CONFLUENT

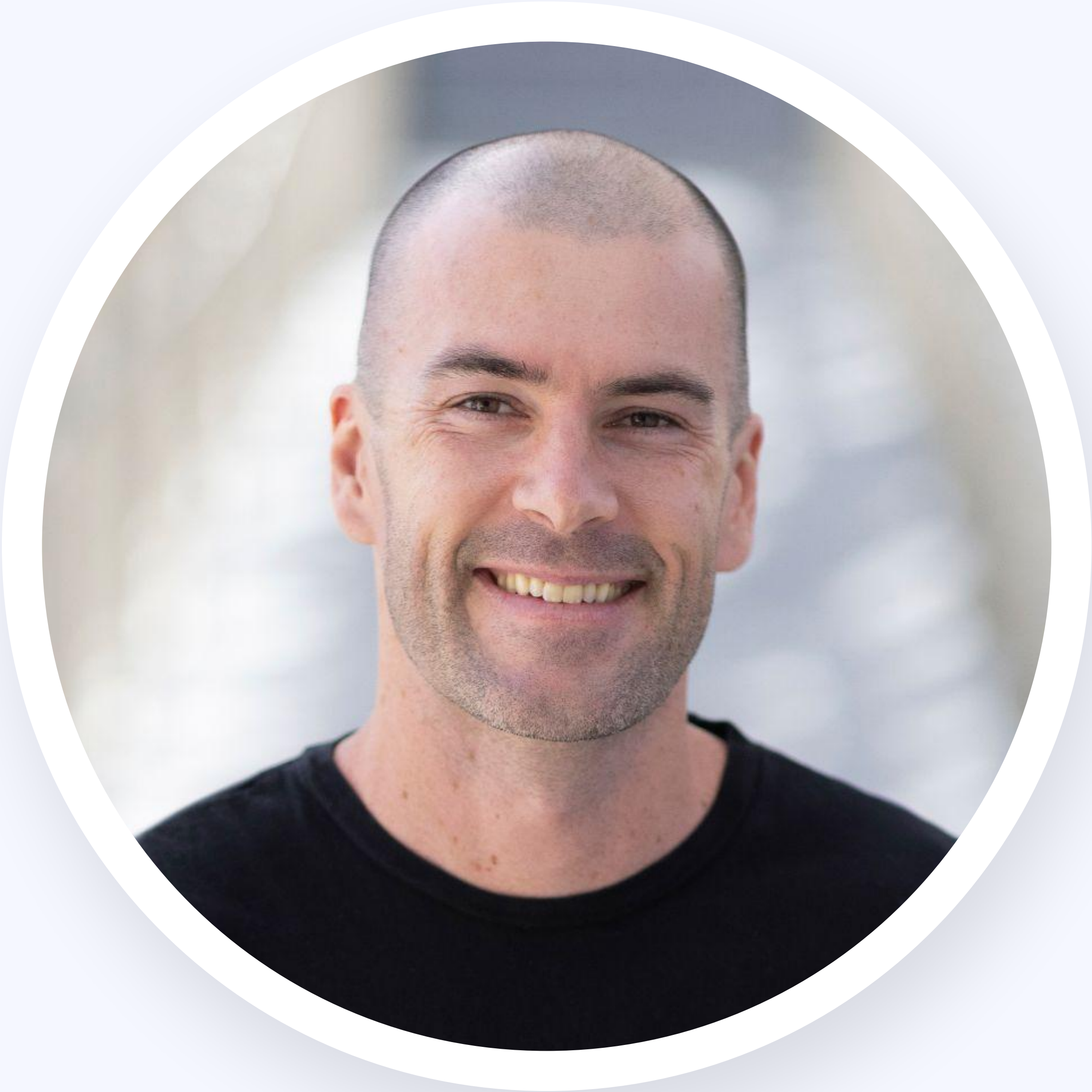
Q4 & 2023 Earnings Call

February 7, 2024

Forward Looking Statements and Non-GAAP Financial Measures

This presentation and the accompanying oral presentation (together, the "presentation") contain forward-looking statements including, among other things, statements regarding (i) our financial outlook, including expected total revenue, subscription revenue, non-GAAP operating margin, non-GAAP net income per share, revenue mix, Confluent Cloud growth, operating margins and margin improvements, targeted or anticipated gross and operating margin levels, earnings per share levels and improvements, improvements in unit economics and in-product optimizations of Confluent Cloud, continued business momentum, and expected revenue growth rate and efficient growth, (ii) our market and category leadership position, (iii) our expected investments in research and development and go-to-market functions and anticipated effectiveness and timing of product innovation, features and functionalities, (iv) our ability to drive efficient growth and rate and pace of investments, including expected capital allocation (v) our expectations and trends relating to Confluent Cloud growth, including following our planned reorientation of our go-to-market strategy and model around customer consumption, (vi) rates of Confluent Cloud consumption and demand for and retention of data streaming platforms like Confluent in the face of budget scrutiny, (vii) continued higher interest rates and macroeconomic uncertainty as well as our expectations regarding the effects of macroeconomic pressure on our go-to-market motion, durability of our offering with customers, customer use case expansion and overall consumption levels of Confluent Cloud, as well as potential benefits to our business and growth following any improvements to the macroeconomic environment, (viii) our pricing, our win rate and deal cycles and customer behaviors, such as budget scrutiny and preferences for consumption against smaller commitments rather than large upfront commitments, (ix) customer growth, retention and engagement, (x) ability for Confluent Cloud to provide cost savings for users and customers, including lower total cost of ownership, and drive greater monetization of the open source Kafka user base as a result, (xi) increased adoption of our offering and fully managed solutions for data streaming in general, including from customers building generative AI applications, (xii) dependence of businesses on data in motion, (xiii) growth in and growth rate of revenue, customers, dollar-based net retention rate, and gross retention rate, (xiv) our ability to increase engagement of customers for Confluent and expand customer cohorts, (xv) our market opportunity, (xvi) our ability to successfully reorient our go-to-market strategy and model around customer consumption as well as the timing, anticipated benefits, and overall effectiveness of such transition for our business, future durable and efficient growth, and ability to capture our market opportunity, (xvii) our go-to-market strategy, (xviii) our product differentiation and market acceptance of our products, including over open source alternatives, (xix) our strategy and expected results and market acceptance for our Flink offering, (xx) our expectations for market acceptance, direction and growth of stream processing, its potential to accelerate adoption of our platform and growth of our business, and our ability and positioning to capture this market, (xxi) our ability to meet near-term and mid-term financial targets, (xxii) our expectations of relevance of certain key financial and operating metrics, (xxiii) and our overall future prospects. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "seek," "plan," "project," "target," "looking ahead," "look to," "move into," and similar expressions are intended to identify forward-looking statements. Forward-looking statements represent our current beliefs, estimates and assumptions only as of the date of this press release and information contained in this press release should not be relied upon as representing our estimates as of any subsequent date. These forward-looking statements are subject to risks, uncertainties, and assumptions. If the risks materialize or assumptions prove incorrect, actual results could differ materially from the results implied by these forward-looking statements. Risks include, but are not limited to: (i) our limited operating history, including in uncertain macroeconomic environments, (ii) our ability to sustain and manage our rapid growth, (iii) our ability to increase consumption of our offering, including by existing customers and through the acquisition of new customers, including by addressing customer consumption preferences, and successfully add new features and functionality to our offering, (iv) our ability to successfully execute our go-to-market strategy and initiatives, including as we reorient our go-to-market strategy and model around customer consumption, (v) our ability to attract new customers and retain and sell additional features and services to our existing customers, (vi) uncertain macroeconomic conditions, including higher inflation, higher interest rates, bank failures, supply chain challenges, geopolitical events, recessionary risks, and exchange rate fluctuations, which have resulted and may continue to result in customer pullback in information technology spending, lengthening of sales cycles, reduced contract sizes, reduced consumption of Confluent Cloud or customer preference for open source alternatives, as well as the potential need for cost efficiency measures, (vii) our ability to achieve profitability and improve margins annually, by our expected timelines or at all, (viii) the estimated addressable market opportunity for our offering, including our Flink offering and stream processing, and our ability to capture our share of that market opportunity, (ix) our ability to compete effectively in an increasingly competitive market, (ix) our ability to attract and retain highly qualified personnel, including as we reorient our go-to-market strategy and model around customer consumption, (x) our ability to successfully transition executive leadership, (xi) breaches in our security measures, intentional or accidental cybersecurity incidents or unauthorized access to our platform, our data, or our customers' or other users' personal data, (xii) our reliance on third-party cloud-based infrastructure to host Confluent Cloud, (xiii) public sector budgetary cycles and funding reductions or delays, such as an extended federal government shutdown, (xiv) our ability to accurately forecast our future performance, business and growth, and (xv) general market, political, economic, and business conditions, including continuing impacts from the COVID-19 pandemic. These risks are not exhaustive. Further information on these and other risks that could affect Confluent's results is included in our filings with the Securities and Exchange Commission ("SEC"), including our Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, and our future reports that we may file from time to time with the SEC. Additional information will be made available in our Annual Report on Form 10-K for the year ended December 31, 2023 that will be filed with the SEC, which should be read in conjunction with this presentation and the financial results included herein. Confluent assumes no obligation to, and does not currently intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

