CONFLUENT

Confluent Earnings Report

Q2 FY'24 | July 31st, 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, net dilution, revenue mix, Confluent Cloud and data streaming platform growth, operating margins and margin improvements, targeted or anticipated gross and operating margin levels, earnings per share levels and improvements, in-product optimizations of Confluent Cloud, continued business momentum, and expected revenue and consumption 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 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 scrutiny on IT spending, (vii) continued high interest rates and macroeconomic uncertainty as well as our expectations regarding the effects of macroeconomic pressure and volatility on overall consumption levels and growth rates of Confluent Cloud, IT spending, our go-to-market motion, durability of our offering with customers, and customer use case expansion, 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 Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, 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 June 30, 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 section titled "GAAP to Non-GAAP Reconciliations" at the end of this report for a reconciliation of our non-GAAP financial measures to the most directly comparable GAAP financial measures.

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

Confluent's complete data streaming platform has never been more critical and relevant in helping organizations thrive in the modern world. We are more confident than ever in our ability to drive durable long-term growth.

Jay Kreps
Co-Founder & CEO

$60B TAM[1]

Q2'24 CUSTOMER HIGHLIGHTS

~5,440	1,306	177
Total Customers *+13% YoY*	$100K+ ARR *+14% YoY*	$1M+ ARR *+20% YoY*

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

Q2'24 FINANCIAL HIGHLIGHTS

REVENUE PERFORMANCE

Subscription Revenue
$225M *+27% YoY*

Confluent Cloud Revenue
$117M *+40% YoY*

Dollar-based Net Retention Rate **118%**

MARGIN IMPROVEMENT

Non-GAAP Operating Margin[2]
0.6% *+10 pts YoY*

Free Cash Flow Margin[2]
1.2% *+20 pts YoY*

Connect, Process, and Govern Grew Substantially Faster Than Overall Cloud in Q2'24

STREAM | CONNECT | PROCESS | GOVERN

DATA STREAMING REPORT[3]

91% Say data streaming platforms are critical or important for achieving data-related goals

86% Cite data streaming as a strategic or important priority for IT investments in 2024

84% Of IT leaders cite 2x to 10x return on data streaming investments

PARTNER HIGHLIGHTS

ANNOUNCED

Accelerate with Confluent
Build with Confluent

WINS

Google Cloud Partner of the Year
Microsoft Partner of the Year

Note: Financials and metrics other than TAM data are as of or for stated quarterly period ended June 30, 2024.

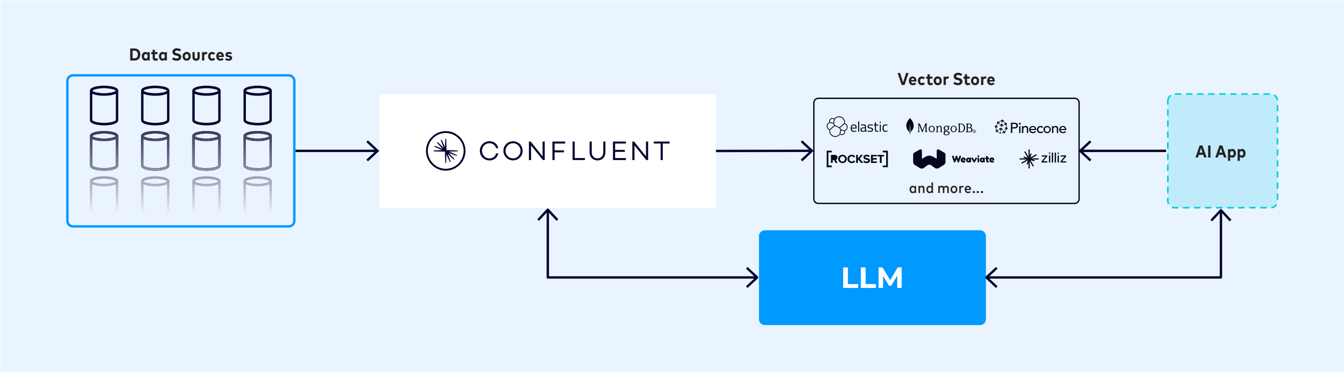
(1) TAM calculations performed by Confluent; source: Gartner, Forecast: Enterprise Infrastructure Software, Worldwide, 2020-2026, 2Q22 Update, June 2022; source: Gartner, Forecast: Enterprise Application Software, Worldwide, August 2022.

