CONFLUENT

Confluent Earnings Report

Q3 FY'24 | October 30th, 2024

Disclaimer

This report contains forward-looking statements including, among other things, statements regarding (i) our financial outlook, including expected subscription revenue, Confluent Cloud revenue, non-GAAP operating margin, free cash flow margin, non-GAAP net income per share, revenue mix, including Confluent Cloud subscription revenue mix, revenue run rates, Confluent Cloud and data streaming platform growth, adoption and traction, 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 and pricing innovations, 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 transition to a consumption-oriented sales model, (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) recent 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 and ability to capture our market opportunity, (xvi) the timing, anticipated benefits, and overall effectiveness of our transition to a consumption-oriented sales model, (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, (xxiv) our ability to drive long-term growth, (xxv) our expectations regarding the impact of the WarpStream acquisition, and (xxvi) 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 June 30, 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 September 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

Today, thousands of great customers trust Confluent to stream, connect, process, and govern their real-time data. In just 10 years since our founding, we have scaled to surpass $1B in total revenue run rate with over $250M in Q3 total revenue. We also exceeded all guided metrics for Q3, including YoY subscription revenue growth of 27%. In the decade ahead, we remain well-positioned to drive durable long-term growth with our complete data streaming platform.

Jay Kreps
Co-Founder & CEO

$60B TAM[1]

Q3'24 CUSTOMER HIGHLIGHTS

~5,680	1,346	184
Total Customers +16% YoY	$100K+ ARR +14% YoY	$1M+ ARR +19% YoY

CONFLUENT CELEBRATES

10 YEARS

$1B+ Total Revenue Run Rate[2]

Sustained Positive Non-GAAP Profitability[3]

5,680 Customers Including **>40%** of the F500[4]

Established Data Streaming Category

Q3'24 FINANCIAL HIGHLIGHTS

REVENUE PERFORMANCE

Subscription Revenue	Confluent Cloud Revenue
$240M +27% YoY	**$130M** +42% YoY
	$0.5B+ RUN RATE[5]

Dollar-based Net Retention Rate: 117%

MARGIN EXPANSION

Non-GAAP Operating Margin[6]	Free Cash Flow Margin[6]
6.3% +12 pts YoY	**3.7%** +10 pts YoY

DATA STREAMING PLATFORM INNOVATION

- WarpStream BYOC
- Confluent Platform for Flink
- Flink Private Networking
- Table API
- AI Model Inference
- Client-Side Field Level Encryption

TOP 20 CLOUD CUSTOMERS:
19 adopted ≥ 1 DSP product
13 adopted all 3 categories

STREAM   CONNECT   PROCESS   GOVERN

PARTNER HIGHLIGHTS

LAUNCHED OEM PROGRAM
To help partners grow data streaming business

INVESTMENT IN 2 RSIs
NIBEX   syncopate
get to the point

AI ACCELERATOR PROGRAM

Empowering early-stage AI companies with the tools and mentorship they need to lead in real-time GenAI

Note: Financials and metrics other than TAM data are as of or for stated quarterly period ended September 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) Calculated by extrapolating total revenue of $250.2 million for the quarter ended September 30, 2024.
(3) Refers to positive Non-GAAP operating margin for the quarter ended September 30, 2024.
(4) Confluent customer counts by Fortune top industry are as of Q3'24 ended September 30, 2024, using the 2024 Fortune 500 list.
(5) Calculated by extrapolating Confluent Cloud revenue of $129.8 million for the quarter ended September 30, 2024.
(6) 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.

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.
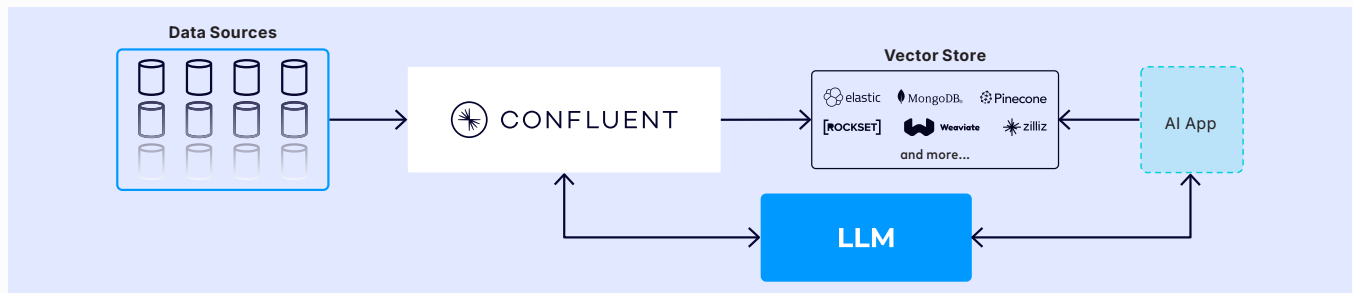
What Confluent Delivers

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.

