



Q3 2022 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								
	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	
Revenue:									
Subscription	\$ 63,219	\$ 67,992	\$ 78,516	\$ 92,400	\$ 108,191	\$ 113,920	\$ 127,018	\$ 138,730	
Services	7,105	9,036	9,822	10,170	11,737	12,219	12,389	13,002	
Total revenue	70,324	77,028	88,338	102,570	119,928	126,139	139,407	151,732	
Cost of revenue:									
Subscription	14,162	15,757	20,292	25,489	33,322	33,603	35,608	38,417	
Services	6,755	8,081	9,717	11,810	12,824	12,174	13,901	14,763	
Total cost of revenue	20,917	23,838	30,009	37,299	46,146	45,777	49,509	53,180	
Gross profit	49,407	53,190	58,329	65,271	73,782	80,362	89,898	98,552	
Subscription	77.6%	76.8%	74.2%	72.4%	69.2%	70.5%	72.0%	72.3%	
Services	4.9%	10.6%	1.1%	(16.1%)	(9.3%)	0.4%	(12.2%)	(13.5%)	
Total gross margin	70.3%	69.1%	66.0%	63.6%	61.5%	63.7%	64.5%	65.0%	
Operating expenses:									
Research and development	21,861	24,313	33,225	47,701	56,686	57,661	64,472	70,099	
Sales and marketing	47,838	58,509	73,206	86,991	100,625	106,702	112,754	114,312	
General and administrative	12,009	15,512	37,943	25,330	30,151	27,481	29,979	33,041	
Total operating expenses	81,708	98,334	144,374	160,022	187,462	191,844	207,205	217,452	
Operating loss	(32,301)	(45,144)	(86,045)	(94,751)	(113,680)	(111,482)	(117,307)	(118,900)	
Interest income	1,108	844	688	299	189	566	2,618	3,147	
Other income (expense), net	(302)	(336)	(643)	(530)	(518)	(1,382)	(1,432)	1,572	
Loss before income taxes	(31,495)	(44,636)	(86,000)	(94,982)	(114,009)	(112,298)	(116,121)	(114,181)	
Provision for (benefit from) income taxes	261	(110)	2,170	684	430	689	1,510	1,868	
Net loss	\$ (31,756)	\$ (44,526)	\$ (88,170)	\$ (95,666)	\$ (114,439)	\$ (112,987)	\$ (117,631)	\$ (116,049)	
Net loss per share, basic and diluted	\$ (0.30)	\$ (0.41)	\$ (0.74)	\$ (0.37)	\$ (0.43)	\$ (0.41)	\$ (0.42)	\$ (0.41)	
Weighted-average shares used to compute net loss per share, basic and diluted	105,294,029	108,731,605	118,648,655	259,152,303	265,480,761	272,890,829	278,268,980	282,267,230	

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

	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 503,406	\$ 1,375,932
Marketable securities	1,436,313	640,085
Accounts receivable, net	143,026	137,491
Deferred contract acquisition costs	32,666	27,646
Prepaid expenses and other current assets	59,144	44,919
Total current assets	2,174,555	2,226,073
Property and equipment, net	25,650	14,428
Operating lease right-of-use assets	31,470	37,281
Deferred contract acquisition costs, non-current	61,182	51,178
Other assets, non-current	20,772	13,769
Total assets	\$ 2,313,629	\$ 2,342,729
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 14,243	\$ 7,591
Accrued expenses and other liabilities	94,374	98,974
Operating lease liabilities	7,758	9,236
Deferred revenue	258,853	220,920
Liability for early exercise of unvested stock options	3,418	11,467
Total current liabilities	378,646	348,188
Operating lease liabilities, non-current	27,023	31,645
Deferred revenue, non-current	31,065	25,557
Convertible senior notes, net	1,083,541	1,080,701
Other liabilities, non-current	9,456	6,357
Total liabilities	1,529,731	1,492,448
Stockholders' equity:		
Preferred stock	-	-
Class A common stock	2	1
Class B common stock	1	2
Additional paid-in capital	1,892,474	1,599,962
Accumulated other comprehensive loss	(13,058)	(830)
Accumulated deficit	(1,095,521)	(748,854)
Total stockholders' equity	783,898	850,281
Total liabilities and stockholders' equity	\$ 2,313,629	\$ 2,342,729