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

(3) Confluent's 2024 Data Streaming Report: Breaking Down the Barriers to Business Agility & Innovation.

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 customer base, 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.

Data Streaming Platforms Power Faster AI Adoption

For AI models to generate accurate and relevant results, the data must be trustworthy, in the right format, and as real-time as possible. Data streaming platforms give GenAI apps the data and context they need with a continuous flow of contextual and trustworthy data. Our 2024 Data Streaming report found:

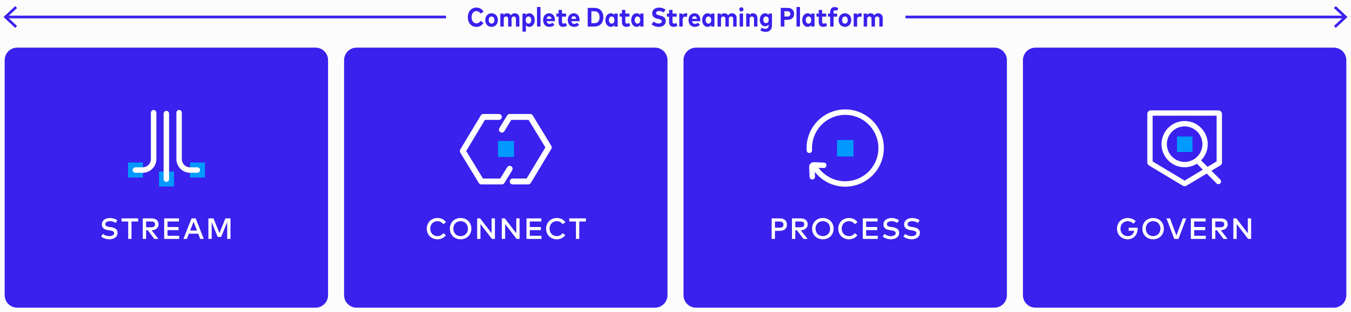
- **90%** of respondents say data streaming platforms can lead to more product and service innovation in AI and ML development.
- **74%** state investments in GenAI will trend up in the coming two years.
- **63%** cite data streaming platforms extensively or significantly fuel AI progress by building the real-time data foundation needed to propel these initiatives.

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](#).

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.

Partner Ecosystem

To become the central nervous system for organizations, Confluent relies on essential partnerships with Cloud Partners, Technology Partners, and System Integrators to reach new markets, improve sales efficiency, and complement our data streaming platform. Confluent made a series of exciting partner announcements in Q2 across our partner ecosystem:

- **Accelerate with Confluent:** Reimagined partner program that places a strong emphasis on excellence in professional services.
- **Build with Confluent:** Partner program designed to speed up development of real-time solutions from GenAI bots to fraud detection.
- Recognized as Partners of the Year by Google Cloud and Microsoft.

Confluent 2024 Data Streaming Report

The report dives into how organizations use data streaming to innovate, accelerate AI adoption, improve business agility, power customer experiences, and overcome data accessibility and management challenges. Based on a survey of 4,110 IT leaders across 12 countries, the report shows the pivotal role data streaming plays in helping businesses maximize the full potential of their data.

- **91%** say data streaming platforms are critical or important for achieving data-related goals.
- **86%** cite data streaming as a strategic or important priority for IT investments in 2024.
- **84%** of IT leaders cite 2x to 10x return on data streaming investments.

