Q3 2022 Earnings Call Presentation

Matt Calkins, Founder & CEO
Mark Matheos, CFO

Disclaimer.

In this presentation, we may make statements related to our business that are forward-looking statements under federal securities laws and are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements related to our financial results, trends and guidance for the fourth quarter and full year 2022 and 2023, the impact of macroeconomic changes, the benefits of our platform, industry and market trends, our go-to-market and growth strategy, our market opportunity and ability to expand our leadership position, our ability to maintain and upsell existing customers, and our ability to acquire new customers. The words "anticipate," "continue," "estimate," "expect," "intend," "will," "plan," and similar expressions are intended to identify forward-looking statements or similar indications of future expectations. These statements reflect our views only as of today and should not be reflected upon as representing our views as of any subsequent date. These statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from expectations.

For a discussion of the material risks and other important factors that could affect our actual results, please refer to those contained in our 2021 10-K filing and our other periodic filings with SEC. These documents are available in the Investors section of our website at www.appian.com.

Additionally, non-GAAP financial measures will be shared. Please refer to the tables in our earnings release and the Investors section of our website for a reconciliation of these measures to their most directly comparable GAAP financial measure.

Q3 2022 highlights.

Appian closed a five-year **term loan** of $100 million with another $50 million available from a revolving credit facility.

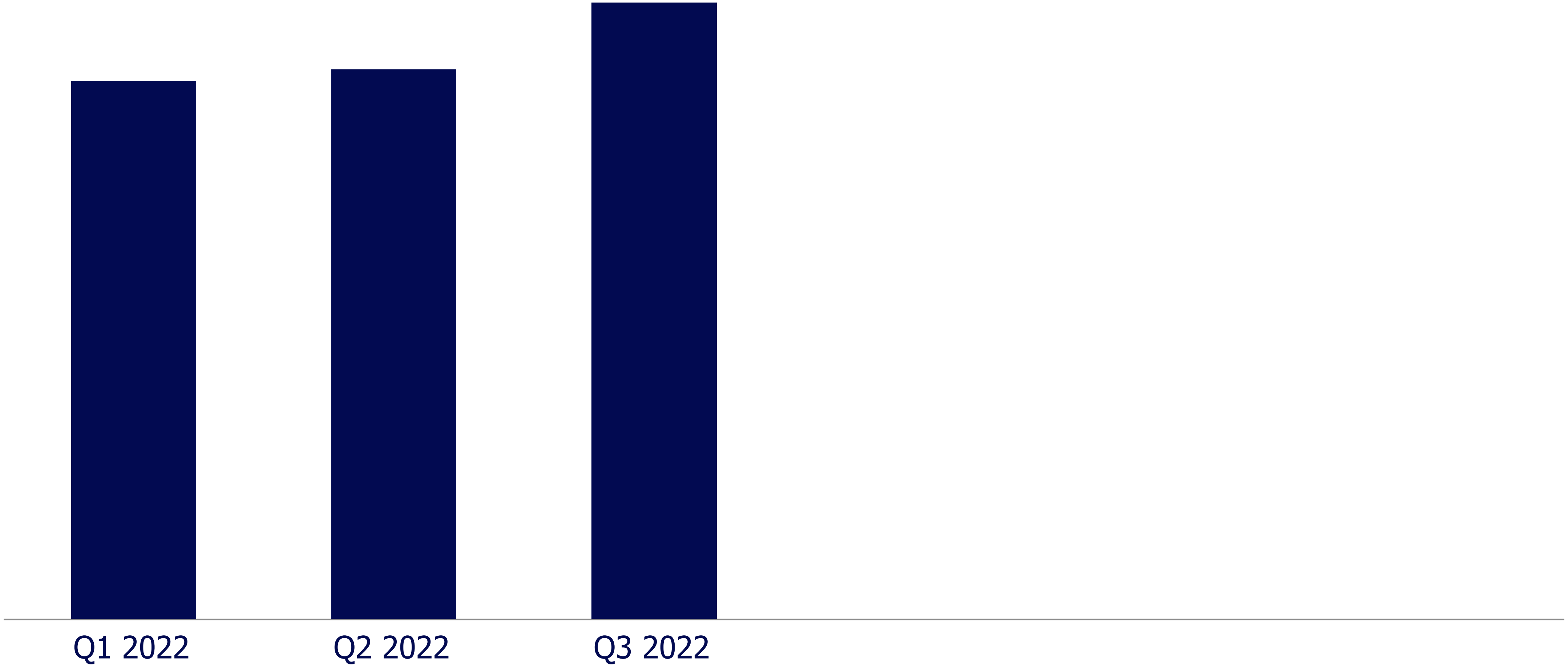
Appian's **development center** in Chennai, India opened ahead of schedule, with a new facility and a full complement of employees.

Q4 2021 through Q3 2022 have been the highest **revenue growth** quarters since our IPO in 2017.

Non-GAAP Gross **Profit Margin** rose 2% over last quarter.

Appian's lawsuit against Pegasystems reached **final judgment**. The judge rejected Pegasystems' motion to overturn verdict. The award remains in excess of $2 billion, plus interest of more than $100 million per year.

Days sales outstanding.



Calculated as the average accounts receivable balance for the period divided by total revenue.

Cloud Gross Renewal Rate.

	Q1	Q2	Q3	Q4
2022	99%	99%	99%	

Calculated as the the percentage of recurring cloud subscription revenue retained from existing customers for the previous trailing 12-month period.