As a reminder, certain financial measures we use on our call today and in the presentation are expressed on a non-GAAP basis. 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 between these GAAP and non-GAAP financial measures is included in the Appendix to this presentation.



Jay Kreps

Co-Founder and CEO

CONFLUENT

Fourth Quarter Results

Exceeded Guidance

Total Revenue

$213M

+26% YoY

First $100M Quarter

Confluent Cloud Revenue

$100M

+46% YoY

First Positive Quarter

Non-GAAP Operating Margin (OM)

5.3%

+27 pts YoY

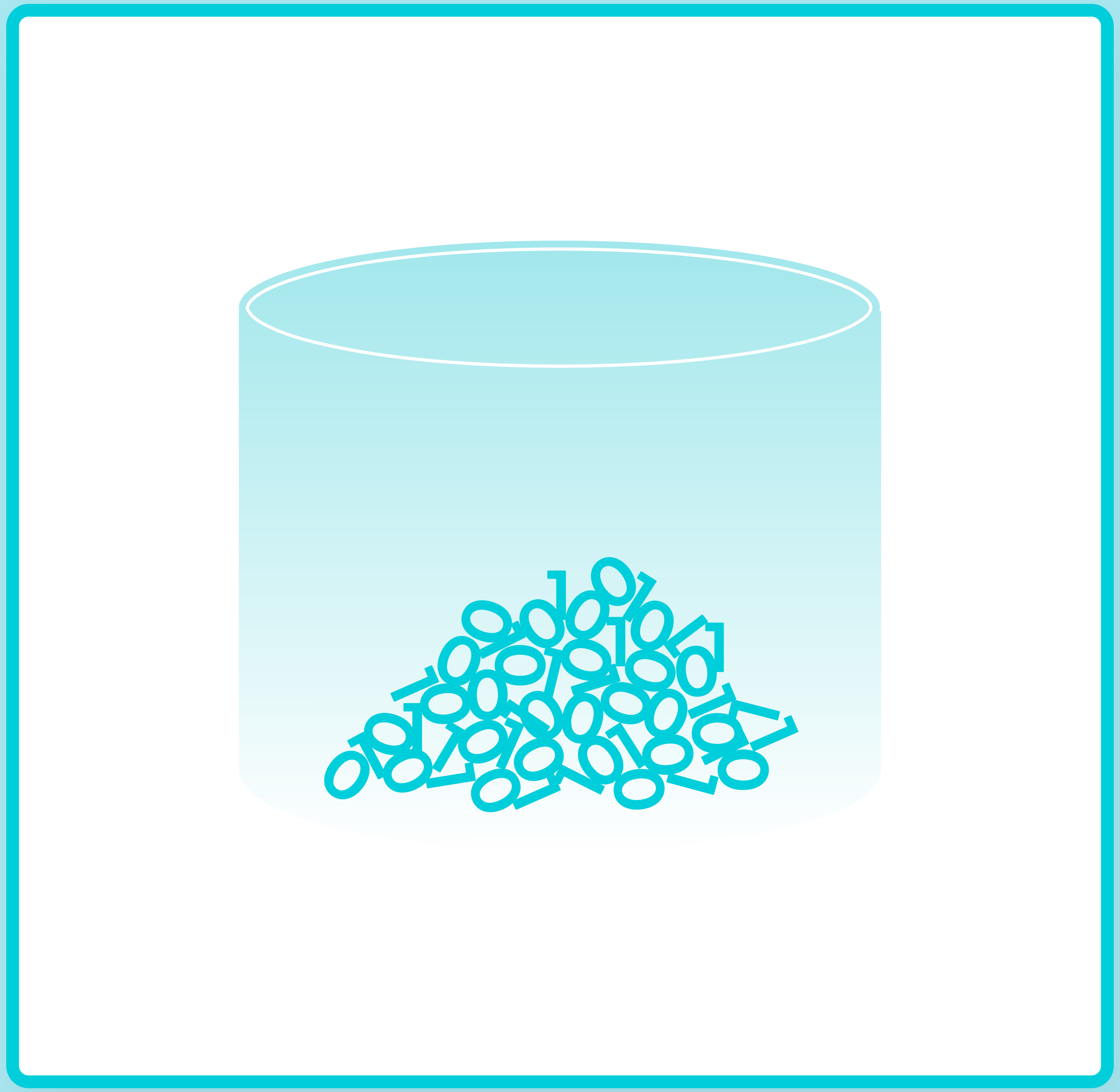
>2x total revenue run rate and >46 points in non-GAAP OM improvement since IPO

Note: Financials are for the quarter ended December 31, 2023.
Refer to the slides in the section titled "GAAP to Non-GAAP Reconciliations" in the Appendix, for a reconciliation of our non-GAAP financial metrics to the most directly comparable GAAP financial measures