Jay Kreps
Co-Founder and CEO

Subscription Revenue	Confluent Cloud Revenue	Non-GAAP Operating Margin
$225M	**$117M**	**0.6%**
+27% YoY	*+40% YoY*	*+10 pts YoY*

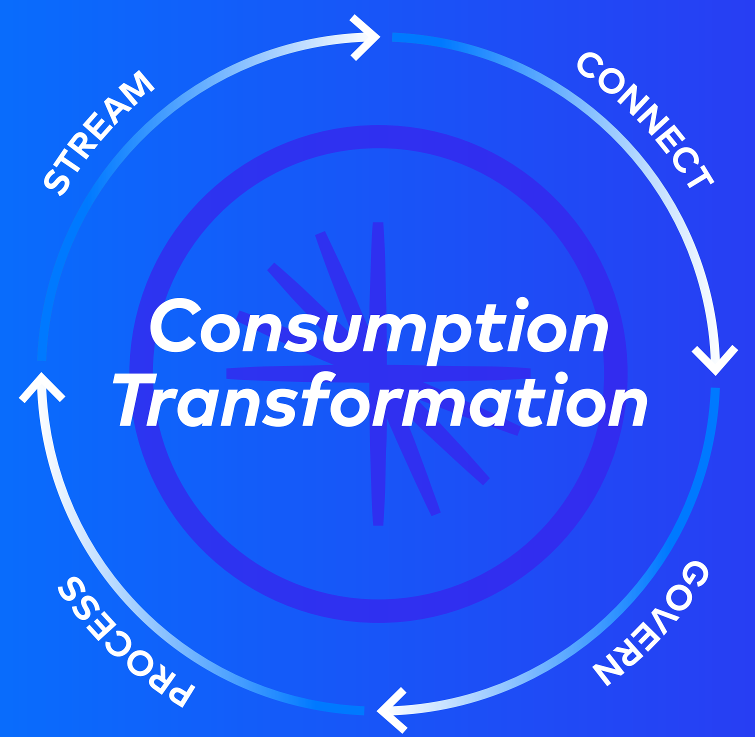
Second Quarter Results

We're pleased to report a solid second quarter, once again exceeding our revenue and margin guidance despite a continuing volatile macro environment.

Subscription revenue grew 27% to $225 million, Confluent Cloud revenue grew 40% to $117 million, and non-GAAP operating margin was positive, representing approximately 10 percentage points in improvement. These results underscore the power of our data streaming platform and our relentless focus on delivering success for our customers.