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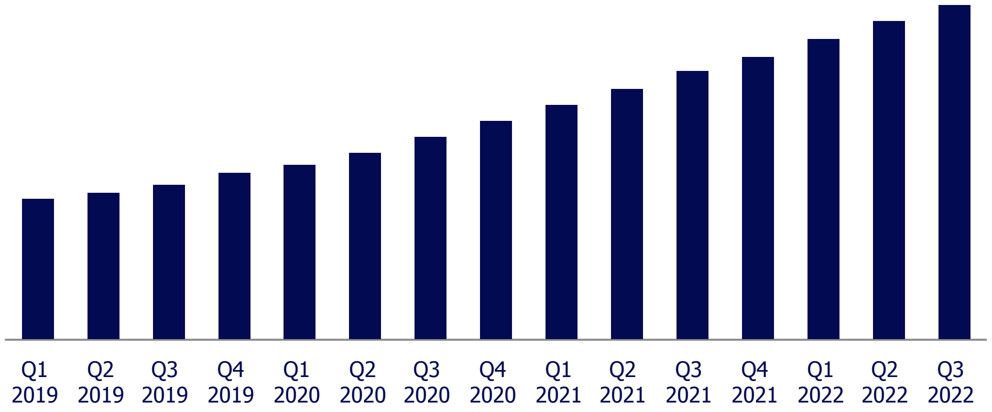
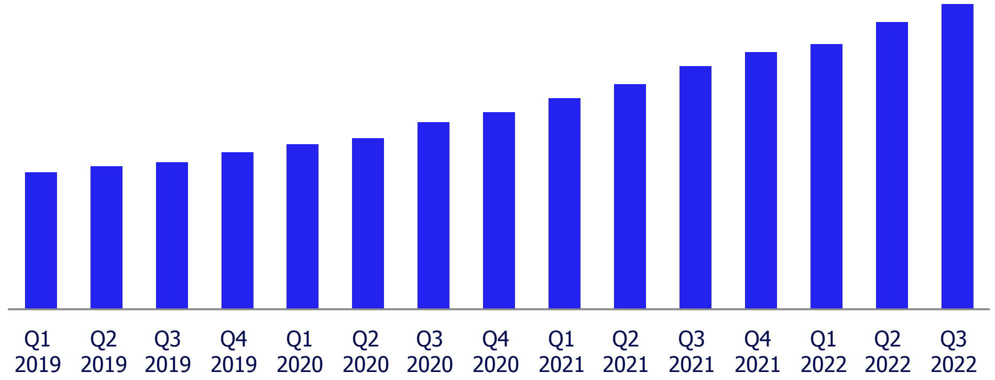
Annualized recurring revenue ("ARR").

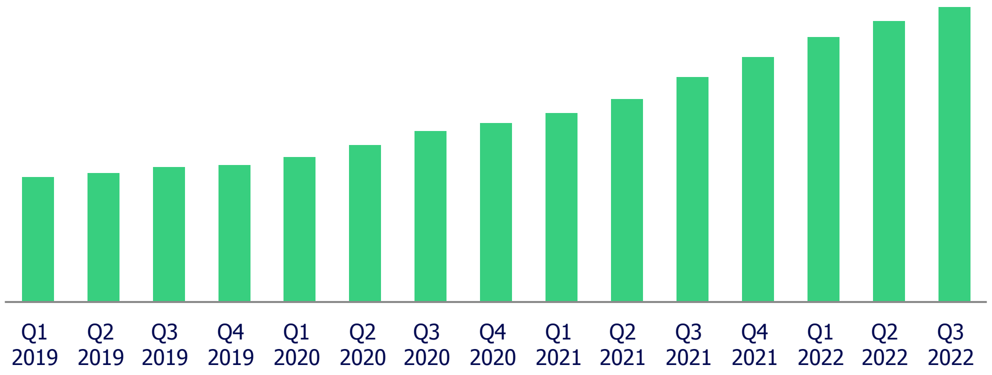
Total ARR (in millions)