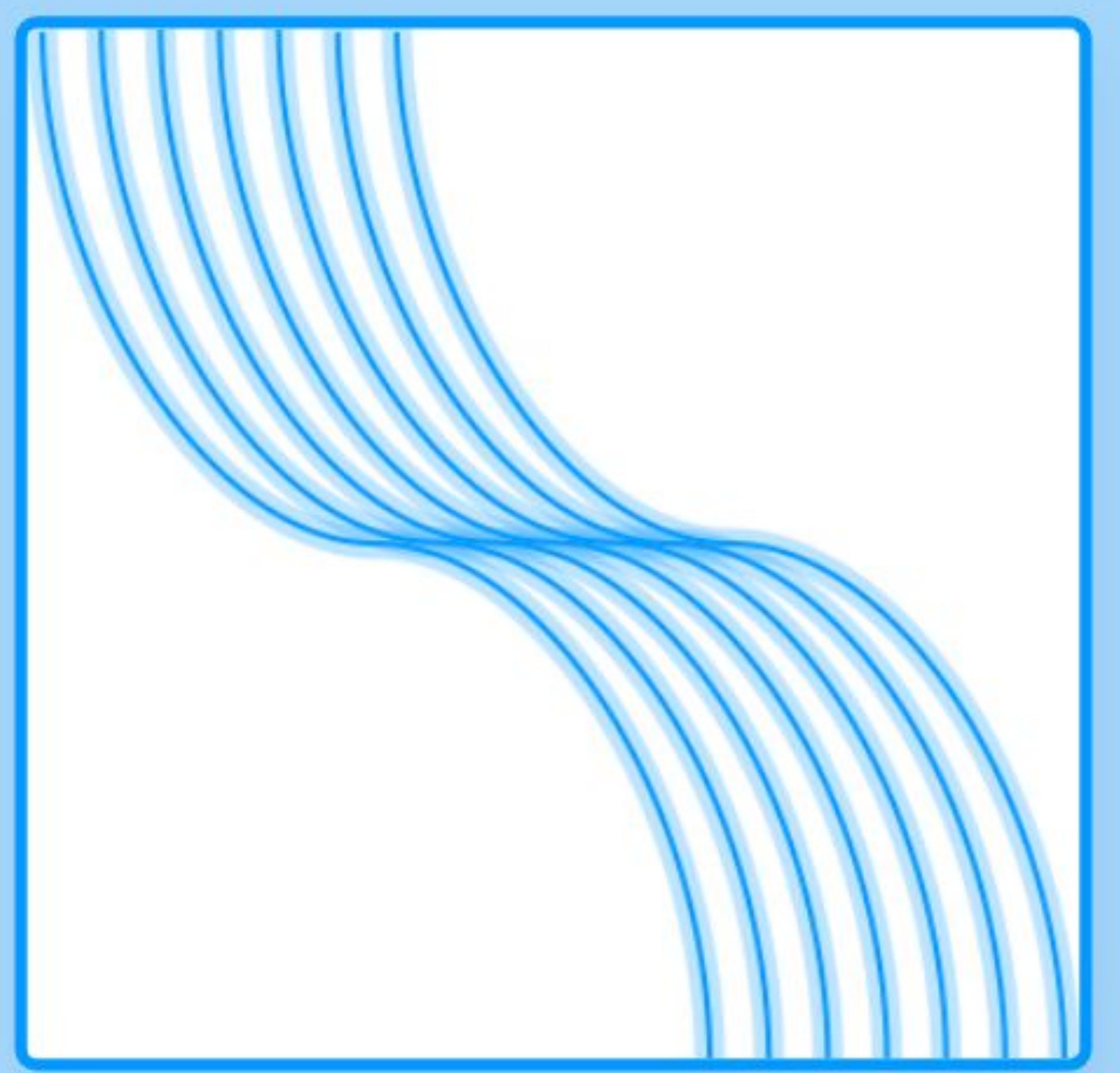
Becoming Fully Consumption Oriented

CHANGING:	NOT CHANGING:
Confluent Cloud sales compensation	No business model or revenue model changes
New logo incentives & incremental consumption	No customer-facing changes
Reduce product & pricing friction	No change to Confluent Platform sales compensation

Data at Rest



Data in Motion



Data in Motion Collapsing into a Single Category

DATA STREAMING PLATFORM

Data Streaming Platform Leadership

FORRESTER®
WAVE LEADER 2023
Streaming Data Platforms

FORRESTER®
WAVE LEADER 2023
Cloud Data Pipelines

InfoWorld
Technology of the Year
2023

Data Streaming Platform:
Stream + Connect + Process + Govern

Data Pipelines | Real-time Analytics | Data Analytics | Cyber-Security | IoT & Telematics | ML & AI

Geofencing | Streaming ETL | Dynamic Pricing | Shipment Tracking / Alerting | Customer 360 | and more...