Consumption Transformation Update

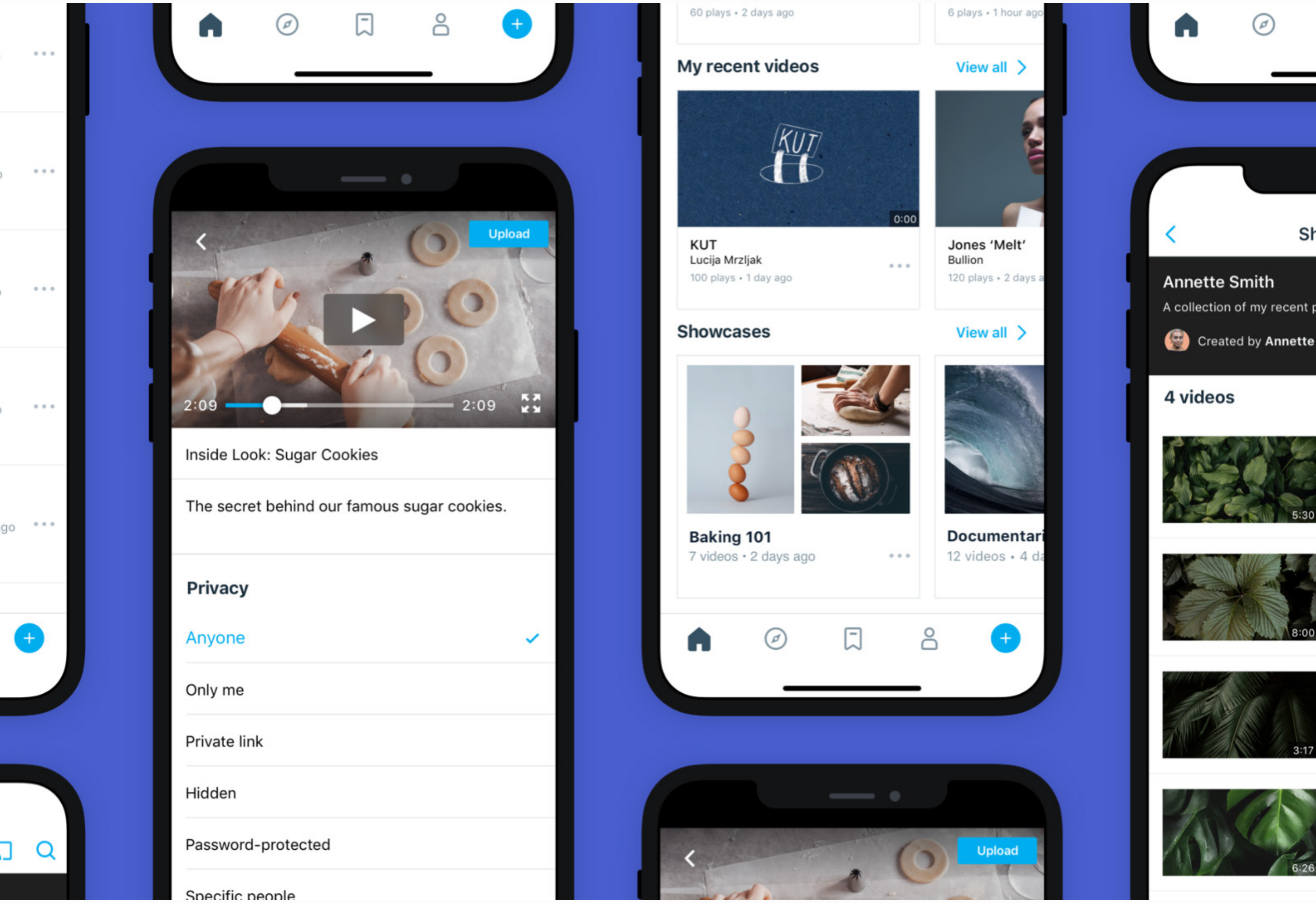
Overall, the vast majority of our rollout towards our transformation to becoming consumption oriented is complete - a step change in how we run our cloud business. One success indicator for our transformation is new logo growth. I am pleased to share that we increased our total customer count by 320 in Q2, double from the previous quarter and representing our largest sequential increase in two years. In addition to landing a higher volume of customers, we believe we have increased the quality: a strong focus on our target accounts has increased the percentage of high propensity customer lands. Though this new consumption motion lands them earlier in their journey, we believe over time many of these customers will represent the next wave of high consumption accounts for us.



Complete DSP

We remain as confident as ever in the strategic position of the company and the prospects for durable long-term growth. We have the industry leading technology in an increasingly critical and relevant category that we believe will be as important as databases. Over the past year, we've made a series of innovations to build out the full set of capabilities of a data streaming platform, enabling us to capture the full lifecycle of data in motion. And as we progress along our consumption transformation, we will be better equipped than ever to rapidly acquire new customers, win new workloads, and fuel the adoption of our full set of product capabilities. Our rapid pace of innovation and ability to land high-quality customers who have the potential to consume more of our product, leaves me more excited than ever about the long-term opportunity to capture the lion's share of the data streaming market.