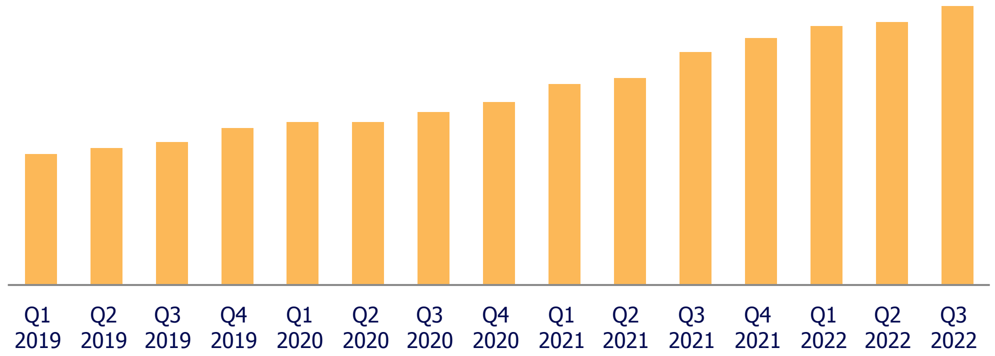
$250K+ ARR Customers



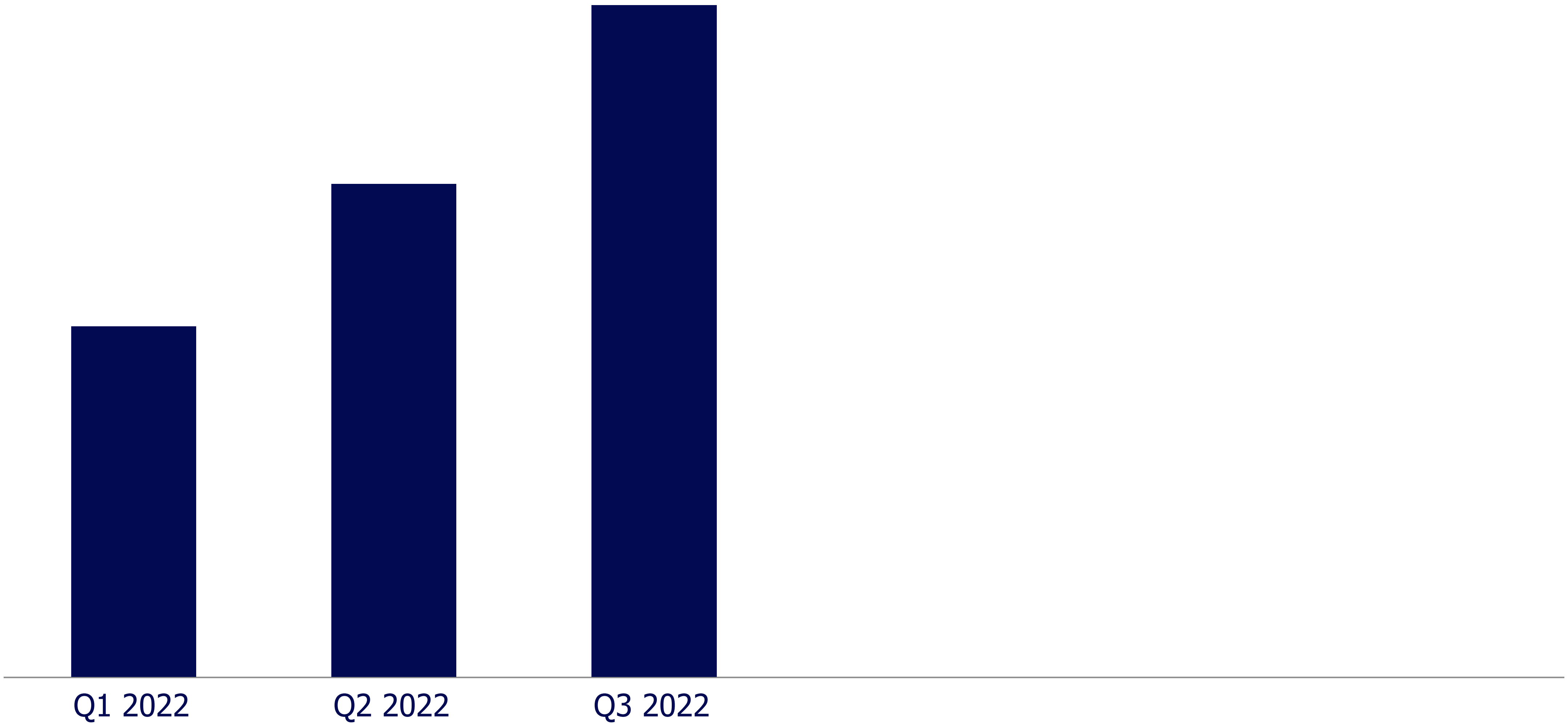
$500K+ ARR Customers



$1M+ ARR Customers

