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Confluent, Inc. (CFLT)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Shane Xie

Senior Director, Head of Investor Relations, Confluent, Inc.

Hi, everyone. Welcome to the Confluent Q4 2022 Earnings Conference Call. I'm Shane Xie from Investor Relations, and I'm joined by Jay Kreps, Co-Founder and CEO; and Steffan Tomlinson, CFO.

During today's call, management will make forward-looking statements regarding our business, operations, financial performance, and future prospects, including statements regarding our financial guidance for the fiscal first quarter of 2023 and fiscal year 2023. These forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those anticipated by these statements. Further information on risk factors that could cause actual results to differ is included in our most recent Form 10-Q filed with the SEC. We assume no obligation to update these statements after today's call, except as required by law.

Unless stated otherwise, certain financial measures used on today's call are expressed on a non-GAAP basis and all comparisons are on a year-over-year basis. We use these non-GAAP financial measures internally to facilitate analysis of our financial and business trends and for internal planning and forecasting purposes. These non-GAAP financial measures have limitations and 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 our earnings press release and supplemental financials, which can be found on our Investor Relations website at investors.confluent.io. References to profitability on today's call refer to non-GAAP operating margin unless stated otherwise. For planning purposes, we will be holding Investor Day 2023 in New York City on Tuesday, June 13. Please save the date.

With that, I'll hand the call over to Jay.

Edward Jay Kreps

Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

Thanks, Shane. Good afternoon, everyone, and welcome to our fourth quarter earnings call. We ended fiscal year 2022 with Fourth quarter results once again exceeding the high-end of our guidance on all metrics. Total revenue grew 41% to $169 million. Confluent Cloud revenue grew 102% to $68 million. The non-GAAP operating margin has improved by 20 percentage points. We're pleased with these results, especially in light of the macroeconomic pressure we saw in the quarter.

On today's call, I wanted to provide an update on how the macroeconomic environment is impacting our business, how we're adjusting for it, and how we continue to drive innovation and differentiation and capture the massive market opportunity ahead. I'll start with a few things that haven't changed. As we've discussed in previous earnings calls, we began seeing customers institute additional budget inspection in pockets across geographies in June, and this dynamic has continued. The main impact on our business has been elongated deal cycles with customers. Our overall win rate remains robust, our pricing is steady, and we have been able to close a substantial amount of deals pushed from prior quarters. This is quite encouraging because it reflects the strong vote of confidence by our customers and the strategic value and cost savings our platform brings to them.

Now here's what has changed. The increased level of budget scrutiny appears to have become the new norm. More deals took longer to get approval, and some expansions were slower than in the past. This is evident in the number of deals that pushed to calendar 2023, which impacted our RPO growth and net retention rate in the fourth quarter. While the vast majority of the deals are still in our deal path, this does indicate that increased scrutiny continues to exert pressure on large deals and new business.

We think that this combination of higher interest rates and economic uncertainty puts pressure on the purchasing environment. The result is a substantially different environment for tech than what we were operating in a year ago. We are setting our plans for 2023 in light of this and making some changes in how we operate. We have taken steps to adjust our cost structure, to accelerate our time to profitability by one year, while still maintaining approximately 30% revenue growth.

Specifically, we've undertaken a restructuring of our workforce, optimizing for top strategic priorities and high ROI business areas. This includes reduction of our workforce by approximately 8%. We're also taking steps to rationalize our discretionary spend and real estate footprint. We don't take the decision to restructure our workforce lightly. We're saying goodbye to many friends and colleagues across the company. We thank them for their important contributions to Confluent and are making sure that departing team members are taken care of. I want to be clear that we're making this change without reducing our focus on the long term. It's essential that Confluent dominate the $60 billion market in front of us and the cuts we have made do not compromise that ambition. While the restructuring will help streamline sales and marketing spend, we're preserving quota-carrying capacity and continuing to prudently invest in our go to market to drive new business and durable growth in the years ahead. We will also continue to support appropriate levels of R&D investment to ensure our product is the long-term winner in our space.

Despite the difficulty of the change, the resulting efficiency allows us to pull in our target of non-GAAP operating margin breakeven by 12 months. This means that exiting Q4 of this year, we will have shown a 41-point increase in non-GAAP operating margin in just 24 months. Exiting 2023 less than one year from now, we will be a market leader in a deeply strategic space, operating a profitable business and driving sustained high growth in a very large market. This market leadership is driven by our platform differentiation and the significant TCO advantages we deliver to our customers. To better illustrate that, let me share our customer story.

Wix is the leading website development platform in the world, which in turn serves around 1 billion unique visitors each month. Data streaming is at the heart of many of the digital experiences their clients create, from online bookings to e-commerce to personalized content, and Wix's data streaming journey, like so many others, began with open source Kafka. They quickly discovered, however, that the open source approach required heavy DevOps resourcing and resulted in challenges with scale, time to market, reliability and latency.

Ultimately, they chose Confluent Cloud to mitigate risk, reduce costs and increase productivity. That migration quickly resulted in a 90% ROI. This is just one of many examples that shows the strength in the underlying demand for our data streaming platform. This is because Confluent serves operational workloads that are directly responsible for driving the core operations of our customers, making this a key element of their digital strategy going forward. In fact, IDC predicts that by 2025, event streaming technologies will be used by 90% of the Global 1000 to deliver real-time intelligence to improve outcomes such as customer experience. And in a separate study, IDC found that of the companies that are currently using streaming data, over 80% have plans to invest in new streaming capabilities in the next 12 months to 18 months.

Today, our product is the category leader in data streaming platform technology bar none. The key focus for us is ensuring we continue to stay ahead as this category grows and evolves. One critical element of these investments that I want to discuss today is stream processing, that is technology to enable our customers to build applications on top of the real time data streams that Confluent provides. A simple way to understand the importance of stream processing is by analogy to the world of data at rest in traditional databases.

A database solves two problems. It acts as a store of data, and it executes queries that process the data. This combination of data and processing is what makes databases so easy and ubiquitous. A similar combination of capabilities is needed as we move from data at rest to data in motion. In the world of data in motion, data isn't just stored. It's a continual stream that updates as the world changes. The natural complement to this is stream processing, that is building applications that continuously update, react or respond to changes in the world. The core of Kafka acts to store these streams and to be a hub for connectivity, kind of like a central nervous system that transmits the real-time impulses of what's happening in the business. Stream processing acts a bit like the brain, taking real-time action on the impulses the nervous system conveys. Increasingly, businesses of all kinds are leveraging stream processing to drive the data-driven applications that better serve customers and drive intelligence and efficiency in their operations.

