



Confluent Earnings Report

Q1 FY'24 | May 7th, 2024

Disclaimer

This report contains forward-looking statements including, among other things, statements regarding (i) our financial outlook, including expected total revenue, subscription revenue, Confluent Cloud revenue, non-GAAP operating margin, free cash flow 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 growth of our DSP products and Confluent Cloud, 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 high 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 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 and our DSP products, (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 expectations of meeting near-term and mid-term financial targets, (xxii) our expectations regarding the generative AI landscape and our offering, including expectations of customers and partners using our offering for generative AI use cases, (xxiii) our expectations of relevance of certain key financial and operating metrics, and (xxiv) 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 report and information contained in this report 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. Further information on the risks that could affect Confluent's results is included in our filings with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K for the year ended December 31, 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 March 31, 2024 that will be filed with the SEC, which should be read in conjunction with this report 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.

This report also contains statistical data, estimates and forecasts made by independent parties and by us relating to market size and growth, as well as other data about our industry and business. These data involve a number of assumptions and limitations, and we have not independently verified the accuracy or completeness of these data. Neither we nor any other person makes any representation as to the accuracy or completeness of such data or undertakes any obligation to update such data after the date of this report. In addition, projections, assumptions and estimates of our future performance and the future performance of the markets in which we operate are necessarily subject to a high degree of uncertainty and risk. The Gartner content described herein (the "Gartner Content") represents research opinions or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. The Gartner Content speaks as of its original publication date (and not as of the date of this report), and the opinions expressed in the Gartner Content are subject to change without notice.

This report includes certain non-GAAP financial measures as defined by SEC rules. Because not all companies calculate non-GAAP financial information identically (or at all), the presentations herein may not be comparable to other similarly titled measures used by other companies. Further, such non-GAAP financial information of Confluent should be considered in addition to, and not as superior to or as a substitute for, the historical consolidated financial statements of Confluent prepared in accordance with GAAP. Refer to the slides in the section titled "GAAP to Non-GAAP Reconciliations" at the end of this report for a reconciliation of our non-GAAP financial metrics to the most directly comparable GAAP financial metrics.

A reconciliation of forward-looking non-GAAP operating margin, free cash flow margin and non-GAAP net income per share to the most directly comparable GAAP measures is not available without unreasonable effort, as certain items cannot be reasonably predicted because of their high variability, complexity and low visibility. In particular, the measures and effects of our stock-based compensation-related charges, which include stock-based compensation expenses, employer payroll taxes on employee stock transactions, and amortization of stock-based compensation capitalized in internal-use software, are directly impacted by the timing of employee stock transactions and unpredictable fluctuations in our stock price, which we expect to have a significant impact on our future GAAP financial results.

CEO PERSPECTIVE

Our Q1 results show the critical role data streaming plays in the modern technology landscape, with organizations showing a clear preference for a complete platform to stream, connect, process, and govern data everywhere. Our latest product innovations reinforce our competitive advantage to help us fully maximize the category opportunity ahead of us.



Jay Kreps
Co-Founder & CEO



\$60B TAM¹

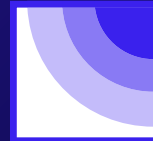
Q1'24 CUSTOMER HIGHLIGHTS



~5,120 Total Customers +9% YoY	1,260 \$100K+ ARR +17% YoY	168 \$1M+ ARR +24% YoY
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MARKET

LEADER



THE FORRESTER WAVE:
Streaming Data Pipelines, Q4 2023
Cloud Data Pipelines, Q4 2023



IDC MARKETSCAPE REPORTS:
Worldwide Analytic Stream Processing Software 2024 Vendor Assessment
Worldwide Event Brokering Software 2024 Vendor Assessment

Q1'24 FINANCIAL HIGHLIGHTS

REVENUE PERFORMANCE

Subscription Revenue \$207M +29% YoY	Confluent Cloud Revenue \$107M +45% YoY
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Dollar-based Net Retention Rate **120%-125%**

MARGIN IMPROVEMENT

Non-GAAP Operating Margin ² (1.5%) +22 pts YoY	Free Cash Flow Margin ² (14.6%) +33 pts YoY
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DATA STREAMING PLATFORM INNOVATION



FLINK GA
Power next-gen real time apps



TABLEFLOW EA
Unite analytics and operations

Connect, Process, and Govern
Grew Substantially Faster Than
Overall Cloud in Q1'24



GENERATIVE AI HIGHLIGHTS

PARTNERSHIP



INTRODUCED

AI Model Inference

BUSINESS HIGHLIGHTS

ANNOUNCED

Accelerate with Confluent:
A program for systems integrators (SIs)
CONFLUENT NAMED (5TH TIME)
Google Cloud Partner of the Year

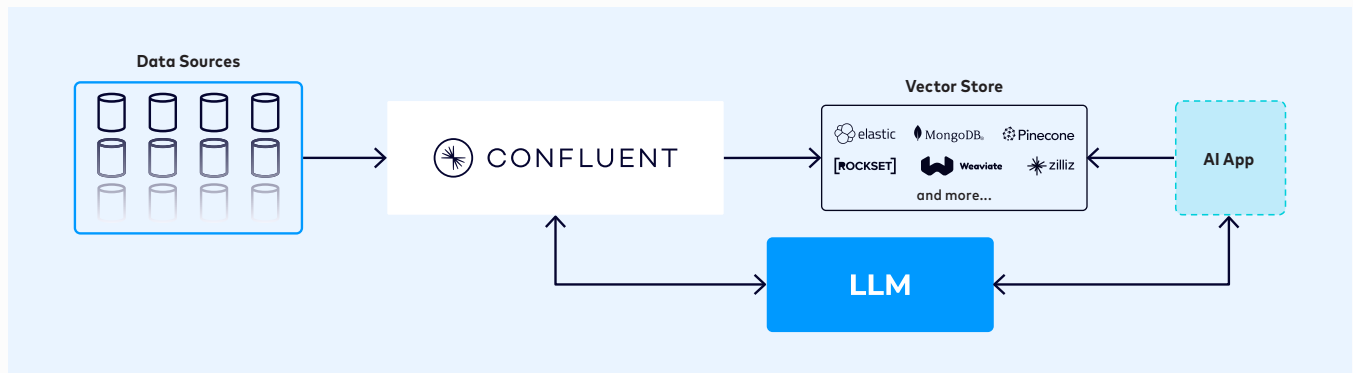
Note: Financials and metrics other than TAM data are as of or for stated quarterly period ended March 31, 2024.