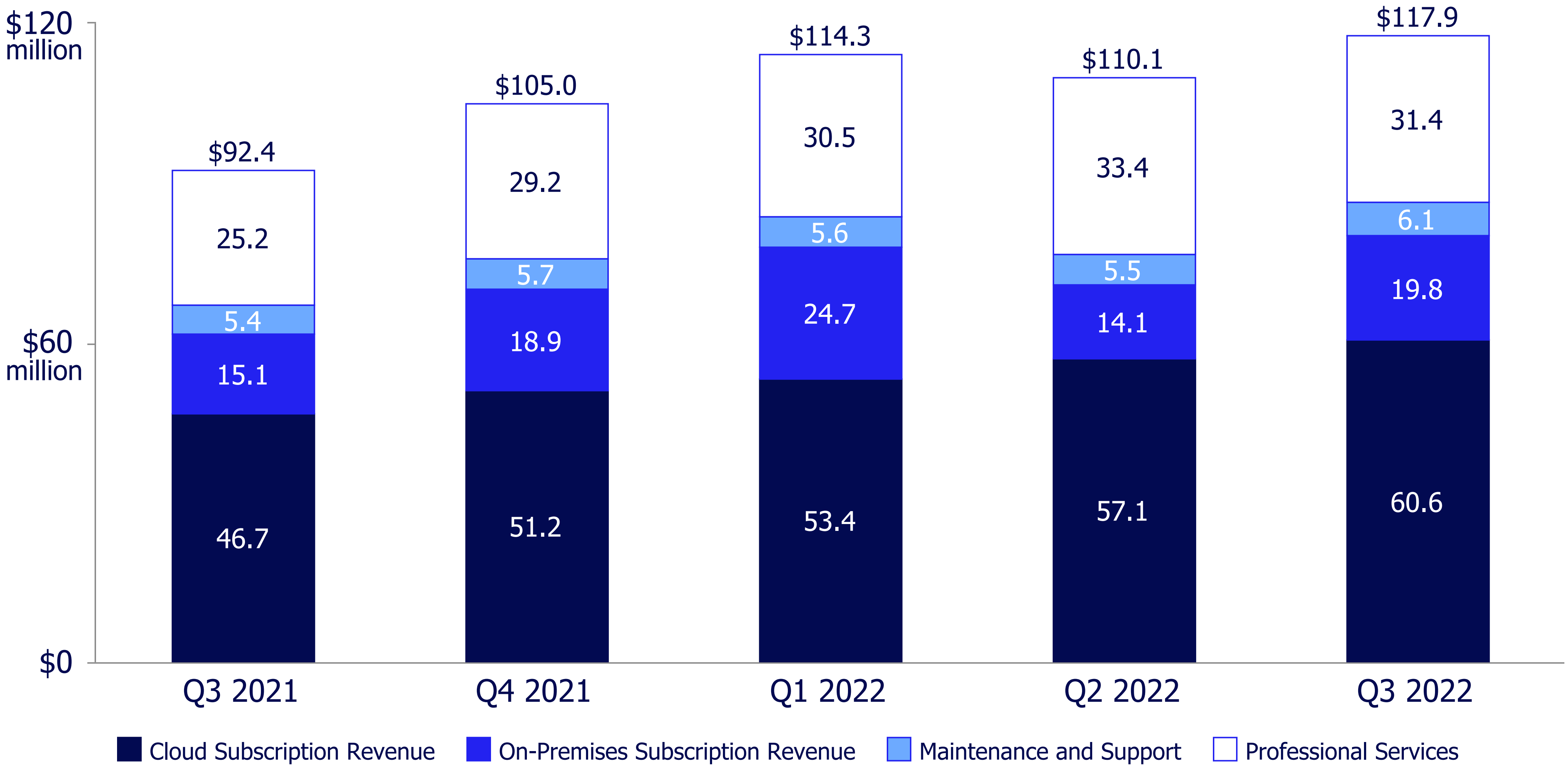


Appian Community members.



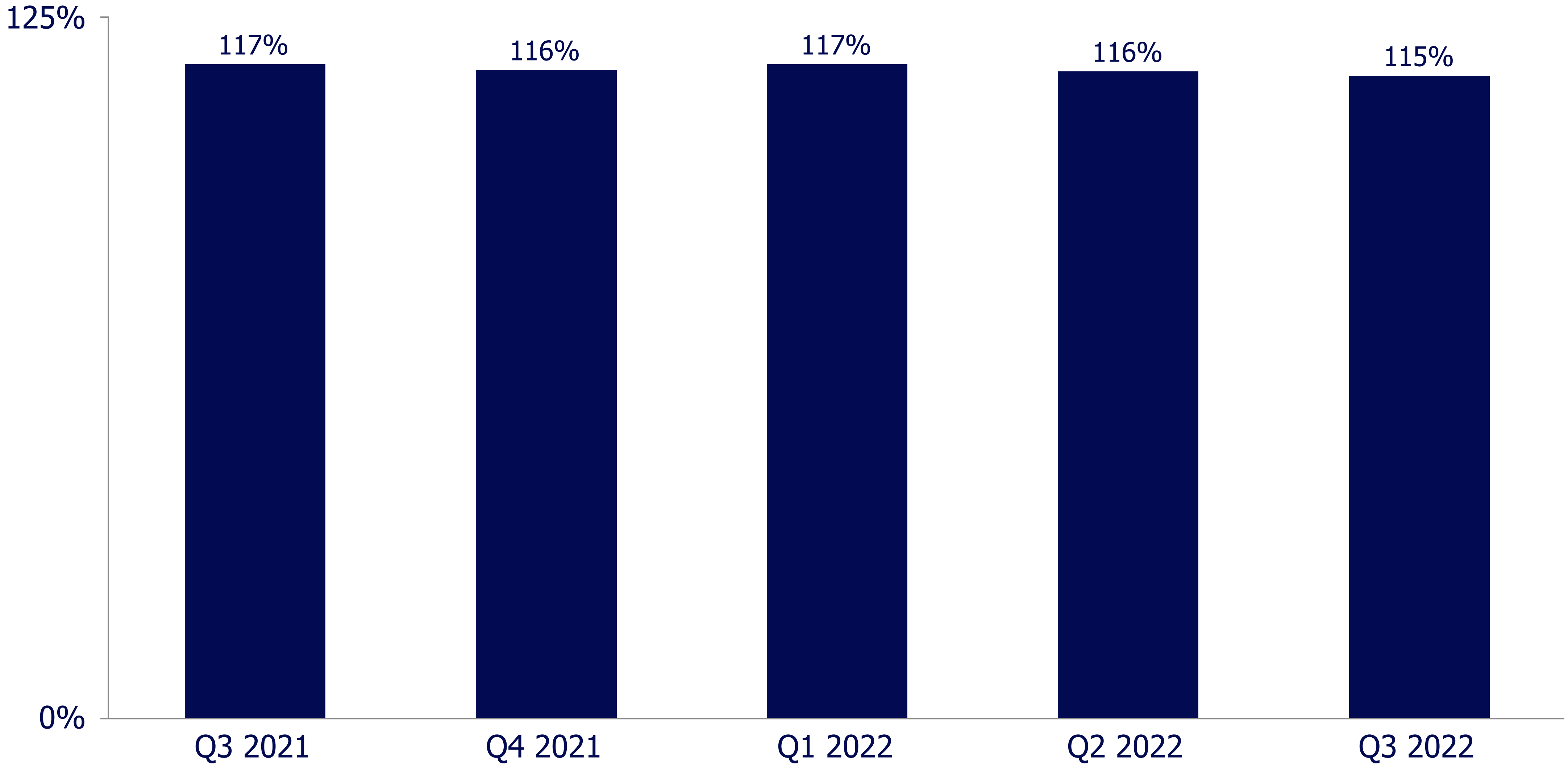
Community members are individuals with an Appian Community profile.