Confluent has long contributed to the emerging stream processing ecosystem around Kafka with Kafka Streams, an application development library for stream processing and KSQL. This quarter, we took a major step in furthering these capabilities with the acquisition of Immerok, a stream processing company that offers a fully managed service for the open source project, Apache Flink. Immerok has joined Confluent to help us add a fully managed Flink offering to Confluent Cloud.

This is a very exciting step for Confluent, and I want to explain a little bit about our strategy in this area. We've watched the excitement around Flink grow for years and saw it gaining adoption among many of the most sophisticated technology companies in the world, including Citi, Goldman Sachs, Pinterest, LinkedIn, Netflix, Uber and Apple. This popularity has been driven by a rich feature set, including a powerful processing model that generalizes both batch and stream processing. It is battle-tested at scale on some of the largest real time processing workloads on the planet. And perhaps most importantly, it has an incredibly smart, innovative community driving it forward.

In short, we believe that Flink is the future of stream processing and by adding it to Confluent Cloud, we can significantly enhance our data streaming platform and help our customers get even more value from their data streams.

In terms of our product plans, we plan to launch the first version of our Flink offering in Confluent Cloud later this year. We want to follow the same key principles we brought to our Kafka offering, building a service that is truly cloud-native, is a complete and fully integrated offering and is available everywhere, across all the major clouds. We think this combination of an open, popular interface offered with a deeply differentiated cloud-native core is the key to success for cloud data systems.

We think that over time, this offering can be a substantial driver of growth in our business, comparable in size to Kafka itself. Adding this new offering will allow us to better monetize the compute and application development around data streams, in addition to the core stream data, expanding spend of existing customers. Further, by making streaming easier, we pull more workloads into our streaming platform.

In addition, the processing of streams generates more streams, helping to accelerate the growth of our Kafka Connector and data governance products. In this way, stream processing accelerates consumption in a multiplicative fashion, which we think will be a very positive tailwind for growth as these capabilities come to maturity. To help execute both this initiative, as well as our overall product strategy, I'm pleased to announce that Shaun Clowes joined Confluent last quarter as our Chief Product Officer. Shaun joins us from Mulesoft, where he served as CPO and before that, Atlassian, where he served as Head of Growth. Shaun is a technologist, passionate about the space and is the right person to lead the team through the data streaming era.

And finally, I'd like to share that Larry Shurtz has stepped down from his role as Chief Revenue Officer. Larry, we wish you all the best and thank you for your many contributions and helping us scale and evolve our sales team. We will not be looking to backfill this role. Larry reported into Erica Schultz, our President of Field Operations, and we'll revert to our prior org structure with Erica managing the theater sales leaders directly.

In closing, the demand for data streaming remains strong. We've accelerated our plan to become profitable by the end of the year and will continue to invest in building the data streaming platform that will become the central nervous system of every company.

And with that, I'll turn the call over to Steffan, to walk through the financials.

Steffan C. Tomlinson

Chief Financial Officer, Confluent, Inc.

Thanks, Jay. Good afternoon, everyone. I'd like to start with a brief recap of the full-year results. In fiscal year 2022, we accomplished our stated goals of driving high revenue growth and improving annual operating margin. Total revenue grew 51% to $585.9 million. Confluent Cloud revenue grew 124% to $211.2 million with substantially improved unit economics, and operating margin improved 11 points. I'd like to take a moment to thank all of our team members at Confluent, our customers and partners for their contributions throughout the year.

Turning to the fourth quarter, as Jay mentioned, the results exceeded the high end of our guidance on all metrics highlighted by strong revenue growth, Confluent Cloud momentum, robust customer additions and substantial margin improvements. These results are a testament to the mission-critical and strategic role of our data streaming platform and our proven ability to drive high growth while improving efficiencies and profitability in a challenging economic environment.

RPO for the fourth quarter grew 48% to $740.7 million. Current RPO, estimated to be 62% of RPO, was approximately $456.2 million, up 43%. Both metrics were lighter than we expected. In addition to what Jay discussed earlier, we saw less urgency by customers to sign deals in the last couple of weeks than we typically would see in a calendar Q4, primarily in our enterprise business, as some customers evaluated macro and opted to delay their purchases to FY 2023. We didn't see any material changes in discounting, contract duration or win rates relative to the previous quarter, and I'm pleased to report that a number of these Q4 push deals have closed in Q1, which points to the underlying demand for our solution.

Dollar-based net retention rate in the quarter was also healthy, just under 130%. NRR for cloud and hybrid were both comfortably above 130%, with hybrid NRR continuing to be the highest. Gross retention rate remained strong and was above 90%, reflecting the strength of our product differentiation and TCO advantages against alternative solutions, including open source Kafka. New customer additions continue to rebound since our paywall removal in March. We added 290 net new customers during the quarter, ending at approximately 4,530 total customers, up 31%. New customer additions were driven by Confluent Cloud.

The growth in our large customer base was also robust. We added a record 70 customers with $100,000 or more in ARR in the quarter, bringing the total to 991 customers, up 35%. These large customers contributed more than 85% of total revenue. We also had a record quarter of customers with $1 million or more in ARR, adding 20 customers during the quarter, an all-time high, bringing the total to 133 customers, up 51%. And we ended FY

2022 more than doubling our $5-million-plus ARR customers from a year ago, including a growing number of $10-million-plus ARR customers.

Turning to revenue, total revenue grew 41% to $168.7 million. Subscription revenue grew 44% to $155.3 million and accounted for 92% of total revenue. Confluent Cloud as a percentage of new ACV bookings was greater than 70% in Q4, which represented our fifth consecutive quarter of cloud exceeding 50% of total new ACV bookings.

As cloud accounts for a larger share of new ACV bookings, Confluent Platform will have lower ACV and less upfront revenue. This upfront dynamic was reflected in Confluent Platform revenue, which was $87 million, up 17% and accounted for 52% of total revenue. Confluent Cloud revenue was $68.4 million, up 102% and accounted for 41% of total revenue compared to 28% of revenue a year ago. This translates to a record sequential revenue add of $11.5 million for Confluent Cloud compared to $9.9 million last quarter and $7 million a year ago.

Our Confluent Cloud momentum was driven by our continued focus on use case expansion, decreasing time to value for customers, and supporting their mission-critical workloads with strong consumption across industry verticals.