Leading Analyst Firm on Data Streaming's Role in AI

"The 2024 Gartner Exploring the Intersection of Data, Analytics, and Software Development Survey found that event streaming and event stream processing are the technologies more commonly used by organizations that are successful in building AI applications than by those that are less successful." **- Gartner Market Guide for Event Brokers (14 October 2024, Keith Guttridge et al)**

## Production-Ready Real-time AI Innovation with Confluent

- **Confluent AI Day:** In partnership with AWS and MongoDB, 200 attendees with 10% from the Forbes AI 50 joined us for expert discussions, hands-on RAG workshops, and a competitive hackathon, to move AI initiatives forward.
- **Confluent for Startups AI Accelerator Program:** A new program that empowers startups to build real-time AI applications with early access to Confluent's AI features, expert mentorship, and industry networking, so they can drive innovation in the real-time AI space. MongoDB and Anthropic are providing product credits and technical speakers during the 10-week program.

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.

Complete Data Streaming Platform

STREAM	CONNECT	PROCESS	GOVERN
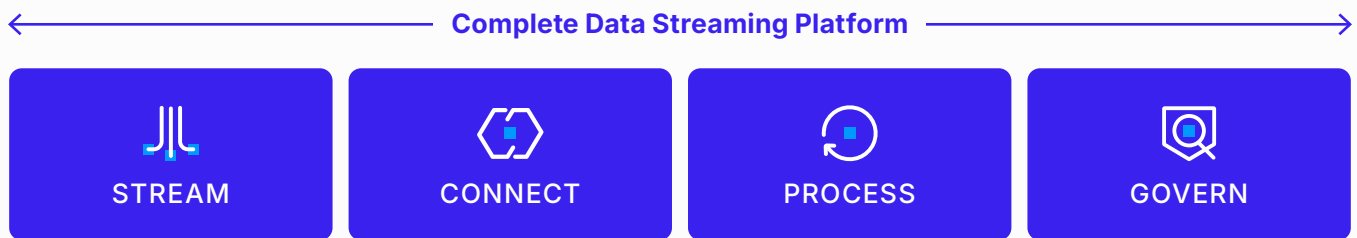
Key Pillars of a Complete Data Streaming Platform

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.

DSP Product Innovation

- **AI Model Inference:** Now in open preview, it uses familiar SQL syntax to interact directly with AI/ML models, including LLMs, thereby reducing the need for specialized ML tools and languages.
- **Table API support for Apache Flink®:** Broadens the accessibility of serverless Flink to Java and Python developers.
- **Private networking for Flink:** Brings Private Networking to Flink, providing a critical layer of security for businesses that need to process data within strict regulatory environments.
- **Client-Side Field Level Encryption:** Encrypts individual fields within messages to prevent unwanted access for enhanced security and compliance, especially useful for highly regulated industries.

DSP Adoption Metrics

Revenue from DSP continued to grow substantially faster than our overall cloud revenue.

19 of our top 20 cloud customers have adopted at least one DSP product, and 13 have adopted products across all three categories.

Multi-product customers continued to grow at a faster clip and exhibited a much higher NRR profile.

Jay Kreps
Co-Founder and CEO

| Subscription Revenue	Confluent Cloud Revenue	Non-GAAP Operating Margin
$240M	**$130M**	**6.3%**
+27% YoY	*+42% YoY*	*+12 pts YoY*

$1B+ Total Revenue Run Rate[1]

Third Quarter Results

Subscription revenue grew 27% to $240 million, Confluent Cloud revenue grew 42% to $130 million, and non-GAAP operating margin expanded approximately 12 percentage points to 6.3%. I'm proud to report that total revenue grew 25% to $250 million, surpassing a $1 billion revenue run rate in just 10 years since Confluent was founded.

(1) Calculated by extrapolating total revenue of $250.2 million for the quarter ended September 30, 2024.
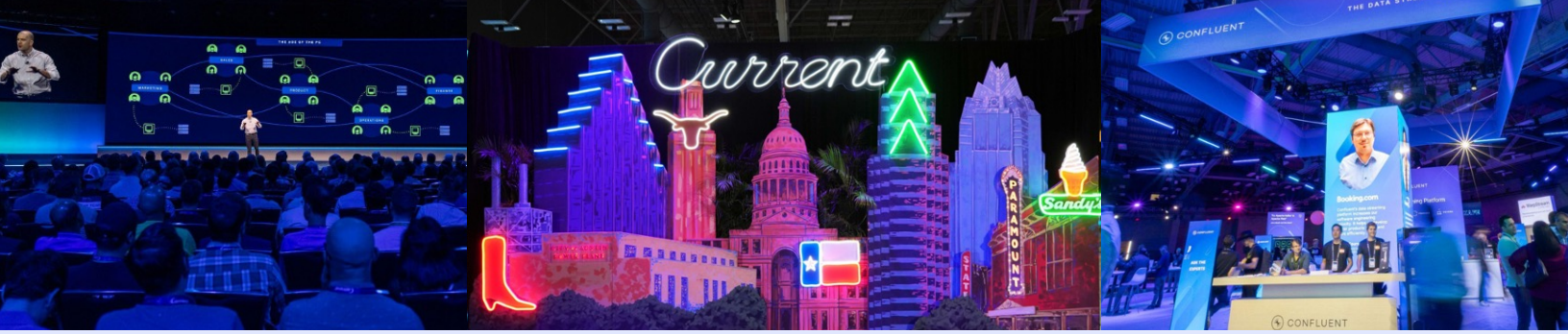
People Participated	Companies Represented	Speakers	Sessions
>4,200	**1,200**	**160**	**138**

