

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2023  
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO  
Commission File Number: 001-40526

**CONFLUENT, INC.**

(Exact name of Registrant as specified in its Charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

899 W. Evelyn Avenue  
Mountain View, California  
(Address of principal executive offices)

Registrant's telephone number, including area code: (800) 439-3207

47-1824387  
(I.R.S. Employer Identification No.)

94041  
(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.00001 per share	CFLT	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES  NO

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

The aggregate market value of the shares of common stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's shares of common stock on the Nasdaq Global Select Market on June 30, 2023, was approximately \$7,356.7 million.

As of February 7, 2024, there were 225,856,765 shares of the Registrant's Class A common stock and 86,765,099 shares of the Registrant's Class B common stock, each with a par value of \$0.00001 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive Proxy Statement relating to the 2024 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the Registrant's fiscal year ended December 31, 2023.

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## SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical fact contained in this Annual Report on Form 10-K, including statements regarding our future results of operations and financial condition, business strategy and plans, and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “toward,” “will,” “would,” or the negative of these words or other similar terms or expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

- our expectations regarding our revenue, revenue mix, expenses, and other results of operations;
- our ability to acquire new customers and successfully retain existing customers;
- our ability to increase consumption of our offering and expand features and functionalities;
- our ability to achieve or sustain our margins and profitability;
- the impact of, and our ability to operate our business and effectively manage our growth under, evolving and uncertain macroeconomic conditions, including as a result of inflationary pressures, geopolitical events, and recessionary environments;
- future investments in our business, our anticipated capital expenditures, and our estimates regarding our capital requirements;
- the costs and success of our sales and marketing efforts, including in connection with our shift to a consumption-oriented sales model for Confluent Cloud, and our ability to promote our brand;
- our growth strategies for, and market acceptance of, our platform, as well as our ability to execute such strategies;
- the estimated addressable market opportunity and our ability to penetrate such market;
- our reliance on key personnel and our ability to identify, recruit, and retain skilled personnel;
- our ability to effectively manage our growth, including international expansion;
- our ability to protect our intellectual property rights and any costs associated therewith;
- the effects of public health crises, such as the COVID-19 pandemic;
- our ability to compete effectively with existing competitors and new market entrants; and
- the growth rates of the markets in which we compete.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Annual Report on Form 10-K.

Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available. These forward-looking statements are subject to a number of known and unknown risks, uncertainties and assumptions, including risks described in the section titled “Risk Factors” and elsewhere in this Annual Report on Form 10-K. Other sections of this Annual Report on Form 10-K may include additional factors that could harm our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for our management to predict all risk factors nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in, or implied by, any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report or to conform these statements to actual results or to changes in our expectations. You should read this Annual Report on Form 10-K and the documents that we reference in this Annual Report on Form 10-K and have filed as exhibits to this report with the understanding that our actual future results, levels of activity, performance, and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the filing date of this Annual Report on Form 10-K, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

### **Where You Can Find More Information**

Investors and others should note that we may announce material business and financial information to our investors using our Investor Relations website ([investors.confluent.io](http://investors.confluent.io)), our filings with the Securities and Exchange Commission (“SEC”), webcasts, press releases, public conference calls, and blogs published on our website. We use these mediums, including our website, to communicate with investors and the general public about our company, our products, and other issues. It is possible that the information that we make available on our website may be deemed to be material information. We therefore encourage investors and others interested in our company to review the information that we make available on our website.

We also use our X (Twitter), LinkedIn, and Facebook accounts as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. The information we post through these social media channels may be deemed material. Accordingly, investors should monitor these accounts, in addition to following our SEC filings, webcasts, press releases, public conference calls, and blogs published on our website. The information we post through these channels is not a part of this Annual Report on Form 10-K. These channels may be updated from time to time on our investor relations website.

## PART I

### Item 1. Business

#### Overview

Confluent is on a mission to set data in motion. We have pioneered a new category of data infrastructure designed to connect all the applications, systems, and data layers of a company around a real-time central nervous system. This new data infrastructure software has emerged as one of the most strategic parts of the next-generation technology stack, and using this stack to harness data in motion is critical to the success of modern companies as they strive to compete and win in the digital-first world.

The leading open source offering for setting data into motion, Apache Kafka, was originally created by our founders while at LinkedIn in 2011 and brought to the mainstream a new paradigm of data processing. However, this was only the beginning. Confluent was founded to create a product that could make data in motion the central nervous system of every company in the world.

Confluent is pioneering this fundamentally new category. Our offering is designed to act as the nexus of real-time data, from every source, allowing it to stream across the organization and enabling applications to harness it to power real-time customer experiences and data-driven business operations. Our offering can be deployed either as a fully-managed, cloud-native SaaS offering available on all major cloud providers or an enterprise-ready, self-managed software offering. Our cloud-native offering works across multi-cloud and hybrid infrastructures, delivering massive scalability, elasticity, security, and global interconnectedness, enabling agile development.

Our open source roots are a key driver of our go-to-market success. Apache Kafka has become the industry standard for data in motion. It is one of the most successful open source projects, estimated to have been used by over 75% of the Fortune 500. Modern applications are expected to integrate with Apache Kafka, and the technical skill set for Kafka has become a critical requirement in the industry. Confluent's products provide the capabilities of Apache Kafka but do so on a platform built for the cloud, complemented by connectivity to the larger enterprise, and with the ability to process and govern at scale. The developer community understands the benefits of a complete data streaming platform. Consequently, software developers within our prospective customers' engineering or IT departments are often very familiar with our underlying technology and value proposition and evangelize on our behalf.

Confluent has built an operationalized customer journey, which we call our Data in Motion Journey, focused on data in motion that ties together product features, go-to-market efforts, and customer success capabilities, and helps take customers from their initial experiments with the technology to organization-wide adoption as one of their most critical data platforms. This starts by landing use cases in a high volume, low-friction manner while projects are still being conceived and the architecture of the solution is being designed. Awareness and use of our offering begin even before our sales efforts, given the widespread adoption of Apache Kafka by developers and the self-service adoption made possible with our cloud product and community downloads. Our enterprise sales force takes these initial engagements and helps users progress to production use cases and paying customers either on a pay-as-you-go model or with a committed contract. Once customers see the benefits of our product for their initial use cases, they often expand into other use cases and lines of business, divisions, and geographies. Our deep technical expertise, coupled with our product capabilities and laser focus on customer outcomes, enable us to form strategic partnerships with our customers on this journey. This expansion is helped by a natural network effect in which the value of our platform to a customer increases as more use cases are adopted, more applications and systems are connected, and more data is added. Over time, by enabling data in motion across the organization, Confluent can become the central nervous system for their entire organization, allowing data to be captured and processed as it is generated in real-time across hundreds of teams, systems, and applications throughout the company.

Customers who have deployed Confluent often see substantial cost savings versus similar deployments using only open source Apache Kafka or a competing offering, with key categories of savings across infrastructure spend, development and operational resources required, and costs associated with downtime and security breaches. We have heavily invested in enterprise-ready features that complete and extend open source Apache Kafka by simplifying its infrastructure, extending its compatibility to the surrounding data ecosystem, and ensuring security and reliability at scale. As a result, companies who utilize Confluent as their central nervous system are able to avoid many of the steps that would normally be required to develop a complex data streaming system at scale and may simply leverage Confluent’s fully managed, pre-built, and enterprise-grade features. This allows customers to spend less time building core features from scratch, and devote fewer engineering hours to operations and maintenance.

## **Our Solution**

Confluent is pioneering a fundamentally new category of data infrastructure focused on data in motion for developers and enterprises alike. In order for enterprises to deliver rich customer experiences, it is critical for all of their business functions, departments, teams, applications, and data stores to have complete connectivity, be thoroughly integrated, and be able to analyze data as it is generated. Confluent is designed to be this intelligent connective tissue by having real-time data from multiple sources constantly streamed across an enterprise for real-time analysis.

Our offering enables organizations to deploy production-ready applications that run across cloud infrastructures and data centers, and scales elastically, with enhanced features for security and compliance. Our platform provides the capabilities to fill the structural, operational, and engineering gaps that are required for businesses to fully realize the power of data in motion. We enable software developers to easily build their initial applications to harness data in motion, and enable large, complex enterprises to make data in motion core to everything they do. As organizations mature in their adoption cycle, we enable them to build more and more applications that take advantage of data in motion. The results have a dual effect: businesses continuously improve their ability to provide better customer experiences and concurrently drive data-driven business operations. We believe that, over time, Confluent can become the central nervous system for modern digital enterprises, providing ubiquitous real-time connectivity and powering real-time applications across the enterprise.

The following are two essential attributes of a central nervous system from a data-in-motion perspective:

1. A full central nervous system must be able to connect and react to data wherever it exists, whether in an on-premise data center or in the public or private cloud.
2. It must also be able to span all environments while unpacking the “data mess”- i.e., the patchwork of different data ecosystems, applications, and systems created by both modern real-time use cases, while satisfying the security and compliance requirements of legacy environments.

Confluent’s offering spans both of these requirements. We provide an on-premise offering (Confluent Platform) for deployments that must remain on-premise, and we also provide a fully-managed SaaS offering (Confluent Cloud) that is entirely cloud-native. And with engineered features like Cluster Linking, we provide a seamless experience to create a consistent data fabric across the entire offering that is highly performant with low latency.

Additionally, a high-performance, low-latency infrastructure for harnessing data in motion requires operating wherever a customer’s applications and systems reside. Customers with applications in a particular cloud would use Confluent Cloud in that cloud provider and region. Customers with applications on premises, or on a private cloud, would use Confluent Platform in that data center. Customers with both on premises and cloud, or even multiple clouds, need Confluent in each of these environments. Together, these solutions can act as one unified fabric for data streams that connect all of these customer environments.

In addition, Confluent's solution is differentiated from other offerings in the following three ways:

- **Cloud-Native.** Operating natively in the cloud is fundamentally different and requires a completely different feature set to enable elasticity and scalability, cutting right to the heart of the design of data systems. With this in mind, we have heavily invested in rearchitecting the technologies underlying data in motion, including Apache Kafka, with our purpose-built Kora engine, which powers Confluent Cloud and offers true cloud functionality for data in motion. Our Kora engine is designed to be fully compatible with open source Apache Kafka, but is designed from the ground up to be a true managed service.

Additionally, we offer a high-velocity, frictionless pay-as-you-go model, allowing developers to easily sign up without having to enter a credit card, experience and see the value of Confluent, and seamlessly transition to only being billed for what is used. The combination of these capabilities and features creates a compelling and simple solution for developers looking to build upon data in motion in the cloud and for enterprises looking for a secured, governed enterprise solution. With Confluent, developers and enterprises alike can focus on their applications and drive value without worrying about the operational overhead of managing data infrastructure.

- **Complete.** A complete solution requires more than just data streaming capabilities - rather, customers need a true data streaming platform that allows them to stream, connect, process, and govern their data. We have created a complete data streaming platform, by leveraging capabilities from open source Apache Kafka with our significant proprietary capabilities. Our technology moves and processes data concurrently, with specific tools such as ksqlDB, a native data-in-motion database that allows users to build data-in-motion applications using just a few SQL statements, as well as over 120 connectors, which allow users to easily stream data between our data streaming platform and other data systems. Our robust capabilities dramatically enhance developer productivity, increase ease of operations, and provide enterprise-level security, governance, resilience, and expertise in a complete platform, providing significant benefits over companies trying to build these complex features on their own. Our acquisition of immerok GmbH, an Apache Flink stream processing managed services company, will enable us to make Confluent Cloud even more compelling by adding support for Flink, a powerful technology for building stream processing applications and one of the most popular Apache open source projects.

In addition to the streaming, connecting, and processing capabilities mentioned above, we also offer a full Stream Governance suite purpose-built for data in motion. Stream Governance establishes trust in the real-time data moving throughout the business and delivers an easy, self-service experience that enables more teams to discover, understand, and put their data streams to work. With trusted, high-quality data streams, self-service data discovery, and insights into complex data relationships, teams can safely accelerate data streaming initiatives without bypassing controls for risk management or regulatory compliance.

- **Everywhere.** We have built a truly hybrid and multi-cloud offering. We can support customers in their cloud and multi-cloud environments, on-premises, or a combination of both. From early on, we recognized that the journey to the cloud is not overnight or simple, and in order for our customers to effectively digitally transform, they require a fundamental data streaming platform that can integrate seamlessly across their entire technology environment. We offer this essential capability and enable organizations to seamlessly leverage data in motion across their public cloud, private cloud, and data center environments, ensuring total connectivity throughout an organization. For enterprises that are increasingly expanding internationally, Confluent's multi-cloud support also enables organizations to leverage data in motion across multiple data centers and providers, stretched around the world. For enterprises that want to be hybrid cloud, we are able to extract information from the entirety of their infrastructure, allowing us to act as the bridge that unites legacy systems in older environments with modern applications in the cloud. This ability to let customers embrace the new without having to fully replace everything that is old is a critical point of differentiation and a critical element in the cloud adoption strategy of many of our customers.



## **Our Virtuous Cycle: Powerful Network Effects Drive Further Confluent Adoption**

As Confluent grows within an organization, the network effects we generate create even more value to the organization as a whole. By fundamentally re-architecting how data flows, we are able to replace complexity with simplicity, delays with real-time, and disparate data with a unified view across the modern enterprise software stack.

Most organizations start off with a complex mess of point-to-point connections between their applications, databases, and data warehouses. This is unavoidable when data is primarily at rest, held in storage across the organization, and requiring these connections to be built. Adopting a new technology to connect this mess would be prohibitively slow if there were not an underlying force driving this change. Fortunately, our platform has a unique network effect that helps speed its adoption. The first application that utilizes our platform generally does so for the capabilities in harnessing data in motion. In doing so, it brings into the platform the data streams needed for its usage. However, although these data streams are brought for one application, they are usable by all future applications and bring value to the entire ecosystem. As a result, future applications can connect to the platform to access these data streams, bringing with them their own data streams. As a result, there is a clear virtuous cycle: applications bring data streams, which in turn attract more applications.

As customers expand with our foundational platform, we set more and more data in motion across the organization and replace the various point-to-point connections with our complete platform. This means data can intelligently be made available in real-time to more and more of the organization as applications connect to a single platform. We are able to hold a highly strategic position to create greater value to existing applications and databases as data in motion across the entire organization begins to flow, be directed, and be processed through Confluent. We believe that this eventually leads to Confluent becoming the central nervous system of an organization, allowing data to be captured and processed as it is generated around the whole organization, enabling organizations to react intelligently in real-time.

## **Key Benefits to Our Customers**

Our platform delivers the following key business benefits to our customers:

- ***Deliver data as a product to optimize efficiency and scalability.*** Customers can use Confluent to transform data correctly the first time, eliminating the need for future separate downstream transformations. Applications that require data can simply connect to Confluent with no additional transformations needed.
- ***Ability to Deliver Rich Customer Experiences and Data-Driven Business Operations.*** The world is increasingly demanding applications that are responsive in real time to data in motion. By harnessing the power of data in motion, our customers can deliver differentiated customer experiences, such as suggesting the next show to watch in real time or providing live information on the status of a grocery order. Enterprises can also enable data-driven operations such as real-time, preventive maintenance, IoT analytics, and diagnostics.
- ***Accelerated Time-to-Market.*** Speed is essential for our customers, as they seek to disrupt established industries or innovate to fend off emerging disruptors. Our fully-managed cloud-native service enables our customers to start developing instantly, without any internal or external operational barriers. With our new Stream Governance suite, we offer the industry's only fully managed data governance suite purpose-built for Apache Kafka and the intricacies of data streaming. As mentioned earlier, Stream Governance establishes trust in the real-time data moving throughout the business and delivers an easy, self-service experience that enables more teams to discover, understand, and put their data streams to work. With trusted, high-quality data streams, self-service data discovery, and insights into complex data relationships, teams can safely accelerate data streaming initiatives without bypassing controls for risk management or regulatory compliance.

- **Reduced Total Cost of Ownership.** Confluent significantly reduces the operational barriers and costs associated with shifting to a data-in-motion architecture. Coupled with accelerated time to market, our customers benefit from both reduction in total cost of ownership as well as rapid ROI.
- **Freedom of Choice.** Confluent is hybrid and multi-cloud compatible so customers can deploy on premises or in the cloud. We recognize that enterprises have their data stored in many places and that an effective solution must be able to connect to various data sources.
- **Mission Critical Security and Reliability.** Confluent has enterprise-grade security and governance capabilities to provide confidentiality of critical information. We enable mission-critical reliability and resiliency, allowing data persistence, dynamic backing up of data across replicated partitions, fault-tolerance, and automated client failover.
- **Robust Developer Community.** Apache Kafka has an extremely robust developer community. It is one of the most successful open source projects, with more than 65,000 meet-up members across over 200 global meetup groups, estimated to have been used by over 75% of the Fortune 500. Confluent continues to add to open source Apache Kafka and has helped build an ecosystem of contributors. This means that developers outside of Confluent are building connectors, more functionality, and deploying patches to Apache Kafka while Confluent continues to also add features both to Apache Kafka and to Confluent's proprietary offering. This leads to a positive feedback loop as it strengthens the Apache Kafka offering, attracting more developers, who in turn further strengthen Apache Kafka, which benefits us, as users see the benefit of a data-in-motion platform, and the wider Apache Kafka community. In addition, we make available many features that we have developed at Confluent under our Confluent Community License, which means developers can access, benefit from, and modify the source code for such features, further increasing our reach and mindshare in the developer community.

## Our Growth Strategy

We are pursuing our substantial market opportunity with growth strategies that include:

- **Easy and Frictionless Land with Cloud Pay-As-You-Go.** Due to the cloud-native nature of Confluent Cloud, we are able to acquire new customers through a seamless and frictionless self-service motion. Customers can get started via our free cloud trial and easily convert online to become paying customers. Our cloud-native capabilities allow us to land customers at low entry points, with no commitment, and seamlessly expand via increased usage. We will continue to leverage our cloud-native differentiation to create an easy buying motion and drive our growth.
- **Continue our Focus on our Customer Growth Go-To-Market Model.** Our integrated customer growth go-to-market model is “consumption-oriented”, meaning that our success is tied to our customers’ actual usage of and success with our product. The model is designed to drive business growth by mapping the customer journey from initial interest, to pilot, to first production project, to an integrated platform across the enterprise. We intend to develop our strategy of garnering customer signups, converting to paid customers, expanding long-term consumption through additional use cases and rapidly delivering customer value. We will continue to offer a range of services and training offerings, partnering with our customers to increase the value they realize from our solution and thereby increase their consumption of our offering.

- **Enterprise-Wide Adoption via Use Case Expansion.** After acquiring a new customer, we seek to grow our footprint by solving additional use cases for that customer. Since we are a fundamental data infrastructure platform, the use cases we can address are wide-ranging, and our use case framework includes both horizontal IT workloads such as pipelines to cloud databases and data warehouses, microservices-based application development, and mainframe integration, as well industry-specific use cases such as faster and smarter real-time fraud detection. We enjoy a powerful network effect as we enter organizations; once one application is connected to Confluent, our customers often connect other applications to that first application, which can result in a flywheel where Confluent can permeate the enterprise. We believe Confluent can become the central nervous system of modern enterprises at scale.
- **Extend our Product Leadership and Innovation.** We pioneered the category of harnessing the power of data in motion and are committed to innovating to extend our product leadership. We will continue to build out our platform, add more capabilities, build more applications, and invest in developing technology that increases developer productivity and promotes rapid customer success. To offer some examples of this commitment to our user community:
  - We re-architected Kafka with Kora, which powers Confluent Cloud to be a fully-managed cloud service with significant performance gains over open source Apache Kafka.
  - We built a fully-managed Apache Flink service that allows teams to create high-quality, reusable data streams that can be delivered anywhere in real time.
  - We developed Stream Governance, the industry’s only fully-managed data governance suite for Apache Kafka.
- **Continue to Invest in the Open Source Community.** Our open source roots provide a large pool of targeted developers and enterprises who are interested in or have already adopted open source Apache Kafka. These developers are readily able to use and benefit from our cloud-native service or enterprise-ready software. We are responsible for a majority of Apache Kafka commits and will continue to invest in delivering features to open source Apache Kafka in order to continue adding value to the Apache Kafka community, maintain our leadership standing in the new data-in-motion paradigm, and ensure that the open source benefits to our business continue.
- **Grow and Harness our Partner Ecosystem.** We have built a powerful partner ecosystem encompassing the major cloud providers, global and regional systems integrators, and ISVs. Our partners include AWS, Microsoft, GCP, Accenture, Alibaba, Elastic, MongoDB, and Snowflake.

Additionally, our Connect with Confluent technology partner program allows our partner organizations to bring fully managed data streams directly to their customers through native integrations with Confluent Cloud. It also provides access to Confluent’s leading expertise for technical, sales, and marketing support to amplify go-to-market efforts and ensure customer success at every stage.

We intend to continue to invest in these relationships and build further partnerships to ensure our software is widely sold, distributed, and supported.
- **Expand Internationally.** We believe markets outside of the United States present a significant opportunity for additional growth of our business. During the year ended December 31, 2023, our international revenue represented 40% of our total revenue, coming from customers in over 100 countries. We expect to continue to make significant investments to support our growth in our existing international markets and in penetrating additional international markets.

- **Expand the Scope of our Data Streaming Platform with Stream Processing, Connect, Governance, and Other Investments.** We have made significant investments in our data streaming platform to enable customers to stream, connect, process, and govern their data in motion. With the addition of Flink to our existing investment in ksqlDB, we are leveraging a powerful technology for building stream processing applications with one of the most popular Apache open source projects. We will continue to expand the capabilities of our Connect framework to further allow Confluent to be the source of truth and central nervous system for all of an organization's data. And we will continue to invest in our Stream Governance suite to enable teams to manage all data streams while maintaining stream quality, security, and regulatory compliance. As the rise of real-time stream processing of data in motion continues to accelerate, we believe our investments in these areas position us well to capture this shift and use it to fuel further growth.
- **Grow Further Use Cases Up-The-Stack Leveraging our Strategic Position for Data in Motion.** Data in motion is a disruptive new platform technology, and as such there are countless use-case focused opportunities up the stack. As we grow into our role as a central nervous system within companies, we believe we have an incredibly strategic position from which to grow into use-case specific adjacencies that apply data in motion. We see the potential for broad, cross-industry customer adoption of use cases around GenAI, machine learning, IoT, data integration, real-time analytics, real-time logistics, customer data unification, cloud migration, microservices, data sharing, as well as countless others.

We believe that increased adoption of these use cases will also drive demand for data streaming. For example, we believe that an acceleration in companies shifting to real-time data infrastructure will also increase our customers' consumption as they seek to power more GenAI use cases for mission-critical business needs. We believe Confluent's role in this architecture is to help customers assemble the real-time data that forms the appropriate context for powering these and other applications.

We believe we are strategically positioned to understand what these use cases are when reimagined around data in motion and to partner and/or build pre-packaged solutions purpose-built for these use cases.

## Our Product Offering

Confluent's full-featured data streaming platform provides a complete solution for working with data in motion, including the ability to read, write, store, capture, validate, secure, and process continuous streams of data. It also has features designed to fulfill the requirements of modern cloud infrastructure: it is a modern distributed system built to be secure, fault tolerant, and scalable elastically from a single application to hundreds or thousands of applications within an organization. In a world increasingly reliant on a hybrid and multi-cloud strategy, we enable customers to deploy across on-premise and cloud environments as needed and provide a seamless experience across the entire offering. We provide Confluent Platform for deployments that must remain on-premise, and we also provide Confluent Cloud, a fully-managed SaaS offering that is entirely cloud-native. Confluent Platform and Confluent Cloud offer unique benefits both individually in their respective environments and collectively as a single unified data streaming platform. And regardless of where our customers have their technology environments, we are able to deliver an integrated data streaming platform that can grow to become the core of their central nervous system.

- **Confluent Cloud is our fully-managed cloud-native offering, available on all of the major cloud providers (AWS, GCP, and Microsoft Azure).** Confluent Cloud is offered to our customers via a pay-as-you-go model with no commitment, or via an annual, or multi-year, subscription model where customers draw down upon a committed dollar amount. Confluent Cloud offers several unique attributes:
  - *Serverless.* Confluent Cloud offers self-serve provisioning with no complex cluster sizing, zero downtime, upgrades and bug fixes, elastic scaling, and the ability for customers to pay only for what they actually use.

- *Complete.* Confluent Cloud offers data compatibility with fully-managed Schema Registry, rapid development through fully-managed connectors, real-time processing with fully-managed ksqlDB, virtually infinite data retention, and committer-led support with contractual response times of 60 minutes or less for severe-impact issues. We have heavily invested in rearchitecting open source Apache Kafka with our purpose-built Kora engine, which powers Confluent Cloud. Our Kora engine is designed to be fully compatible with open source Apache Kafka, but is designed from the ground up to be a true managed service.
- *Flexible.* Confluent Cloud offers the ability to build a persistent bridge from on-premises to cloud, and the ability to stream across public clouds for multi-cloud data pipelines.
- *Highly Available.* Confluent Cloud offers a guaranteed 99.95% uptime SLA, ability to scale to 10s of GBps with dedicated capacity, ability to achieve sub 30ms latency at scale, and multi availability-zone (AZ) replication.
- *Secure.* Confluent Cloud offers at-rest and in-transit data encryption, SAML/SSO for user authentication, private networking via VPC peering or AWS Transit Gateway, and monitoring visibility with topic- and cluster-level metrics.
- **Confluent Platform is our enterprise-grade self-managed software offering**, able to be deployed on-premises as well as across public and private cloud environments. Confluent Platform is offered to our customers via an annual or multi-year subscription. Confluent Platform offers several unique attributes:
  - *Unrestricted Developer Productivity.* Confluent Platform offers developers the ability to build across multiple development languages, utilize a rich pre-built ecosystem of over 120 connectors, and benefit from a fully integrated data-in-motion database.
  - *Efficient Operations at Scale.* Confluent Platform enables our customers to minimize operational complexity while ensuring high performance and scalability.
  - *Production-Stage Prerequisites.* Confluent Platform offers foundational enterprise-level features needed to implement data in motion in production.
  - *Freedom of Choice.* Confluent Platform can be deployed on-premises or in public or hybrid cloud environments.

When customers use both Confluent Cloud and Confluent Platform for their cloud and on-premise deployments, they can leverage the full features and functionality of our unified data streaming platform. Many of the benefits that multi-cloud and hybrid customers derive from using either Confluent Cloud or Confluent Platform are amplified when connecting both across environments, and deployments across Confluent Cloud and Confluent Platform benefit from the following features and functionality that enable adoption of data in motion throughout an organization:

- **Rich Pre-Built Ecosystem**
  - *Over 120 Pre-Built Connectors.* We develop and work with partners who develop enterprise-ready connectors to easily integrate data and build applications. Connectors are supported by either Confluent or our partners.
  - *ksqlDB and Flink.* ksqlDB is a database that unifies the processing of data in motion and data at rest. This enables customers to build applications that compute new stored data sets off continuous data streams or enrich data streams with stored data. It translates the near-universal SQL interface of traditional databases to the world of data in motion, making it accessible for the vast majority of software developers with minimal learning time. And with the addition of Flink to our existing investment in ksqlDB, we will allow customers to leverage one of the most popular Apache open source projects for building stream processing applications.

- *Schema Registry*. Schema Registry is a central repository with a RESTful interface for developers to define standard schemas and register applications to enable compatibility.
- ***Management, Monitoring, and Global Resilience***
  - *Confluent Control Center (C3)*. Offers a simple way to manage and monitor data in motion as it scales across the enterprise. Control Center is a web-based graphical user interface to understand the data-in-motion environment, meet SLAs, and control key components of the data-in-motion platform.
  - *Multi-Region Clusters*. Multi-Region Clusters automate disaster recovery, allowing customers to run a single cluster across multiple data centers and automate disaster recovery with operational simplicity.
  - *Cluster and Schema Linking*. Cluster and Schema Linking enable customers to consistently geo-replicate data, making it easy to create a seamless and persistent bridge from Confluent Platform in on-premises environments to Confluent Cloud.
- ***Dynamic Performance and Elasticity***
  - *Self-Balancing Clusters*. Self-Balancing Clusters automate partition rebalances to optimize throughput, accelerate broker scaling, and reduce the operational burden of managing a large cluster. Partition rebalances are completed quickly and without any risk of human error.
  - *Tiered Storage*. Tiered Storage allows deployments to recognize two tiers of storage: local disks and cost-efficient object stores (Amazon S3 or GCP Storage). Brokers can offload older topic data to object storage, enabling virtually infinite retention.
  - *Scalability*. Confluent offers the ability to scale to trillions of events as well as scale across business units in order to become an enterprise standard.
- ***Enterprise-Grade Security***
  - *Structured Audit Logs*. Structured Audit Logs capture authorization logs in a set of dedicated topics, on a local or a remote cluster.
  - *Role-based Access Control (RBAC)*. RBAC is a centralized implementation for secure access to resources with fine-tuned granularity and platform-wide standardization. Customers can control permissions by users/groups to clusters, topics, consumers groups, and even individual connectors.
  - *Stream Governance*. Stream Governance establishes trust in real-time data moving throughout the business. We offer an easy, self-service experience that enables more teams to discover, understand, and put data streams to work. With trusted, high-quality data streams, self-service data discovery, and insights into complex data relationships, teams can safely accelerate data streaming initiatives without bypassing controls for risk management or regulatory compliance.
- ***Data Compatibility and DevOps Automation***
  - *Schema Validation*. Schema Validation provides a direct interface between the broker and Schema Registry to validate and enforce schemas programmatically. Schema Validation can be configured at the topic level.
  - *Confluent Operator*. Confluent Operator simplifies running Confluent Platform as a cloud-native system on Kubernetes, whether on-premises or in the cloud. It delivers an enterprise-ready implementation of the Kubernetes Operator API to automate deployment and key lifecycle operations.

Our offering is designed to serve as fundamental data infrastructure for our customers and solve an enormous variety of use cases across both front-end customer experiences and back-end business operations.

In addition to our core offering, we offer several services offerings:

- **Professional Services.** Professional Services provides expertise and tools that help our customers accelerate platform adoption and achieve successful business outcomes. We offer packaged and residency offerings focused on helping customers plan, implement, manage/monitor, and optimize their platform and applications.
- **Education.** Our offering includes training and certification guidance, technical resources, and access to hands-on training and certification exams. Education offerings are targeted at different types of users and delivery modalities to suit end customer needs. We have instructor-led training, self-paced on-demand courses, and certification.
- **Certification Program.** Technical expertise in data in motion is highly sought after and a highly-paid skill set. Our certification program enables technical personnel to demonstrate and validate in-depth knowledge of data in motion.

## Our Licensing

Our software products are protected by our licensing policies, which include our full proprietary license as well as our community license, which restricts others from offering our technology as a competing SaaS offering.

Instead of opting for a traditional “open core” model, our core offering (Confluent Server) is substantially differentiated from Apache Kafka and was fundamentally re-architected to operate at cloud-scale, while being interoperable with existing Apache Kafka systems.

Our Confluent Community License makes available many features that we have developed at Confluent. This gives developers the functionality needed to get started with Confluent, but excludes some of the core features of our commercial platform. Developers can access and modify the source code for such features but cannot take these features and use them to provide a competing SaaS offering.

We focus on converting Confluent Community License users to paying customers by demonstrating the value of the fully-managed Confluent Cloud offering and the self-managed Confluent Platform offering, where developers get proprietary features such as Confluent control center, Confluent operator, self-balancing clusters, tiered storage, structured audit logs, RBAC, schema validation, and multi-region clusters, as described in “—Our Product Offering” above.

## Sales and Marketing

In order to fully capitalize on our large market opportunity, our sales and marketing teams are tightly integrated to execute upon a cohesive “consumption-oriented” go-to-market motion. The sales and marketing teams prioritize the core value of driving customer success and value in all strategies to acquire new customer accounts and grow our presence within existing customer accounts.

Our customer growth go-to-market model is centered around the Data in Motion Journey, from initial interest, to pilot, to first production project, to an integrated platform across the enterprise. Through mapping to the customer journey, we are able to drive customer value in a highly targeted manner, and our success is tied to our customers’ actual usage of and success with our product.

Our strategy to expand within accounts has two fundamental aspects: first, to convert additional pockets of Apache Kafka interest and deployments within a given customer into a Confluent deployment, and second, to expand into additional use cases within a given customer through solutions selling with horizontal and vertical solutions. We believe there is a strong opportunity for growth as we solve a wide array of use cases.

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Our focus on customer success is critical to our sales and marketing success. We offer a wide range of training, professional services, education, and support offerings to enable our customers to rapidly onboard, adopt, and ultimately realize value from data in motion.

Partnerships with the leading cloud providers (AWS, Azure, and GCP), as well as global and regional systems integrators and technology ISVs (MongoDB, Elastic, and Snowflake) are also central to our sales and marketing strategy. We believe through these partnerships we will significantly expand the reach of our technology.

We believe in offering the ability for customers to engage with us in the manner best suited to them. We offer a fully self-service motion, where developers can learn and purchase in a completely online manner. We offer direct sales engagement, where customers can interact with experienced and knowledgeable field teams. We also offer the ability to engage and transact through our partner ecosystem, including the major cloud provider marketplaces, system integrators, technology ISVs, and resellers.

Our open source roots are a key driver to our go-to-market success. The expansive Apache Kafka technical community is fervently devoted to this technology, and often advocates for our technology even when we are not engaged in an organization. They see the value of Apache Kafka and the opportunity to benefit from a complete data streaming platform with Confluent. Consequently, our prospective customers are often very familiar with our underlying technology and value proposition, and are capable of evangelizing on our behalf.

Executive-level engagements are also a key facet of our growth strategy. As our customer engagements progress from project to platform to enterprise-wide deployments, our customer relationships often include business as well as technology leaders. Through this wide set of customer relationships, we believe we will be more rapidly able to evolve into enterprise-wide customer deployments.

### **Research and Development**

Our research and development efforts are focused on enhancing our platform features and functionalities and expanding the services we offer to increase market penetration and deepen our relationships with our customers. We believe that the timely development of new, and the enhancement of our existing, platform features and services is essential to maintaining our competitive position. We continually incorporate feedback and new use cases from our community and customers into our platform. Our development teams foster greater agility, which enables us to develop innovative products and make rapid changes to our technologies that increase resiliency and operational efficiency.

### **Competition**

Our market is highly competitive and characterized by rapid changes in technology, customer needs, frequent introductions of new offerings, and improvements to existing service offerings. Our competitors can be broadly segmented into three categories:

- **Open Source Kafka users.** Our primary competition, especially on premise, is internal IT teams that are attempting to “do it themselves” using open source software. Our offering is substantially differentiated from Apache Kafka, and therefore companies using only open source tools do not benefit from our full product offering. As the move to the cloud increases, we expect that competition from open source alternatives will decrease as companies increasingly adopt fully-managed cloud solutions.
- **Cloud Service Provider Alternatives.** Our principal competitors in the cloud are the well-established public cloud providers such as AWS that generally compete in all of our markets. These enterprises are developing and have released fully-managed, data ingestion, and data streaming products, such as Azure Event Hubs (Microsoft Corporation), Amazon Managed Streaming for Apache Kafka, Amazon Kinesis and Amazon DynamoDB Streams (AWS), and Cloud Pub/Sub and Cloud Dataflow (Google).
- **Competing Technologies and Legacy Vendors.** On premise there are a number of vendors with legacy products that have pivoted into this space including TIBCO Streaming, Cloudera Dataflow, Redhat (IBM) AMQ Streams, and Oracle Cloud Infrastructure Streaming.



We believe the principal competitive factors for companies in our industry include the following:

Focus on data in motion, characterized by:

- the ability to provide an end-to-end operationalized customer journey;
- mindshare and ability to drive innovation in the category of data in motion; and
- the ability to support customers at scale with mission critical use cases.

Product differentiation, characterized by:

- Cloud-native capabilities
    - operate at significant scale;
    - offer elasticity;
    - offer end-to-end security; and
    - offer flexible pricing, including pay-as-you-go delivery.
  - Completeness of offering
    - a complete data streaming platform (not just low-level streaming);
    - rich SQL-based stream processing;
    - integrated data governance capabilities; and
    - ease of integration with connectors to a wide variety of existing applications and IT and cloud infrastructure.
  - Availability of offering
    - as a fully-managed service in the three leading public clouds;
    - as a Kubernetes-based software offering for the private cloud;
    - in legacy on-premise data centers as a software product; and
    - ability to span all of these customer environments in one unified data-in-motion platform.
  - General competitive factors, including:
    - size of customer base and level of market adoption;
    - price and total cost of ownership;
    - brand awareness and reputation;
    - quality of professional services and customer support;
    - strength of sales and marketing efforts; and
    - adherence to industry standards and certifications.
-

On the basis of the factors above, we believe that we compare favorably to our competitors. However, some of our actual and potential competitors have advantages over us, such as substantially greater financial, technical, and other resources, including larger sales forces and marketing budgets, greater brand recognition, broader distribution networks and global presence, longer operating histories, more established relationships with current or potential customers and commercial partners, and more mature intellectual property portfolios. They may be able to leverage these resources to gain market share and prevent potential customers from purchasing our products. Additionally, we expect the industry to attract new entrants, who could compete with our business and introduce new offerings. As we scale and expand our business, we may enter new markets and encounter additional competition.

## **Our Employees and Human Capital Resources**

### ***Our Community***

Our employees are the power behind our innovation and the foundation of our business. Investing in our people is a high priority and we strive to enhance and advance our culture and community. As of December 31, 2023, we had 2,744 employees distributed across 24 countries. 59% of our employees at that time were located within the United States. Some individual employees outside of the United States may be members of trade unions or participate in staff representative bodies.

### ***Culture and Values***

Culture is about how employees of Confluent work together to get things done. While each team has distinct norms and practices, across Confluent we share a set of core values that guide who we hire and what kind of behavior is rewarded. Our five core values are:

- Earn Our Customers' Love
- Be Smart, Humble, and Empathetic
- Be Fired Up and Get Stuff Done
- Be Tasteful, Not Wasteful
- One Team

### ***Leadership Principles***

Our leadership principles outline a shared set of expectations for how we think and act at Confluent. They amplify our core values and provide a blueprint for how we deliver on our mission and goals. While we believe every employee has the potential to demonstrate leadership in their day-to-day work, our leadership principles are especially designed to guide and support people managers in becoming the best leaders they can be. Our leadership principles are:

- People Matter
- Seek the Truth
- Prioritize Ruthlessly
- Inspire Excellence
- Optimize for ROI
- Be Open and Honest
- Think Long Term
- Lead with Courage and Honor

### ***Engagement and Communication***

Our CEO and executives host regular all-hands meetings to keep our employees apprised of Confluent’s strategy, goals and priorities. We also conduct regular, anonymous engagement surveys to help us understand the employee experience, maintain a real-time pulse on employee engagement, and continuously action areas of opportunity as an organization. It is a quick way for management to see trends in engagement and progress on action plans. By continuing to monitor our engagement, we can impact retention and attraction of top talent to Confluent.

### ***Learning and Development***

We strive to provide a culture of growth and learning where employees can try new things and continually grow and develop. We offer a variety of resources to support this effort, including leadership development programs and coaching for managers, professional and life skills coaching, ongoing training, and on-demand e-learning platforms for employees. Additionally, our quarterly check-ins facilitate development conversations between managers and employees.

At Confluent, we engage in a robust annual objectives and key results planning process, with annual and mid-year performance reviews and calibration sessions. These, along with quarterly check-ins, ensure employees receive the guidance and feedback they need to succeed. Additionally, our senior leaders participate in annual talent reviews, succession planning, and organization assessments to identify, grow, and retain our talent bench.

### ***Asynchronous Remote-First Work Environment***

Confluent is a remote-first work culture. We care more about how our employees work than where they work. Our remote-first model provides more flexibility for employees and broader access to talent. It also better positions us to support our global customer base.

We provide a number of tools and resources to support, connect, and enable our employees to be successful in this environment. Our team of “Experience Ambassadors,” located in almost every region where we operate, helps to bring our employees together at different times throughout the year. We regularly offer activities to engage with coworkers both in person and virtually. We also introduced “FlexDesk” to provide employees and teams an on-demand, professional space to meet in person.

### ***Compensation and Benefits***

We aim to provide compensation and benefits that are equitable, competitive, and meet the diverse needs of our global workforce. We believe it is important for our employees to have a stake in our success, which is why our total compensation packages include both cash and equity components for most roles.

In addition to our robust suite of medical, dental, vision, and retirement benefits, we provide employees access to mental wellbeing resources, family building benefits, and a comprehensive paid leave program.

In addition, we believe that our remote-first model will enable us to attract top talent and provide employees the flexibility they increasingly seek.

### ***Diversity and Inclusion***

We are committed to the principles of inclusion, fairness, and equality. We believe that this commitment makes us a stronger, more vibrant, and more innovative company. We seek to build a global environment where every employee, regardless of background, identity, or life experience, has an equal opportunity to grow and thrive.

There are currently eight Employee Resource Groups (“ERGs”) at Confluent, each with senior executive sponsorship, ERG leadership, and active employee participation. We provide budget and support resources for each group, enabling global programming for heritage months, days of acknowledgement, and celebrations. We are proud to have a strong culture of empathy and inclusion, where we empower all employees to bring their whole selves to work.

## **Intellectual Property**

Intellectual property rights are important to the success of our business. We rely on a combination of copyright, trademark, trade secret laws and patents in the United States and other jurisdictions, as well as license agreements, confidentiality procedures, non-disclosure agreements with third parties, and other contractual protections, to protect our intellectual property rights, including rights in our proprietary technology, software, know-how and brand. We use open source software in our offering.

As of December 31, 2023, we hold five U.S. patents and have nine pending patent applications. We do not hold any non-U.S. patents. The patents are scheduled to expire in 2042. As of December 31, 2023, we own five registered trademarks in the United States, one trademark application pending in the United States, 41 registered trademarks in various non-U.S. jurisdictions, and three trademark applications pending in various non-U.S. jurisdictions.

Although we rely on intellectual property rights, including contractual protections, to establish and protect our intellectual property rights, we believe that factors such as the technological and creative skills of our personnel, creation of new services, features and functionality, and frequent enhancements to our platform are essential to establishing and maintaining our technology leadership position.

We control access to and use of our proprietary technology and other confidential information through the use of internal and external controls, including contractual protections with employees, contractors, customers, and partners. We require our employees, consultants, independent contractors, and other third parties to enter into confidentiality and proprietary rights agreements and we control and monitor access to our software, documentation, proprietary technology, and confidential information. Our policy is to require all employees, consultants, and independent contractors to sign agreements assigning to us any inventions, trade secrets, works of authorship, developments, processes, and other intellectual property generated by them on our behalf and under which they agree to protect our confidential information. In addition, we generally enter into confidentiality agreements with our customers and partners. See the section titled “Risk Factors” for a more comprehensive description of risks related to our intellectual property.