Turning to the geographic mix of revenue, revenue from the US grew 35% to $100.5 million. Revenue from outside the US grew 50% to $68.2 million.

Moving on to margins, I'll be referring to non-GAAP results unless stated otherwise. Total gross margin was 73% and subscription gross margin was 78.7%. The unit economics of our cloud offering continued to improve, driving another quarter of healthy gross margin, despite a continued revenue mix shift to Confluent Cloud. Moving forward, we anticipate total gross margin to fluctuate between 70% and 72%.

Turning to profitability and cash flow, operating margin improved 20 percentage points to negative 21.5%. Through proactive expense management, productivity and efficiency initiatives and a disciplined investment approach, we drove improvement in every category of the P&L, with the most pronounced progress made in sales and marketing, improving 8 percentage points and gross margin improving 5 percentage points. Net loss per share was negative $0.09, using 286.7 million basic and diluted weighted average shares outstanding. Free cash flow margin improved 4 percentage points to negative 18.3%. And we ended the fourth quarter with $1.93 billion in cash, cash equivalents and marketable securities.

Turning now to the Immerok acquisition. Immerok is a pre-revenue company and we'll be absorbing the company into our engineering team. We closed the acquisition in Q1 and we expect no material impact on our financials in FY 2023. The additional expenses have been incorporated in our guidance.

Looking forward to FY 2023, as Jay discussed earlier, we've made a decision to accelerate our path to profitability by one year from Q4 2024 to Q4 2023, while resourcing the company to deliver approximately 30% annual revenue growth rate in 2023. Over the last two years, we've made significant and prudent investments in the business as we address our $60 billion market. We've more than doubled our company head count and we've actually been managing the growth rate of spend and it has trended down from 68% in FY 2021 to 39% in FY 2022 and it's expected to go down to approximately 15% in FY 2023. We're seeing strong returns on our investments as we continue to grow our market share and extend our product lead with a highly differentiated platform.

On the go to market side, 50% of our sales reps are now fully ramped and we expect the mix to be in the range of 55% to 60% exiting this year. Additionally, compared to last year, we have improved visibility into our FY 2023 revenue streams as approximately 60% of revenue comes from current RPO, coupled with the strong growth in $100,000-plus ARR customers, which contribute more than 85% of revenue each quarter. And our NRR remained very healthy, just under 130%, which supports our growth. Given this backdrop, we believe accelerating our path to profitability by one year while continuing to deliver high growth is the optimal decision, especially as companies are now operating in an environment of high interest rates and macro uncertainty.

Now, I'll turn to our outlook. We believe our guidance appropriately incorporates both the macro challenges we see in the market and the impact of budget scrutiny as a new norm, which elongates our deal cycles in all customer accounts across geographies. For the first quarter of 2023, we expect revenue to be in the range of $166 million to $168 million, representing growth of 32% to 33%. Confluent Cloud sequential revenue add to be approximately $5 million. As we expected, there is a decline in sequential add relative to Q4 and is consistent with what we've seen in prior years.

Similar to last year, we expect cloud sequential revenue add to increase every quarter with a more pronounced increase in the second half of the year. Exiting Q4 2023, we expect cloud to reach the milestone of approximately 50% of total revenue. We expect non-GAAP operating margin to be approximately negative 27% and non-GAAP net loss per share to be in the range of negative $0.15 to negative $0.13 using approximately 290 million weighted average shares outstanding.

For the full year 2023, we expect revenue to be in the range of $760 million to $765 million, representing growth of 30% to 31%. Non-GAAP operating margin to be approximately negative 15% to negative 14%. And non-GAAP net loss per share in the range of negative $0.28 to negative $0.22, using approximately 297 million weighted average shares outstanding.

As discussed earlier, we're now targeting to the exit Q4 2023 with breakeven non-GAAP operating margin. We also expect the timing of breakeven free cash flow margin to roughly mirror that of our operating margin, with the exception of more pronounced seasonality in Q1 of FY 2023, primarily due to our corporate bonus program and one-time charges associated with our restructuring.

Finally, we'll continue to actively manage share count and stock dilution. And on an annualized net dilution basis, we're driving net dilution from 4.7% in FY 2022 to 3% to 4% for FY 2023. Our goal over the long term is to bring that dilution down even further.

In closing, we've established a proven track record of delivering on our financial commitments in both stable and uncertain economic environments. With our leading data streaming platform and a unique go-to-market model that's showing increased leverage, we believe we're well-positioned to capture a large market opportunity ahead. Looking forward, we're confident in our ability to drive another year of high revenue growth as we march towards non-GAAP operating margin breakeven exiting Q4 FY 2023.

Now, Jay and I will take your questions.

QUESTION AND ANSWER SECTION

Shane Xie
Senior Director, Head of Investor Relations, Confluent, Inc.
A

Thanks, Steffan. [Operator Instructions] And today our first question will come from Sanjit Singh with Morgan Stanley, followed by William Blair. Sanjit, please go ahead.

Sanjit K. Singh
Analyst, Morgan Stanley & Co. LLC
Q

Thank you, Shane, and thank you for squeezing me in. I guess, my first question, and Jay, I think you addressed this in your formal comments just around some of the elongation in sort of the sales cycles that you saw at the end of December. Is there any sort of other patterns that you would sort of call out, whether it's more on the Confluent Cloud side of the house versus Confluent Platform, any sort of market segments, industry segments on that were notably weaker than expected? Or was this kind of more of an across the board dynamic around budget scrutiny that you saw on like the deals in Q4?

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.
A

Yeah. Hey, Sanjit. Great question. So, yeah, the most pronounced thing for us was it seemed to mostly impact the enterprise segment of our business. The commercial segment didn't really feel it. The – it was across geographies. So previously, I would say it was more pronounced in the EMEA and APAC. We also saw impact in the Americas. So beyond that, it was probably the larger transactions tend to feel, I think, a little more pressure, scrutiny, et cetera, kind of as you would expect, so nothing beyond that. I wouldn't say that there's a strong industry pattern. I wouldn't say that there was much beyond that that would really show it. We were pleased that gross retention was really strong – yet again in a difficult environment, we saw no meaningful impact there. But it did slow down some of the expansions as well as some of the new lands.