(1) TAM calculations performed by Confluent; source: Gartner, Forecast: Enterprise Infrastructure Software, Worldwide, 2020-2026, 2Q22 Update, June 2022; source: Gartner, Forecast: Enterprise Application Software, Worldwide, August 2022

(2) Refer to the section below titled "Definitions & GAAP to Non-GAAP Reconciliations" for a reconciliation of our non-GAAP financial metrics to the most directly comparable GAAP financial metrics.

Confluent's Role in Making GenAI a Reality

GenAI continues to be top of mind for many companies. But most are coming to realize that LLMs don't stand alone. RAG or retrieval augmented generation has emerged as the common pattern for GenAI to extend the powerful LLM models to domain-specific data sets in a way that avoids hallucination and allows granular access controls. Data streaming platforms play a pivotal role in enriching RAG-enabled workloads with contextual and trustworthy data. It enables companies to tap into a continuous stream of real-time data from the systems that power the business, and transform it into the right format to be used by vector databases for AI applications.



What Confluent Delivers

With a complete data streaming platform (DSP) from Confluent, organizations can build a shared source of real-time truth for sophisticated model building and fine-tuning, bring real-time context at query time, reduce innovation friction as new AI apps and models become available with reusable and universal data products, and build governed, secured, and trusted AI to minimize hallucinations with trustworthy, real-time data streams.

Use Cases and Customer Adoption

Some of the popular GenAI use cases we have seen in our customer base include:

- Customer Service Chatbot
- Co-pilot / Content Creation
- Semantic Search
- Decision Support

In the digital native segment, we're seeing great traction. Many GenAI companies such as OpenAI, Notion and Motive are using data streaming to build connected customer experiences and streamline their business operations to be more real-time. We're also seeing incredible traction with the GenAI incubators to build GenAI applications that are hallucination-free, trustworthy, real-time GenAI use cases.

GenAI Latest Innovation

Flink AI Model Inference allows customers to simplify the development and deployment of AI/ML applications through a unified platform for both data processing and AI/ML tasks. With AI Model Inference, companies can reduce operational complexity by enabling seamless coordination between data processing and AI workflows, and enable accurate, real-time AI-driven decision-making.

GenAI Partnership

To help customers unlock the full potential of AI with the freshest contextual data from across their business, Confluent continues to expand its partnership with leading companies in the AI and vector database space.



Learn More

Learn more about how Confluent helps customers to quickly scale and build real time AI applications with continuously enriched and trustworthy data streams at our [AI webpage](#).

GenAI Customer Stories



OpenAI has become the poster child of GenAI. In Q4'23, OpenAI signed with us to improve their visibility into customer usage patterns. We are still in early stages with this customer, but have already identified additional use cases including ways to help reduce costs across their stack. This customer and others like it continue to validate the strategic role of data streaming in the Generative AI landscape.

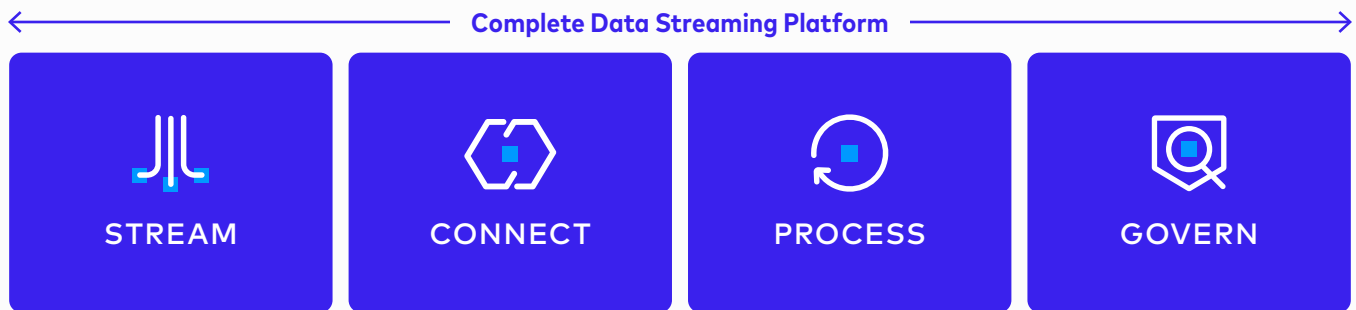


A Fortune 500 travel company is building GenAI apps with Confluent. By tapping into existing data streams, this customer launched a virtual agent platform in four months that lets travelers book trips, make changes or cancellations, and ask questions about their travel. Confluent Cloud is the underlying infrastructure responsible for real-time context-aware notifications and conversational experiences across various channels. By leveraging GenAI capabilities via their mobile app this company was able to build an intelligent B2B app platform for Strategic Partners, Content creators, and Influencers.

These services have provided significant value for travelers, agents, and partners. By increasing self-service adoption rates by over 80+% in chat, this customer helped reduce agent costs by hundreds of millions of dollars annually. Additionally, these contextual and relevant communications have led to increases in click-through rates, conversion rates, loyalty, and revenue, resulting in millions of dollars in revenue annually.

The Confluent Data Streaming Platform

Confluent pioneered the Data Streaming Platform (DSP) category to turn the spaghetti mess of complex and rigid point-to-point connections created by traditional data management tools into a virtuous cycle of data in motion. This allows retailers to build real-time inventory systems, banks to build real-time fraud detection and manufacturing organizations to collect real-time diagnostics for an assembly line. With Confluent, organizations can set their data in motion to win in the digital first world.



