CONFLUENT

Q1 2023 Earnings Call

May 3, 2023

Forward Looking Statements and Non-GAAP Financial Measures

This presentation and the accompanying oral presentation (together, the "presentation") contain forward-looking statements including, among other things, statements regarding (i) our financial outlook, including expected revenue mix, operating margins and margin improvements, targeted or anticipated gross and operating margin levels, achievement of non-GAAP operating margin breakeven exiting the fourth quarter of fiscal 2023, improvements in unit economics, and expected revenue growth rate and efficient growth; (ii) our market and category leadership position, (iii) our expected investments in research and development and go-to-market functions; (iv) our expected capital allocation to drive efficient growth and rate and pace of investments, (v) the potential growth for Confluent Cloud; (vi) rates of Confluent Cloud consumption and demand for and retention of data streaming platforms like Confluent in the face of budget scrutiny, (vii) continued higher interest rates and macroeconomic uncertainty, as well as our expectations regarding the effects of macroeconomic pressure on our go-to-market motion and durability of our offering with customers, (viii) our pricing, our win rate and deal cycles and customer behaviors such as budget scrutiny, (ix) customer growth, retention and engagement, (x) ability for Confluent Cloud to provide cost savings for users and customers, including lower total cost of ownership, and drive greater monetization of the open source Kafka user base as a result, (xi) increased adoption of our platform and fully managed solutions for data streaming in general, (xii) dependence of businesses on data in motion, (xiii) ability for Confluent to become the central nervous system of organizations, (xiv) the degree of market acceptance of our products, (xv) growth in and growth rate of revenue, customers, remaining performance obligations, dollar-based net retention rate, and gross retention rate, (xvi) our ability to increase engagement of customers for Confluent and expand customer cohorts, (xvii) our market opportunity, (xviii) our consumption-oriented strategy, (xix) our go-to-market strategy, (xx) our product differentiation and market acceptance of our products, including over open source alternatives, (xxi) our strategy and expected results and market acceptance for our Flink offering and timing for launch of that offering, (xxii) our expectations for market acceptance of stream processing, (xxiii) our ability to meet near-term and mid-term financial targets, (xxiv) our potential for value creation, (xxv) our investment priority and philosophy, (xxvi) and our overall future prospects. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "seek," "plan," "project," "target," "looking ahead," "look to," "move into," and similar expressions are intended to identify forward-looking statements. Forward-looking statements represent our current beliefs, estimates and assumptions only as of the date of this press release and information contained in this press release should not be relied upon as representing our estimates as of any subsequent date. These forward-looking statements are subject to risks, uncertainties, and assumptions. If the risks materialize or assumptions prove incorrect, actual results could differ materially from the results implied by these forward-looking statements. Risks include, but are not limited to: (i) our limited operating history, including in uncertain macroeconomic environments, (ii) our ability to sustain and manage our rapid growth, including following our recent restructuring, (iii) our ability to attract new customers and retain and sell additional features and services to our existing customers, (iv) inflationary conditions, economic uncertainty, recessionary risks, and exchange rate fluctuations, which have resulted and may continue to result in customer pullback in information technology spending, lengthening of sales cycles, reduced contract sizes, reduced consumption of Confluent Cloud or customer preference for open source alternatives, as well as the potential need for cost efficiency measures, (v) our ability to increase consumption of our offering, including by existing customers and through the acquisition of new customers, and successfully add new features and functionality to our offering, (vi) our ability to achieve profitability and improve margins annually, by our expected timelines or at all, (vii) our ability to operate our business and execute on our strategic initiatives following our recent restructuring, (viii) the estimated addressable market opportunity for our offering, including our Flink offering and stream processing, (ix) our ability to compete effectively in an increasingly competitive market, including achieving market acceptance over competitors and open source alternatives, (x) our ability to successfully execute our go-to-market strategy and initiatives and increase market awareness and acceptance of the benefits of our offering, including the total cost of ownership benefits of Confluent Cloud, (xi) our ability to attract and retain highly qualified personnel, which could be negatively impacted by our recent restructuring, (xii) breaches in our security measures or unauthorized access to our platform, our data, or our customers' or other users' personal data, (xiii) our reliance on third-party cloud-based infrastructure to host Confluent Cloud, and (xiv) general market, political, economic, and business conditions, including continuing impacts from the COVID-19 pandemic. These risks are not exhaustive. Further information on these and other risks that could affect Confluent's results is included in our filings with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K for the year ended December 31, 2022, 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, 2023 that will be filed with the SEC, which should be read in conjunction with this presentation and the financial results included herein. Confluent assumes no obligation to, and does not currently intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