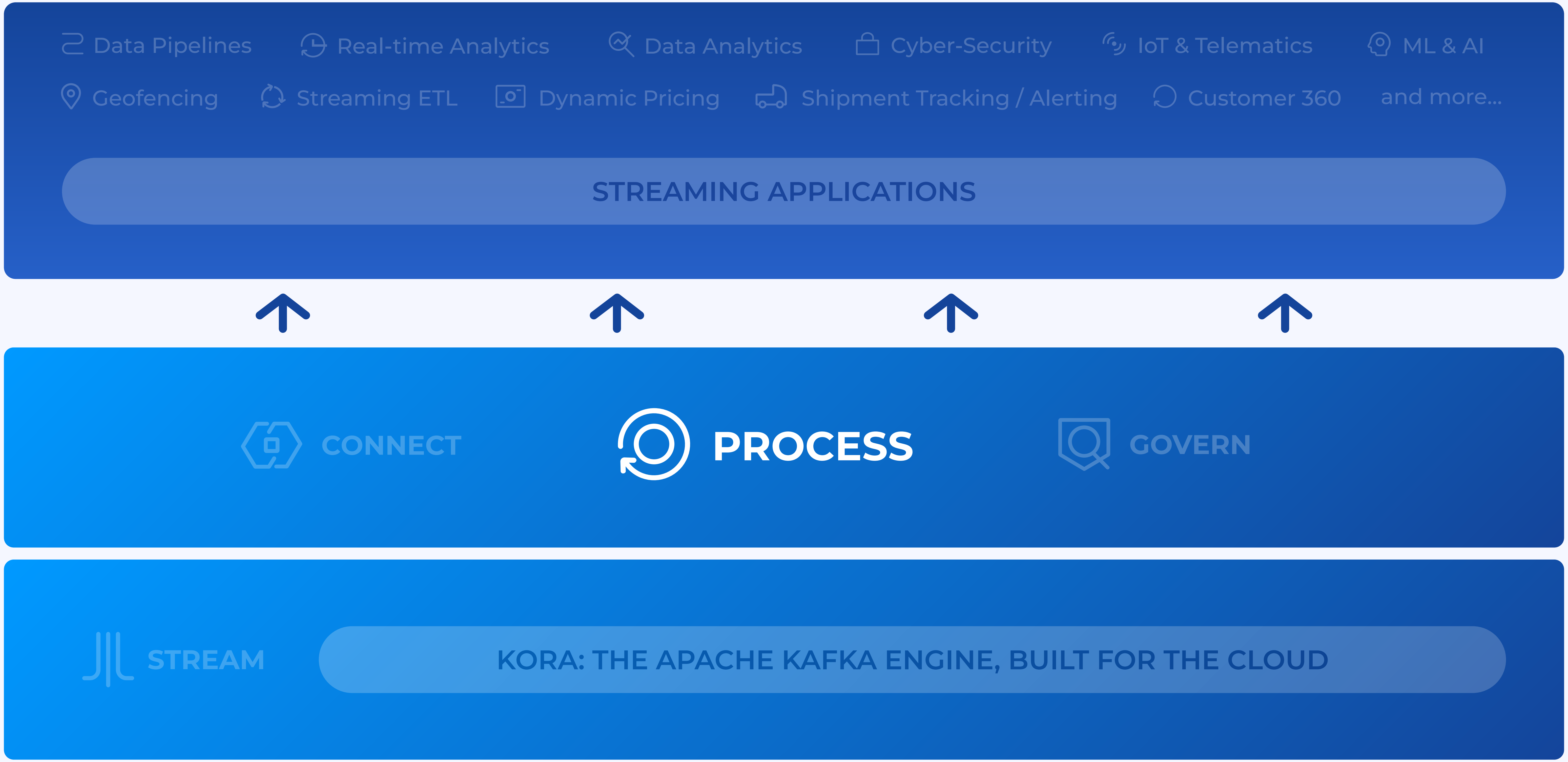
STREAMING APPLICATIONS

CONNECT | PROCESS | GOVERN

STREAM

KORA: THE APACHE KAFKA ENGINE, BUILT FOR THE CLOUD

Our Significant Opportunity with Stream Processing



Confluent is Positioned to Win Stream Processing

Flink is the emerging de facto standard

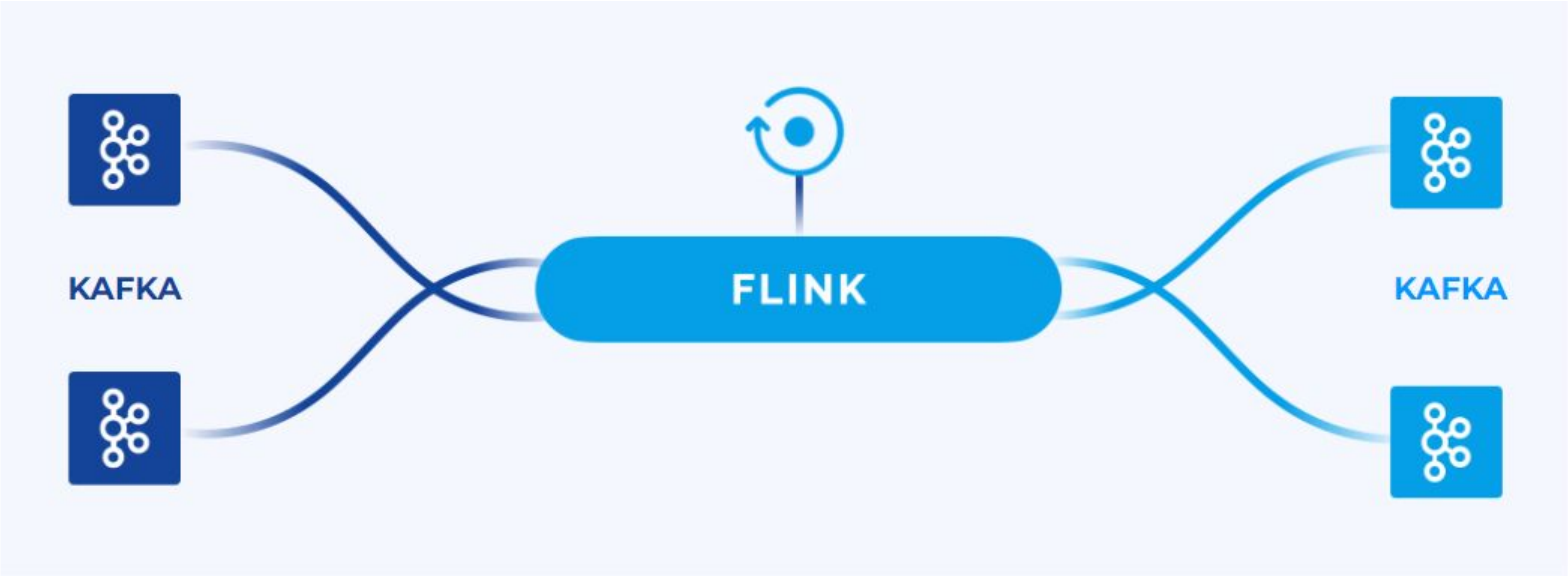
The company with the stream, gets the processing

The rise of data products

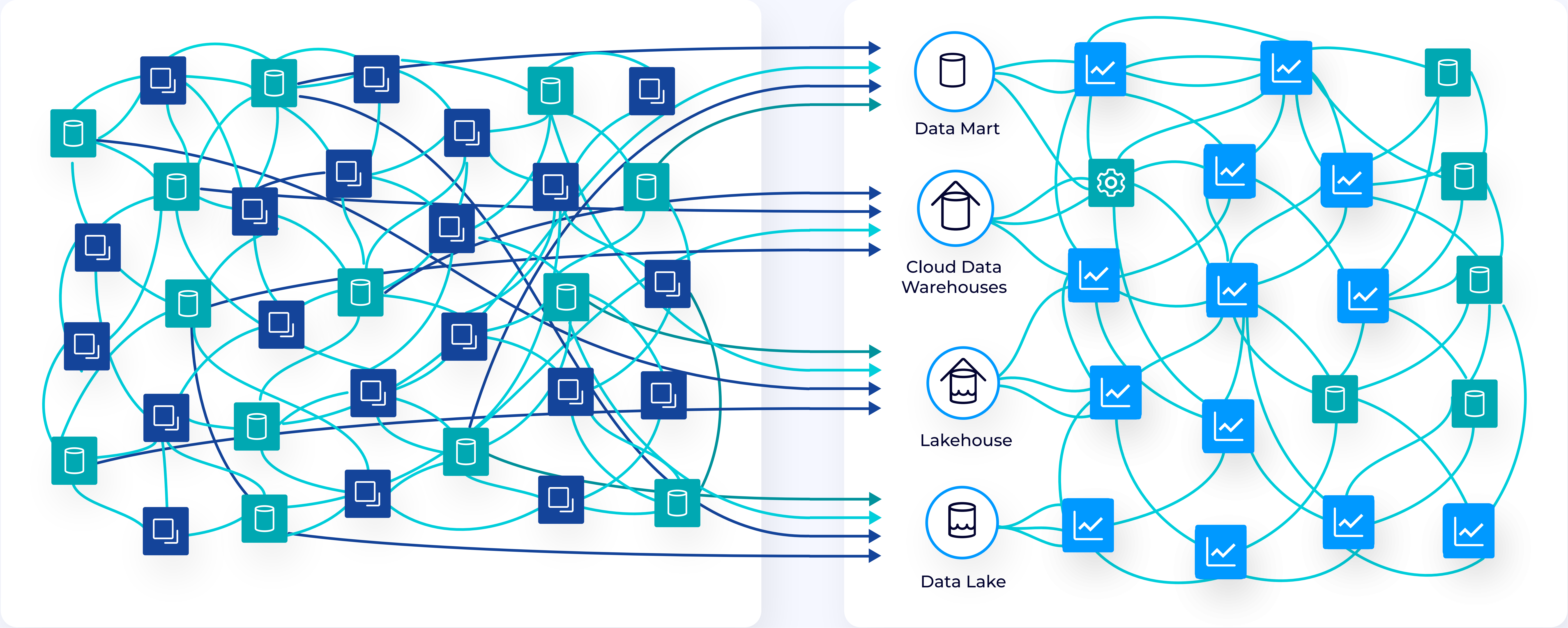
Flink is *Superior*

- Largest community for real-time app developers
- Powerful processing engine built for streaming
- Multiple programming languages support
- Unified batch and stream processing