Key Pillars of a Complete Data Streaming Platform

Our DSP enables a complete set of capabilities for working with data, and captures the virtuous cycle of streaming data:

- It starts with **Stream**: Batch data is low-quality, which doesn't meet the needs of a real-time world.
- **Connect** data from everywhere in an organization and seamlessly integrated into a continuously moving whole.
- **Process** data by itself is useful, but with stream processing, data is infinitely more valuable when combined with other data and enriched with business context.
- Lastly, **Govern**. Data is worth less if it can't be trusted and secure.

Confluent DSP Innovation

Confluent's leadership of the DSP category has been recognized by leading analyst firms, including [Forrester](#) and [IDC](#). We continue to expand our leadership position with a [relentless pace of product innovation](#), including 15 major features and pricing optimizations announced at Kafka Summit Bangalore and Kafka Summit London in 2024, including Tableflow, and the GA of Confluent Cloud and Confluent Platform for Apache Flink.

Confluent DSP Adoption

This value proposition of our multi-product platform is resonating with customers. This adds to our growth vectors and extends our runway to drive durable and efficient growth for a number of reasons:



Connect, Process, Govern: Each DSP product has the potential to become an **independent business** larger than Kafka



Connect, Process, and Govern grew substantially **faster than cloud** and accounted for only **~10% of cloud revenue**



Multi-product \$100K+ customers increased 47% YoY, with a substantially higher NRR due to **strong network effects**

DSP Customer Stories



One such customer is Mr. Cooper, a leading home mortgage company. Within its industry, status notifications for mortgage applications can take hours to arrive, resulting in high call volumes, increased call center costs, and reduced customer satisfaction. By leveraging Confluent connectors to integrate their data systems in real-time, stream processing to derive immediate insights from their data streams, and governance tools to enforce high data quality and integrity, Mr. Cooper is able to approve mortgage applications significantly faster than legacy ETL tools and batch processing allow.



Instacart experienced record growth at the onset of the pandemic which required them to be able to scale elastically to meet the need. They evaluated a handful of different data in motion options and selected Confluent Cloud due to the combination of cloud native capabilities that would let them scale elastically to support the growth of their business, the completeness of our offering, and our ability to be everywhere, spanning the environments and availability zones their product required. They have complex problems to solve in real-time with inventory customer service and stack.



Jay Kreps
Co-Founder and CEO

Total
Revenue

\$217M

+25% YoY

Confluent Cloud
Revenue

\$107M

+45% YoY

Non-GAAP
Operating Margin

(1.5%)

+22 pts YoY

First Quarter Results

Total revenue grew 25% to \$217 million, Confluent Cloud revenue grew 45% to \$107 million, which now accounts for the majority of our subscription revenue and remains our fastest growing offering. Non-GAAP operating margin improved 22 percentage points, our 4th consecutive quarter of more than 20 points in improvement. These results reflect our team's strong execution amid a still uncertain but stabilizing macro environment.

Consumption Transformation Update

In Q1 we launched our consumption transformation. We oriented our sales compensation for cloud towards incremental consumption and new logo acquisition; we rolled out new systems, metrics and measures; and made pricing adjustments to reduce friction in landing new customers. It remains early days, but we are encouraged by the strong promising signals of our consumption orientation, particularly around new customer acquisition and stabilization of consumption trends.

With an increased focus on new logo growth, we added 160 customers to our total customer count, our largest sequential growth since Q1 2023. We not only increased the volume of customer additions, but were better able to target high potential customers, increasing the quality of our customer adds as well.

Note: Refer to the section below titled, "Definitions & GAAP to Non-GAAP Reconciliations" for a reconciliation of our non-GAAP financial metrics to the most directly comparable GAAP financial metrics.



In-person Attendees & Online Registrations

>7,000

Countries Represented

80

Companies Represented

>1,500

Speakers

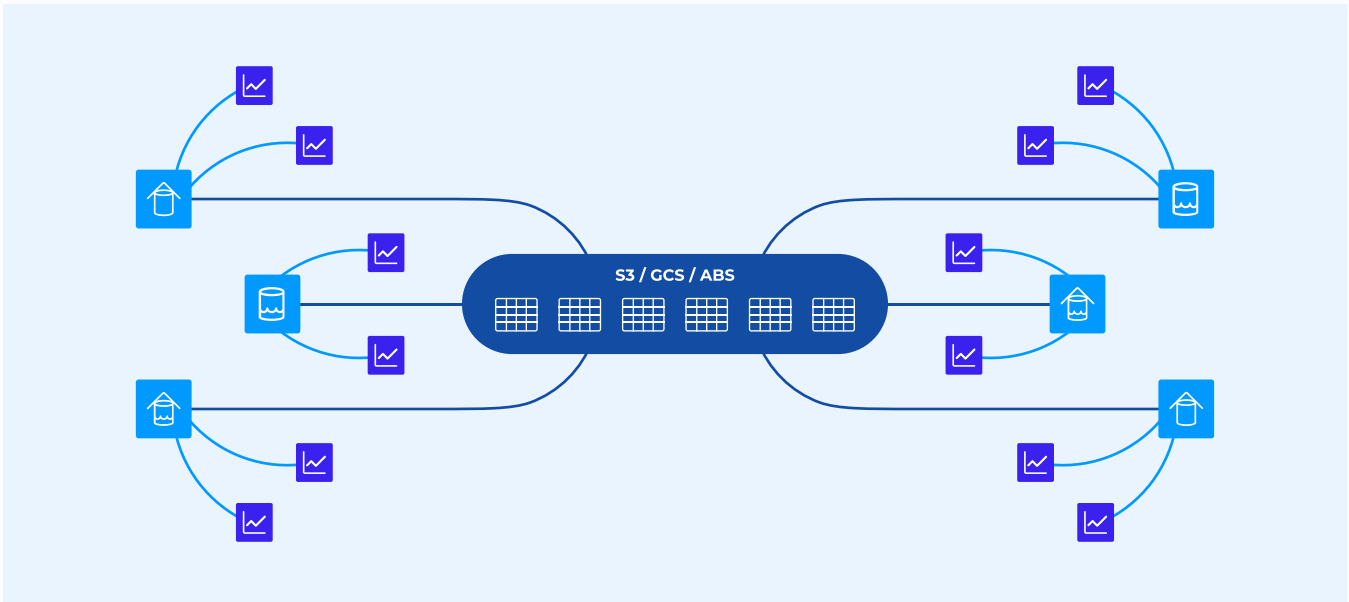
160

Kafka Summit (Bangalore & London)