Sanjit K. Singh
Analyst, Morgan Stanley & Co. LLC
Q

And Steffan, if I could connect some of the dots on the financials. The Confluent Cloud revenue in Q4 was excellent, record quarter for Confluent Cloud revenue. The RPO was certainly weaker and then when I look at to the 2023 guidance, revenue guidance, it only came down, I think, $5 million, you sort of narrowed the range. What gives you confidence that like the revenue is sort of set at sort of the right level just given some of the dynamics you're seeing out in the macro?

Steffan C. Tomlinson
Chief Financial Officer, Confluent, Inc.
A

Well, we took into consideration our current outlook on the macro, and we really focused on a few things. One is our current RPO exiting Q4 gives us about 60% visibility to our total revenue number in FY 2023, which is actually 5 points higher visibility than we had this time last year. We also have more proportionally sales reps that are fully ramped, that are ramping, and we see that growing out throughout the year. And then lastly, we just came out of the quarter where we saw a very robust growth in $100,000-plus customers and $1 million-plus customers and those cohorts contribute north of 85% of revenues. And so, we have the right product for the right market and we feel like 2023 will be a decent setup for us.

Sanjit K. Singh
Analyst, Morgan Stanley & Co. LLC

Q

Understood. Thank you, Steffan.

Steffan C. Tomlinson
Chief Financial Officer, Confluent, Inc.

A

Yep.

Shane Xie
Senior Director, Head of Investor Relations, Confluent, Inc.

A

Thanks, Sanjit. We'll take our next question from Jason Ader with William Blair followed by Deutsche Bank. Jason?

Jason Ader
Analyst, William Blair & Co. LLC

Q

Yeah. Thanks, Shane. Good afternoon, everyone. Obviously, macro issues are affecting everyone, including you guys, I don't want to talk about sales execution, Larry is leaving, I know some other folks are leaving and then you have this reduction in force. How much has sales execution been a contributing factor here to the performance? And if there are any issues, what are you doing to address those? And I have a quick follow-up.

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

Yeah. I think the bulk of what we're seeing is a very different macro environment than what we were operating in, call it, whatever, nine months ago. That obviously reveals opportunities for improvement. But I think the bulk of what's changed is that.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Okay. And then, I had a quick follow-up for you, Jay, were you seeing something in deals where it was increasingly clear that you needed a Flink solution?

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

Yeah. There wasn't anything where it was like preventing us from winning, if that's kind of what you're getting at where it's like, oh, we can't land this customer without this. We feel like stream processing is incredibly important to us strategically over the long term. So, it wasn't like a defensive move, like, oh, if we don't have this, we're not going to be able to continue growing based on Kafka, we're not going to be able to continue winning customers. What we felt was, hey, there's an opportunity to go after something that could be as big as Kafka and has a very similar trajectory, has an extremely high attach rate to Kafka itself and fits into our kind of overall vision and where we could get, really some of the key people who had helped drive it forward as part of the company and that was kind of too good to pass up, even in a tighter environment where we're being thoughtful about each dollar.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Thank you.

Shane Xie
Senior Director, Head of Investor Relations, Confluent, Inc.
A

All right. Thanks, Jason. We'll go to Raimo Lenschow with Barclays first, we'll come back to Georgia. Raimo, go ahead.

Raimo Lenschow
Analyst, Barclays Capital, Inc.
Q

Hey, thanks for squeezing in. And can I follow on, actually, a little bit like, we're all trying to get to the bottom of the same story. If you think about what you're selling, it's very mission-critical, like, these are kind of proper projects. You don't do this for fun, but they're also relatively...

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.
A

It's fun.

Raimo Lenschow
Analyst, Barclays Capital, Inc.
Q

...like what are you seeing in the – in your conversation with clients about like that need that urgency to do things? And I had one follow-up for Steffan.

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.
A

Yeah. Yeah. I think that one of the things that's really an asset to us in times like that, this is exactly what you said, right. And I think that shows up in the gross retention. I think for us, it's also showed up in the consumption, like we've seen consumption against commitments track really well. So the projects are going forward, people are kind of getting the value out of it. But I think each of these projects now gets more scrutiny and that is a drag on doing business and it shows up in a bunch of different ways. Whether that's pressure on the kind of analysis of TCO and ROI, whether it's kind of the shift of projects around within organizations, I think companies are just putting more scrutiny on everything they're doing and that that impacts us. But yeah, I think it's a huge asset to serve production use cases which are in some sense a direct part of how the company grows, operates, makes more money. And I think that's one of the good things about this streaming area.

Raimo Lenschow
Analyst, Barclays Capital, Inc.
Q

And then one quick follow-up on and more numbers, which I think about the – you kind of moved the profitability goal one year forward, which is kind of a big change and takes a lot of effort from the organization. Can you talk a little bit about the compromises you had to think about there, was that certain growth projects, you kind of maybe kind of deemphasize, it doesn't sound like it's the sales reps getting impacted, like just talk a little bit about like the puts and takes you had to kind of go through to get that because that's quite a big effort. Thank you.

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.
A

Yeah. Yeah. I mean, any change like this is a little bit disruptive. And so, I think that's the – probably the biggest impact for us is just making sure that we get off to a fast start at the beginning of the year. We're not so disrupted that, that impacts execution. It's obviously also just a harder thing to go through. We felt like, look, after a couple of years of very fast growth where we kind of roughly doubled head count in that time period, there was opportunities for efficiency, right. And, just by being very thoughtful in planning and where we were deploying resources, we thought there was opportunities to get more efficient. So for us, it was kind of a question of how do you do that? Are you going to do it more slowly kind of in-place? Are you going to do it more quickly? As we got, I think, a better read on just, hey, what's the environment for 2023? What's the environment overall in tech? What makes sense for us? We felt like it made sense to do it more quickly. And that kind of, I think, shows a little bit of what's possible for the business in terms of efficiency or at least one good step in that direction. It seemed like in the environment, it just made sense to do that now.

Steffan C. Tomlinson
Chief Financial Officer, Confluent, Inc.
A

And we're also doing it, preserving our ability to drive top line growth and continue to invest in our innovation engine. And we're able to balance the moves that we made to preserve our long-term sustainable competitive advantage.

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.
A

Yeah, I think that's exactly right. I mean, as we went into this, the kind of key analysis is, would you have to give up on something that's going to make the company great, whether that's in the development of the product or how we're growing the business, how we're kind of capturing the opportunity, and we felt like we could do it without doing that. And I think that was one of the big things that was necessary for us to act on.

Raimo Lenschow
Analyst, Barclays Capital, Inc.
Q

Okay. Thank you.