The Company with the Stream, Gets the Processing



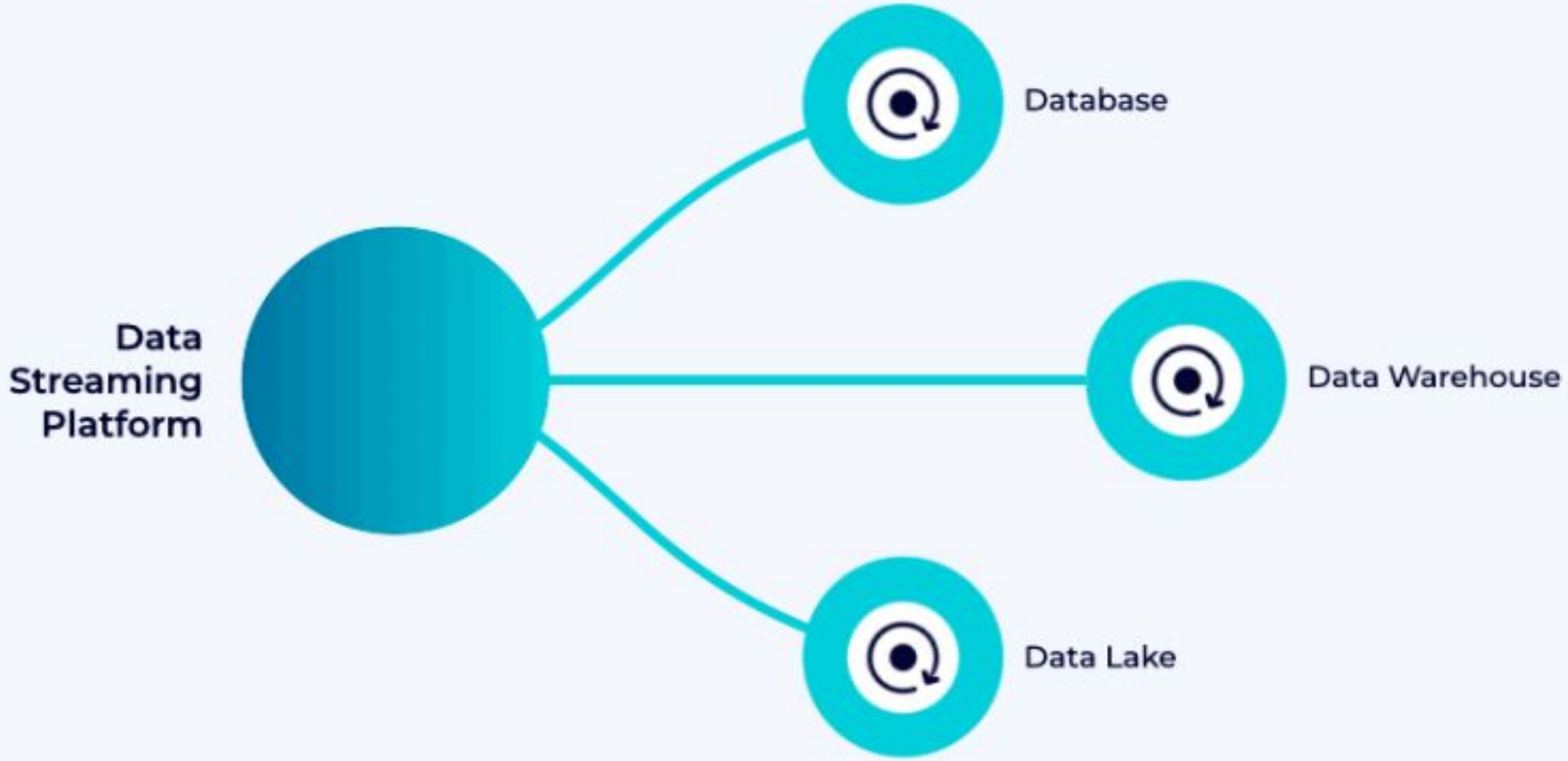
As Data Needs Emerged, Data Complexity Escalated



OPERATIONAL ESTATE

ANALYTICAL ESTATE

Reusable Data Products



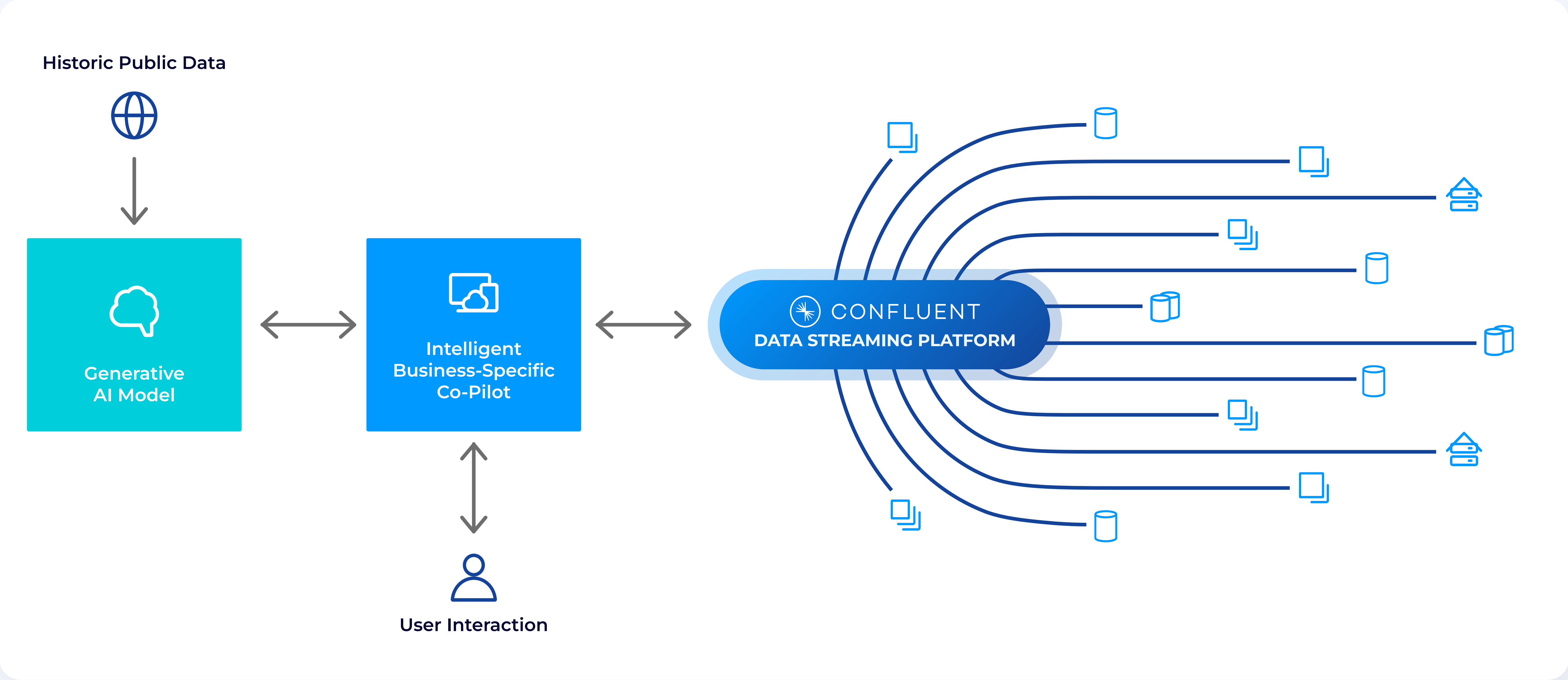
Confluent is Positioned to Win Stream Processing

Flink is the emerging de facto standard

The company with the stream, gets the processing

The rise of data products

Generative AI - What Does This Mean for Enterprise AI?