Current 2024

In Q3, we hosted Current 2024, the only industry event fully dedicated to all things data streaming. More than 4,200 people from 1,200 companies participated, making it our biggest and best Current yet. Data leaders from Mercedes Benz R&D North America, Viacom18, and Accenture joined Jay on the keynote stage to discuss how Confluent sits at the hearts of their companies, allowing them to push the boundaries of what's possible for their customers.

Some of the most popular sessions focused on how companies leverage data streaming to power transformative AI use cases like creating customer chatbots, building AI/ML pipelines to detect fraud, and delivering hyper-personalized AI customer experiences. We continue to see excitement, interest, and use cases around GenAI growing across our customers and in the ecosystem of AI solution providers.


AI Day

Last week, we hosted our first Confluent AI Day, a one-day event designed to help our customers advance ideas into fully built AI applications. In partnership with AWS and MongoDB, we brought together hundreds of attendees from companies like Google, PNC Bank, Whirlpool, and Rocket Mortgage, who joined expert discussions, interactive sessions and an exciting AI hackathon.

At the event, we launched the Confluent for Startups AI Accelerator Program. This exciting new program is about empowering early-stage AI companies with the tools and mentorship they need to lead in the world of generative AI. Confluent for Startups AI Accelerator Program provides startups with early access to Confluent's latest AI tools, expert mentorship and product credits from Confluent, MongoDB, and Anthropic. We're committed to helping these startups create new breakthroughs in real-time AI.

OpenAI

We first spoke about our relationship with OpenAI during our Q4 2023 earnings call, when we discussed how OpenAI's teams use Confluent to deliver real-time data streams. We're happy to report that OpenAI has expanded their use of our data streaming platform to help scale with the increased usage of their platform. Their momentum and growth further validate the strategic role of data streaming in the generative AI landscape.
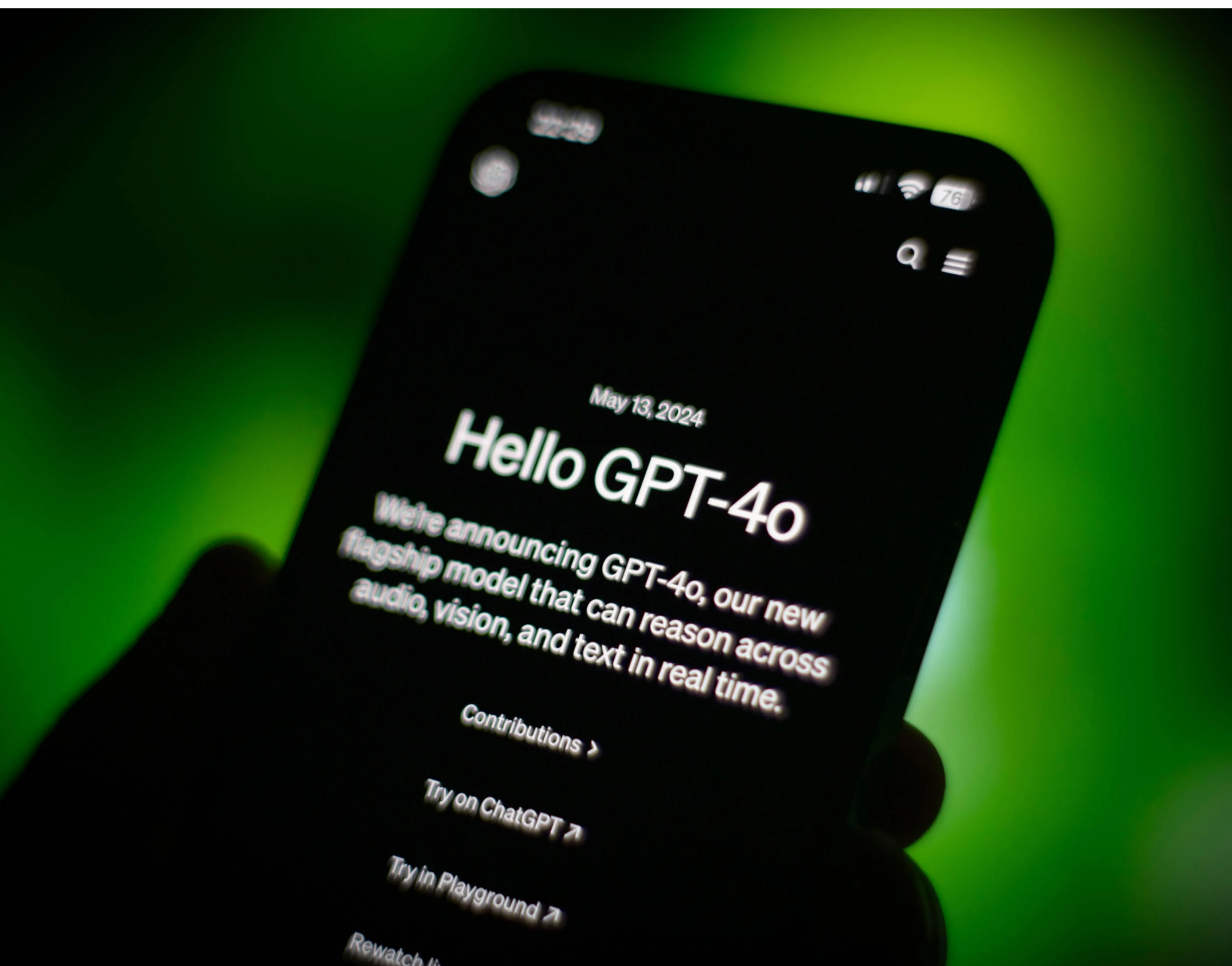
Confluent Celebrates 10 Years