We recently hosted Kafka Summit in London and Bangalore. Kafka Summit Bangalore was the first ever Kafka Summit in APAC. These events are a great illustration of the tremendous growth and innovation happening within the data streaming category. Between the two events we had more than 7,000 people joining us in-person or registered virtually, spanning startups, enterprises and everything in between, including organizations like Apple, Bloomberg, CERN, ING, Stripe, Uber, and many others. Our relentless pace of product innovation was on full display, with 15 major customer-facing features and price and performance optimizations announced across both events, including the general availability of Flink and early availability of a powerful new feature we call Tableflow.

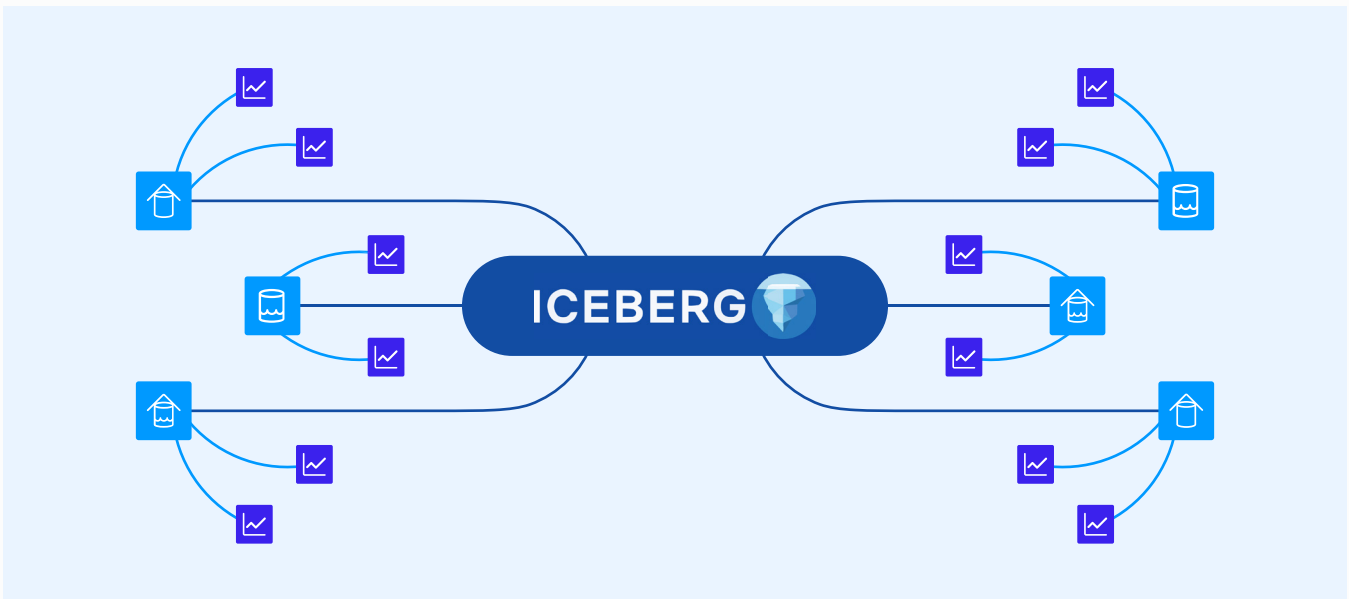
Tableflow

Tableflow makes all the data streams that flow through Confluent Cloud available as structured tables in cloud object storage using an open table format called Apache Iceberg. Let me provide a little background on what this means and why it is so powerful.



Apache Iceberg

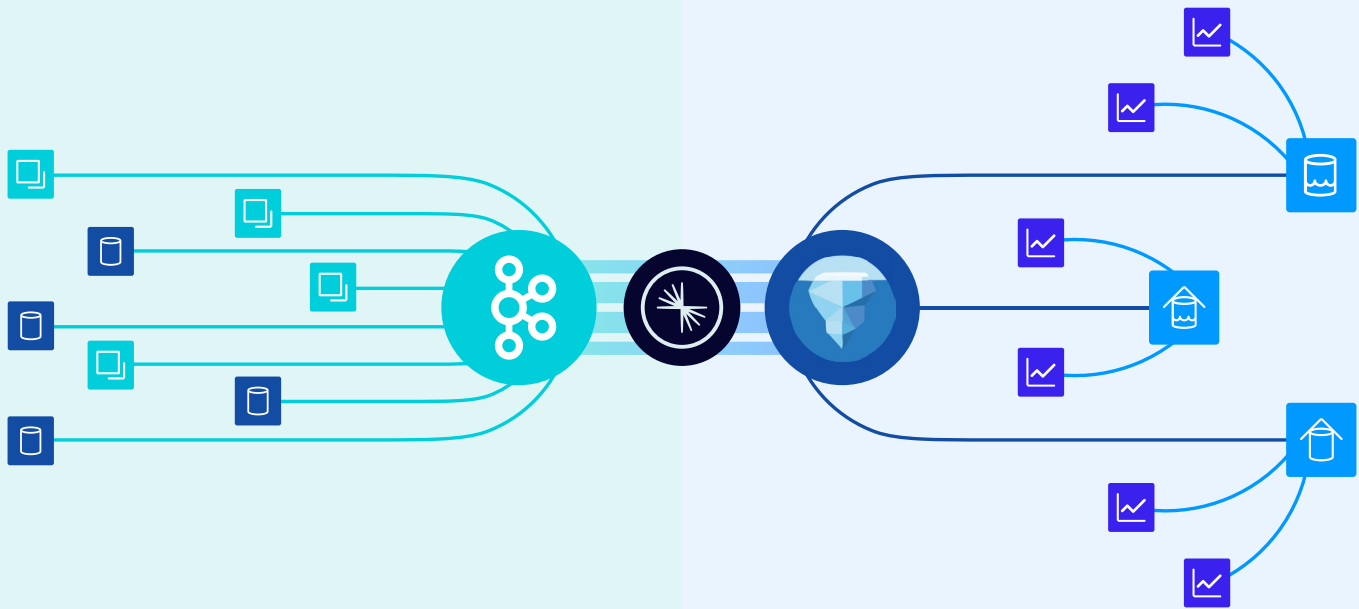
The rise of cheap, cloud object storage like S3 means another path is possible. Instead of fragmenting data across various analytical systems the tables of data can be shared across systems.