As a reminder, certain financial measures we use on our call today and in the presentation are expressed on a non-GAAP basis. We use these non-GAAP financial measures and other key metrics internally to facilitate analysis of our financial and business trends and for internal planning and forecasting purposes. We believe these non-GAAP financial measures, when taken collectively, may be helpful to investors because they provide consistency and comparability with past financial performance by excluding certain items that may not be indicative of our business, results of operations, or outlook. However, non-GAAP financial measures have limitations as an analytical tool and are presented for supplemental informational purposes only. They should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. A reconciliation between these GAAP and non-GAAP financial measures is included in the Appendix to this presentation..

CONFLUENT INVESTOR DAY

June 13, 2023 | 1:00 PM ET

New York City

Jay Kreps

Co-Founder and CEO

CONFLUENT

Strong First Quarter Results

Total Revenue

$174M

+38% YoY

Confluent Cloud Revenue

$74M

+89% YoY

Non-GAAP Operating Margin

+18 pts

YoY

Note: Financials are for the period ended March 31, 2023.

Gross Retention

We serve **mission-critical** custom software applications

We act as an **interchange** between multiple teams and applications

We have the inherent **TCO advantage** of Confluent Cloud

The Cost Structure of Self-managed Kafka

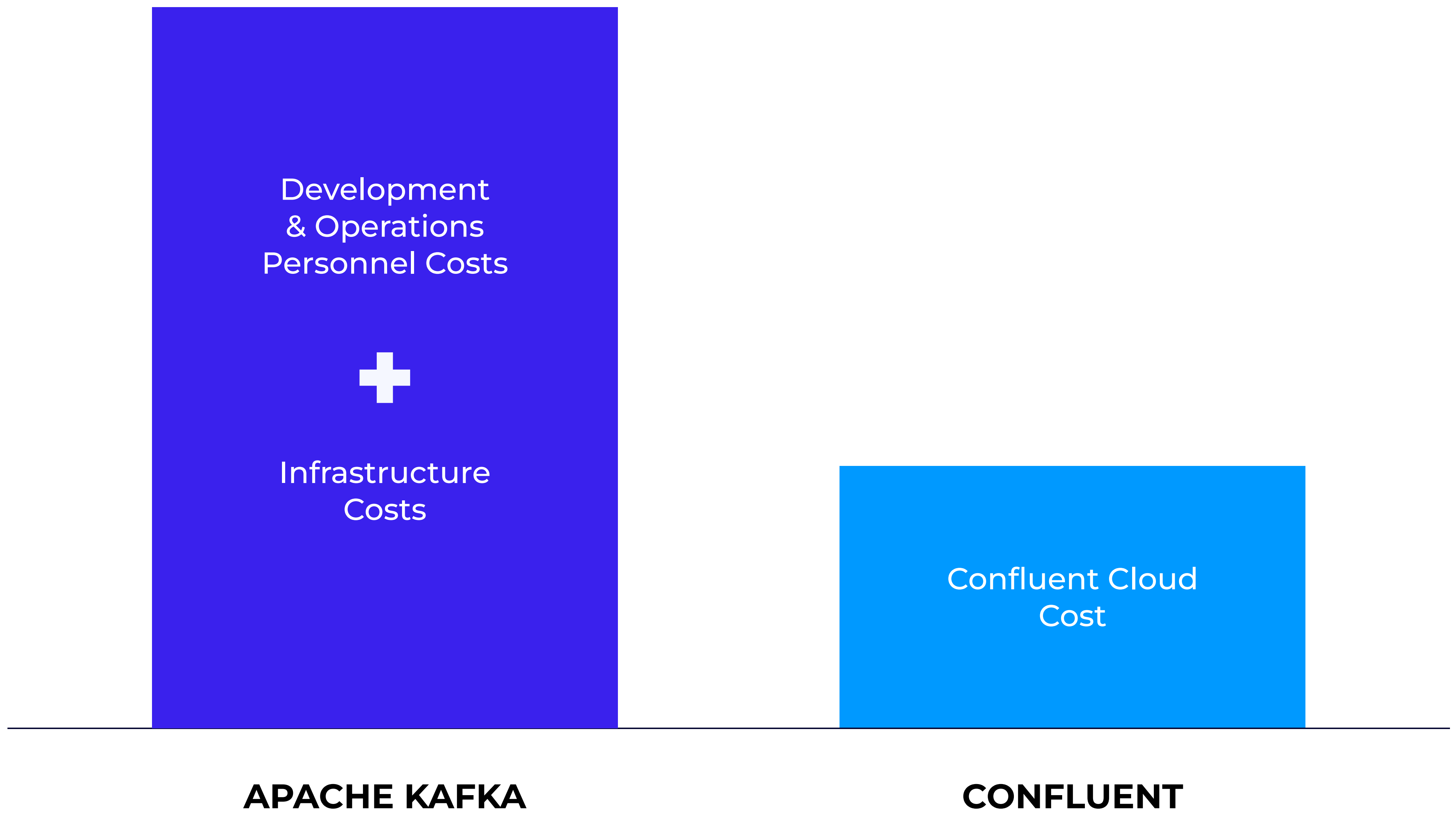
A. Infrastructure

B. Development and Operations Personnel

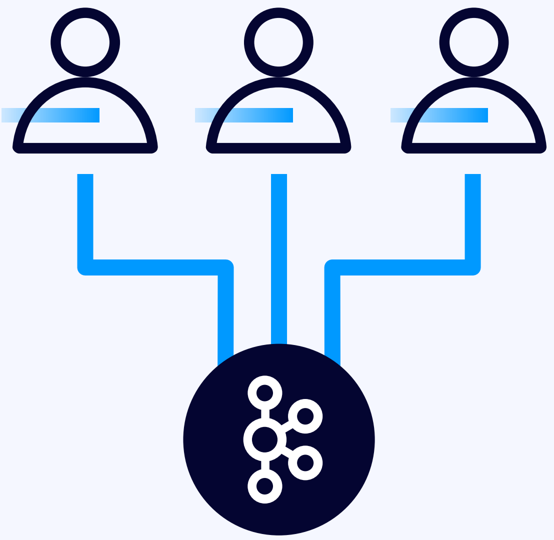
Average Tech Salary by Skill | DICE.COM

RANK	SKILL	AVERAGE SALARY	CHANGE FROM 2021
1	MapReduce*	$146,672	+9.3%
2	Go/Golang	$145,672	+18.2%
3	Elasticsearch	$143,619	+4.5%
4	Chef	$143,188	+8.8%
5	**Apache Kafka**	**$142,764**	**+8.4%**
6	Service Oriented Architecture (SOA)	$142,459	+1.6%
7	Teradata	$141,515	+14.7%
8	Redis	$140,290	+1.6%
9	PAAS	$139,858	+3.2%
10	Kubernetes	$139,167	N/A**