## **Available Information**

Our website address is [www.confluent.io](http://www.confluent.io). Information found on, or accessible through, our website is not a part of, and is not incorporated into, this Annual Report on Form 10-K. We file electronically with the SEC our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. We make available on our website at [www.confluent.io](http://www.confluent.io), free of charge, copies of these reports and other information as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

## ITEM 1A. RISK FACTORS

*Investing in our Class A common stock involves a high degree of risk. You should consider and read carefully all of the risks and uncertainties described below, as well as other information included in this Annual Report on Form 10-K, including our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K, before making an investment decision. The risks described below are not the only ones we face. The occurrence of any of the following risks or additional risks and uncertainties not presently known to us or that we currently believe to be immaterial could materially and adversely affect our business, financial condition, or results of operations. In such case, the trading price of our Class A common stock could decline, and you may lose some or all of your original investment. You should not interpret our disclosure of any of the following risks to imply that such risks have not already materialized.*

### Risk Factors Summary

Below is a summary of the principal factors that make an investment in our Class A common stock speculative or risky:

- Our recent rapid growth may not be indicative of our future growth. Our rapid growth also makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful.
- We have a history of operating losses and may not achieve or sustain profitability in the future. In particular, we have limited experience operating our business at current scale under economic conditions characterized by high inflation or in recessionary or uncertain economic environments.
- Macroeconomic uncertainty, unfavorable conditions in our industry or the global economy, including those caused by the ongoing conflicts around the world, reductions in information technology spending, or inflation, have impacted and may continue to impact our ability to grow our business and negatively affect our results of operations. In particular, we have experienced and may continue to experience longer sales cycles, reduced IT budgets, slowdowns in customer consumption expansion, including fewer new use cases adopted by customers, and generally increased scrutiny on IT spending and budgets from existing and potential customers, due in part to the effects of macroeconomic uncertainty and challenges and the geopolitical situation in Ukraine and in the Middle East.
- We derive substantially all of our revenue from our data-in-motion offering. Failure of our offering to satisfy customer demands or achieve continued market acceptance over competitors, including open source alternatives, would harm our business, results of operations, financial condition, and growth prospects.
- We intend to continue investing significantly in Confluent Cloud, and if it fails to achieve further market adoption or increased consumption, including following our shift to a consumption-oriented sales model for Confluent Cloud, our growth, business, results of operations, and financial condition could be harmed. Reduced consumption by, or the loss or expected loss of, customers has historically negatively impacted and may continue to negatively impact our growth, business, results of operations, and financial condition.
- Failure to effectively develop and expand our sales and marketing capabilities or improve the productivity of our sales and marketing organization could harm our ability to expand our potential customer and sales pipeline, increase our customer base, and achieve broader market acceptance of our offering. In particular, any challenges in connection with our shift to a consumption-oriented sales model for Confluent Cloud may adversely impact our ability to meet our sales forecasts, cause delays in our sales cycle, result in attrition among our sales personnel, and result in increased costs, any of which would harm our growth, business, results of operations, and financial condition.
- If we are unable to attract new customers or expand our potential customer and sales pipeline, our business, financial condition, and results of operations will be adversely affected.

- Our business depends on our existing customers renewing their subscriptions and usage-based commitments, purchasing additional subscriptions and usage-based commitments, and expanding their use of our offering.
- If we fail to maintain and enhance our brand, including among developers, our ability to expand our customer base will be impaired and our business, financial condition, and results of operations may suffer.
- The markets in which we participate are competitive, and if we do not compete effectively, our business, financial condition, and results of operations could be harmed.
- We expect fluctuations in our financial results and key metrics, making it difficult to project future results, and if we fail to meet the expectations of securities analysts or investors with respect to our results of operations, our stock price and the value of your investment could decline.
- If we, or third parties upon which we rely, experience a security incident compromising the confidentiality, integrity, or availability of our information technology, software, services, communications, or data, we could experience adverse consequences resulting from such compromise, including but not limited to, reputational harm, a reduction in the demand for our offering, regulatory investigations or actions, litigation, fines and penalties, disruptions of our business operations, or other adverse consequences.
- We rely on third-party providers of cloud-based infrastructure to host Confluent Cloud. Any failure to adapt our offering to evolving network architecture technology, disruption in the operations of these third-party providers, limitations on capacity or use of features, or interference with our use could adversely affect our business, financial condition, and results of operations.
- The dual class structure of our common stock as contained in our amended and restated certificate of incorporation has the effect of concentrating voting control with those stockholders who held our stock prior to the IPO, including our executive officers, employees, and directors and their affiliates, and limiting your ability to influence corporate matters, which could adversely affect the trading price of our Class A common stock.

#### **Risks Related to Our Business and Operations**

***Our recent rapid growth may not be indicative of our future growth. Our rapid growth also makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful.***

Our revenue was \$777.0 million, \$585.9 million, and \$387.9 million for the years ended December 31, 2023, 2022, and 2021, respectively. You should not rely on the revenue growth of any prior period as an indication of our future performance. Our revenue growth rate has declined from time to time, and may decline in the future, as a result of a variety of factors, including our focus on operating efficiency and margin improvement, the effectiveness of our sales and marketing strategies and function, our ability to continue gaining market acceptance of our offering, macroeconomic challenges and uncertainty, increased competition, and changes to technology. Overall growth of our revenue depends on a number of factors, including our ability to:

- market and price our offering effectively so that we are able to attract new customers and expand sales to our existing customers;
- invest in the growth of our business while adjusting our cost structure to focus on operating efficiency and improved margins;
- successfully develop a substantial customer and sales pipeline for our products;
- expand the features and functionality of our offering to enable additional use cases for our customers;
- continue investing in our sales and marketing function to support our growth, reduce the time for new sales personnel to achieve desired productivity levels, and successfully shift to a consumption-oriented sales model;

- extend our product leadership to expand our addressable market;
- differentiate our offering from open source alternatives and products offered by our competitors;
- maintain and expand the rates at which new customers purchase and existing customers renew subscriptions and committed use of our offering and increase consumption of our offering, including in light of the evolving macroeconomic environment;
- provide our customers with support that meets their needs;
- expand our partner ecosystem, including with major cloud providers, independent software vendors (ISVs), and regional and global systems integrators;
- increase awareness of our brand on a global basis to successfully compete with other companies; and
- expand to new international markets and grow within existing markets.

We may not successfully accomplish any of these objectives, and as a result, it is difficult for us to forecast our future results of operations. If the assumptions that we use to plan our business are incorrect or change in reaction to changes in our market, or if we are unable to maintain consistent revenue or revenue growth, our stock price could be volatile, and it may be difficult to achieve and maintain profitability. As a result of our rapid revenue growth in prior periods, we expect our revenue growth rate to decline in future periods. You should not rely on our revenue for any prior quarterly or annual periods as any indication of our future revenue or revenue growth.

In addition, we expect to continue to expend substantial financial and other resources on:

- expansion and enablement of our sales, services, and marketing organization to increase brand awareness and drive adoption and consumption of our offering;
- product development, including investments in our product development team and the development of new products and new features and functionality for our offering to expand use cases and provide feature parity across third-party public cloud platforms, as well as investments in further differentiating our existing offering;
- our cloud infrastructure technology, including systems architecture, scalability, availability, performance, and security;
- technology and sales channel partnerships, including cloud marketplaces;
- international expansion;
- acquisitions or strategic investments; and
- general administration, including increased legal and accounting expenses associated with being a public company.

These investments may not result in increased revenue in our business. If we are unable to maintain or increase our revenue at a rate sufficient to offset the expected increase in our costs, our business, financial position and results of operations will be harmed, and we may not be able to achieve or maintain profitability. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays, and other unknown factors that may result in losses in future periods. If our revenue does not meet our expectations in future periods, our business, financial position, and results of operations may be harmed.

***We have a history of operating losses and may not achieve or sustain profitability in the future.***

We have experienced net losses in each period since inception. We generated a net loss of \$442.7 million, \$452.6 million, and \$342.8 million for the years ended December 31, 2023, 2022, and 2021, respectively. As of December 31, 2023, we had an accumulated deficit of \$1,644.2 million. While we have experienced significant revenue growth in certain recent periods, we are not certain whether or when we will obtain or maintain a high enough volume of sales or level of market acceptance to achieve or maintain profitability in the future. Our revenue growth rate has declined, and may continue to decline for a number of reasons, particularly during times of macroeconomic uncertainty, resulting in a more challenging environment for acquiring new customers and maintaining existing customers. We also expect our costs and expenses to increase in future periods, which could negatively affect our future results of operations if our revenue does not increase. In particular, we intend to continue to expend significant funds to further develop our offering, including by introducing new offerings and features and functionality, and to expand our sales, marketing, and services teams to drive new customer adoption and consumption, expand the use and consumption of our offering by existing customers, successfully shift to a consumption-oriented sales model for Confluent Cloud, support international expansion, and implement additional systems and processes to effectively scale operations. We will also face increased compliance costs associated with growth, the planned expansion of our customer base and pipeline, international expansion, and being a public company. In addition, Confluent Cloud operates on public cloud infrastructure provided by third-party vendors, and our costs and gross margins are significantly influenced by the prices we are able to negotiate with these public cloud providers, which in many cases are also our competitors. To the extent we are able to successfully increase the percentage of our revenue attributable to Confluent Cloud, we may incur increased costs related to our public cloud contracts, which would negatively impact our gross margins. Our efforts to grow our business may be costlier than we expect, or the rate of our growth in revenue may be slower than we expect, and we may not be able to increase our revenue enough to offset our increased operating expenses. In addition, our efforts and investments to implement systems and processes to scale operations may not be sufficient or may not be appropriately executed. As a result, we may incur significant losses in the future for a number of reasons, including the other risks described herein, and unforeseen expenses, difficulties, complications or delays, and other unknown events. If we are unable to achieve and sustain profitability, the value of our business and Class A common stock may significantly decrease.

***We have a limited operating history, which makes it difficult to forecast our future results of operations.***

We were founded in 2014. As a result of our limited operating history, our ability to accurately forecast our future results of operations is limited and subject to a number of uncertainties, including our ability to plan for and model future growth. Our historical revenue growth should not be considered indicative of our future performance. In particular, we have limited experience operating our business at current scale under economic conditions characterized by high inflation or in recessionary or uncertain economic environments. We recently also undertook an internal restructuring, including a reduction in force, and increased focus on operating efficiencies and margin improvements. Further, we have experienced, and in future periods, may continue to experience, slower revenue growth, and our revenue could decline for a number of reasons, including shifts in our offering and revenue mix, slowing demand for our offering, increasing competition, decreased productivity of our sales and marketing organization and effectiveness of our sales and marketing efforts to acquire new customers, retain existing customers or expand existing subscriptions and usage-based commitments, strategic focus on operating efficiencies and margin improvements, changing technology, a decrease in the growth of our overall market, our failure, for any reason, to continue to take advantage of growth opportunities, or our failure to adapt and respond to inflationary factors affecting our business or future economic recessions. We have also encountered, and will continue to encounter, risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described in this Annual Report. If our assumptions regarding these risks and uncertainties and our future revenue growth are incorrect or change, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations, and our business could suffer.



***Macroeconomic uncertainty, unfavorable conditions in our industry or the global economy, including those caused by the ongoing conflicts around the world, reductions in information technology spending, or inflation, have impacted and may continue to impact our ability to grow our business and negatively affect our results of operations.***

Global business activities face widespread macroeconomic uncertainties, and our results of operations may vary based on the impact of changes in our industry or the global economy on us or our customers and potential customers. Negative conditions in the general economy both in the United States and abroad, including conditions resulting from changes in gross domestic product growth, financial and credit market fluctuations, inflation and efforts to control further inflation, including rising interest rates, bank failures, international trade relations, political turmoil, potential U.S. federal government shutdowns, natural catastrophes, warfare, and terrorist attacks on the United States, Europe, the Asia Pacific region, including Japan, or elsewhere, could cause a decrease in business investments by existing or potential customers, including spending on information technology, and negatively affect the growth of our business. As an example, in the United States, capital markets have experienced and continue to experience volatility and disruption. Furthermore, inflation rates in the United States have recently increased to levels not seen in decades resulting in federal action to increase interest rates, affecting capital markets. In addition to the foregoing, adverse developments that affect financial institutions, transactional counterparties or other third parties, such as bank failures, or concerns or speculation about any similar events or risks, could lead to market-wide liquidity problems, which in turn may cause third parties, including customers, to become unable to meet their obligations under various types of financial arrangements as well as general disruptions or instability in the financial markets. Such economic volatility has adversely affected and may continue to adversely affect our business, financial condition, results of operations and cash flows, and future market disruptions could negatively impact us. In particular, we have experienced and may continue to experience longer sales cycles, reduced IT budgets, slowdowns in customer consumption expansion, including fewer new use cases adopted by customers, and generally increased scrutiny on IT spending and budgets from existing and potential customers, due in part to the effects of macroeconomic uncertainty and challenges and the geopolitical situation in Ukraine and in the Middle East. We have operations and customers in Israel, and many of our customers in other regions have substantial operations and customers in Israel. We believe the uncertainty and disruption resulting from the conflict has negatively impacted certain of these customers and their consumption of our offering. Our growth, business, and results of operations could be further negatively impacted if the current armed conflict in Israel and the Gaza Strip continues, worsens or expands to other nations or regions, including if our customers are harmed and reduce their engagement with or consumption of Confluent. Actual or potential U.S. federal government shutdowns have also resulted in uncertainty and disruption for certain of our customers, which have negatively impacted and may continue to negatively impact their consumption of our offering. These customer dynamics may persist in the future, even if macroeconomic conditions improve, and to the extent there is a sustained general economic downturn, a recession, or other period when IT budgets are growing at a slower rate or contracting growth, these customer dynamics may be exacerbated. These customer dynamics have had and may continue to have negative impacts on our revenue, business, and results of operations and have resulted and may in the future result in strategic changes in our focus on growth versus operating efficiency, margin improvements, and profitability. For example, we recently adjusted our cost structure and reduced our overall headcount. Competitors, many of whom are larger and have greater financial resources than we do, may respond to challenging market conditions by lowering prices in an attempt to attract our customers, which may require us to respond in kind and may negatively impact our existing customer relationships and new customer acquisition strategy. In addition, the increased pace of consolidation in certain industries may result in reduced overall spending on our offering. We cannot predict the timing, strength, or duration of any economic slowdown, instability, or recovery, generally or within any particular industry.

***We derive substantially all of our revenue from our data-in-motion offering. Failure of our offering to satisfy customer demands or achieve continued market acceptance over competitors, including open source alternatives, would harm our business, results of operations, financial condition, and growth prospects.***

We derive and expect to continue to derive substantially all of our revenue from sales of, and additional services related to, our data-in-motion offering. We have directed, and intend to continue to direct, a significant portion of our financial and operating resources to developing more features and functionality for such offering. Our growth will depend in large part on enabling additional use cases for our customers after they initially adopt our offering, ranging from industry-specific use cases, including generative AI (“GenAI”) use cases, to use cases generated by the network effects of connecting multiple applications within an enterprise. In addition, the success of our business is substantially dependent on the actual and perceived viability, benefits, and advantages of our offering as a preferred data streaming platform, particularly when compared to open source alternatives developed internally by customers. As such, market adoption of our offering is critical to our continued success. Demand for our offering has been and will continue to be affected by a number of factors, including market acceptance of our offering, customers’ perception of the value of our offering compared to alternatives, including open source alternatives, use case expansion by existing customers and potential new customers, effectiveness of our sales and marketing strategy and team, the extension of our offering to new applications and use cases, the timing of development and release of new offerings by us and our competitors, technological change, growth or contraction of the market in which we compete, customers optimizing consumption and prioritizing cash flow management, and customer information technology spending budgets, which may be reduced during periods of high inflation or in recessionary or uncertain economic environments and may be impacted by geopolitical events such as the ongoing conflicts around the world. Failure to successfully address these factors, satisfy customer demands, achieve continued market acceptance over competitors, including open source alternatives, and achieve growth in sales of our offering would harm our business, results of operations, financial condition, and growth prospects.

***We have historically derived a substantial portion of our revenue from Confluent Platform, and any loss in market acceptance or reduction in sales of Confluent Platform would harm our business, results of operations, financial condition, and growth prospects.***

While our revenue mix has increasingly shifted toward Confluent Cloud, our business remains substantially dependent on Confluent Platform, our enterprise-ready, self-managed software offering. Confluent Platform contributed 52% and 61% of our subscription revenue for the years ended December 31, 2023 and 2022, respectively. We expect to continue to rely on customer adoption and expansion of Confluent Platform as a component of our future growth. In particular, we are dependent on Confluent Platform serving as a fundamental self-managed, data-in-motion offering to generate wide-ranging use cases for our customers and increase our dollar-based net retention rate with existing customers. If we experience loss in market acceptance, reduced customer renewals or new customer adoption, or limited use case expansion among existing customers of Confluent Platform, our growth, business, financial condition, and results of operations may be harmed.

***We intend to continue investing significantly in Confluent Cloud, and if it fails to achieve further market adoption or increased consumption, including following our shift to a consumption-oriented sales model for Confluent Cloud, our growth, business, results of operations, and financial condition could be harmed.***

We intend to continue investing significantly in developing and growing Confluent Cloud as a fully-managed, cloud-native service. We have less experience marketing, determining pricing for, and selling Confluent Cloud. As a result, our shifts in sales strategy focused on customer acquisition for Confluent Cloud and a consumption-oriented sales model could result in near term fluctuations in our financial results as compared to prior periods, particularly if previous Confluent Platform customers shift to Confluent Cloud, given that subscriptions to Confluent Cloud have historically had a lower average price compared to subscriptions to Confluent Platform. Our sales strategy for Confluent Cloud also involves landing customers at low entry points, including starting with our free Confluent Cloud trial and pay-as-you-go, which have no commitments. There can be no assurance that such customers will enter into commitments with us, expand their existing commitments, or ramp their usage of Confluent Cloud, even following our shift in our sales strategy to a consumption-oriented model. In addition, there can be no assurance as to the length of time required to attain substantial market adoption of Confluent Cloud, if at all. The growth rate of our Confluent Cloud revenue is also expected to fluctuate over time, including due to the usage-based nature of Confluent Cloud, customer adoption trends, and our near-term plan to accelerate our planned shift toward a consumption-oriented sales model for Confluent Cloud. The success of this planned shift will depend on, among other things, alignment of and effective execution by our sales organization, timely release of features in our product roadmaps as well as their market acceptance, effective pricing of our offering, and managing expected reductions in commitments for Confluent Cloud. We also believe certain customers are reluctant to make large and long-term commitments for Confluent Cloud, which has led to historical misalignment between our focus on upfront commitments and customer preferences. Growth of Confluent Cloud consumption may be harmed if we do not manage these factors effectively in shifting our sales model to be oriented toward consumption. Our business and growth will also be negatively impacted if we do not experience the expected benefits from the shift toward a consumption-oriented sales model during or following its implementation, including if we continue experiencing headwinds on consumption, use case expansion or adoption of Confluent Cloud due to other factors. To expand usage of and our potential customer and sales pipeline for Confluent Cloud, we will need to increase brand awareness, successfully demonstrate the value of Confluent Cloud over alternatives, including open source alternatives, cultivate relationships with potential customers in key industries and sectors, rapidly convert the sales pipeline into new customers and continue to expand and improve the productivity and incentive alignment of our sales and marketing organization. To increase market adoption and expand the customer base for Confluent Cloud, we have also been targeting the commercial customer segment, comprised of small to medium-sized companies, including early-stage companies, as part of our overall sales and marketing strategy for Confluent Cloud. These customers typically demand faster deployment of Confluent Cloud within their organizations and prioritize ease of use. In addition, the sales cycle for these customers is typically shorter, requiring accelerated ramp time of our sales force and higher velocity marketing strategies. We have also historically targeted larger enterprise customers as part of our overall sales and marketing strategy, but expect to refine that strategy from time to time, including in connection with our planned shift to a consumption-oriented model for our sales motion. Reduced consumption by, or the loss or expected loss of, customers has historically negatively impacted and may continue to negatively impact our growth, business, results of operations, and financial condition. If we are unsuccessful in these and our other efforts to drive market adoption of and expand usage of and the customer base for Confluent Cloud, or if we do so in a way that is not profitable, fails to compete successfully against our current or future competitors, or fails to adequately differentiate Confluent Cloud from open source alternatives, our growth, business, results of operations, and financial condition could be harmed.

***We may not be able to successfully manage our growth, and if we are not able to grow efficiently, our business, financial condition, and results of operations could be harmed.***

As usage and adoption of our offering grows, we will need to devote additional resources to improving our offering's capabilities, features, and functionality. In addition, we will need to appropriately scale our internal business operations and our services organization to serve our growing customer base. Any failure of or delay in these efforts could result in impaired product performance and reduced customer satisfaction, resulting in decreased sales to new customers, lower dollar-based net retention rates, or the issuance of service credits or requested refunds, which would hurt our revenue growth and our reputation. Further, any failure in optimizing the costs associated with our third-party cloud services as we scale could negatively impact our gross margins. Our expansion efforts will be expensive and complex, and require the dedication of significant management time and attention. We could also face inefficiencies, vulnerabilities or service disruptions as a result of our efforts to scale our internal infrastructure, which may result in extended outages, loss of customer trust, and harm to our reputation. We cannot be sure that the expansion of and improvements to our internal infrastructure will be effectively implemented on a timely basis, if at all, and such failures could harm our business, financial condition, and results of operations.

***The markets in which we participate are competitive, and if we do not compete effectively, our business, financial condition, and results of operations could be harmed.***

Our data streaming platform combines and expands upon functionality from numerous traditional product categories, and hence we compete in each of these categories with products from a number of different vendors. Our primary competition, especially on-premise, is internal IT teams that develop data infrastructure software using open source software, including Apache Kafka. Our principal competitors in the cloud are the well-established public cloud providers that compete in their respective clouds. These enterprises are developing and have released managed service offerings for real-time data ingestion and data streaming, such as Azure Event Hubs (Microsoft Corporation), Amazon Kinesis, Amazon MSK, and Google Cloud Pub/Sub and Dataflow. On premise, there are a number of vendors with legacy products that have pivoted into this space including Cloudera Dataflow, TIBCO Messaging, and Red Hat AMQ Streams.

We currently offer Confluent Cloud on the public clouds provided by AWS, Azure, and GCP, which are also some of our primary actual and potential competitors. There is risk that one or more of these public cloud providers could use their respective control of their public clouds to embed innovations or privileged interoperating capabilities in competing products, bundle competing products, provide us unfavorable pricing, leverage their public cloud customer relationships to exclude us from opportunities, and treat us and our customers differently with respect to terms and conditions or regulatory requirements compared to similarly situated customers. In addition, if public cloud providers develop a data-in-motion offering that operates across multiple public clouds or on premise, we would face increased competition from these providers. Further, they have the resources to acquire or partner with existing and emerging providers of competing technologies and thereby accelerate adoption of those competing technologies. All of the foregoing could make it difficult or impossible for us to provide subscriptions and services that compete favorably with those of the public cloud providers.

With the introduction of new technologies, market entrants, and open source alternatives, including those based on Apache Kafka, we expect that the competitive environment will remain intense going forward. Because Apache Kafka is open source and there are few technological barriers to entry into the open source market, it may be relatively easier for competitors, some of which may have greater resources than we have, to enter our markets and develop data-in-motion alternatives based on Apache Kafka. In addition, the data infrastructure market is large and continues to grow rapidly, and our future success will depend in part on differentiating our offering from open source alternatives, including Apache Kafka, and other data-in-motion offerings. If we are unable to sufficiently differentiate our offering from Apache Kafka, other offerings based on or derived from Apache Kafka, or other data-in-motion offerings, we may not be successful in achieving market acceptance of our offering, which would limit our growth and future revenue. Some existing and prospective customers may elect to use certain of our data-in-motion platform functions under free-to-use licenses, which can reduce demand for our offering. Such existing or prospective customers may also have reservations about utilizing proprietary software like our offering and may instead opt to use solely open source software based on the perception that this will lower long-term costs and reduce dependence on third-party vendors. In addition, our existing customers have chosen or could in the future choose to develop similar capabilities in-house and strengthen their use of open source software, rather than continue to purchase our offering.

Some of our actual and potential competitors have been acquired by other larger enterprises and have made or may make acquisitions or may enter into partnerships or other strategic relationships that may provide more comprehensive offerings than they individually had offered or achieve greater economies of scale than us. Any trend toward industry consolidation may negatively impact our ability to successfully compete and may impose pressure on us to engage in similar strategic transactions, including acquisitions, which would be costly and may divert management's attention. In addition, new entrants not currently considered to be competitors may enter the market through acquisitions, partnerships, or strategic relationships. As we look to market and sell our offering and platform capabilities to potential customers with existing solutions, we must convince their internal stakeholders that the capabilities of our offering are superior to their current solutions.

We compete on the basis of a number of factors, including:

- ease of deployment, integration, and use;
- enterprise-grade data in motion;
- the cloud-native capabilities of our offering;
- the ability to operate at scale and offer elasticity, end-to-end security, and reliability;
- the completeness of our offering, including as a complete data streaming platform, and our ability to offer rich SQL-based stream processing, integrated governance capabilities, and connectors to existing applications and IT and cloud infrastructure;
- the availability of our offering, including in multiple public clouds, and for use in private clouds and in on-premise data centers;
- quality of professional services and customer support;
- price and total cost of ownership;
- flexible pricing, such as pay-as-you-go delivery;
- sales and marketing productivity and expertise;
- brand recognition and reputation; and
- adherence to industry standards and certifications.

Our competitors vary in size and in the breadth and scope of the products offered. Many of our competitors and potential competitors have greater name recognition, longer operating histories, more established customer relationships and installed customer bases, larger marketing budgets and greater resources than we do. Further, other potential competitors not currently offering competitive solutions may expand their offerings to compete with our existing and new offering and platform capabilities. Additionally, our current and potential competitors may establish cooperative relationships among themselves or with third parties that may further enhance their resources and offerings in our addressable market. Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, and customer requirements. An existing competitor or new entrant could introduce new technology that reduces demand for our offering. In addition to product and technology competition, we face pricing competition. Some of our competitors offer their solutions at a lower price, which has resulted in, and may continue to result in, pricing pressures.

For all of these reasons, we may not be able to compete successfully against our current or future competitors, and this competition could result in the failure of our offering to continue to achieve or maintain market acceptance, any of which would harm our business, results of operations, and financial condition.

***We expect fluctuations in our financial results and key metrics, making it difficult to project future results, and if we fail to meet the expectations of securities analysts or investors with respect to our results of operations, our stock price and the value of your investment could decline.***

Our results of operations and key metrics, including subscription revenue, NRR and customers with \$100,000 or greater in ARR, have fluctuated in the past and are expected to fluctuate in the future due to a variety of factors, many of which are outside of our control. As a result, our past results may not be indicative of our future performance and period-over-period comparisons of our operating results and key metrics may not be meaningful or accurately measure our business. In addition to the other risks described herein, factors that may affect our results of operations include the following:

- changes in our revenue mix as Confluent Cloud's contribution to subscription revenue increases over time, and related changes in revenue recognition;
- changes in actual and anticipated growth rates of our revenue, customers, and key operating metrics, including due to changes in methodology for calculating certain of our key operating metrics;
- strategic shifts in focus on growth versus operating efficiency and profitability;
- fluctuations in demand for, and our ability to effectively and competitively price, our offering;
- fluctuations in usage of Confluent Cloud under usage-based commitments and pay-as-you-go arrangements;
- our ability to attract new customers;
- our ability to retain our existing customers, particularly large customers, secure renewals of subscriptions and usage-based commitments, as well as the timing of customer renewals or non-renewals, and drive their increased consumption of Confluent Cloud;
- customer retention rates and the pricing and quantity of subscriptions renewed, as well as our ability to accurately forecast customer consumption, expansions, and renewals;
- downgrades in customer subscriptions or decreased consumption;
- customers and potential customers opting for alternative products, including developing their own in-house solutions or opting to use only the free version of our offering;
- timing and amount of our investments to expand the capacity of our third-party cloud service providers;

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- seasonality in sales, customer implementations, results of operations (including Confluent Cloud revenue), and remaining performance obligations, or RPO;
- investments in new offerings, features, and functionality;
- fluctuations or delays in development, release, or adoption of new features and functionality for our offering;
- delays in closing sales, including the timing of renewals, which may result in revenue being pushed into the next quarter, particularly because a large portion of our sales occur toward the end of each quarter;
- fluctuations or delays in purchasing decisions by existing or future customers, including due to geopolitical or economic conditions such as inflation or in anticipation of new offerings or enhancements by us or our competitors;
- changes in customers' budgets, consumption, and timing of their budget cycles and purchasing decisions, including due to macroeconomic factors and currency exchange rate fluctuations;
- our ability to control costs, including hosting costs associated with Confluent Cloud and our operating expenses, and to realize operating efficiencies in connection with the restructuring actions we commenced in January 2023, or the Restructuring Plan;
- the amount and timing of payment for operating expenses, particularly research and development and sales and marketing expenses, including commissions;
- timing of hiring personnel for our research and development and sales and marketing organizations;
- the amount and timing of non-cash expenses, including stock-based compensation expense and other non-cash charges;
- the amount and timing of costs associated with recruiting, educating, and integrating new employees and retaining and motivating existing employees, including in connection with our shift to a consumption-oriented sales model for Confluent Cloud;
- the effects of acquisitions and their integration;
- general geopolitical or economic conditions, both domestically and internationally, as well as economic conditions specifically affecting industries in which our customers participate;
- fluctuations in foreign currency exchange rates;
- the impact of new accounting pronouncements;
- changes in revenue recognition policies that impact our subscriptions and services revenue;
- changes in regulatory or legal environments that may cause us to incur, among other things, expenses associated with compliance;
- the impact of changes in tax laws or judicial or regulatory interpretations of tax laws, which are recorded in the period such laws are enacted or interpretations are issued and may significantly affect the effective tax rate of that period;
- health epidemics or pandemics, such as the COVID-19 pandemic;
- changes in the competitive dynamics of our market, including consolidation among competitors or customers; and

- significant security breaches of, technical difficulties with, or interruptions to, the delivery and use of our offering.

The calculation methodology of our key metrics, including adjustments in methodologies from time to time, may also result in fluctuations in period-over-period results that may not be indicative of our long-term performance or that result in differing interpretations of trends in our business. For example, commencing with the first quarter of 2023, we began calculating ARR with respect to Confluent Cloud customers by annualizing actual consumption of Confluent Cloud in the last three months of the applicable period, which impacted our methodology for NRR and customers over \$100,000 in ARR as well. See the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Business Metrics.” While we believe this change in ARR methodology better aligns with how our management assesses ARR internally and better reflects actual customer behavior, it assumes Confluent Cloud consumption trends over 12-month periods based on three months of actual consumption, which does not account for future fluctuations and unpredictability in consumption rates or reflect trends in the growth or contraction of subscriptions over time. Further, we have experienced fluctuations in NRR and, as Confluent Cloud’s contribution to our revenue continues to increase, we expect to continue to experience increased volatility in NRR as our customers’ consumption trends may vary significantly across quarters for various reasons, including due to uncertainty in expected consumption ramp of a customer, our increasing prioritization of consumption over commitment for Confluent Cloud, and pricing of Confluent Cloud, as well as factors outside our control such as macroeconomic uncertainty and its effects on customers’ IT spending and customers’ organizational and business changes. As a result, our short-term NRR trends may be less indicative of longer-term timing and pace of Confluent Cloud customer expansion.

Because our customers have flexibility in the timing of their consumption of Confluent Cloud, we will have less visibility into the timing of revenue recognition compared to a subscription-based model. For example, we have experienced customers preferring a usage-based arrangement for consuming Confluent Cloud, where they can make smaller commitments, versus large upfront commitments, which has been driven in part by uncertain macroeconomic and geopolitical conditions. If we experience fluctuations in customer consumption, our actual results may differ from our forecasts, and our business, financial condition, and results of operations could be adversely affected.

Any of these and other factors, or the cumulative effect of some of these factors, may cause our results of operations to vary significantly. If our quarterly results of operations fall below the expectations of investors and securities analysts who follow our stock, the price of our Class A common stock could decline substantially, and we could face costly lawsuits, including securities class action suits.



***Our revenue mix may result in fluctuations in our results across periods, making it difficult to assess our future growth.***

Our revenue mix is varied based on the revenue recognition principles applicable to our offering. We recognize a portion of revenue from sales of subscriptions to Confluent Platform up front when our term-based license is delivered. The remainder, constituting post-contract customer support, maintenance, and upgrades, referred to together as PCS, comprises the substantial majority of the revenue and is recognized ratably over the subscription term. Customers may use Confluent Cloud either without a commitment contract, which we refer to as pay-as-you-go, or on a usage-based commitment contract of at least one year in duration. Pay-as-you-go customers are billed, and revenue from them is recognized, based on usage. Customers with usage-based commitments are billed annually in advance or monthly in arrears, and we recognize revenue from such subscriptions based on usage by the customer. Historically, our Confluent Cloud sales have been individually smaller, with varied usage levels from such customers over time, which may continue as we target the commercial customer segment as part of our sales strategy for Confluent Cloud. However, larger Confluent Cloud sales, including those with terms over one year, may also result in greater variations in usage levels due to the timing and size of those commitments. In addition, we have experienced and expect to continue experiencing an increased contribution from Confluent Cloud to our revenue mix. Macroeconomic impacts have caused, and may continue to cause, longer sales cycles compared to prior periods. As a result, there may be fluctuations in revenue period over period as revenue is dependent on varying patterns of customer consumption and timing of sales of Confluent Platform, which can result in larger upfront revenue recognition upon delivery of the term-based licenses, as well as revenue mix. In addition, we may experience fluctuations in margins as a result of high cloud infrastructure costs resulting from increased Confluent Cloud sales. Future fluctuations in our revenue and results across periods, including due to further changes in our revenue mix, may make it difficult to assess our future growth and performance.

***Downturns or upturns in our sales may not be immediately reflected in our financial position and results of operations.***

We recognize a significant portion of our revenue ratably over the term of Confluent Platform subscriptions. As a result, any decreases in new subscriptions or renewals in any one period may not immediately be fully reflected as a decrease in revenue for that period but would negatively affect our revenue in future quarters, even though such a decrease would be reflected in certain of our metrics as of the end of such period, including RPO. This also makes it difficult for us to rapidly increase our revenue through the sale of additional subscriptions in any period, as revenue is recognized over the term of the subscription. In addition, fluctuations in usage under our usage-based Confluent Cloud offering or monthly subscriptions for our pay-as-you-go offering could affect our revenue on a period-over-period basis. If our quarterly results of operations fall below the expectations of investors and securities analysts who follow our stock, the price of our Class A common stock would decline substantially, and we could face costly lawsuits, including securities class actions.

***If we fail to adapt and respond effectively to rapidly changing technology, evolving industry standards, changing regulations, or to changing customer needs, requirements, or preferences, our offering may become less competitive.***

Our ability to attract new users and customers and increase revenue from existing customers depends in large part on our ability to enhance, improve, and differentiate our existing offering, increase adoption and usage of our offering, and introduce new offerings and capabilities. The market in which we compete is relatively new and subject to rapid technological change, evolving industry standards, and changing regulations, as well as changing customer needs, requirements, and preferences. The success of our business will depend, in part, on our ability to adapt and respond effectively to these changes on a timely basis. Because the market for our offerings is relatively new, it is difficult to predict customer adoption, increased customer usage and demand for our offering, the size and growth rate of this market, the entry of competitive products, or the success of existing competitive products. If we are unable to enhance our offering and keep pace with rapid technological change, or if new technologies emerge that are able to deliver competitive products at lower prices, more efficiently, more conveniently or more securely than our offering, our business, financial condition, and results of operations could be adversely affected.

To remain competitive, we need to continuously modify and enhance our offering to adapt to changes and innovation in existing and new technologies. We expect that we will need to continue to differentiate our data-in-motion platform capabilities, as well as expand and enhance our platform to support a variety of adjacent use cases. This development effort will require significant engineering, sales, and marketing resources. Any failure to effectively offer solutions for these adjacent use cases could reduce customer demand for our offering. Further, our offering must also integrate with a variety of network, hardware, mobile, cloud, and software platforms and technologies, and we need to continuously modify and enhance our offering to adapt to changes and innovation in these technologies. This development effort may require significant investment in engineering, support, marketing, and sales resources, all of which would affect our business and results of operations. Any failure of our offering to operate effectively with widely adopted, future data infrastructure platforms, applications, and technologies would reduce the demand for our offering. In addition, the landscape of data and infrastructure will be impacted by the adoption of artificial intelligence in ways that are currently unforeseeable and that could have significant risks and opportunities for our business. If we are unable to respond to evolving customer needs, requirements, or preferences in a cost-effective manner, our offering may become less marketable and less competitive or obsolete, and our business, financial condition, and results of operations could be adversely affected.

***The market for our offering may develop more slowly or differently than we expect.***

It is difficult to predict customer adoption rates, consumption, and demand for our offering, the entry of competitive products or the future growth rate and size of the data infrastructure market. The expansion of this market depends on a number of factors, including the cost, performance, and perceived value associated with data infrastructure platforms as an alternative or supplement to legacy systems such as traditional databases, as well as the ability of platforms for data in motion to address heightened data privacy and security concerns. If we have a security incident or third-party cloud service providers experience security incidents, loss of customer data, disruptions in delivery or other similar problems, which is an increasing focus of the public and investors in recent years, the market for products as a whole, including our offering, may be negatively affected. In addition, many of our potential customers have made significant investments in alternative data infrastructure platforms and may be unwilling to invest in new products, such as our offering. If data-in-motion technology does not achieve market acceptance, including from rapidly evolving markets or industries, such as GenAI, or there is a reduction in consumption or demand caused by a lack of customer acceptance, technological challenges, weakening economic conditions, data privacy and security concerns, governmental regulation, competing technologies and products, decreases in information technology spending or otherwise, the market for our offering might not continue to develop or might develop more slowly than we expect, which would adversely affect our business, financial condition, and results of operations.

***The competitive position of our offering depends in part on its ability to operate with third-party products and services, including those of our partners, and if we are not successful in maintaining and expanding the compatibility of our offering with such products and services, our business may be harmed.***

The competitive position of our offering depends in part on its ability to operate with products and services of third parties, including software companies, software services, and infrastructure, and our offering must be continuously modified and enhanced to adapt to changes in hardware, software, networking, browser, and database technologies. In the future, one or more technology companies, whether our partners or otherwise, may choose not to support the operation of their software, software services, and infrastructure with our offering, or our offering may not support the capabilities needed to operate with such software, software services, and infrastructure. In addition, to the extent that a third party were to develop software or services that compete with ours, that provider may choose not to support our offering. We intend to facilitate the compatibility of our offering with various third-party software, software services, and infrastructure offerings by maintaining and expanding our business and technical relationships. If we are not successful in achieving this goal, our business, financial condition, and results of operations may be harmed.

***If we are unable to successfully manage the growth of our professional services business and improve our margins from these services, our business, financial condition, and results of operations will be harmed.***

Our professional services business, which engages with customers to help them in their strategy, architecture, and adoption of a data streaming platform, has grown as we have scaled our business. We believe our investment in professional services facilitates the adoption of our offering, especially with larger customers. As a result, our sales efforts have focused on marketing our offering to larger customers, rather than the profitability of our professional services business. If we are unable to successfully manage the growth of this business and improve our profit margin from these services, our business, financial condition, and results of operations will be harmed.

***We face risks associated with the growth of our business with certain heavily regulated industry verticals.***

We market and sell our offering to customers in heavily regulated industry verticals, including the banking and financial services industries. As a result, we face additional regulatory scrutiny, risks, and burdens from the governmental entities and agencies which regulate those industries. Selling to and supporting customers in heavily regulated verticals and expanding in those verticals will continue to require significant resources, and there is no guarantee that such efforts will be successful or beneficial to us. If we are unable to successfully maintain or expand our market share in such verticals, or cost-effectively comply with governmental and regulatory requirements applicable to our activities with customers in such verticals, our business, financial condition, and results of operations may be harmed.

***Seasonality may cause fluctuations in our sales, results of operations, and remaining performance obligations.***

Historically, we have experienced seasonality in RPO and new customer bookings, as we typically sell a higher percentage of subscriptions to new customers and renewal subscriptions with existing customers in the fourth quarter of the year. We believe that this results from the procurement, budgeting and deployment cycles of many of our customers, particularly our enterprise customers. We expect that this seasonality will continue to affect our bookings, RPO, and results of operations in the future and might become more pronounced as we continue to target larger enterprise customers.

***Sales to government entities are subject to a number of challenges and risks.***

We sell to U.S. Federal, state, and local government customers, as well as foreign and governmental agency customers, generally through resellers. Sales to such entities, whether direct or indirect, are subject to a number of challenges and risks. Selling to such entities can be highly competitive, expensive, and time-consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. Contracting with certain federal government entities (or resellers to such entities) requires additional compliance from us and our offerings, including with contractual requirements, regulations, and Executive Orders; compliance with such requirements may require us to change certain of our operations and involve significant effort and expense, which could harm our margins, business, financial condition, and results of operations. If we fail to achieve compliance with these standards and requirements, we may be disqualified from selling our offerings to such governmental entities, or be at a competitive disadvantage, which would harm our business, operating results, and financial condition. Government contracting requirements may also change and in doing so restrict our ability to sell into the government sector until we have complied with such requirements. Further, achieving and maintaining certain government certifications, such as U.S. Federal Risk and Authorization Management Program (FedRAMP) authorization for Confluent Cloud, may require significant upfront cost, time, and resources. If we do not obtain U.S. FedRAMP authorization for Confluent Cloud, we will not be able to sell Confluent Cloud, directly or indirectly, to certain Federal government and other public sector customers as well as private sector customers that require such certification for their intended use cases, which could harm our growth, business, and results of operations. This may also harm our competitive position against larger enterprises whose competitive offerings are FedRAMP authorized. Further, there can be no assurance that we will secure commitments or contracts with government entities even if we obtain such certifications, which could harm our margins, business, financial condition, and results of operations. Government demand and payment for our offerings have been and may in the future be negatively impacted by public sector budgetary cycles and funding authorizations, such as federal government shutdowns, with funding reductions or delays adversely affecting public sector demand for our offering.

Further, governmental entities or resellers to such entities may demand contract terms that differ from our standard arrangements and are less favorable than terms agreed with private sector customers. Such entities or resellers may have statutory, contractual or other legal rights to terminate contracts with us or our partners for convenience or for other reasons, some of which may be outside our control. Any termination for default/cause may adversely affect our ability to contract with other government customers as well as our reputation, business, financial condition, and results of operations. Governments and whistleblowers routinely investigate and audit government contractors' administrative processes and compliance with applicable legal requirements. An unfavorable investigation or audit could result in the government refusing to continue buying our subscriptions, a reduction of revenue, suspension or debarment from government contracting, or fines or civil or criminal liability if the audit uncovers improper or illegal activities, including under the False Claims Act, which could adversely affect our results of operations and reputation.