Vimeo, a leading SaaS video platform with over 260 million users, is a great example of a customer using our complete data streaming platform. Success for video platforms like Vimeo largely depends on delivering stellar user experiences. But traditional data warehousing and batch ETL processes limited their ability to see real-time customer usage, hindering timely decisions, quick pivots on products and campaigns, and adaptive user experiences without buffering. So they turned to Confluent to enable real-time data flows that provided the visibility they lacked. Fully managed Connectors to Snowflake, S3 and others make it easy to instantly connect data throughout their business without the hassle of building and self-managing connectors. Stream governance ensures data quality and security, and allows Vimeo to safely scale and share data streams and the team is looking towards Flink to enhance their streaming use cases while freeing up bandwidth across the team. With Confluent and real-time data flows, Vimeo can make quick decisions and deliver top-quality, personalized experiences that drive growth and profitability.



Partner Updates

Partners are essential to our strategy to expand our reach into new markets, improve sales efficiency, and complement our data streaming platform. We are very pleased to share a number of notable achievements and milestones across all three pillars of our partner ecosystem.

Enhanced Our System Integrator Experience

In Q2, we announced Build with Confluent and Accelerate with Confluent, which make it easier for our global SI partners like KPMG, Accenture, and EY to build specialized offerings as they embed data streaming into their core business. A wide range of use cases have already been established through the Build with Confluent program including a GenAI bot for airline customer support, fraud detection against AI-powered voice phishing, automated limit increases for credit card users, and real-time telemetry analysis for freight optimization.

Connect with Confluent

We're also seeing great traction with Connect with Confluent, a technology partner program that makes it easier for partners to build native integrations with Confluent Cloud. In Q2, we crossed more than 40 Technology Partner-built integrations including SAP, MongoDB, Imply, and services at Google Cloud and AWS, giving us coverage across the major segments of the modern data and AI stack to help us drive consumption of Confluent. The success of Connect with Confluent has tripled the amount of data traffic from our partner integrations since the start of the year.

Google and Microsoft Partner of the Year

And finally, on the CSP front, we were pleased to be recognized as partners of the year by both Google and Microsoft. This marks the third year in a row that Confluent won this award from Microsoft and fifth year that we've been recognized by Google. Together, these recognitions underscore our highly valuable and symbiotic relationships with our cloud partners.

GenAI

As we discussed last quarter, data streaming plays a critical role in fueling GenAI applications with contextual and trustworthy streams of real-time data. This was underscored by our 2024 Data Streaming Report. 90% of the 4,000+ IT leaders we surveyed said data streaming platforms can lead to more product and service innovation in AI and ML development with 63% saying data streaming platforms significantly fuel AI progress by building a real-time data foundation.

A TOP FIVE MORTGAGE LENDER IN THE UNITED STATES is turning to Confluent and GenAI to reimagine the homebuying experience. This company uses generative AI to listen to client calls, transcribe them, analyze sentiment, and record client patterns and preferences to create personalized experiences for millions of customers and prospects. They turned to Confluent as a key part of their RAG-enabled architecture to quickly build and scale GenAI use cases by tapping into readily usable, trustworthy data streams. Connectors allow them to connect data and systems from across lines of business, while stream governance and stream processing enable the team to create reusable data products that are easy to find, understand and use.

As a result of their GenAI initiatives, approximately 70% of servicing calls can be fully self-served without the need for full team member intervention. By saving the client servicing team 40,000 hours annually, team members can concentrate on cultivating strong, meaningful client relationships, while AI manages the mundane tasks. But this is just the start. In the future, their GenAI platform will learn homeowners' preferences and communication habits so team members can anticipate and solve clients' needs.

AN INTERNATIONAL E-COMMERCE COMPANY IN GERMANY with 16 billion Euros in annual sales is another example of companies turning to Confluent to play a key role in their GenAI stacks. When e-commerce products from this company's iconic brands are promoted, their call centers receive massive spikes in call volumes. But with only 100 call center reps, customers were often left in long wait queues leading to failed conversions and unhappy customers. So they turned to Confluent to help power GenAI applications like voice bots that can scale up in seconds and answer a thousand calls in parallel. As customers interact with these voice bots, an AI order entry bot enables the order completion process and communicates with ERP systems in real-time via Confluent, streaming transactional data such as product, order, customer, payment and billing information.

