CONFLUENT

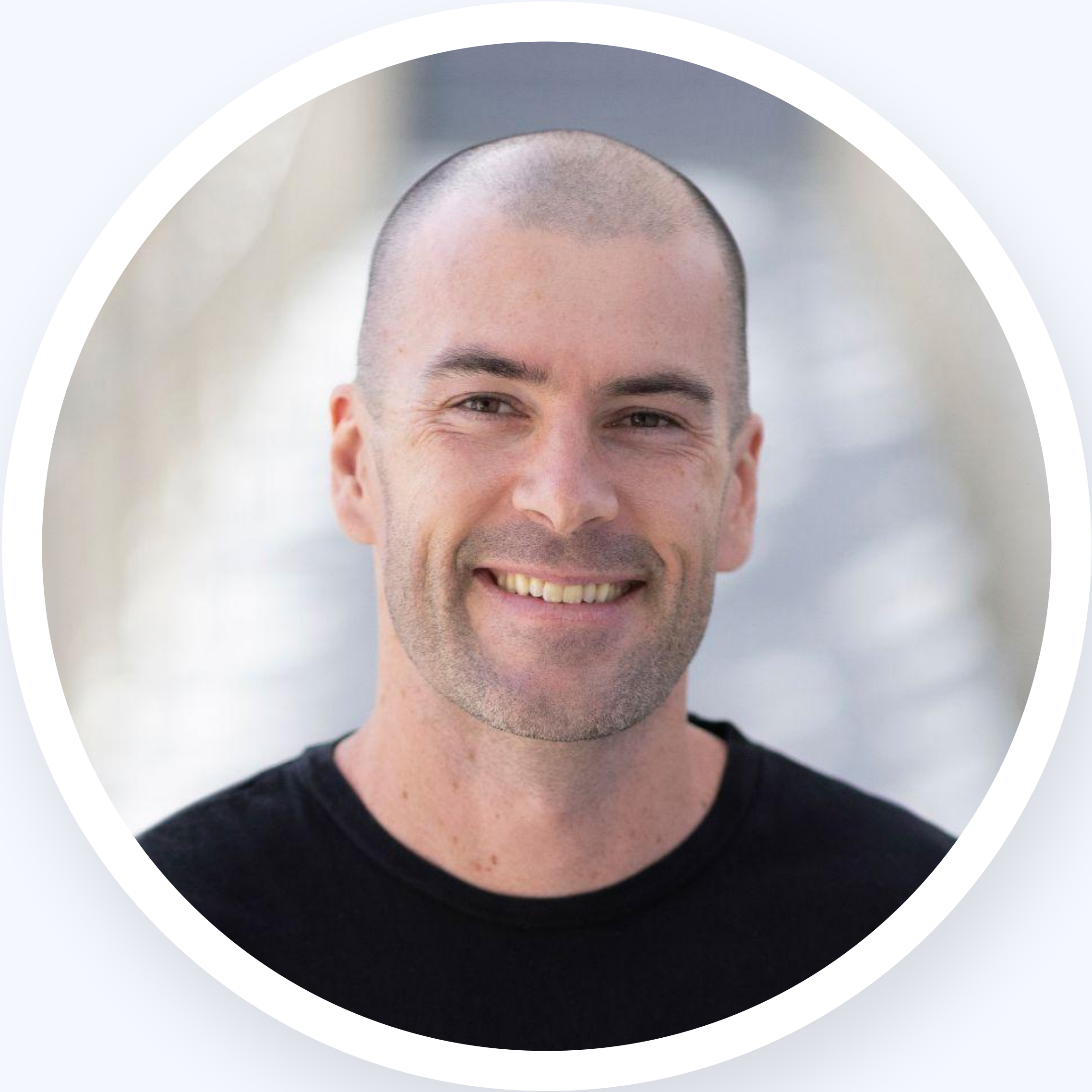
Q3 2023 Earnings Call

November 1, 2023

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 revenue mix, operating margins and margin improvements, targeted or anticipated gross and operating margin levels, achievement of non-GAAP operating margin breakeven exiting the fourth quarter of fiscal 2023, improvements in unit economics, 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; (iv) our expected capital allocation to drive efficient growth and rate and pace of investments, (v) the potential growth for Confluent Cloud; (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 and durability of our offering with customers, (viii) our pricing, our win rate and deal cycles and customer behaviors such as budget scrutiny, (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 platform and fully managed solutions for data streaming in general, (xii) dependence of businesses on data in motion, (xiii) ability for Confluent to become the central nervous system of organizations, (xiv) the degree of market acceptance of our products, (xv) growth in and growth rate of revenue, customers, remaining performance obligations, dollar-based net retention rate, and gross retention rate, (xvi) our ability to increase engagement of customers for Confluent and expand customer cohorts, (xvii) our market opportunity, (xviii) our consumption-oriented strategy, (xix) our go-to-market strategy, (xx) our product differentiation and market acceptance of our products, including over open source alternatives, (xxi) our strategy and expected results and market acceptance for our Flink offering and timing for launch of that offering, (xxii) our expectations for market acceptance of stream processing, (xxiii) our ability to meet near-term and mid-term financial targets, (xxiv) our potential for value creation, (xxv) our investment priority and philosophy, (xxvi) our Chief Financial Officer transition, and (xxvii) 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, including following our recent restructuring, (iii) our ability to attract new customers and retain and sell additional features and services to our existing customers, (iv) inflationary conditions, economic uncertainty, 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, (v) our ability to increase consumption of our offering, including by existing customers and through the acquisition of new customers, and successfully add new features and functionality to our offering, (vi) our ability to achieve profitability and improve margins annually, by our expected timelines or at all, (vii) our ability to operate our business and execute on our strategic initiatives following our recent restructuring, (viii) the estimated addressable market opportunity for our offering, including our Flink offering and stream processing, (ix) our ability to compete effectively in an increasingly competitive market, including achieving market acceptance