Our customers also include certain non-U.S. governments, to which government procurement law risks similar to those present in U.S. government contracting also apply, particularly in certain emerging markets where our customer base is less established. Compliance with complex regulations and contracting provisions in a variety of jurisdictions can be expensive and consume significant management resources. In certain jurisdictions, our ability to win business may be constrained by political and other factors unrelated to our competitive position in the market. Each of these difficulties could harm our business and results of operations.

***Acquisitions, strategic investments, joint ventures, or alliances could be difficult to identify, pose integration challenges, divert the attention of management, disrupt our business and culture, dilute stockholder value, and adversely affect our business, financial condition, and results of operations.***

We have in the past and may in the future seek to acquire or invest in businesses, joint ventures, products and platform capabilities, technologies, or technical know-how that we believe could complement or expand our platform capabilities, enhance our technical capabilities, or otherwise offer growth opportunities. Further, the proceeds we received from the IPO and our convertible notes offering increase the likelihood that we will devote resources to exploring larger and more complex acquisitions and investments than we have previously attempted. Any such acquisition or investment may divert the attention of management and cause us to incur various expenses in identifying, investigating, and pursuing suitable opportunities, whether or not the transactions are completed, and may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products and platform capabilities, personnel, or operations of any acquired companies, particularly if the key personnel of an acquired company choose not to work for us, their software is not easily adapted to work with our platform, or we have difficulty retaining the customers of any acquired business due to changes in ownership, management or otherwise. These transactions may also disrupt our business, divert our resources, and require significant management attention that would otherwise be available for development of our existing business. We may also have difficulty establishing our company values with personnel of acquired companies, which may negatively impact our culture and work environment. Any such transactions that we are able to complete may not result in any synergies or other benefits we had expected to achieve, which could result in impairment charges that could be substantial. In addition, we may not be able to find and identify desirable acquisition targets or business opportunities or be successful in entering into an agreement with any particular strategic partner. These transactions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our results of operations. In addition, if the resulting business from such a transaction fails to meet our expectations, our business, financial condition, and results of operations may be adversely affected or we may be exposed to unknown risks or liabilities.

***We may require additional capital to support the growth of our business, and this capital might not be available on acceptable terms, if at all.***

We have funded our operations since inception primarily through equity and debt financings and sales of our offering. While we have taken steps aimed at improving our operating efficiency, including our Restructuring Plan, we cannot be certain when or if our operations will generate sufficient cash to fully fund our ongoing operations or the growth of our business. We intend to continue to make investments to support our business, which may require us to engage in equity or debt financings to secure additional funds. Additional financing may not be available on terms favorable to us, if at all, particularly during times of market volatility and general economic instability. If adequate funds are not available on acceptable terms, we may be unable to invest in future growth opportunities, which could harm our business, results of operations, and financial condition. If we incur additional debt, the debt holders, together with holders of our outstanding convertible notes, would have rights senior to holders of common stock to make claims on our assets, and the terms of any future debt could restrict our operations, including our ability to pay dividends on our common stock. Furthermore, if we issue additional equity securities, including through future issuances of equity-linked or derivative securities, our existing stockholders could experience further dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in the future will depend on numerous considerations, including factors beyond our control, we cannot predict or estimate the amount, timing, or nature of any future issuances of debt or equity securities. As a result, our stockholders bear the risk of future issuances of debt or equity securities reducing the value of our Class A common stock and diluting their interests.

***Investors' and other stakeholders' expectations of our performance relating to environmental, social and governance factors may impose additional costs and expose us to new risks.***

There is an increasing focus from certain investors, customers, employees, and other stakeholders concerning environmental, social and governance matters, or ESG. Some investors may use these non-financial performance factors to guide their investment strategies and, in some cases, may choose not to invest in us if they believe our policies and actions relating to ESG are inadequate. We may face reputational damage in the event that we do not meet the ESG standards set by various constituencies.

As ESG best practices and reporting standards continue to develop, we may incur increasing costs relating to ESG monitoring and reporting and complying with ESG initiatives. For example, proposed or adopted climate and other ESG reporting regulations from the SEC, California, and other jurisdictions may increase our compliance costs. We may also face greater costs to comply with new ESG standards or initiatives in the European Union. In 2022, we published our first ESG Report, which describes the measurement of our greenhouse gas emissions for 2021 and our efforts to achieve carbon neutrality. In addition, our ESG Report provides highlights of how we are supporting our global workforce and our governance practices. Our disclosures on these matters, or a failure to meet evolving stakeholder expectations for ESG practices and reporting, may potentially harm our reputation and customer relationships. Due to new regulatory standards and market standards, certain new or existing customers, particularly those in the European Union, may impose stricter ESG guidelines or mandates for, and may scrutinize relationships more closely with, their counterparties, including us, which may lengthen sales cycles or increase our costs.

In addition, in the event that we communicate certain initiatives or goals regarding ESG matters, we could fail, or be perceived to fail, in our achievement of such initiatives or goals, or we could be criticized for the scope of such initiatives or goals. If we fail to satisfy the expectations of investors, customers, employees and other stakeholders or our initiatives are not executed as planned, our business, financial condition, results of operations, and prospects could be adversely affected.

## Risks Related to Cybersecurity

*If we, or third parties upon which we rely, experience a security incident compromising the confidentiality, integrity, or availability of our information technology, software, services, communications, or data, we could experience adverse consequences resulting from such compromise, including but not limited to, reputational harm, a reduction in the demand for our offering, regulatory investigations or actions, litigation, fines and penalties, disruptions of our business operations, or other adverse consequences.*

In the ordinary course of our business, we and the third parties upon which we rely, may process sensitive data, which may include personal information and our or our customers' or other third parties' sensitive, proprietary, and confidential information. As a result, we and the third parties upon which we rely, face a variety of evolving threats, which could cause security incidents. Security incidents that compromise the confidentiality, integrity, and availability of this information could result from cyber-attacks, computer viruses (such as worms, spyware, or other malware), social engineering (including phishing), ransomware, supply chain attacks, denial of service attacks, credential harvesting or stuffing, efforts by individuals or groups of hackers and sophisticated organizations, including state-sponsored organizations, errors or malfeasance of our personnel, including personnel who have authorized access to our systems and/or information, and security vulnerabilities in the software or systems on which we rely, including third-party systems. In particular, severe ransomware attacks, including those perpetrated by organized criminal threat actors, nation-states, and nation-state-supported actors, are becoming increasingly prevalent and severe and can lead to significant interruptions in our operations, loss of information and income, reputational harm, and diversion of funds. We have also experienced, and may in the future experience, cybersecurity incidents resulting in inadvertent disclosures of confidential information, including source code, caused by accidental actions or inactions by personnel who have authorized access to our systems and the systems of third-party repositories of such information. If our personnel access authorization policies and processes for our systems and/or information are too permissive, we may experience additional security incidents due to errors or malfeasance from our personnel, customer dissatisfaction, or increase the risk of third-party breaches or cyber-attacks. Extortion payments may alleviate the negative impact of a ransomware attack, but we may be unwilling or unable to make such payments due to, for example, applicable laws or regulations prohibiting such payments.

Some threat actors now engage and are expected to continue to engage in cyber-attacks, including without limitation nation-state actors for geopolitical reasons and in conjunction with military conflicts and defense activities. During times of war and other major conflicts, we and the third parties upon which we rely may be vulnerable to a heightened risk of these attacks, including retaliatory cyber-attacks, that could materially disrupt our systems and operations, supply chain, and ability to produce, sell and distribute our services.

Additionally, certain functional areas of our workforce remain in a remote work environment and outside of our corporate network security protection boundaries, which imposes additional risks to our business, including increased risk of industrial espionage, phishing, and other cybersecurity attacks, including those that are state-sponsored or politically motivated, and unauthorized access to or dissemination of sensitive, proprietary, or confidential information. Future acquisitions could also expose us to additional cybersecurity risks and vulnerabilities from any newly acquired information technology infrastructure.

In addition, our reliance on third-party service providers could introduce new cybersecurity risks and vulnerabilities, including supply-chain attacks, and other threats to our business operations. We rely on third parties to operate our critical business systems and process the sensitive, proprietary, and confidential information that we own, process, or control, including customer information and proprietary data and information, including source code. Our ability to monitor these third parties' information security practices is limited, and these third parties may not have adequate security measures and could experience a security incident that compromises the confidentiality, integrity, or availability of the systems they operate for us or the information they process on our behalf. If our third-party service providers experience a security incident or other interruption, we could experience adverse consequences. While we may be entitled to damages if our third-party service providers fail to satisfy their data privacy or security-related obligations to us, any award may be insufficient to cover our damages, or we may be unable to recover such award. In addition, supply-chain attacks have increased in frequency and severity, and we cannot guarantee that third parties' infrastructure in our supply chain or our third-party partners' supply chains have not been compromised.

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Cybercrime and hacking techniques are constantly evolving, and we or third parties who we work with may be unable to anticipate attempted security breaches, react in a timely manner, or implement adequate preventative measures, particularly given increasing use of hacking techniques designed to circumvent controls, avoid detection, and remove or obfuscate forensic artifacts. These risks are likely to increase as we continue to grow and process, control, store, and transmit increasingly large amounts of data.

While we have taken steps designed to protect the confidentiality, integrity, and availability of our systems and the sensitive, proprietary, and confidential information that we own, process, or control, our security measures or those of our third-party vendors may not be able to anticipate or implement effective preventive and remedial measures against all data privacy and security threats. No security solution, strategy, or measures can address all possible security threats or block all methods of penetrating a network or otherwise perpetrating a security incident. For example, we and our third-party providers have been and may in the future be compromised by the aforementioned or similar threats, and result in unauthorized, unlawful, or accidental processing of our information, or vulnerabilities in the products or systems upon which we rely. For example, beginning in January 2021, a malicious third party gained unauthorized access to a third-party vendor, Codecov, that provides a software code testing tool, potentially affecting more than a thousand of Codecov's customers, or Codecov Breach. In April 2021, we were notified that we had been impacted by the Codecov Breach. Through our investigations, we determined that the attackers leveraged a vulnerability in Codecov's software to gain access to credentials in our development environment, and thereby obtained unauthorized read-only access to, and copied to overseas IP addresses, the private Github repositories containing our source code and certain internal-use documents containing references to certain customers and other customer-related attributes. Upon learning of the breach, we took action to revoke Codecov's access and discontinued our use of the Codecov service, rotated all of our credentials identified as exposed by the Codecov Breach to prevent further unauthorized access, enhanced monitoring of our environment, and engaged a third-party forensics firm to assist in our investigation, response, and impact mitigation. We did not find any evidence of access to any customer data sent through or stored in our products, nor did we find any evidence that the attackers modified any of our source code or uploaded any malware or any other malicious code to our system. However, the full extent of the impact of this incident on our operations, products, or services may not be known for some time, and we cannot assure you that there will be no further impact in the future. This incident or any future incidents relating to the Codecov Breach could result in the use of exfiltrated source code to attempt to identify vulnerabilities in our offering, future ransomware or social engineering attacks, reduced market acceptance of our offering, injury to our reputation and brand, legal claims against us, and the diversion of our resources.

In addition, we do not control the content that our customers transmit, process, and maintain using our offering. If our customers use our offering for the transmission or storage of personal information and our security measures are, or are believed to have been, breached, our business may suffer, and we could incur significant liability.

If we, or a third party upon whom we rely, experience a security incident that results in the compromise of the confidentiality, integrity, or availability of our systems or the sensitive, proprietary, or confidential information that we own, process, or control, or the perception that one has occurred, this could result in a loss of customer confidence in the security of our platform and damage to our brand, reduce the demand for our offering, disrupt business operations, result in the exfiltration of proprietary data and information, including source code, require us to spend material resources to investigate or correct the incident and to prevent future security incidents, expose us to legal liabilities, including litigation, regulatory enforcement (including investigations, fines, penalties, audits, and inspections), additional oversight, restrictions or bans on processing personal information, indemnity obligations, claims by our customers or other relevant parties that we have failed to comply with contractual obligations to implement specified security measures, and adversely affect our business, financial condition, and results of operations.

We cannot assure you that the limitations of liability in our contracts would be enforceable or adequate or would otherwise protect us from such liabilities or damages. Applicable data privacy and security obligations may also require us to notify relevant stakeholders of security incidents. Such notifications are costly, and the notifications or the failure to comply with such requirements could lead to material adverse impacts such as negative publicity, loss of customer confidence in our services or security measures, investigations, and private or government claims.



In addition to experiencing a security incident, third parties may gather, collect, or infer sensitive information about us from public sources, data brokers, or other means that reveals competitively sensitive details about our organization and could be used to undermine our competitive advantage or market position. Additionally, sensitive information of the Company or our customers could be leaked, disclosed, or revealed as a result of or in connection with our employees', personnel's, or vendors' use of GenAI, technologies.

Additionally, we cannot be certain that our insurance coverage will be adequate or otherwise protect us with respect to claims, expenses, fines, penalties, business loss, data loss, litigation, regulatory actions, or other impacts arising out of security incidents, particularly if we experience an event that impacts multiple customers, that such coverage will continue to be available on acceptable terms or at all, or that such coverage will pay future claims. Any of these results could adversely affect our business, financial condition, and results of operations.

***Real or perceived errors, failures, bugs, or defects in our offering could adversely affect our reputation and harm our business.***

Our offering and data streaming platform are complex and, like all software, may contain undetected defects or errors. We are continuing to evolve the features and functionality of our data-in-motion platform through updates and enhancements, and as we do so, we may introduce additional defects or errors that may not be detected until after deployment by our customers. In addition, if our platform is not implemented or used correctly or as intended, inadequate performance and disruptions in service may result. Moreover, if we acquire companies or integrate into our platform technologies developed by third parties, we may encounter difficulty in incorporating the newly-obtained technologies into our platform and maintaining the quality standards that are consistent with our reputation. Since our customers use our data streaming platform for important aspects of their business, any actual or perceived errors, defects, bugs, or other performance problems could damage our customers' businesses. Any defects or errors in our data-in-motion platform, or the perception of such defects or errors, could result in a loss of, or delay in, market acceptance of our offering, loss of existing or potential customers, and delayed or lost revenue and could damage our reputation and our ability to convince enterprise users of the benefits of our offering.

In addition, errors in our data-in-motion platform could cause system failures, loss of data or other adverse effects for our customers that may assert warranty and other claims for substantial damages against us. Although our agreements with our customers typically contain provisions that seek to limit our exposure to such claims, it is possible that these provisions may not be effective or enforceable under the laws of some jurisdictions. While we seek to insure against these types of claims, our insurance policies may not adequately limit our exposure to such claims. These claims, even if unsuccessful, could be costly and time consuming to defend and could harm our business, financial condition, results of operations, and cash flows.

***Interruptions or performance problems associated with our offering may adversely affect our business, financial condition, and results of operations.***

Our continued growth depends in part on our ability to provide a consistently reliable data streaming platform. If we are unable to do so due to vulnerabilities in programming, coding errors, outages caused by our platform's complexity or scale or due to disruptions in cloud services, or because the systems complexity and scale result in extended outages, we may experience a loss of customers, lost or delayed market acceptance of our offering, delays in payment to us by customers, injury to our reputation and brand, legal claims against us, and the diversion of our resources.

It may become increasingly difficult to maintain and improve the performance of Confluent Cloud as our customer base grows and Confluent Cloud becomes more complex. We may experience disruptions, outages, and other performance problems in Confluent Cloud due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, denial of service attacks, issues with third-party cloud hosting providers, or other security-related incidents. To date, we have not completed an end-to-end test of all recovery scenarios for the Confluent Cloud offering and, as such, our recovery plans may not resolve disruptions, outages or other performance problems as quickly or as fully as we intend. To the extent that we do not effectively address recovery scenario planning, capacity constraints, upgrade our systems as needed, and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our reputation, business, financial condition, and results of operations may be adversely affected.

***We are subject to increasingly stringent and evolving U.S. and foreign laws, regulations, rules, contractual obligations, policies, and other requirements related to data privacy and security. Our actual or perceived failure to comply with such obligations could lead to regulatory investigations or actions, litigation, fines and penalties, disruptions of our business operations, reputational harm, or otherwise harm our business.***

In the ordinary course of our business, we collect, receive, store, generate, use, transfer, disclose, make accessible, protect, secure, dispose of, transmit, share, and process sensitive, proprietary, confidential, and regulated information, including personal information, trade secrets, intellectual property, and other business information, that belongs to us or that we may handle on behalf of others such as our customers. As such, we, our customers, and third parties upon which we rely, are subject to numerous evolving and increasingly stringent foreign and domestic laws and requirements relating to data privacy and security that are increasing the cost and complexity of operating our business. These requirements may also include regulations, guidance, industry standards, policies, contractual obligations, external and internal policies and procedures, and other obligations related to data privacy and security.

In the United States, federal, state, and local governments have enacted numerous data privacy and security laws, including data breach notification laws, personal information privacy laws, health information privacy laws, consumer protection laws (e.g., Section 5 of the Federal Trade Commission Act), other similar laws (e.g., wiretapping laws). For example, the California Consumer Privacy Act, or CCPA, imposes several obligations on covered businesses, including requiring specific disclosures in privacy notices related to a business's collection, use, and sharing of personal information, implementing new operational practices, and honoring requests from California residents to exercise certain privacy rights related to their personal information. The CCPA contains civil potential penalties for noncompliance of up to \$7,500 per violation and allows private litigants affected by certain data breaches to recover significant statutory damages. In addition, the California Privacy Rights Act of 2020, or CPRA, which became effective January 1, 2023, expands the CCPA's requirements including by applying to personal information of business representatives and employees and establishing a new California Privacy Protection Agency to implement and enforce the law. As of January 9, 2024, at least 12 more states have also passed comprehensive data privacy and security laws, and similar laws are being considered in several other states, as well as at the federal and local levels. These developments may further complicate compliance efforts and may increase legal risk and compliance costs for us and the third parties upon whom we rely. Additionally, pursuant to various data privacy and security laws and other obligations, we may be required to obtain certain consents to process personal information. Our inability or failure to do so could result in adverse consequences.

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Foreign laws relating to data privacy and security are also undergoing a period of rapid change and have become more stringent in recent years. For example, the General Data Protection Regulation, or EU GDPR, applies in the European Union, or EU, and by virtue of section 3 of the European Union (Withdrawal) Act 2018, the United Kingdom GDPR, or UK GDPR, applies in the UK. For major violations, noncompliant companies face fines of up to the greater of 20 million Euros or 4% of their global annual revenues under the EU GDPR and up to the greater of £17.5m or up to 4% of annual global revenues in respect of the UK GDPR. In addition to the foregoing, a breach of the EU GDPR or UK GDPR could result in regulatory investigations, reputational damage, potential bans on processing of personal information, private litigation, and/or other corrective action, such as class actions brought by classes of data subjects or by consumer protection organizations authorized at law to represent their interests. Laws in EU member states and the UK also impose restrictions on direct marketing communications and the use of cookies and similar technologies online, and a new regulation proposed in the EU called the e-Privacy Regulation may make such restrictions more stringent.

Furthermore, European data privacy and security laws, including the EU GDPR and UK GDPR, generally restrict the transfer of personal information from the European Economic Area, or EEA, and the UK to countries that are not generally considered by some data protection authorities as providing an adequate level of data protection. Swiss laws contain similar data transfer restrictions. The European Commission recently released updated Standard Contractual Clauses and the EU-U.S. Data Privacy Framework, mechanisms to transfer personal information outside of the EEA, which impose additional obligations for cross-border data transfers. Although there are currently various mechanisms available to transfer data from Europe, such as the Standard Contractual Clauses, the EU-U.S. Data Privacy Framework, and the UK's International Data Transfer Agreement/Addendum, the mechanisms are subject to legal challenges and there is no assurance that we can satisfy or rely on these mechanisms to lawfully transfer personal information to the United States. Countries outside of Europe have enacted or are considering similar cross-border data transfer restrictions and laws requiring local data residency and restricting cross-border data transfer, which could increase the cost and complexity of doing business. If we cannot implement a valid mechanism for cross-border personal information transfers, we may face increased risk of regulatory actions, penalties, and data processing restrictions or bans. For example, in May 2023, the Irish Data Protection Commission determined that a major social media company's use of the Standard Contractual Clauses was insufficient and levied a 1.2 billion Euro fine against the company and prohibited the company from transferring personal information to the United States. Evolving cross-border data transfer requirements may also result in reduced demand for our services and require us to increase our data processing capabilities and other operations in Europe at significant expense.

Data privacy and security laws are also becoming more stringent beyond Europe. For example, in Canada, the Personal Information Protection and Electronic Documents Act, and various related provincial laws, as well as Canada's Anti-Spam Legislation, may apply to our operations. We also target customers in Asia and have operations in China, Japan, and Singapore and may be subject to new and emerging data privacy and security regimes in Asia, including China's Personal Information Protection Law, Japan's Act on the Protection of Personal Information, and Singapore's Personal Data Protection Act.

We may also be bound by contractual obligations related to data privacy and security, and our efforts to comply with such obligations may not be successful. For example, data privacy laws including the EU GDPR, UK GDPR, and CCPA increasingly require companies to impose specific contractual restrictions on their service providers or processors. In addition, customers that may use certain of our offerings to process protected health information may require us to sign business associate agreements that subject us to the data privacy and security requirements under the U.S. Health Insurance Portability and Accountability Act of 1996 and the U.S. Health Information Technology for Economic and Clinical Health Act, or HIPAA, as well as state laws that govern the data privacy and security of health information. Our customers' increasing data privacy and security requirements also increase the cost and complexity of ensuring that the third parties we rely on to operate our business and deliver our services can meet these standards. If we or our vendors are unable to meet our customers' demands or comply with the increasingly stringent legal or contractual requirements they impose on us relating to data privacy and security, including requirements based on updated Standard Contractual Clauses, we may face increased legal liability, customer contract terminations and reduced demand for our services.

Our employees and personnel may use GenAI technologies to perform their work, and the disclosure and use of personal information in such technologies is subject to various data privacy and security laws and obligations. Governments have passed and are likely to pass additional laws regulating GenAI, including, for example, the EU's AI Act, which is expected to be adopted and enforced by 2026. Our use of this technology could result in additional compliance costs and regulatory investigations and actions. If we are unable to use GenAI, it could make our business less efficient and result in competitive disadvantages.

Finally, we may publish privacy policies, marketing material, and other documentation or statements regarding our collection, use, disclosure, and other processing of personal information. Although we endeavor to adhere to these policies, statements, and documentation, we, and the third parties on which we rely, may at times fail to do so or may be perceived to have failed to do so. Such failures could subject us to regulatory enforcement action as well as costly legal claims by affected individuals or our customers.

The number and scope of obligations related to data privacy and security are quickly changing. Preparing for and attempting to comply with these obligations requires significant resources and, potentially, changes to our technologies, systems, and practices and those of any third parties that process personal data on our behalf. We strive to comply with applicable data privacy and security laws and requirements, but we cannot fully determine the impact that current or future such laws and requirements may have on our business or operations. Such laws or requirements may be inconsistent from one jurisdiction to another, subject to differing interpretations, and courts or regulators may deem our efforts to comply as insufficient. If we, or the third parties we rely on to operate our business and deliver our services, fail to comply, or are perceived as failing to comply, with our legal or contractual obligations relating to data privacy and security, or our policies and documentation relating to personal information, we could face governmental enforcement action; litigation with our customers, individuals or others; fines and civil or criminal penalties for us or company officials; obligations to cease offering our services or to substantially modify them in ways that make them less effective in certain jurisdictions; negative publicity and harm to our brand and reputation; and reduced overall demand for our services. Such developments could adversely affect our business, financial condition, and results of operations.

## **Risks Related to Our Sales and Marketing Efforts and Brand**

*Failure to effectively develop and expand our sales and marketing capabilities or improve the productivity of our sales and marketing organization could harm our ability to expand our potential customer and sales pipeline, increase our customer base, and achieve broader market acceptance of our offering.*

Our ability to increase our customer base, achieve broader market adoption and acceptance of our offering, and expand our potential customer and sales pipeline and brand awareness will depend to a significant extent on our ability to expand and improve the productivity and effectiveness of our sales and marketing organization. We plan to continue expanding our direct sales force, both domestically and internationally. We also plan to dedicate significant resources to sales and marketing programs, including to decrease the time required for our sales personnel to achieve desired productivity levels. Historically, newly hired sales personnel have needed several quarters to achieve desired productivity levels. While our Restructuring Plan is expected to streamline sales and marketing spend, we expect to continue investing significant financial and other resources in our sales and marketing efforts, which will result in increased costs and impact our margins and results of operations. Our revenue growth rate, business, and results of operations have from time to time been harmed and may in the future be harmed if our sales and marketing efforts fail to successfully expand our potential customer and sales pipeline and existing customer engagement with our offering, including through increasing brand awareness, new customer acquisition, and market adoption of our offering, particularly for Confluent Cloud. In addition, we may not achieve anticipated revenue growth from investing in our sales force if we are unable to hire, develop, integrate, and retain talented and effective sales personnel, if our new and existing sales personnel, on the whole, are unable to achieve desired productivity levels in a reasonable period of time or at all, or if our sales and marketing programs are not effective. Our growth rates, results of operations, business, and financial condition will also be harmed if we do not effectively reorient our sales organization and sales motion for Confluent Cloud in connection with our shift to a consumption-oriented sales model, on a timely basis or at all. Our efforts in this regard may be disrupted by a variety of factors, including continuing macroeconomic uncertainty and slower than expected ramp time for our sales and marketing organization, and may result in near term headwinds to our growth. As part of this strategy, we are significantly reorienting our sales compensation, marketing systems and processes, and fundamental business metrics around the consumption-oriented sales model, which may cause friction and attrition in our sales organization related to the transition. These dynamics may be exacerbated by historical turnover within our sales organization, including among senior sales personnel. Any such challenges in connection with our shift to a consumption-oriented sales model for Confluent Cloud may adversely impact our ability to meet our sales forecasts, cause delays in our sales cycle, result in attrition among our sales personnel, and result in increased costs, any of which would harm our growth, business, results of operations, and financial condition.

***If we fail to maintain and enhance our brand, including among developers, our ability to expand our customer base will be impaired and our business, financial condition, and results of operations may suffer.***

We believe that maintaining and enhancing the Confluent brand, including among developers, is important to support the marketing and sale of our existing and future offerings to new customers and expansion of sales to existing customers. We believe that the importance of brand recognition will increase as competition in our market increases. In particular, we believe that enhancing the Confluent brand will be critical to the growth and market adoption and acceptance of Confluent Cloud due to the presence of open source alternatives, competing large public cloud providers with widespread name recognition, such as AWS, Azure, and GCP, and other data infrastructure platforms. Software developers, including those within our customers' IT departments, are often familiar with our underlying technology and value proposition. We rely on their continued adoption of our offering to evangelize on our behalf within their organizations and increase reach and mindshare within the developer community. Actions that we have taken in the past or may take in the future with respect to Apache Kafka or our community license, including the development and growth of our proprietary offering, may be perceived negatively by the developer community and harm our reputation. Successfully maintaining and enhancing our brand will depend largely on the effectiveness of our marketing efforts, our ability to provide reliable products that continue to meet the needs of our customers at competitive prices, our ability to maintain our customers' trust, our ability to continue to develop new functionality and use cases, our ability to successfully differentiate our offering and its capabilities from competitive products, including open source alternatives, and our ability to increase our reach and mindshare in the developer community. Our brand promotion activities may not generate customer awareness or yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incur in building our brand. If we fail to successfully promote and maintain our brand, our business, financial condition, and results of operations may suffer.

***We have a limited history with pricing models for our offering, and we may need to adjust the pricing terms of our offering, which could have an adverse effect on our revenue and results of operations.***

We have limited experience with respect to determining the optimal prices for our offering, and, in particular, we have limited experience pricing our offering under economic conditions characterized by high inflation or in recessionary or uncertain economic environments. We have changed our pricing model from time to time and expect to continue to do so in the future. For example, in late 2019, we transitioned the primary purchase model for Confluent Cloud from a defined configuration paid annually in advance to a model based on actual monthly usage and committed annual spend. We also expect to continue providing additional features and functionality for our offering as we work toward expanding applications and use cases for our offering, which will require us to continuously evaluate optimal pricing for our offering. If we do not optimally adjust pricing for our offering, our revenue and margins as well as future customer acquisitions may be negatively impacted. As the markets for our offering mature, as macroeconomic conditions evolve, or as new competitors introduce new products or services that compete with ours, we may be unable to attract new customers at the same price or on the same terms. Moreover, enterprise customers may demand greater price concessions, or we may be unable to increase prices to offset increases in costs, including hosting costs associated with Confluent Cloud and increases related to inflationary pressures. However, our historical data and operating experience may be insufficient to adequately inform our future pricing strategies for changing market environments. As a result, in the future we may be required to reduce our prices or increase our discounting, which could adversely affect our revenue, gross margin, profitability, financial position, and cash flow.

***Sales to enterprise customers involve risks that may not be present or that are present to a lesser extent with respect to sales to smaller organizations.***

As of December 31, 2023 and December 31, 2022, we had 1,229 customers and 1,015 customers with \$100,000 or greater in ARR, respectively. See the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Business Metrics” for a description of ARR. Sales to enterprise customers and large organizations involve risks that may not be present or that are present to a lesser extent with sales to smaller customers, including the commercial customer segment. These risks include longer sales cycles, more complex customer requirements, substantial upfront sales costs and less predictability in completing some of our sales. For example, enterprise customers may require considerable time to evaluate and test our offering and those of our competitors prior to making a purchase decision and placing an order. A number of factors influence the length and variability of our sales cycle, including the need to educate potential customers about the uses and benefits of our offering, the discretionary nature of purchasing and budget cycles, macroeconomic uncertainty and challenges and resulting increased IT spending scrutiny, heightened security and data privacy requirements, and the competitive nature of evaluation and purchasing approval processes. Since the process for deployment, configuration, and management of our offering is complex, we are also often required to invest significant time and other resources to train and familiarize potential customers with our offering. Customers may engage in extensive evaluation, testing, and quality assurance work before making a purchase commitment, which increases our upfront investment in sales, marketing, and deployment efforts, with no guarantee that these customers will make a purchase or increase the scope of their subscriptions. In certain circumstances, an enterprise customer’s decision to use our offering may be an organization-wide decision, and therefore, these types of sales require us to provide greater levels of education regarding the use and benefits of our offering. As a result, the length of our sales cycle, from identification of the opportunity to deal closure, has varied, and may continue to vary, significantly from customer to customer, with sales to large enterprises and organizations typically taking longer to complete. Moreover, large enterprise customers often begin to deploy our offering on a limited basis but nevertheless demand configuration, integration services, and pricing negotiations, which increase our upfront investment in the sales effort with no guarantee that these customers will deploy our offering widely enough across their organization to justify our substantial upfront investment.

Given these factors, it is difficult to predict whether and when a sale will be completed and when revenue from a sale will be recognized due to the variety of ways in which customers may purchase our offering. This may result in lower than expected revenue in any given period, which would have an adverse effect on our business, results of operations, and financial condition.

***Our estimates of market opportunity and forecasts of market growth may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.***

Our estimates of market opportunity and forecasts of market growth may prove to be inaccurate. Market opportunity estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate, including due to the risks described in this Annual Report. Even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.

The variables that go into the calculation of our market opportunity are subject to change over time, and there is no guarantee that any particular number or percentage of addressable users or companies covered by our market opportunity estimates will purchase our offering at all or generate any particular level of revenue for us.

Any expansion in our market depends on a number of factors, including the cost, performance, and perceived value associated with our data streaming platform and those of our competitors. Even if the market in which we compete meets our size estimates and growth forecasts, our business could fail to grow at similar rates, if at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties.

## **Risks Related to Our Customers**

*If we are unable to attract new customers or expand our potential customer and sales pipeline, our business, financial condition, and results of operations will be adversely affected.*

To increase our revenue, we must continue to generate market acceptance of our brand and attract new customers and expand our potential customer and sales pipeline. Our success will depend to a substantial extent on the widespread adoption of our offering as an alternative to competing solutions, including open source alternatives. In addition, as our market matures, our offering evolves, and competitors introduce lower cost or differentiated products that compete with our offering, our ability to sell our offering could be impaired. Similarly, our sales efforts could be adversely impacted if customers or users within these organizations perceive that features incorporated into competitive products reduce the need for our offering or if they prefer to purchase competing products that are bundled together with other types of products, such as data infrastructure platforms offered by public cloud providers. Our existing sales and marketing strategies for new customer acquisition may also be unsuccessful. For example, we offer free, limited evaluation and developer usage of Confluent Platform and free introductory usage of Confluent Cloud to encourage awareness, usage, familiarity, and adoption, and a pay-as-you-go arrangement for Confluent Cloud without usage commitments. If we are unable to successfully convert these free users into paying customers, or convert pay-as-you-go customers into customers with usage-based commitments, we will not realize the intended benefits of this marketing and adoption strategy. Additionally, our success depends in part on the adoption and expanded use of our offering by customers who are subject to rapidly evolving rules, regulations, and industry standards or are in new or emerging markets, such as GenAI, which may impact our ability to generate market acceptance of our offering or cause market acceptance of our offering to develop more slowly than we expect. As a result of these and other factors, we may be unable to attract new customers or expand our potential customer and sales pipeline, which may have an adverse effect on our business, financial condition, and results of operations.



***Our business depends on our existing customers renewing their subscriptions and usage-based commitments, purchasing additional subscriptions and usage-based commitments, and expanding their use of our offering.***

Our future success depends in part on our ability to expand our customers' use of our offering into additional use cases, our customers renewing their subscriptions and usage-based commitments, and our ability to develop our offering for additional use cases and applications. The terms of our subscriptions and usage-based commitments are primarily one year in duration. Our customers have no obligation to renew after the expiration of the applicable term. In order for us to maintain or improve our results of operations, it is important that our customers enter into relationships with us that increase in value over time, and renew and expand their subscriptions with us, including through the use of our offering for additional use cases and applications. Although we seek to increase our revenue through expanded use of our offering by customers in additional use cases, we may not be successful in such efforts. Our dollar-based net retention rate has historically declined or fluctuated, and may further decline or fluctuate, as a result of a number of factors, including loss of one or more customers, the timing and size of any such losses, business strength or weakness of our customers, customer usage of our offering, customer satisfaction with the capabilities of our offering and our level of customer support, our prices, the capabilities and prices of competing products, decisions by customers to use open source alternatives, mergers and acquisitions affecting our customer base, the effects of global economic conditions, including increased interest rates and inflation, currency exchange rate fluctuations, or reductions in our customers' spending on IT solutions or their spending levels generally. In addition, as some customers transition from Confluent Platform to Confluent Cloud, our dollar-based net retention rate may decline or fluctuate, at least in the short term, as those customers replace subscriptions to Confluent Platform with usage-based commitments. Historically, some of our customers have elected not to renew their subscriptions with us for a variety of reasons, including as a result of competing products, internally developed or managed solutions, including those based on Apache Kafka or other open source alternatives, mergers and acquisitions of our customers, and global economic conditions. These factors may also be exacerbated if our customer base of larger enterprises continues to grow, which may require increasingly sophisticated and costly sales efforts, if large enterprises further develop internal capabilities, and if a recessionary or uncertain economic environment negatively impacts our customer base's information technology budgets. In addition, a strengthening of the U.S. dollar could increase the real cost of our offering to our customers outside of the United States, which could result in loss of customers or reduced usage of our offering. If our customers do not renew their subscriptions and/or usage-based commitments, expand their use of our offering, and purchase additional products from us, our revenue may decline and our business, financial condition, and results of operations may be harmed.

***If we or any of our partners fail to offer high-quality support, our reputation could suffer.***

Our customers rely on our or our channel partners' support personnel to resolve issues and realize the full benefits that our offering provides. High-quality support is also important for the continuation and expansion of our relationships with existing customers. The importance of these support functions will increase as we expand our business and pursue new customers. In certain cases when we provide our offering for sale by channel partners as part of their value-added offerings, our partners may be responsible for providing support and support personnel for our customers. We often have limited to no control or visibility in such cases. If we or such partners do not help our customers quickly resolve issues and provide effective ongoing support, our ability to maintain and expand our sales to existing and new customers could suffer, and our reputation with existing or potential customers could suffer.

***Incorrect implementation or use of our offering, or our customers' failure to update Confluent Platform, could result in customer dissatisfaction and negatively affect our reputation, business, operations, financial results, and growth prospects.***

Our offering is often used for and within large scale, complex IT environments. Our customers and some partners require education and experience in the proper use of and the benefits that can be derived from our offering to maximize their potential. If users of our offering do not implement, use, or update our offering correctly or as intended, then inadequate performance and/or security vulnerabilities may result. Because our customers rely on our offering to manage a wide range of operations, the incorrect implementation or use of our offering, or our self-managed customers' failure to update Confluent Platform, or our failure to train customers on how to use our offering productively may result in customer dissatisfaction, and negative publicity, and may adversely affect our reputation and brand. Our failure to effectively provide education and implementation services to our customers could result in lost opportunities for follow-on sales to these customers and decrease subscriptions by new customers, which would adversely affect our business and growth prospects.

***Indemnity provisions in various agreements to which we are party potentially expose us to substantial liability for infringement, misappropriation, or other violation of intellectual property rights, data protection, and other losses.***

Certain of our agreements with our customers and other third parties include indemnification provisions under which we agree to indemnify or otherwise be liable to them for losses suffered or incurred as a result of claims of infringement, misappropriation or other violation of intellectual property rights, data protection, compliance with laws, damages caused by us to property or persons, or other liabilities relating to or arising from our software, services, platform, our acts or omissions under such agreements, or other contractual obligations. From time to time, our customers and other third parties have requested, and may in the future request, us to indemnify them for such claims or liabilities. In certain circumstances, our agreements provide for uncapped indemnity liability for certain intellectual property infringement claims. Large indemnity payments could harm our business, financial condition, and results of operations. Although we attempt to contractually limit our liability with respect to such indemnity obligations, we are not always successful and may still incur substantial liability related to them, and we may be required to cease use of or modify certain functions of our offering as a result of any such claims. Any dispute with a customer or other third party with respect to such obligations could have adverse effects on our relationship with such customer or other third party and other existing or prospective customers, reduce demand for our subscriptions and services and adversely affect our business, financial condition, and results of operations. In addition, although we carry general liability insurance, our insurance may not be adequate to indemnify us for all liability that may be imposed or otherwise protect us from liabilities or damages with respect to claims alleging unauthorized access to or disclosure of customer data, and any such coverage may not continue to be available to us on acceptable terms or at all.

***We typically provide service-level commitments under our customer agreements. If we fail to meet these commitments, we could face customer terminations, a reduction in renewals, and damage to our reputation, which would lower our revenue and harm our business, financial condition, and results of operations.***

Our agreements with our customers contain uptime and response service-level commitments. If we fail to meet these commitments, we could face customer terminations or a reduction in renewals, which could significantly affect both our current and future revenue. Any service-level commitment failures could also damage our reputation. In addition, if we are unable to meet the stated uptime requirements described in our Confluent Cloud agreements, we may be contractually obligated to provide these customers with service credits, which could significantly affect our revenue in the periods in which the failure occurs and the credits are applied. Any of these outcomes or failures could also adversely affect our business, financial condition, and results of operations.

## **Risks Related to Our Intellectual Property**

*We use third-party open source software in our offering, which could negatively affect our ability to sell our offering or subject us to litigation or other actions.*

We use third-party open source software in our offering, most significantly Apache Kafka and including Apache Flink, and we expect to continue to incorporate such open source software in our offering in the future. Many open source software licenses, including the Apache License, Version 2.0, state that any work of authorship licensed under it may be reproduced and distributed provided that certain conditions are met. However, we may be subject to suits by parties claiming ownership rights in what we believe to be permissively licensed open source software or claiming non-compliance with the applicable open source licensing terms. It is possible that a court would hold the Apache License, Version 2.0 to be unenforceable or that someone could assert a claim for proprietary rights in a program developed and distributed under it. Any ruling by a court that this license is not enforceable, or that open source components of our offering may not be reproduced or distributed, may negatively impact our distribution or development of all or a portion of our offering.

In addition, some open source licenses require end-users who distribute or make available across a network software and services that include open source software to make available all or part of such software, which in some circumstances could include valuable proprietary code. While we employ practices designed to monitor our compliance with the licenses of third-party open source software and protect our valuable proprietary source code, we may inadvertently use third-party open source software in a manner that is inconsistent with our applicable policies, or that exposes us to claims of non-compliance with the terms of their licenses, including claims of intellectual property rights infringement or breach of contract. Furthermore, there exists today an increasing number of types of open source software licenses, almost none of which have been tested in courts of law to provide guidance of their proper legal interpretations. From time to time, there have been claims challenging the ownership rights in open source software against companies that incorporate it into their offerings, and the licensors of such open source software provide no warranties or indemnities with respect to such claims. As a result, we and our customers could be subject to lawsuits or threats of lawsuits by parties claiming ownership rights in what we believe to be permissively licensed open source software. Resulting litigation could be costly for us to defend and harm our reputation, business, financial condition, and results of operations. If our activities were determined to be out of compliance with the terms of any applicable “copyleft” open source licenses, we may be required to publicly release certain portions of our proprietary source code for no cost, we could face an injunction for our offering, and we could also be required to expend substantial time and resources to re-engineer some or all of our software.

We also regularly contribute source code under open source licenses and have made some of our own software available under open source or source-available licenses, and we include third-party open source software in our offering. Because the source code for any software we contribute to open source projects, including Apache Kafka and Apache Flink, or distribute under open source or source-available licenses is publicly available, our ability to protect our intellectual property rights with respect to such source code may be limited or lost entirely, and we may be limited in our ability to prevent our competitors or others from using such contributed source code. While we have policies in place that govern such submissions, there is a risk that employees may submit proprietary source code or source code embodying our intellectual property, in either case, not intended to be distributed in such a manner, to such open source projects. In addition, the use of third-party open source software may expose us to greater risks than the use of third-party commercial software because open source licensors generally do not provide warranties or controls on the functionality or origin of the software. Use of open source software may also present additional security risks because the public availability of such software may publicize vulnerabilities or otherwise make it easier for hackers and other third parties to determine how to compromise our platform or the systems of our customers who are running our offering. Any of the foregoing could be harmful to our business, results of operations or financial condition, and could help our competitors develop products and services that are similar to or better than ours.

***Our offering has evolved from Apache Kafka, Apache Flink and other open source software, which are widely available, and therefore, we do not own the exclusive rights to the use of Apache Kafka, Apache Flink and other open source software, nor are we able to control the evolution, enhancement, and maintenance of Apache Kafka, Apache Flink and other open source software.***

The technology underlying our offering has evolved from certain open source software, such as Apache Kafka and Apache Flink, and as a result we cannot exclude other companies from adopting and modifying certain common elements of our software and that of such open source software. With open source software, competitors can also develop competing products without the amount of overhead and lead time required for traditional proprietary software development. In addition, if competing products are also based on or compatible with Apache Kafka or Apache Flink, existing customers may also be able to easily transfer their applications to competing products. Competitors with greater resources than ours or members of the Apache Kafka or Apache Flink communities may create similar or superior offerings, or modify Apache Kafka or Apache Flink with different, superior features, and could make such products available to the public free of charge. Our competitors or members of the open source community may also develop a new open source project or a closed-source proprietary product that is similar to or superior to Apache Kafka or Apache Flink in terms of features or performance, in turn gaining popularity or replacing Apache Kafka as the new standard for data-in-motion technology among developers and other users. As a result, the future of Apache Kafka, Apache Flink and other open source software could change dramatically and such change in trajectory, use and acceptance in the marketplace and resulting competitive pressure could result in reductions in the prices we charge for our offering, loss of market share, and adversely affect our business operations and financial outlook. Additionally, the development and growth of our proprietary offering may result in the perception within the open source community of a diminution of our commitment to Apache Kafka, Apache Flink and other open source platforms. Such perceptions may negatively affect our reputation within the developer community, which may adversely affect market acceptance and future sales of our offering.