A key part of this workflow is Confluent streaming KPIs from bots in the operational domain to their analytical systems – capturing data like real-time orders, call metrics, sentiment analysis, and how many AI tokens were used – to analyze and measure the efficacy of calls to continuously make their bots smarter and more effective. Powered by enriched, trusted data streams from Confluent, this e-commerce company can now handle unexpected traffic spikes to increase call center capacity on demand to reduce customer wait times and improve order completion rate.

CONFLUENT

In closing, we're excited about the trajectory we are on. With our complete data streaming platform and our transition to a consumption-oriented business, we're well positioned to attract more customers who can derive even more value from Confluent as they capture the full lifecycle of streaming data from our platform. The future of Confluent is incredibly bright.

Jay Kreps
Co-Founder and CEO

Rohan Sivaram

Chief Financial Officer

Solid subscription revenue growth

Substantial margin expansions

Positive non-GAAP operating margin and FCF margin

In Q2, we delivered solid subscription revenue growth and substantial margin expansions, ending the quarter with positive non-GAAP operating margin and free cash flow margin. These results, coupled with continued adoption of our data streaming platform, demonstrate our relentless focus on driving long-term efficient growth in a volatile macro environment.

Q2 Revenue Performance

Subscription Revenue	Confluent Platform Revenue	Confluent Cloud Revenue
$224.7M	**$107.3M**	**$117.4M**
+27% YoY	*+16% YoY*	*+40% YoY*
96% of Total Revenue	48% of Subscription Revenue	52% of Subscription Revenue

US Revenue	Non-US Revenue
$143.2M	**$91.7M**
+26% YoY	*+22% YoY*

Subscription revenue grew 27% to $224.7 million, exceeding the high end of our guidance and representing 96% of total revenue.

Confluent Platform revenue growth accelerated to 16%, ending the quarter at $107.3 million and accounting for 48% of subscription revenue. We closed two 8-figure multi-year deals consisting of renewal and expansion with existing customers in the financial services industry. This underscores Confluent as the platform of choice for data streaming among the world's most established enterprises.

Confluent Cloud revenue grew 40% to $117.4 million and accounted for 52% of subscription revenue, compared to 47% in the year-ago quarter. We are pleased with delivering high growth at scale and continuing to improve the margin profile for our cloud business.

Revenue from the U.S. grew 26% to $143.2 million. Revenue from outside the U.S. grew 22% to $91.7 million.

Non-GAAP
Subscription Gross Margin

80.8%

+170 bps YoY

Non-GAAP
Operating Margin

0.6%

+9.7 pts YoY

For the rest of the income statement, results refer to non-GAAP results unless stated otherwise.

Subscription gross margin was 80.8%, up 170 basis points. Gross margin performance was driven by strong Confluent Platform margin and improving unit economics of our Confluent Cloud offering.

Operating margin expanded 9.7 percentage points to 0.6%, representing our 8th consecutive quarter of 9 points or more in margin improvement. Operating margin performance was driven by our gross margin performance and our continued focus on driving efficient growth across the company.

Net income per share was $0.06 for Q2 using 354.2 million diluted weighted-average shares outstanding. Fully-diluted share count under the treasury stock method was approximately 362.9 million.

Free cash flow margin turned positive and improved approximately 20 percentage points to 1.2%.

And we ended the second quarter with $1.93 billion in cash, cash equivalents, and marketable securities.