Total revenue.*



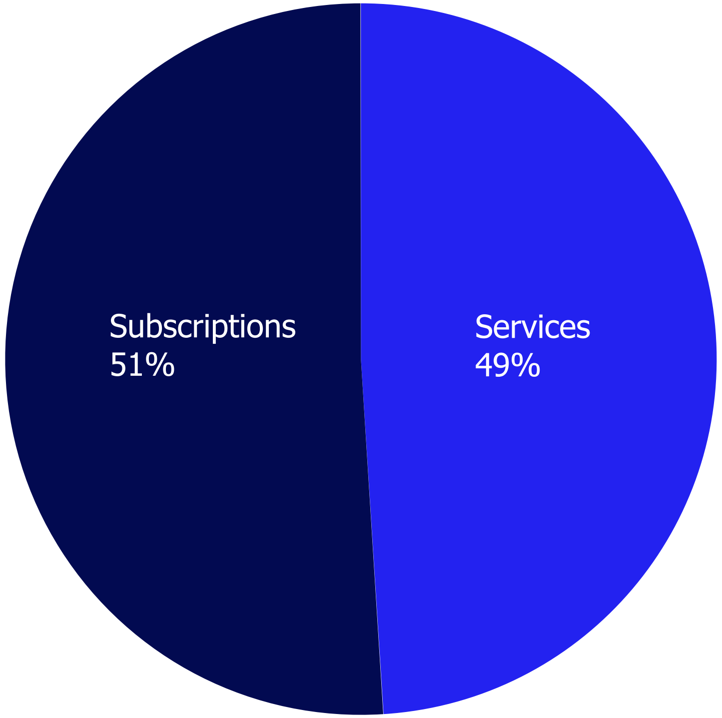
*Total revenue is reported in millions and may not foot due to rounding

Cloud subscription revenue retention.

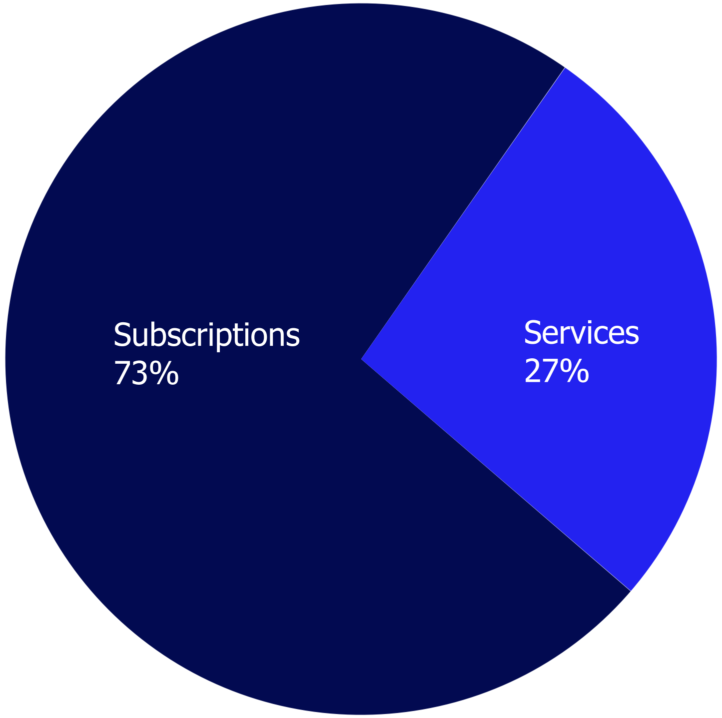


Subscriptions vs. Professional Services revenue.

IPO (Q2 2017)



Q3 2022



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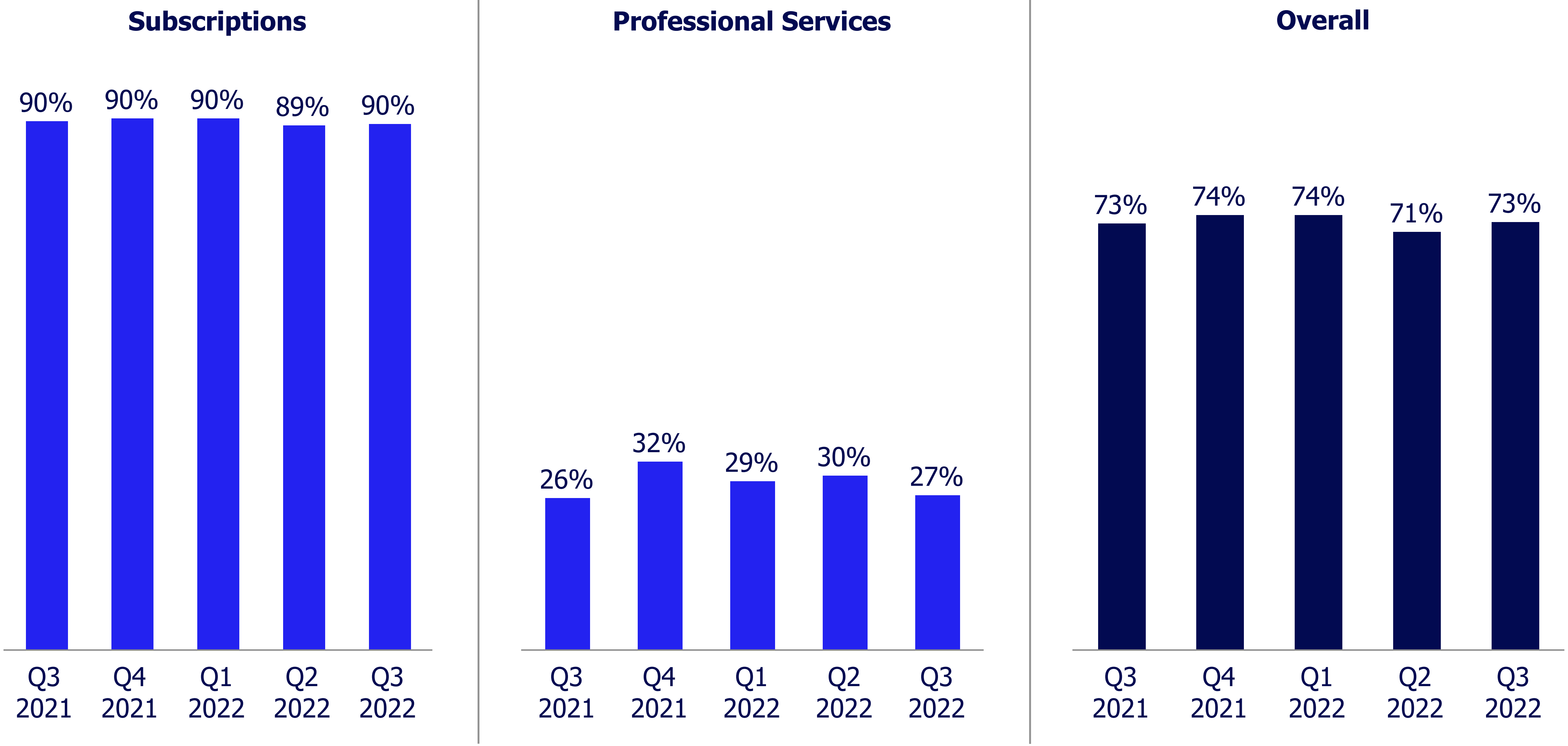
Gross margins.*



