



## **Appian Q1 2025 Earnings Call Prepared Remarks Transcript**

### **Jack Andrews, VP of Investor Relations**

Good morning and thank you for joining us. Today, we'll review Appian's first quarter 2025 financial results. With me are Matt Calkins, Chairman and Chief Executive Officer, and Mark Lynch, Interim Chief Financial Officer. After prepared remarks, we'll open the call for questions.

During this call, we may make statements related to our business that are considered forward looking. These include comments related to our financial results; trends and guidance for the second quarter and full year 2025; 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.

These statements reflect our views only as of today and don't represent our views as of any subsequent date. We won't update these statements as a result of new information unless required by law. Actual results may differ materially from expectations due to the risks and uncertainties described in our SEC filings. Additionally, non-GAAP financial measures will be discussed on this conference call. Reconciliations of GAAP to non-GAAP financial measures are provided in our earnings release.

With that, I'd like to turn the call over to our CEO, Matt Calkins. Matt?



**Matt Calkins, Chairman and Chief Executive Officer**

Thanks Jack, and thanks everyone for joining us today.

In the first quarter of 2025, Appian's cloud subscriptions revenue grew 15% year-over-year to \$99.8 million. Subscriptions revenue grew 14% to \$134.4 million. Total revenue grew 11% year-over-year to \$166.4 million. Our cloud subscriptions revenue retention rate was 112% as of March 31st. Adjusted EBITDA was \$16.8 million, a strong follow-up to the prior quarter's adjusted EBITDA of \$21.2 million, and a continued demonstration of our inherent earnings potential.

We held our annual conference last week, Appian World. Our focus was squarely on AI, and AI agents, and how AI can be deployed inside a process to deliver practical value.

I appreciate the many customers who spoke about their experiences with Appian, the value they created using Appian AI, and the success they achieved. Speakers from Aon, NASA, and MagMutual shared stories of how their organizations optimize processes with Appian. Neuberger Berman revealed it onboards tens of billions of dollars in funds faster with Appian. Hitachi reported reducing operating expenses by 20% using Appian. Acclaim Autism uses Appian to ingest medical documents, accelerating its patient intake process by 83%.

My keynote was about 'bringing AI to work'. By that I mean finding the place in your enterprise where work is heaviest and most important -- and deploying AI there. We focus on AI the worker, not AI the helper. In order to make AI a worker, you must integrate AI into a business process, because that's how the most critical work is done, by teams taking coordinated action.

We don't believe in asking AI to make staggering leaps of creativity. Not in 2025, anyway. Instead, AI is for doing regular work with superhuman efficiency. Things like document intake and response, which AI



can do faster and better than anyone else. My favorite conference session was called "Saving millions with boring AI", because it pretty much sums up our approach to AI. Straightforward, even boring -- and immensely productive.

We focus on practical results over hype. But don't let our use of the word 'boring' fool you. We're getting incredible results. 70% of our cloud customers have adopted AI. We grew year-over-year production AI usage last quarter by 7.9x. (Not 7.9%, 7.9 times.) We had more AI usage in Q1 than in all 2024 put together.

It's natural that the focus of the AI revolution would shift to supporting technologies like processes. The major AI models are convergent. The most important decision in AI applications may be not which AI you use, but how you deploy it. Our belief, as you know if you've heard me before, is that AI should be deployed in a process. In an Appian process, AI is easier to deploy, safer, and more powerful.

Appian makes AI easy to adopt. For example, a leading Australian insurer deployed an application to ingest documents and automate underwriting processes using Appian AI. Before Appian, hundreds of underwriting specialists spent days manually processing quotes with limited accuracy. Now, in minutes, our AI classifies documents and extracts data with over 96% accuracy so the insurer can quickly open and progress cases. The customer expects to run these processes 50% faster and generate millions more dollars in revenue annually.

Last year, Appian launched a multi-tiered pricing model that allows us to monetize AI and other exclusive features. Since then, nearly half our new logos have purchased the AI-inclusive upper tiers. Revenue from these AI-inclusive tiers more than doubled in Q1 relative to Q4, rising to \$9 million. This is not yet a large share of our quarterly subscriptions revenue, but it demonstrates our early moves to monetize AI, and our customers' willingness to pay for it.



