



Q2 2021 Supplemental Financial Information

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Non-GAAP Financial Measures

This supplemental financial information contains financial statements that have not been prepared in accordance with generally accepted accounting principles in the United States (GAAP). 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 of our non-GAAP financial measures to the most directly comparable GAAP measures has been provided in the financial statement tables included in this supplemental financial information, and investors are encouraged to review these reconciliations.

Confluent, Inc.
Condensed Consolidated Statements of Operations - Fiscal Quarters
(in thousands, except percentages, share and per share data)
(unaudited)

	Three Months Ended							
	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21
Revenue:								
Subscription	\$ 34,514	\$ 41,807	\$ 43,943	\$ 46,973	\$ 54,498	\$ 63,219	\$ 67,992	\$ 78,516
Services	3,982	6,293	6,961	6,879	6,999	7,105	9,036	9,822
Total revenue	38,496	48,100	50,904	53,852	61,497	70,324	77,028	88,338
Cost of revenue:								
Subscription	7,718	9,678	11,014	11,734	12,373	14,162	15,757	20,292
Services	5,527	6,577	6,799	5,956	6,683	6,755	8,081	9,717
Total cost of revenue	13,245	16,255	17,813	17,690	19,056	20,917	23,838	30,009
Gross profit	25,251	31,845	33,091	36,162	42,441	49,407	53,190	58,329
Subscription	77.6%	76.9%	74.9%	75.0%	77.3%	77.6%	76.8%	74.2%
Services	(38.8%)	(4.5%)	2.3%	13.4%	4.5%	4.9%	10.6%	1.1%
Total gross margin	65.6%	66.2%	65.0%	67.2%	69.0%	70.3%	69.1%	66.0%
Operating expenses:								
Research and development	16,609	18,052	19,742	18,875	44,921	21,861	24,313	33,225
Sales and marketing	31,037	37,886	38,317	36,447	43,759	47,838	58,509	73,206
General and administrative	6,398	7,615	8,415	8,334	93,758	12,009	15,512	37,943
Total operating expenses	54,044	63,553	66,474	63,656	182,438	81,708	98,334	144,374
Operating loss	(28,793)	(31,708)	(33,383)	(27,494)	(139,997)	(32,301)	(45,144)	(86,045)
Interest income	647	548	443	1,303	1,259	1,108	844	688
Other (expense) income, net	(176)	383	(307)	(211)	(153)	(302)	(336)	(643)
Loss before income taxes	(28,322)	(30,777)	(33,247)	(26,402)	(138,891)	(31,495)	(44,636)	(86,000)
Provision for (benefit from) income taxes	121	(165)	388	(106)	(750)	261	(110)	2,170
Net loss	\$ (28,443)	\$ (30,612)	\$ (33,635)	\$ (26,296)	\$ (138,141)	\$ (31,756)	\$ (44,526)	\$ (88,170)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.29)	\$ (0.31)	\$ (0.33)	\$ (0.25)	\$ (1.34)	\$ (0.30)	\$ (0.41)	\$ (0.74)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	96,428,098	100,004,073	103,196,156	105,532,865	102,852,461	105,294,029	108,731,605	118,648,655

Confluent, Inc.
Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

	June 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 860,347	\$ 36,789
Marketable securities	183,526	251,756
Accounts receivable, net of allowance	117,176	105,971
Deferred contract acquisition costs	20,516	14,403
Prepaid expenses and other current assets	32,040	18,775
Total current assets	1,213,605	427,694
Property and equipment, net	9,060	6,718
Operating lease right-of-use assets	43,482	48,273
Deferred contract acquisition costs, non-current	41,848	33,196
Other assets, non-current	9,983	10,238
Total assets	<u>\$ 1,317,978</u>	<u>\$ 526,119</u>
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 1,834	\$ 1,646
Accrued expenses and other liabilities	49,970	33,711
Operating lease liabilities	10,288	10,492
Deferred revenue	172,671	142,901
Liability for early exercise of unvested stock options	14,217	5,049
Total current liabilities	248,980	193,799
Operating lease liabilities, non-current	35,912	40,440
Deferred revenue, non-current	17,873	16,292
Other liabilities, non-current	11,668	7,203
Total liabilities	314,433	257,734
Redeemable convertible preferred stock	-	574,634
Stockholders' equity (deficit):		
Preferred stock	-	-
Common stock	-	1
Convertible founder stock	-	-
Class A common stock	-	-
Class B common stock	2	-
Additional paid-in capital	1,542,338	99,575
Accumulated other comprehensive (loss) income	(46)	228
Accumulated deficit	(538,749)	(406,053)
Total stockholders' equity (deficit)	1,003,545	(306,249)
Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)	<u>\$ 1,317,978</u>	<u>\$ 526,119</u>