*Non-GAAP - Data excludes stock-based compensation expense. Refer to the reconciliation of GAAP to non-GAAP measures in the Appendix.

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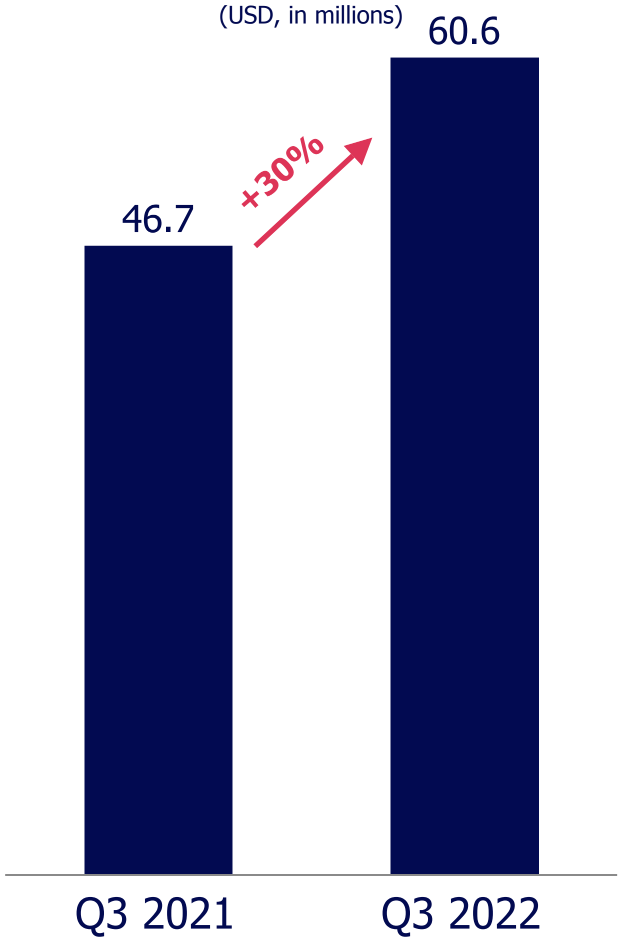
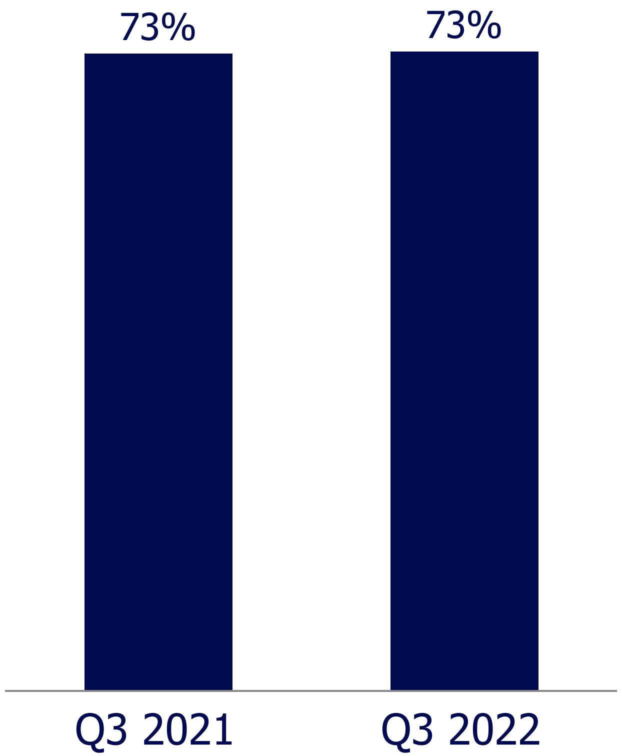
Q3 2022 summary.

Cloud Subscription Revenue



Cloud Subscription Revenue Retention*

Overall Gross Margins**



*As of September 30, 2022

**Non-GAAP - Data excludes stock-based compensation expense. Refer to the reconciliation of GAAP to non-GAAP measures in the Appendix.