Apache Iceberg has arisen as a de facto standard for these open analytic tables on top of cloud object storage. Iceberg is an open source project that has near universal support across open source systems like Apache Spark and Flink as well as the data warehousing and data lakehouse world including products like AWS Athena, Redshift, Google's BigQuery, and Snowflake.

OPERATIONAL ESTATE

ANALYTICAL ESTATE



What It Means

Tableflow is more than just a connector. Already Kafka and Confluent are one of the most common feeds of data into these analytics systems, but with Tableflow we can make that integration far deeper. Kora, our cloud-native Kafka implementation, already heavily relied on cloud object storage for storing the streams of data in Confluent Cloud. Tableflow means that we can open up those same streams directly as Iceberg tables with a click of a button. This means data is defined a single time, stored a single time, and no complex mappings or translations are needed. Tableflow is in early access now and taking on its first users.

For some vendors the rise of open data formats like Iceberg is perceived as a threat as it opens up data that was locked in a silo to an ecosystem of processing and analytics layers, letting vendors compete on a level playing field based on cost, performance, and features rather than any new entrant having to overcome significant data gravity.

However, we believe Confluent is uniquely positioned to benefit from this trend as our goal, and indeed our business model, is built around the sharing of data. So the rise of Iceberg creates a very important destination for data that can increase the value of the streams in our platform. This makes Tableflow central to Confluent's vision of opening up and connecting all the data in an organization. We've heard overwhelmingly positive feedback from customers with this announcement and look forward to making this a significant part of our business over time.

Flink GA

Last quarter we discussed the world of stream processing and why our Flink offering is uniquely positioned to win this market. And we've been seeing incredible interest and excitement for our Flink offering. Nearly 600 prospects and customers have tried Flink since its preview. At Kafka Summit London, we announced the general availability of Confluent Cloud for Apache Flink. Early customer feedback has been strong. We see many of these customers starting the ramp towards production applications that will drive significant consumption over time.

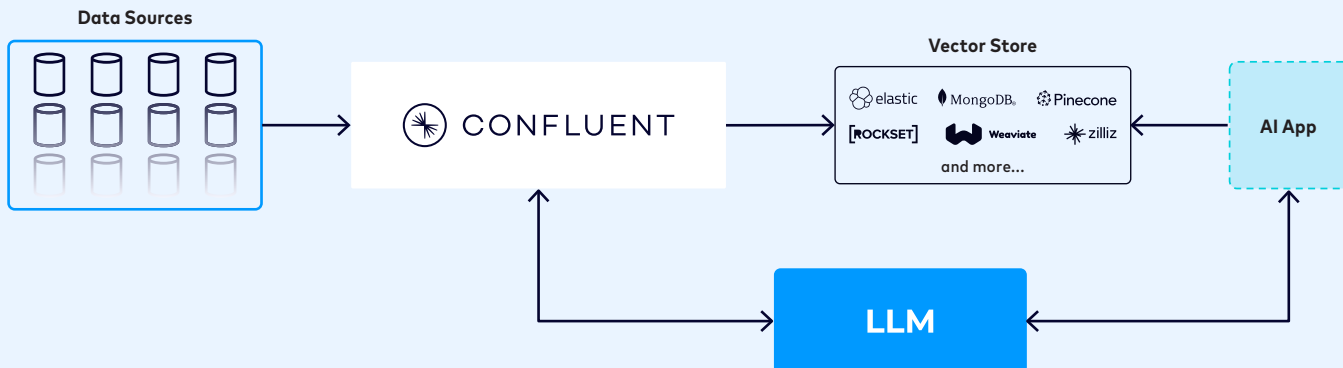
We announced another exciting Flink development at Kafka Summit Bangalore. We'll be adding Flink to our on premise software offering, Confluent Platform. This helps our on premise and hybrid customers adopt Flink for critical workloads running in their data centers.

These are very exciting steps for Confluent and cements our position as the only complete data streaming platform. Tableflow and Flink are new capabilities beyond Kafka and represent significant progress towards building what we believe will be the most important data platform in a modern company.

GenAI Traction

GenAI continues to be top of mind for many companies. But most are coming to realize that LLMs don't stand alone. RAG or retrieval augmented generation has emerged as the common pattern for GenAI to extend the powerful LLM models to domain-specific data sets in a way that avoids hallucination and allows granular access controls. Data streaming platforms play a pivotal role in enriching RAG-enabled workloads with contextual and trustworthy data. It enables companies to tap into a continuous stream of real time data from the systems that power the business, and transform it into the right format to be used by vector databases for AI applications.