Established Data Streaming as a Major Data Category

Proudly serving **>40%** of Fortune 500 companies

TOP 10/10
U.S. Banks

TOP 8/8
Global Car Makers

TOP 9/10
U.S. Insurance Companies

Last quarter we also celebrated our 10th anniversary as a company. When we started Confluent 10 years ago, data streaming was just emerging as a nascent paradigm. What started with a small group of companies like LinkedIn, Uber and Netflix disrupting the status quo with real-time data streams has turned into a movement. Today, more than 40% of the Fortune 500 rely on Confluent to set their data in motion.

We serve customers broadly across industries including 10 of the top 10 U.S. banks, 8 of the top 8 global car makers, and 9 of the top 10 U.S. insurance companies. We see significant expansion opportunities across our customer base as we expand from individual use cases to the central nervous system for real-time data.

1st Wave of Growth: Confluent Platform

Our growth in capturing this opportunity has gone through two distinct waves, and is now entering a third. The first of these waves was built directly on the back of the open source traction and was about commercializing that with our software offering, Confluent Platform. That provided the bulk of our business through the first five years of Confluent's growth.

However we knew that for the long term platform we wanted to build, and to capture the bulk of the opportunity around streaming, we needed to make streaming far, far easier to consume. This spurred the early investment into what fueled our second wave of growth, Confluent Cloud.

2nd Wave of Growth: Confluent Cloud

When we went public three years ago, our cloud business was a small percentage of our revenue and we were in the early stages of taking our cloud business to scale. That being said, we strongly believed that the secular shift to cloud would present a meaningful long-term driver of growth.

We're proud that our team has successfully executed on our cloud vision, and Confluent Cloud is now more than 50% of total revenue and continues to outpace our Confluent Platform business. At the same time, cloud is our most frictionless path to monetizing the thousands of organizations using open source Kafka. But with 150K+ organizations using Kafka, we're just getting started. Already, our cloud product comprises over 90% of our customers, demonstrating its broad appeal as we continue to grow into this base of open source usage.

HIGH	⟵——— EASE OF MANAGEMENT ———⟶	LOW

FULLY-MANAGED
Confluent Cloud

BYOC-NATIVE
WarpStream

SELF-MANAGED
Confluent Platform

LOW	⟵——— LEVEL OF CONTROL ———⟶	HIGH

Pricing, packaging and form factors

These first two waves aren't done. We continue to work to serve the broad base of Kafka users through compelling pricing and packaging optimizations for Confluent Cloud and Confluent Platform. Our differentiated cluster types like Enterprise and Freight enable us to deliver data streaming offerings for all customers and workloads with low TCO and strong ROI. Our recent acquisition of WarpStream adds a third deployment mechanism of BYOC to this portfolio.

WarpStream

Direct-to-S3 Writes	**Auto-scales**	**Greater Security**
10x reduced cost and operational burden	No over-provisioning	"Zero access" BYOC and no "break-glass" component"