OpenAI
14:45
Got any creative ideas for a 10 year old's birthday?
Here are a few ideas for a 10 year old's birthday:
1. Have a party at a local trampoline park or roller skating rink.
2. Plan a scavenger hunt around the neighborhood or at a local park.
3. Have a movie night with the birthday child's friends, and make it a sleepover party.
4. Plan a day trip to a local attraction, such as a zoo or an amusement park.
5. Have a craft party, where the
Free Research Preview: ChatGPT is optimized for dialogue. Our goal is to make AI systems more natural to interact with, and your feedback will help us improve our systems and make them safer.


ACERTUS

A Fast Growing E-commerce Company in India

Rohan Sivaram

Chief Financial Officer

CONFLUENT

Fiscal Year 2023 Results

Total Revenue

$777.0M

+33% YoY

Confluent Cloud Revenue

$348.8M

+65% YoY

Non-GAAP Operating Margin

(7.4%)

+23 pts YoY

Achieved first positive non-GAAP operating margin of 5.3% in Q4’23

Note: Financials are for the year, or quarter, as applicable, ended ended December 31, 2023.
Refer to the slides in the section titled “GAAP to Non-GAAP Reconciliations” in the Appendix, for a reconciliation of our non-GAAP financial metrics to the most directly comparable GAAP financial measures

Delivered high revenue growth while accelerating to positive non-GAAP OM by 1 year

Achieved $750M+ revenue and positive non-GAAP OM in 9 years since founding

Q4 Highlights

Robust Subscription Revenue Growth

First $100M quarter for both Confluent Cloud and Confluent Platform

Record Total Gross Margin (Non-GAAP)

Driven by the strong unit economics of our product offerings

Efficient Growth at Scale

First positive Non-GAAP Operating Margin and Free Cash Flow Margin

Revenue

Total Revenue

$213.2M

+26% YoY

Subscription Revenue

$202.8M

+31% YoY

95% of Total Revenue

Note: Financials are for the quarter ended December 31, 2023.

Subscription Revenue

Confluent Platform Revenue

$102.8M

+18% YoY

Confluent Cloud Revenue

$100.0M

+46% YoY

47% of Total Revenue

Confluent Platform:

- Saw continued strength in regulated industries

Confluent Cloud:

- Saw healthy consumption in digital-native customers despite an uncertain macro

Note: Financials are for the quarter ended December 31, 2023.

Revenue by Geography

US Revenue

$127.6M

+27% YoY

60% of Total Revenue

Non-US Revenue

$85.5M

+25% YoY

40% of Total Revenue

Note: Financials are for the quarter ended December 31, 2023.

Non-GAAP Gross Margins

Record High

Total Gross Margin

77.5%

+450 bps YoY

Record High

Subscription Gross Margin

81.1%

+240 bps YoY

Note: Financials are for the quarter ended December 31, 2023.
Refer to the slides in the section titled "GAAP to Non-GAAP Reconciliations" in the Appendix, for a reconciliation of our non-GAAP financial metrics to the most directly comparable GAAP financial measures.

Non-GAAP Operating Margin

First Positive Qtr

Non-GAAP Operating Margin

5.3%

+27 pts YoY

- 6 Q’s in a row with >10 pts YoY improvement
- 3 Q’s in a row with >20 pts YoY improvement
- +16pts YoY improvement in non-GAAP sales and marketing expenses as % of total revenue

Note: Financials are for the quarter ended December 31, 2023.
Refer to the slides in the section titled “GAAP to Non-GAAP Reconciliations” in the Appendix, for a reconciliation of our non-GAAP financial metrics to the most directly comparable GAAP financial measures.

Other Financial Summary

	Q4'23
Non-GAAP Net Income Per Share	**$0.09,** +$0.18 YoY
Free Cash Flow Margin (FCFM)	**3.2%,** +21 pts YoY
Cash, Cash Equivalents, and Marketable Securities	**$1.90B**
Diluted Weighted-Average Shares Outstanding	**342.4M**
Fully Diluted Shares Outstanding	**356.1M**

First Positive FCFM Qtr

Note: Financials are as of or for the quarter ended December 31, 2023.
Refer to the slides in the section titled "GAAP to Non-GAAP Reconciliations" in the Appendix, for a reconciliation of our non-GAAP financial metrics to the most directly comparable GAAP financial measures.
See Appendix for the definition of "Fully Diluted Shares Outstanding."

Customers

Total Customers

~4,960

+9% YoY

Customers with $100K+ in ARR

1,229

+21% YoY

Customers with $1M+ in ARR

158

+24% YoY

Ended FY’23 with 19 Customers with $5M+ in ARR, +10 Customers YoY

Note: Metrics are as of quarter ended December 31, 2023.
See Appendix for the definitions for “Total Customers”, “Customers with $100,000 or greater in ARR”, “Customers with $1,000,000 or greater in ARR”, and “Customers with $5,000,000 or greater in ARR.”

Dollar-Based Net Retention Rate (NRR)

Total NRR

Slightly Above
125%

- Gross Retention Rate: Above 90%
- Expect NRR to be between 120% and 125% during consumption transformation in FY'24
- Expect NRR to revert to Q4'23 levels and exceed mid-term target threshold of 125% beginning FY'25

Note: Metrics are as of period ended December 31, 2023.
See Appendix for the definitions for "Dollar-Based Net Retention Rate" and "Gross Retention Rate."

Remaining Performance Obligations (RPO)

Less relevant as a forward-looking indicator,
given the greater emphasis on consumption over ACV-based commits for cloud