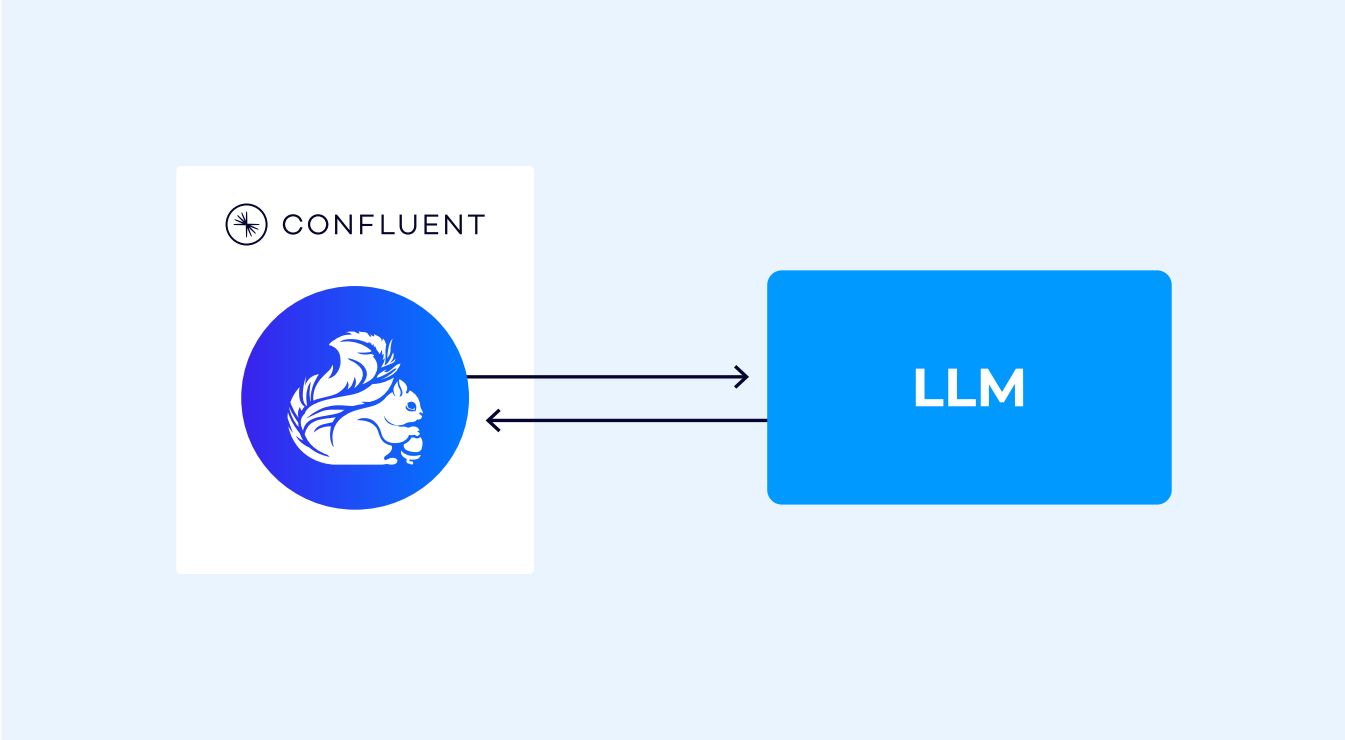
Streaming RAG Architecture



AI Model Inference

Another announcement from Kafka Summit Bangalore that helps make this kind of RAG architecture easier, was support for AI models and remote inference in Flink SQL. This capability is designed to simplify the development and deployment of AI applications by enabling software developers to integrate inference and embedding computation directly into their data processing, making it easier than ever to bring AI to real-time apps.

We're seeing particularly strong traction with GenAI in the digital native segment with companies like OpenAI, Notion and Motive, who are leveraging GenAI to reimagine customer experiences in nearly every industry.



AI-Powered Customer Intelligence Platform

One such customer is an AI-powered customer intelligence platform to manage contact centers and customer engagements. A powerful communications AI is central to its platform and is used for a variety of use cases including surfacing real-time insights for call center managers and identifying when agents need immediate assistance or intervention in handling problematic situations. Their existing architecture was unable to handle the demands of real-time, with latency sometimes exceeding a minute. This sluggishness was unacceptable for an AI application that requires access to fresh and continuously updated data. So this customer turned to Confluent Cloud for fast and scalable data streaming. By integrating Confluent with other components of its architecture, the customer was able to significantly reduce latencies for response times from over a minute down to as low as 10 milliseconds. With faster, fresher data and more real-time insights available, the customer is better equipped to meet the needs of its customers and provide them with valuable tools and analytics for managing their contact centers and customer engagements.





But it's not just digital natives who are putting GenAI into action. Another great example is GEP Worldwide, a global leader in supply chain and procurement solutions. This billion revenue company provides software, consultancy, and managed services to some of the world's biggest multinationals. Its software offerings are infused by GenAI to support chatbots and decision support tools. Previously, the team was an open source Kafka shop, but operating and maintaining open source became too burdensome to maintain, ultimately stifling their ability to iterate and innovate quickly. So they turned to Confluent. With Confluent serving as the central nervous system of its software, the company is able to more quickly connect data across hundreds of applications - including custom apps, and the operational and analytical estate - to provide contextual relevant and real time insight into its AI platform.

Confluent continues to innovate across our product and partner ecosystem to make it easier for customers so organizations can quickly scale and build AI-enabled applications using trusted data streams.





In closing, I'm incredibly proud of our team. Our rapid pace of innovation is phenomenal. And our field and go-to-market teams are leaning into our consumption transformation with early positive results. I've never been more excited or confident in Confluent's ability to capture the lion's share of the data streaming platform market.



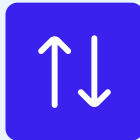
Jay Kreps

Co-Founder and CEO



Rohan Sivaram

Chief Financial Officer



Robust top-line growth and bottom-line improvements



Largest sequential customer growth since Q1'23



Multi-product adoption momentum

We delivered solid first quarter results beating all of our guided metrics in a still uncertain macro environment. Key highlights include robust top-line growth and bottom-line improvements, the largest sequential customer growth since Q1'23, and great momentum in multi-product adoption. These results reflect our team's strong execution on our consumption transformation, and our expanding multi-product platform leadership in data streaming.