***Any failure to obtain, maintain, protect, or enforce our intellectual property and proprietary rights could impair our ability to protect our proprietary technology and our brand.***

Our success depends to a significant degree on our ability to obtain, maintain, protect and enforce our intellectual property rights, including our proprietary technology, know-how, and our brand. We rely on a combination of trademarks, trade secrets, patents, copyrights, service marks, contractual restrictions, and other intellectual property laws and confidentiality procedures to establish and protect our proprietary rights. However, the steps we take to obtain, maintain, protect, and enforce our intellectual property rights may be inadequate. We will not be able to protect our intellectual property rights if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property rights. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our proprietary technology and develop and commercialize substantially identical products, services, or technologies. In addition, defending our intellectual property rights might entail significant expense. Any patents, trademarks or other intellectual property rights that we have or may obtain may be challenged or circumvented by others or invalidated or held unenforceable through administrative process, including re-examination, *inter partes* review, interference and derivation proceedings, equivalent proceedings in foreign jurisdictions (e.g., opposition proceedings), or litigation.

We have a limited patent portfolio. Even if we continue to seek patent protection in the future, we may be unable to obtain or maintain patent protection for our technology. In addition, our issued patents or any patents issued from future patent applications or licensed to us in the future may not provide us with competitive advantages or may be successfully challenged by third parties. There may be issued patents of which we are not aware, held by third parties that, if found to be valid and enforceable, could be alleged to be infringed by our current or future technologies or offerings. There also may be pending patent applications of which we are not aware that may result in issued patents, which could be alleged to be infringed by our current or future technologies or offerings. Furthermore, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights are uncertain. Despite our precautions, it may be possible for unauthorized third parties to copy our offering and use information that we regard as proprietary to create products that compete with ours. Patent, trademark, copyright, and trade secret protection may not be available to us in every country in which our offering is available.

The value of our intellectual property could diminish if others assert rights in or ownership of our trademarks and other intellectual property rights, or trademarks that are similar to our trademarks. We may be unable to successfully resolve these types of conflicts to our satisfaction. In some cases, litigation or other actions may be necessary to protect or enforce our trademarks and other intellectual property rights. Furthermore, third parties may assert intellectual property claims against us, and we may be subject to liability, required to enter into costly license agreements, or required to rebrand our offering or prevented from selling our offering if third parties successfully oppose or challenge our trademarks or successfully claim that we infringe, misappropriate or otherwise violate their trademarks or other intellectual property rights. In addition, the laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. As we expand our international activities, our exposure to unauthorized copying and use of our offering and proprietary information will likely increase. Moreover, policing unauthorized use of our technologies, trade secrets, and intellectual property may be difficult, expensive, and time-consuming, particularly in foreign countries where the laws may not be as protective of intellectual property rights as those in the United States and where mechanisms for enforcement of intellectual property rights may be weak. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon, misappropriating or otherwise violating our intellectual property rights.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with other third parties, including suppliers and other partners. However, we cannot guarantee that we have entered into such agreements with each party that has or may have had access to our proprietary information, know-how, and trade secrets. Moreover, no assurance can be given that these agreements will be effective in controlling access to, distribution, use, misuse, misappropriation, reverse engineering, or disclosure of our proprietary information, know-how, and trade secrets. Further, these agreements may not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our offering and platform capabilities. These agreements may be breached, and we may not have adequate remedies for any such breach. Additionally, as a result of the Codecov Breach, certain of our proprietary data and information, including source code, was exfiltrated. This and any future similar incidents may lead to unauthorized use of our intellectual property rights by third parties. Third parties with access to our exfiltrated source code may also glean insights into our proprietary architecture by examining structural elements of the source code. Due to the nature of this incident, our ability to enforce our rights against such unauthorized users may be limited or not possible.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect such rights. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming, and distracting to management, and could result in the impairment or loss of portions of our intellectual property. Further, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights, and if such defenses, counterclaims, or countersuits are successful, we could lose valuable intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our offering and platform capabilities, impair the functionality of our offering and platform capabilities, delay introductions of new solutions, result in our substituting inferior or more costly technologies into our offering, or injure our reputation.

We may become subject to intellectual property disputes, which are costly and may subject us to significant liability and increased costs of doing business.

Our success depends, in part, on our ability to develop and commercialize our offering without infringing, misappropriating or otherwise violating the intellectual property rights of third parties. However, we may not be aware that our offering is infringing, misappropriating or otherwise violating third-party intellectual property rights, and such third parties may bring claims alleging such infringement, misappropriation or violation. Lawsuits are time-consuming and expensive to resolve, and they divert management's time and attention. The software industry is characterized by the existence of a large number of patents, copyrights, trademarks, trade secrets, and other intellectual and proprietary rights. Companies in the software industry are often required to defend against litigation claims based on allegations of infringement, misappropriation or other violations of intellectual property rights. Our technologies may not be able to withstand any third-party claims against their use. In addition, many companies have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. We do not currently have a large patent portfolio, which could prevent us from deterring patent infringement claims through our own patent portfolio, and our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we have. Any litigation may also involve patent holding companies or other adverse patent owners that have no relevant product revenue, and therefore, our patent applications may provide little or no deterrence as we would not be able to assert them against such entities or individuals. If a third party is able to obtain an injunction preventing us from accessing such third-party intellectual property rights, or if we cannot license or develop alternative technology for any infringing aspect of our business, we would be forced to limit or stop sales of our offering or cease business activities related to such intellectual property. Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. We cannot predict the outcome of lawsuits and cannot ensure that the results of any such actions will not have an adverse effect on our business, financial condition or results of operations. Any intellectual property litigation to which we might become a party, or for which we are required to provide indemnification, may require us to do one or more of the following:

- cease selling or using offerings that incorporate the intellectual property rights that we allegedly infringe, misappropriate or violate;
- make substantial payments for legal fees, settlement payments, or other costs or damages;
- obtain a license, which may not be available on reasonable terms or at all, to sell or use the relevant technology; or
- redesign the allegedly infringing offerings to avoid infringement, misappropriation or violation, which could be costly, time-consuming, or impossible.

Even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and results of operations. Moreover, there could be public announcements of the results of hearings, motions or other interim proceedings or developments, and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our Class A common stock. We expect that the occurrence of infringement claims is likely to grow as the market for our data streaming platform and our offering grows. Accordingly, our exposure to damages resulting from infringement claims could increase, and this could further exhaust our financial and management resources.

## **Risks Related to Our Dependence on Third Parties**

*We rely on third-party providers of cloud-based infrastructure to host Confluent Cloud. Any failure to adapt our offering to evolving network architecture technology, disruption in the operations of these third-party providers, limitations on capacity or use of features, or interference with our use could adversely affect our business, financial condition, and results of operations.*

We outsource all of the infrastructure relating to Confluent Cloud to AWS, Azure, and GCP, as selected by our customers. Customers of our Confluent Cloud service need to be able to access our service at any time, without interruption or degradation of performance, and we provide them with service-level commitments with respect to uptime. Our Confluent Cloud service depends on the ability of the cloud infrastructure hosted by these third-party providers to allow for our customers' configuration, architecture, features, and interconnection specifications, as well as secure the information stored in these virtual data centers, which is transmitted through third-party internet service providers. Any limitation on the capacity of our third-party hosting providers, including due to technical failures, natural disasters, fraud, or security attacks, could impede our ability to onboard new customers or expand the usage of our existing customers, which could adversely affect our business, financial condition, and results of operations. In addition, our third-party cloud service providers run their own platforms that we access, and we are, therefore, vulnerable to service interruptions at these providers. Any incident affecting our providers' infrastructure, including any incident that may be caused by cyber-attacks, natural disasters, fire, flood, severe storm, earthquake, power loss, telecommunications failures, terrorist or other attacks, and other similar events beyond our control could negatively affect our Confluent Cloud service. In some instances, we may not be able to identify the cause or causes of these performance problems within a period of time acceptable to our customers. A prolonged service disruption affecting our service for any of the foregoing reasons would negatively impact our ability to serve our customers and could damage our reputation with current and potential customers, expose us to liability, cause us to lose customers or otherwise harm our business. We may also incur significant costs for using alternative equipment or taking other actions in preparation for, or in reaction to, events that damage the third-party cloud services we use. Features and functionality for Confluent Cloud may also not be available on the same basis or at all on one or more infrastructure platforms, which may hinder adoption of Confluent Cloud, reduce usage, and harm our brand, business, and results of operations. Additionally, such third-party providers either have, or may develop competing products to Confluent Cloud, which may impact our ability to partner with them effectively. Any of the above circumstances or events may harm our reputation, cause customers to stop using our products, impair our ability to increase revenue from existing customers, impair our ability to grow our customer base, and otherwise harm our business, results of operations, and financial condition.

In the event that our service agreements with our third-party cloud service providers are terminated or amended, or there is a lapse of service, elimination of services or features that we utilize, interruption of internet service provider connectivity or damage to such facilities, access to Confluent Cloud could be interrupted and result in significant delays and additional expense as we arrange or create new facilities and services or re-architect our Confluent Cloud service for deployment on a different cloud infrastructure service provider, which could adversely affect our business, financial condition, and results of operations. To the extent that we do not effectively anticipate capacity demands, upgrade our systems as needed, and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and results of operations may be adversely affected.

***If we are unable to develop and maintain successful relationships with partners to distribute our products and generate sales opportunities, our business, results of operations, and financial condition could be harmed.***

We have established, and intend to continue seeking opportunities for, partnership arrangements with certain channel partners to distribute our products and generate sales opportunities, particularly internationally. We believe that continued growth in our business is dependent upon identifying, developing, and maintaining strategic relationships with our existing and potential channel partners that can drive revenue growth in more geographies and market segments, particularly for government customers, and provide additional features and functionality to our customers. Our agreements with our existing channel partners are non-exclusive, meaning our channel partners may offer customers the products of several different companies, including products that compete with ours. They may also cease marketing our products with limited or no notice and with little or no penalty. We expect that any additional channel partners we identify and develop will be similarly non-exclusive and not bound by any requirement to continue to market our products. As our channel partnerships come to an end or terminate, we may be unable to renew or replace them on comparable terms, or at all. In addition, winding down channel partnerships can result in additional costs, litigation, and negative publicity. If we fail to identify additional channel partners in a timely and cost-effective manner, or at all, or are unable to assist our current and future channel partners in independently distributing and deploying our products, our business, results of operations, and financial condition could be harmed. When we enter into channel partnerships, our partners may be required to undertake some portion of sales, marketing, implementation services, engineering services, support services, or software configuration that we would otherwise provide, including due to regulatory constraints. In such cases, our partner may be less successful than we would have otherwise been absent the arrangement and our ability to influence, or have visibility into, the sales, marketing, and related efforts of our partners may be limited. Further, if our channel partners do not effectively market and sell our products, or fail to meet the needs of our customers, our reputation and ability to grow our business may also be harmed.

***We depend and rely on SaaS technologies from third parties to operate our business, and interruptions or performance problems with these technologies may adversely affect our business and results of operations.***

We rely on hosted SaaS applications from third parties in order to operate critical functions of our business, including enterprise resource planning, order management, billing, project management, human resources, technical support, and accounting and other operational activities. If these services become unavailable due to extended outages, interruptions or because they are no longer available on commercially reasonable terms, our expenses could increase, our ability to manage finances could be interrupted and our processes for managing sales of our offering and supporting our customers could be impaired until equivalent services, if available, are identified, obtained, and implemented, all of which could adversely affect our business and results of operations.

#### **Risks Related to Our Employees and Culture**

***We rely on the performance of highly skilled personnel, including senior management and our engineering, services, sales and technology professionals. If we are unable to retain or motivate key personnel or hire, retain and motivate qualified personnel, our business will be harmed.***

We believe our success has depended, and continues to depend, on the efforts and talents of our senior management team, particularly Jay Kreps, our Chief Executive Officer and co-founder, as well as our other key employees in the areas of research and development and sales and marketing.

From time to time, there have been and may in the future be changes in our executive management team or other key employees resulting from the hiring or departure of these personnel. Our executive officers and certain other key employees are generally employed on an at-will basis, which means that these personnel could terminate their employment with us at any time. The loss or transition of one or more of our executive officers, or the failure by our executive team to effectively work with our employees and lead our company, could harm our business. We also are dependent on the continued service of our existing software engineers because of the complexity of our offering.



In addition, to execute our growth plan, we must attract and retain highly qualified personnel. Competition for these personnel is intense, especially for engineers experienced in designing and developing cloud-based infrastructure products and for experienced sales professionals. If we are unable to attract such personnel at appropriate locations, we may need to hire in new regions, which may add to the complexity and costs of our business operations. We have experienced attrition among sales personnel, and may experience increased attrition or retention difficulties among our sales personnel as we reorient our sales motion and sales incentives in connection with the acceleration of our planned shift to a consumption-oriented sales model for Confluent Cloud. Additionally, in January 2023, we commenced the Restructuring Plan, designed to adjust our cost structure and real estate footprint. Risks associated with the Restructuring Plan include employee attrition beyond our intended reduction in force, adverse effects to our reputation as an employer (which could make it more difficult for us to hire new employees in the future), and potential failure or delays to meet operational and growth targets due to the loss of qualified employees. Increased attrition or retention difficulties may negatively impact employee morale, or cause delays or execution risks for our shift to a consumption-oriented sales model, any of which may harm our growth, business, results of operations, or financial condition. From time to time, we have experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications, which may be exacerbated by the Restructuring Plan and any similar future actions. Many of the companies with which we compete for experienced personnel have greater resources than we have. Further, inflationary pressures, or stress over economic, geopolitical, or pandemic-related events such as those the global market is currently experiencing, may result in employee attrition. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees or we have breached certain legal obligations, resulting in a diversion of our time and resources. In addition, prospective and existing employees often consider the value of the equity awards they receive in connection with their employment. If the actual or perceived value of our equity awards declines, experiences significant volatility, or increases such that prospective employees believe there is limited upside to the value of our equity awards, it may adversely affect our ability to recruit and retain key employees. Additionally, in order to retain our existing employees and manage potential attrition, including as a result of stock price decreases and continued market volatility that impact the actual or perceived value of our equity awards, we have issued and may in the future issue additional equity awards, which could negatively impact our results of operations. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects would be harmed.

***Our company values have contributed to our success. If we cannot maintain these values as we grow, we could lose certain benefits we derive from them, and our employee turnover could increase, which could harm our business.***

We believe that our company values have been and will continue to be a key contributor to our success. Despite the Restructuring Plan, we expect to continue to hire across our business in a disciplined manner to support future growth initiatives. Our headcount growth may result in changes to certain employees' adherence to our core company values. If we do not continue to maintain our adherence to our company values as we grow, including through any future acquisitions or other strategic transactions, we may experience increased turnover in a portion of our current employee base, which may compromise our ability to hire future employees. If we do not replace departing employees on a timely basis, our business and growth may be harmed.

## **Risks Related to Our International Operations**

***If we are not successful in expanding our operations and customer base internationally, our business and results of operations could be negatively affected.***

A component of our growth strategy involves the further expansion of our operations and customer base internationally. Customers outside the United States generated 40% and 38% of our revenue for the years ended December 31, 2023 and 2022, respectively. We are continuing to adapt to and develop strategies to expand in international markets, but there is no guarantee that such efforts will have the desired effect. For example, we anticipate that we will need to establish relationships with new channel partners in order to expand into certain countries, and if we fail to identify, establish, and maintain such relationships, we may be unable to execute on our expansion plans. As of December 31, 2023, approximately 41% of our full-time employees were located outside of the United States, with 8% of our full-time employees located in the UK. We expect that our international activities will continue to grow for the foreseeable future as we continue to pursue opportunities in existing and new international markets, which will require significant dedication of management attention and financial resources. If we invest substantial time and resources to further expand our international operations and are unable to do so successfully and in a timely manner, our business and results of operations will suffer.

***We are subject to risks inherent in international operations that can harm our business, results of operations, and financial condition.***

Our current and future international business and operations involve a variety of risks, including:

- slower than anticipated availability and adoption of cloud infrastructure or cloud-native products by international businesses;
- changes in a specific country's or region's political or economic conditions, including in the UK as a result of Brexit;
- the need to adapt and localize our offering for specific countries;
- greater difficulty collecting accounts receivable and longer payment cycles;
- potential changes in trade relations, regulations, or laws;
- unexpected changes in laws, regulatory requirements, or tax laws;
- interest rates, as well as changes in existing and expected interest rates, which may vary across the jurisdictions in which we do business;
- more stringent regulations relating to data privacy, security, and data localization requirements and the unauthorized use of, or access to, commercial and personal information;
- differing and potentially more onerous labor regulations, especially in Europe, where labor laws are generally more advantageous to employees as compared to the United States, including deemed hourly wage and overtime regulations in these locations;
- challenges inherent in efficiently managing, and the increased costs associated with, an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits, and compliance programs that are specific to each jurisdiction;
- potential changes in laws, regulations, and costs affecting our UK operations and local employees due to Brexit;
- difficulties in managing a business in new markets with diverse cultures, languages, customs, legal systems, alternative dispute systems, and regulatory systems;

- increased travel, real estate, infrastructure, and legal compliance costs associated with international operations;
- currency exchange rate fluctuations and the resulting effect on our revenue and expenses, and challenges to international customers due to a rise in the value of the U.S. dollar;
- the cost and risk of entering into hedging transactions;
- limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries;
- laws and business practices favoring local competitors or general market preferences for local vendors;
- limited or insufficient intellectual property protection or difficulties obtaining, maintaining, protecting, or enforcing our intellectual property rights, including our trademarks and patents;
- political instability, economic sanctions, terrorist activities, or international conflicts, including the ongoing conflicts between Russia and Ukraine and in the Middle East, which have impacted and may continue to impact the operations of our business or the businesses of our customers;
- inflationary pressures, such as those the global market is currently experiencing, which have increased and may continue to increase costs for certain services;
- health epidemics or pandemics, such as the COVID-19 pandemic;
- actual or perceived risk of economic recession;
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act, or FCPA, U.S. bribery laws, the UK Bribery Act, and similar laws and regulations in other jurisdictions; and
- adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash.

The occurrence of any one of these risks could harm our international business and, consequently, our results of operations. Additionally, operating in international markets requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required to operate in other countries will produce desired levels of revenue or profitability.

***We are exposed to fluctuations in currency exchange rates, which could negatively affect our results of operations.***

Substantially all of our subscriptions and services are billed in U.S. dollars, and therefore, our revenue is not subject to foreign currency risk. However, a strengthening of the U.S. dollar could increase the real cost of our offering to our customers outside of the United States, which could adversely affect our results of operations. In addition, an increasing portion of our operating expenses are incurred outside the United States. These operating expenses are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates. We currently hedge a portion of operating expenses denominated in certain currencies against foreign currency exchange rate fluctuations. If we are not able to successfully hedge against the risks associated with fluctuations in these currencies or if we do not hedge a sufficient portion of such operating expenses, our financial condition and results of operations could be adversely affected.

## **Risks Related to Our Tax, Legal, and Regulatory Environment**

*We are subject to governmental export and import controls that could impair our ability to compete in international markets or subject us to liability if we violate the controls.*

Our offering is subject to U.S. export controls, including the Export Administration Regulations, and we incorporate encryption technology into our offering. Our offering and the underlying technology may be exported outside of the United States only with the required export authorizations, including by license, a license exception, or other appropriate government authorizations, including the filing of an encryption classification request or self-classification report, as applicable.

Furthermore, we are required to comply with economic and trade sanctions laws and regulations administered by governments where our offering is provided, including the U.S. government (including regulations administered and enforced by the Office of Foreign Assets Control of the U.S. Treasury Department and the U.S. Department of State). For example, following Russia's invasion of Ukraine, the United States and other countries imposed economic sanctions and severe export control restrictions against Russia and Belarus, and the United States and other countries could impose wider sanctions and export restrictions and take other actions should the conflict further escalate. These economic and trade sanctions prohibit or restrict the shipment of most products and services to embargoed jurisdictions or sanctioned parties, unless required export authorizations are obtained. Obtaining the necessary export license or other authorization for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities.

While we have taken certain precautions to prevent our offering from being provided in violation of export control and sanctions laws, and are in the process of enhancing our policies and procedures relating to export control and sanctions compliance, our products may have been in the past, and could in the future be, provided inadvertently in violation of such laws. Violations of U.S. sanctions or export control regulations can result in significant fines or penalties and possible incarceration for responsible employees and managers.

If our channel partners fail to obtain appropriate import, export, or re-export licenses or permits, we may also be adversely affected through reputational harm, as well as other negative consequences, including government investigations and penalties.

Also, various countries, in addition to the United States, regulate the import and export of certain encryption and other technology, including import and export licensing requirements, and have enacted laws that could limit our ability to distribute our offering or could limit our end-customers' ability to implement our offering in those countries. Additionally, export restrictions recently imposed on Russia and Belarus specifically limit the export of encryption software to these locations. Changes in our offering or future changes in export and import regulations may create delays in the introduction of our offering in international markets, prevent our end-customers with international operations from deploying our offering globally or, in some cases, prevent the export or import of our offering to certain countries, governments or persons altogether. From time to time, various governmental agencies have proposed additional regulation of encryption technology. Any change in export or import regulations, economic sanctions or related legislation, increased export and import controls, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our offering by, or in our decreased ability to export or sell our offering to, existing or potential end-customers with international operations. Any decreased use of our offering or limitation on our ability to export or sell our offering would adversely affect our business, results of operations, and growth prospects.

***We are subject to anti-corruption, anti-bribery, anti-money laundering, and similar laws, and non-compliance with such laws can subject us to criminal or civil liability and harm our business, financial condition, and results of operations.***

We are subject to the FCPA, U.S. domestic bribery laws, the UK Bribery Act, and other anti-corruption and anti-money laundering laws in the countries in which we conduct activities. Anti-corruption and anti-bribery laws have been enforced aggressively in recent years and are interpreted broadly to generally prohibit companies, their employees, and their third-party intermediaries from authorizing, offering, or providing, directly or indirectly, improper payments or benefits to recipients in the public or private sector. As we increase our international sales and business and sales to the public sector, we may engage with business partners and third-party intermediaries to market our offering and to obtain necessary permits, licenses, and other regulatory approvals. In addition, we or our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We can be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities.

While we have policies and procedures to address compliance with such laws, our employees and agents may take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. As we increase our international sales and business, our risks under these laws may increase.

Detecting, investigating and resolving actual or alleged violations of anti-corruption laws can require a significant diversion of time, resources, and attention from senior management. In addition, noncompliance with anti-corruption, anti-bribery or anti-money laundering laws could subject us to whistleblower complaints, investigations, sanctions, settlements, prosecution, enforcement actions, fines, damages, other civil or criminal penalties or injunctions, suspension, or debarment from contracting with certain persons, reputational harm, adverse media coverage, and other collateral consequences. If any subpoenas or investigations are launched, or governmental or other sanctions are imposed, or if we do not prevail in any possible civil or criminal proceeding, our business, financial condition, and results of operations could be harmed. In addition, responding to any action will likely result in a materially significant diversion of management's attention and resources and significant defense costs and other professional fees.

***Changes in laws and regulations related to the internet or changes in the internet infrastructure itself may diminish the demand for our software, and could have a negative impact on our business.***

The future success of our business, and particularly Confluent Cloud, depends upon the continued use of the internet as a primary medium for commerce, communication, and business applications. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the internet as a commercial medium. Changes in these laws or regulations could require us to modify our software in order to comply with these changes. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the internet or commerce conducted via the internet. These laws or charges could limit the growth of internet-related commerce or communications generally, resulting in reductions in the demand for internet-based solutions such as ours.

In addition, the use of the internet as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of internet activity, security, reliability, cost, ease of use, accessibility, and quality of service. The performance of the internet and its acceptance as a business tool have been adversely affected by "ransomware," "viruses," "worms," "malware," "phishing attacks," "data breaches," and similar malicious programs, behavior, and events, and the internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If the use of the internet is adversely affected by these issues, demand for our subscription offering and related services could suffer.

***Our international operations may subject us to greater than anticipated tax liabilities.***

We are expanding our international operations to better support our growth into international markets. Our corporate structure and associated transfer pricing policies contemplate future growth in international markets, and consider the functions, risks, and assets of the various entities involved in intercompany transactions. The amount of taxes we pay in different jurisdictions may depend on the application of the tax laws of various jurisdictions, including the United States, to our international business activities, changes in tax rates, new or revised tax laws or interpretations of existing tax laws and policies, and our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for pricing intercompany transactions pursuant to our intercompany arrangements or disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a challenge or disagreement were to occur, and our position was not sustained, we could be required to pay additional taxes, interest, and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows, and lower overall profitability of our operations. Our financial statements could fail to reflect adequate reserves to cover such a contingency.

***Changes in tax laws or tax rulings could harm our financial position, results of operations and cash flows.***

The tax regimes we are subject to or operate under, including income and non-income taxes, are unsettled and may be subject to significant change. Changes in tax laws, regulations, or rulings, or changes in interpretations of existing laws and regulations, could materially affect our financial position and results of operations. In addition, the European Union and other countries (including those in which we operate) have enacted or have committed to enacting the Organisation for Economic Co-operation and Development/G20 Framework's Pillar Two 15% global minimum tax, which may increase our tax expense in future years. These proposals, recommendations and enactments include changes to the existing framework in respect of income taxes, as well as new types of non-income taxes (such as taxes based on a percentage of revenue), which could apply to our business. If U.S. or other foreign tax authorities change applicable tax laws or successfully challenge how or where our profits are currently recognized, our overall taxes could increase, and our business, financial condition or results of operations may be adversely impacted. Due to the large and expanding scale of our international business activities, these types of changes to the taxation of our activities could increase our worldwide effective tax rate, increase the amount of taxes imposed on our business, and harm our financial position. Such changes may also apply retroactively to our historical operations and result in taxes greater than the amounts estimated and recorded in our financial statements. Any of these outcomes could harm our financial position and results of operations.

***We could be required to collect additional sales taxes or be subject to other tax liabilities that may increase the costs our customers would have to pay for our offering and adversely affect our results of operations.***

An increasing number of states have considered or adopted laws that impose tax collection obligations on out-of-state companies. Online sellers can be required to collect sales and use tax despite not having a physical presence in the buyer's state. States or local governments may interpret existing laws, or have adopted or may adopt new laws, requiring us to calculate, collect and remit taxes on sales in their jurisdictions. A successful assertion by one or more taxing jurisdictions requiring us to collect taxes where we presently do not do so, or to collect more taxes in a jurisdiction in which we currently do collect some taxes, could result in substantial tax liabilities, including taxes on past sales, as well as penalties and interest. The imposition by state or local governments of sales tax collection obligations on out-of-state sellers also could create additional administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on our competitors, and decrease our future sales, which could have a material adverse effect on our business and results of operations.

***Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations.***

As of December 31, 2023, we had net operating loss (NOL) carryforwards for federal and state income tax purposes of \$1,461.7 million and \$798.1 million, respectively, which may be available to offset taxable income in the future. A portion of the NOLs begin to expire in various years beginning in 2034 for federal purposes and 2025 for state purposes if not utilized. The remaining portion of these federal NOLs are carried forward indefinitely. Of the federal net operating loss carryforwards, approximately 97% can be carried forward indefinitely, but are limited to 80% of annual taxable income. In addition, as of December 31, 2023, we had foreign NOL carryforwards of \$60.3 million which can be carried forward indefinitely. A lack of future taxable income would adversely affect our ability to utilize these NOLs before they expire.

In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an “ownership change” (as defined under Section 382 of the Code and applicable Treasury Regulations) is subject to limitations on its ability to utilize its pre-change NOLs to offset future taxable income. We may experience a future ownership change under Section 382 of the Code that could affect our ability to utilize the NOLs to offset our income. Furthermore, our ability to utilize NOLs of companies that we have acquired or may acquire in the future may be subject to limitations. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to reduce future income tax liabilities, including for state tax purposes. For these reasons, we may not be able to utilize a material portion of the NOLs reflected on our balance sheet, even if we attain profitability, which could potentially result in increased future tax liability to us and could adversely affect our results of operations and financial condition.

***Changes in our effective tax rate or tax liability may have an adverse effect on our results of operations.***

We are subject to income taxes in the United States and various foreign jurisdictions. The determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are many transactions where the ultimate tax determination is uncertain. We believe that our provision for income taxes is reasonable, but the ultimate tax outcome may differ from the amounts recorded in our consolidated financial statements and may materially affect our financial results in the period or periods in which such outcome is determined.

Our effective tax rate could increase due to several factors, including:

- changes in the relative amounts of income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates;
- changes in tax laws, tax treaties, and regulations or the interpretation of them, including the Tax Act;
- changes to our assessment about our ability to realize our deferred tax assets that are based on estimates of our future results, the prudence and feasibility of possible tax planning strategies, and the economic and political environments in which we do business;
- the effects of acquisitions and their integrations;
- the outcome of current and future tax audits, examinations or administrative appeals; and
- limitations or adverse findings regarding our ability to do business in some jurisdictions.

Any of these developments could adversely affect our results of operations.

## **Risks Related to Our Accounting Policies and Internal Controls**

***Our reported financial results may be adversely affected by changes in generally accepted accounting principles, or GAAP, in the United States.***

GAAP are subject to interpretation by the Financial Accounting Standards Board, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported results of operations and could affect the reporting of transactions already completed before the announcement of a change.

***If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our results of operations could be adversely affected.***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes appearing elsewhere in this Annual Report. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates.” The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant estimates and judgments involve revenue recognition, deferred contract acquisition costs, and the valuation of our stock-based compensation awards, among others. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the market price of our Class A common stock.

***We are obligated to develop and maintain proper and effective internal control over financial reporting, and any failure to maintain the adequacy of these internal controls may adversely affect investor confidence in our company and, as a result, the value of our Class A common stock.***

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, or Section 404, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. In addition, our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting. The process of compiling the system and process documentation necessary to perform the evaluation required under Section 404 is costly and challenging. We have established an internal audit group, and as we continue to grow, we may hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge.

During the evaluation and testing process of our internal controls, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to certify that our internal control over financial reporting is effective. We cannot assure you that there will not be material weaknesses in our internal control over financial reporting in the future. Failure to maintain internal control over financial reporting, including historical or future control deficiencies, could severely inhibit our ability to accurately report our financial condition or results of operations. If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm determines we have a material weakness in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our Class A common stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.



## Risks Related to Ownership of Our Class A Common Stock

*The dual class structure of our common stock as contained in our amended and restated certificate of incorporation has the effect of concentrating voting control with those stockholders who held our stock prior to the IPO, including our executive officers, employees, and directors and their affiliates, and limiting your ability to influence corporate matters, which could adversely affect the trading price of our Class A common stock.*

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. As of December 31, 2023, stockholders who hold shares of Class B common stock, including our executive officers and directors and their affiliates, together hold approximately 79.4% of the voting power of our outstanding capital stock, and our Chief Executive Officer, Mr. Kreps, beneficially owns approximately 8.1% of our outstanding classes of common stock as a whole, but controls approximately 22.3% of the voting power of our outstanding common stock. As a result, our executive officers, directors, and other affiliates and potentially our Chief Executive Officer on his own have significant influence over our management and affairs and over all matters requiring stockholder approval, including election of directors and significant corporate transactions, such as a merger or other sale of the company or our assets, for the foreseeable future. Even if Mr. Kreps is no longer employed with us, he will continue to have the same influence over matters requiring stockholder approval.

In addition, the holders of Class B common stock collectively will continue to be able to control all matters submitted to our stockholders for approval even if their stock holdings represent less than 50% of the outstanding shares of our common stock. Because of the 10-to-1 voting ratio between our Class B common stock and Class A common stock, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock even when the shares of Class B common stock represent as little as 10% of all outstanding shares of our Class A common stock and Class B common stock. This concentrated control will limit your ability to influence corporate matters for the foreseeable future, and, as a result, the market price of our Class A common stock could be adversely affected.

Future transfers or voluntary conversions by holders of shares of Class B common stock will generally result in those shares converting to shares of Class A common stock, which will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. Certain permitted transfers, as specified in our amended and restated certificate of incorporation, will not result in shares of Class B common stock automatically converting to shares of Class A common stock, including certain estate planning transfers as well as transfers to our founders or our founders' estates or heirs upon death or incapacity of such founder. If, for example, Mr. Kreps (or family trusts to which he were to transfer shares of Class B common stock) retain a significant portion of his holdings of Class B common stock for an extended period of time, he (or such trusts) could, in the future, control a majority of the combined voting power of our Class A common stock and Class B common stock. As a board member, Mr. Kreps owes a fiduciary duty to our stockholders and must act in good faith in a manner he reasonably believes to be in the best interests of our stockholders. As a stockholder, Mr. Kreps is entitled to vote his shares in his own interests, which may not always be in the interests of our stockholders generally.

FTSE Russell does not allow most newly public companies utilizing dual or multi-class capital structures to be included in its indices, including the Russell 2000. Also, in 2017, MSCI, a leading stock index provider, opened public consultations on its treatment of no-vote and multi-class structures and temporarily barred new multi-class listings from certain of its indices; however, in October 2018, MSCI announced its decision to include equity securities "with unequal voting structures" in its indices and to launch a new index that specifically includes voting rights in its eligibility criteria. Under the announced policies, our dual class capital structure makes us ineligible for inclusion in certain indices, and as a result, mutual funds, exchange-traded funds, and other investment vehicles that attempt to passively track these indices will not be investing in our stock. In addition, we cannot assure you that other stock indices will not take similar actions. Given the sustained flow of investment funds into passive strategies that seek to track certain indices, exclusion from certain stock indices would likely preclude investment by many of these funds and would make our Class A common stock less attractive to other investors. As a result, the trading price, volume, and liquidity of our Class A common stock could be adversely affected.

***Our stock price may be volatile, and the value of our Class A common stock may decline.***

The market price of our Class A common stock may be highly volatile and may fluctuate or decline substantially as a result of a variety of factors, some of which are beyond our control, including:

- actual or anticipated fluctuations in our financial condition or results of operations, including due to fluctuations in usage of Confluent Cloud and strategic shifts in our focus on growth versus operating efficiency, margin improvement, and profitability;
- variance in our financial performance, including sales growth and operating margins, from our forecasts or the expectations of securities analysts;
- changes in our revenue mix;
- changes in the pricing of our offering;
- changes in our projected operating and financial results;
- changes in laws or regulations applicable to our offering;
- seasonality in sales, customer implementations, results of operations, and RPO;
- announcements by us or our competitors of significant business developments, acquisitions, or new offerings;
- significant data breaches, disruptions to or other incidents involving our offering;
- our involvement in litigation or regulatory actions;
- future sales of our Class A common stock and Class B common stock by us or our stockholders;
- changes in senior management or key personnel;
- the trading volume of our Class A common stock;
- financial results, changes in operating performance and stock market valuations of technology companies in our industry segment, including our partners and competitors;
- changes in the anticipated future size and growth rate of our market;
- general political, social, economic and market conditions, in both domestic and our foreign markets, including effects of increased interest rates, inflationary pressures, bank failures and macroeconomic uncertainty and challenges; and
- actual or perceived risk of economic recession.

Broad market and industry fluctuations, as well as general economic, political, regulatory and market conditions, may also negatively impact the market price of our Class A common stock. In addition, technology stocks have historically experienced high levels of volatility. In the past, companies that have experienced volatility in the market price of their securities have been subject to securities class action litigation. We may be the target of this type of litigation in the future, which could result in substantial expenses and divert our management's attention.

***Future sales of our Class A common stock in the public market could cause the market price of our Class A common stock to decline.***

Sales of a substantial number of shares of our Class A common stock in the public market, or the perception that these sales might occur, could depress the market price of our Class A common stock and could impair our ability to raise capital through the sale of additional equity securities. Many of our equity holders who held our capital stock prior to completion of the IPO have substantial unrecognized gains on the value of the equity they hold based on recent market prices of our shares of Class A common stock, and therefore, they may take steps to sell their shares or otherwise secure the unrecognized gains on those shares. We are unable to predict the timing of or the effect that such sales may have on the prevailing market price of our Class A common stock.

Additionally, the conversion of some or all of the notes may dilute the ownership interests of our stockholders. Upon conversion of the notes, we have the option to pay or deliver, as the case may be, cash, shares of our Class A common stock, or a combination of cash and shares of our Class A common stock. If we elect to settle our conversion obligation in shares of our Class A common stock or a combination of cash and shares of our Class A common stock, any sales in the public market of our Class A common stock issuable upon such conversion could adversely affect prevailing market prices of our Class A common stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could be used to satisfy short positions, or anticipated conversion of the notes into shares of our Class A common stock could depress the price of our Class A common stock.

In addition, as of December 31, 2023, up to 32,154,376 shares of our Class B common stock and up to 22,672,563 shares of our Class A common stock may be issued upon exercise of outstanding stock options or vesting and settlement of outstanding RSUs, and 45,455,274 shares of our Class A common stock are available for future issuance under our 2021 Plan and our 2021 ESPP, and will become eligible for sale in the public market to the extent permitted by the provisions of various vesting schedules, exercise limitations and Rule 144 and Rule 701 under the Securities Act. In addition, certain of our employees may elect to automatically convert their shares of Class B common stock upon receipt following exercise or settlement of equity awards, as applicable. We have registered all of the shares of Class A common stock and Class B common stock issuable upon exercise of outstanding options and all of the shares of Class A common stock issuable upon vesting and settlement of restricted stock units, as well as other equity incentive awards we may grant in the future for public resale under the Securities Act. Shares of Class A common stock will become eligible for sale in the public market to the extent such options are exercised and restricted stock units settle, subject to compliance with applicable securities laws. Our 0% convertible senior notes due 2027 will also become convertible at the option of the holders, subject to certain limitations and restrictions prior to October 15, 2026. If these additional shares of Class A common stock are sold, or if it is perceived that they will be sold, in the public market, the trading price of our Class A common stock could decline.

Further, certain holders of our outstanding common stock, including our founders and entities affiliated with our founders and certain of our directors, have rights, subject to some conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders.

***Our issuance of additional capital stock in connection with financings, acquisitions, investments, our equity incentive plans or otherwise will dilute all other stockholders.***

We expect to issue additional capital stock in the future that will result in dilution to all other stockholders. We expect to grant equity awards to employees, officers and directors under our equity incentive plans. We may also raise capital through equity financings in the future. As part of our business strategy, we may acquire or make investments in companies, products or technologies and issue equity securities to pay for any such acquisition or investment. Any such issuances of additional capital stock may cause stockholders to experience significant dilution of their ownership interests and the per share value of our Class A common stock to decline.

***We do not intend to pay dividends for the foreseeable future and, as a result, your ability to achieve a return on your investment will depend on appreciation in the price of our Class A common stock.***

We have never declared or paid any cash dividends on our capital stock, and we do not intend to pay any cash dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, you may need to rely on sales of our Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on your investment.

***We incur significant costs as a public company, and our management is required to devote substantial time to compliance with our public company responsibilities and corporate governance practices.***

As a public company, we incur significant legal, accounting, and other expenses. The Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the Nasdaq Global Select Market, and other applicable securities rules and regulations impose various requirements on public companies. Our management and other personnel devote a substantial amount of time to compliance with these requirements. Moreover, these rules and regulations have increased our legal and financial compliance costs and will make some activities more time-consuming and costly. We cannot predict or estimate the amount of additional costs we will incur as a public company or the specific timing of such costs.

***Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our Class A common stock.***

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, shares of undesignated preferred stock with terms, rights, and preferences determined by our board of directors that may be senior to our Class A common stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the chairperson of our board of directors, our chief executive officer, or our president (in the absence of a chief executive officer);
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, with each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that our directors may be removed for cause only upon the vote of the holders of at least a majority of our outstanding shares of voting stock;
- provide that vacancies on our board of directors may be filled only by the affirmative vote of a majority of directors then in office, even though less than a quorum, or by a sole remaining director; and
- require the approval of our board of directors or the holders of at least 66 2/3% of the voting power of our outstanding shares of voting stock to amend our bylaws and certain provisions of our certificate of incorporation.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally, subject to certain exceptions, prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder. Any of the foregoing provisions could limit the price that investors might be willing to pay in the future for shares of our Class A common stock, and they could deter potential acquirers of our company, thereby reducing the likelihood that holders of our Class A common stock would receive a premium for their shares of our Class A common stock in an acquisition.

***Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware and the federal district courts of the United States of America as the exclusive forums for certain disputes between us and our stockholders, which restricts our stockholders’ ability to choose the judicial forum for disputes with us or our directors, officers, or employees.***

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware (or, if and only if the Court of Chancery of the State of Delaware lacks subject matter jurisdiction, any state court located within the State of Delaware or, if and only if all such state courts lack subject matter jurisdiction, the federal district court for the District of Delaware) is the sole and exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: (i) any derivative action or proceeding brought on our behalf; (ii) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any of our current or former directors, officers, or other employees to us or our stockholders, or any action asserting a claim for aiding and abetting such breach of fiduciary duty; (iii) any action or proceeding asserting a claim against us or any of our current or former directors, officers or other employees arising out of or pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; (iv) any action or proceeding to interpret, apply, enforce or determine the validity of our amended and restated certificate of incorporation or our amended and restated bylaws (including any right, obligation, or remedy thereunder); (v) any action or proceeding as to which the Delaware General Corporation Law confers jurisdiction to the Court of Chancery of the State of Delaware; and (vi) any action or proceeding asserting a claim against us or any of our current or former directors, officers, or other employees that is governed by the internal affairs doctrine, in all cases to the fullest extent permitted by law and subject to the court’s having personal jurisdiction over the indispensable parties named as defendants. This provision does not apply to suits brought to enforce a duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. In addition, to prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, to the fullest extent permitted by law, the federal district courts of the United States of America are the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act, including all causes of action asserted against any defendant named in such complaint. For the avoidance of doubt, this provision is intended to benefit and may be enforced by us, our officers and directors, the underwriters to any offering giving rise to such complaint, and any other professional entity whose profession gives authority to a statement made by that person or entity and who has prepared or certified any part of the documents underlying the offering. However, as Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder, there is uncertainty as to whether a court would enforce such provision. Our amended and restated certificate of incorporation further provides that any person or entity holding, owning or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to these provisions. Investors also cannot waive compliance with the federal securities laws and the rules and regulations thereunder.

