAP net loss to non-GAAP net loss:								
Net loss on a GAAP basis	\$ (30,612)	\$ (33,635)	\$ (26,296)	\$ (138,141)	\$ (31,756)	\$ (44,526)	\$ (88,170)	\$ (95,666)
Add: Stock-based compensation expense	6,193	6,451	7,072	120,074	9,744	13,353	34,516	49,683
Add: Employer taxes on employee stock transactions	65	76	5	196	243	263	1,435	2,439
Add: Common stock charitable donation expense	-	-	-	-	-	-	13,290	-
Add: Income tax effects and adjustments	(284)	11	(438)	(987)	(206)	(671)	1,716	(20)
Non-GAAP net loss	<u>\$ (24,638)</u>	<u>\$ (27,097)</u>	<u>\$ (19,657)</u>	<u>\$ (18,858)</u>	<u>\$ (21,975)</u>	<u>\$ (31,581)</u>	<u>\$ (37,213)</u>	<u>\$ (43,564)</u>
Non-GAAP net loss per share attributable to common stockholders, basic and diluted	<u>\$ (0.25)</u>	<u>\$ (0.26)</u>	<u>\$ (0.19)</u>	<u>\$ (0.18)</u>	<u>\$ (0.21)</u>	<u>\$ (0.29)</u>	<u>\$ (0.31)</u>	<u>\$ (0.17)</u>
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	<u>100,004,073</u>	<u>103,196,156</u>	<u>105,532,865</u>	<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>

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 September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net cash used in operating activities	\$ (18,029)	\$ (9,175)	\$ (81,184)	\$ (61,662)
Capitalized internal-use software costs	(2,052)	(870)	(3,863)	(2,967)
Capital expenditures	(563)	(209)	(2,236)	(693)
Free cash flow	<u>\$ (20,644)</u>	<u>\$ (10,254)</u>	<u>\$ (87,283)</u>	<u>\$ (65,322)</u>
<i>Free cash flow margin</i>	<i>(20.1%)</i>	<i>(16.7%)</i>	<i>(32.6%)</i>	<i>(39.3%)</i>
Net cash provided by (used in) investing activities	\$ (267,860)	\$ 16,417	\$ (204,332)	\$ (175,106)
Net cash provided by financing activities	\$ 8,240	\$ 16,906	\$ 831,168	\$ 270,196