Q1 Revenue Performance

Total Revenue

\$217.2M

+25% YoY

Subscription Revenue

\$206.9M

+29% YoY

Confluent Cloud Revenue

\$106.8M

+45% YoY

49% of Total Revenue

Confluent Platform Revenue

\$100.1M

+15% YoY

46% of Total Revenue

US Revenue

\$127.4M

+23% YoY

Non-US Revenue

\$89.8M

+28% YoY

Within subscription, Confluent Platform revenue grew 15% to \$100.1 million, representing 46% of total revenue. Customers rely on Confluent Platform to harness data streaming on prem, on the edge, and bridge to the cloud. We continued to see healthy demand for Confluent Platform, as most organizations are still early in their move to the cloud.

Confluent Cloud revenue grew 45% to \$106.8 million, exceeding our guidance of \$105M, and ended the quarter at 49% of total revenue, compared to 42% a year ago. Our cloud performance was driven by the ramp in consumption from select customers added in recent quarters, and we started seeing stabilization of new use case expansion in our existing customer base, including our digital-native segment.

Non-GAAP
Total Gross Margin

76.9%

+470 bps YoY

Non-GAAP
Subscription Gross Margin

80.7%

+320 bps YoY

Non-GAAP
Operating Margin

(1.5%)

+22 pts YoY

Moving on to the rest of the income statement. Results refer to non-GAAP results unless stated otherwise. We are pleased with operating above our long-term target level of 75% for total gross margin, even with a continued revenue mix shift to cloud. Our cloud offering has significant architectural advantages in multitenancy, elasticity, data balancing, networking and data replication. Combined with continual optimizations at every layer of the stack, we have driven a significant cost advantage in operations while delivering industry-leading innovation to our customers at a lower TCO.

Operating margin improved 22 percentage points to negative 1.5%, representing our 7th consecutive quarter of more than 10 points and 4th consecutive quarter of more than 20 points in margin improvement. Operating margin performance was driven by our gross margin performance and our continued focus on driving efficient growth across the company with the most pronounced progress made in sales and marketing. The improvements in sales and marketing demonstrates focused efforts in driving operating leverage and improving unit economics.

Net income per share was \$0.05 for Q1 using 350.2 million diluted weighted-average shares outstanding. Fully-diluted share count under the treasury stock method was approximately 362.4 million.

Free cash flow margin improved 33 percentage points to negative 14.6%.

And we ended the first quarter with \$1.91 billion in cash, cash equivalents and marketable securities.

Total
Customers

~5,120

+9% YoY

Customers with
\$100K+ in ARR

1,260

+17% YoY

Customers with
\$1M+ in ARR

168

+24% YoY

Total customer count was approximately 5,120, representing an increase of 160 customers sequentially. This is our largest sequential growth in total customers since Q1'23, reflecting the early signs of success from our consumption transformation. Customers with \$100K plus in ARR grew 17% to 1,260 and continued to account for greater than 85% of our revenue. Customers with \$1M plus in ARR grew 24% to 168, reflecting the power of our network effect and customers' continued standardization on our data streaming platform.

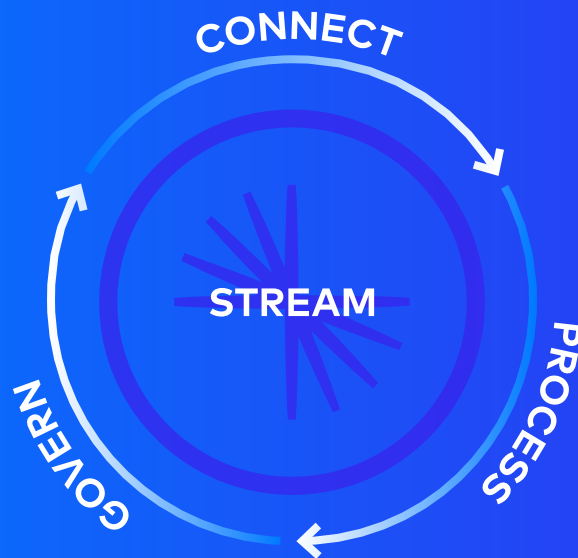
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NRR was healthy and in line with our target range of 120% to 125% for this year. Gross retention rate remained strong and was above 90%. As discussed last quarter, we expect NRR to exceed our mid-term target threshold of 125% starting FY'25 as we exit the consumption transformation.

RPO was \$840.2 million, up 13%. Current RPO was estimated to be \$570.6 million, up 20%. As discussed in prior quarters, RPO-related metrics are now less relevant, given our greater focus on driving consumption for our cloud business. Starting this quarter, investors can access our RPO metrics in our supplemental financials document on our IR website.

TOTAL NRR
120%-125%





We have driven success with our cloud-native streaming product, with Kafka accounting for the substantial majority of our cloud revenue. Over the last few years, we have added Connect, Process, and Govern to complete our multi-product platform. As Jay mentioned, early customer reception of our stream processing product Flink has been strong. As our customers start building and ramping their streaming applications, we expect Flink will contribute to revenue meaningfully in 2025.

But Confluent isn't just about streaming and stream processing. Our growth potential with Connect and Govern is often underestimated. Legacy integration companies have a massive installed base around connectors, and this is a significant opportunity for our Connect portfolio. Connect is our first and largest DSP product after streaming, and its revenue growth trajectory has been robust. For Govern, the increasing complexity around data, security, regulation, coupled with the rise of GenAI are driving the demand for our governance products. In fact, revenue growth for stream governance has been the fastest of any products we have launched to date.

The multi-product aspect of our unified platform adds to our growth vectors and extends our runway to drive durable and efficient growth.