WarpStream's bring-your-own-cloud model offers a deployment model midway between fully managed and self-managed, and opens up opportunities in a set of high volume, high tech customers that form a good chunk of our digital native customer base.
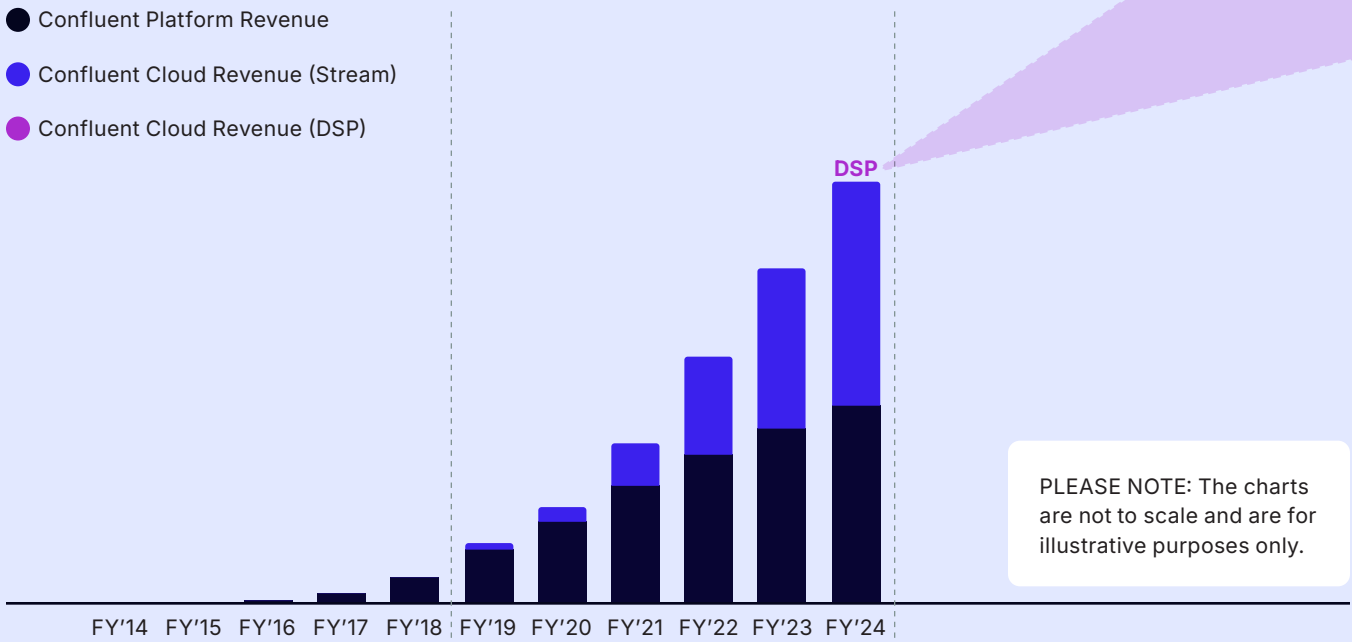
WarpStream is BYOC done right. Built directly on top of object storage, WarpStream's zero-disk architecture enables zero-ops auto-scaling while making it 5-10x cheaper than other alternative systems. Unlike traditional BYOC offerings, WarpStream prioritizes security by avoiding "break glass" access to customer networks and systems.

Confluent is now the only company with a data streaming offering for everyone, regardless of use case, cloud environment, or deployment type.

3rd Wave of Growth: Data Streaming Platform (DSP)

Kafka is the foundational layer of our data streaming platform and could sustain our business for many years on its own. But it only represents a portion of the opportunity ahead of us.

We believe our third wave of growth comes from being a complete data streaming platform: a one-stop-shop for all real-time data needs. To do this, we are bringing together the key capabilities to Stream, Connect, Process and Govern, continuously flowing streams of data so organizations can power their next generation real-time applications.

- ● Confluent Platform Revenue
- ● Confluent Cloud Revenue (Stream)
- ● Confluent Cloud Revenue (DSP)

DSP

FY'14 FY'15 FY'16 FY'17 FY'18 FY'19 FY'20 FY'21 FY'22 FY'23 FY'24

PLEASE NOTE: The charts are not to scale and are for illustrative purposes only.

Over the course of the past year, we have been on our most aggressive pursuit of our vision since we started the company and that is starting to yield strong traction. Major new product and pricing innovations like Flink, Tableflow, Freight Clusters, AI Model Inference, and new Connectors will extend our already significant category lead. We continue to see strong traction across our customer base - our DSP portfolio continued to grow substantially faster than overall cloud revenue.

One of the areas that we're most excited about is the opportunity around stream processing and Apache Flink. Let us share two examples of how customers are using Flink on Confluent Cloud and Confluent Platform.

One of the largest private companies in the US, a Midwest grocery chain with over $20 billion in revenue, is using Confluent's fully managed Flink offering to accelerate the growth of its e-commerce business, a critical driver of the company's revenue. This retailer had already overhauled its e-commerce solution with Confluent Cloud, and wanted to integrate stream processing for all the Kafka topics it had built inside its digital environment, including pricing, promotions and inventory details, without any lag in production.

So, the retailer implemented Confluent Cloud for Apache Flink to combine and enrich streams of data flowing across hundreds of retail stores, its website and mobile app, and third party fulfillment partners like Instacart. This data spans more than 100,000 product SKUs and tens of millions of orders. With our Flink offering, this retailer's real-time inventory and pricing are accurate and customized to each local market so the company can consistently deliver a trustworthy and personalized shopping experience to its customers.