Total
Customers

~5,440

+13% YoY

Customers with
$100K+ in ARR

1,306

+14% YoY

Customers with
$1M+ in ARR

177

+20% YoY

Total customer count was approximately 5,440, up 320 customers sequentially, our largest sequential growth in two years. We are pleased with the accelerating growth in total customer count and the quality of customers we have acquired. Additionally, we added 46 customers with $100K+ in ARR and 9 customers in $1M+ in ARR, bringing the total to 1,306 and 177, respectively. Our $100K+ ARR customers continued to contribute greater than 85% of our revenue. Our new $1M+ ARR customers include customers from a variety of industries including energy, financial services, manufacturing, retail, transportation, and more.

Q2 NRR was 118%, below our target range of 120-125% for this year. This was due to continuing consumption volatility within our large digital-native customer base. After the stabilization in Q1 and a healthy start in Q2, we saw increased short-term cloud cost controls and focus on driving efficiencies in this customer cohort in the month of June, which impacted expansion of new use cases.

While the green shoots we saw earlier this year haven't yet translated to the level of consumption we had expected, we are pleased to see continued strength in our gross retention rate. GRR remained above 90%, at a level consistent with the last two quarters, reflecting the sticky nature of our data streaming platform and our continued focus on delivering strong value and ROI to our customers.

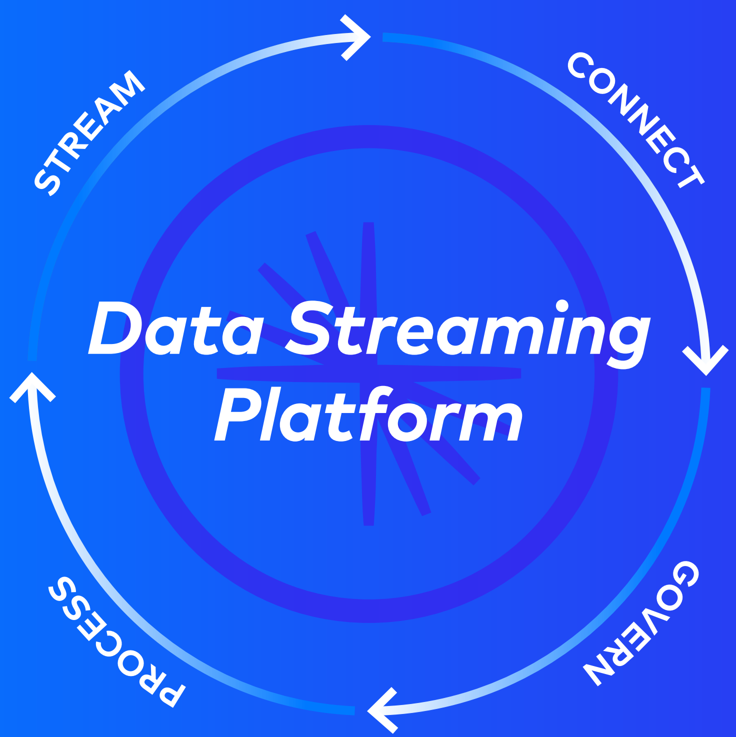
Guidance Commentary

As we frame our guidance for the second half of 2024, there are two points to call out before getting into the numbers.

- First, growth of our Confluent Platform business remains lumpy, driven by the timing of large renewal and expansion deals. As a reminder, approximately 20% of our Confluent Platform TCV is recognized as upfront license revenue. This could create short-term variability for growth in Confluent Platform. Q2 was a good example where we benefited from this dynamic, which creates a tough compare for growth for the rest of 2024.
- Second, consumption in our digital-native customer base remains volatile. As mentioned, while the green shoots we saw over the last few months continue to take hold, they have not yet translated to the level of consumption we had expected. We have incorporated this consumption dynamic from our large digital-native customers into our second half outlook.