- First, each pillar of our platform has the potential to become a large independent business on its own. The three DSP products which include Connect, Process, and Govern are earlier in the S-Curve of maturity and adoption than Kafka, but over time, we think their growth potential will be larger than Kafka itself.
- Second, our opportunity with our DSP products remains in the very early days. In Q1'24 the three DSP products accounted for approximately 10% of cloud revenue, but with a substantially faster growth rate than our overall cloud business. We expect the three DSP products to remain the fastest growing part of our business and account for a much larger portion of our cloud revenue over time.
- And third, multi-product customers have a higher NRR profile. In Q1'24, customers using 3 or more products in our \$100K+ customer cohort increased 47% year over year. These multi-product customers had an NRR substantially higher than the company average. This underscores the strong network effects of our unified platform, where the success of one product drives additional success in the others.

As our data streaming platform matures and multi-product adoption continues to increase, we believe we will be in a stronger position to address our \$60B market opportunity ahead.

\$60B TAM



Financial Outlook

Our guidance philosophy is consistent with prior quarters with the overall objective of setting prudent and achievable targets. We don't forecast a better or worse macro environment in our guidance. And as a reminder, beginning with the third quarter of 2024, we will fully transition to providing total subscription revenue guidance only.

	Q2'24	FY'24
Total Revenue	\$229M-\$230M 21%-22% YoY	-\$957M -23% YoY
Subscription Revenue	\$217M-\$218M 23%-24% YoY	-\$910M -25% YoY
Confluent Cloud Revenue	-\$116M -39% YoY	N/A
Non-GAAP Operating Margin	-(1%) +8 pts YoY	-0% +7 pts YoY
Free Cash Flow Margin	N/A	-0% +16 pts YoY
Non-GAAP Net Income Per Diluted Share	\$0.04-\$0.05	\$0.19-\$0.20

We expect net dilution for FY'24 will be approximately 3%, in line with our mid-term target. Our long-term target is to bring net dilution down to under 2%, which we expect will drive SBC as a percentage of total revenue down to the mid teens over time.



In closing, we are pleased with our strong top line and bottom line performance in the first quarter. Our consumption transformation has shown early signs of success. The value proposition of our multi-product platform is resonating with customers. We will stay focused on delivering innovation and value to our customers while continuing to fine tune our go-to-market effort, which we believe will put us in a stronger position to capture our market opportunity ahead.



Rohan Sivaram

Chief Financial Officer

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.

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.

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)

	Q1'23	Q1'24
Total revenue	\$174,302	\$217,237
Total gross profit on a GAAP basis	\$116,158	\$156,016
<i>Total gross margin on a GAAP basis</i>	66.6%	71.8%
Add: Stock-based compensation-related charges ⁽¹⁾	9,516	10,623
Add: Amortization of acquired intangibles	113	502
Non-GAAP total gross profit	\$125,787	\$167,141
<i>Non-GAAP total gross margin</i>	72.2%	76.9%

	Q1'23	Q1'24
Subscription revenue	\$160,567	\$206,902
Subscription gross profit on a GAAP basis	\$117,662	\$158,547
<i>Subscription gross margin on a GAAP basis</i>	73.3%	76.6%
Add: Stock-based compensation-related charges ⁽¹⁾	6,649	7,905
Add: Amortization of acquired intangibles	113	502
Non-GAAP subscription gross profit	\$124,424	\$166,954
<i>Non-GAAP subscription gross margin</i>	77.5%	80.7%

	Q1'23	Q1'24
Total revenue	\$174,302	\$217,237
Operating loss on a GAAP basis	(\$166,093)	(\$111,351)
<i>GAAP operating margin</i>	(95.3%)	(51.3%)
Add: Stock-based compensation-related charges ⁽¹⁾	82,952	102,985
Add: Amortization of acquired intangibles	113	502
Add: Acquisition-related expenses	9,317	4,587
Add: Restructuring and other related charges	33,382	-
Non-GAAP operating loss	(\$40,329)	(\$3,277)
<i>Non-GAAP operating margin</i>	(23.1%)	(1.5%)

(1) Represents stock-based compensation expense, employer taxes on employee stock transactions, and amortization of stock-based compensation capitalized in internal-use software. We began excluding amortization of stock-based compensation capitalized in internal-use software from our non-GAAP measures starting with the quarter ended March 31, 2024. The amounts of amortization of stock-based compensation capitalized in internal-use software were immaterial in both current and prior periods.

GAAP to Non-GAAP Reconciliations

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

	Q1'23	Q1'24
Net loss on a GAAP basis	(\$152,555)	(\$92,967)
Add: Stock-based compensation-related charges ⁽¹⁾	82,952	102,985
Add: Amortization of acquired intangibles	113	502
Add: Acquisition-related expenses	9,317	4,587
Add: Restructuring and other related charges	33,382	-
Add: Amortization of debt issuance costs	939	953
Add: Income tax effects and adjustments	362	(260)
Non-GAAP net (loss) income	(\$25,490)	\$15,800
Non-GAAP net (loss) income per share, basic	(\$0.09)	\$0.05
Non-GAAP net (loss) income per share, diluted	(\$0.09)	\$0.05
Weighted-average shares used to compute net (loss) income per share, basic	291,864,975	314,203,181
Weighted-average shares used to compute net (loss) income per share, diluted	291,864,975	350,195,868

	Q1'23	Q1'24
Total revenue	\$174,302	\$217,237
Net cash used in operating activities	(\$77,772)	(\$25,954)
Add: Capitalized internal-use software costs	(4,556)	(5,539)
Add: Capital expenditures	(546)	(186)
Free cash flow	(\$82,874)	(\$31,679)
<i>Free cash flow margin</i>	(47.5%)	(14.6%)

(1) Represents stock-based compensation expense, employer taxes on employee stock transactions, and amortization of stock-based compensation capitalized in internal-use software. We began excluding amortization of stock-based compensation capitalized in internal-use software from our non-GAAP measures starting with the quarter ended March 31, 2024. The amounts of amortization of stock-based compensation capitalized in internal-use software were immaterial in both current and prior periods.