over competitors and open source alternatives, (x) our ability to successfully execute our go-to-market strategy and initiatives and increase market awareness and acceptance of the benefits of our offering, including the total cost of ownership benefits of Confluent Cloud, (xi) our ability to attract and retain highly qualified personnel, which could be negatively impacted by our recent restructuring, (xii) breaches in our security measures or unauthorized access to our platform, our data, or our customers’ or other users’ personal data, (xiii) our reliance on third-party cloud-based infrastructure to host Confluent Cloud, and (xiv) 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 June 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 Quarterly Report on Form 10-Q for the quarter ended September 30, 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

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Third Quarter Results

Total Revenue	Confluent Cloud Revenue	Non-GAAP Operating Margin
$200M	**$92M**	**+22 pts**
+32% YoY	*+61% YoY*	*YoY*

FIRST POSITIVE NON-GAAP EPS

Note: Financials are for the period ended September 30, 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

Two Factors Impacting Our Outlook

Q4’23 revenue growth of 21% to 22% with Cloud growth of 43% YoY

Consumption impact from company-specific events at

Two Large Customers[(1)]

Continuing

Macro Pressure[(2)]

(1) One online gaming company moved workloads back to their own data center, and one of our largest customers ramped slower as they are in the process of being acquired. These two customers account for roughly 50% of the expected consumption shortfall in Q4’23.

(2) Includes the ongoing conflict in the Middle East where Israel is a top ten country for Confluent, and the possible US government shutdown both of which add uncertainty and disruption in particular segments. Specifically, we’ve seen slower organic consumption resulting from a slower rate of new use case addition in some parts of our customer base.

Consumption Transformation

Traditional Software GTM

Large Upfront Commitments

Cloud

Forces an Evolution

Cloud + Consumption

Realigns Customer Value to Revenue

Transformation - Timeline

2017

- GA of Confluent Cloud
- Pay-as-you-go / self-service
- Usage-based Billing
- >50% Customers on Confluent Cloud
- Enterprise SKU
- Q4’23
  Now
  Approaching nearly 50% CC revenue & new customer buying behaviors
- 2024
  Starting Q1
  Full alignment of GTM operations to the consumption motion

Transformation - Business Impact

Sales Comp

From 10-15% to 100% consumption based

Sales Motion

Land new customers and drive new workloads

Product

Enable easier lands and adoption of new products and features

Systems & Measurement

Revamp systems and processes on planning, demand gen, and forecasting

CONSUMPTION REVENUE

OUR GOAL

Emerge **stronger**, **more aligned** with customers, and **better positioned** to capture our