Confluent, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	\$ (88,170)	\$ (26,296)	\$ (132,696)	\$ (59,931)
Adjustments to reconcile net loss to cash used in operating activities:				
Depreciation and amortization	756	434	1,543	699
Net amortization of premiums or discounts on marketable securities	459	365	964	342
Amortization of deferred contract acquisition costs	6,048	3,254	11,583	6,128
Non-cash operating lease costs	2,748	2,996	5,604	6,102
Common stock charitable donation expense	13,290	-	13,290	-
Stock-based compensation, net of amounts capitalized	34,516	7,072	47,869	13,523
Deferred income taxes	2,297	(134)	1,730	(132)
Other	209	67	648	269
Changes in operating assets and liabilities:				
Accounts receivable	(17,587)	(16,259)	(11,853)	(25,337)
Deferred contract acquisition costs	(15,482)	(8,419)	(26,348)	(13,927)
Prepaid expenses and other assets	(12,368)	(917)	(14,723)	(148)
Accounts payable	(468)	63	371	(1,635)
Accrued expenses and other liabilities	11,460	5,541	12,893	2,284
Operating lease liabilities	(2,661)	(2,823)	(5,382)	(5,767)
Deferred revenue	21,787	13,600	31,352	25,043
Net cash used in operating activities	<u>(43,166)</u>	<u>(21,456)</u>	<u>(63,155)</u>	<u>(52,487)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Capitalization of internal-use software costs	(1,215)	(1,105)	(1,811)	(2,097)
Purchases of marketable securities	(14,283)	(191,977)	(55,971)	(230,690)
Sales of marketable securities	-	-	-	4,988
Maturities of marketable securities	66,211	16,743	122,974	36,760
Purchases of property and equipment	(1,030)	(138)	(1,673)	(484)
Other	-	-	9	-
Net cash provided by (used in) investing activities	<u>49,683</u>	<u>(176,477)</u>	<u>63,528</u>	<u>(191,523)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from initial public offering, net of underwriting discounts and commissions	786,600	-	786,600	-
Proceeds from issuance of common stock upon exercise of vested options	12,490	931	18,705	2,587
Proceeds from issuance of common stock upon early exercise of unvested options, net of repurchases	11,145	469	18,543	838
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	-	24,865	-	249,865
Payments of deferred offering costs	(767)	-	(920)	-
Net cash provided by financing activities	<u>809,468</u>	<u>26,265</u>	<u>822,928</u>	<u>253,290</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(2)	14	(10)	(33)
Net increase (decrease) in cash, cash equivalents, and restricted cash	<u>815,983</u>	<u>(171,654)</u>	<u>823,291</u>	<u>9,247</u>
Cash, cash equivalents, and restricted cash at beginning of period	45,114	200,872	37,806	19,971
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 861,097</u>	<u>\$ 29,218</u>	<u>\$ 861,097</u>	<u>\$ 29,218</u>
Reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets to the amounts shown above:				
Cash and cash equivalents	\$ 860,347	\$ 28,201	\$ 860,347	\$ 28,201
Restricted cash included in other assets, non-current	750	1,017	750	1,017
Total cash, cash equivalents, and restricted cash	<u>\$ 861,097</u>	<u>\$ 29,218</u>	<u>\$ 861,097</u>	<u>\$ 29,218</u>

Confluent, Inc.
Reconciliation of GAAP to Non-GAAP Measures - Fiscal Quarters
(in thousands, except percentages, share and per share data)
(unaudited)