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

	Three Months Ended							
	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22
CASH FLOWS FROM OPERATING ACTIVITIES								
Net loss	\$ (31,756)	\$ (44,526)	\$ (88,170)	\$ (95,666)	\$ (114,439)	\$ (112,987)	\$ (117,631)	\$ (116,049)
Adjustments to reconcile net loss to cash used in operating activities:								
Depreciation and amortization	380	787	756	897	1,192	1,250	1,810	2,075
Net amortization (accretion) of premiums (discounts) on marketable securities	516	505	459	536	770	705	(469)	(3,105)
Amortization of debt issuance costs	-	-	-	-	187	936	947	958
Amortization of deferred contract acquisition costs	5,776	5,535	6,048	6,739	8,375	8,470	8,925	9,658
Non-cash operating lease costs	2,866	2,856	2,748	2,962	2,424	2,275	2,200	2,142
Common stock charitable donation expense	-	-	13,290	-	-	-	-	-
Stock-based compensation, net of amounts capitalized	9,744	13,353	34,516	49,683	58,072	57,369	68,866	75,393
Deferred income taxes	(297)	(567)	2,297	(1)	(394)	(4)	30	20
Other	331	439	209	1,023	157	204	355	321
Changes in operating assets and liabilities:								
Accounts receivable	(18,013)	5,734	(17,587)	979	(21,642)	12,782	(25,244)	6,047
Deferred contract acquisition costs	(14,654)	(10,866)	(15,482)	(11,244)	(20,332)	(12,080)	(10,643)	(19,354)
Prepaid expenses and other assets	(10,391)	(2,355)	(12,368)	(2,616)	(14,027)	(7,985)	(12,136)	(977)
Accounts payable	(222)	839	(468)	1,366	4,406	177	7,275	(1,004)
Accrued expenses and other liabilities	7,638	1,433	11,460	18,597	29,642	(22,853)	24,609	(35)
Operating lease liabilities	(2,731)	(2,721)	(2,661)	(2,834)	(2,650)	(2,497)	(2,413)	(2,029)
Deferred revenue	30,418	9,565	21,787	11,550	44,383	19,207	20,047	4,187
Net cash used in operating activities	(20,395)	(19,989)	(43,166)	(18,029)	(23,876)	(55,031)	(33,472)	(41,752)
CASH FLOWS FROM INVESTING ACTIVITIES								
Capitalization of internal-use software costs	(643)	(596)	(1,215)	(2,052)	(1,479)	(2,509)	(2,256)	(2,788)
Purchases of marketable securities	(46,196)	(41,688)	(14,283)	(322,941)	(284,683)	(403,883)	(763,479)	(355,886)
Maturities of marketable securities	45,433	56,763	66,211	57,693	91,275	95,545	275,114	347,000
Purchases of property and equipment	(347)	(643)	(1,030)	(563)	(1,364)	(887)	(1,184)	(1,044)
Other	-	9	-	3	-	-	-	-
Net cash provided by (used in) investing activities	(1,753)	13,845	49,683	(267,860)	(196,251)	(311,734)	(491,805)	(12,718)
CASH FLOWS FROM FINANCING ACTIVITIES								
Proceeds from initial public offering, net of underwriting discounts and commissions	-	-	786,600	-	-	-	-	-
Proceeds from issuance of common stock upon exercise of vested options	5,376	6,215	12,490	10,421	22,611	16,436	7,947	9,749
Proceeds from issuance of common stock upon early exercise of unvested options	1,423	7,447	11,309	186	512	345	71	-
Repurchases of unvested options	(76)	(49)	(164)	(162)	(107)	(12)	(683)	(14)
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	(50)	-	-	-	-	-	-	-
Payments of deferred offering costs	(111)	(153)	(767)	(2,205)	-	-	-	-
Proceeds from convertible senior notes, net of issuance costs	-	-	-	-	1,081,300	(786)	-	-
Payment for purchase of capped calls	-	-	-	-	(90,970)	-	-	-
Proceeds from issuance of common stock under employee stock purchase plan	-	-	-	-	-	22,485	-	18,454
Net cash provided by financing activities	6,562	13,460	809,468	8,240	1,013,346	38,468	7,335	28,189
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(25)	(8)	(2)	(1)	16	(46)	20	20
Net (decrease) increase in cash, cash equivalents, and restricted cash	(15,611)	7,308	815,983	(277,650)	793,235	(328,343)	(517,922)	(26,261)
Cash, cash equivalents, and restricted cash at beginning of period	53,417	37,806	45,114	861,097	583,447	1,376,682	1,048,339	530,417
Cash, cash equivalents, and restricted cash at end of period	\$ 37,806	\$ 45,114	\$ 861,097	\$ 583,447	\$ 1,376,682	\$ 1,048,339	\$ 530,417	\$ 504,156
Reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets to the amounts shown above:								
Cash and cash equivalents	\$ 36,789	\$ 44,097	\$ 860,347	\$ 582,697	\$ 1,375,932	\$ 1,047,589	\$ 529,667	\$ 503,406
Restricted cash included in other assets, current and non-current	1,017	1,017	750	750	750	750	750	750
Total cash, cash equivalents, and restricted cash	\$ 37,806	\$ 45,114	\$ 861,097	\$ 583,447	\$ 1,376,682	\$ 1,048,339	\$ 530,417	\$ 504,156