These choice of forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees. While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring such a claim arising under the Securities Act against us, our directors, officers, or other employees in a venue other than in the federal district courts of the United States of America. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our amended and restated certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and we cannot assure you that the provisions will be enforced by a court in those other jurisdictions. If a court were to find either exclusive-forum provision in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur further significant additional costs associated with resolving the dispute in other jurisdictions, all of which could harm our business.

#### **Risks Related to Our Convertible Senior Notes**

***We may not have the ability to raise the funds necessary to settle conversions of the notes in cash or to repurchase the notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the notes.***

Holders of the notes have the right, subject to certain conditions and limited exceptions, to require us to repurchase all or a portion of their notes upon the occurrence of a fundamental change at a fundamental change repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid special interest. In addition, upon conversion of the notes, unless we elect to deliver solely shares of our Class A common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of notes surrendered therefor or pay cash with respect to notes being converted. In addition, our ability to repurchase the notes or to pay cash upon conversions of the notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase notes at a time when the repurchase is required by the indenture or to pay any cash payable on future conversions of the notes as required by the indenture would constitute a default under the indenture. A default under the indenture governing the notes or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the notes or make cash payments upon conversions thereof.

***The conditional conversion feature of the notes, if triggered, may adversely affect our financial condition and operating results.***

In the event the conditional conversion feature of the notes is triggered, holders of notes will be entitled to convert their notes at any time during specified periods at their option. If one or more holders elect to convert their notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our Class A common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

***Certain provisions in the indenture governing the notes may delay or prevent an otherwise beneficial takeover attempt of us.***

Certain provisions in the indenture governing the notes may make it more difficult or expensive for a third party to acquire us. For example, the indenture governing the notes generally requires us to repurchase the notes for cash upon the occurrence of a fundamental change and, in certain circumstances, to increase the conversion rate for a holder that converts its notes in connection with a make-whole fundamental change. A takeover of us may trigger the requirement that we repurchase the notes and/or increase the conversion rate, which could make it costlier for a potential acquirer to engage in such takeover. Such additional costs may have the effect of delaying or preventing a takeover of us that would otherwise be beneficial to investors.

**General Risk Factors**

***Any future litigation against us could be costly and time-consuming to defend.***

We may become subject to legal proceedings and claims that arise in the ordinary course of business, including but not limited to, intellectual property claims, including trade secret misappropriation and breaches of confidentiality terms, alleged breaches of non-competition or non-solicitation terms, or employment claims made by our current or former employees. Litigation might result in substantial costs and may divert management's attention and resources, which might seriously harm our business, financial condition, and results of operations. Insurance might not cover such claims, might not provide sufficient payments to cover all the costs to resolve one or more such claims, and might not continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, potentially harming our business, financial position, and results of operations.

***If securities or industry analysts do not publish research or publish unfavorable or inaccurate research about our business, the market price and trading volume of our Class A common stock could decline.***

The market price and trading volume of our Class A common stock is heavily influenced by the way analysts interpret our financial information and other disclosures. We do not have control over these analysts. If industry analysts cease coverage of us, our stock price would be negatively affected. If securities or industry analysts do not publish research or reports about our business, downgrade our Class A common stock, or publish negative reports about our business, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our Class A common stock could decrease, which might cause our stock price to decline and could decrease the trading volume of our Class A common stock.

***Our business could be disrupted by catastrophic events.***

Occurrence of any catastrophic event, including earthquake, fire, flood, tsunami, or other weather event, power loss, telecommunications failure, software or hardware malfunction, cyber-attack, war, or terrorist attack, explosion, or pandemic, such as the COVID-19 pandemic, could impact our business. In particular, our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity, and are thus vulnerable to damage in an earthquake. Our insurance coverage may not compensate us for losses that may occur in the event of an earthquake or other significant natural disaster. Additionally, we rely on third-party cloud providers and enterprise applications, technology systems, and our website for our development, marketing, operational support, hosted services, and sales activities. In the event of a catastrophic event, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our product development, lengthy interruptions in our services, and security incidents, all of which could have an adverse effect on our future results of operations. For example, the COVID-19 pandemic and/or the precautionary measures that we, our customers, and the governmental authorities adopted resulted in operational challenges, including, among other things, adapting to remote work arrangements. If we are unable to develop adequate plans to ensure that our business functions continue to operate during and after a disaster and to execute successfully on those plans in the event of a disaster or emergency, our business would be harmed.

***Climate change may have an impact on our business.***

While we seek to mitigate our business risks associated with climate change (such as drought, wildfires, hurricanes, increased storm severity and sea level rise), we recognize that there are inherent climate-related risks wherever business is conducted. Our primary locations may be vulnerable to the adverse effects of climate change. For example, certain of our offices have experienced, and are projected to continue to experience, climate-related events at an increasing frequency, including drought, heat waves, wildfires and resultant air quality impacts and power shutoffs associated with wildfire prevention. Changing market dynamics, global policy developments and the increasing frequency and impact of extreme weather events on critical infrastructure in the U.S. and elsewhere have the potential to disrupt our business, the business of our third-party suppliers and the business of our customers, and may cause us to experience losses and additional costs to maintain or resume operations. In addition, we may be subject to increased regulations, reporting requirements, standards or expectations regarding the environmental impacts of our business.



## **Item 1B. Unresolved Staff Comments**

None.

## **Item 1C. Cybersecurity**

### **Risk Management and Strategy**

We have implemented and maintain various information security processes designed to identify, assess, and manage material risks from cybersecurity threats to our critical computer networks, third party hosted services, communications systems, hardware and software, and our critical data, including intellectual property, personal information, confidential information that is proprietary, strategic or competitive in nature, and customer data (“Information Systems and Data”).

The Chief Information Security Officer, in coordination with the Chief Technology Officer, Chief Financial Officer, Chief Accounting Officer, certain members of the Company’s legal team and certain third-party service providers (“Cybersecurity Risk Management Team”), is primarily responsible for identifying, assessing, and managing the Company’s cybersecurity threats and risks. Through our Cybersecurity Risk Management Team, we identify and assess risks from cybersecurity threats by monitoring and evaluating our threat environment and the Company’s risk profile using various methods including, for example manual and automated tools, conducting scans of threat environment, use of external intelligence feeds, internal and third-party threat assessments and evaluating our industry’s risk profile, subscribing to reports and services that identify cybersecurity threats, red/blue team testing and tabletop incident response exercises, evaluating threats reported to us, and conducting red/blue team testing and tabletop incident response exercises.

Depending on the particular environment and systems, we implement and maintain various technical, physical, and organizational measures, processes, standards, and policies designed to manage and mitigate material risks from cybersecurity threats to our Information Systems and Data, including, for example: network security controls, system monitoring, incident detection and response, incident response policy, disaster recovery and business continuity plans, vulnerability management policy, penetration testing, encryption of data, data segregation controls, employee training, physical security cyber insurance, vendor risk management program, risk assessments, implementation of security standards/certifications, access controls, dedicated cybersecurity staff, and asset management, tracking and disposal.

Our assessment and management of material risks from cybersecurity threats are integrated into the Company’s overall risk management processes. For example, security management works with senior management to prioritize our risk management processes, mitigate cybersecurity threats that are more likely to lead to a material impact to our business, and reports to the audit committee of the board of directors, which reviews our overall risk management framework and programs.

We use third-party service providers to assist us from time to time to identify, assess, and manage material risks from cybersecurity threats, including for example threat intelligence service providers, cybersecurity consultants, cybersecurity software providers, penetration testing firms, forensic investigators, dark web monitoring services, and professional service firms, including legal counsel.

We use third-party service providers to perform a variety of functions throughout our business, such as application providers and hosting companies. We have a vendor management program to manage cybersecurity risks associated with our use of these providers. The program includes risk assessments for each vendor, security questionnaires, audits, and review of security reports. Depending on the nature of the services provided, the sensitivity of the Information Systems and Data at issue, and the identity of the provider, our vendor management process may involve different levels of assessment designed to help identify cybersecurity risks associated with a provider and impose contractual obligations related to cybersecurity on the provider.

For a description of the risks from cybersecurity threats that may materially affect the Company and how they may do so, see our risk factors under Part 1. Item 1A. Risk Factors in this Annual Report on Form 10-K, including “Risks Related to Cybersecurity.”

## **Governance**

Our board of directors addresses the Company's cybersecurity risk management as part of its general oversight function. The board of directors' audit committee is responsible for overseeing the Company's cybersecurity risk management processes, including oversight and mitigation of risks from cybersecurity threats.

Our cybersecurity risk assessment and management processes are implemented and maintained by certain Company management, including the Chief Information Security Officer, who oversees the Company's Trust, Security and Reliability department, and the members of the Cybersecurity Risk Management Team. Our Trust, Security and Reliability department has significant collective experience in relevant computer science and engineering disciplines and cybersecurity matters.

The Chief Information Security Officer is responsible for hiring appropriate personnel, helping to integrate cybersecurity risk considerations into the Company's overall risk management strategy, and communicating key priorities to relevant personnel. The Chief Information Security Officer is also responsible for approving budgets, helping prepare for cybersecurity incidents, approving cybersecurity processes, and reviewing security assessments and other security-related reports.

Our cybersecurity incident response and vulnerability management processes and policies are designed to escalate certain cybersecurity incidents to members of management depending on the circumstances, including senior management. Senior management works with the Company's incident response team to help the Company mitigate and remediate cybersecurity incidents of which they are notified. In addition, the Company's incident response and vulnerability management processes and policies include reporting to the management disclosure committee and to the audit committee of the board of directors for certain cybersecurity incidents.

The audit committee receives regular reports from the Chief Information Security Officer concerning the Company's significant cybersecurity threats and risk and the processes the Company has implemented to address them. The audit committee also receives various reports, summaries or presentations related to cybersecurity threats, risk, and mitigation.

## **Item 2. Properties**

Our headquarters are located in Mountain View, California, where we lease approximately 75,475 square feet pursuant to a lease which expires in 2029. We also lease other offices including in London, England, Bengaluru, India and Dubai, United Arab Emirates. Additionally, we hold many office service memberships in numerous other locations globally. We do not own any real property. We believe that our facilities are adequate to meet our current needs.

## **Item 3. Legal Proceedings**

From time to time, we have been and will continue to be subject to legal proceedings and claims. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, results of operations, financial condition, or cash flows. Defending such legal proceedings is costly and can impose a significant burden on management and employees. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

## **Item 4. Mine Safety Disclosures**

None.

## PART II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

#### Market Information

Our Class A common stock has been listed on the Nasdaq Global Select Market under the symbol “CFLT” since June 24, 2021. Prior to that date, there was no public trading market for our Class A common stock.

#### Holders of Record

As of February 7, 2024, there were 76 stockholders of record of our Class A common stock and 39 stockholders of record of our Class B common stock. The actual number of holders of our Class A common stock is greater than the number of record holders and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers or other nominees. The number of holders of record presented here also does not include stockholders whose shares may be held in trust by other entities.

#### Dividends

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and future earnings, if any, to fund the development and expansion of our business, and we do not anticipate paying any cash dividends in the foreseeable future. Any future determination regarding the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects, and other factors our board of directors may deem relevant. In addition, our ability to pay dividends may be restricted by agreements we may enter into in the future.

#### Recent Sales of Unregistered Securities

None.

#### Use of Proceeds

On June 28, 2021, we closed our IPO of 23,000,000 shares of Class A common stock at an offering price of \$36.00 per share, resulting in aggregate gross proceeds to us of \$828.0 million, before deducting underwriting discounts and commissions and offering expenses. All of the shares issued and sold in our IPO were registered under the Securities Act pursuant to a registration statement on Form S-1, as amended (File No. 333-256693), which was declared effective by the SEC on June 23, 2021. There has been no material change in the planned use of proceeds from our IPO from those disclosed in our final prospectus for our IPO dated as of June 23, 2021 and filed with the SEC pursuant to Rule 424(b)(4) on June 25, 2021.

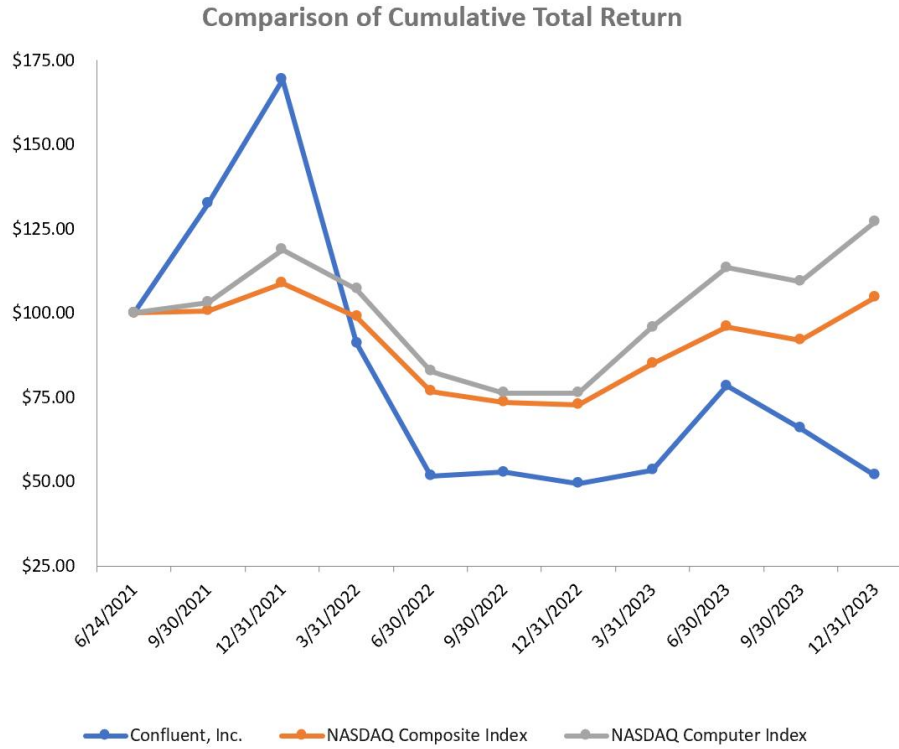
#### Issuer Purchases of Equity Securities

None.

### Stock Performance Graph

The following shall not be deemed “soliciting material” or to be “filed” with the SEC, for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act.

The performance graph below compares the cumulative total return on our Class A common stock from June 24, 2021 (the date our Class A common stock commenced trading on the Nasdaq Global Select Market) through December 31, 2023 with (i) the Nasdaq Composite Index and (ii) the Nasdaq Computer Index, assuming the investment of \$100 in our Class A common stock and in both of the other indices on June 24, 2021 and the reinvestment of dividends. The stock price performance on this performance graph is not necessarily indicative of future stock price performance.



Item 6. Reserved

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. This discussion, particularly information with respect to our future results of operations or financial condition, business strategy and plans, and objectives of management for future operations, includes forward-looking statements that involve risks and uncertainties as described under the heading “Special Note About Forward-Looking Statements” in this Annual Report on Form 10-K. You should review the disclosure under the heading “Risk Factors” in this Annual Report on Form 10-K for a discussion of important factors that could cause our actual results to differ materially from those anticipated in these forward-looking statements. Unless the context otherwise requires, all references in this Annual Report on Form 10-K to “we,” “us,” “our,” “our company,” and “Confluent” refer to Confluent, Inc. and its consolidated subsidiaries. Unless otherwise indicated, references to our “common stock” include our Class A common stock and Class B common stock.*

*A discussion regarding our financial condition and results of operations for the year ended December 31, 2023 compared to the year ended December 31, 2022 is presented below. A discussion regarding our financial condition and results of operations for the year ended December 31, 2022 compared to the year ended December 31, 2021 can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the Securities and Exchange Commission (“SEC”) on February 28, 2023.*

### **Overview**

Confluent is on a mission to set data in motion. We were founded in 2014 to pioneer this fundamentally new category of data infrastructure designed to connect all the applications, systems, and data layers of a company around a real-time central nervous system. This new data infrastructure software has emerged as one of the most strategic parts of the next-generation technology stack, and using this stack to harness data in motion is critical to the success of every modern company as they strive to compete and win in the digital-first world. Prior to Confluent, our founders created the open source software project Apache Kafka, a technology that has been central to enabling data in motion. Since our founding, we have heavily invested in product development to build a complete, cloud-native data streaming platform that is available everywhere.

Confluent is designed to act as the nexus of real-time data, from every source, allowing it to stream across the organization and enabling applications to harness it to power real-time customer experiences and data-driven business operations. Our offering enables organizations to deploy production-ready applications that span across cloud environments and data centers, while scaling elastically with enhanced features for security, compliance, and governance. Our platform provides the capabilities to fill the structural, operational, and engineering gaps required for businesses to fully realize the power of data in motion. We enable software developers to easily build their initial applications to harness data in motion, and enable large, complex enterprises to make data in motion core to everything they do. As organizations mature in their adoption cycle, we enable them to quickly, securely, and reliably build more and more applications that take advantage of data in motion. The results have a dual effect: businesses continuously improve their ability to provide better customer experiences and concurrently drive data-driven business operations. We believe that Confluent, over time, will become the central nervous system for modern digital enterprises, providing ubiquitous real-time connectivity and powering real-time applications across the enterprise.

We generate our revenue primarily from the sale of subscriptions to our data streaming platform, which can be deployed across on-premise and cloud environments. Confluent Platform is an enterprise-ready, self-managed software offering that can be deployed in our customers’ on-premise, private cloud, and public cloud environments. Confluent Cloud is a fully-managed, cloud-native software-as-a-service (“SaaS”) offering available on all of the leading cloud providers. Confluent Platform and Confluent Cloud can be leveraged both individually in their respective environments and collectively as a single unified data streaming platform.

Confluent Platform customers receive access to our proprietary features and various tiers of customer support. Our Confluent Platform subscriptions primarily have one-year terms and are generally billed annually in advance. Confluent Cloud customers may purchase subscriptions either without a commitment contract on a month-to-month basis, which we refer to as pay-as-you-go, or under a usage-based commitment contract of at least one year in duration, in which customers commit to a fixed monetary amount at specified per-usage rates. Pay-as-you-go customers are billed, and revenue from them is recognized, based on usage. Customers with usage-based commitments are typically billed annually in advance or monthly in arrears, and we recognize revenue from such subscriptions based on usage by the customer. As a result, our revenue may fluctuate from period to period due to varying patterns of customer consumption.

We are focused on the acquisition of new customers and expanding within our current customers. Our “consumption-oriented” go-to-market model benefits from our self-service motions driven by our cloud-native platform offerings, our widespread mindshare among developers through Apache Kafka, community downloads, and our enterprise sales force. We are able to acquire new customers through seamless and frictionless self-service cloud adoption and free cloud trials, as well as community downloads. For example, after users get started with our free cloud trial, they can easily convert to become paying customers either online on a pay-as-you-go model or with a commitment contract. Once customers see the benefits of our platform for their initial use cases, they often expand into other use cases and lines of business, divisions, and geographies. Our deep technical expertise, coupled with our product capabilities and laser focus on customer outcomes, enable us to form strategic partnerships with our customers to guide and accelerate this journey. This expansion often generates a natural network effect in which the value of our platform to a customer increases as more use cases are adopted, more users and teams are onboarded, more applications and systems are connected, and more data is added. We had approximately 4,960, 4,530, and 3,470 customers as of December 31, 2023, 2022, and 2021, respectively, representing year-over-year growth of 9% and 31%, respectively. We have experienced significant growth, with revenue of \$777.0 million, \$585.9 million, and \$387.9 million for the years ended December 31, 2023, 2022, and 2021, respectively, representing year-over-year growth of 33% and 51%, respectively.

### **Business and Macroeconomic Conditions**

Our business and financial condition have been, and we believe will continue to be, impacted by adverse and uncertain macroeconomic conditions, including higher inflation, higher interest rates, fluctuations or volatility in capital markets or foreign currency exchange rates, and geopolitical events around the world, such as the ongoing conflicts between Russia and Ukraine and in the Middle East. We have experienced, and may continue to experience, negative impacts from these factors, including longer sales cycles, reduced IT budgets, slowdowns in customer consumption expansion, including fewer new use cases adopted by customers, and generally increased scrutiny on IT spending from existing and potential customers. In particular, we have experienced and may continue to experience reduced growth rates due in part to these factors, which has resulted in reduced growth rates in subscription revenue and RPO. We cannot be certain how long these uncertain macroeconomic conditions and geopolitical events, and their resulting effects on our industry, our financial results, our business strategy, and customers will persist. To navigate the current economic environment and its effects, we have taken actions to streamline our operating expenses by adjusting our cost structure and real estate footprint, including a workforce reduction in January 2023, while prudently investing in growth.

The full extent to which uncertain macroeconomic and geopolitical conditions and other factors and dynamics discussed above will directly or indirectly impact our business, results of operations, cash flows, and financial condition remains uncertain and cannot be accurately predicted. We will continue to monitor and evaluate the actual and potential impacts of general macroeconomic conditions and related factors on our business and operations.

## Key Factors Affecting Our Performance

### *Developing Innovative, Market-Leading Offerings and Expanding Developer Mindshare*

We are focused on delivering market-leading offerings. We believe it is critical for us to maintain our product leadership position and further increase the strength of our brand and reputation to drive revenue growth. We have made significant investments in our data streaming platform to enable customers to stream, connect, process, and govern their data. For example, we significantly re-architected the technologies underlying data in motion, including open source Apache Kafka, with our purpose-built Kora engine, which powers Confluent Cloud to be a fully-managed cloud service. More recently, our acquisition of immerok GmbH, an Apache Flink stream processing managed services company, enabled us to re-architect Flink as a cloud-native service on Confluent Cloud, while our Stream Governance suite establishes trust in real-time data movement and maintains stream quality, security, and regulatory compliance. We intend to continue to invest efficiently in our engineering capabilities, including through acquisitions, and marketing activities to maintain our strong position within the developer community. Our results of operations may fluctuate as we make these investments to drive increased customer adoption and usage.

### *Increasing Adoption of Confluent Cloud*

We believe our cloud-native Confluent Cloud offering represents an important growth opportunity for our business. Organizations are increasingly looking for a fully-managed offering to seamlessly leverage data in motion across a variety of environments. In some cases, customers that have been self-managing deployments through Confluent Platform subsequently have become Confluent Cloud customers. We offer customers a free cloud trial and a pay-as-you-go arrangement to encourage adoption and expand via new use cases to increase usage over time. We will continue to leverage our cloud-native differentiation to drive our growth. We expect Confluent Cloud's contribution to our subscription revenue to increase over time. Our Confluent Cloud revenue represented 45%, 36%, and 24% of our total revenue for the years ended December 31, 2023, 2022, and 2021, respectively. As we recognize revenue from Confluent Cloud based on usage, our revenue and results of operations have in the past fluctuated and may continue to fluctuate from period to period due to varying patterns of customer consumption and adoption trends, including due to impacts from macroeconomic uncertainty and related effects on customer IT spending, as described above.

### *Growing Our Customer Base*

We are intensely focused on continuing to grow our customer base. We have invested and will continue to invest in our sales and marketing efforts, including pipeline generation and execution, and developer community outreach, which are critical to driving customer acquisition. We historically focused on large enterprise customers with significant expansion opportunities and built a go-to-market motion around this approach. As we grew our cloud offering and increasingly prioritized consumption over commitments, including by creating more self-serve opportunities, we have broadened our reach of customers and are able to attract a greater array of customers. Our ability to attract new customers will depend on and has historically been impacted by a number of factors, including our success in recruiting and scaling our sales and marketing organization, our ability to accelerate ramp time of our sales force, expansion and refinement of our go-to-market strategies to reach additional customer opportunities and to focus on consumption over commitments, our ability to enhance our brand and educate potential customers about the benefits and reduced total cost of ownership of our offering compared to alternatives for data in motion, such as Apache Kafka, our ability to effectively and competitively price our offering, our ability to expand features and functionalities of our offering, our ability to grow and harness our partner ecosystem, macroeconomic uncertainty and challenges, and competitive dynamics in our target markets. We had approximately 4,960, 4,530, and 3,470 customers as of December 31, 2023, 2022, and 2021, respectively, spanning organizations of all sizes and industries. Our customer count treats affiliated entities with the same parent organization as a single customer and includes pay-as-you-go customers.

### ***Retaining and Expanding Revenue from Existing Customers***

Our business model and future growth are driven by customer renewals and increasing existing customer consumption and subscriptions over time, referred to as land-and-expand. We believe we have significant opportunities to increase our revenue as customers expand their use of our offering in connection with migrating more data to the public cloud, expanding long-term consumption through additional use cases, and realizing the benefits of data in motion. Our ability to retain and expand revenue from existing customers, including through increased consumption of our offering and contractual commitments, will depend on and has historically been impacted by a number of factors, including market acceptance of our offering compared to data-in-motion alternatives, such as Apache Kafka, pricing of our offering, customer satisfaction, expansion of features and functionalities of our offering, competition, macroeconomic conditions, and overall changes in our customers' spending levels.

### ***Investing in Growth and Scaling our Business***

We believe our market opportunity is significant, and we are focused on continuing to make disciplined investments in our long-term revenue and profitability potential. We believe it is critical to scale across all organizational functions in order to capture this opportunity. Investments we make in our research and development and sales and marketing organizations will occur in advance of experiencing the benefits from such investments, and it may be difficult for us to determine if we are efficiently allocating resources. Our revenue growth potential is dependent on the effectiveness of such investments, which include the development of new product features and enhancements, and the continued refinement of our go-to-market strategies, including our accelerated shift to a consumption-oriented sales model for Confluent Cloud. To navigate more challenging macroeconomic conditions, we intend to take a disciplined approach in investing to grow our business to take advantage of our expansive market opportunity while also optimizing for improvements in profitability, margins, and cash flow, including by streamlining our operating expenses.

### **Key Business Metrics**

We monitor the key business metrics set forth below to help us evaluate our business and growth trends, establish budgets, measure our performance, and make strategic decisions. The calculation of the key metrics discussed below may differ from other similarly titled metrics used by other companies, securities analysts, or investors.

As we shift to a consumption-oriented sales model for Confluent Cloud, we no longer consider RPO to be a key business metric.

### ***Subscription Revenue***

We believe subscription revenue better reflects the performance of our business because it captures both delivery of contractual commitments from Confluent Platform and consumption from Confluent Cloud. We discuss subscription revenue under "Components of Results of Operations."



***Customers with \$100,000 or Greater in 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. Large customer relationships lead to scale and operating leverage in our business model. Compared with smaller customers, large customers present a greater opportunity for us because they have larger budgets, greater potential for migrating more applications over time, and a wider range of potential use cases for data in motion. As a measure of our ability to scale with our customers and attract large enterprises to our offering, we count the number of customers that contributed \$100,000 or greater in ARR as of period end. Our customer count may also fluctuate due to acquisitions, consolidations, spin-offs, and other market activity. We had 1,229 and 1,015 customers with \$100,000 or greater in ARR as of December 31, 2023 and 2022, respectively.

From time to time, we may adjust our methodology for calculating 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. We believe this change better aligns with how our management assesses ARR internally and better reflects actual customer behavior over time as Confluent Cloud’s contribution to our subscription revenue increases over time. However, it assumes Confluent Cloud consumption trends over 12-month periods based on three months of actual consumption, which does not account for future fluctuations and unpredictability in consumption rates or reflect trends in the growth or contraction of subscriptions over time. This change has had a positive impact on customers with \$100,000 or greater in ARR, including in prior periods, as Confluent Cloud customers may be ramping their consumption more quickly than their contractual commitments. However, with this change, we experienced more volatility in ARR as our customers’ consumption trends have varied significantly across periods, which we expect to continue. Refer to the section titled “Risk Factors—Risks Related to Our Business and Operations—We expect fluctuations in our financial results and key metrics, making it difficult to project future results, and if we fail to meet the expectations of securities analysts or investors with respect to our results of operations, our stock price and the value of your investment could decline.”

***Dollar-Based Net Retention Rate (“NRR”)***

We calculate our dollar-based 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, or Prior Period Value. We then calculate the ARR from these same customers as of the current period end, or 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. We believe that our dollar-based NRR provides useful information about the evolution of our existing customers and our future growth prospects. Our dollar-based NRR was slightly above 125% as of December 31, 2023, demonstrating our ability to expand within existing customers. Over the near term, we expect our dollar-based NRR to be tempered as we shift to a consumption-oriented sales model for Confluent Cloud. Our methodology for calculating ARR may result in increased volatility in NRR as our customers’ consumption trends have experienced and may continue to experience fluctuations across quarters. Refer to the section titled “Risk Factors—Risks Related to Our Business and Operations—We expect fluctuations in our financial results and key metrics, making it difficult to project future results, and if we fail to meet the expectations of securities analysts or investors with respect to our results of operations, our stock price and the value of your investment could decline.”

## Components of Results of Operations

### **Revenue**

We derive revenue primarily from subscriptions and, to a lesser extent, services.

*Subscription Revenue.* Our subscription revenue consists of revenue from term-based licenses and post-contract customer support, maintenance, and upgrades, referred to together as PCS, which we refer to as Confluent Platform, and our SaaS offering, which we refer to as Confluent Cloud. We recognize a portion of the revenue from our term-based license subscriptions at a point in time, upon delivery and transfer of control of the underlying license to the customer, which is typically the effective start date. Revenue from PCS, which represents a substantial majority of the revenue from our term-based license subscriptions, is recognized ratably over the contract term. The substantial majority of our revenue from Confluent Cloud for the years ended December 31, 2023 and 2022 was based on usage-based commitments and is recognized on a usage basis, as usage represents a direct measurement of the value to the customer of the subscription transferred as of a particular date relative to the total value to be delivered over the term of the contract. Our subscriptions primarily have terms of one to three years, and are generally non-cancelable and non-refundable. We also provide pay-as-you-go arrangements, which consist of month-to-month SaaS contracts. These arrangements have historically represented an immaterial portion of our subscription revenue.

*Services Revenue.* Services revenue consists of revenue from professional services and education services, which are generally sold on a time-and-materials basis. Revenue for professional services and education services is recognized as these services are delivered.

We expect our total revenue may vary from period to period based on, among other things, the timing and size of new subscriptions, the rate of customer renewals and expansions, fluctuations in customer consumption of and adoption trends for our usage-based offering, delivery of professional services, ramp time and productivity of our salesforce, the impact of significant transactions, and seasonality.

### **Cost of Revenue**

*Cost of Subscription Revenue.* Cost of subscription revenue primarily includes personnel-related costs, including salaries, bonuses, benefits, and stock-based compensation, for employees associated with customer support and maintenance, third-party cloud infrastructure costs, amortization of internal-use software and acquired intangible assets, and allocated overhead costs for information technology, facilities, business systems, and recruiting. We expect our cost of subscription revenue to increase in absolute dollars as our subscription revenue increases.

*Cost of Services Revenue.* Cost of services revenue primarily includes personnel-related costs, including salaries, bonuses, benefits, and stock-based compensation, for employees associated with our professional services and education services, costs of third-party consultants and partners who supplement our services delivery team, and allocated overhead. We expect our cost of services revenue to increase in absolute dollars as our services revenue increases.

### **Gross Profit and Gross Margin**

*Gross Profit.* Gross profit represents revenue less cost of revenue.

*Gross Margin.* Gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by a variety of factors, including the average sales price of our subscriptions and services, changes in our revenue mix, including the mix of revenue between our Confluent Platform, Confluent Cloud, and service offerings, timing and amount of usage of third-party cloud infrastructure resources, infrastructure optimization, and timing and extent of our investments in growth and scaling our business. We expect our gross margin to fluctuate over time depending on the factors described above.

### ***Operating Expenses***

Our operating expenses consist of research and development, sales and marketing, general and administrative expenses, and restructuring and other related charges. Personnel-related costs are the most significant component of each category of operating expenses. Operating expenses also include allocated overhead costs for information technology, facilities, business systems, and recruiting.

*Research and Development.* Research and development expenses consist primarily of personnel-related costs, including salaries, bonuses, benefits, and stock-based compensation, net of capitalized amounts, third-party cloud infrastructure expenses incurred in developing our offering, software and subscription services dedicated for use by our research and development organization, contractor and professional services fees, and allocated overhead. We expect our research and development expenses will continue to increase in absolute dollars as our business grows and we continue to invest in our offering.

*Sales and Marketing.* Sales and marketing expenses consist primarily of personnel-related costs, including salaries, sales commissions, bonuses, benefits, and stock-based compensation, amortization of deferred contract acquisition costs, which primarily consist of sales commissions and the associated payroll taxes, conferences, costs related to marketing programs, travel-related costs, and allocated overhead. Marketing programs consist of advertising, events, corporate communications, and brand-building and developer-community activities. We expect our sales and marketing expenses will increase in absolute dollars over time and continue to be our largest operating expense for the foreseeable future as we invest in our sales and marketing efforts. We also expect a greater increase in our sales and marketing expenses in the coming quarters as we shift our sales compensation plan to be oriented toward consumption for Confluent Cloud, which we expect will result in higher upfront expense recognition from consumption-oriented sales commissions.

*General and Administrative.* General and administrative expenses consist primarily of personnel-related costs, including salaries, bonuses, benefits, and stock-based compensation for administrative functions including finance, human resources, and legal, professional fees, software and subscription services dedicated for use by our general and administrative functions, and allocated overhead. We expect our general and administrative expenses will increase in absolute dollars over time as we continue to invest in the growth of our business.

*Restructuring and Other Related Charges.* Restructuring and other related charges consist of personnel-related costs, including employee transition and severance payments, employee benefits, and related facilitation costs, as well as lease abandonment charges.

### ***Other Income (Expense), Net***

Other income (expense), net consists primarily of interest earned on our cash and cash equivalents and marketable securities, including amortization of premiums and accretion of discounts on marketable securities, interest expense from amortization of debt issuance costs, gains and losses from foreign currency transactions, and realized gains and losses on marketable securities.

### ***Provision for Income Taxes***

Provision for income taxes consists of income taxes in certain foreign and U.S. state jurisdictions in which we conduct business. We maintain a full valuation allowance against our U.S. and U.K. deferred tax assets because we have concluded that it is more likely than not that the deferred tax assets will not be realized. As a result of an intra-group transfer of acquired intellectual property during the year ended December 31, 2023, we recognized German income tax expense of \$26.4 million and recorded a U.S. deferred tax asset of \$17.8 million offset by a valuation allowance. See Note 13 to our consolidated financial statements for further information.

## Results of Operations

The following table sets forth our consolidated statements of operations data for the periods presented:

	Year Ended December 31,		
	2023	2022	2021
	(in thousands)		
<b>Revenue:</b>			
Subscription	\$ 729,112	\$ 535,009	\$ 347,099
Services	47,840	50,935	40,765
Total revenue	776,952	585,944	387,864
<b>Cost of revenue:</b>			
Subscription <sup>(1)(2)</sup>	176,004	146,324	94,860
Services <sup>(1)(2)</sup>	53,666	56,091	42,432
Total cost of revenue	229,670	202,415	137,292
Gross profit	547,282	383,529	250,572
<b>Operating expenses:</b>			
Research and development <sup>(1)(2)</sup>	348,752	264,041	161,925
Sales and marketing <sup>(1)(2)</sup>	504,929	456,452	319,331
General and administrative <sup>(1)(2)</sup>	137,520	125,710	108,936
Restructuring and other related charges	34,854	-	-
Total operating expenses	1,026,055	846,203	590,192
Operating loss	(478,773)	(462,674)	(339,620)
Other income (expense), net	72,099	16,416	(7)
Loss before income taxes	(406,674)	(446,258)	(339,627)
Provision for income taxes	36,072	6,293	3,174
Net loss	\$ (442,746)	\$ (452,551)	\$ (342,801)

<sup>(1)</sup>Includes stock-based compensation expense as follows:

	Year Ended December 31,		
	2023	2022	2021
	(in thousands)		
Cost of revenue - subscription	\$ 25,620	\$ 23,136	\$ 12,571
Cost of revenue - services	11,096	9,253	5,418
Research and development	139,809	101,499	49,051
Sales and marketing	124,568	99,366	55,506
General and administrative	48,740	44,402	33,078
Total stock-based compensation expense	\$ 349,833	\$ 277,656	\$ 155,624

<sup>(2)</sup>Includes employer taxes on employee stock transactions as follows:

	Year Ended December 31,		
	2023	2022	2021
	(in thousands)		
Cost of revenue - subscription	\$ 867	\$ 569	\$ 636
Cost of revenue - services	392	604	377
Research and development	4,037	2,632	2,278
Sales and marketing	3,880	2,485	4,266
General and administrative	1,855	720	2,532
Total employer taxes on employee stock transactions	\$ 11,031	\$ 7,010	\$ 10,089

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The following table sets forth our consolidated statements of operations data expressed as a percentage of revenue for the periods indicated:

	Year Ended December 31,		
	2023	2022	2021
<b>Revenue:</b>			
Subscription	94 %	91 %	89 %
Services	6	9	11
Total revenue	100	100	100
<b>Cost of revenue:</b>			
Subscription	23	25	24
Services	7	10	11
Total cost of revenue	30	35	35
Gross profit	70	65	65
<b>Operating expenses:</b>			
Research and development	45	45	42
Sales and marketing	65	78	82
General and administrative	18	21	28
Restructuring and other related charges	4	0	0
Total operating expenses	132	144	152
Operating loss	(62)	(79)	(87)
Other income (expense), net	9	3	0
Loss before income taxes	(52)	(76)	(87)
Provision for income taxes	5	1	1
Net loss	(57)%	(77)%	(88)%

Note: Certain figures may not sum due to rounding.

### Comparison of the Years Ended December 31, 2023 and 2022

#### Revenue

	Year Ended December 31,		Change	
	2023	2022	\$	%
(in thousands, except percentages)				
Subscription	\$ 729,112	\$ 535,009	\$ 194,103	36%
Services	47,840	50,935	(3,095)	(6)%
Total revenue	\$ 776,952	\$ 585,944	\$ 191,008	33%

Subscription revenue increased by \$194.1 million during the year ended December 31, 2023 compared to the year ended December 31, 2022. The increase in revenue was primarily from sales to existing customers and the remaining increase was attributable to sales to new customers. Sales to new customers represent the revenue recognized from customers acquired in the 12 months prior to each discrete quarter end within the year ended December 31, 2023. A further indication of our ability to expand from existing customers is through our dollar-based net retention rate of slightly above 125% as of December 31, 2023. Confluent Platform and Confluent Cloud contributed 52% and 48% of our subscription revenue during the year ended December 31, 2023, respectively, compared to 61% and 39% during the year ended December 31, 2022, respectively.

Services revenue decreased by \$3.1 million during the year ended December 31, 2023 compared to the year ended December 31, 2022 primarily due to a decrease in delivery of professional services.

**Cost of Revenue, Gross Profit, and Gross Margin**

	Year Ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
Cost of revenue				
Subscription	\$ 176,004	\$ 146,324	\$ 29,680	20%
Services	53,666	56,091	(2,425)	(4)%
Total cost of revenue	\$ 229,670	\$ 202,415	\$ 27,255	13%
Gross profit	\$ 547,282	\$ 383,529	\$ 163,753	43%

	Year Ended December 31,	
	2023	2022
Gross margin		
Subscription	76%	73%
Services	(12)%	(10)%
Total gross margin	70%	65%

Cost of subscription revenue increased by \$29.7 million during the year ended December 31, 2023 compared to the year ended December 31, 2022. This increase was primarily due to an increase of \$17.8 million in third-party cloud infrastructure costs, an increase of \$9.3 million in personnel-related costs and allocated overhead costs, and an increase of \$5.0 million in amortization of internal-use software. The increase in personnel-related costs was mainly driven by increased headcount and an increase of \$2.5 million in stock-based compensation expense.

Cost of services revenue decreased by \$2.4 million during the year ended December 31, 2023 compared to the year ended December 31, 2022. This decrease was primarily due to the decrease in delivery of professional services.

Our subscription gross margin increased primarily due to efficiencies in personnel-related costs, offset by a change in our revenue mix toward Confluent Cloud which has a lower gross margin. Our services gross margin decreased primarily due to personnel-related costs, including stock-based compensation expense, growing at a higher rate than services revenue.

**Research and Development**

	Year Ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
Research and development	\$ 348,752	\$ 264,041	\$ 84,711	32%
Percentage of revenue	45%	45%		

Research and development expenses increased by \$84.7 million during the year ended December 31, 2023 compared to the year ended December 31, 2022. This increase was primarily due to an increase of \$59.6 million in personnel-related costs and allocated overhead costs and an increase of \$19.2 million in acquisition-related compensation costs. The increase in personnel-related costs was mainly driven by increased headcount and an increase of \$38.3 million in stock-based compensation expense, net of amounts capitalized.

### Sales and Marketing

	Year Ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
Sales and marketing	\$ 504,929	\$ 456,452	\$ 48,477	11%
Percentage of revenue	65%	78%		

Sales and marketing expenses increased by \$48.5 million during the year ended December 31, 2023 compared to the year ended December 31, 2022. This increase was primarily due to an increase of \$38.2 million in personnel-related costs and allocated overhead costs, an increase of \$8.5 million in amortization of deferred contract acquisition costs, and an increase of \$4.3 million in acquisition-related compensation costs, offset by a decrease of \$2.3 million in travel-related costs. The increase in personnel-related costs was mainly driven by an increase of \$25.2 million in stock-based compensation expense and the increase of average headcount in 2023 as compared with 2022.

### General and Administrative

	Year Ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
General and administrative	\$ 137,520	\$ 125,710	\$ 11,810	9%
Percentage of revenue	18%	21%		

General and administrative expenses increased by \$11.8 million during the year ended December 31, 2023 compared to the year ended December 31, 2022. This increase was primarily due to an increase of \$11.1 million in personnel-related costs and allocated overhead costs, mainly driven by an increase of \$4.3 million in stock-based compensation expense and the increase of average headcount in 2023 as compared with 2022.

### Restructuring and Other Related Charges

	Year Ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
Restructuring and other related charges	\$ 34,854	\$ -	\$ 34,854	100%
Percentage of revenue	4%	0%		

Restructuring and other related charges increased by \$34.9 million during the year ended December 31, 2023 compared to the year ended December 31, 2022 due to our restructuring actions to adjust our cost structure and real estate footprint in 2023. See Note 12 to our consolidated financial statements for further information.

### Other Income (Expense), Net

	Year Ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
Other income, net	\$ 72,099	\$ 16,416	\$ 55,683	339%

Other income, net increased by \$55.7 million during the year ended December 31, 2023 compared to the year ended December 31, 2022 primarily due to higher yields on marketable securities.

**Provision for (Benefit from) Income Taxes**

	Year Ended December 31,		Change	
	2023	2022	\$	%
	(in thousands, except percentages)			
Loss before income taxes	\$ (406,674)	\$ (446,258)	\$ 39,584	(9)%
Provision for income taxes	36,072	6,293	29,779	473%
Effective tax rate	(8.9)%	(1.4)%		

Provision for income taxes increased by \$29.8 million during the year ended December 31, 2023 compared to the year ended December 31, 2022 primarily due to tax expense of \$26.4 million related to an intra-group transfer of acquired intellectual property. See Note 13 to our consolidated financial statements for further information.