$60B TAM

Current

ORGANIZED BY: CONFLUENT

Enterprise SKU

Instantaneous Auto-Scaling Clusters

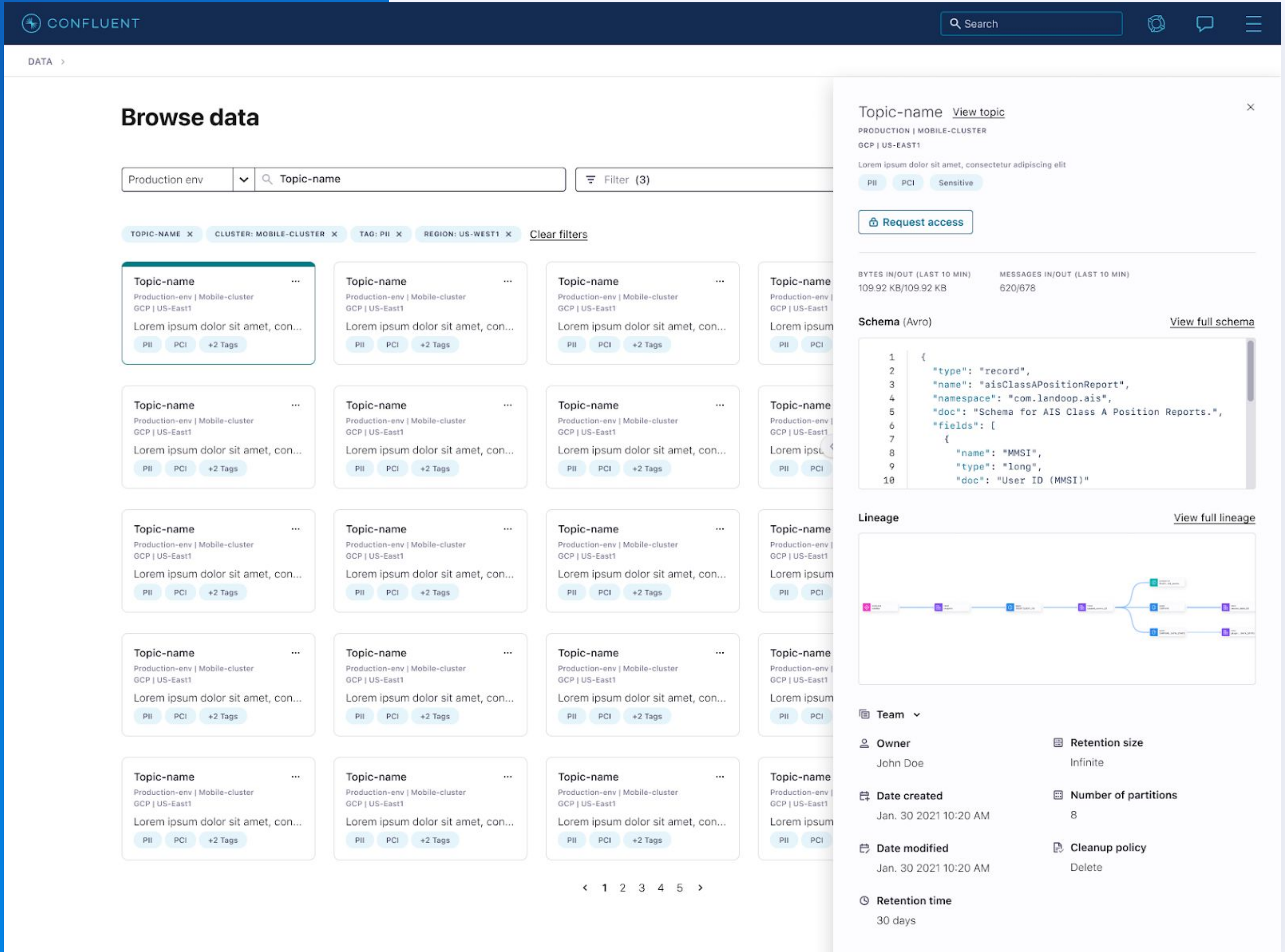
Pre-Provisioned Clusters

Basic	Standard	Enterprise	Dedicated
Get started with scale from $0 pricing	Production-ready for most applications	Enhanced security with private networking	Customizable for any application up to GBps scale