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Guidance.

Given on November 3, 2022

(in millions, except for EPS)	Q4 2022			Full Year 2022		
Cloud Subscription Revenue	$63.5	–	$64.5	$235.0	–	$236.0
Cloud Subscription Revenue Growth YoY	24%	–	26%	31%	–	32%
Total Revenue	$121.5	–	$123.5	$461.0	–	$466.0
Total Revenue Increase YoY	16%	–	18%	25%	–	26%
Adjusted EBITDA Loss	$(24.0)	–	$(29.0)	$(75.0)	–	$(80.0)
Non-GAAP Loss per Share*	$(0.36)	–	$(0.42)	$(1.30)	–	$(1.36)

*Based on estimated 72.7 million and 72.5 million basic and diluted weighted average common shares outstanding for Q4 2022 and FY 2022, respectively.

Appendix

Balance sheet.

$ in thousands	As of September 30, 2022 (unaudited)		As of December 31, 2021	
Assets				
Cash and cash equivalents	$	51,802	$	100,796
Short-term investments and marketable securities		40,885		55,179
Accounts receivable, net of allowance of $1,901 and $1,400, respectively		143,385		130,049
Deferred commissions, current		27,874		24,668
Prepaid expenses and other current assets		31,976		26,781
Restricted cash, current		2,053		791
Property and equipment, net of accumulated depreciation of $18,189 and $14,106, respectively		38,692		36,913
Long-term investments		—		12,044
Goodwill		24,045		27,795
Intangible assets, net of accumulated amortization of $2,131 and $1,260, respectively		5,139		7,144
Right-of-use assets for operating leases		31,841		27,897
Deferred commissions, net of current portion		51,526		49,017
Restricted cash, net of current portion		—		2,373
Other assets		5,342		3,072
Total assets	$	454,560	$	504,519
Liabilities and Stockholders' Equity				
Deferred revenue, current		161,154		150,169
Operating lease liabilities, current		7,434		8,110
Other current liabilities		55,803		57,442
Operating lease liabilities, net of current portion		52,710		48,784
Deferred revenue, net of current portion		3,408		2,430
Other non-current liabilities		1,109		3,667
Total liabilities		281,618		270,602
Stockholders' equity				
Common stock		7		7
Additional paid-in capital		549,760		497,128
Accumulated other comprehensive loss		(2,790)		(5,687)
Accumulated deficit		(374,035)		(257,531)
Total stockholders' equity		172,942		233,917
Total liabilities and stockholders' equity	$	454,560	$	504,519

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Income statement.

$ in thousands, except for per share data	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(unaudited)		(unaudited)	
Revenue				
Cloud subscriptions	$ 60,621	$ 46,699	$ 171,083	$ 128,238
Term license (on prem) subscriptions	19,773	15,114	58,543	44,290
Maintenance and support	6,126	5,427	17,282	15,424
Total subscriptions revenue	86,520	67,240	246,908	187,952
Professional services	31,356	25,177	95,297	76,319
Total revenue	117,876	92,417	342,205	264,271
Cost of revenue				
Subscriptions	9,313	7,092	26,065	19,806
Professional services	24,447	19,415	72,011	56,065
Total cost of revenue	33,760	26,507	98,076	75,871
Gross profit	84,116	65,910	244,129	188,400
Operating expenses				
Sales and marketing	54,912	42,071	157,104	118,575
Research and development	37,623	26,510	101,401	71,062
General and administrative	29,357	20,226	90,014	56,726
Total operating expenses	121,892	88,807	348,519	246,363
Operating loss	(37,776)	(22,897)	(104,390)	(57,963)
Other non-operating expense				
Other expense, net	5,876	2,329	12,815	4,141
Interest expense	89	72	222	233
Total other non-operating expense	5,965	2,401	13,037	4,374
Loss before income taxes	(43,741)	(25,298)	(117,427)	(62,337)
Income tax expense (benefit)	255	86	(924)	459
Net loss	$ (43,996)	$ (25,384)	$ (116,503)	$ (62,796)
Net loss per share:				
Basic and diluted	$ (0.61)	$ (0.36)	$ (1.61)	$ (0.89)
Weighted average common shares outstanding:				
Basic and diluted	72,503	71,119	72,372	70,936

Stock-based compensation expense.

$ in thousands	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(unaudited)		(unaudited)	
Cost of revenue:				
Subscriptions	$ 284	$ 381	$ 712	$ 973
Professional services	1,401	777	3,788	2,283
Operating expenses:				
Sales and marketing	2,667	1,448	6,721	3,753
Research and development	3,454	1,263	8,831	3,347
General and administrative	3,530	1,331	7,375	7,336
Total stock-based compensation expense	$ 11,336	$ 5,200	$ 27,427	$ 17,692

Reconciliation of GAAP to non-GAAP measures.