Our customers become more efficient when they use our platform. An association of US financial regulators is one example. This group is an existing Appian customer. Its state regulators process thousands of product filings annually, 50% faster when using our platform. This was even without AI. In Q1, it expanded its use with a seven-figure software deal to upgrade its existing licenses to our new pricing model and deploy Appian AI. Our AI classifies each document and extracts pertinent data from each filing. Now, the group expects to eliminate manual verifications and save tens of thousands of additional labor hours annually.

The central message of my keynote involved AI agents. I explained the three primary behaviors of an agent: it thinks, it acts, and it learns. And I explained why Appian agents have an edge in all three behaviors. I'll walk through them right now, briefly.

"Thinking" refers to exploring data with repeated queries of disparate sources to decide on the best course of action. The more data an agent can explore, the better it will 'think'. Appian's data fabric allows the agent to roam the entire enterprise of data, not limited to a single silo or data source. Our data fabric is industry-leading functionality, adopted by 97% of our incoming cloud users. Our data fabric gives agents more than universal access. It also grants them speed, because our queries are automatically performance tuned, and security, because we run those queries with the appropriate user's credentials. Due to a surge in AI-related usage, data fabric queries are up 166% year over year, to nearly 7 billion queries in Q1.

The second part of my behavior list is "acting". Acting refers to an agent implementing its decision. Appian's agents act exclusively through processes. (No surprise there, as we are the 'process company'.) Processes are complex compound actions, potentially triggering dozens of separate work items by dozens of different workers. So they are powerful. But they are also safe. Processes are auditable and



predictable. They provide guardrails. If processes are the best way for agents to take action, Appian has a distinct advantage: we run 16b transactions / day, on our processes.

Finally, there's think, act, and learn. The last one is "learn". Learning means that an agent benefits from the knowledge of past results. If you want to learn from past results, you must start by remembering them, and Appian monitors everything that happens in our processes. How much time did it take, how much did it cost, was it successful? We track all of these things. Our process mining capability gives us an edge in collecting data for the benefit of our agents. The more you know, the more you can learn.

For example, a large US healthcare system will use Appian to simplify operations for hundreds of medical facilities. It'll start by analyzing a series of patient-focused processes, like medical procedure pre-authorizations and denials, to reduce overhead costs by 20%. Appian Data Fabric will consolidate data from a dozen systems so the group can use our process mining tools to identify key bottlenecks. The group will use these insights to prioritize an IT roadmap of workflows to automate with our platform.

Appian does business in the United States Public Sector. We have a large presence in the Federal space and are thus exposed to whatever disruption DOGE may create, but we are also tightly associated with DOGE's primary virtues, efficiency and modernization. We remain cautiously optimistic about the evolving opportunity. In Q1, our Federal government bookings, including both net new software and services, grew 59% compared to the same period last year.

Appian has a long history of delivering value within the government. The Department of Labor, for example, saves tens of millions of dollars annually using Appian. Appian applications are mission-critical. The government procures \$464B in annual budget on the Appian platform. We offer a solution called government acquisition management or GAM. GAM helps agencies automate highly regulated processes for procuring goods and services. Last year, Appian launched ProcureSight to complement the suite.



ProcureSight is an AI-driven website. It applies AI to several major public datasets so government professionals can glean insights from past procurements to help generate new ones. Over eighty federal agencies and sub-agencies use the service today to make their procurements more cost effective.

We continue to sign new customers and win big expansions in our key verticals. Here's some examples, starting with Public Sector. First, a US civilian agency purchased a 7-figure software deal and became a new customer this quarter. It selected our platform to manage investigations for tens of thousands of mail-related crimes annually. Before Appian, the group manually consolidated case files because its legacy system was disjointed and incomplete. Now, Appian Data Fabric will seamlessly integrate data from dozens of systems so federal agents can focus on advancing investigations. We won this competitive deal because we were the only vendor to meet all the customer's requirements during our custom demo.

Next, a US agency supporting the Department of Defense catalogs and manages nuclear inventory using Appian. This quarter, it chose to modernize its procurement office and purchased our GAM solution. Before, contracting officers manually tracked requirements on spreadsheets and custom tools. Now, they'll process hundreds of millions of dollars of annual procurement budget on Appian. We won this deal because the customer's peer organizations recommended our solutions.