MIX AND MATCH ANY CLUSTER TYPE ACROSS YOUR ORGANIZATION

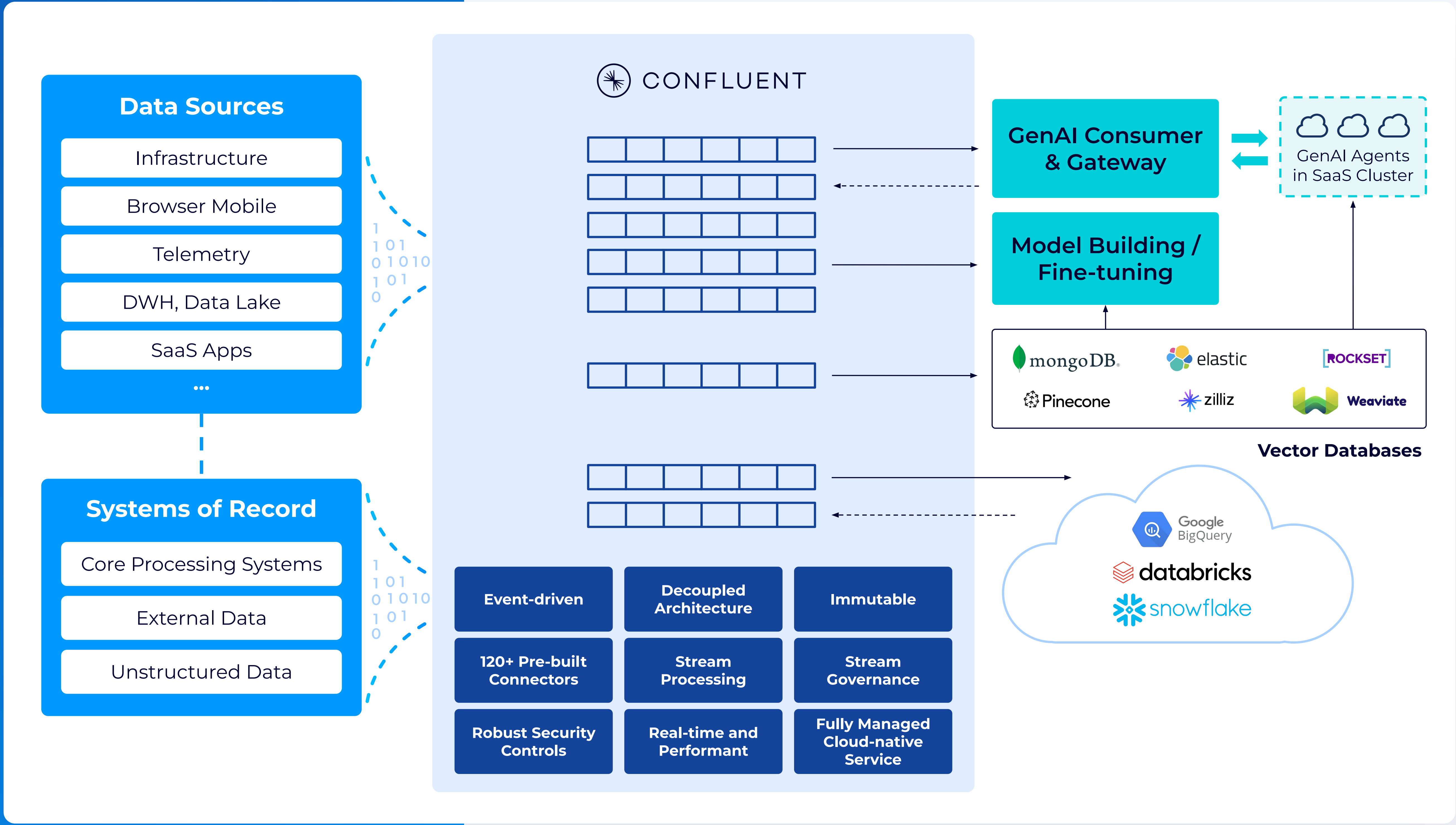
Data Portal

Search, discover and explore the data streams that flow throughout organizations.