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

	Three Months Ended							
	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22
Reconciliation of GAAP total gross profit to non-GAAP total gross profit:								
Total gross profit on a GAAP basis	\$ 49,407	\$ 53,190	\$ 58,329	\$ 65,271	\$ 73,782	\$ 80,362	\$ 89,898	\$ 98,552
<i>Total gross margin on a GAAP basis</i>	70.3%	69.1%	66.0%	63.6%	61.5%	63.7%	64.5%	65.0%
Add: Stock-based compensation expense	1,115	1,519	3,227	5,735	7,508	7,175	8,346	8,997
Add: Employer taxes on employee stock transactions	-	-	326	166	521	410	150	144
Non-GAAP total gross profit	<u>\$ 50,522</u>	<u>\$ 54,709</u>	<u>\$ 61,882</u>	<u>\$ 71,172</u>	<u>\$ 81,811</u>	<u>\$ 87,947</u>	<u>\$ 98,394</u>	<u>\$ 107,693</u>
<i>Non-GAAP total gross margin</i>	71.8%	71.0%	70.1%	69.4%	68.2%	69.7%	70.6%	71.0%
Reconciliation of GAAP subscription gross profit to non-GAAP subscription gross profit:								
Subscription gross profit on a GAAP basis	\$ 49,057	\$ 52,235	\$ 58,224	\$ 66,911	\$ 74,869	\$ 80,317	\$ 91,410	\$ 100,313
<i>Subscription gross margin on a GAAP basis</i>	77.6%	76.8%	74.2%	72.4%	69.2%	70.5%	72.0%	72.3%
Add: Stock-based compensation expense	703	975	2,172	3,945	5,479	5,313	6,018	6,313
Add: Employer taxes on employee stock transactions	-	-	38	117	481	333	70	82
Non-GAAP subscription gross profit	<u>\$ 49,760</u>	<u>\$ 53,210</u>	<u>\$ 60,434</u>	<u>\$ 70,973</u>	<u>\$ 80,829</u>	<u>\$ 85,963</u>	<u>\$ 97,498</u>	<u>\$ 106,708</u>
<i>Non-GAAP subscription gross margin</i>	78.7%	78.3%	77.0%	76.8%	74.7%	75.5%	76.8%	76.9%