My final story is about a top Australian bank that became a new Appian customer this quarter. It'll use our platform to modernize customer service processes, like credit card disputes and customer account updates. The bank currently operates across several disjointed systems. Appian AI will ingest nearly 75 million document pages annually and Appian data fabric will consolidate data from all related systems into a single workflow tool so service agents can reduce their SLAs from hours to minutes.

It's important to me that Appian's investors know Appian's intentions. So I'll share with you now two essential internal metrics, which we'll report on quarterly going forward.



The first is what we call Weighted Rule of 40. This is the most important number that we manage the company towards. It's a combination of growth and margin, like a typical Rule-of-40, but we weight growth twice as much as margin. In the current quarter our Weighted Rule of Forty score is 27 which is the sum of four-thirds cloud subscriptions growth plus two-thirds adjusted EBITDA margin. I explain the math so you can see that the factors add up to two, just like in a regular Rule of Forty metric. Some Appian executives have weighted rule of 40 targets today, and all of them will over the next few quarters.

Appian's other top objective is to increase Sales & Marketing efficiency. This became my primary objective in 2023, and after much work we're seeing some results. This Q1, our net new bookings per sales rep rose more than 30% compared to the same period last year. We want to share our progress with you using a new metric. See slide 4 in the presentation, called "GTM Productivity" (that's go-to-market productivity). It measures the bang for our buck in Sales & Marketing. The numerator is the sum of total revenue and the quarterly changes in short term deferred revenue over trailing 12-months. The denominator is trailing twelve months non-GAAP sales and marketing expenses. As you'll see in the chart, we're showing steady progress.

Appian hired Serge Tanjga as our new Chief Financial Officer, starting later this month. Serge has over 20 years of financial experience, serving most recently as Senior Vice President of Finance at MongoDB where he led financial planning, strategic finance, business operations, and analytics, and then as their interim CFO. I'm excited to welcome him to Appian's executive team. I thank Mark Lynch for serving as our interim CFO during this search. He'll remain on Appian's Board of Directors.

With that, I'll hand the call over to Mark for a deeper discussion of our financials. Mark?



**Mark Lynch, Interim Chief Financial Officer**

Thanks, Matt, and thank you everyone joining us today. I'll review the financial highlights for the quarter, and then will provide guidance for Q2 and the full year 2025.

Appian exceeded the guidance ranges we provided on our key metrics of cloud revenue, total revenue, and adjusted EBITDA. Cloud subscriptions revenue was \$99.8 million, an increase of 15% year over year. Total subscriptions revenue was \$134.4 million, an increase of 14% year over year. On a constant currency basis, total subscriptions revenue grew 15% year over year.

Professional services revenue was \$32.1 million, flat growth compared to the first quarter of 2024. As a reminder, services revenue can be volatile quarter to quarter. We continue to expect professional services revenue to decline as a percentage of total revenue over the long term.

Subscriptions revenue represented 81% of total revenue, compared to 79% in the year ago period, and 82% in the prior quarter. Total revenue was \$166.4 million, an increase of 11% year over year. On a constant currency basis, total revenue grew 12% year over year. Our cloud subscriptions revenue retention rate was 112% as of March 31, 2025, compared to 120% a year ago, and 116% in the prior quarter. We continue to target a cloud subscriptions revenue retention rate of 110% to 120% on a quarterly basis. Our international operations contributed 36% of total revenue, compared to 37% in the year ago period. Cloud net new ACV bookings were approximately 82% of total net new software bookings in Q1, consistent with the prior year.

Let's turn to profitability metrics. Non-GAAP gross margin was 78%, compared to 76% in the year ago period, and 80% in the prior quarter. Our subscriptions non-GAAP gross profit margin was 89%, compared to 90% in both the year ago period and prior quarter. This margin remains best-in-class in enterprise software. Professional services non-GAAP gross margin was 30%, compared to 25% in the



year ago period and 31% in the prior quarter. Total non-GAAP operating expenses were \$114.8 million, down 2% from \$117.3 million in the year ago period.