RPO

$919.9M

+24% YoY

Current RPO

~64% of RPO

~$591.9M

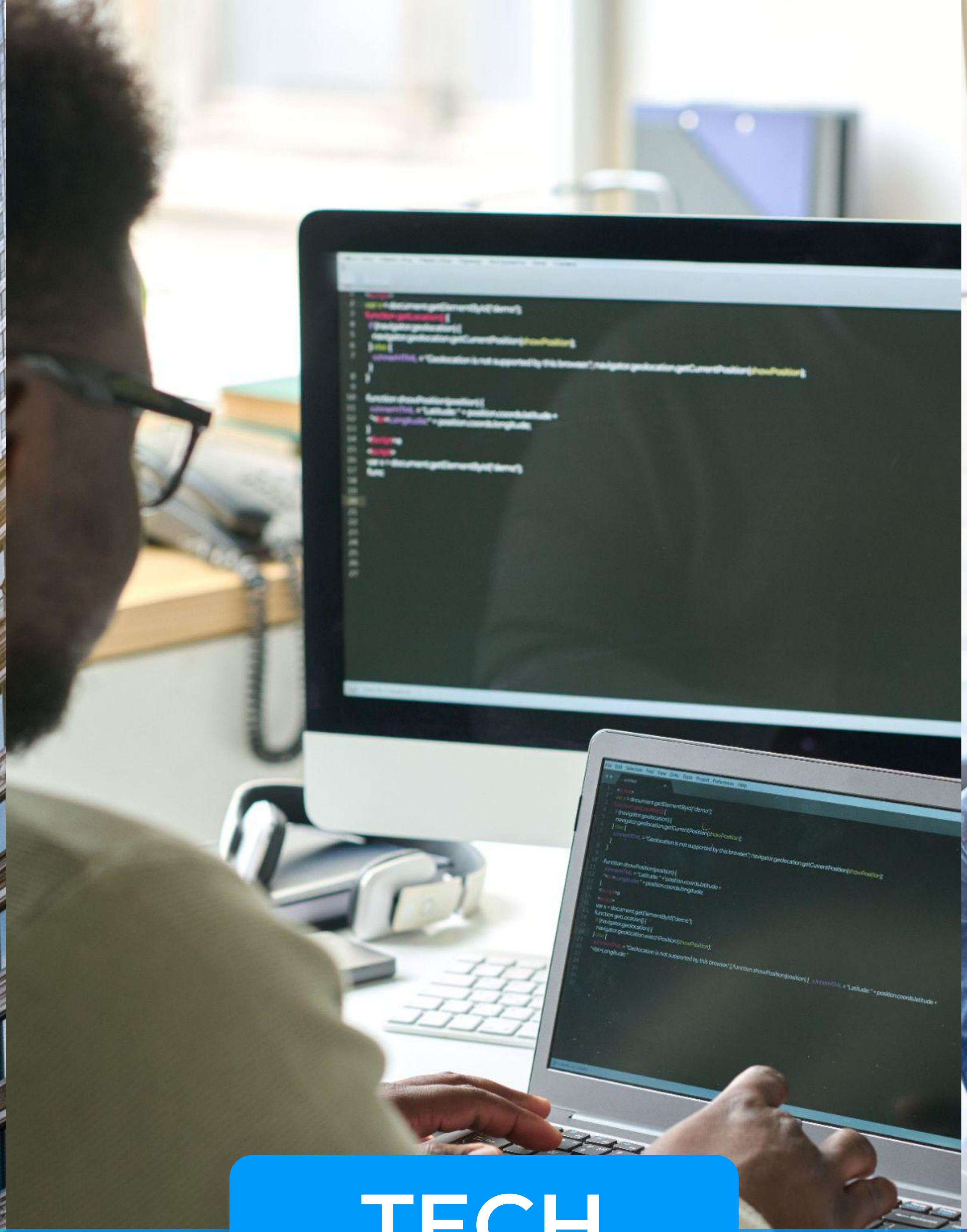
+30% YoY

Note: Metrics are as of quarter ended December 31, 2023.
See Appendix for the definition of “Current RPO”.

Welcome to Confluent

TAM

$60B+ and LT Tailwinds

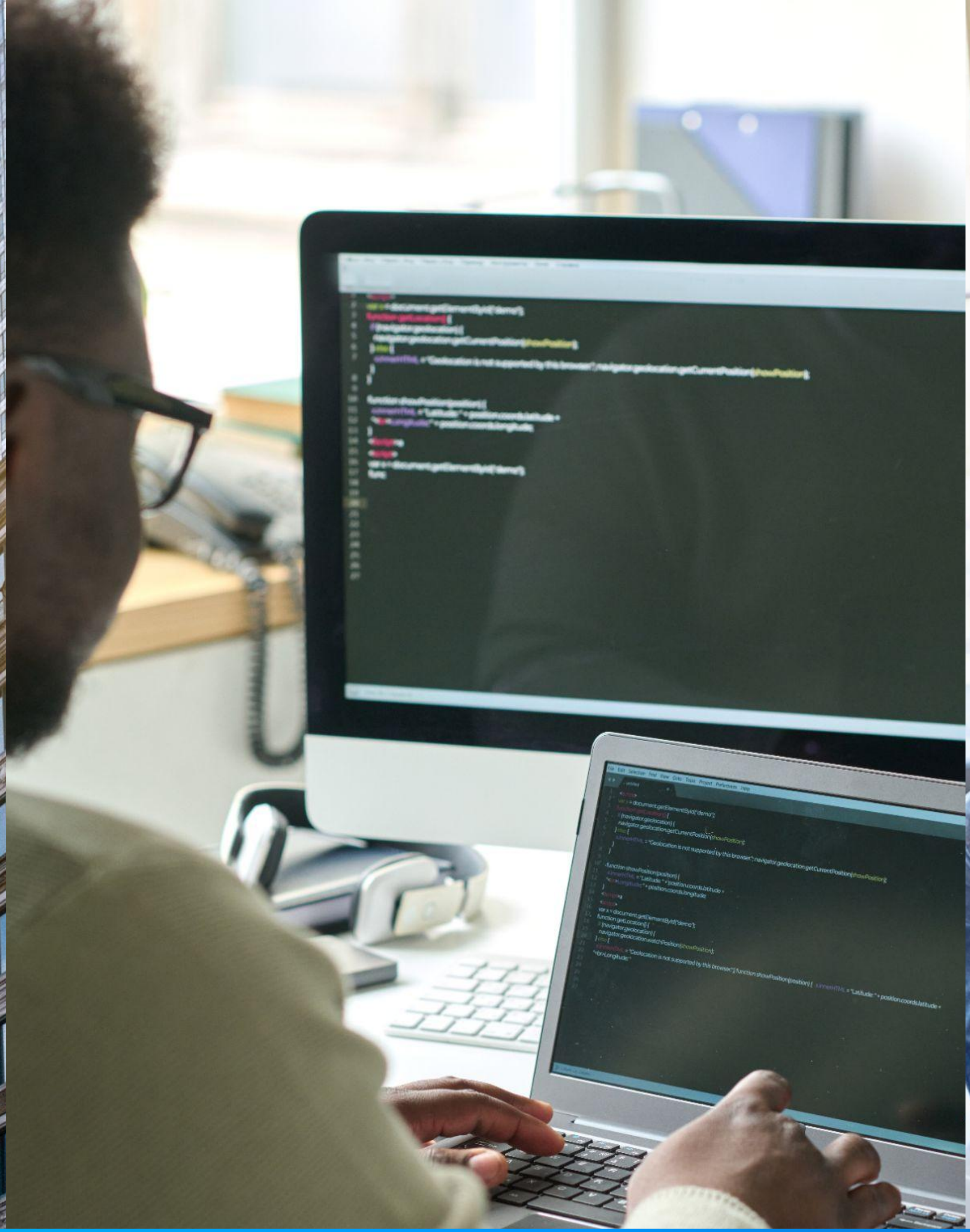


TECH

Multi-Product DSP

TEAM

Proven Execution


Deliver sustained efficient growth in FY'24 while paving the way back to mid-term target growth

Revenue Guidance

- Begin guiding to subscription revenue for Q1’24
- Continue to provide total revenue quarterly and annual guidance for Q1’24 and Q2’24 to help transition to our new guidance practice
- Fully transition to providing only subscription revenue guidance beginning with Q3’24

Guidance

	Q1'24	FY'24
Total Revenue	**$211M-$212M** *21%-22% YoY*	**~$950M** *~22% YoY*
Subscription Revenue	**$199M-$200M** *24%-25% YoY*	**N/A**
Non-GAAP Operating Margin	**~(4%)**	**0%**
Non-GAAP Net Income Per Diluted Share	**$0.00-0.02**	**$0.17**

Additional:

- **Cloud Revenue:**
  - Q1'24 to be approximately $105 million, representing year-over-year growth of approximately 43%
- **FCF Margin:**
  - FY'24 to break even, representing year-over-year improvement of approximately 16 pts
  - Q1'24 to improve approximately 20 pts year over year, despite pronounced seasonality primarily due to corporate bonus payout, ESPP, and holdback payment related to Immerok acquisition
- **Net Dilution:**
  - FY'24 to be approximately 3%, down from 3.5% in FY'23 and 4.7% in FY'22
  - Long-term target: Under 2%

Thank You!