	Three Months Ended								
	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	
Reconciliation of GAAP operating expenses to non-GAAP operating expenses:									
Research and development operating expense on a GAAP basis	\$ 21,861	\$ 24,313	\$ 33,225	\$ 47,701	\$ 56,686	\$ 57,661	\$ 64,472	\$ 70,099	
Less: Stock-based compensation expense	2,937	3,511	8,932	16,310	20,298	20,085	25,337	27,692	
Less: Employer taxes on employee stock transactions	27	121	277	601	1,279	1,039	342	496	
Non-GAAP research and development operating expense	<u>\$ 18,897</u>	<u>\$ 20,681</u>	<u>\$ 24,016</u>	<u>\$ 30,790</u>	<u>\$ 35,109</u>	<u>\$ 36,537</u>	<u>\$ 38,793</u>	<u>\$ 41,911</u>	
<i>Non-GAAP research and development operating expense as a percentage of total revenue</i>	26.9%	26.8%	27.2%	30.0%	29.3%	29.0%	27.8%	27.6%	
Sales and marketing operating expense on a GAAP basis	\$ 47,838	\$ 58,509	\$ 73,206	\$ 86,991	\$ 100,625	\$ 106,702	\$ 112,754	\$ 114,312	
Less: Stock-based compensation expense	3,247	4,976	11,155	18,516	20,859	21,062	24,746	26,712	
Less: Employer taxes on employee stock transactions	214	103	610	1,236	2,317	680	1,048	580	
Non-GAAP sales and marketing operating expense	<u>\$ 44,377</u>	<u>\$ 53,430</u>	<u>\$ 61,441</u>	<u>\$ 67,239</u>	<u>\$ 77,449</u>	<u>\$ 84,960</u>	<u>\$ 86,960</u>	<u>\$ 87,020</u>	
<i>Non-GAAP sales and marketing operating expense as a percentage of total revenue</i>	63.1%	69.4%	69.6%	65.6%	64.6%	67.4%	62.4%	57.4%	
General and administrative operating expense on a GAAP basis	\$ 12,009	\$ 15,512	\$ 37,943	\$ 25,330	\$ 30,151	\$ 27,481	\$ 29,979	\$ 33,041	
Less: Stock-based compensation expense	2,445	3,347	11,202	9,122	9,407	9,047	10,437	11,992	
Less: Employer taxes on employee stock transactions	2	39	222	436	1,835	310	130	149	
Less: Common stock charitable donation expense	-	-	13,290	-	-	-	-	-	
Non-GAAP general and administrative operating expense	<u>\$ 9,562</u>	<u>\$ 12,126</u>	<u>\$ 13,229</u>	<u>\$ 15,772</u>	<u>\$ 18,909</u>	<u>\$ 18,124</u>	<u>\$ 19,412</u>	<u>\$ 20,900</u>	
<i>Non-GAAP general and administrative operating expense as a percentage of total revenue</i>	13.6%	15.7%	15.0%	15.4%	15.8%	14.4%	13.9%	13.8%	