Shane Xie
Senior Director, Head of Investor Relations, Confluent, Inc.
A

All right. Thanks, Raimo. We'll take our next question from Brad Zelnick with Deutsche Bank, followed by Bank of America. Brad?

Brad Zelnick
Analyst, Deutsche Bank Securities, Inc.
Q

Great. Thank you so much. It's nice to see you all. I've got one question for, I guess first for you, Jay. Just as we think about the changes that you've made and you've got Larry moving on, what is it that gets you comfortable that there's not risks exiting this year with 55% to 60% sales rep productivity and it might inspire some additional unanticipated turnover? And then I've got a follow-up.

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.
A

Yeah. I think we continue to have a kind of steady hand running the go-to-market organization. So, Erica Schultz has run the larger field organization. Larry reported into her. She previously directly managed the three sales theater VPs and is kind of taking them over directly. And so, actually, I feel like in a time where there's like a fair amount of macroeconomics uncertainty, that org structure is actually good. You want to have kind of a short path between leadership and what's happening out on there – out on the street. So I feel pretty good about that.

Brad Zelnick
Analyst, Deutsche Bank Securities, Inc.

Q

Okay, that's good enough. And maybe just for you, Steffan, I'm just trying to reconcile Confluent Cloud Q1 guidance versus the really strong result that you're coming off of in Q4. Is there any reason to think that consumption was perhaps unusually strong in Q4 in some way that might not repeat and – or are there any reasons to be more concerned and conservative about consumption rates in Q1?

Steffan C. Tomlinson
Chief Financial Officer, Confluent, Inc.

A

Well, the dynamic that we called out relative Q4 to Q1 where the net sequential add is lower in Q1 than Q4 is a natural dynamic that happens in consumption models. You look kind of across the board at companies and our peer group, you see similar fact patterns. We did see a very strong Q4. It candidly came in higher than we expected. And that goes back to the mission criticality in what we're driving in terms of consumption for our customers in the value that we're driving.

When we look at the progression for cloud throughout the year, we are looking at seeing increased sequential net add throughout the year post Q1 and for Confluent Cloud exiting Q4 to be roughly 50% of total revenues. And so, we're doing all of that in an environment that is just more challenged to do business. And so, we've reflected all of that in our guide, both in our total revenue guide and our cloud guide, and we're adding effectively the same amount of revenue that we did Q1 of last year. And Q1 of last year, that environment was a lot different than where Q1 of this year is. So nothing to be like concerned about. We're looking at incredibly high growth rates for Confluent Cloud for the year, and that continue to show up in our numbers.

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

And just to pile on that, one of the aspects – we talked about this last year when we were in Q1. One of the aspects that leads to this is just the kind of lifecycle of software projects, they tend to get funded at whatever the company is beginning of the year is and developed and then kind of roll out. And so, obviously, there's expansion and consumption happening throughout the year, but it is more things – more new things come out in, call it, whatever, Q3 and then, a little bit less at the beginning of the year as kind of the new things are getting built. And so, you would see this, I think, for like a MongoDB and some other companies as well where it has a little bit of that pattern.

Shane Xie
Senior Director, Head of Investor Relations, Confluent, Inc.

A

All right. Thank you.

Brad Zelnick
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Thanks, guys.

Shane Xie
Senior Director, Head of Investor Relations, Confluent, Inc.

A

Thank you, Brad. We'll take our next question from Brad Sills with Bank of America, followed by Piper Sandler.

Brad Sills
Analyst, BofA Securities, Inc.

Q

Great. Thanks, Shane. Good to see you all. A question for you, Jay or Steffan on just investment priorities, obviously, you're saying that this reduction will not affect those strategic investment areas. I think at the Analyst Day, you had outlined security, data compliance, enterprise, just any update on those cycles? What – how does this change that at all? Or are those still very much the focus areas?

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

Yeah, absolutely. Like on the product development side, there's no change. There wasn't a big product area that we cut or stopped developing. We're able to maintain the major investments that we had with what we planned for this year, and those cuts taken into account. This did cut across different areas of the company. And there's a number of factors that were included in kind of making cuts. But, our priority, as I said, was kind of really making sure that we had full funding for what we considered the kind of key strategic priorities, both on the product side and on the go to market side, in terms of markets, we wanted to get into that we wanted to drive growth, both for this year but also for setting ourselves up coming into next year and beyond.

Brad Sills
Analyst, BofA Securities, Inc.

Q

Great. Thanks, Jay. And then one on...

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

So, yeah no major change.

Brad Sills
Analyst, BofA Securities, Inc.

Q

Understood. No, that's great. Thank you. And then one on Confluent Cloud, please. Exiting the year at 50%, just a tremendous trajectory. I think in fiscal 2020, you exited the year at 15%. So, just a remarkable result there in the cloud, if you could just articulate for us, why have you seen such success in the cloud? What is it about Confluent Cloud versus, say, other categories where we've seen perhaps a slower ramp in public cloud infrastructure in these types of mission-critical workloads that you guys are supporting?

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

Yeah, I think that one of the things that's easy to miss is how high the bar is for a cloud product. And so, if you look at our investment, you would have seen a similar pattern where you're like, hey, they're putting a lot of work into this thing and it's driving some [indiscernible] (00:37:37) so we were doing that for many, many years. And the reason for that is that this kind of cloud infrastructure, like a lot of the iceberg, is below the water. And until you kind of meet certain minimum criteria in terms of security and scalability and operations and availability in different clouds around the world, it's just very hard to capture the market. And so, coming into an area that's a big wall to climb, once you're on the other side of the wall, then it protects you, I think, from competition who may come up and want to do the same thing. So I think it's been a great thing for us. But yeah, it was, I think, just kind of reaching that critical threshold, and then in terms of how we operated that led to that, I would say it was mostly just full commitment. Like we – the – myself, some of the other people who founded the company or joined earlier had a background in running kind of data systems internally as a service and we just kind of knew that that was going to be the model in the public cloud, that there was no future for a licensed software as the delivery model once people had access to these kind of cloud services. So, we knew it was kind of do or die on the conversion. And so, we leaned in early on in a very significant way where really the whole engineering team moved to that, every cloud metric was kind of elevated in importance to match a much larger number on the software side of the business and really kind of held to that internally even though we're really pushing one part of the business up. And I think that was necessary early on. It's very hard to get what's effectively a very different product going in an early company, because you have to effectively build two successful products. So, I think that that helped us kind of get it to that, whatever, escape velocity where it could then kind of grow and capture a lot of the opportunity that was, I think, always there for folks operating in the cloud.