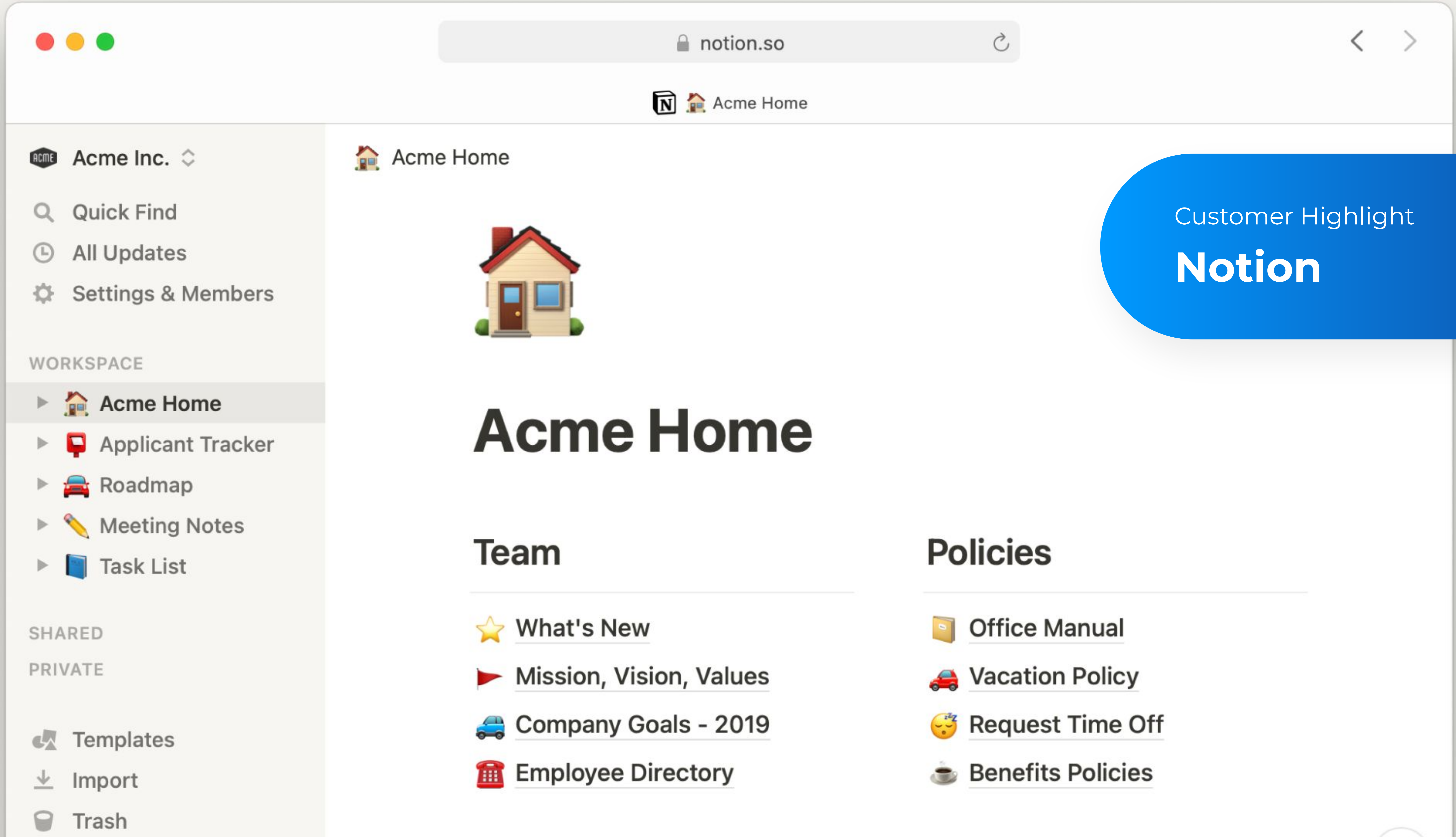
Data Streaming for AI

Expands partnerships and product capabilities, making it easier to build real-time AI applications



Customer Highlight

Notion



Rohan Sivaram

Chief Financial Officer

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Revenue

Total Revenue

$200.2M

+32% YoY

Subscription Revenue

$189.3M

+36% YoY

95% of Total Revenue

Note: Financials are for the quarter ended September 30, 2023.