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Appendix

Definitions

Current Remaining Performance Obligations (Current RPO):
Represents the estimated amount of contracted future revenue expected to be recognized as revenue over the next 12 months.

Annual Recurring Revenue (ARR):
We define ARR as (1) with respect to Confluent Platform customers, the amount of revenue to which our customers are contractually committed over the following 12 months assuming no increases or reductions in their subscriptions, and (2) with respect to Confluent Cloud customers, the amount of revenue that we expect to recognize from such customers over the following 12 months, calculated by annualizing actual consumption of Confluent Cloud in the last three months of the applicable period, assuming no increases or reductions in usage rate. Services arrangements are excluded from the calculation of ARR. Prior to the first quarter of 2023, ARR with respect to Confluent Cloud customers excluded pay-as-you-go arrangements and was based on contractual commitments over the following 12 months, regardless of actual consumption. We adjusted our methodology for calculating ARR commencing with the first quarter of 2023 to incorporate actual consumption of Confluent Cloud and applied this change retroactively.

Dollar-Based Net Retention Rate:
We calculate our dollar-based net retention rate (NRR) as of a period end by starting with the ARR from the cohort of all customers as of 12 months prior to such period end ("Prior Period Value"). We then calculate the ARR from these same customers as of the current period end ("Current Period Value"), and divide the Current Period Value by the Prior Period Value to arrive at our dollar-based NRR. The dollar-based NRR includes the effect, on a dollar-weighted value basis, of our Confluent Platform subscriptions that expand, renew, contract, or attrit. The dollar-based NRR also includes the effect of annualizing actual consumption of Confluent Cloud in the last three months of the applicable period, but excludes ARR from new customers in the current period. Our dollar-based NRR is subject to adjustments for acquisitions, consolidations, spin-offs, and other market activity.

Dollar-Based Gross Retention Rate:
We calculate our dollar-based gross retention rate as of a period end by starting with the ARR from the cohort of all customers as of 12 months prior to such period end ("Prior Period Value"). We then calculate the ARR from these same customers, which includes contract contraction and attrition but excludes contract expansion, as of the current period end ("Current Period Value"). We divide the Current Period Value by the Prior Period Value to arrive at a dollar-based gross retention rate.

Total Customers:
Represents the total number of customers at the end of each period. For purposes of determining our customer count, we treat all affiliated entities with the same parent organization as a single customer and include pay-as-you-go customers. Our customer count is subject to adjustments for acquisitions, consolidations, spin-offs, and other market activity.

Customers with $100,000 or greater in ARR:
Represents the number of customers that contributed $100,000 or more in ARR as of period end.

Customers with $1,000,000 or greater in ARR:
Represents the number of customers that contributed $1,000,000 or more in ARR as of period end.

Customers with $5,000,000 or greater in ARR:
Represents the number of customers that contributed $5,000,000 or more in ARR as of period end.

Fully Diluted Shares Outstanding:
Represents the total number of common shares outstanding adjusted for the impact of stock options, restricted stock units, and options to purchase shares under the employee stock purchase plan determined under the treasury stock method, and excludes shares issuable upon conversion of outstanding convertible senior notes.

GAAP to Non-GAAP Reconciliations

(in thousands, except percentages)

	Q4'22	Q4'23
Total revenue	$168,666	$213,184
Total gross profit on a GAAP basis	$114,717	$156,127
Add: Stock-based compensation expense	7,871	8,782
Add: Employer taxes on employee stock transactions	469	150
Add: Amortization of acquired intangibles	-	195
Non-GAAP total gross profit	$123,057	$165,254
Non-GAAP total gross margin	*73.0%*	*77.5%*

	Q4'22	Q4'23
Subscription revenue	$155,341	$202,787
Subscription gross profit on a GAAP basis	$116,645	$157,980
Add: Stock-based compensation expense	5,492	6,207
Add: Employer taxes on employee stock transactions	84	102
Add: Amortization of acquired intangibles	-	195
Non-GAAP subscription gross profit	$122,221	$164,484
Non-GAAP subscription gross margin	*78.7%*	*81.1%*

	Q4'22	Q4'23
Total revenue	$168,666	$213,184
Sales and marketing (S&M) expense on a GAAP basis	$122,684	$119,911
Less: Stock-based compensation expense	26,846	30,895
Less: Employer taxes on employee stock transactions	177	511
Less: Acquisition-related expenses	-	1,076
Non-GAAP S&M expense	$95,661	$87,429
Non-GAAP S&M expense as a % of total revenue	*56.7%*	*41.0%*

GAAP to Non-GAAP Reconciliations

(in thousands, except percentages)

	FY'22	FY'23	Q4'22	Q4'23
Total revenue	$585,944	$776,952	$168,666	$213,184
Operating loss on a GAAP basis	($462,674)	($478,773)	($114,985)	($84,680)
Add: Stock-based compensation expense	277,656	349,833	76,028	88,871
Add: Employer taxes on employee stock transactions	7,010	11,031	1,532	1,296
Add: Amortization of acquired intangibles	-	564	-	195
Add: Acquisition-related expenses	1,104	25,147	1,104	5,567
Add: Restructuring and other related charges	-	34,854	-	-
Non-GAAP operating (loss) income	($176,904)	($57,344)	($36,321)	$11,249
Non-GAAP operating margin	*(30.2%)*	*(7.4%)*	*(21.5%)*	*5.3%*

GAAP to Non-GAAP Reconciliations

(in thousands, except percentages, share and per share data)

	Q4'22	Q4'23
Net loss on a GAAP basis	$(105,884)	$(94,096)
Add: Stock-based compensation expense	76,028	88,871
Add: Employer taxes on employee stock transactions	1,532	1,296
Add: Amortization of acquired intangibles	-	195
Add: Acquisition-related expenses	1,104	5,567
Add: Amortization of debt issuance costs	959	963
Add: Income tax effects and adjustments	656	29,373
Non-GAAP net (loss) income	$(25,605)	$32,169
Non-GAAP net (loss) income per share, basic	$(0.09)	$0.10
Non-GAAP net (loss) income per share, diluted	$(0.09)	$0.09
Weighted-average shares used to compute net (loss) income per share, basic	286,732,756	309,101,119
Weighted-average shares used to compute net (loss) income per share, diluted	286,732,756	342,370,878

	Q4'22	Q4'23
Total revenue	$168,666	$213,184
Net cash (used in) provided by operating activities	$(27,078)	$12,235
Add: Capitalized internal-use software costs	(2,781)	(4,299)
Add: Capital expenditures	(1,006)	(1,116)
Free cash flow	$(30,865)	$6,820
Free cash flow margin	*(18.3%)*	*3.2%*