Brad Sills
Analyst, BofA Securities, Inc.

Q

Makes a lot of sense. Great to see. Thanks, Jay.

Shane Xie
Senior Director, Head of Investor Relations, Confluent, Inc.

A

All right. We'll take our next question from Rob Owens with Piper Sandler, followed by Guggenheim.

Rob D. Owens
Analyst, Piper Sandler & Co.

Q

Thanks, Shane. And good afternoon, everybody. Obviously, seeing pressure worldwide here, but just curious if there was anything you need to call out positive or negative from the various theaters that you're participating in?

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

Yeah. It's mostly what I described. The biggest unexpected thing for us has been just the continued strength for us at the commercial business. We kind of ascribe that to the fact that we think we're just still severely underpenetrated in that segment. So, even though I think they're also feeling lots of pressure, there's just lots of opportunities, and I think it also has very good product market fit with our cloud offering. And so, it's been nice to see that continue to grow because it was a part of the business we were very excited about coming into this year and it's nice to see its continued growth. But beyond that, yeah, it was across different industries that we saw pressure. We were pleased to see that, like by and large, we're not losing deals. They're delayed, they go through more scrutiny, they may slip out of the quarter. But a lot of the things that we saw delayed in previous quarters did close either in Q4 or in the first part of Q1. And so, we've been we've been excited to see that, it just exerts pressure.

Rob D. Owens
Analyst, Piper Sandler & Co.

Q

Great. And then, Jay, I know entering COVID, you saw a few customers actually revert back to an open source solution and then come back to Confluence. And in your prepared remarks, you talked about it requiring heavy DevOps resourcing. So, as we're seeing the global recession happen, are you seeing customers actually choose open source as a viable alternative at this point? Or is that kind of past behavior more so in the past? Thanks.

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

Yeah. It's past behaviour. So we've been – that was a concern many people had. And the feeling was, hey, it must be cheaper just to use the open source. But one of the really important things to understand about this area is these cloud services are not like a premium offering of the open source. It is actually more expensive to hire a team of engineers to operate this stuff. It's more expensive in terms of people. It's more expensive in terms of cloud infrastructure. It takes longer, it's just more. And so for that reason, once you have a really good cloud offering, it's not very appealing to downgrade unless for whatever reason the customer is not like actually succeeded with it or somehow not getting the value. But just based on the kind of basic TCO, the two things, it should be a big win. And we've been pleased to see that actually play out in practice, that was the theory early on. As we had, I think, a pretty immature cloud offering, we didn't always see that, we did see some customer losses earlier as there was pressure. We felt like we were in a very different situation as we were kind of coming into harder times this year. And we were – we talked about that on these calls, but it's been nice to see that play out that we haven't seen the kind of churns at all the same magnitude. And in fact, gross retention has held very steady throughout this.

Shane Xie
Senior Director, Head of Investor Relations, Confluent, Inc.

A

Right. We'll take our next question from Howard Ma with Guggenheim, followed by Cowen.

Howard Ma
Analyst, Guggenheim Securities LLC

Q

Thanks, Shane. So my question is for – is for either Jay or Steffen. And it's a clarifying question about, Jay, a comment that you made in your prepared remarks about near-term spend rationalization not impacting Confluent's long term growth opportunity, because it seems like – so cloud is holding strong. And in your response to an earlier question, you said rationalization, it was really about optimizing operational efficiencies that you identified, but not necessarily impacting growth. So, despite the pulled forward profit target, is your baseline growth assumption over the mid-term now, is it necessarily lower than before or could there still be a scenario where your mid-term growth expectations are unchanged, but you just figured out how to do it more profitably?

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

I definitely think that there's an aspect of us just figuring out how to do things more efficiently and willingness to make adjustments faster in that respect. There's obviously areas where there's trade-offs and so there – nothing in life is free. But yeah, we felt that we were able to make this change without significantly changing. Now, I would say, look, there is something impacting growth, which is we are in a macroeconomic environment that's very different from a year ago and that's a headwind. And so, I think when we were considering what we were going to do on the expense side, we were taking into account that we were going to be facing this headwind and likely growing slower than we would be if that was not the environment that we were operating in.

Howard Ma
Analyst, Guggenheim Securities LLC

Q

Okay. Thanks. I just have a quick follow-up for Steffan. On the platform side, Steffan, I forget if you've mentioned this in your prepared remarks, but if – I might have missed it. But, was there any notable change in contract duration on the platform side that resulted in lesser license revenue recognition than in prior quarters? And also, is there any migration from platform to cloud that's worth calling out? Thank you.

Steffan C. Tomlinson
Chief Financial Officer, Confluent, Inc.

A

Thanks, Howard. There was no material change in contract duration. But what you're seeing drive the change in license revenue is really the profile of new ACV that's coming in the door, and the new ACV is Confluent Cloud, it was very, very healthy this quarter. And we saw just less new platform deals come in, because as the industry is all heading towards cloud. With that said, Confluent Platform is still an important part of our portfolio. And we're going to continue to see contribution from platform, but it is – it's really about like cloud is the story here and even going back to a prior comment that was made, even in a tougher macro environment, we just came off of a quarter where we posted record cloud sequential growth and we're calling for very meaningful cloud expansion over 2023. And that goes back to the testament of the value that we're delivering in our Confluent Cloud model.

Howard Ma
Analyst, Guggenheim Securities LLC
Q

Great. Thanks, guys.

Steffan C. Tomlinson
Chief Financial Officer, Confluent, Inc.
A

Yeah. Thank you.

Operator: All right. We'll take our next question from Derrick Wood with Cowen, followed by Wells Fargo.

Derrick Wood
Analyst, Cowen and Company
Q

Great. Thanks for taking my questions. I guess first, Jay, wanted to touch on the Immerok acquisition. What does Flink excel at that improves upon the capabilities of Kafka Streams or ksqlDB? And how should we think about maybe the R&D shift as you bring Apache Flink in, are there some technologies you look to deemphasize going forward, or what's the balance across the stream processing technologies that you have?