We maintain a full valuation allowance on our U.S. and U.K. deferred tax assets. Other than the tax expense related to an intra-group transfer of acquired intellectual property in 2023, the most significant component of our tax expense is income taxes in various foreign jurisdictions. Our effective tax rate may fluctuate to the extent the mix of earnings fluctuates between jurisdictions with different tax rates.

**Liquidity and Capital Resources**

To date, we have financed operations primarily through proceeds received from issuances of equity and debt securities and payments received from our customers. In June 2021, our initial public offering resulted in proceeds of \$786.6 million, net of underwriting discounts and commissions. In December 2021, we issued \$1.1 billion aggregate principal amount of 0% convertible senior notes due 2027 (the "2027 Notes") in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The net proceeds from the issuance of the 2027 Notes, after deducting the initial purchasers' discounts and commissions and debt issuance costs, were \$1,080.5 million.

As of December 31, 2023, our principal sources of liquidity were cash, cash equivalents, and marketable securities totaling \$1,900.8 million. Our cash, cash equivalents, and marketable securities consist of bank deposits, money market funds, corporate notes and bonds, commercial paper, U.S. agency obligations, and U.S. treasury securities.

We believe that existing cash, cash equivalents, marketable securities, and cash flow from operations will be sufficient to fund our short-term and long-term operating and capital needs, including our purchase obligations primarily related to our non-cancelable agreements for third-party cloud infrastructure and operating lease commitments, primarily related to our office space. As of December 31, 2023, our purchase obligations were \$743.6 million, of which \$162.8 million is expected to be paid within 12 months and the remainder thereafter. As of December 31, 2023, our operating lease payment obligations were \$26.8 million, of which \$8.8 million is expected to be paid within 12 months and the remainder thereafter. See Note 9, *Commitments and Contingencies*, to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further information.

We have generated significant operating losses and negative cash flows from operations. As of December 31, 2023, we had an accumulated deficit of \$1,644.2 million. We may require additional capital resources to execute strategic initiatives to grow our business. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing and international operations, and the continuing market acceptance of our subscriptions and services. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, results of operations, and financial condition would be adversely affected.



The following table summarizes our cash flows for the periods presented:

	<b>Year Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
	<b>(in thousands)</b>		
Net cash used in operating activities	\$ (103,657)	\$ (157,333)	\$ (105,060)
Net cash used in investing activities	\$ (84,851)	\$ (865,805)	\$ (400,583)
Net cash provided by financing activities	\$ 102,372	\$ 82,241	\$ 1,844,514

#### ***Cash Flows from Operating Activities***

We generally invoice our customers annually in advance for our term-based licenses and typically annually in advance or monthly in arrears for our SaaS offering. Our largest source of operating cash is payments received from our customers. We have in the past and expect in the future to experience seasonality, with the fourth quarter historically being our strongest quarter for sales to customers as a result of large enterprise buying patterns. Accordingly, the operating cash flow benefit from increased collections from our customers generally occurs in the subsequent quarter after billing. We expect seasonality, timing of billings, and collections from our customers to have a material impact on our cash flow from operating activities from period to period. Our primary uses of cash from operating activities are for personnel-related expenses, third-party cloud infrastructure costs, sales and marketing expenses, and overhead expenses.

Cash used in operating activities of \$103.7 million for the year ended December 31, 2023 primarily consisted of our net loss of \$442.7 million, adjusted for non-cash charges of \$394.8 million, and net cash outflows of \$55.8 million from changes in our operating assets and liabilities, net of the effects of business combinations. Our non-cash charges included \$349.8 million of stock-based compensation expense, net of amounts capitalized, \$45.9 million of amortization of deferred contract acquisition costs, \$15.7 million of lease abandonment charges, and \$13.9 million of depreciation and amortization of property equipment and acquired intangible assets, partially offset by \$42.5 million of net accretion of discounts and amortization of premiums on marketable securities. The main drivers of the changes in operating assets and liabilities, net of the effects of business combinations, were a \$61.4 million increase in deferred contract acquisition costs due to our increased sales, a \$53.6 million increase in accounts receivable due to overall growth of our sales, a \$14.5 million decrease in accounts payable due to timing of payments, and a \$10.4 million increase in prepaid expenses and other assets related to timing of payments made in advance for future services, partially offset by a \$61.3 million increase in accrued expenses and other liabilities due to \$17.4 million in accrued compensation expense related to acquisition-related holdback agreements and the timing of accruals and payments and a \$30.2 million increase in deferred revenue corresponding with our increased sales.

Cash used in operating activities of \$157.3 million for the year ended December 31, 2022 primarily consisted of our net loss of \$452.6 million, adjusted for non-cash charges of \$327.3 million, and net cash outflows of \$32.1 million from changes in our operating assets and liabilities. Our non-cash charges included \$277.7 million of stock-based compensation expense, net of amounts capitalized, \$37.3 million of amortization of deferred contract acquisition costs, \$8.6 million of non-cash operating lease costs, and \$7.6 million for depreciation and amortization expense, partially offset by \$8.9 million of net accretion of discounts and amortization of premiums on marketable securities. The main drivers of the changes in operating assets and liabilities were a \$62.8 million increase in deferred contract acquisition costs due to our increased sales, a \$42.1 million increase in accounts receivable due to overall growth of our sales and our expanding customer base, and a \$17.9 million increase in prepaid expenses and other assets primarily driven by prepaid third-party cloud infrastructure costs, partially offset by a \$76.4 million increase in deferred revenue corresponding with our increased sales and a \$13.6 million increase in accounts payable due to timing of payments.

#### ***Cash Flows from Investing Activities***

Cash used in investing activities of \$84.9 million for the year ended December 31, 2023 was primarily due to purchases of marketable securities of \$1,586.7 million, cash paid for business combinations, net of cash acquired of \$55.8 million, and capitalized internal-use software development costs of \$17.8 million, partially offset by maturities of marketable securities of \$1,578.3 million.

Cash used in investing activities of \$865.8 million for the year ended December 31, 2022 was primarily due to purchases of marketable securities of \$2,051.9 million and capitalized internal-use software development costs of \$10.3 million, partially offset by maturities of marketable securities of \$1,200.6 million.

#### ***Cash Flows from Financing Activities***

Cash provided by financing activities of \$102.4 million for the year ended December 31, 2023 was primarily due to \$73.9 million in proceeds from the issuance of common stock upon exercises of stock options and \$28.7 million in proceeds from the issuance of common stock under our employee stock purchase plan.

Cash provided by financing activities of \$82.2 million for the year ended December 31, 2022 was primarily due to \$42.9 million in proceeds from the issuance of common stock upon exercises of stock options and \$40.9 million in proceeds from the issuance of common stock under our employee stock purchase plan.

#### **Critical Accounting Estimates**

Our consolidated financial statements and the related notes thereto included elsewhere in this Annual Report on Form 10-K are prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by management. To the extent that there are differences between our estimates and actual results, our financial condition, results of operations, and cash flows will be affected.

We believe that the accounting policy and estimate described below involves a greater degree of judgment and complexity and therefore is the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

#### ***Revenue Recognition***

See Note 2, *Basis of Presentation and Summary of Significant Accounting Policies*, to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for information regarding our significant accounting policies over revenue recognition.

Our contracts with customers often contain multiple performance obligations. For these contracts, we allocate the transaction price to each performance obligation on a relative standalone selling price (“SSP”) basis. We consider our determination of SSP to be a critical accounting estimate. SSP is established based on multiple factors, including prices at which we separately sell standalone subscriptions and services. In cases where directly observable standalone sales are not available, such as when license and PCS are not sold on a standalone basis, we establish the SSP by using information such as the historical selling price of performance obligations in similar transactions, market conditions, and our pricing practices, which can require significant judgment and are subject to change based on continuous reevaluation. There may be more than one SSP for individual subscriptions and services due to the stratification of subscription support tiers and services. We also consider if there are any additional material rights inherent in a contract, and if so, we allocate revenue to the material right as a performance obligation.

#### **Recent Accounting Pronouncements**

See Note 2, *Basis of Presentation and Summary of Significant Accounting Policies*, to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for recent accounting pronouncements.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. We have operations both within the United States and internationally, and we are exposed to market risk in the ordinary course of our business.

### ***Interest Rate Risk***

As of December 31, 2023, we had \$1,900.8 million of cash, cash equivalents, and marketable securities consisting of money market funds, corporate notes and bonds, commercial paper, U.S. agency obligations, and U.S. treasury securities. Our cash, cash equivalents, and marketable securities are held for working capital purposes. We do not enter into investments for trading or speculative purposes. The effect of a hypothetical 10% relative change in interest rates would not have a material impact on the fair value of our cash equivalents and marketable securities as of December 31, 2023.

In December 2021, we issued \$1.1 billion aggregate principal amount of 0% convertible senior notes due 2027 (the “2027 Notes”) in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The fair value of the 2027 Notes are subject to market risk and other factors due to the conversion feature. The fair value of the 2027 Notes will generally increase as our Class A common stock price increases, and will generally decrease as our Class A common stock price declines. The market value changes affect the fair value of the 2027 Notes, but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Additionally, we carry the 2027 Notes at face value less unamortized debt issuance costs on our consolidated balance sheet, and we present the fair value for required disclosure purposes only.

### ***Foreign Currency Risk***

Our reporting currency and the functional currency of our wholly-owned foreign subsidiaries is the U.S. dollar. The substantial majority of our sales contracts are denominated in U.S. dollars, and therefore our revenue is not currently subject to significant foreign currency risk. A portion of our operating expenses is incurred outside the United States and denominated in foreign currencies and is subject to fluctuations due to changes in foreign exchange rates.

To reduce the impact of foreign currency fluctuations, we established a hedging program in December 2022. See Note 2 and Note 5 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information. Our hedging program reduces but does not eliminate the impact of currency exchange rate movements.

The effect of a hypothetical 10% relative change in foreign exchange rates, after considering our hedging program, would not have a material impact on our financial condition, results of operations, or cash flows for the periods presented. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in foreign exchange rates.

**Item 8. Financial Statements and Supplementary Data**

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## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Confluent, Inc.

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Confluent, Inc. and its subsidiaries (the “Company”) as of December 31, 2023 and 2022, and the related consolidated statements of operations, of comprehensive loss, of redeemable convertible preferred stock and stockholders’ equity (deficit) and of cash flows for each of the three years in the period ended December 31, 2023, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### ***Development of Standalone Selling Price and Allocation of the Transaction Price to Performance Obligations***

As described in Notes 2 and 10 to the consolidated financial statements, subscription revenue was \$729 million for the year ended December 31, 2023. The Company's contracts with customers often contain multiple performance obligations. For these contracts, management allocates the transaction price to each performance obligation on a relative standalone selling price ("SSP") basis. SSP is established based on multiple factors, including prices at which the Company separately sells standalone subscriptions and services. In cases where directly observable standalone sales are not available, such as when license and post contract support are not sold on a standalone basis, management establishes the SSP by using information such as the historical selling price of performance obligations in similar transactions, market conditions, and the Company's pricing practices, which can require significant judgment and are subject to change based on continuous reevaluation. There may be more than one SSP for individual subscriptions and services due to the stratification of subscription support tiers and services. Management also considers if there are any additional material rights inherent in a contract, and if so, allocates revenue to the material right as a performance obligation.

The principal considerations for our determination that performing procedures relating to the development of SSP and allocation of the transaction price to performance obligations is a critical audit matter are (i) the significant judgment by management when developing the estimates of SSP for certain of the Company's performance obligations and allocating the transaction price and (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to prices at which the Company separately sells standalone subscriptions and services, and in cases where directly observable standalone sales are not available, historical selling price of performance obligations in similar transactions and the Company's pricing practices.

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Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls over developing estimates of SSP and allocating the transaction price to the individual performance obligations. These procedures also included, among others (i) testing management's process for developing the estimates of SSP; (ii) evaluating the appropriateness of the overall methodology used by management to develop the estimates; (iii) evaluating the reasonableness of significant assumptions related to prices at which the Company separately sells standalone subscriptions and services, and in cases where directly observable standalone sales are not available, historical selling price of performance obligations in similar transactions and the Company's pricing practices; (iv) testing the completeness and accuracy of the underlying data used in the methodology; and (v) testing the accuracy of management's calculations of estimated selling prices and allocation of transaction prices. Evaluating management's significant assumptions related to prices at which the Company separately sells standalone subscription and services, and in the cases where directly observable standalone sales are not available, historical selling price of performance obligations in similar transactions and the Company's pricing practices involved evaluating whether the assumptions used by management were reasonable considering (i) the historical selling prices of standalone subscription and services and similar transactions; (ii) the consistency with external market and industry data; and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit.

/s/ PricewaterhouseCoopers LLP  
San Francisco, California  
February 21, 2024

We have served as the Company's auditor since 2018.

**Confluent, Inc.**  
**Consolidated Balance Sheets**  
*(in thousands, except share and per share data)*

	December 31, 2023	December 31, 2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 349,761	\$ 435,781
Marketable securities	1,551,009	1,491,044
Accounts receivable, net	229,962	178,188
Deferred contract acquisition costs	43,937	35,883
Prepaid expenses and other current assets	76,986	57,229
Total current assets	2,251,655	2,198,125
Property and equipment, net	54,012	29,089
Operating lease right-of-use assets	10,061	29,478
Goodwill and intangible assets, net	55,490	-
Deferred contract acquisition costs, non-current	75,815	68,401
Other assets, non-current	13,776	19,756
Total assets	\$ 2,460,809	\$ 2,344,849
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 6,714	\$ 21,439
Accrued expenses and other liabilities	141,847	105,331
Operating lease liabilities	7,890	7,375
Deferred revenue	330,570	290,185
Total current liabilities	487,021	424,330
Operating lease liabilities, non-current	17,391	25,136
Deferred revenue, non-current	22,436	32,644
Convertible senior notes, net	1,088,313	1,084,500
Other liabilities, non-current	35,233	8,762
Total liabilities	1,650,394	1,575,372
Commitments and contingencies (Note 9)		



	December 31, 2023	December 31, 2022
Stockholders' equity:		
Preferred stock, par value of \$0.00001 per share; 10,000,000 shares authorized as of December 31, 2023 and December 31, 2022; 0 shares issued and outstanding as of December 31, 2023 and December 31, 2022	-	-
Class A common stock, par value of \$0.00001 per share; 1,000,000,000 shares authorized as of December 31, 2023 and December 31, 2022; 224,737,415 and 172,483,134 shares issued and outstanding as of December 31, 2023 and December 31, 2022, respectively	2	2
Class B common stock, par value of \$0.00001 per share; 500,000,000 shares authorized as of December 31, 2023 and December 31, 2022; 86,774,127 and 116,901,046 shares issued and outstanding as of December 31, 2023 and December 31, 2022, respectively	1	1
Additional paid-in capital	2,453,293	1,980,335
Accumulated other comprehensive income (loss)	1,270	(9,456)
Accumulated deficit	(1,644,151)	(1,201,405)
Total stockholders' equity	810,415	769,477
Total liabilities and stockholders' equity	\$ 2,460,809	\$ 2,344,849

*See accompanying notes to the consolidated financial statements.*

**Confluent, Inc.**  
**Consolidated Statements of Operations**  
*(in thousands, except share and per share data)*

	Year Ended December 31,		
	2023	2022	2021
<b>Revenue:</b>			
Subscription	\$ 729,112	\$ 535,009	\$ 347,099
Services	47,840	50,935	40,765
Total revenue	776,952	585,944	387,864
<b>Cost of revenue:</b>			
Subscription	176,004	146,324	94,860
Services	53,666	56,091	42,432
Total cost of revenue	229,670	202,415	137,292
Gross profit	547,282	383,529	250,572
<b>Operating expenses:</b>			
Research and development	348,752	264,041	161,925
Sales and marketing	504,929	456,452	319,331
General and administrative	137,520	125,710	108,936
Restructuring and other related charges	34,854	-	-
Total operating expenses	1,026,055	846,203	590,192
Operating loss	(478,773)	(462,674)	(339,620)
Other income (expense), net	72,099	16,416	(7)
Loss before income taxes	(406,674)	(446,258)	(339,627)
Provision for income taxes	36,072	6,293	3,174
Net loss	\$ (442,746)	\$ (452,551)	\$ (342,801)
Net loss per share, basic and diluted	\$ (1.47)	\$ (1.62)	\$ (1.82)
Weighted-average shares used to compute net loss per share, basic and diluted	300,727,487	280,080,357	188,627,720

*See accompanying notes to the consolidated financial statements.*

**Confluent, Inc.**  
**Consolidated Statements of Comprehensive Loss**  
*(in thousands)*

	<b>Year Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Net loss	\$ (442,746)	\$ (452,551)	\$ (342,801)
Other comprehensive income (loss), net of tax:			
Net unrealized gain (loss) on marketable securities	9,099	(9,279)	(1,058)
Net unrealized gain on derivative instruments	1,627	653	-
Other comprehensive income (loss), net of tax	10,726	(8,626)	(1,058)
Total comprehensive loss	\$ (432,020)	\$ (461,177)	\$ (343,859)

*See accompanying notes to the consolidated financial statements.*

**Confluent, Inc.**  
**Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)**  
*(in thousands, except share data)*

	Redeemable Convertible Preferred Stock		Convertible Founder Stock		Common Stock		Class A and Class B Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
<b>Balances as of January 1, 2021</b>	115,277,850	\$ 574,634	635,818	\$ -	109,447,843	\$ 1	-	\$ -	\$ 99,575	\$ 228	\$ (406,053)	\$ (306,249)
Issuance of common stock upon early exercise of unvested options, net of repurchases	-	-	-	-	2,447,573	-	1,104	-	-	-	-	-
Vesting of early exercised options	-	-	-	-	-	-	-	-	10,235	-	-	10,235
Issuance of common stock upon exercise of vested options	-	-	-	-	7,072,147	-	13,021,053	1	51,792	-	-	51,793
Vesting of restricted stock units	-	-	-	-	-	-	648,494	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	-	-	158,249	-	-	158,249
Reclassification of common stock to Class B common stock upon initial public offering	-	-	-	-	(118,967,563)	(1)	118,967,563	1	-	-	-	-
Conversion of redeemable convertible preferred and founder stock to Class B common stock upon initial public offering	(115,277,850)	(574,634)	(635,818)	-	-	-	115,913,668	1	574,633	-	-	574,634
Issuance of Class A common stock upon initial public offering, net of underwriting discounts and commissions and other issuance costs	-	-	-	-	-	-	23,000,000	-	783,158	-	-	783,158
Issuance of Class A common stock pursuant to charitable donation	-	-	-	-	-	-	250,000	-	13,290	-	-	13,290
Purchase of capped calls	-	-	-	-	-	-	-	(90,970)	-	-	-	(90,970)
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(1,058)	-	-	(1,058)
Net loss	-	-	-	-	-	-	-	-	-	-	(342,801)	(342,801)
<b>Balances as of December 31, 2021</b>	-	-	-	-	-	-	271,801,882	3	1,599,962	(830)	(748,854)	850,281
Issuance of common stock upon early exercise of unvested options	-	-	-	-	-	-	59,185	-	-	-	-	-
Repurchases of unvested common stock	-	-	-	-	-	-	(157,672)	-	-	-	-	-
Vesting of early exercised options	-	-	-	-	-	-	-	-	11,467	-	-	11,467
Issuance of common stock upon exercise of vested options	-	-	-	-	-	-	12,139,056	-	42,767	-	-	42,767
Vesting of restricted stock units	-	-	-	-	-	-	4,155,049	-	-	-	-	-
Issuance of common stock under employee stock purchase plan	-	-	-	-	-	-	1,386,680	-	40,939	-	-	40,939
Stock-based compensation	-	-	-	-	-	-	-	-	285,200	-	-	285,200
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(8,626)	-	-	(8,626)
Net loss	-	-	-	-	-	-	-	-	-	-	(452,551)	(452,551)
<b>Balances as of December 31, 2022</b>	-	-	-	-	-	-	289,384,180	3	1,980,335	(9,456)	(1,201,405)	769,477
Repurchases of unvested common stock	-	-	-	-	-	-	(35,203)	-	-	-	-	-
Vesting of early exercised options	-	-	-	-	-	-	-	-	2,834	-	-	2,834
Issuance of common stock upon exercise of vested options	-	-	-	-	-	-	11,454,829	-	73,640	-	-	73,640
Vesting of restricted stock units	-	-	-	-	-	-	9,486,112	-	-	-	-	-
Issuance of common stock under employee stock purchase plan	-	-	-	-	-	-	1,221,624	-	28,708	-	-	28,708
Stock-based compensation	-	-	-	-	-	-	-	-	367,776	-	-	367,776
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	10,726	-	-	10,726
Net loss	-	-	-	-	-	-	-	-	-	-	(442,746)	(442,746)
<b>Balances as of December 31, 2023</b>	-	\$ -	-	\$ -	-	\$ -	311,511,542	\$ 3	\$ 2,453,293	\$ 1,270	\$ (1,644,151)	\$ 810,415

*See accompanying notes to the consolidated financial statements.*

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

	Year Ended December 31,		
	2023	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (442,746)	\$ (452,551)	\$ (342,801)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation and amortization	13,910	7,620	3,632
Net (accretion) amortization of (discounts) premiums on marketable securities	(42,505)	(8,891)	2,270
Amortization of debt issuance costs	3,813	3,799	187
Amortization of deferred contract acquisition costs	45,888	37,339	26,697
Non-cash operating lease costs	3,992	8,608	10,990
Lease abandonment charges	15,667	-	-
Common stock charitable donation expense	-	-	13,290
Stock-based compensation, net of amounts capitalized	349,833	277,656	155,624
Deferred income taxes	1,889	(237)	1,335
Other	2,358	1,384	1,828
Changes in operating assets and liabilities, net of effects of business combinations:			
Accounts receivable	(53,593)	(42,080)	(32,516)
Deferred contract acquisition costs	(61,354)	(62,801)	(57,924)
Prepaid expenses and other assets	(10,387)	(17,850)	(31,366)
Accounts payable	(14,452)	13,580	6,143
Accrued expenses and other liabilities	61,333	9,948	61,132
Operating lease liabilities	(7,479)	(9,209)	(10,866)
Deferred revenue	30,176	76,352	87,285
Net cash used in operating activities	(103,657)	(157,333)	(105,060)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capitalization of internal-use software costs	(17,845)	(10,334)	(5,342)
Purchases of marketable securities	(1,586,693)	(2,051,908)	(663,595)
Maturities of marketable securities	1,578,323	1,200,558	271,942
Purchases of property and equipment	(2,834)	(4,121)	(3,600)
Cash paid for business combinations, net of cash acquired	(55,802)	-	-
Other	-	-	12
Net cash used in investing activities	(84,851)	(865,805)	(400,583)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from initial public offering, net of underwriting discounts and commissions	-	-	786,600
Proceeds from issuance of common stock upon exercise of vested options	73,919	42,461	51,737
Proceeds from issuance of common stock upon early exercise of unvested options	-	416	19,454
Repurchases of unvested common stock	(255)	(789)	(482)
Payments of deferred offering costs	-	-	(3,125)
Proceeds from convertible senior notes, net of issuance costs	-	(786)	1,081,300
Payment for purchase of capped calls	-	-	(90,970)
Proceeds from issuance of common stock under employee stock purchase plan	28,708	40,939	-
Net cash provided by financing activities	102,372	82,241	1,844,514
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	116	(4)	5
Net (decrease) increase in cash, cash equivalents, and restricted cash	(86,020)	(940,901)	1,338,876
Cash, cash equivalents, and restricted cash at beginning of period	435,781	1,376,682	37,806
Cash, cash equivalents, and restricted cash at end of period	\$ 349,761	\$ 435,781	\$ 1,376,682

	Year Ended December 31,		
	2023	2022	2021
<b>Reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets to the amounts shown above:</b>			
Cash and cash equivalents	\$ 349,761	\$ 435,781	\$ 1,375,932
Restricted cash included in other assets, current	-	-	750
Total cash, cash equivalents, and restricted cash	<u>\$ 349,761</u>	<u>\$ 435,781</u>	<u>\$ 1,376,682</u>
<b>Supplementary cash flow disclosures:</b>			
Cash paid for:			
Income taxes	\$ 8,053	\$ 5,529	\$ 2,168
Non-cash investing and financing activities:			
Stock-based compensation capitalized as internal-use software costs	\$ 17,943	\$ 7,544	\$ 2,625
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ -	\$ 998	\$ 813
Issuance of common stock upon exercise of vested options included in prepaid expenses and other current assets	\$ -	\$ -	\$ 55
Vesting of early exercised stock options	\$ 2,834	\$ 11,467	\$ 10,235
Convertible senior notes issuance costs included in accrued expenses and other liabilities	\$ -	\$ -	\$ 786

*See accompanying notes to the consolidated financial statements.*

**Confluent, Inc.**  
**Notes to Consolidated Financial Statements**

**1. Organization and Description of Business**

*Description of Business*

Confluent, Inc. (“Confluent” or the “Company”) created a data infrastructure platform focused on data in motion. Confluent’s platform allows customers to connect their applications, systems, and data layers and can be deployed either as a self-managed software offering, Confluent Platform, or as a fully-managed cloud-native software-as-a-service (“SaaS”) offering, Confluent Cloud. Confluent also offers professional services and education services. The Company was incorporated in the state of Delaware in September 2014 and is headquartered in California with various other global office locations.

**2. Basis of Presentation and Summary of Significant Accounting Policies**

**Basis of Presentation**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

**Reclassifications**

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the presentation of the current year consolidated financial statements. These reclassifications had no effect on consolidated net loss, stockholders’ equity, or cash flows as previously reported.

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Such estimates include, but are not limited to, the standalone selling price (“SSP”) for each distinct performance obligation included in customer contracts, deferred contract acquisition costs and their period of benefit, valuation of stock-based awards, the fair value of the Company’s common stock prior to its initial public offering (“IPO”) in June 2021, the fair value of acquired intangible assets, capitalization and estimated useful life of internal-use software, the incremental borrowing rate used to measure operating lease liabilities, and accounting for income taxes.

The Company bases its estimates on historical and anticipated results, trends, and various other assumptions that it believes are reasonable under the circumstances. Estimates and assumptions about future events and their effects, including the impact of global macroeconomic conditions, cannot be determined with certainty and therefore require the exercise of judgment. Actual results could differ from those estimates and any such differences may be material to the Company’s consolidated financial statements.

**Functional Currency**

The reporting currency of the Company is the U.S. dollar. The U.S. dollar is the functional currency for all subsidiaries, and therefore, foreign currency denominated monetary assets and liabilities are remeasured into U.S. dollars at exchange rates at the balance sheet date, and foreign currency denominated non-monetary assets and liabilities are remeasured into U.S. dollars at historical exchange rates. Gains or losses from foreign currency remeasurement and settlements are included in other income (expense), net in the consolidated statements of operations. Net foreign exchange losses were not material for the years ended December 31, 2023 and 2021 and \$2.5 million for the year ended December 31, 2022.

## **Cash and Cash Equivalents**

The Company considers all highly liquid investments, including money market funds, U.S. treasury securities, U.S. agency obligations, and commercial paper with remaining maturities at the date of purchase of three months or less, to be cash equivalents.

## **Marketable Securities**

The Company's marketable securities consist of corporate notes and bonds, commercial paper, U.S. agency obligations, and U.S. treasury securities. The Company determines the appropriate classification of its marketable securities at the time of purchase and reevaluates such determination at each balance sheet date. The Company has classified and accounted for its marketable securities as available-for-sale securities. The Company may sell these securities at any time for use in its current operations or for other purposes, even prior to maturity. As a result, the Company classifies its marketable securities within current assets.

Available-for-sale securities are recorded at fair value each reporting period, and are adjusted for amortization of premiums and accretion of discounts to maturity and such amortization and accretion are included in other income (expense), net in the consolidated statements of operations.

Realized gains and losses are determined based on the specific identification method and are reported in other income (expense), net in the consolidated statements of operations. Unrealized gains are reported as a separate component of accumulated other comprehensive income (loss) on the consolidated balance sheets until realized.

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell the security or it is more likely than not that the Company will be required to sell the security before the recovery of its entire amortized cost basis. If either of these criteria is met, the security's amortized cost basis is written down to fair value through other income (expense), net in the consolidated statements of operations. If neither of these criteria is met, the Company evaluates whether the decline in fair value below amortized cost is due to credit or non-credit related factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and any adverse conditions specifically related to the security, among other factors. Credit related unrealized losses are recognized as an allowance for expected credit losses of available-for-sale debt securities on the consolidated balance sheets with a corresponding charge in other income (expense), net in the consolidated statements of operations. Non-credit related unrealized losses are included in accumulated other comprehensive income (loss).

## **Fair Value of Financial Instruments**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

- Level 1 Inputs: Observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 Inputs: Observable inputs other than quoted prices included in Level 1, such as quoted prices in less active markets or model-derived valuations that are observable either directly or indirectly.
- Level 3 Inputs: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.



The Company's financial instruments consist of cash equivalents, marketable securities, accounts receivable, accounts payable, accrued expenses, derivative instruments, and convertible senior notes. Cash equivalents and marketable securities are recorded at fair value. Accounts receivable, accounts payable, and accrued expenses are stated at their carrying value, which approximates fair value due to the short time to the expected receipt or payment date. See Note 4 for further details regarding the fair value of the Company's derivative instruments and convertible senior notes.

### **Accounts Receivable and Allowance for Credit Losses**

Accounts receivable on the consolidated balance sheets consists of trade accounts receivable and unbilled receivables, net of an allowance for expected credit losses. Trade accounts receivable are stated at the invoiced amount and consist of amounts currently due from customers. Unbilled receivables represent revenue recognized in excess of invoiced amounts for the Company's unconditional right to consideration in exchange for goods or services that the Company has transferred to the customer, such that only the passage of time is required before payment of consideration is due. The unbilled receivables balance was \$64.2 million and \$51.3 million as of December 31, 2023 and 2022, respectively.

Accounts receivable are reduced by an allowance for expected credit losses. The allowance for expected credit losses represents the best estimate of lifetime expected credit losses against the existing accounts receivable, inclusive of unbilled receivables, based on certain factors including the age of the receivable balance, past collection experience with the customer, historical write-off experience, credit quality of the customer, current economic conditions, and reasonable and supportable forecasts of future economic conditions. Accounts receivable deemed uncollectible are written off against the allowance for expected credit losses when identified and the Company no longer actively pursues collection of the receivable. The Company's allowance for expected credit losses was not material as of December 31, 2023 and 2022. Additions to and write-offs against the allowance for expected credit losses were not material for the years ended December 31, 2023, 2022, and 2021.

### **Derivative Instruments and Hedging**

The Company enters into foreign currency forward contracts with certain financial institutions to mitigate the impact of foreign currency fluctuations on future cash flows and earnings. Derivative instruments that hedge the exposure to variability in expected future cash flows are designated as cash flow hedges. The Company records changes in the fair value of these derivatives as a component of accumulated other comprehensive income (loss) ("AOCI") and subsequently reclassifies the related gains or losses into cost of revenue or operating expense in the same period, or periods, during which the hedged transaction affects earnings. The Company evaluates the effectiveness of its cash flow hedges on a quarterly basis and does not exclude any component of the changes in fair value of the derivative instruments for effectiveness testing purposes. The Company classifies cash flows related to its cash flow hedges as operating activities in its consolidated statements of cash flows.

Derivative instruments that hedge the exposure to variability in the fair value of assets or liabilities or hedge monetary assets and liabilities denominated in certain foreign currencies are not designated as hedges for financial reporting purposes. The Company records changes in the fair value of these derivatives in other income (expense), net in the consolidated statements of operations. The Company classifies cash flows related to these derivatives as operating activities in its consolidated statements of cash flows.

The Company has master netting agreements with each of its counterparties, which permit net settlement of multiple, separate derivative contracts with a single payment. The Company does not have collateral requirements with any of its counterparties. Although the Company is allowed to present the fair value of derivative instruments on a net basis according to master netting arrangements, the Company has elected to present its derivative instruments on a gross basis in the consolidated financial statements. The Company's derivative instruments generally have maturities of 13 months or less. The Company does not use derivative instruments for trading or speculative purposes.

## **Concentration of Risks**

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents, restricted cash, marketable securities, accounts receivable, and derivative instruments. The primary focus of the Company's investment strategy is to preserve capital and meet liquidity requirements. The Company invests its excess cash in highly rated money market funds and in marketable securities. The Company extends credit to customers in the normal course of business. The Company maintains an allowance for expected credit losses on customers' accounts when deemed necessary. The Company mitigates its counterparty credit risk related to derivative instruments by transacting with major financial institutions with high credit ratings.

No customer represented 10% or greater of total revenue for the years ended December 31, 2023, 2022, and 2021. No customer represented 10% or greater of gross accounts receivable as of December 31, 2023 and 2022.

## **Deferred Contract Acquisition Costs**

The Company capitalizes incremental costs of obtaining a contract with a customer if such costs are recoverable. Such costs primarily consist of sales commissions earned by the Company's sales force and the associated payroll taxes. Sales commissions for new revenue contracts, including incremental sales to existing customers, are deferred and then amortized over an estimated period of benefit, which the Company has determined to be five years. To determine the period of benefit, the Company has considered its technology development cycle, the cadence of software releases, the nature of its customer contracts, the duration of customer relationships, and the expected renewal period. Sales commissions for renewal contracts (which are not considered commensurate with sales commissions for new revenue contracts and incremental sales to existing customers) are deferred and then amortized over the renewal contract term.

Amortization of deferred contract acquisition costs is included in sales and marketing expenses in the consolidated statements of operations. The Company periodically reviews the carrying amount of deferred contract acquisition costs to determine whether events or changes in circumstances have occurred that could impact the period of benefit of these deferred costs. The Company did not recognize any impairment of deferred contract acquisition costs during the years ended December 31, 2023, 2022, and 2021.

## **Capitalized Software Costs**

Software development costs for software to be sold, leased, or otherwise marketed are expensed as incurred until the establishment of technological feasibility, at which time those costs are capitalized until the product is available for general release to customers and amortized over the estimated life of the product. Technological feasibility is established upon the completion of a working prototype that has been certified as having no critical bugs and is a release candidate. Costs to develop software that is marketed externally have not been capitalized as the current software development process is essentially completed concurrently with the establishment of technological feasibility and were not material for the periods presented. As such, all related software development costs are expensed as incurred and included in research and development expenses in the consolidated statements of operations.

Costs related to software acquired, developed, or modified solely to meet the Company's internal requirements are capitalized. Costs incurred during the preliminary planning and evaluation stage of the project and during the post-implementation operational stage are expensed as incurred. Costs incurred during the application development stage of the project are capitalized within property and equipment, net on the consolidated balance sheets. Amortization is computed using the straight-line method over the estimated useful life of the capitalized software asset, which is generally three to five years. The amortization of internal-use software costs is included in cost of revenue in the consolidated statements of operations. The Company evaluates the useful life of these assets on a periodic basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. The Company did not recognize any impairment of capitalized internal-use software costs during the years ended December 31, 2023, 2022, and 2021.

## Property and Equipment, Net

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Repairs and maintenance costs are expensed as incurred. The estimated lives of the Company's assets are as follows:

	<b>Useful Lives</b>
Computers, equipment, and software	3 years
Furniture and fixtures	5 years
Leasehold improvements	Shorter of the remaining lease term or useful life

The Company periodically reviews the remaining estimated useful lives of its property and equipment. If the estimated useful life assumption for any asset is changed due to new information, the remaining unamortized balance would be depreciated or amortized over the revised estimated useful life on a prospective basis.

Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation and amortization are removed from the consolidated financial statements and any resulting gain or loss is reflected in the consolidated statements of operations. There were no material gains or losses incurred as a result of retirement or sale during the years ended December 31, 2023, 2022, and 2021.

## Leases

Leases arise from contractual obligations that convey the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. The Company determines if a contract is, or contains, a lease at contract inception. All of the Company's leases are operating leases and are included in operating lease right-of-use assets, operating lease liabilities, and operating lease liabilities, non-current on the consolidated balance sheets.

The Company accounts for lease components and non-lease components as a single lease component for all leases. The Company has elected an accounting policy to not recognize short-term leases, which have a lease term of twelve months or less, on the consolidated balance sheets.

Operating lease right-of-use assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term discounted using the Company's incremental borrowing rate. Operating lease right-of-use assets also include any lease payments made and exclude lease incentives. As the Company's leases do not provide an implicit rate, the incremental borrowing rate used is estimated based on what the Company would have to pay on a collateralized basis in the currency in which the arrangement is denominated over a similar term as the lease. Lease payments include fixed payments and variable payments based on an index or rate, if any, and are recognized as lease expense on a straight-line basis over the term of the lease. The lease term includes options to extend or terminate the lease when it is reasonably certain they will be exercised. Variable lease payments not based on a rate or index are expensed as incurred.

## Business Combinations

When the Company acquires a business, the purchase consideration is allocated to the tangible and intangible assets acquired and liabilities assumed at their estimated acquisition date fair values. The excess of the purchase consideration over the fair value of assets acquired and liabilities assumed, if any, is recorded as goodwill. Determining the fair value of intangible assets requires the use of estimates including, but not limited to, the selection of valuation methodologies, time and resources required to recreate the assets acquired, and selection of comparable companies. The Company's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the fair values of assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded in the condensed consolidated statement of operations.

## **Impairment of Goodwill, Intangible Assets, and Other Long-Lived Assets**

The Company evaluates the recoverability of long-lived assets, including property and equipment, operating lease right-of-use assets, and acquired intangible assets, for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. Recoverability of these assets is measured by a comparison of the carrying amounts to the undiscounted future cash flows the assets are expected to generate. If the carrying amount exceeds the undiscounted future cash flows, the carrying amount of such assets is reduced to fair value. There were no impairment charges related to long-lived assets during the years ended December 31, 2023, 2022, and 2021.

Goodwill is not amortized but rather tested for impairment at least annually in the fourth quarter or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill impairment is recognized when the quantitative assessment results in the carrying value of the reporting unit exceeding its fair value, in which case an impairment charge is recorded to the extent the carrying value exceeds the fair value, limited to the amount of goodwill. There were no goodwill impairment charges during year ended December 31, 2023.

## **Convertible Senior Notes**

The Company accounts for its convertible senior notes wholly as debt. Debt issuance costs incurred in connection with the issuance of the Company's convertible senior notes are reflected in the consolidated balance sheets as a direct deduction from the carrying amount of the outstanding convertible senior notes. These costs are amortized as interest expense using the effective interest rate method over the contractual term of the convertible senior notes and is included within other income (expense), net on the consolidated statements of operations.

## **Deferred Revenue**

Deferred revenue, which is a contract liability, primarily consists of customer billings or payments received in advance of revenue being recognized from the Company's subscription and services contracts. The Company generally invoices customers annually in advance for its term-based licenses and typically annually in advance or monthly in arrears for its SaaS offering. Typical payment terms range from net 30 to net 60 days of the invoice date. Deferred revenue that is anticipated to be recognized during the succeeding twelve-month period is recorded as deferred revenue within current liabilities and the remaining portion is recorded as deferred revenue, non-current. The Company records deferred revenue upon the right to invoice or when payments have been received for subscriptions or services not delivered. Deferred revenue does not necessarily represent the total contract value of the related agreements.

## **Revenue Recognition**

The Company generates revenue from the sale of subscriptions and services. Subscription revenue consists of revenue from term-based licenses that include post-contract customer support, maintenance, and upgrades, referred to together as PCS, which the Company refers to as Confluent Platform, and the Company's SaaS offering, which the Company refers to as Confluent Cloud. Confluent Cloud customers may purchase subscriptions either without a commitment contract on a month-to-month basis, which the Company refers to as pay-as-you-go, or under a usage-based commitment contract of at least one year in duration, in which customers commit to a fixed monetary amount at specified per-usage rates. Revenue from the Company's pay-as-you-go arrangements was an immaterial portion of subscription revenue during the years ended December 31, 2023, 2022, and 2021. The Company primarily enters into subscription contracts with one-year terms, and subscription contracts are generally non-cancelable and non-refundable, although customers can terminate for breach if the Company materially fails to perform. Services revenue consists of revenue from professional services and education services. The Company generates sales of its subscriptions and services through its sales teams, self-service channel, and partner ecosystem, including the major cloud provider marketplaces.

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The consolidated financial statements reflect the Company's accounting for revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). Under ASC 606, the Company recognizes revenue when its customers obtain control of promised subscriptions or services in an amount that reflects the consideration that the Company expects to receive in exchange for those subscriptions or services. In determining the appropriate amount of revenue to be recognized as the Company fulfills its obligations under each of its agreements, the following steps are performed:

(i) *identification of the contract with a customer*

The Company generally contracts with customers through order forms, which are governed by master sales agreements, and through cloud provider marketplaces. The Company determines that it has a contract with a customer when the contract is approved, each party's rights regarding the subscriptions or services to be transferred and the payment terms for the services can be identified, the Company has determined the customer has the ability and intent to pay, and the contract has commercial substance. The Company applies judgment in determining the customer's ability and intent to pay, which is based on a variety of factors, including the customer's historical payment experience or, in the case of a new customer, credit, financial, or other information pertaining to the customer.

When a contract is entered into, the Company evaluates whether the contract is part of a larger arrangement and should be accounted for with other contracts and whether the combined or single contract includes more than one performance obligation.

(ii) *identification of the performance obligations in the contract*

Performance obligations are identified based on the subscriptions and services that will be transferred to the customer that are both (1) capable of being distinct, whereby the customer can benefit from the subscriptions or services either on their own or together with other resources that are readily available from third parties or from the Company, and (2) are distinct in the context of the contract, whereby the transfer of the subscriptions and services is separately identifiable from other promises in the contract. Where applicable, the Company also identifies material rights as performance obligations. To the extent a contract includes multiple promised subscriptions or services, the Company applies judgment to determine whether promised subscriptions or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met, or if performance obligations follow the same pattern of recognition, the promised subscriptions or services are accounted for as a combined performance obligation. The Company has concluded that its contracts with customers do not contain warranties that give rise to a separate performance obligation.

(iii) *measurement of the transaction price*

The transaction price is the total amount of consideration the Company expects to be entitled to in exchange for the subscriptions and services in a contract. The transaction price in a usage-based SaaS contract is typically equal to the commitment in the contract, less any discounts provided. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. The Company's contracts do not contain a significant financing component.

(iv) *allocation of the transaction price to the performance obligations;*

If a contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. For contracts that contain multiple performance obligations, the Company allocates the transaction price using a relative SSP allocation based on the SSPs of each performance obligation. Determining the relative SSP for contracts that contain multiple performance obligations is a critical accounting estimate. The Company establishes each SSP based on multiple factors, including prices at which the Company separately sells standalone subscriptions and services. In cases where directly observable standalone sales are not available, such as when license and PCS are not sold on a standalone basis, the Company establishes SSP by using information such as historical selling price of performance obligations in similar transactions, market conditions, and the Company's pricing practices, which can require significant judgment and are subject to change based on continuous reevaluation. There may be more than one SSP for individual subscriptions and services due to the stratification of subscription support tiers and services. The Company also considers if there are any additional material rights inherent in a contract, and if so, it allocates revenue to the material right as a performance obligation.