	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21
Reconciliation of GAAP total gross profit to non-GAAP total gross profit:								
Total gross profit on a GAAP basis	\$ 25,251	\$ 31,845	\$ 33,091	\$ 36,162	\$ 42,441	\$ 49,407	\$ 53,190	\$ 58,329
<i>Total gross margin on a GAAP basis</i>	65.6%	66.2%	65.0%	67.2%	69.0%	70.3%	69.1%	66.0%
Add: Stock-based compensation expense	690	863	812	836	1,554	1,115	1,519	3,227
Add: Employer taxes on employee stock transactions	-	1	1	-	24	-	-	326
Non-GAAP total gross profit	<u>\$ 25,941</u>	<u>\$ 32,709</u>	<u>\$ 33,904</u>	<u>\$ 36,998</u>	<u>\$ 44,019</u>	<u>\$ 50,522</u>	<u>\$ 54,709</u>	<u>\$ 61,882</u>
<i>Non-GAAP total gross margin</i>	67.4%	68.0%	66.6%	68.7%	71.6%	71.8%	71.0%	70.1%
Reconciliation of GAAP subscription gross profit to non-GAAP subscription gross profit:								
Subscription gross profit on a GAAP basis	\$ 26,796	\$ 32,129	\$ 32,929	\$ 35,239	\$ 42,125	\$ 49,057	\$ 52,235	\$ 58,224
<i>Subscription gross margin on a GAAP basis</i>	77.6%	76.9%	74.9%	75.0%	77.3%	77.6%	76.8%	74.2%
Add: Stock-based compensation expense	366	455	462	524	883	703	975	2,172
Add: Employer taxes on employee stock transactions	-	-	1	-	8	-	-	38
Non-GAAP subscription gross profit	<u>\$ 27,162</u>	<u>\$ 32,584</u>	<u>\$ 33,392</u>	<u>\$ 35,763</u>	<u>\$ 43,016</u>	<u>\$ 49,760</u>	<u>\$ 53,210</u>	<u>\$ 60,434</u>
<i>Non-GAAP subscription gross margin</i>	78.7%	77.9%	76.0%	76.1%	78.9%	78.7%	78.3%	77.0%

	Three Months Ended							
	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21
Reconciliation of GAAP operating expenses to non-GAAP operating expenses:								
Research and development operating expense on a GAAP basis	\$ 16,609	\$ 18,052	\$ 19,742	\$ 18,875	\$ 44,921	\$ 21,861	\$ 24,313	\$ 33,225
Less: Stock-based compensation expense	1,803	2,018	2,046	2,250	26,522	2,937	3,511	8,932
Less: Employer taxes on employee stock transactions	15	1	9	-	45	27	121	277
Non-GAAP research and development operating expense	<u>\$ 14,791</u>	<u>\$ 16,033</u>	<u>\$ 17,687</u>	<u>\$ 16,625</u>	<u>\$ 18,354</u>	<u>\$ 18,897</u>	<u>\$ 20,681</u>	<u>\$ 24,016</u>
<i>Non-GAAP research and development operating expense as a percentage of total revenue</i>	38.4%	33.3%	34.7%	30.9%	29.8%	26.9%	26.8%	27.2%
Sales and marketing operating expense on a GAAP basis	\$ 31,037	\$ 37,886	\$ 38,317	\$ 36,447	\$ 43,759	\$ 47,838	\$ 58,509	\$ 73,206
Less: Stock-based compensation expense	1,914	2,232	2,373	2,735	6,379	3,247	4,976	11,155
Less: Employer taxes on employee stock transactions	4	52	22	-	35	214	103	610
Non-GAAP sales and marketing operating expense	<u>\$ 29,119</u>	<u>\$ 35,602</u>	<u>\$ 35,922</u>	<u>\$ 33,712</u>	<u>\$ 37,345</u>	<u>\$ 44,377</u>	<u>\$ 53,430</u>	<u>\$ 61,441</u>
<i>Non-GAAP sales and marketing operating expense as a percentage of total revenue</i>	75.6%	74.0%	70.6%	62.6%	60.7%	63.1%	69.4%	69.6%
General and administrative operating expense on a GAAP basis	\$ 6,398	\$ 7,615	\$ 8,415	\$ 8,334	\$ 93,758	\$ 12,009	\$ 15,512	\$ 37,943
Less: Stock-based compensation expense	993	1,080	1,220	1,251	85,619	2,445	3,347	11,202
Less: Employer taxes on employee stock transactions	-	11	44	5	92	2	39	222
Less: Common stock charitable donation expense	-	-	-	-	-	-	-	13,290
Non-GAAP general and administrative operating expense	<u>\$ 5,405</u>	<u>\$ 6,524</u>	<u>\$ 7,151</u>	<u>\$ 7,078</u>	<u>\$ 8,047</u>	<u>\$ 9,562</u>	<u>\$ 12,126</u>	<u>\$ 13,229</u>
<i>Non-GAAP general and administrative operating expense as a percentage of total revenue</i>	14.0%	13.6%	14.0%	13.1%	13.1%	13.6%	15.7%	15.0%