Since working with Confluent, it has grown its ecommerce business by 700% and can stay a step ahead of the national grocery chains it competes with every day.

A Fortune 50 telecom company in the U.S. and a Confluent Platform customer is using our offering for real-time analytics. Initially, the telecom provider used an alternative stream processing tool, which struggled to meet the demands of real-time data processing. This affected how the telecom's enterprise customers could serve consumers and led to higher churn.

So, the telecom provider deployed Confluent Platform for Apache Flink, shifting processing to the left and rolling out thousands of Flink instances across its infrastructure to run real-time analytics on data earlier in the data pipeline before it moves downstream. Flink processes and analyzes data, such as network performance, to help its customers deliver consistent personalized experiences to consumers, and network visibility for threat detection.

By using Confluent Platform's Flink offering and tapping into our team of Flink experts, the telecom provider has saved tens of millions of dollars and significantly reduced churn, boosting its overall margins.

CONFLUENT

"I am pleased with our strong third quarter results and am incredibly excited about the opportunity ahead of us. And I am even more excited for the next 10 years - we are in a prime position to win the $60 billion data streaming category."

Jay Kreps
Co-Founder and CEO

Rohan Sivaram
Chief Financial Officer

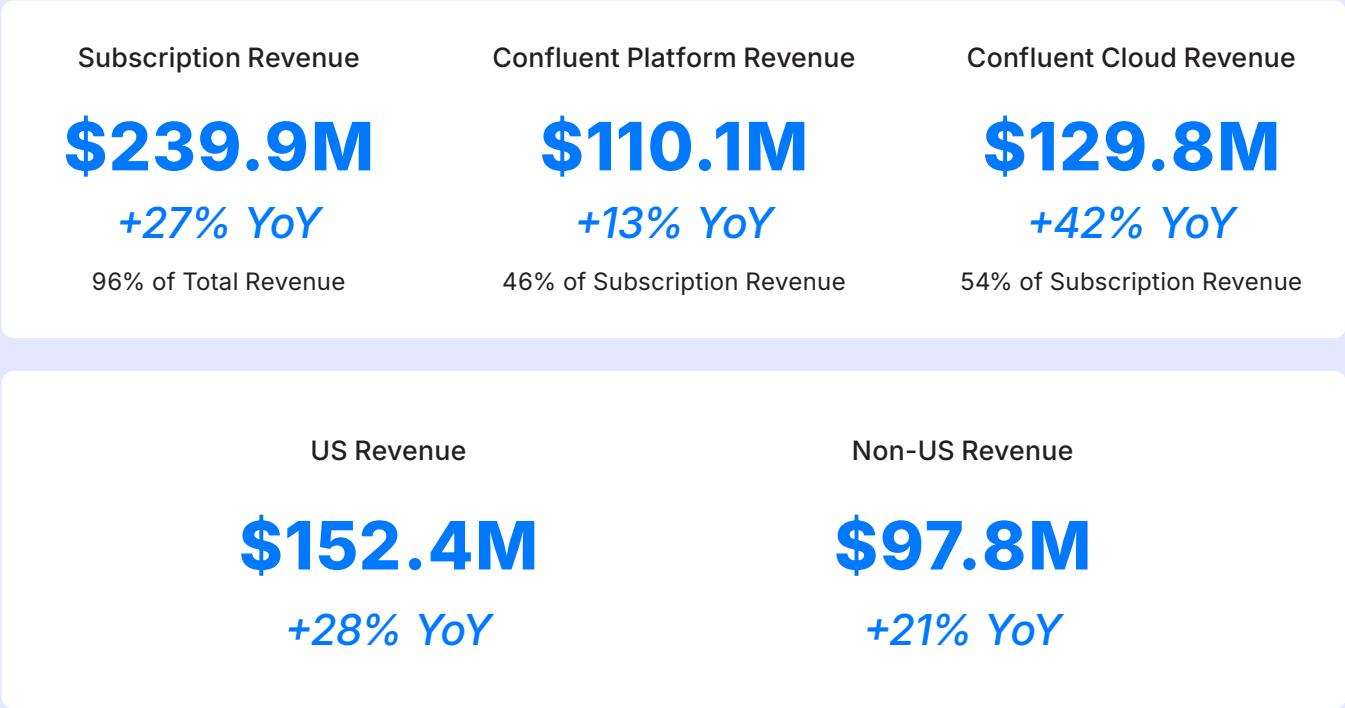**Robust top-line growth**

Record gross margin

Positive non-GAAP operating margin and positive FCF margin

In Q3, we drove robust top-line growth, record gross margin, and another positive quarter for both non-GAAP operating margin and free cash flow margin. These results demonstrate our market leadership in data streaming and our commitment to driving efficient growth over the long term.