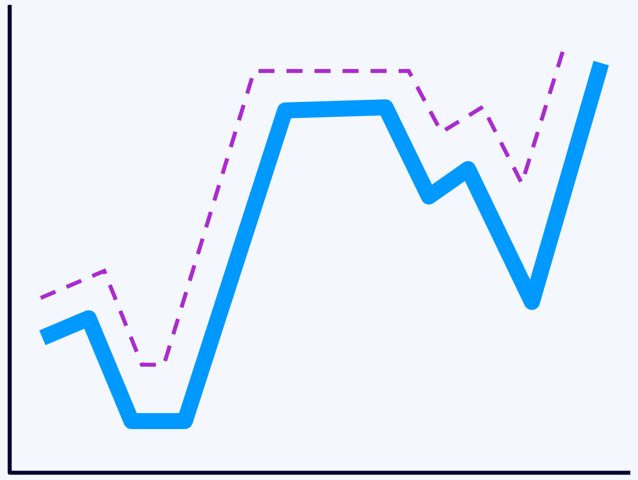
Confluent’s TCO Advantage



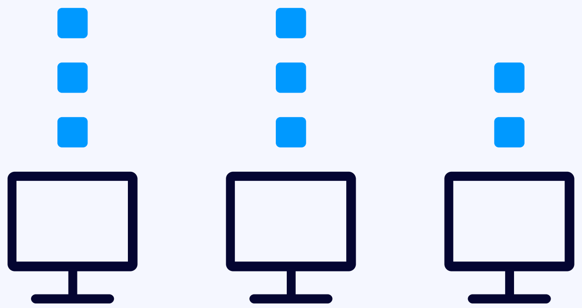
Infrastructure Savings with Confluent



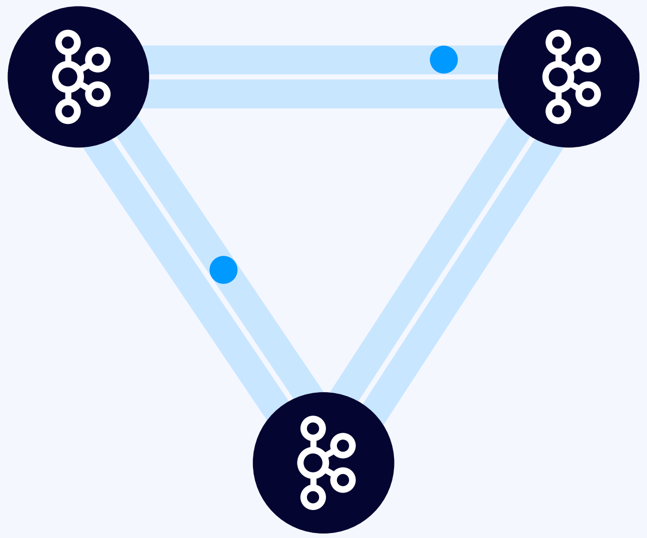
Multi-tenancy



Elastic



Data Balancing



Networking and Replication

Confluent’s large scale drives additional customer savings

Development & Operations Savings with Confluent

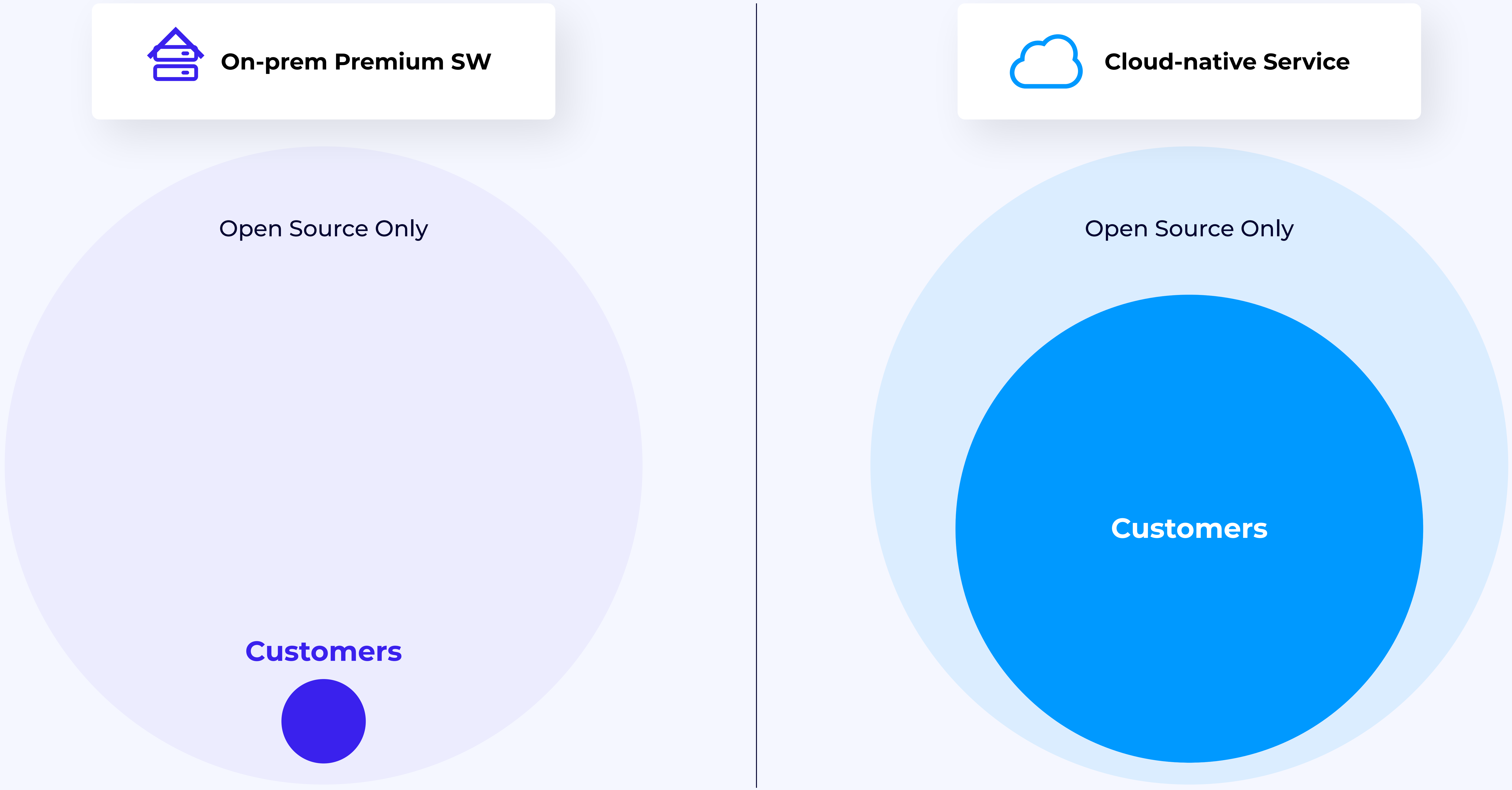
Higher Utilization
of Infrastructure

Software-driven
Operations

Real-time Monitoring
& Validation

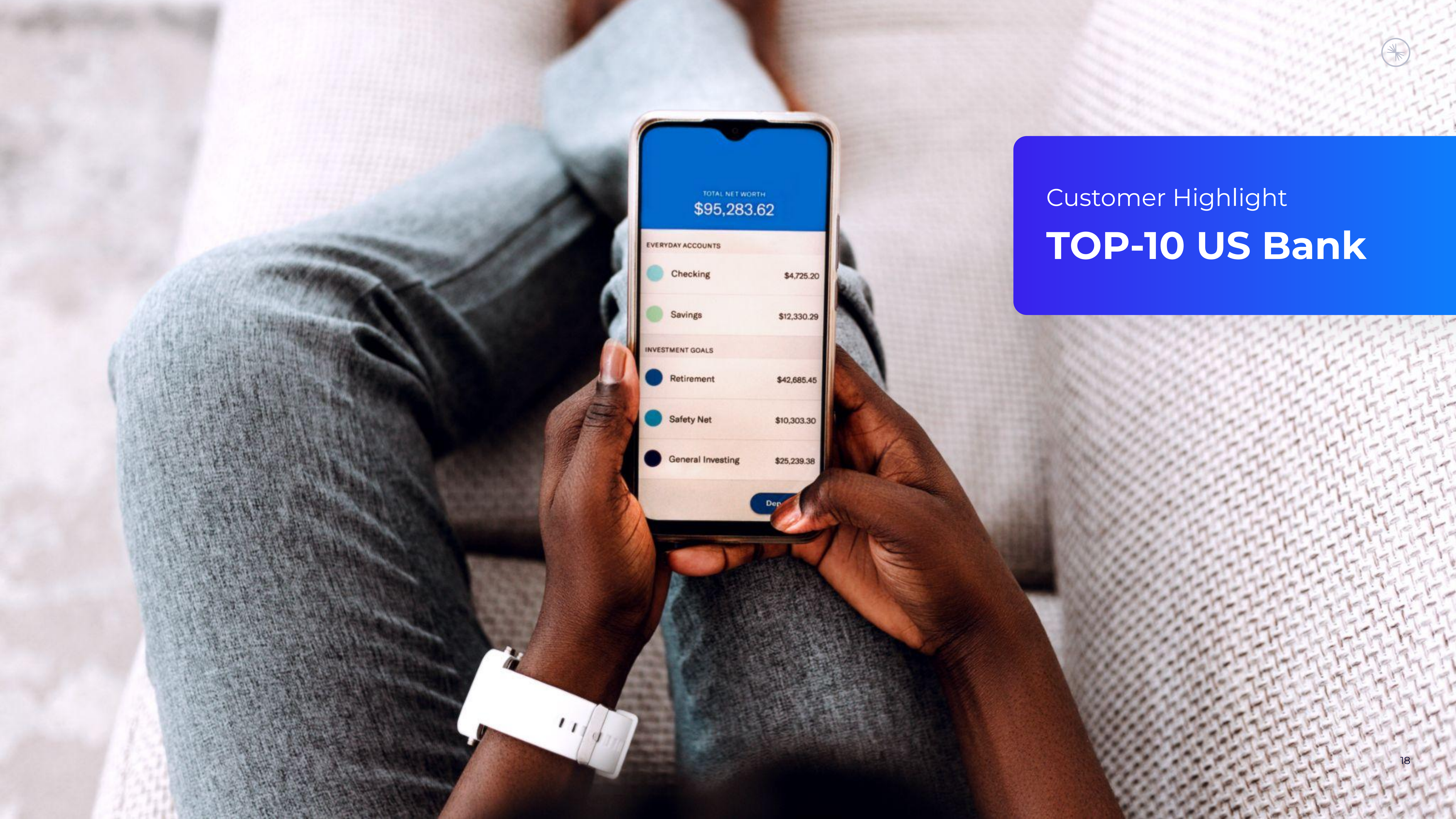
1000x Cost Advantage in **Operations**

Driving Far Greater OS Kafka Monetization



Customer Highlight

SaaS-based Billings Startup



Customer Highlight

TOP-10 US Bank

Steffan Tomlinson

Chief Financial Officer

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Remaining Performance Obligations (RPO)

RPO

$742.6M

+35% YoY

Current RPO
~64% of RPO

~$477.0M

+44% YoY

Note: Metrics are as of period ended March 31, 2023.
See Appendix for the definition of "Current RPO".