	Three Months Ended							
	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21
Reconciliation of GAAP operating loss to non-GAAP operating loss:								
Operating loss on a GAAP basis	\$ (28,793)	\$ (31,708)	\$ (33,383)	\$ (27,494)	\$ (139,997)	\$ (32,301)	\$ (45,144)	\$ (86,045)
Add: Stock-based compensation expense	5,400	6,193	6,451	7,072	120,074	9,744	13,353	34,516
Add: Employer taxes on employee stock transactions	19	65	76	5	196	243	263	1,435
Add: Common stock charitable donation expense	-	-	-	-	-	-	-	13,290
Non-GAAP operating loss	<u>\$ (23,374)</u>	<u>\$ (25,450)</u>	<u>\$ (26,856)</u>	<u>\$ (20,417)</u>	<u>\$ (19,727)</u>	<u>\$ (22,314)</u>	<u>\$ (31,528)</u>	<u>\$ (36,804)</u>
<i>Non-GAAP operating margin</i>	<i>(60.7%)</i>	<i>(52.9%)</i>	<i>(52.8%)</i>	<i>(37.9%)</i>	<i>(32.1%)</i>	<i>(31.7%)</i>	<i>(40.9%)</i>	<i>(41.7%)</i>
Reconciliation of GAAP net loss to non-GAAP net loss:								
Net loss on a GAAP basis	\$ (28,443)	\$ (30,612)	\$ (33,635)	\$ (26,296)	\$ (138,141)	\$ (31,756)	\$ (44,526)	\$ (88,170)
Add: Stock-based compensation expense	5,400	6,193	6,451	7,072	120,074	9,744	13,353	34,516
Add: Employer taxes on employee stock transactions	19	65	76	5	196	243	263	1,435
Add: Common stock charitable donation expense	-	-	-	-	-	-	-	13,290
Add: Income tax effects and adjustments	(4)	(284)	11	(438)	(987)	(206)	(671)	1,716
Non-GAAP net loss	<u>\$ (23,028)</u>	<u>\$ (24,638)</u>	<u>\$ (27,097)</u>	<u>\$ (19,657)</u>	<u>\$ (18,858)</u>	<u>\$ (21,975)</u>	<u>\$ (31,581)</u>	<u>\$ (37,213)</u>
Non-GAAP net loss per share attributable to common stockholders, basic and diluted	<u>\$ (0.24)</u>	<u>\$ (0.25)</u>	<u>\$ (0.26)</u>	<u>\$ (0.19)</u>	<u>\$ (0.18)</u>	<u>\$ (0.21)</u>	<u>\$ (0.29)</u>	<u>\$ (0.31)</u>
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	<u>96,428,098</u>	<u>100,004,073</u>	<u>103,196,156</u>	<u>105,532,865</u>	<u>102,852,461</u>	<u>105,294,029</u>	<u>108,731,605</u>	<u>118,648,655</u>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net cash used in operating activities	\$ (43,166)	\$ (21,456)	\$ (63,155)	\$ (52,487)
Capitalized internal-use software costs	(1,215)	(1,105)	(1,811)	(2,097)
Capital expenditures	(1,030)	(138)	(1,673)	(484)
Free cash flow	<u>\$ (45,411)</u>	<u>\$ (22,699)</u>	<u>\$ (66,639)</u>	<u>\$ (55,068)</u>
<i>Free cash flow margin</i>	<i>(51.4%)</i>	<i>(42.2%)</i>	<i>(40.3%)</i>	<i>(52.6%)</i>
Net cash provided by (used in) investing activities	\$ 49,683	\$ (176,477)	\$ 63,528	\$ (191,523)
Net cash provided by financing activities	\$ 809,468	\$ 26,265	\$ 822,928	\$ 253,290