Revenue by Product

Confluent Platform Revenue

$97.7M

+19% YoY

49% of Total Revenue

- Driven by continued strength in regulated industries
- Regulated industry companies are in the early stages of their cloud migration journey

Note: Financials are for the quarter ended September 30, 2023.

Revenue by Product

Confluent Cloud Revenue

$91.6M

+61% YoY

46% of Total Revenue

- Modestly impacted by two large customers and select U.S. digital native customers[1]
- Notable impact in last few weeks of the quarter
- Expect a greater impact throughout Q4 and FY24

(1) One large customer moved workloads back to on prem, one of our largest customers ramped slower due to pending acquisition, and select digital native customers consumed lower than expected.
Note: Financials are for the quarter ended September 30, 2023.

Revenue by Geography

Revenue From the U.S.

$119.4M

+25% YoY

60% of Total Revenue

Revenue From Outside the U.S.

$80.8M

+43% YoY

40% of Total Revenue

Note: Financials are for the quarter ended September 30, 2023.

Non-GAAP Gross Margins

Total Gross Margin

76.4%

+540 bps YoY

Subscription Gross Margin

80.1%

+320 bps YoY

Note: Financials are for the quarter ended September 30, 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

	Q3'23
Non-GAAP Operating Margin	**(5.5%),** +22 pts YoY
Non-GAAP Net Income Per Share	**$0.02,** +$0.15 YoY
Free Cash Flow Margin	**(6.5%),** +24 pts YoY
Cash, Cash Equivalents, and Marketable Securities	**$1.87B**
Weighted-Average Shares Outstanding	**303.9M Basic, 347.0M Diluted**
Fully Diluted Shares Outstanding	**355.4M**

Note: Financials are as of or for the quarter ended September 30, 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	Customers with ≥ $100K in ARR	Customers with ≥ $1M in ARR
~4,910	1,185	155
+16% YoY	*+25% YoY*	*+38% YoY*
+80 QoQ	*+41 QoQ*	*+8 QoQ*

Note: Metrics are as of period ended September 30, 2023.
See Appendix for the definitions for “Total Customers”, “Customers with $100,000 or greater in ARR” and “Customers with $1,000,000 or greater in ARR.”

Dollar-Based Net Retention Rate (NRR)

Total NRR

Just Under

130%

- Gross Retention Rate: Above 90%
- Hybrid NRR and Cloud NRR: Comfortably above 130%
- Cloud NRR: Remained the highest

Note: Metrics are as of period ended September 30, 2023.
See Appendix for the definitions for “Dollar-Based Net Retention Rate”, “Gross Retention Rate”, “Hybrid NRR”, and “Cloud NRR.”

Remaining Performance Obligations (RPO)

RPO

$824.1M

+24% YoY

Current RPO

~65% of RPO

~$535.1M

+31% YoY

Note: Metrics are as of period ended September 30, 2023.
See Appendix for the definition of "Current RPO".

Q4'23 Guidance Commentary

Two Large Customers

- Expect to have a full quarter impact from the two large customers' company-specific events
- Accounts for roughly 50% of the expected consumption shortfall in Q4'23

Macro

- Macro uncertainty including the ongoing geopolitical tensions will likely persist, impacting new use case deployment and driving lower than expected consumption
- Macro has increased the misalignment between our subscription-based GTM and the new buying behavior of customers, impacting consumption growth

Guidance

	Q4'23	FY'23
Total Revenue	**$204M-$205M** *21%-22% YoY*	**$768M-$769M** *31% YoY*
Cloud Revenue	**~$97.5M** *43% YoY*	**N/A**
Non-GAAP Operating Margin	**0%-1%**	**~ (9%)**
Non-GAAP Net Income (Loss) Per Share	**~$0.05**	**$(0.01)-0.00**

Additional:

- **Q4'23 Cloud Revenue:** Represents a sequential add of approximately $6M, and accounts for approximately 48% of total revenue based on the midpoint of our total revenue guide
- **Q4'23 FCF Margin:** 0% to 1%

FY’24 Preliminary Outlook[1]

	FY’24
Total Revenue	**~22% YoY**
Non-GAAP Operating Margin[2]	**0%,** +9 pts YoY
Free Cash Flow Margin	**0%**