Q3 Revenue Performance

Subscription Revenue	Confluent Platform Revenue	Confluent Cloud Revenue
$239.9M	**$110.1M**	**$129.8M**
+27% YoY	*+13% YoY*	*+42% YoY*
96% of Total Revenue	46% of Subscription Revenue	54% of Subscription Revenue

US Revenue	Non-US Revenue
$152.4M	**$97.8M**
+28% YoY	*+21% YoY*

Q3 subscription revenue grew 27% to $239.9 million, exceeding the high end of our guidance and representing 96% of total revenue.

Confluent Platform revenue grew 13% to $110.1 million and accounted for 46% of subscription revenue. The strength was driven by healthy demand for Confluent Platform in the financial services industry. We serve 10 of the top 10 U.S.banks with an average ARR of greater than $5 million. The substantial majority of their ARR is attributed to Confluent Platform, as these banks are still early in their move to the cloud.

Confluent Cloud revenue grew 42% to $129.8 million and accounted for 54% of subscription revenue, compared to 48% a year ago.

We saw consumption stabilization in our digital-native customer cohort during the quarter. While they remained cost conscious, we were pleased with the consumption growth trajectory of our largest cloud customers, many of whom are shifting their focus to implementing new use cases and adopting our DSP products.

Q3 cloud revenue also saw a one-time low seven figure revenue benefit. Adjusted for this benefit, we still handily exceeded consensus expectations.

Revenue from DSP continued to grow substantially faster than our overall cloud revenue. While monetization remains in the early days, we are pleased with the adoption of new products by our large cloud customers. 19 of our top 20 cloud customers have adopted at least one DSP product, and 13 have adopted products across all three categories. Additionally, multi-product customers continued to grow at a faster clip and exhibited a much higher NRR profile.

Revenue from the U.S. grew 28% to $152.4 million. Revenue from outside the U.S. grew 21% to $97.8 million.

Non-GAAP Subscription Gross Margin	Non-GAAP Operating Margin	Free Cash Flow Margin
82.2%	**6.3%**	**3.7%**
+2.1 pts YoY	*+11.8 pts YoY*	*+10.2 pts YoY*

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

Subscription gross margin reached a new record of 82.2%, up 210 basis points, while total gross margin also reached a record high of 79%, well above our long-term target. Our gross margin outperformance continued to be driven by strong Confluent Platform margin and the improving unit economics of our Confluent Cloud offering.

Operating margin expanded approximately 12 percentage points to a record high of 6.3%, representing our 9th consecutive quarter of 9 points or more in margin improvement.

Free cash flow margin of 3.7% was also a record, expanding 10 percentage points.

This marks our third positive quarter for both operating and free cash flow margins, and reflects our team's track record of driving margin expansions at scale.

Net income per share was $0.10 for Q3 using 353.6 million diluted weighted-average shares outstanding. Fully-diluted share count under the treasury stock method was approximately 366.8 million.

We ended the third quarter with $1.86 billion in cash, cash equivalents and marketable securities.

During the quarter, we acquired WarpStream to further differentiate our data streaming platform to include the BYOC-native form factor. WarpStream is particularly well suited for digital natives and high-scale workloads with relaxed latency requirements such as logging, observability, and feeding data lakes.

In FY'24, we do not expect the WarpStream acquisition to have a material impact on our financials. Over time, we expect WarpStream to be a growth driver, as it expands our reach into more workloads across customer segments.

Total Customers	**Customers with $100K+ in ARR**	**Customers with $1M+ in ARR**
~5,680	**1,346**	**184**
+16% YoY	*+14% YoY*	*+19% YoY*

During the third quarter, we saw a notable increase in overall win rate for new business both year-over-year and sequentially. Our win rates against smaller startups were well above 90%, as we compete favorably with our cloud-native, complete, and ubiquitous platform. This translated to sustained momentum in new logo acquisition and customer expansions.

Total customer count growth accelerated to 16% and ended Q3 at approximately 5,680, representing a sequential add of 240 customers, 3x the sequential add of the year-ago quarter. New customers include a top 3 US airline company, a Fortune 50 car maker, one of the largest online meal-kit providers, a leading lifestyle retailer, one of the world's largest online furniture companies, and many more.

The network effect of our data streaming platform continues to take hold in our large customer base. We added 40 customers with $100K+ in ARR and 7 customers in $1M+ in ARR, bringing the total to 1,346 and 184, respectively. Our $100K+ ARR customers continued to represent more than 85% of our revenue. Our new $1M+ ARR customers include customers from a variety of industries including healthcare, travel and retail, technology, financial services, and more.

Q3 NRR was 117%, while GRR remained above 90%. We saw many of our large digital-native customers shifting their focus from cost optimization to new use case implementation and adopting DSP products. This trend has continued into October, which we believe will help stabilize our NRR around current levels in Q4.

Guidance

We are increasing our Q4 revenue outlook, in addition to raising full year subscription revenue, non-GAAP operating margin, non-GAAP EPS, and free cash flow margin.