	Three Months Ended							
	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22
Reconciliation of GAAP operating loss to non-GAAP operating loss:								
Operating loss on a GAAP basis	\$ (32,301)	\$ (45,144)	\$ (86,045)	\$ (94,751)	\$ (113,680)	\$ (111,482)	\$ (117,307)	\$ (118,900)
Add: Stock-based compensation expense	9,744	13,353	34,516	49,683	58,072	57,369	68,866	75,393
Add: Employer taxes on employee stock transactions	243	263	1,435	2,439	5,952	2,439	1,670	1,369
Add: Common stock charitable donation expense	-	-	13,290	-	-	-	-	-
Non-GAAP operating loss	<u>\$ (22,314)</u>	<u>\$ (31,528)</u>	<u>\$ (36,804)</u>	<u>\$ (42,629)</u>	<u>\$ (49,656)</u>	<u>\$ (51,674)</u>	<u>\$ (46,771)</u>	<u>\$ (42,138)</u>
<i>Non-GAAP operating margin</i>	<i>(31.7%)</i>	<i>(40.9%)</i>	<i>(41.7%)</i>	<i>(41.6%)</i>	<i>(41.4%)</i>	<i>(41.0%)</i>	<i>(33.5%)</i>	<i>(27.8%)</i>
Reconciliation of GAAP net loss to non-GAAP net loss:								
Net loss on a GAAP basis	\$ (31,756)	\$ (44,526)	\$ (88,170)	\$ (95,666)	\$ (114,439)	\$ (112,987)	\$ (117,631)	\$ (116,049)
Add: Stock-based compensation expense	9,744	13,353	34,516	49,683	58,072	57,369	68,866	75,393
Add: Employer taxes on employee stock transactions	243	263	1,435	2,439	5,952	2,439	1,670	1,369
Add: Common stock charitable donation expense	-	-	13,290	-	-	-	-	-
Add: Amortization of debt issuance costs	-	-	-	-	187	936	946	958
Add: Income tax effects and adjustments	(206)	(671)	1,716	(20)	(181)	13	669	293
Non-GAAP net loss	<u>\$ (21,975)</u>	<u>\$ (31,581)</u>	<u>\$ (37,213)</u>	<u>\$ (43,564)</u>	<u>\$ (50,409)</u>	<u>\$ (52,230)</u>	<u>\$ (45,480)</u>	<u>\$ (38,036)</u>
Non-GAAP net loss per share, basic and diluted	<u>\$ (0.21)</u>	<u>\$ (0.29)</u>	<u>\$ (0.31)</u>	<u>\$ (0.17)</u>	<u>\$ (0.19)</u>	<u>\$ (0.19)</u>	<u>\$ (0.16)</u>	<u>\$ (0.13)</u>
Weighted-average shares used to compute net loss per share, basic and diluted	<u>105,294,029</u>	<u>108,731,605</u>	<u>118,648,655</u>	<u>259,152,303</u>	<u>265,480,761</u>	<u>272,890,829</u>	<u>278,268,980</u>	<u>282,267,230</u>

	Three Months Ended							
	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22
Net cash used in operating activities	\$ (20,395)	\$ (19,989)	\$ (43,166)	\$ (18,029)	\$ (23,876)	\$ (55,031)	\$ (33,472)	\$ (41,752)
Capitalized internal-use software costs	(643)	(596)	(1,215)	(2,052)	(1,479)	(2,509)	(2,256)	(2,788)
Capital expenditures	(347)	(643)	(1,030)	(563)	(1,364)	(887)	(1,184)	(1,044)
Free cash flow	\$ (21,385)	\$ (21,228)	\$ (45,411)	\$ (20,644)	\$ (26,719)	\$ (58,427)	\$ (36,912)	\$ (45,584)
<i>Free cash flow margin</i>	<i>(30.4%)</i>	<i>(27.6%)</i>	<i>(51.4%)</i>	<i>(20.1%)</i>	<i>(22.3%)</i>	<i>(46.3%)</i>	<i>(26.5%)</i>	<i>(30.0%)</i>
Net cash (used in) provided by investing activities	\$ (1,753)	\$ 13,845	\$ 49,683	\$ (267,860)	\$ (196,251)	\$ (311,734)	\$ (491,805)	\$ (12,718)
Net cash provided by financing activities	\$ 6,562	\$ 13,460	\$ 809,468	\$ 8,240	\$ 1,013,346	\$ 38,468	\$ 7,335	\$ 28,189