(v) *recognition of revenue when the Company satisfies each performance obligation;*

The Company recognizes revenue at the time the related performance obligation is satisfied, in an amount that reflects the consideration it expects to be entitled to in exchange for those subscriptions or services. The Company records its revenue net of any withholding, value added or sales tax, as well as any discounts or marketing development funds.

*Subscription Revenue*

The Company's subscription revenue includes revenue from Confluent Platform for licenses sold in conjunction with PCS. The license provides the right to use licensed proprietary software features, which represents significant standalone functionality and is therefore deemed a distinct performance obligation. License revenue is recognized at a point in time, upon delivery and transfer of control of the underlying license to the customer, which is typically the effective start date. Revenue from PCS is based on its continuous pattern of transfer to the customer and therefore is recognized ratably over the contract term.

The Company's subscription revenue also includes revenue from Confluent Cloud for its usage-based commitment contracts and pay-as-you-go arrangements, which is recognized on a usage basis, as usage represents a direct measurement of the value to the customer of the subscription transferred as of a particular date relative to the total value to be delivered over the term of the contract.

*Services Revenue*

The Company's services revenue includes revenue from professional services and education services, which are generally sold on a time-and-materials basis. The Company recognizes the associated revenue as services are delivered.

## **Cost of Revenue**

### *Cost of Subscription Revenue*

Cost of subscription revenue primarily includes personnel-related costs, including salaries, bonuses, benefits, and stock-based compensation, for employees associated with customer support and maintenance, third-party cloud infrastructure costs, amortization of internal-use software and acquired intangible assets, and allocated overhead.

### *Cost of Services Revenue*

Cost of services revenue primarily includes personnel-related costs, including salaries, bonuses, benefits, and stock-based compensation, for employees associated with professional services and education services, costs for third-party consultants and partners who supplement our services delivery team, and allocated overhead.

## **Research and Development Costs**

Research and development costs are expensed as incurred and consist primarily of personnel-related costs, including salaries, bonuses, benefits, and stock-based compensation, net of amounts capitalized, third-party cloud infrastructure expenses incurred in developing the Company's offering, software and subscription services dedicated for use by the Company's research and development organization, contractor and professional services fees, and allocated overhead.

## **Advertising Costs**

Advertising costs are expensed as incurred or when the advertising first takes place, based on the nature of the advertising, and are recorded in sales and marketing expenses in the consolidated statements of operations. Advertising expense was \$27.7 million, \$28.7 million, and \$26.7 million, for the years ended December 31, 2023, 2022, and 2021, respectively.

## **Stock-Based Compensation**

The Company records compensation expense in connection with all stock-based awards, including stock options and restricted stock units ("RSUs") granted to employees and non-employees and stock purchase rights granted under the Employee Stock Purchase Plan ("ESPP") to employees, based on the fair value of the awards granted. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock options and ESPP rights on the dates of grant. Calculating the fair value of stock options and ESPP rights using the Black-Scholes model requires certain highly subjective inputs and assumptions including the fair value of the underlying common stock, the expected term of the stock option or ESPP right, and the expected volatility of the price of the Company's common stock. The fair value of each RSU is based on the fair value of the Company's common stock on the date of grant.

For stock-based awards that vest based only on continuous service, stock-based compensation expense is recognized on a straight-line basis over the requisite service period, which is generally the vesting period of two to four years. For awards with both a service-based and a performance-based vesting condition, stock-based compensation expense is recognized using the accelerated attribution method over the requisite service period, from the time it is probable that the vesting condition will be met through the time the service-based vesting condition has been achieved. The Company has also granted certain options containing a provision whereby vesting is accelerated upon a change in control; stock-based compensation expense for such options is recognized on a straight-line basis over a vesting period of generally four years, as a change in control is considered to be outside of the Company's control and is not considered probable until it occurs. Forfeitures are accounted for as they occur.

## **Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax law in effect for the years in which the temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date.

A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. Accordingly, the need to establish such allowances is assessed periodically by considering matters such as future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and results of recent operations.

The Company evaluates and accounts for the benefits of uncertain tax positions using a two-step approach. Recognition, step one, occurs when the Company concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement, step two, determines the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

## **Net Loss Per Share**

The Company computes basic and diluted net loss per share attributable to Class A and Class B common stockholders using the two-class method required for companies with participating securities. The Company considers unvested common stock, and prior to the automatic conversion of all of its outstanding redeemable convertible preferred stock into Class B common stock in connection with its IPO, all series of its redeemable convertible preferred stock to be participating securities, as the holders of such securities have non-forfeitable dividend rights in the event that a dividend is paid on common stock. Under the two-class method, net loss is not allocated to redeemable convertible preferred stock and unvested common stock as these securities do not have a contractual obligation to share in the Company's net losses.

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares outstanding during the period, excluding unvested common stock that is subject to repurchase. Basic and diluted net loss per share were the same for the years ended December 31, 2023, 2022, and 2021, as the inclusion of all potentially dilutive shares was anti-dilutive due to the net loss reported for each period.

The rights, including the liquidation and dividend rights, of the holders of Class A and Class B common stock are identical, except with respect to voting, converting, and transfer rights. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis to each class of common stock and the resulting basic and diluted net loss per share are, therefore, the same for both Class A and Class B common stock on an individual or combined basis.

## **Segment and Geographic Information**

The Company operates its business as one operating and reportable segment as the Company's chief operating decision maker, the Company's Chief Executive Officer, reviews financial information on a consolidated basis for purposes of allocating resources and evaluating financial performance. As of December 31, 2023 and 2022, substantially all of the Company's long-lived assets, including property and equipment, net, and operating right-of-use assets were located in the United States. See Note 10 for revenue disaggregated by geographic markets.



**Recent Accounting Pronouncements****Recently Adopted Accounting Pronouncements**

*Acquired Contract Assets and Contract Liabilities:* In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, *Revenue from Contracts with Customers*, as if it had originated the contracts. This guidance is effective for the Company for the year beginning January 1, 2023. The Company adopted this guidance as of January 1, 2023 on a prospective basis and the adoption did not have a material impact on its consolidated financial statements.

**Recent Accounting Pronouncements Not Yet Adopted**

*Segment Reporting:* In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires disclosure of incremental segment information on an annual and interim basis. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, and requires retrospective application to all prior periods presented in the financial statements. The Company is currently evaluating the impact of adopting this ASU on its future consolidated financial statements and disclosures.

*Income Taxes:* In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires disclosure of disaggregated income taxes paid, prescribes standard categories for the components of the effective tax rate reconciliation, and modifies other income tax-related disclosures. This ASU is effective for fiscal years beginning after December 15, 2024, and may be applied on a retrospective or prospective basis. The Company is currently evaluating the impact of adopting this ASU on its future consolidated financial statements and disclosures.

**3. Marketable Securities**

The following tables summarize the fair values of the Company's marketable securities (in thousands):

	<b>December 31, 2023</b>			
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
U.S. treasury securities	\$ 834,235	\$ 257	\$ (1,355)	\$ 833,137
U.S. agency obligations	403,035	599	(875)	402,759
Corporate notes and bonds	279,328	838	(457)	279,709
Commercial paper	35,407	-	(3)	35,404
Total marketable securities	<u>\$ 1,552,005</u>	<u>\$ 1,694</u>	<u>\$ (2,690)</u>	<u>\$ 1,551,009</u>

	<b>December 31, 2022</b>			
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
U.S. treasury securities	\$ 1,033,587	\$ 68	\$ (4,072)	\$ 1,029,583
U.S. agency obligations	273,804	17	(3,570)	270,251
Corporate notes and bonds	160,208	9	(2,375)	157,842
Commercial paper	33,526	-	(158)	33,368
Total marketable securities	<u>\$ 1,501,125</u>	<u>\$ 94</u>	<u>\$ (10,175)</u>	<u>\$ 1,491,044</u>

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The following tables summarize the fair values and unrealized losses of the Company's marketable securities, classified by the length of time that the securities have been in a continuous unrealized loss position (in thousands):

	<b>December 31, 2023</b>					
	<b>Less than 12 Months</b>		<b>12 Months or Greater</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
U.S. treasury securities	\$ 487,260	\$ (1,074)	\$ 46,130	\$ (281)	\$ 533,390	\$ (1,355)
U.S. agency obligations	206,105	(390)	80,657	(485)	286,762	(875)
Corporate notes and bonds	100,295	(293)	31,277	(164)	131,572	(457)
Commercial paper	6,810	(3)	-	-	6,810	(3)
<b>Total</b>	<b>\$ 800,470</b>	<b>\$ (1,760)</b>	<b>\$ 158,064</b>	<b>\$ (930)</b>	<b>\$ 958,534</b>	<b>\$ (2,690)</b>

	<b>December 31, 2022</b>					
	<b>Less than 12 Months</b>		<b>12 Months or Greater</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
U.S. treasury securities	\$ 566,093	\$ (2,892)	\$ 167,817	\$ (1,180)	\$ 733,910	\$ (4,072)
U.S. agency obligations	201,846	(2,014)	51,595	(1,556)	253,441	(3,570)
Corporate notes and bonds	90,287	(1,259)	65,579	(1,116)	155,866	(2,375)
Commercial paper	33,368	(158)	-	-	33,368	(158)
<b>Total</b>	<b>\$ 891,594</b>	<b>\$ (6,323)</b>	<b>\$ 284,991</b>	<b>\$ (3,852)</b>	<b>\$ 1,176,585</b>	<b>\$ (10,175)</b>

For available-for-sale debt securities in an unrealized loss position, the Company does not intend to sell these securities and it is more likely than not that the Company will hold these securities until maturity or a recovery of the cost basis. The Company determined that the decline in fair value of these securities was not due to credit-related factors, and no allowance for expected credit losses was recorded as of December 31, 2023 and 2022. Realized gains and losses were not material for the years ended December 31, 2023, 2022, and 2021.

The following table summarizes the contractual maturities of the Company's marketable securities (in thousands):

	<b>December 31, 2023</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
Due within one year	\$ 1,264,302	\$ 1,262,136
Due after one year through five years	287,703	288,873
<b>Total</b>	<b>\$ 1,552,005</b>	<b>\$ 1,551,009</b>

#### 4. Fair Value of Financial Instruments

The following tables summarize the Company's financial assets and liabilities that are measured at fair value on a recurring basis (in thousands):

	December 31, 2023		
	Level 1	Level 2	Total
<b>Assets:</b>			
<b>Cash equivalents:</b>			
Money market funds	\$ 264,923	\$ -	\$ 264,923
U.S. treasury securities	-	52,130	52,130
<b>Marketable securities:</b>			
U.S. treasury securities	-	833,137	833,137
U.S. agency obligations	-	402,759	402,759
Corporate notes and bonds	-	279,709	279,709
Commercial paper	-	35,404	35,404
<b>Derivative instruments:</b>			
Foreign currency forward contracts	-	3,219	3,219
Total assets	<u>\$ 264,923</u>	<u>\$ 1,606,358</u>	<u>\$ 1,871,281</u>
<b>Liabilities:</b>			
<b>Derivative instruments:</b>			
Foreign currency forward contracts	\$ -	\$ 1,272	\$ 1,272
Total liabilities	<u>\$ -</u>	<u>\$ 1,272</u>	<u>\$ 1,272</u>

	December 31, 2022		
	Level 1	Level 2	Total
<b>Assets:</b>			
<b>Cash equivalents:</b>			
Money market funds	\$ 367,699	\$ -	\$ 367,699
U.S. treasury securities	-	12,971	12,971
U.S. agency obligations	-	2,000	2,000
<b>Marketable securities:</b>			
U.S. treasury securities	-	1,029,583	1,029,583
U.S. agency obligations	-	270,251	270,251
Corporate notes and bonds	-	157,842	157,842
Commercial paper	-	33,368	33,368
<b>Derivative instruments:</b>			
Foreign currency forward contracts	-	672	672
Total assets	<u>\$ 367,699</u>	<u>\$ 1,506,687</u>	<u>\$ 1,874,386</u>
<b>Liabilities:</b>			
<b>Derivative instruments:</b>			
Foreign currency forward contracts	\$ -	\$ 19	\$ 19
Total liabilities	<u>\$ -</u>	<u>\$ 19</u>	<u>\$ 19</u>

The Company classifies its highly liquid money market funds within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company classifies its U.S. treasury securities, U.S. agency obligations, corporate notes and bonds, commercial paper, and foreign currency forward contracts within Level 2 of the fair value hierarchy because they are valued using inputs other than quoted prices that are directly or indirectly observable in the market, including readily available pricing sources for the identical underlying security that may not be actively traded. There were no transfers of financial instruments between valuation levels during the years ended December 31, 2023, 2022, and 2021.

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As of December 31, 2023 and 2022, the total estimated fair value of the Company's 0% convertible senior notes due 2027 was \$917.9 million and \$837.3 million, respectively. The fair value was determined based on the quoted price of the convertible senior notes in an inactive market on the last trading day of the reporting period and is classified within Level 2 of the fair value hierarchy. See Note 8 for further information on the Company's convertible senior notes.

**5. Derivative Instruments and Hedging**

In December 2022, the Company began entering into foreign currency forward contracts to manage its exposure to certain foreign currency exchange risks.

The following table summarizes the notional amounts of the Company's derivative instruments (in thousands):

	December 31, 2023	December 31, 2022
Foreign currency forward contracts designated as hedging instruments	\$ 125,617	\$ 96,097
Foreign currency forward contracts not designated as hedging instruments	99,918	-
<b>Total derivative instruments</b>	<b>\$ 225,535</b>	<b>\$ 96,097</b>

The following table summarizes the fair value of the Company's derivative instruments on the consolidated balance sheets (in thousands):

	Balance Sheet Location	December 31, 2023	December 31, 2022
<b>Derivative Assets:</b>			
Foreign currency forward contracts designated as hedging instruments	Prepaid expenses and other current assets	\$ 1,789	\$ 672
Foreign currency forward contracts not designated as hedging instruments	Prepaid expenses and other current assets	906	-
Foreign currency forward contracts designated as hedging instruments	Other assets, non-current	524	-
<b>Total derivative assets</b>		<b>\$ 3,219</b>	<b>\$ 672</b>
<b>Derivative Liabilities:</b>			
Foreign currency forward contracts designated as hedging instruments	Accrued expenses and other liabilities	\$ 18	\$ 19
Foreign currency forward contracts not designated as hedging instruments	Accrued expenses and other liabilities	1,239	-
Foreign currency forward contracts designated as hedging instruments	Other liabilities, non-current	15	-
<b>Total derivative liabilities</b>		<b>\$ 1,272</b>	<b>\$ 19</b>

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The following table presents the activity of foreign currency forward contracts designated as hedging instruments and the impact of these derivatives on AOCI (in thousands):

	Year Ended December 31,	
	2023	2022
Beginning balance	\$ 653	\$ -
Net gain recognized in other comprehensive income (loss)	3,035	653
Net gain reclassified from AOCI to earnings	(1,408)	-
Ending balance	\$ 2,280	\$ 653

As of December 31, 2023, net unrealized gains included in the balance of accumulated other comprehensive loss related to foreign currency forward contracts designated as hedging instruments was \$2.3 million, the vast majority of which the Company expects to reclassify from accumulated other comprehensive loss into earnings over the next 12 months.

The following table summarizes the effect of foreign currency forward contracts on the consolidated statements of operations (in thousands):

	Year Ended December 31, 2023	
	Derivatives Designated as Hedging Instruments	Derivatives Not Designated as Hedging Instruments
Cost of revenue - subscription	\$ 150	\$ -
Cost of revenue - services	103	-
Research and development	325	-
Sales and marketing	614	-
General and administrative	216	-
Other income (expense), net	-	(83)
Total gains (losses) recognized in earnings	\$ 1,408	\$ (83)

## 6. Balance Sheet Components

### *Property and Equipment, Net*

The cost and accumulated depreciation and amortization of property and equipment were as follows (in thousands):

	December 31, 2023	December 31, 2022
Computers, equipment, and software	\$ 11,300	\$ 8,794
Furniture and fixtures	916	977
Leasehold improvements	380	458
Capitalized internal-use software costs	38,999	25,639
Construction in progress - capitalized internal-use software costs	27,831	5,404
Property and equipment, at cost	\$ 79,426	\$ 41,272
Less: Accumulated depreciation and amortization	(25,414)	(12,183)
Property and equipment, net	\$ 54,012	\$ 29,089

Depreciation and amortization expense was \$13.4 million, \$7.6 million, and \$3.6 million for the years ended December 31, 2023, 2022, and 2021, respectively.

**Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities consisted of the following (in thousands):

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Accrued compensation and benefits	\$ 74,497	\$ 27,799
Accrued commissions	17,418	18,058
Employee contributions under employee stock purchase plan	13,946	15,283
Accrued expenses	13,471	16,798
Accrued payroll taxes	9,162	10,349
Other liabilities	13,353	17,044
Total accrued expenses and other liabilities	<u>\$ 141,847</u>	<u>\$ 105,331</u>

**7. Business Combinations, Goodwill, and Intangible Assets****Business Combinations**

In January 2023, the Company acquired all outstanding shares of immerok GmbH (“Immerok”), an Apache Flink stream processing managed services company, for purchase consideration of \$54.9 million in cash. The Company acquired Immerok primarily for its talent and developed technology. In allocating the purchase consideration, the Company recorded \$9.1 million of cash acquired, \$2.6 million as a developed technology intangible asset, to be amortized on a straight-line basis over an estimated useful life of five years, and \$43.5 million of goodwill. The goodwill is primarily attributed to the assembled workforce and expected synergies arising from the acquisition, and is not deductible for income tax purposes.

The Company also entered into holdback agreements with certain employees of Immerok, pursuant to which the Company will pay up to an aggregate of \$52.3 million in cash. The vesting and payout of the holdback is subject to continued employment and achievement of certain milestones over three years, and is recorded as post-combination compensation expense within operating expenses over the requisite service period for accounting purposes. During the year ended December 31, 2023, the Company recognized compensation expense of \$17.4 million related to the holdback agreements.

In December 2023, the Company acquired certain assets of Noteable, Inc. for purchase consideration of \$10.0 million in cash. The Company has accounted for this transaction as a business combination. In allocating the purchase consideration, the Company recorded \$1.5 million as a developed technology intangible asset, to be amortized on a straight-line basis over an estimated useful life of one year, and \$8.5 million of goodwill, which is deductible for income tax purposes.

Transaction costs associated with each of the business combinations above were not material during the year ended December 31, 2023 and were recorded as general and administrative expenses in the consolidated statements of operations. From the respective dates of acquisition, the results of operations of the business combinations included in the Company’s consolidated financial statements were not material. Pro forma results of operations have not been presented because they were not material to the consolidated results of operations.

**Goodwill**

Goodwill as of December 31, 2023 was \$52.0 million. No goodwill was recorded as of December 31, 2022.

**Intangible Assets, Net**

Intangible assets, net consisted of the following (in thousands):

	<b>December 31, 2023</b>		
	<b>Gross</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Developed technology	\$ 4,056	\$ (564)	\$ 3,492
Total	\$ 4,056	\$ (564)	\$ 3,492

Amortization expense was not material for the year ended December 31, 2023.

As of December 31, 2023, future amortization expense is expected to be as follows (in thousands):

<b>Year Ending December 31,</b>	<b>Amount</b>
2024	\$ 1,947
2025	511
2026	511
2027	511
2028	12
Total	\$ 3,492

**8. Convertible Senior Notes**

In December 2021, the Company issued \$1.1 billion aggregate principal amount of 0% convertible senior notes due 2027 (the "2027 Notes"), including the exercise in full of the initial purchasers' option to purchase up to an additional \$100.0 million principal amount of the 2027 Notes, in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The 2027 Notes are general unsecured obligations of the Company and will mature on January 15, 2027, unless earlier converted, redeemed, or repurchased. The 2027 Notes do not bear regular interest, and the principal amount of the 2027 Notes will not accrete. Special interest, if any, is payable semiannually in arrears on January 15 and July 15 of each year, beginning on July 15, 2022 (if and to the extent that special interest is then payable on the 2027 Notes). No special interest has been paid in connection with the 2027 Notes to date. The total net proceeds from the offering, after deducting initial purchasers' discounts and debt issuance costs, were \$1,080.5 million.

The initial conversion rate is 9.9936 shares of the Company's Class A common stock per \$1,000 principal amount of 2027 Notes (equivalent to an initial conversion price of approximately \$100.06 per share of the Company's Class A common stock), subject to adjustment as set forth in the indenture governing the 2027 Notes (the "Indenture"). The 2027 Notes are convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding October 15, 2026, only under the following conditions:

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- (1) during any calendar quarter commencing after the calendar quarter ending on March 31, 2022 (and only during such calendar quarter), if the last reported sale price of the Company's Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the 2027 Notes on each applicable trading day;
- (2) during the five business day period after any ten consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of the 2027 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate for the 2027 Notes on each such trading day;
- (3) if the Company calls such 2027 Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date, but only with respect to the 2027 Notes called (or deemed called) for redemption; or
- (4) upon the occurrence of specified corporate events as set forth in the Indenture.

On or after October 15, 2026, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders of the 2027 Notes may convert all or any portion of their 2027 Notes at any time, at the option of the holder regardless of the foregoing conditions. Upon conversion, the Company may satisfy its conversion obligation by paying or delivering, as the case may be, cash, shares of Class A common stock or a combination of cash and shares of Class A common stock, at the Company's election, in the manner and subject to the terms and conditions provided in the Indenture. In addition, following certain corporate events that occur prior to the maturity date of the 2027 Notes or if the Company delivers a notice of redemption in respect of the 2027 Notes, the Company will, under certain circumstances, increase the conversion rate of the 2027 Notes for a holder who elects to convert its 2027 Notes in connection with such a corporate event or convert its 2027 Notes called (or deemed called) for redemption in connection with such notice of redemption, as the case may be.

During the year ended December 31, 2023, the conditions allowing holders of the 2027 Notes to convert have not been met. The 2027 Notes were therefore not convertible and were classified as long-term debt on the Company's consolidated balance sheets as of December 31, 2023.

The Company may not redeem the 2027 Notes prior to January 20, 2025. The Company may redeem for cash all or any portion of the 2027 Notes (subject to the certain limitations described in the Indenture), at its option, on or after January 20, 2025, if the last reported sale price of the Company's Class A common stock has been at least 130% of the conversion price for the 2027 Notes then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the 2027 Notes to be redeemed, plus accrued and unpaid special interest, if any, to, but excluding, the redemption date. If the Company redeems less than all of the outstanding 2027 Notes, at least \$100.0 million aggregate principal amount of 2027 Notes must be outstanding and not subject to redemption as of, and after giving effect to, delivery of the relevant notice of redemption. No sinking fund is provided for the 2027 Notes.

The Company incurred \$19.5 million of debt issuance costs related to the 2027 Notes. These costs are amortized to interest expense included within other income (expense), net on the consolidated statements of operations over the contractual term of the 2027 Notes at an effective interest rate of 0.35%. Amortization of debt issuance costs for the years ended December 31, 2023, 2022, and 2021 was \$3.8 million, \$3.8 million, and \$0.2 million, respectively.

The net carrying amount of the 2027 Notes was as follows (in thousands):

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Principal	\$ 1,100,000	\$ 1,100,000
Unamortized debt issuance costs	(11,687)	(15,500)
Net carrying amount	<u>\$ 1,088,313</u>	<u>\$ 1,084,500</u>



### ***Capped Calls***

In connection with the pricing of the 2027 Notes and the exercise in full by the initial purchasers of their option to purchase additional 2027 Notes, the Company entered into capped call transactions with certain of the initial purchasers of the 2027 Notes or their respective affiliates and other financial institutions (the “Capped Calls”). The Capped Calls each have an initial strike price of approximately \$100.06 per share, subject to certain adjustments, which corresponds to the initial conversion price of the 2027 Notes. The Capped Calls have initial cap prices of \$138.02 per share, subject to certain adjustments. The Capped Calls associated with the 2027 Notes cover, subject to anti-dilution adjustments, approximately 11.0 million shares of the Company’s Class A common stock. The Capped Calls are expected generally to reduce the potential dilution to the Company’s Class A common stock upon any conversion of the 2027 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted 2027 Notes, as the case may be, with such reduction and/or offset subject to a cap based on the cap price. For accounting purposes, the Capped Calls are separate transactions and not part of the terms of the 2027 Notes. As these transactions meet certain accounting criteria, the Capped Calls are recorded in stockholders’ equity and are not accounted for as derivatives. The cost of \$91.0 million incurred to purchase the Capped Calls was recorded as a reduction to additional paid-in capital and will not be remeasured.

## **9. Commitments and Contingencies**

### ***Leases***

The Company has entered into non-cancelable operating leases, primarily for the rent of office space expiring at various dates through 2029. Certain lease agreements contain an option for the Company to renew the lease for a term of up to five years or an option to terminate the lease early within three years of lease termination. The Company considers these options in determining the lease term and minimum lease payments on a lease-by-lease basis. None of the Company’s lease agreements contain any material non-lease components, material residual value guarantees, or material restrictive covenants.

In 2019, the Company was issued a letter of credit of \$8.2 million for its office space in Mountain View, California. No draws have been made under the letter of credit as of December 31, 2023 and 2022.

In addition, the Company subleased certain floors of its unoccupied office space that expired at various dates in 2022. Sublease income was recorded as a reduction of lease expense and was not material for the year ended December 31, 2022. Sublease income was \$2.7 million for the year ended December 31, 2021.

For the years ended December 31, 2023, 2022, and 2021, lease expense, net of sublease income of \$20.9 million, \$10.1 million, and \$10.2 million is included in operating expenses in the consolidated statements of operations, respectively. Lease expense for the year ended December 31, 2023 includes \$15.7 million of lease abandonment charges related to the cease use of certain leased office space recorded within restructuring and other related charges in the consolidated statements of operations. See Note 12 for further information on the Company’s restructuring actions. The Company did not have any material variable lease costs or short-term lease costs for the years ended December 31, 2023, 2022, and 2021. Cash paid for amounts included in the measurement of operating lease liabilities was \$8.7 million, \$10.7 million, and \$12.4 million for the years ended December 31, 2023, 2022, and 2021, respectively.

As of December 31, 2023 and 2022, the weighted-average remaining lease term of the Company’s operating leases was 2.8 and 3.8 years, respectively. As of December 31, 2023 and 2022, the weighted-average discount rate used to measure the present value of the operating lease liabilities was 4.3%.

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The Company's future minimum lease payments under non-cancelable operating leases as of December 31, 2023 were as follows (in thousands):

<b>Year Ending December 31,</b>	<b>Minimum Lease Payments</b>	
2024	\$	8,784
2025		10,741
2026		7,231
Total minimum lease payments		26,756
Less: Imputed interest		(1,475)
Present value of future minimum lease payments	\$	25,281

### ***Purchase Obligations***

As of December 31, 2023, future payments under non-cancelable purchase obligations, primarily related to third-party cloud infrastructure agreements under which the Company is granted access to use certain cloud services, were as follows (in thousands):

<b>Year Ending December 31,</b>	<b>Purchase Obligations</b>	
2024	\$	162,815
2025		184,585
2026		203,995
2027		169,410
2028		22,790
Total	\$	743,595

### ***Legal Matters***

From time to time, the Company has become involved in claims and other legal matters arising in the ordinary course of business. The Company investigates these claims as they arise. As of December 31, 2023 and 2022, the Company is not aware of any matters that would individually or taken together have a material adverse effect on the Company's results of operations, financial position, or cash flows.

### ***Indemnification***

The Company enters into indemnification provisions under its agreements with other companies in the ordinary course of business, including customers, business partners, landlords, and certain third-party vendors. Under these arrangements, the Company agrees to indemnify, hold harmless, and reimburse the indemnified party for certain losses suffered or incurred by the indemnified party resulting from certain Company activities. The terms of these indemnification agreements are generally perpetual and the maximum potential amount of future payments the Company could be required to make under these agreements is not determinable. As of December 31, 2023 and 2022, the Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. The Company maintained commercial general liability insurance and product liability insurance during the years ended December 31, 2023, 2022, and 2021 to offset certain of the Company's potential liabilities under these indemnification provisions.

The Company also indemnifies certain of its officers, directors, and certain key employees while they are serving in good faith in their respective capacities. As of December 31, 2023 and 2022, the Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements.

## 10. Revenue

### Disaggregation of Revenue

The following table sets forth revenue disaggregated by geographic markets based on the location of the customer and by subscription and service categories (dollars in thousands):

	Year Ended December 31,					
	2023		2022		2021	
<b>Geographic markets:</b>						
United States	\$ 464,857	60 %	\$ 362,132	62 %	\$ 246,676	64 %
International	312,095	40 %	223,812	38 %	141,188	36 %
Total revenue	<u>\$ 776,952</u>	<u>100 %</u>	<u>\$ 585,944</u>	<u>100 %</u>	<u>\$ 387,864</u>	<u>100 %</u>
<b>Subscriptions and services:</b>						
Confluent Platform - License	\$ 84,025	11 %	\$ 76,019	13 %	\$ 69,183	18 %
Confluent Platform - PCS	296,245	38 %	247,803	42 %	183,737	47 %
Confluent Cloud	348,842	45 %	211,187	36 %	94,179	24 %
Subscription	729,112	94 %	535,009	91 %	347,099	89 %
Services	47,840	6 %	50,935	9 %	40,765	11 %
Total revenue	<u>\$ 776,952</u>	<u>100 %</u>	<u>\$ 585,944</u>	<u>100 %</u>	<u>\$ 387,864</u>	<u>100 %</u>

Other than the United States, no individual country represented 10% or more of total revenue during the years ended December 31, 2023, 2022, and 2021.

### Remaining Performance Obligations (“RPO”)

RPO represent the amount of contracted future revenue that has not yet been recognized as of the end of each period, including both deferred revenue that has been invoiced and non-cancelable committed amounts that will be invoiced and recognized as revenue in future periods. RPO exclude pay-as-you-go arrangements. As of December 31, 2023, the Company’s RPO was \$919.9 million, approximately 64% of which is expected to be recognized as revenue over the next 12 months and the substantial majority of the remainder in the next 13 to 36 months. Actual amounts or timing of revenue recognized may differ due to subsequent contract modifications.

### Deferred Revenue

Deferred revenue, including current and non-current balances as of December 31, 2023 and 2022, was \$353.0 million and \$322.8 million, respectively. For the years ended December 31, 2023, 2022, and 2021, revenue recognized from deferred revenue at the beginning of each year was \$285.6 million, \$221.1 million, and \$141.7 million, respectively.

### Deferred Contract Acquisition Costs

The following table summarizes the activity of deferred contract acquisition costs (in thousands):

	Year Ended December 31,	
	2023	2022
Beginning balance	\$ 104,284	\$ 78,824
Capitalization of contract acquisition costs	61,356	62,799
Amortization of deferred contract acquisition costs	(45,888)	(37,339)
Ending balance	<u>\$ 119,752</u>	<u>\$ 104,284</u>

## 11. Stockholders' Equity

### *Preferred Stock*

In connection with its IPO, the Company's amended and restated certificate of incorporation became effective, which authorized the issuance of 10,000,000 shares of undesignated preferred stock with a par value of \$0.00001 per share with rights and preferences, including voting rights, designated from time to time by the board of directors.

### *Common Stock*

The Company has two classes of common stock: Class A common stock and Class B common stock. In connection with its IPO, the Company's amended and restated certificate of incorporation authorized the issuance of 1,000,000,000 shares of Class A common stock and 500,000,000 shares of Class B common stock. The shares of Class A common stock and Class B common stock are identical, except with respect to voting, converting, and transfer rights. Each share of Class A common stock is entitled to one vote. Each share of Class B common stock is entitled to ten votes. Class A and Class B common stock have a par value of \$0.00001 per share and are referred to as common stock throughout the notes to the consolidated financial statements, unless otherwise noted. Holders of common stock are entitled to receive any dividends as may be declared from time to time by the board of directors.

Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock. Any holder's shares of Class B common stock will convert automatically to Class A common stock, on a one-to-one basis, upon the following: (i) sale or transfer of such share of Class B common stock, except for permitted transfers as described in the amended and restated certificate of incorporation; (ii) the death or incapacity of the Class B common stockholder (or nine months after the date of the death or incapacity if the stockholder is one of the Company's founders); and (iii) on the final conversion date, defined as the earliest of (a) the date fixed by our board of directors that is no less than 61 days and no more than 180 days following the date on which the outstanding shares of Class B common stock represent less than 10% of the then outstanding shares of Class A and Class B common stock; (b) the last trading day of the fiscal year following the tenth anniversary of the Company's IPO; or (c) the date specified by a vote of the holders of a majority of the outstanding shares of Class B common stock, voting as a single class.

In June 2021, the Company donated 250,000 shares of its Class A common stock to its charitable foundation, Confluent.org. The Company recognized charitable donation expense of \$13.3 million during the year ended December 31, 2021 within general and administrative expense based on the closing price of its Class A common stock on the date of donation.

### *Common Stock Reserved for Future Issuance*

The Company has reserved the following shares of common stock for future issuance:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>
<b>2014 Stock Plan:</b>		
Options outstanding	31,112,073	45,276,579
Restricted stock units outstanding	1,042,303	2,224,138
<b>2021 Equity Incentive Plan:</b>		
Options outstanding	22,500	22,500
Restricted stock units outstanding	22,650,063	17,729,318
Remaining shares available for future issuance	37,289,144	33,300,077
2021 Employee Stock Purchase Plan	8,166,130	6,493,913
<b>Total</b>	<b>100,282,213</b>	<b>105,046,525</b>

### ***Equity Incentive Plans***

In September 2014, the Company's board of directors adopted and the Company's stockholders approved the 2014 Stock Plan (the "2014 Plan"). The 2014 Plan was also amended and restated in March 2021 and June 2021. Under the 2014 Plan, the board of directors may grant stock options and other equity-based awards to eligible employees, directors, and consultants. The 2014 Plan was terminated in June 2021 in connection with the IPO, but continues to govern the terms of outstanding awards that were granted prior to the termination of the 2014 Plan. No further equity awards will be granted under the 2014 Plan. With the establishment of the 2021 Equity Incentive Plan (the "2021 Plan"), upon the expiration, forfeiture, cancellation, or reacquisition of any shares of Class B common stock underlying outstanding stock-based awards granted under the 2014 Plan, an equal number of shares of Class A common stock will become available for grant under the 2021 Plan. Equity-based awards granted under the 2014 Plan and the 2021 Plan generally vest over two to four years. All stock option grants expire ten years from the date of grant.

In April 2021, the Company's board of directors adopted, and in June 2021, the Company's stockholders approved, the 2021 Plan, which became effective at the time of the execution of the underwriting agreement related to the Company's IPO. The 2021 Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock units awards, performance awards, and other forms of awards to employees, directors, and consultants, including employees and consultants of the Company's affiliates. A total of 25,812,876 shares of the Company's Class A common stock have been reserved for future issuance under the 2021 Plan in addition to (i) the shares that remained available for grant of future awards under the 2014 Plan at the time the 2021 Plan became effective, (ii) shares underlying outstanding stock awards granted under the 2014 Plan that expire, or are forfeited, cancelled, or reacquired, as described above, and (iii) any automatic increases in the number of shares of Class A common stock reserved for future issuance under this plan.

In April 2021, the Company's board of directors adopted, and in June 2021, the Company's stockholders approved, the 2021 Employee Stock Purchase Plan (the "2021 ESPP"), which became effective at the time of the execution of the underwriting agreement related to the Company's IPO. The 2021 ESPP authorizes the issuance of shares of Class A common stock pursuant to purchase rights granted to employees. A total of 5,162,575 shares of the Company's Class A common stock have been reserved for future issuance under the 2021 ESPP, in addition to any automatic increases in the number of shares of Class A common stock reserved for future issuance under this plan.

Except for the initial offering period, the 2021 ESPP provides for 12-month offering periods beginning February 16 and August 16 of each year, and each offering period consists of two six-month purchase periods. The initial offering period began on June 24, 2021 and ended on August 15, 2022. The initial offering consisted of two purchase periods, with the first purchase period ending on February 15, 2022 and the second purchase period ending on August 15, 2022. The price at which Class A common stock is purchased under the 2021 ESPP is equal to 85% of the lesser of (1) the fair market value of the Company's Class A common stock on the offering date or (2) the fair market value of the Company's Class A common stock on the purchase date.

The 2021 ESPP offers a rollover feature pursuant to which, if the fair market value of a share of Class A common stock on the first trading day of a new purchase period is lower than the fair market value on the offering date, that offering period will terminate and participants will be automatically enrolled in a new 12-month offering period. ESPP rollovers occurred in August 2022 and February 2023, which triggered new 12-month offering periods and resulted in immaterial incremental stock-based compensation expense to be recognized over the remaining requisite service periods.

## Equity Awards Outstanding

The following table summarizes stock equity award activity and activity regarding shares available for grant under the 2014 Plan and the 2021 Plan:

	Equity Awards Outstanding				
	Shares Available for Grant	Outstanding Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance as of December 31, 2022	33,300,077	45,299,079	\$ 7.76	6.99	\$ 657,307
Increase in authorized shares	14,469,209	-	\$ -		
Stock options exercised	-	(11,454,829)	\$ 6.43		
Stock options forfeited or expired	2,709,677	(2,709,677)	\$ 10.78		
Repurchases of unvested common stock	35,203	-	\$ -		
RSUs granted	(17,402,093)	-	\$ -		
RSUs forfeited or cancelled	4,177,071	-	\$ -		
Balance as of December 31, 2023	<u>37,289,144</u>	<u>31,134,573</u>	\$ 7.98	6.01	\$ 480,766
Vested as of December 31, 2023		<u>24,876,756</u>	\$ 6.98	5.84	\$ 408,899
Vested and expected to vest as of December 31, 2023		<u>31,134,573</u>	\$ 7.98	6.01	\$ 480,766

Aggregate intrinsic value represents the difference between the exercise price of the options to purchase common stock and the estimated fair value of the Company's common stock. The intrinsic value of options exercised was \$241.0 million, \$382.4 million, and \$976.5 million for the years ended December 31, 2023, 2022, and 2021, respectively. No options were granted during the years ended December 31, 2023 and 2022. The weighted-average grant-date fair value per share of options granted during the year ended December 31, 2021 was \$12.43. The total grant-date fair value of stock options vested was \$62.8 million, \$108.1 million, and \$63.6 million during the years ended December 31, 2023, 2022, and 2021, respectively.

### ***Early Exercised Options***

All stock option holders have the right to exercise unvested options, which are subject to a repurchase right held by the Company at the original exercise price in the event of voluntary or involuntary termination of employment of the stockholder. As of December 31, 2023 and December 31, 2022, there were 135,013 and 578,119 shares that had been early exercised and were subject to repurchase, respectively. The proceeds related to early exercised options are recorded as liabilities within accrued expenses and other liabilities and other liabilities, non-current on the consolidated balance sheets until the options vest, at which point they are reclassified to equity. As of December 31, 2023 and December 31, 2022, the liabilities for early exercised options subject to repurchase were \$1.3 million and \$4.0 million, respectively.

Shares issued for early exercised options are included in issued and outstanding shares as they are legally issued and outstanding, but are not deemed outstanding for accounting purposes until the shares vest.

### ***Performance-Based Options***

The Company had granted 2,875,255 options with both a service-based vesting condition and a performance-based vesting condition prior to the IPO. No performance-based options were granted subsequent to the IPO. The performance-based vesting condition was not deemed probable until consummated, and therefore, stock-based compensation related to these options remained unrecognized prior to the effectiveness of the IPO. Upon the effectiveness of the IPO in June 2021, the performance-based vesting condition was satisfied, and therefore, the Company recognized cumulative stock-based compensation expense of \$3.8 million to general and administrative expense using the accelerated attribution method for the portion of the awards for which the service-based vesting condition had been fully or partially satisfied.

### ***RSUs***

The Company began granting RSUs in 2021. RSUs granted prior to the IPO had both service-based and performance-based vesting conditions. The performance-based vesting condition was satisfied upon the sale of the Company's common stock in a firm commitment underwritten public offering. Upon the effectiveness of the IPO in June 2021, the performance-based vesting condition was satisfied, and therefore, the Company recognized cumulative stock-based compensation expense of \$6.8 million using the accelerated attribution method for the portion of the awards for which the service-based vesting condition had been fully or partially satisfied.

RSUs granted after the IPO do not contain the performance-based vesting condition described above. The service-based vesting condition for RSUs is generally satisfied by rendering continuous service for two to four years, during which time the grants will vest quarterly. In November 2021, the Company's board of directors modified the terms of the RSUs. Prior to the modification, the RSUs vested either quarterly or with a cliff vesting period of one year and continued vesting quarterly thereafter. The modification removed the requirement of the cliff vesting period of one year and did not have a material impact to the consolidated financial statements for the year ended December 31, 2021. All other significant terms of the service-based RSUs remained unchanged.

The following table summarizes RSU activity under the 2014 Plan and the 2021 Plan:

	<b>RSUs Outstanding</b>	
	<b>Number of Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>
Unvested balance as of December 31, 2022	19,953,456	\$ 33.18
RSUs granted	17,402,093	\$ 24.49
RSUs vested	(9,486,112)	\$ 29.68
RSUs forfeited or cancelled	(4,177,071)	\$ 31.84
Unvested balance as of December 31, 2023	<u>23,692,366</u>	<u>\$ 28.44</u>

The total grant-date fair value of RSUs vested was \$281.5 million, \$160.3 million, and \$22.2 million during the years ended December 31, 2023, 2022, and 2021, respectively.

#### ***Determination of Fair Value***

The Company estimates the fair value of stock options using the Black-Scholes option-pricing model, which is dependent upon several variables, such as the fair value of the Company's common stock, the expected option term, expected volatility of the Company's stock price over the expected term, expected risk-free interest rate over the expected option term, and expected dividend yield.

*Fair Value of Common Stock:* Prior to the completion of the IPO, the board of directors had determined the fair value of common stock by considering a number of objective and subjective factors, including but not limited to contemporaneous independent third-party valuations of the Company's common stock, market performance of comparable publicly traded companies, sales of the Company's redeemable convertible preferred stock and common stock to unrelated third parties, operating and financial performance, the lack of marketability of the Company's common stock, general and industry-specific economic outlook, and the likelihood of achieving a liquidity event, such as an initial public offering, a merger, or acquisition of the Company given prevailing market conditions. After the completion of the IPO, the fair value of the Company's common stock is determined by the closing price, on the date of grant, of its Class A common stock, which is traded on the Nasdaq Global Select Market.

*Expected Term:* For option grants subject to service-based vesting conditions only, the expected term represents the period that the Company's stock options are expected to be outstanding and is calculated using the simplified method for options that have only service-based vesting conditions. The simplified method deems the term to be the average of the time-to-vesting and the contractual life of the options. For other option grants, the Company estimates the expected term using historical data on employee exercises and post-vesting employment termination behavior, considering the contractual life of the award.