Financial Outlook

	Q3'24	FY'24
Subscription Revenue	**$233M-$234M** 23%-24% YoY	**~$910M** ~25% YoY
Non-GAAP Operating Margin	**0%** +5 pts YoY	**0%** +7 pts YoY
Free Cash Flow Margin	**N/A**	**0%** +16 pts YoY
Non-GAAP Net Income Per Diluted Share	**$0.05**	**$0.20**



Looking out longer term, we remain well positioned to address our market opportunity. We are going after a highly strategic and mission-critical data streaming market, which we believe will be as important as databases. Over the last few decades, history in software has repeated itself many times that the platform approach wins. Our industry-leading data streaming platform is the only complete platform spanning Stream, Connect, Process, and Govern, enabling us to capture the full lifecycle of data in motion at a lower TCO and delivering strong ROI to our customers.

In Q2, we saw continued adoption of our data streaming platform:

- Connect, Process, and Govern of our DSP portfolio accounted for a larger portion of cloud revenue, and grew substantially faster than our overall cloud business
- Multi-product customers remained our fastest growing customer cohort, with NRR substantially higher than 130%
- We believe DSP will continue to outgrow our core business for the foreseeable future, and as it continues to scale, DSP is expected to be a strong growth tailwind to our business over a long period of time

Additionally, the rise of GenAI makes it clear that a modern organization's success is significantly influenced by its data strategy, particularly around data in motion. With a complete, cloud-native and ubiquitous platform and secular tailwinds for data in motion, we have never been more confident in our ability to sustain durable and efficient growth over the long term.

CONFLUENT

In closing, we are pleased with our solid second quarter results. As we continue to execute on our consumption transformation, we remain focused on driving efficient growth and delivering breakeven for non-GAAP operating margin and free cash flow margin for 2024.

Rohan Sivaram
Chief Financial Officer

Definitions

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)

	Q2'23	Q2'24
Subscription revenue	$176,488	$224,702
Subscription gross profit on a GAAP basis	$132,300	$171,839
Subscription gross margin on a GAAP basis	*75.0%*	*76.5%*
Add: Stock-based compensation-related charges(1)	7,179	9,292
Add: Amortization of acquired intangibles	127	501
Non-GAAP subscription gross profit	$139,606	$181,632
Non-GAAP subscription gross margin	*79.1%*	*80.8%*

	Q2'23	Q2'24
Total revenue	$189,285	$234,986
Operating loss on a GAAP basis	($119,368)	($108,349)
GAAP operating margin	*(63.1%)*	*(46.1%)*
Add: Stock-based compensation-related charges(1)	95,758	104,700
Add: Amortization of acquired intangibles	127	501
Add: Acquisition-related expenses	5,198	4,478
Add: Restructuring and other related charges	943	-
Non-GAAP operating (loss) income	($17,342)	$1,330
Non-GAAP operating margin	*(9.2%)*	*0.6%*

(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.

GAAP to Non-GAAP Reconciliations

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

	Q2'23	Q2'24
Net loss on a GAAP basis	($103,425)	($89,900)
Add: Stock-based compensation-related charges[1]	95,758	104,700
Add: Amortization of acquired intangibles	127	501
Add: Acquisition-related expenses	5,198	4,478
Add: Restructuring and other related charges	943	-
Add: Amortization of debt issuance costs	950	953
Add: Income tax effects and adjustments	507	(175)
Non-GAAP net income	$58	$20,557
Non-GAAP net income per share, basic	$0.00	$0.06
Non-GAAP net income per share, diluted	$0.00	$0.06
Weighted-average shares used to compute net income per share, basic	297,827,200	319,415,586
Weighted-average shares used to compute net income per share, diluted	339,296,142	354,236,764

	Q2'23	Q2'24
Total revenue	$189,285	$234,986
Net cash (used in) provided by operating activities	($29,060)	$8,590
Add: Capitalized internal-use software costs	(5,330)	(4,776)
Add: Capital expenditures	(809)	(1,105)
Free cash flow	($35,199)	$2,709
Free cash flow margin	*(18.6%)*	*1.2%*

(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.