Dollar-Based Net Retention Rate (NRR)

Total NRR

>130%

Gross Retention

>90%

Other NRR

Hybrid & Cloud: >Total NRR
Cloud: The Highest NRR

Note: Metrics are as of period ended March 31, 2023.
Commencing with the first quarter of 2023, we updated our methodology for calculating ARR using a consumption-based method for Confluent Cloud, which has been applied retroactively to prior year periods. See Appendix for the updated definitions for “Dollar-Based Net Retention Rate,” “Gross Retention,” “Cloud NRR,” and “Hybrid NRR.” Refer to our investor presentation on our investor relations website at investors.confluent.io for total NRR before and after the methodology change for certain prior year periods. Going forward, we will disclose NRR under the new methodology only.

Customers

Total Customers

~4,690

+14% YoY
+160 QoQ

Customers with ≥ $100K in ARR

1,075

+34% YoY
+60 QoQ

Customers with ≥ $1M in ARR

135

+53% YoY
+8 QoQ

Note: Metrics are as of period ended March 31, 2023.
Commencing with the first quarter of 2023, we updated our methodology for calculating ARR using a consumption-based method for Confluent Cloud, which has been applied retroactively to prior year periods, and is available in our investor presentation on our investor relations website at investors.confluent.io. See Appendix for the updated definitions for “Customers with $100,000 or greater in ARR” and “Customers with $1,000,000 or greater in ARR.”

Revenue

Total Revenue

$174.3M

+38% YoY

Subscription Revenue

$160.6M

+41% YoY

92% of Total Revenue

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

Revenue by Product

Confluent Platform Revenue

$86.9M

+16% YoY

50% of Total Revenue

Confluent Cloud % New ACV Bookings

>50%

Greater Than 50% for the 6th Consecutive Quarter

Confluent Cloud Revenue

$73.6M

+89% YoY

42% of Total Revenue
+$5.3M Q/Q

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

Revenue by Geography

Revenue From the U.S.

$103.9M

+32% YoY

60% of Total Revenue

Revenue From Outside the U.S.