*Expected Volatility:* Prior to July 2023, the expected volatility was derived from the average historical stock volatilities of public companies within the Company's industry that it considers to be comparable to its business, over a period equivalent to the expected term of the stock options, since the Company did not have a sufficient trading history of its common stock. Beginning in July 2023, the Company uses a weighted average volatility of its Class A common stock and the stocks of public companies within the Company's industry to develop its expected volatility assumption.

*Risk-Free Interest Rate:* The Company bases the risk-free interest rate on the implied yield available on U.S. Treasury zero-coupon notes with maturities equivalent to the option's expected term.

*Expected Dividend Yield:* The Company has not issued any dividends in its history and does not expect to issue dividends over the life of the options and therefore has estimated the dividend yield to be zero.



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The fair value of stock options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for the year ended December 31, 2021. No stock options were granted during the years ended December 31, 2023 and 2022:

	<b>Year Ended December 31,</b>
	<b>2021</b>
Expected term (in years)	6.17
Expected volatility	66.3 %
Risk-free interest rate	1.1 %
Expected dividend yield	0 %

The fair value of employee stock purchase rights for offerings under the 2021 ESPP were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	<b>Year Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Expected term (in years)	0.49 - 1.00	0.49 - 1.00	0.63 - 1.12
Expected volatility	58.5% - 79.7%	55.0% - 82.1%	54.6% - 56.7%
Risk-free interest rate	5.0% - 5.5%	0.7% - 3.3%	0.1%
Expected dividend yield	0%	0%	0%

***Stock-Based Compensation Expense***

Total stock-based compensation expense was as follows (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Cost of revenue - subscription	\$ 25,620	\$ 23,136	\$ 12,571
Cost of revenue - services	11,096	9,253	5,418
Research and development	139,809	101,499	49,051
Sales and marketing	124,568	99,366	55,506
General and administrative	48,740	44,402	33,078
Stock-based compensation, net of amounts capitalized	\$ 349,833	\$ 277,656	\$ 155,624
Capitalized stock-based compensation	17,943	7,544	2,625
Total stock-based compensation	<u>\$ 367,776</u>	<u>\$ 285,200</u>	<u>\$ 158,249</u>

As of December 31, 2023, there was \$668.7 million of unrecognized stock-based compensation expense, which is expected to be recognized over a weighted-average period of 2.0 years.

## 12. Restructuring and Other Related Charges

In January 2023, the Company approved restructuring actions (the “Restructuring Plan”) to adjust its cost structure and real estate footprint. The Restructuring Plan includes a reduction of approximately 8% of the Company’s global workforce as of December 31, 2022. During the year ended December 31, 2023, the Company recorded restructuring and other related charges of \$34.9 million, consisting of \$19.2 million related to employee transition and severance payments, employee benefits, and related facilitation costs, and \$15.7 million of lease abandonment charges. The Restructuring Plan was substantially completed as of June 30, 2023.

The following table summarizes the Company’s liability for restructuring-related employee termination benefits included in accrued expenses and other current liabilities on the consolidated balance sheets (in thousands):

	<b>Employee Termination Benefits</b>
Balance as of January 1, 2023	\$ -
Restructuring charges	19,187
Cash payments	(19,187)
Balance as of December 31, 2023	\$ -

## 13. Income Taxes

The components of loss before income taxes were as follows (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Domestic	\$ (428,346)	\$ (461,919)	\$ (347,552)
Foreign	21,672	15,661	7,925
Loss before income taxes	\$ (406,674)	\$ (446,258)	\$ (339,627)

The components of provision for income taxes were as follows (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Current</b>			
State	\$ 371	\$ 337	\$ 251
Foreign	33,812	6,193	1,588
Total	34,183	6,530	1,839
<b>Deferred</b>			
Federal	2	-	-
State	1	-	-
Foreign	1,886	(237)	1,335
Total	1,889	(237)	1,335
Provision for income taxes	\$ 36,072	\$ 6,293	\$ 3,174

In December 2023, the Company completed an intra-group transfer of acquired intellectual property related to the acquisition of immerok GmbH. As a result, the Company recognized foreign current tax expense of \$26.4 million resulting from the intra-group transfer, which is not due within the next 12 months and therefore recorded within other liabilities, non-current on the consolidated balance sheets. The Company recorded a U.S. deferred tax asset of \$17.8 million from a step-up in the tax basis of the intellectual property. Based on available objective evidence, the Company believes it is more likely than not that the additional U.S. deferred tax asset will not be realizable and is therefore offset by a full valuation allowance as of December 31, 2023.

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The reconciliation of the income tax benefit computed at the federal statutory tax rate to the Company's provision for income taxes was as follows (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Income tax benefit computed at federal statutory rate	\$ (85,401)	\$ (93,714)	\$ (71,322)
Foreign rate differential	2,107	2,668	1,214
Stock-based compensation expense	88	(14,145)	(104,993)
Change in valuation allowance	97,923	122,724	192,301
Research and development credits	(13,049)	(11,581)	(14,483)
Intra-group transfer of acquired intellectual property	26,358	-	-
Non-deductible expenses	4,495	-	-
Other	3,551	341	457
Provision for income taxes	<u>\$ 36,072</u>	<u>\$ 6,293</u>	<u>\$ 3,174</u>

The significant components of net deferred tax balances were as follows (in thousands):

	December 31,	
	2023	2022
Deferred tax assets:		
Net operating loss carryforwards	\$ 369,107	\$ 324,950
Capitalized research and development costs	119,960	74,824
Tax credit carryforwards	63,096	46,190
Stock-based compensation expense	27,840	26,211
Acquired intangible assets	17,791	-
Accruals and reserves	16,948	8,005
Other	17,450	19,610
Total deferred tax assets	<u>632,192</u>	<u>499,790</u>
Less: Valuation allowance	(587,738)	(461,234)
Deferred tax assets, net of valuation allowance	<u>44,454</u>	<u>38,556</u>
Deferred tax liabilities:		
Deferred contract acquisition costs	(28,379)	(25,054)
Property and equipment	(11,765)	(5,898)
Other	(5,486)	(6,891)
Total deferred tax liabilities	<u>(45,630)</u>	<u>(37,843)</u>
Net deferred tax (liabilities) assets	<u>\$ (1,176)</u>	<u>\$ 713</u>

The Company recognizes a valuation allowance on its deferred tax assets if it is more likely than not that some or all the deferred tax assets will not be realized. Due to a history of losses in the United States and United Kingdom, U.S. and U.K. deferred tax assets have been fully offset by a valuation allowance. The valuation allowance was \$587.7 million as of December 31, 2023 and increased by \$126.5 million during the year ended December 31, 2023 primarily due to increased U.S. federal and state loss carryforwards, acquired intangible assets, capitalized research and development costs, and tax credit carryforwards. The valuation allowance was \$461.2 million as of December 31, 2022 and increased by \$145.1 million during the year ended December 31, 2022 primarily due to increased U.S. federal and state and U.K. net operating loss carryforwards, capitalized research and development costs, and tax credit carryforwards.

As of December 31, 2023, the Company accrued \$2.7 million of deferred U.S. state income and foreign withholding taxes on amounts of non-U.S. earnings that the Company plans to repatriate. For the non-U.S. earnings the Company intends to indefinitely reinvest, the estimated amount of any incremental tax associated with such earnings is immaterial.

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As of December 31, 2023, the Company had \$1,461.7 million of federal net operating loss carryforwards and \$798.1 million of state net operating loss carryforwards. Of the federal net operating loss carryforwards, \$1,417.5 million can be carried forward indefinitely, but is limited to 80% of annual taxable income. The remaining federal and state net operating loss carryforwards will begin to expire in 2034 and 2025, respectively.

As of December 31, 2023, the Company had U.S. federal and state research tax credit carryforwards of \$62.6 million and \$28.1 million, respectively. The U.S. federal research tax credit carryforwards will begin to expire in 2034. The California research tax credit carryforwards can be carried forward indefinitely, while the research tax credit carryforwards for other states will begin to expire in 2026.

As of December 31, 2023, the Company had \$60.3 million of foreign net operating loss carryforwards. These foreign net operating loss carryforwards have an indefinite life and do not expire.

Under Section 382 of the Internal Revenue Code of 1986, as amended, and similar provisions of state law, utilization of net operating loss and tax credit carryforwards may be subject to an annual limitation due to an ownership change. As of December 31, 2023, the Company assessed that its net operating loss and tax credit carryforwards will not expire solely due to Section 382 limitations.

A reconciliation of the beginning and ending balances of total unrecognized tax benefits is as follows (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Beginning balance	\$ 18,914	\$ 12,530	\$ 3,399
Gross increase for prior year tax positions	439	1	192
Gross decrease for prior year tax positions	(5)	(860)	-
Gross increase for current year tax positions	7,961	7,243	8,939
Ending balance	\$ 27,309	\$ 18,914	\$ 12,530

As of December 31, 2023, the total amount of unrecognized tax benefits, if recognized, would not affect the Company's effective tax rate due to the existence of carryforwards and the valuation allowance in the United States and applicable U.S. state jurisdictions.

The Company does not expect its gross unrecognized tax benefits to change significantly within the next 12 months. It is reasonably possible that certain unrecognized tax benefits may increase or decrease within the next 12 months due to tax examination changes, settlement activities, or the impact on recognition and measurement considerations related to the results of published tax cases or other similar activities.

The Company recognizes interest and penalties related to uncertain tax positions in benefit from income taxes in the consolidated statements of operations. There were no interest and penalties associated with unrecognized income tax benefits for the years ended December 31, 2023, 2022, and 2021.

The Company's tax years from inception in 2014 through December 31, 2023 remain subject to examination by various jurisdictions.

#### 14. Net Loss Per Share

The following table presents the calculation of basic and diluted net loss per share attributable to the Company's Class A and Class B common stockholders (in thousands, except share and per share data):

	<b>Year Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Numerator:</b>			
Net loss	\$ (442,746)	\$ (452,551)	\$ (342,801)
<b>Denominator:</b>			
Weighted-average shares used to compute net loss per share, basic and diluted	300,727,487	280,080,357	188,627,720
Net loss per share, basic and diluted	\$ (1.47)	\$ (1.62)	\$ (1.82)

The following outstanding potentially dilutive shares were excluded from the computation of diluted net loss per share attributable to the Company's Class A and Class B common stockholders for the periods presented because the impact of including them would have been anti-dilutive:

	<b>December 31, 2023</b>	<b>December 31, 2022</b>	<b>December 31, 2021</b>
Stock options	31,134,573	45,299,079	61,926,383
Unvested early exercised stock options	135,013	578,119	2,164,577
RSUs	23,692,366	19,953,456	6,434,508
ESPP	870,502	1,428,206	1,322,476
Shares issuable upon conversion of the 2027 Notes	10,992,960	10,992,960	10,992,960
Total	66,825,414	78,251,820	82,840,904

The Company calculates the potential dilutive effect of its 2027 Notes under the if-converted method. Under this method, diluted net loss per share is determined by assuming that all of the 2027 Notes were converted into shares of the Company's Class A common stock at the beginning of the reporting period.

In connection with the issuance of the 2027 Notes, the Company entered into Capped Calls, which are not included for purposes of calculating the number of diluted weighted-average shares outstanding, as their effect would have been anti-dilutive. The Capped Calls are expected to partially offset the potential dilution to the Company's Class A common stock upon any conversion of the 2027 Notes.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2023, the end of the period covered by this Annual Report on Form 10-K, our disclosure controls and procedures were effective at the reasonable assurance level.

### **Management’s Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate “internal control over financial reporting,” as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2023 based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2023. The effectiveness of our internal control over financial reporting as of December 31, 2023 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included in Item 8 of this Annual Report on Form 10-K.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Inherent Limitations on Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**Item 9B. Other Information***Insider Trading Arrangements*

During the three months ended December 31, 2023, our directors and officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated the contracts, instructions or written plans for the purchase or sale of the Company's securities set forth in the table below.

Name and Position	Action	Type of Trading Arrangement			Total Shares of Class A Common Stock to be Sold	Expiration Date
		Adoption/ Termination Date	Rule 10b5-1*	Non-Rule 10b5-1**		
Ying Christina Liu - <i>Chief Accounting Officer</i>	Adoption	11/29/2023	X		293,332 <sup>(1)</sup>	3/28/2025
Lara Caimi - <i>Director</i>	Adoption	12/11/2023	X		80,399	2/21/2025
Eric Vishria - <i>Director</i> <sup>(2)</sup>	Termination	11/9/2023	X		530,000	1/21/2025

\* Contract, instruction or written plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act.

\*\* "Non-Rule 10b5-1 trading arrangement" as defined in Item 408(c) of Regulation S-K under the Exchange Act.

<sup>(1)</sup> The actual number of shares that will be sold under the Rule 10b5-1 trading plan will be reduced by the number of shares sold in accordance with an existing plan prior to its expiration on March 22, 2024.

<sup>(2)</sup> Represents the termination of a Rule 10b5-1 trading plan by The Vishria Revocable Trust, a trust affiliated with Eric Vishria.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable.



### PART III

#### **Item 10. Directors, Executive Officers, and Corporate Governance**

The information required by this Item (other than the information set forth in the next paragraph) will be included in the proxy statement for our 2024 annual meeting of stockholders to be filed with the SEC within 120 days after the end of our year ended December 31, 2023 (the “2024 Proxy Statement”), and is incorporated herein by reference.

We maintain a Code of Conduct that is applicable to all employees, executive officers and directors. Our Code of Conduct is available on our Investor Relations website at [investors.confluent.io](http://investors.confluent.io) under “Governance - Governance Documents.” We expect that any amendments to the Code of Conduct, or any waivers of its requirements, will be disclosed on our website, if required by applicable law or the listing standards of The Nasdaq Global Select Market. The inclusion of our website address in this Annual Report on Form 10-K does not include or incorporate by reference into this Annual Report on Form 10-K the information on or accessible through our website.

#### **Item 11. Executive Compensation**

The information required by this Item will be included in the 2024 Proxy Statement and is incorporated herein by reference.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item will be included in the 2024 Proxy Statement and is incorporated herein by reference.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item will be included in the 2024 Proxy Statement and is incorporated herein by reference.

#### **Item 14. Principal Accountant Fees and Services**

The information required by this Item will be included in the 2024 Proxy Statement and is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

The following documents are filed as part of this Annual Report on Form 10-K:

(a) *Consolidated Financial Statements*

The consolidated financial statements are filed as part of this Annual Report on Form 10-K under “Item 8. Financial Statements and Supplementary Data.”

(b) *Financial Statement Schedules*

The financial statement schedules are omitted because they are either not applicable or the information required is presented in the financial statements and notes thereto under “Item 8. Financial Statements and Supplementary Data.”

(c) *Exhibits*

The exhibits listed in the following Exhibit Index are filed, furnished, or incorporated by reference as part of this Annual Report on Form 10-K.

**Exhibit Index**

<b>Exhibit Number</b>	<b>Description</b>	<b>Form</b>	<b>File No.</b>	<b>Exhibit</b>	<b>Filing Date</b>	<b>Filed Herewith</b>
<a href="#">3.1</a>	<a href="#">Amended and Restated Certificate of Incorporation of Confluent, Inc.</a>	8-K	001-40526	3.1	6-28-2021	
<a href="#">3.2</a>	<a href="#">Amended and Restated Bylaws of Confluent, Inc.</a>	10-Q	001-40526	3.2	5-3-2023	
4.1	Reference is made to Exhibits <a href="#">3.1</a> and <a href="#">3.2</a> .					
<a href="#">4.2</a>	<a href="#">Form of Class A Common Stock Certificate.</a>	S-1/A	333-256693	4.1	6-16-2021	
<a href="#">4.3</a>	<a href="#">Indenture, dated as of December 13, 2021, by and between Confluent, Inc. and U.S. Bank National Association, as Trustee.</a>	8-K	001-40526	4.1	12-14-2021	
4.4	<a href="#">Form of Global Note, representing Confluent, Inc.'s 0% Convertible Senior Notes due 2027 (included as Exhibit A to the Indenture filed as Exhibit 4.3).</a>	8-K	001-40526	4.2	12-14-2021	
<a href="#">4.5</a>	<a href="#">Description of Securities.</a>	10-K	001-40526	4.5	2-24-2022	
<a href="#">10.1</a>	<a href="#">Amended and Restated Investors' Rights Agreement by and among Confluent, Inc. and certain holders of its capital stock, dated March 20, 2020.</a>	S-1	333-256693	10.1	6-1-2021	
<a href="#">10.2+</a>	<a href="#">Amended and Restated 2014 Stock Plan.</a>	S-1/A	333-256693	10.2	6-16-2021	
<a href="#">10.3+</a>	<a href="#">Forms of Option Agreement, Stock Option Grant Notice, Exercise Agreement, and Early Exercise Notice and Restricted Stock Purchase Agreement under the 2014 Stock Plan.</a>	S-1/A	333-256693	10.3	6-16-2021	
<a href="#">10.4+</a>	<a href="#">Forms of Restricted Stock Unit Grant Notice and Restricted Stock Unit Award Agreement under the 2014 Stock Plan.</a>	S-1/A	333-256693	10.4	6-16-2021	
<a href="#">10.5+</a>	<a href="#">2021 Equity Incentive Plan.</a>	S-1/A	333-256693	10.5	6-16-2021	
<a href="#">10.6+</a>	<a href="#">Forms of Notice of Stock Option Grant, Global Stock Option Agreement, and Exercise Notice under the 2021 Equity Incentive Plan.</a>	S-1/A	333-256693	10.6	6-16-2021	
<a href="#">10.7+</a>	<a href="#">Form of Restricted Stock Unit Award Agreement under the 2021 Equity Incentive Plan.</a>	S-1/A	333-256693	10.7	6-16-2021	
<a href="#">10.8+</a>	<a href="#">2021 Employee Stock Purchase Plan.</a>	S-1/A	333-256693	10.8	6-16-2021	
<a href="#">10.9+</a>	<a href="#">Form of Indemnification Agreement entered into by and between the Registrant and each director and executive officer.</a>	S-1	333-256693	10.9	6-1-2021	
<a href="#">10.10+</a>	<a href="#">Confirmatory Offer Letter by and between the Registrant and Edward Jay Kreps, dated May 28, 2021.</a>	S-1/A	333-256693	10.10	6-16-2021	
<a href="#">10.11+</a>	<a href="#">Promotion Letter between Confluent, Inc. and Rohan Sivaram, dated August 1, 2023.</a>	8-K	001-40526	10.1	8-2-2023	
<a href="#">10.12+</a>	<a href="#">Confirmatory Offer Letter by and between the Registrant and Erica Schultz, dated May 28, 2021.</a>	S-1/A	333-256693	10.12	6-16-2021	
<a href="#">10.13+</a>	<a href="#">Confirmatory Offer Letter by and between the Registrant and Stephanie Buscemi, dated October 21, 2022.</a>	10-Q	001-40526	10.1	11-2-2022	
<a href="#">10.14+</a>	<a href="#">Confirmatory Offer Letter by and between the Registrant and Chad Verbowski, dated October 19, 2022.</a>	10-Q	001-40526	10.2	11-2-2022	
<a href="#">10.15</a>	<a href="#">Net Lease Agreement by and between the Registrant and West Evelyn Bryant Office Partners, L.P., dated April 11, 2019.</a>	S-1	333-256693	10.13	6-1-2021	
<a href="#">10.16+</a>	<a href="#">Non-Employee Director Compensation Policy.</a>					X

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<a href="#">10.17+</a>	<a href="#">Executive Officer Change in Control/Severance Benefit Plan and related participation agreement.</a>	10-K	001-40526	10.15	2-24-2022	
<a href="#">10.18+</a>	<a href="#">Cash Incentive Bonus Plan.</a>	S-1	333-256693	10.16	6-1-2021	
<a href="#">10.19</a>	<a href="#">Form of Confirmation for Capped Call Transactions.</a>	8-K	001-40526	10.1	12-14-2021	
<a href="#">21.1</a>	<a href="#">List of Subsidiaries of the Registrant.</a>					X
<a href="#">23.1</a>	<a href="#">Consent of Pricewaterhouse Coopers LLP, independent registered public accounting firm.</a>					X
<a href="#">24.1</a>	<a href="#">Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K).</a>					X
<a href="#">31.1</a>	<a href="#">Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
<a href="#">31.2</a>	<a href="#">Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
<a href="#">32.1*</a>	<a href="#">Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					X
<a href="#">32.2*</a>	<a href="#">Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					X
<a href="#">97</a>	<a href="#">Confluent, Inc. Incentive Compensation Recoupment Policy</a>					X
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema with Embedded Linkbases Document.					X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).					X

+ Management contract or compensatory plan or arrangement.

\* The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Annual Report on Form 10-K and are not deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act, irrespective of any general incorporation language contained in such filing.

**Item 16. Form 10-K Summary**

None.



**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Edward Jay Kreps and Rohan Sivaram, and each or any one of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-facts and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Date</u></b>
<u>/s/ Edward Jay Kreps</u> Edward Jay Kreps	Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	February 21, 2024
<u>/s/ Rohan Sivaram</u> Rohan Sivaram	Chief Financial Officer <i>(Principal Financial Officer)</i>	February 21, 2024
<u>/s/ Ying Christina Liu</u> Ying Christina Liu	Chief Accounting Officer <i>(Principal Accounting Officer)</i>	February 21, 2024
<u>/s/ Lara Caimi</u> Lara Caimi	Director	February 21, 2024
<u>/s/ Jonathan Chadwick</u> Jonathan Chadwick	Director	February 21, 2024
<u>/s/ Alyssa Henry</u> Alyssa Henry	Director	February 21, 2024
<u>/s/ Matthew Miller</u> Matthew Miller	Director	February 21, 2024
<u>/s/ Neha Narkhede</u> Neha Narkhede	Director	February 21, 2024
<u>/s/ Greg Schott</u> Greg Schott	Director	February 21, 2024
<u>/s/ Eric Vishria</u> Eric Vishria	Director	February 21, 2024
<u>/s/ Mike Volpi</u> Mike Volpi	Director	February 21, 2024

## CONFLUENT, INC.

## NON-EMPLOYEE DIRECTOR COMPENSATION POLICY

FEBRUARY 2, 2024

**1. Introduction**

Each member of the Board of Directors (the “*Board*”) of Confluent, Inc. (“*Confluent*”) who is a non-employee director of Confluent (each such member, a “*Non-Employee Director*”) will receive the compensation described in this Non-Employee Director Compensation Policy (“*Policy*”) for his or her Board service.

This Policy may be amended at any time in the sole discretion of the Board or the Compensation Committee of the Board.

**2. Annual Cash Compensation**

Each Non-Employee Director will receive the cash compensation set forth below for service on the Board, unless waived by the Non-Employee Director in his or her sole discretion. The annual cash compensation amounts will be payable in equal quarterly installments, in arrears following the end of each quarter in which the service occurred, pro-rated for any partial quarter of service as a Non-Employee Director, based on days served in the applicable quarter. All annual cash fees are vested upon payment.

**a. Annual Board Service Retainer:**

i. All Eligible Directors: \$30,000

**b. Annual Committee Member Service Retainer:**

- i. Member of the Audit Committee: \$10,000
- ii. Member of the Compensation Committee: \$7,500
- iii. Member of the Nominating and Governance Committee: \$5,000
- iv. Member of the Mergers and Acquisitions Committee: \$4,000<sup>1</sup>

**c. Annual Committee Chair Service Retainer (in lieu of Committee Member Service Retainer):**

- i. Chair of the Audit Committee: \$20,000
- ii. Chair of the Compensation Committee: \$15,000
- iii. Chair of the Nominating and Governance Committee: \$10,000
- iv. Chair of the Mergers and Acquisitions Committee: \$8,000<sup>1</sup>

**d. Additional Annual Lead Independent Director Compensation: \$18,000**

<sup>[1]</sup> Annual committee member service retainers for members and the chair of the Mergers and Acquisitions Committee (“*M&A Service Retainers*”) will commence effective the earlier of (i) the date of the first Mergers and Acquisitions Committee meeting or (ii) the effective date of the first unanimous written consent approved by the Mergers and Acquisitions Committee, and notwithstanding anything herein to the contrary, service on such committee by any of its members, and for purposes of being eligible to receive the M&A Service Retainers, will not be deemed to start until such earlier date (or if later, on the date the applicable Non-Employee Director becomes a member of such committee). For clarity, and without limiting the generality of the first paragraph of this Section 2, if the M&A Service Retainers commence other than on the first day of a fiscal year, then for the fiscal year in which the M&A Service Retainers commence, the M&A Service Retainers will be pro-rated in accordance with the first paragraph of this Section 2.

### 3. Equity Compensation

Equity awards will be granted under Confluent's 2021 Equity Incentive Plan (the "**Plan**") or any successor equity incentive plan.

**a. Initial Appointment Equity Grant.** On appointment to the Board, and without any further action of the Board or Compensation Committee of the Board, at the close of business on the day of such appointment, a Non-Employee Director will be automatically granted a restricted stock unit award for Confluent's Class A common stock ("**Class A Common Stock**") having a value of \$400,000 based on the closing sales price per share of Confluent's Class A Common Stock on the applicable grant date, rounded down to the nearest whole share (the "**Initial RSU**"). Each Initial RSU will vest over three years, with one-third of the Initial RSU vesting on the first, second, and third anniversary of the date of grant.

**b. Automatic Annual Equity Grants.** Without any further action of the Board or Compensation Committee of the Board, at the close of business on the date of each Annual Meeting of Confluent's stockholders ("**Annual Meeting**"), each person who is then an eligible Non-Employee Director will automatically receive a restricted stock unit award for Class A Common Stock having a value of \$200,000 based on the closing sales price per share of Confluent's Class A Common Stock on the date of the Annual Meeting (the "**Annual RSU**"). For a Non-Employee Director who was appointed to the Board less than 365 days prior to an Annual Meeting, the \$200,000 value for the applicable Annual RSU will be prorated based on the number of days from the date of appointment until such Annual Meeting. For illustrative purposes, if a Non-Employee Director joins the Board on January 1<sup>st</sup>, and the next Annual Meeting is held on July 1<sup>st</sup> of the year of appointment, then on the date of such Annual Meeting, such Non-Employee Director will receive a restricted stock unit award for Class A Common Stock having a value of \$99,178 ( $\$200,000/365 \times 181$ ). Each Annual RSU will vest on the earlier of (i) the date of the following year's Annual Meeting (or the date immediately prior to the next Annual Meeting if the Non-Employee Director's service as a director ends at such meeting due to the director's failure to be re-elected or the director not standing for re-election); or (ii) the first anniversary of the date of grant.

**c. Election to Receive Annual RSU in Cash.** Each Non-Employee Director may elect, in accordance with the procedures set forth below, to receive an amount in cash in lieu of any future Annual RSU such Non-Employee Director is eligible to receive (an "**Annual Election**"), equal to the dollar value of such Annual RSU as set forth in subsection (b) above (each such cash amount, an "**Annual Cash Award**"). Each Annual Cash Award will vest and be payable on the earlier of (i) the date of the following year's Annual Meeting (or the date immediately prior to the next Annual Meeting if the Non-Employee Director's service as a director ends at such meeting due to the director's failure to be re-elected or the director not standing for re-election); or (ii) the first anniversary of the date that the Annual RSU that the Annual Cash Award is provided in lieu of would have otherwise been granted. Each Annual Election must be submitted to Confluent's Chief Legal Officer in writing (i) at least 30 days in advance of the Annual Meeting at which the Annual RSU that is covered by such election would be granted absent the Annual Election being properly submitted and (ii) during a period in which Confluent is not in a quarterly or special blackout period pursuant to Section 7 of Confluent's Insider Trading Policy, and when the Non-Employee Director submitting the Annual Election is not otherwise aware of any material, nonpublic information with respect to Confluent or any of its securities in accordance with the Insider Trading Policy (collectively, an "**Open Window**"). Once properly submitted, an Annual Election will irrevocably apply to all future Annual RSUs the Non-Employee Director is eligible to receive unless and until a revocation of such election (a "**Revocation**") is submitted to Confluent's Chief Legal Officer in writing (i) at least 30 days in advance of the Annual Meeting at which the Annual RSU that is covered by such Revocation will be granted if the Revocation is properly submitted and (ii) during an Open Window. Once properly submitted, a Revocation will irrevocably apply to all future Annual RSUs the Non-Employee Director is eligible to receive following the date the Revocation is properly submitted unless and until the Non-Employee Director makes a new Annual Election in accordance with the procedures set forth above in this subsection.



d. Vesting; Change of Control. All vesting of equity awards and cash compensation provided for under this Policy is subject to the Non-Employee Director's "*Continuous Service*" (as defined in the Plan) on each applicable vesting date. Notwithstanding the foregoing vesting schedules, for each Non-Employee Director who remains in Continuous Service with Confluent until immediately prior to the closing of a "*Change in Control*" (as defined in the Plan), the shares subject to his or her then-outstanding equity awards (if any) and his or her then-outstanding Annual Cash Award (if any) will become fully vested immediately prior to the closing of such Change in Control.

e. Remaining Terms. Each restricted stock unit award will be granted subject to Confluent's standard restricted stock unit grant notice and award agreement, in the form adopted from time to time by the Board or the Compensation Committee of the Board.

#### **4. Expenses**

Confluent will reimburse Non-Employee Directors for ordinary, necessary, and reasonable out-of-pocket travel expenses to cover in-person attendance at, and participation in, Board and committee meetings; provided, that the Non-Employee Director timely submits appropriate documentation substantiating such expenses in accordance with Confluent's travel and expense policy, as in effect from time to time.

#### **5. Ability to Decline Compensation**

A Non-Employee Director may decline all or any portion of his or her compensation under this Policy by giving notice to Confluent prior to the date cash is to be paid or equity awards are to be granted, as the case may be.

#### **6. Non-Employee Director Compensation Limit**

Notwithstanding anything herein to the contrary, the aggregate cash compensation and equity compensation that each Non-Employee Director is eligible to receive under this Policy shall be subject to the limits set forth in Section 3(d) of the Plan.

## Subsidiaries of Confluent, Inc.

<u>Name of Subsidiary</u>	<u>Jurisdiction of Organization</u>
Confluent Australia Pty Limited	Australia
Infinitem Canada Ltd.	Canada
Confluent Czech Republic S.R.O.	Czech Republic
Confluent France SAS	France
Confluent Germany GmbH	Germany
Confluent Hong Kong Ltd	Hong Kong
Confluent India Private Limited	India
Confluent Israel Ltd.	Israel
Confluent Italy S.R.L.	Italy
Confluent Japan Godo Kaisha	Japan
Confluent Korea Limited	Korea, Republic of
Confluent Malaysia Sdn. Bhd.	Malaysia
Confluent Netherlands B.V.	Netherlands
Confluent Singapore Pte. Ltd.	Singapore
Confluent Spain, Sociedad Limitada	Spain
Confluent Sweden AB	Sweden
Confluent Switzerland GmbH	Switzerland
Confluent ME FZ-LLC	United Arab Emirates
Confluent Europe Ltd.	United Kingdom
Confluent Federal, LLC	United States
immerok Inc.	United States

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-257338, 333-263004, and 333-270077) of Confluent, Inc. of our report dated February 21, 2024 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP  
San Francisco, California  
February 21, 2024

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Confluent, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 21, 2024

By: \_\_\_\_\_  
/s/ Edward Jay Kreps  
Edward Jay Kreps  
Chief Executive Officer  
*(Principal Executive Officer)*

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.

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CONFLUENT, INC.  
INCENTIVE COMPENSATION RECOUPMENT POLICY

**1. INTRODUCTION**

The Compensation Committee of the Board of Directors (the “**Board**”) of Confluent, Inc., a Delaware corporation (“**Confluent**”), has determined that it is in the best interests of Confluent and its stockholders to adopt this Incentive Compensation Recoupment Policy (this “**Policy**”) providing for Confluent’s recoupment of Recoverable Incentive Compensation that is received by Covered Officers of Confluent under certain circumstances. Certain capitalized terms used in this Policy have the meanings given to such terms in Section 3 below.

This Policy is designed to comply with, and shall be interpreted to be consistent with, Section 10D of the Exchange Act, Rule 10D-1 promulgated thereunder (“**Rule 10D-1**”) and Nasdaq Listing Rule 5608 (the “**Listing Standards**”).

**2. EFFECTIVE DATE**

This Policy shall apply to all Incentive Compensation that is received by a Covered Officer on or after October 2, 2023 (the “**Effective Date**”). Incentive Compensation is deemed “**received**” in Confluent’s fiscal period in which the Financial Reporting Measure specified in the Incentive Compensation award is attained, even if the payment or grant of such Incentive Compensation occurs after the end of that period.

**3. DEFINITIONS**

“**Accounting Restatement**” means an accounting restatement that Confluent is required to prepare due to the material noncompliance of Confluent with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

“**Accounting Restatement Date**” means the earlier to occur of (a) the date that the Board, a committee of the Board authorized to take such action, or the officer or officers of Confluent authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that Confluent is required to prepare an Accounting Restatement, or (b) the date that a court, regulator or other legally authorized body directs Confluent to prepare an Accounting Restatement.

“**Administrator**” means the Compensation Committee or, in the absence of such committee, the Board.

“**Code**” means the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

“**Compensation Committee**” means the Compensation Committee of the Board.

“**Covered Officer**” means each current and former Section 16 Executive Officer.

“**Exchange**” means the Nasdaq Stock Market.

“**Exchange Act**” means the U.S. Securities Exchange Act of 1934, as amended.

“**Section 16 Executive Officer**” means such executives of Confluent who are designated as Section 16 executive officers by Confluent’s Board of Directors.

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“**Financial Reporting Measures**” means measures that are determined and presented in accordance with the accounting principles used in preparing Confluent’s financial statements, and any measures derived wholly or in part from such measures, including Confluent stock price and total stockholder return (“**TSR**”). A measure need not be presented in Confluent’s financial statements or included in a filing with the SEC in order to be a Financial Reporting Measure.

“**Incentive Compensation**” means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

“**Lookback Period**” means the three completed fiscal years immediately preceding the Accounting Restatement Date, as well as any transition period (resulting from a change in Confluent’s fiscal year) within or immediately following those three completed fiscal years (except that a transition period of at least nine months shall count as a completed fiscal year). Notwithstanding the foregoing, the Lookback Period shall not include fiscal years completed prior to the Effective Date.

“**Recoverable Incentive Compensation**” means Incentive Compensation received by a Covered Officer during the Lookback Period that exceeds the amount of Incentive Compensation that would have been received had such amount been determined based on the Accounting Restatement, computed without regard to any taxes paid (*i.e.*, on a gross basis without regarding to tax withholdings and other deductions). For any compensation plans or programs that take into account Incentive Compensation, the amount of Recoverable Incentive Compensation for purposes of this Policy shall include, without limitation, the amount contributed to any notional account based on Recoverable Incentive Compensation and any earnings to date on that notional amount. For any Incentive Compensation that is based on stock price or TSR, where the Recoverable Incentive Compensation is not subject to mathematical recalculation directly from the information in an Accounting Restatement, the Administrator will determine the amount of Recoverable Incentive Compensation based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or TSR upon which the Incentive Compensation was received. Confluent shall maintain documentation of the determination of that reasonable estimate and provide such documentation to the Exchange in accordance with the Listing Standards.

“**SEC**” means the U.S. Securities and Exchange Commission.

#### **4. RECOUPMENT**

(a)**Applicability of Policy.** This Policy applies to Incentive Compensation received by a Covered Officer (i) after beginning services as a Section 16 Executive Officer, (ii) who served as a Section 16 Executive Officer at any time during the performance period for such Incentive Compensation, (iii) while Confluent had a class of securities listed on a national securities exchange or a national securities association, and (iv) during the Lookback Period.

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**(b)Recoupment Generally.** Pursuant to the provisions of this Policy, if there is an Accounting Restatement, Confluent must reasonably promptly recoup the full amount of the Recoverable Incentive Compensation, unless the conditions of one or more subsections of Section 4(c) of this Policy are met and the Compensation Committee, or, if such committee does not consist solely of independent directors, a majority of the independent directors serving on the Board, has made a determination that recoupment would be impracticable. Recoupment is required regardless of whether the Covered Officer engaged in any misconduct and regardless of fault, and Confluent's obligation to recoup Recoverable Incentive Compensation is not dependent on whether or when any restated financial statements are filed.

**(c)Impracticability of Recovery.** Recoupment may be determined to be impracticable if, and only if:

(i) the direct expense paid to a third party to assist in enforcing this Policy would exceed the amount of the applicable Recoverable Incentive Compensation; provided that, before concluding that it would be impracticable to recover any amount of Recoverable Incentive Compensation based on expense of enforcement, Confluent shall make a reasonable attempt to recover such Recoverable Incentive Compensation, document such reasonable attempt(s) to recover, and provide that documentation to the Exchange in accordance with the Listing Standards; or

(ii) recoupment of the applicable Recoverable Incentive Compensation would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of Confluent, to fail to meet the requirements of Code Section 401(a)(13) or Code Section 411(a) and regulations thereunder.

**(d)Sources of Recoupment.** To the extent permitted by applicable law, the Administrator shall, in its sole discretion, determine the timing and method for recouping Recoverable Incentive Compensation hereunder, provided that such recoupment is undertaken reasonably promptly. The Administrator may, in its discretion, seek recoupment from a Covered Officer from any of the following sources or a combination thereof, whether the applicable compensation was approved, awarded, granted, payable or paid to the Covered Officer prior to, on or after the Effective Date: (i) direct repayment of Recoverable Incentive Compensation previously paid to the Covered Officer; (ii) cancelling prior cash or equity-based awards (whether vested or unvested and whether paid or unpaid); (iii) cancelling or offsetting against any planned future cash or equity-based awards; (iv) forfeiture of deferred compensation, subject to compliance with Code Section 409A; and (v) any other method authorized by applicable law or contract. Subject to compliance with any applicable law, the Administrator may effectuate recoupment under this Policy from any amount otherwise payable to the Covered Officer, including amounts payable to such individual under any otherwise applicable Confluent plan or program, *e.g.*, base salary, bonuses or commissions and compensation previously deferred by the Covered Officer. The Administrator need not utilize the same method of recovery for all Covered Officers or with respect to all types of Recoverable Incentive Compensation.

**(e)No Indemnification of Covered Officers.** Notwithstanding any indemnification agreement, applicable insurance policy or any other agreement or provision of Confluent's certificate of incorporation or bylaws to the contrary, no Covered Officer shall be entitled to indemnification or advancement of expenses in connection with any enforcement of this Policy by Confluent, including paying or reimbursing such Covered Officer for insurance premiums to cover potential obligations to Confluent under this Policy.

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(f)**Indemnification of Administrator.** Any members of the Administrator, and any other members of the Board who assist in the administration of this Policy, shall not be personally liable for any action, determination or interpretation made with respect to this Policy and shall be indemnified by Confluent to the fullest extent under applicable law and Confluent policy with respect to any such action, determination or interpretation. The foregoing sentence shall not limit any other rights to indemnification of the members of the Board under applicable law or Confluent policy.

(g)**No “Good Reason” for Covered Officers.** Any action by Confluent to recoup or any recoupment of Recoverable Incentive Compensation under this Policy from a Covered Officer shall not be deemed (i) “good reason” for resignation or to serve as a basis for a claim of constructive termination under any benefits or compensation arrangement applicable to such Covered Officer, or (ii) to constitute a breach of a contract or other arrangement to which such Covered Officer is party.

## **5. ADMINISTRATION**

Except as specifically set forth herein, this Policy shall be administered by the Administrator. The Administrator shall have full and final authority to make any and all determinations required under this Policy. Any determination by the Administrator with respect to this Policy shall be final, conclusive and binding on all interested parties and need not be uniform with respect to each individual covered by this Policy. In carrying out the administration of this Policy, the Administrator is authorized and directed to consult with the full Board or such other committees of the Board as may be necessary or appropriate as to matters within the scope of such other committee’s responsibility and authority. Subject to applicable law, the Administrator may authorize and empower any officer or employee of Confluent to take any and all actions that the Administrator, in its sole discretion, deems necessary or appropriate to carry out the purpose and intent of this Policy (other than with respect to any recovery under this Policy involving such officer or employee).

## **6. SEVERABILITY**

If any provision of this Policy or the application of any such provision to a Covered Officer shall be adjudicated to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Policy, and the invalid, illegal or unenforceable provisions shall be deemed amended to the minimum extent necessary to render any such provision or application enforceable.

## **7. NO IMPAIRMENT OF OTHER REMEDIES**

Nothing contained in this Policy, and no recoupment or recovery as contemplated herein, shall limit any claims, damages or other legal remedies Confluent or any of its affiliates may have against a Covered Officer arising out of or resulting from any actions or omissions by the Covered Officer. This Policy does not preclude Confluent from taking any other action to enforce a Covered Officer’s obligations to Confluent, including, without limitation, termination of employment and/or institution of civil proceedings. This Policy is in addition to the requirements of Section 304 of the Sarbanes-Oxley Act of 2002 (“SOX 304”) that are applicable to Confluent’s Chief Executive Officer and Chief Financial Officer and to any other compensation recoupment policy and/or similar provisions in any employment, equity plan, equity award, or other individual agreement, to which Confluent is a party or which Confluent has adopted or may adopt and maintain from time to time; provided, however, that compensation recouped pursuant to this Policy shall not be duplicative of compensation recouped pursuant to SOX 304 or any such compensation recoupment policy and/or similar provisions in any such employment, equity plan, equity award, or other individual agreement except as may be required by law.

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**8. AMENDMENT; TERMINATION**

The Administrator may amend, terminate or replace this Policy or any portion of this Policy at any time and from time to time in its sole discretion. The Administrator shall amend this Policy as it deems necessary to comply with applicable law or any Listing Standard.

**9. SUCCESSORS**

This Policy shall be binding and enforceable against all Covered Officers and, to the extent required by Rule 10D-1 and/or the applicable Listing Standards, their beneficiaries, heirs, executors, administrators or other legal representatives.

**10. REQUIRED FILINGS**

Confluent shall make any disclosures and filings with respect to this Policy that are required by law, including as required by the SEC.

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CONFLUENT, INC.

INCENTIVE COMPENSATION RECOUPMENT POLICY FORM OF EXECUTIVE ACKNOWLEDGMENT

I, the undersigned, agree and acknowledge that I am bound by, and subject to, the Confluent, Inc. Incentive Compensation Recoupment Policy, as may be amended, restated, supplemented or otherwise modified from time to time (the "*Policy*"). In the event of any inconsistency between the Policy and the terms of any employment agreement, offer letter or other individual agreement with Confluent, Inc. ("*Confluent*") to which I am a party, or the terms of any compensation plan, program or agreement, whether or not written, under which any compensation has been granted, awarded, earned or paid to me, the terms of the Policy shall govern.

In the event that the Administrator (as defined in the Policy) determines that any compensation granted, awarded, earned or paid to me must be forfeited or reimbursed to Confluent pursuant to the Policy, I will promptly take any action necessary to effectuate such forfeiture and/or reimbursement. I further agree and acknowledge that I am not entitled to indemnification, and hereby waive any right to advancement of expenses, in connection with any enforcement of the Policy by Confluent.

**Agreed and Acknowledged:**

\_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

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