	Q4'24	FY'24
Subscription Revenue	**$245M-$246M** ~21% YoY	**$916.5M-$917.5M** ~26% YoY
Non-GAAP Operating Margin	**~2%**	**~2%**
Non-GAAP Net Income Per Diluted Share	**$0.05**	**$0.25**
Free Cash Flow Margin	**N/A**	**0%-1%**

Confluent Celebrates 10 Years

Growth & Profitability Journey at Scale

$1B+
Total Revenue Run Rate[1]

$500M+
Cloud Revenue Run Rate[2]

40%+
Fortune 500

Positive Non-GAAP
Profitability

Looking back at the last 10 years as a company, we have established data streaming as a major category in the tech stack. As the data streaming pioneer, we have continued to extend our market leadership by delivering world-class innovation and business outcomes for our customers. This has enabled our growth and profitability journey at scale:

- We exceeded $1B revenue run rate in just 10 years since inception, including growing Confluent Cloud revenue run rate from less than $50 million to more than half billion in just 4 years.

- We serve 5,680 great customers including more than 40% of the Fortune 500 across a variety of industries.

- We sustained positive non-GAAP profitability metrics in Q3, with 79% total gross margin well above our long-term target threshold, 6.3% operating margin now within the range of our mid-term target, and free cash flow generation at a record margin of 3.7%. For the first time in Confluent's history, we expect to exit 2024 with positive non-GAAP operating margin and positive free cash flow margin for the full year.

These are fantastic milestones for a 10-year-old company. We thank our employees and partners for your important contributions, and our customers and investors for your continued support.

(1) Calculated by extrapolating total revenue of $250.2 million for the quarter ended September 30, 2024.
(2) Calculated by extrapolating Confluent Cloud revenue of $129.8 million for the quarter ended September 30, 2024.

"Looking ahead, the intersection of cloud, data, and AI reinforces our vision of companies becoming software and AI.

Harnessing the power of data streaming will be more critical than ever for companies to deliver differentiated products and services, ultimately driving their success in the AI era. This secular tailwind puts us in a stronger position to drive durable growth, while generating significant free cash flows over a long runway.

We are more excited than ever about capturing our market opportunity ahead."

Rohan Sivaram
Chief Financial Officer

We will host Investor Day 2025 in San Francisco on Thursday, March 6.

Management will provide an update on driving profitable growth for the next few years. Please save the date.

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)

	Q3'23	Q3'24
Total revenue	$200,181	$250,199
Total gross profit on a GAAP basis	$143,632	$186,496
Total gross margin on a GAAP basis	*71.8%*	*74.5%*
Add: Stock-based compensation-related charges[1]	9,095	11,340
Add: Amortization of acquired intangibles	129	585
Non-GAAP total gross profit	$152,856	$198,421
Non-GAAP total gross margin	*76.4%*	*79.3%*

	Q3'23	Q3'24
Subscription revenue	$189,270	$239,851
Subscription gross profit on a GAAP basis	$145,166	$187,689
Subscription gross margin on a GAAP basis	*76.7%*	*78.3%*
Add: Stock-based compensation-related charges[1]	6,350	8,999
Add: Amortization of acquired intangibles	129	585
Non-GAAP subscription gross profit	$151,645	$197,273
Non-GAAP subscription gross margin	*80.1%*	*82.2%*

	Q3'23	Q3'24
Total revenue	$200,181	$250,199
Operating loss on a GAAP basis	($108,632)	($93,663)
GAAP operating margin	*(54.3%)*	*(37.4%)*
Add: Stock-based compensation-related charges[1]	91,987	101,837
Add: Amortization of acquired intangibles	129	585
Add: Acquisition-related expenses	5,065	7,039
Add: Restructuring and other related charges	529	-
Non-GAAP operating (loss) income	($10,922)	$15,798
Non-GAAP operating margin	*(5.5%)*	*6.3%*

(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)

	Q3'23	Q3'24
Net loss on a GAAP basis	($92,670)	($74,144)
Add: Stock-based compensation-related charges[1]	91,987	101,837
Add: Amortization of acquired intangibles	129	585
Add: Acquisition-related expenses	5,065	7,039
Add: Restructuring and other related charges	529	-
Add: Amortization of debt issuance costs	961	964
Add: Income tax effects and adjustments	328	(1,529)
Non-GAAP net income	$6,329	$34,752
Non-GAAP net income per share, basic	$0.02	$0.11
Non-GAAP net income per share, diluted	$0.02	$0.10
Weighted-average shares used to compute net income per share, basic	303,896,632	324,317,971
Weighted-average shares used to compute net income per share, diluted	346,974,638	353,577,179

	Q3'23	Q3'24
Total revenue	$200,181	$250,199
Net cash (used in) provided by operating activities	($9,060)	$15,613
Add: Capitalized internal-use software costs	(3,660)	(5,669)
Add: Capital expenditures	(363)	(607)
Free cash flow	($13,083)	$9,337
Free cash flow margin	(6.5%)	3.7%

(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.