$70.4M

+49% YoY

40% of Total Revenue

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

Non-GAAP Gross Margins

Total Gross Margin

72.2%

+250 bps YoY

Subscription Gross Margin

77.5%

+200 bps YoY

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

Other Financial Summary

	Q1'23
Non-GAAP Operating Margin	**(23.1%),** +18 pts YoY
Non-GAAP Net Loss Per Share	**($0.09),** +$0.10 YoY *Using 291.9 million basic and diluted WASO*
Fully Diluted Shares Outstanding	**350.1 million**
Free Cash Flow Margin	**(47.5%),** -1 pts YoY
Cash, Cash Equivalents, and Marketable Securities	**$1.85B**

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

Guidance

	Q2'23	FY'23
Total Revenue	**$181M-$183M** *30%-31% YoY*	**$760M-$765M** *30%-31% YoY*
Non-GAAP Operating Margin	**~ (16%)**	**(14%) - (13%)**
Non-GAAP Net Loss Per Share	**$(0.08)-$(0.06)**	**$(0.20)-$(0.14)**
Weighted-Average Shares Outstanding	**~ 297M shares**	**~ 300M shares**

Other

- Q2'23 cloud sequential revenue add to be between $7.5M-$8M
- Cloud sequential revenue add to increase every quarter in FY'23
- Cloud as a % of total revenue to be 48%-50% exiting Q4'23
- Non-GAAP operating margin breakeven exiting Q4'23
- FCF breakeven timing to roughly mirror that of non-GAAP operating margin

Thank You

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Appendix

Definitions

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

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

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

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

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

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

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)

	Q1'22	Q1'23
Total revenue	$126,139	$174,302
Total gross profit on a GAAP basis	$80,362	$116,158
Add: Stock-based compensation expense	7,175	9,105
Add: Employer taxes on employee stock transactions	410	411
Add: Amortization of acquired intangibles	-	113
Non-GAAP total gross profit	$87,947	$125,787
Non-GAAP total gross margin	*69.7%*	*72.2%*

	Q1'22	Q1'23
Subscription revenue	$113,920	$160,567
Subscription gross profit on a GAAP basis	$80,317	$117,662
Add: Stock-based compensation expense	5,313	6,328
Add: Employer taxes on employee stock transactions	333	321
Add: Amortization of acquired intangibles	-	113
Non-GAAP subscription gross profit	$85,963	$124,424
Non-GAAP subscription gross margin	*75.5%*	*77.5%*

GAAP to Non-GAAP Reconciliations

(in thousands, except percentages)

	Q1'22	Q1'23
Total revenue	$126,139	$174,302
Operating loss on a GAAP basis	$(111,482)	$(166,093)
Add: Stock-based compensation expense	57,369	79,289
Add: Employer taxes on employee stock transactions	2,439	3,663
Add: Amortization of acquired intangibles	-	113
Add: Acquisition-related expenses	-	9,317
Add: Restructuring and other related charges	-	33,382
Non-GAAP operating loss	$(51,674)	$(40,329)
Non-GAAP operating margin	*(41.0%)*	*(23.1%)*

GAAP to Non-GAAP Reconciliations

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

	Q1'22	Q1'23
Net loss on a GAAP basis	$(112,987)	$(152,555)
Add: Stock-based compensation expense	57,369	79,289
Add: Employer taxes on employee stock transactions	2,439	3,663
Add: Amortization of acquired intangibles	-	113
Add: Acquisition-related expenses	-	9,317
Add: Restructuring and other related charges	-	33,382
Add: Amortization of debt issuance costs	936	939
Add: Income tax effects and adjustments	13	362
Non-GAAP net loss	$(52,230)	$(25,490)
Non-GAAP net loss per share, basic and diluted	$(0.19)	$(0.09)
Weighted-average shares used to compute net loss per share, basic and diluted	272,890,829	291,864,975

GAAP to Non-GAAP Reconciliations

(in thousands, except percentages)

	Q1'22	Q1'23
Total revenue	$126,139	$174,302
Net cash used in operating activities	$(55,031)	$(77,772)
Add: Capitalized internal-use software costs	(2,509)	(4,556)
Add: Capital expenditures	(887)	(546)
Free cash flow	$(58,427)	$(82,874)
Free cash flow margin	*(46.3%)*	*(47.5%)*