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.
A

Yeah. Yeah, it's a great question. So, yeah, Kafka Streams is effectively, it's a kind of application development library that helps you do stream processing with Kafka. So, it's very easy to use and embed in applications. It tends to serve more kind of microservice use cases. What Flink brings to the table is, I think, really the most complete, well thought out framework for stream processing. It generalizes batch processing with real-time streaming. So, you can kind of run something at a point in time and then have it keep running up into the future. It supports a variety of programming languages, so Python, Java, SQL. It has probably the best scalability and performance. It has, I think, the most active community. So, there's really a whole set of things that are brought together, including the sophistication of the types of processing and applications it supports. And all that together made us feel like, yeah, this really does add beyond what we were able to do with Kafka Streams and KSQL and is kind of worth the investment. It doesn't change our support for those technologies. Look, as with any cloud service, we'll continue to help customers with those really indefinitely. And Kafka Streams in particular has a nice kind of area as an embedded library for customers. But we do see this as very much the future of stream processing and kind of the technology of choice for customers over time.

Derrick Wood
Analyst, Cowen and Company
Q

Got it. Very helpful. Couple quick ones for you, Steffan. On the restructuring side, can you just give us a sense as to where the cuts are coming from? And in particular, I guess it'd be nice to know, kind of like post restructuring, what kind of growth you have in quota-carrying sales head count kind of year-over-year? And how you're thinking about – given the longer sales cycles, how you're thinking about the glide path for net revenue retention in 2023?

Steffan C. Tomlinson
Chief Financial Officer, Confluent, Inc.

A

Well, the restructuring was done with the lens of preserving our ability to continue to grow high – in high growth mode and really getting to the efficiencies that we think that we can get to. And so, what does that mean? We're looking at – in sales and marketing, we did have, from a head count standpoint, the most impact there, but those are primarily like non-quota-carrying folks. We also took a look at G&A and then lastly, I would say R&D, but we were very much focused on ensuring that all of the decisions we made were in the preservation of us continuing to have high growth with improving profitability and efficiency. And one of the things that we mentioned earlier was if you look at the last couple of years, we have made very meaningful investments across the board in support of us growing into what is a very meaningful company in a very large market. And there is always an opportunity to rationalize and get more efficient. So the theme that we have this year is efficient and profitable growth, and that's what we're driving towards. I'm sorry, what were the other couple questions?

Derrick Wood
Analyst, Cowen and Company

Q

Just the other one was the glide path of net revenue retention rate as we see longer sales cycles continue.

Steffan C. Tomlinson
Chief Financial Officer, Confluent, Inc.

A

Yeah. So our net retention rate this quarter came in just a shade below 130%. We gave a little bit of color commentary that Confluent Cloud and our hybrid customers were north of 130%. We continue to see very strong progress with those two products and customer sets. As we think about the glide path over time, we're very clear about being above 125% from a total company standpoint, and also looking at just higher net retention rates for our cloud and our hybrid customers as that's like where the puck is going.

Derrick Wood
Analyst, Cowen and Company

Q

Great. Thanks, guys.

Steffan C. Tomlinson
Chief Financial Officer, Confluent, Inc.

A

Thank you.

Shane Xie
Senior Director, Head of Investor Relations, Confluent, Inc.

A

All right. Thank you. We will go to Pinjalim Bora with JPMorgan first. Pinjalim?

Pinjalim Bora
Analyst, JPMorgan Securities LLC

Q

Hey, guys. Hey, thanks for taking the questions. Two quick ones. Maybe update us just on just the customer behaviour going into January so far, or towards the end of January. Is it deteriorating? And it's kind of stable? You did mention you've closed a few deals. So I was just wondering.

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

Yeah, yeah. I would say the results in January so far have been in line with the kind of plan we put together for the quarter and guidance. So we've been pleased to see that play out as we hoped.

Pinjalim Bora
Analyst, JPMorgan Securities LLC

Q

Got it. And great to see the acceleration to get to breakeven. Wanted to ask, I think I was doing the math, it was about $55 million in terms of costs coming down, I believe. I was trying to understand how much of that is driven by the rest? How much of that is kind of optimization of discretionary spend that you talked about? How much of that is kind of real estate? I would think that real estate optimization probably would take time. So, trying to understand those mix. And then I guess, how should we think of that profitability going forward?

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

Yeah, yeah. So it's definitely a mixture of all those things. We haven't broken out exactly how much is due to each thing. But yeah, absolutely, we're kind of optimizing real estate footprint. Just kind of post COVID, we have a better idea of what we actually need. We had already a plan for the year prior to this action that would have shown very meaningful operating margin improvement and so then this is kind of added on top of that, which is kind of what lets us make big improvements. And if you look at this last year, we had about 20 points of improvement over the last 12 months from Q4 to Q4 in non-GAAP operating margin. And so, this is kind of roughly that again, between the [indiscernible] (00:52:28) and existing improvements and the additional growth in revenue.

Pinjalim Bora
Analyst, JPMorgan Securities LLC

Q

Got it. Thank you.

Shane Xie
Senior Director, Head of Investor Relations, Confluent, Inc.

A

All right, as a reminder, if you'd like to ask a question, please raise your hand. And our next question goes to Kash Rangan with Goldman Sachs. Kash?

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

Hey, Kash.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Here we go. Thank you so much. Somewhat static here. Nice to see you guys, Jay, Steffan and Shane. Question for you, when you look at Flink, Jay for you, how much work needs to be done to Flink to make it as solid as in terms of research and development, product development capabilities? As a core platform, it's taken so many years to come to shape. What is the path ahead for Flink? And when you said Flink could be as large as Kafka, I'm curious to see if there is any pent-up demand that customers have been asking for. I know you've highlighted a few customers, including us. What are they saying that you could do better with Flink that could cause them to allocate bigger budgets? And I have one for Steffan. Thank you.

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

Yeah. Yeah. There's a couple of things driving it. Flink, the technology, I think, is in good shape. It's a successful piece of technology in its own right. To turn it into a managed cloud service is a ton of work. It's just a huge amount of work. That's something we'll work on for many years, right? And so, we'll release a product, but there will be more and more to do. That kind of cloud-native bucket that we talk about for the rest of our offering, it's a big bucket. It really matters to customers. And so, yeah, there'll be ongoing work in that dimension in the years to come.

That's one of the reasons why it's really important to have these core people who are driving that technology forward. It's not just a matter of kind of getting the open source and putting it on some servers, which we wouldn't need an acquisition to do. You need to really kind of reimagine the technology as a cloud service. And how should that work, what would that be like? That's what kind of creates the good product.