$ in thousands, except for per share data	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(unaudited)		(unaudited)	
Reconciliation of non-GAAP operating loss:				
GAAP operating loss	$ (37,776)	$ (22,897)	$ (104,390)	$ (57,963)
Add back:				
Stock-based compensation expense	11,336	5,200	27,427	17,692
Litigation expenses	1,810	4,230	20,432	8,270
Non-GAAP operating loss	$ (24,630)	$ (13,467)	$ (56,531)	$ (32,001)
Reconciliation of non-GAAP net loss:				
GAAP net loss	$ (43,996)	$ (25,384)	$ (116,503)	$ (62,796)
Add back:				
Stock-based compensation expense	11,336	5,200	27,427	17,692
Litigation expenses	1,810	4,230	20,432	8,270
Loss on disposal of property and equipment	—	78	—	—
Non-GAAP net loss	$ (30,850)	$ (15,876)	$ (68,644)	$ (36,834)
GAAP net loss per share, basic and diluted	$ (0.61)	$ (0.36)	$ (1.61)	$ (0.89)
Non-GAAP weighted average shares used to compute net loss per share, basic and diluted	72,503	71,119	72,372	70,936
Non-GAAP net loss per share, basic and diluted	$ (0.43)	$ (0.22)	$ (0.95)	$ (0.52)
Reconciliation of adjusted EBITDA:				
GAAP net loss	$ (43,996)	$ (25,384)	$ (116,503)	$ (62,796)
Other expense, net	5,876	2,329	12,815	4,141
Interest expense	89	72	222	233
Income tax expense (benefit)	255	86	(924)	459
Depreciation and amortization	1,759	1,510	5,332	4,071
Stock-based compensation expense	11,336	5,200	27,427	17,692
Litigation expenses	1,810	4,230	20,432	8,270
Adjusted EBITDA	$ (22,871)	$ (11,957)	$ (51,199)	$ (27,930)

Reconciliation of GAAP to non-GAAP measures (cont).

The following table reconciles our GAAP gross margin percentage to our non-GAAP gross margin percentage for our overall, subscriptions, and professional services margins. The non-GAAP adjustment represents adding back the margin impact of stock-based compensation expense recorded to "Cost of revenue" within our consolidated income statements.

	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
Reconciliation of non-GAAP overall gross margin:					
GAAP overall gross margin	71.3%	73.1%	72.9%	69.8%	71.4%
Add back:					
Non-GAAP adjustments to overall gross margin	1.3%	1.0%	1.0%	1.4%	1.4%
Non-GAAP overall gross margin	72.6%	74.1%	73.9%	71.2%	72.8%
Reconciliation of non-GAAP subscriptions gross margin:					
GAAP subscriptions gross margin	89.5%	90.1%	90.2%	88.9%	89.2%
Add back:					
Non-GAAP adjustments to subscriptions gross margin	0.5%	0.3%	0.2%	0.3%	0.4%
Non-GAAP subscriptions gross margin	90.0%	90.4%	90.4%	89.2%	89.6%
Reconciliation of non-GAAP professional services gross margin:					
GAAP professional services gross margin	22.9%	29.1%	25.4%	25.8%	22.0%
Add back:					
Non-GAAP adjustments to professional services gross margin	3.1%	2.9%	3.4%	4.0%	4.5%
Non-GAAP professional services gross margin	26.0%	32.0%	28.8%	29.8%	26.5%

New credit agreement.*

On November 3, 2022, we entered into a Senior Secured Credit Facilities Credit Agreement ("the Credit Agreement") with several banks and other financial institutions and entities. Key terms of the arrangement are as follows**:

- Provides for a five-year term loan facility in an aggregate principal amount of $100.0 million and up to $50.0 million for a revolving credit facility, including a letter of credit sub-facility in the aggregate availability amount of $15.0 million and a swingline sub-facility in the aggregate availability amount of $10.0 million (as a sublimit of the revolving loan facility)

- Amounts drawn bear interest on the outstanding principal amount at a rate per annum equal to either (a) the higher of the Prime rate or the Federal Funds Effective (“Base Rate”) rate plus 0.5%, or (b) the forward-looking term rate based on the secured overnight financing rate (“Term SOFR”), plus a margin

    - From November 3, 2022 to November 3, 2025, the additional interest rate margin ranges from 1.5% to 2.5% in the case of Base Rate advances and from 2.5% to 3.5% in the case of Term SOFR advances, depending on our Debt to Recurring Revenue Leverage Ratio

    - From November 4, 2025 to November 3, 2027, the additional interest rate margin ranges from 0.5% to 2.5% in the case of Base Rate advances and from 1.5% to 3.5% in the case of Term SOFR advances, depending on our Debt to Consolidated Adjusted EBITDA Leverage Ratio

*Updated as of November 8, 2022

**Certain terms referenced herein are specifically defined by the Credit Agreement, which will be filed as an exhibit to our report on Form 10-K for the year ending December 31, 2022.

New credit agreement (cont).*

The Credit Agreement also contains several customary representations, warranties, and covenants as follows**:

- From November 3, 2022 to November 3, 2025:
    - Minimum Liquidity must be greater than $40.0 million
    - Consolidated Total Indebtedness to Recurring Revenue Leverage Ratio cannot exceed 1:1, scaling down to a ceiling of 0.9:1 on December 31, 2023 and 0.8:1 on December 31, 2024
    - As of any quarter end, Recurring Revenue multiplied by 4 must be greater than $180.0 million

- From November 4, 2025 to November 3, 2027:
    - Consolidated Fixed Charge Coverage Ratio must be greater than or equal to 1.25:1
    - Consolidated Total Leverage Ratio cannot exceed 4.5:1, scaling down to a cap of 3.5:1 beginning March 31, 2027

- Additional covenants provide for limits on the following:
    - Additional indebtedness, guaranties, and liens
    - Fundamental changes in the structure of the entity, including mergers and consolidations
    - Dispositions of assets
    - New investments
    - Paying dividends on capital stock; redeeming, repurchasing, or retiring capital stock; or prepaying certain junior indebtedness and preferred stock
    - Certain corporate changes and transactions with affiliates

*Updated as of November 8, 2022

**Certain terms referenced herein are specifically defined by the Credit Agreement, which will be filed as an exhibit to our report on Form 10-K for the year ending December 31, 2022.


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