Commentary:

(1) Our FY’24 preliminary outlook assumes the impact of a continued volatile macroeconomic and geopolitical environment, the dynamics mentioned earlier for Q4 continuing into 2024, and risk associated with our transformation to a fully consumption-oriented business

(2) Despite a 2-3 point headwind associated with our move to a consumption-based sales commissions plan resulting in higher upfront expense recognition

Consumption Transformation

- Expect to enhance our ability to drive growth and profitability in a $60B TAM
- Shifting revenue guidance to subscription revenue (the best indicator of our success) starting Q1’24 next year
- RPO and cRPO less relevant going forward given the greater emphasis on consumption over ACV-based commits for cloud
- Maintaining 5-10% mid-term and >25% long-term targets for non-GAAP operating margin (OM), and FCFM to continue to trend along with OM

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.

Hybrid NRR:
We calculate our dollar-based NRR for Hybrid customers based on the ARR from the cohort of customers that had both Confluent Cloud consumption and Confluent Platform subscriptions as of the current period end and then calculate the growth in ARR from these same customers over the prior 12 months.

Cloud NRR:
We calculate our dollar-based NRR for Confluent Cloud using the same methodology as total dollar-based NRR, with the exception that only the ARR from Confluent Cloud consumption is included in the calculation.

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.

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)

	Q3’22	Q3’23
Total revenue	$151,732	$200,181
Total gross profit on a GAAP basis	$98,552	$143,632
Add: Stock-based compensation expense	8,997	8,790
Add: Employer taxes on employee stock transactions	144	305
Add: Amortization of acquired intangibles	-	129
Non-GAAP total gross profit	$107,693	$152,856
Non-GAAP total gross margin	*71.0%*	*76.4%*

	Q3’22	Q3’23
Subscription revenue	$ 138,730	$189,270
Subscription gross profit on a GAAP basis	$100,313	$145,166
Add: Stock-based compensation expense	6,313	6,171
Add: Employer taxes on employee stock transactions	82	179
Add: Amortization of acquired intangibles	-	129
Non-GAAP subscription gross profit	$106,708	$151,645
Non-GAAP subscription gross margin	*76.9%*	*80.1%*

GAAP to Non-GAAP Reconciliations

(in thousands, except percentages)

	Q3'22	Q3'23
Total revenue	$151,732	$200,181
Operating loss on a GAAP basis	$(118,900)	$(108,632)
Add: Stock-based compensation expense	75,393	89,514
Add: Employer taxes on employee stock transactions	1,369	2,473
Add: Amortization of acquired intangibles	-	129
Add: Acquisition-related expenses	-	5,065
Add: Restructuring and other related charges	-	529
Non-GAAP operating loss	(42,138)	(10,922)
Non-GAAP operating margin	*(27.8%)*	*(5.5%)*

GAAP to Non-GAAP Reconciliations

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

	Q3'22	Q3'23
Net loss on a GAAP basis	$(116,049)	$(92,670)
Add: Stock-based compensation expense	75,393	89,514
Add: Employer taxes on employee stock transactions	1,369	2,473
Add: Amortization of acquired intangibles	-	129
Add: Acquisition-related expenses	-	5,065
Add: Restructuring and other related charges	-	529
Add: Amortization of debt issuance costs	958	961
Add: Income tax effects and adjustments	293	328
Non-GAAP net (loss) income	$(38,036)	$6,329
Non-GAAP net (loss) income per share, basic	$(0.13)	$0.02
Non-GAAP net (loss) income per share, diluted	$(0.13)	$0.02
Weighted-average shares used to compute net (loss) income per share, basic	282,267,230	303,896,632
Weighted-average shares used to compute net (loss) income per share, diluted	282,267,230	346,974,638

GAAP to Non-GAAP Reconciliations

(in thousands, except percentages)

	Q3'22	Q3'23
Total revenue	$151,732	$200,181
Net cash used in operating activities	$(41,752)	$(9,060)
Add: Capitalized internal-use software costs	(2,788)	(3,660)
Add: Capital expenditures	(1,044)	(363)
Free cash flow	$(45,584)	$(13,083)
Free cash flow margin	*(30.0%)*	*(6.5%)*