And then in terms of, yeah, what – the reception from customers has been fantastic. People are very excited about Flink. They are very excited about Confluent. They're very excited about the pairing together. For many of our customers that were already using Flink with Confluent, and so, yeah, absolutely, people are excited. Some people are like, what took you so long? So, yeah, it's great to hear. We think that there is – as with Kafka, there isn't a substantial existing installed base. And in an environment like this where there's some pressure and there's less kind of net new software projects overall coming out, having that existing installed base to grow into is obviously a really nice second dimension of growth beyond just kind of landing with the new things.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC

Q

Got it. One for you, Steffan. Well, how do you look at the – given the head count reductions, how do you think about cost of customer acquisition, lifetime value? It looks like the commercial business did well. Cloud is definitely inflecting away from the platform. Given all that, how should we look at those metrics? Are they getting better or about the same, pre-cloud? Thank you so much.

Steffan C. Tomlinson
Chief Financial Officer, Confluent, Inc.

A

Yeah. Thanks for the question, Kash. As we look through 2023 and beyond, as more of our business is coming from cloud and there's the self-serve option around onboarding, et cetera, our LTV to CAC should be improving over time, and we've made some progress this year, the year that just ended in terms of optimization. But when we look at LTV to CAC over the longer term, we see that improving on an annual basis and that's a reflection of both the restructuring that we're doing, but then also the profile of the revenue streams that are coming in that are just a lower cost of customer acquisition.

Kash Rangan
Analyst, Goldman Sachs & Co. LLC

Q

Wonderful. Thanks. Thanks so much.

Steffan C. Tomlinson
Chief Financial Officer, Confluent, Inc.

A

Thank you.

Shane Xie
Senior Director, Head of Investor Relations, Confluent, Inc.

A

All right. Thank you. Our last two questions today come from Eric at KeyBank first, followed by Fred at Credit Suisse. Eric?

Eric Heath
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks, Shane. And Jay, this is for you, I wanted to get your thoughts on kind of how you keep that net expansion rate pretty strong in that 130% range going forward. Just given what is kind of a more technical sale as you kind of evaluate kind of the lower workforce going forward, just how do you keep customers keep expanding at this pretty impressive rate while also trying to balance that profitability?

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

Yeah, I think there's a number of things that go into that. One is just we have a consumption model, so it's very possible for customers to use either other parts of the product or use the products for new uses and making that as easy and frictionless as possible. There's a lot we can do and are doing to continue to drive that, making sure that that folds well into the motion that the sales team has. We're actually at our sales kickoff event right now and that's one of the big focuses for us, is making sure people understand how to play well with that consumption motion, have the product help drive them into new use cases, help drive that expansion. I think that's a huge area of opportunity for us. And then making sure that we have the right use cases, that we have the right senior connections in organizations that kind of blessing is critical to really get broad in organizations and get to larger dollar spend in organizations, especially in this environment, people need to know what it's for. And then we're coupling that with this – we've really gotten very good in the last year and I think getting better still at that kind of TCO and ROI story. What is it that you're getting out of this? I think all of that helps you kind of continue to expand in an account in a way that the customer feels good about and wants to accelerate rather than something that they see as a problem that has to be solved.

Eric Heath
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thanks, Jay.

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

All right. Last question goes to Fred Lee with Credit Suisse. Fred?

Fred Lee
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey, Jay, Steffan, thanks for taking my question, and Shane thanks for fixing my Zoom just now. Listen, my question is also on the pull forward of profitability. And big picture, considering how early we are in streaming, what gives you the confidence that you're addressing the market as completely as possible and not compromising any growth prospects? I know you've touched on this a little bit, but it sounds like you're reducing some sales and marketing coverage. Is this because – is this – is because – if you – if you think back to the GFC and you ask software companies, then they're coming out of 2008, the most, they talk about the fact that they slowed down their investment. So, again, the question is just around your confidence level that this is the right thing to do.

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

Yeah. What gave us confidence was just looking at it project by project, and investment by investment in a very thorough way, and having, I think, a very clear picture of what we want the company to be in a year, but also in three years and five years, and making sure we can solve for that and that we have enough people to go do it. I think you can look at this the other way. Companies that have been on this very fast growth trajectory, there is some opportunity for optimization. If we were cutting 20%, I think we would be giving up quite a lot, right. Cutting a little bit, I think, makes sense given the environment. It's a hard thing to do. It's hard to have people leave the company, but I think it makes sense given the larger environment. And I think it is possible to do that without making big sacrifices in terms of what we need to build and the product that we want to have and also in terms of how we want to go to market and where we want to be set up to expand.

Fred Lee
Analyst, Credit Suisse Securities (USA) LLC

Q

I see. And then just on the product side, I know it's new, but can you talk a little bit about some of the early adoption trends of Stream Designer and Stream Governance?

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

Yeah, yeah.

Fred Lee
Analyst, Credit Suisse Securities (USA) LLC

Q

[indiscernible] (01:00:45).

Edward Jay Kreps
Co-Founder, Chief Executive Officer & Director, Confluent, Inc.

A

Yeah. We've seen great results. They're a little different, right. So, Stream Governance is a paid offering. The Stream Governance Advanced that we just announced and Stream Designer is free. So customers just use [ph] it, it accelerates their usage of KSQL, of Connectors, of Confluent itself (01:00:55-01:01:02). And so, yeah, we've seen a ton of early adoption of Stream Designer that's been very exciting for us to get to see people playing with this. We think that that kind of easy-to-use interface is one of the keys to really making stream processing go broad whether it's with KSQL or Flink, whatever that interface on top, is a really critical investment for us that makes this stuff really easy to deploy within customers and kind of take the stream processing area beyond these apex companies that have already really gone big with it. And then, governance is just one of these topics, it's top of mind for every customer. And we've seen really, really great results for that now emerging product as a business. We've seen a lot of consumption driven by that. And that was a little bit unexpected. We thought that was going to satisfy a need and maybe unblock customers and other things. But in fact, we've seen it actually really outperform our expectations so far and we're excited about what's possible for that in the year ahead. And it's not surprising. I think the kind of two pressures on organizations, on one hand, they need to like do more with data and put it use to be successful. On the other hand, they have just increasing numbers of restrictions on how they do that and the risk associated with it. So, if you give them tools that help balance those two pressures, it obviously meets with a great reception.

Shane Xie
Senior Director, Head of Investor Relations, Confluent, Inc.

All right. Thanks, everyone. This concludes today's earnings call. We really appreciate you joining us. Take care.