Adjusted EBITDA was positive \$16.8 million, versus our guidance of positive \$8 and \$10 million, and compared to an adjusted EBITDA loss of (\$1.3) million in the year ago period. This outperformance relative to our guide was largely driven by taking a measured approach to hiring, prioritizing low-cost regions for hiring, and by greater than expected term license and services revenue.

Non-GAAP net income was \$9.8 million, or \$0.13 cents per diluted share, compared to a non-GAAP net loss of (\$4.9) million, or (\$0.07) cents per share for the first quarter of 2024. This is based on 74.1 million diluted shares outstanding for the first quarter of 2025 and 73.3 million diluted shares outstanding for the first quarter of 2024. Turning to our balance sheet, as of March 31, 2025, cash and cash equivalents and investments were \$199.7 million, compared with \$159.9 million at the end of last year. For the first quarter, cash provided by operations was \$45.0 million compared to \$18.9 million for the same period last year.

Total deferred revenue was \$262.5 million as of March 31, 2025, an increase of 16% from the year ago period. As we've stated on past calls, the majority of our customers are invoiced on an annual upfront basis. We also have large customers that are billed quarterly or monthly. Due to the variability of our billing terms, changes in our quarterly deferred revenue are generally not indicative of our business momentum.

We continue to believe cloud subscriptions revenue is a better indicator of our business momentum than billings or remaining performance obligations (RPO). The latter metrics can fluctuate based on the timing of invoicing, seasonality of self-managed license revenue, and the duration of customer contracts. The true scale of the business is represented by subscriptions revenue, which includes support and all



software subscriptions revenue regardless of whether the customer deploys to the Appian Cloud, their private cloud, or on-prem.

Before discussing guidance, I'll share a few observations about macroeconomic and business conditions.

The US dollar has weakened since we last provided guidance, which now gives Appian a currency tailwind. Appian exceeded the high end of our Q1 guidance for cloud revenue and total revenue. At this point in the year, we have not seen any material changes in our sales pipeline or the cadence of our business. Given the macroeconomic uncertainty, changes within the federal government, and thus a wider range of potential outcomes, we're taking a prudent approach to guidance for the remainder of 2025.

For the second quarter of 2025, cloud subscriptions revenue is expected to be between \$101 and \$103 million, representing year-over-year growth between 14% and 16%. Total revenue is expected to be between \$158 and \$162 million, representing year-over-year growth between 8% and 11%.

Adjusted EBITDA for the second quarter of 2025 is expected to be between negative (\$5) and negative (\$2) million. Non-GAAP earnings per share is expected to be between negative (\$0.15) and negative (\$0.11) cents. This assumes 74.8 million fully diluted weighted average shares outstanding.

For the full year 2025, we are increasing the high end of our previously stated guidance range regarding cloud subscriptions revenue and total revenue, while maintaining the original low end of those guidance ranges. We are also increasing our overall adjusted EBITDA range for the year.

For the full year 2025, cloud subscriptions revenue is expected to be between \$419 and \$423 million, representing year-over-year growth of between 14% and 15%. Total revenue is expected to be between \$680 and \$688 million, representing year-over-year growth of 10% to 12%.



Adjusted EBITDA is now expected to range between positive \$40 and \$46 million. Non-GAAP earnings per share is expected to be between \$0.18 and \$0.26 cents. This assumes 75.1 million fully diluted weighted average shares outstanding.

Our guidance assumes the following:

- First, we expect Q2 professional services revenue will be flat compared to a year ago. For the full year, we expect professional services revenue to be approximately flat or increase by a low single digit range compared to a year ago.
- Second, we anticipate term license revenue will decrease by a low double digit percentage on a year over year basis, as we anniversary a difficult comparison from a strong Q2 2024.
- Third, we expect Q2 adjusted EBITDA to be a loss due to the combination of term license seasonality and the cost of running our annual user conference, Appian World.
- Fourth, total other income and interest expense will be approximately \$3.5 million in Q2 and \$14.0 million for the full year 2025.
- Fifth, capital expenditures will be between \$1 and \$1.5 million in Q2, and between \$3 and \$4 million for the full year 2025.
- Finally, our guidance assumes FX rates as of May 2nd, 2025.

Now, we'll turn the call over for questions. Operator?