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Appian Q2 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 second quarter 2025 financial results. With me are Matt Calkins, Chairman and Chief Executive Officer, and Serge Tanjga, 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 third 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 thank you everyone for joining us today.

In the second quarter of 2025, Appian's cloud subscriptions revenue grew 21% to $106.9 million. Subscriptions revenue grew 17% to $132.7 million. Total revenue grew 17% to $170.6 million. Adjusted EBITDA was $8.1 million.

Last quarter, I shared two metrics that measure Appian's progress towards efficient growth. The first measures the productivity of our sales and marketing expenditure. In Q2, Appian's go-to-market productivity ratio was 3.3; you can see on slide 4 that's our 8th sequential quarterly increase, and I believe there's more upside ahead. Our weighted rule of forty, which expresses our strategic priorities by weighting cloud subscriptions revenue growth twice as much as adjusted EBITDA margin, was also up slightly, to 31.

We're pleased with our second quarter results. I'll briefly mention two reasons why they are good. First, the internal factor: our upmarket strategy is working. Powered by strong sales organization and execution, we're reaching the high-value transactions where Appian belongs. Second, the external factor: artificial intelligence. Our platform gives AI the things it needs (like data access, structure, guardrails, and tracking) so AI can solve complex business problems. AI is having a tangible effect on our financial results. We're getting higher prices because of AI – we add a 25% upcharge. We're in new deals because of AI – and even new industries. (I'll talk about that in a moment.) But one more point about it: Whatever AI has done for our revenues, it's done more for our pipeline; and whatever it's done for our pipeline, it's done even more for our value proposition. So, I see this being a strong growth factor in the future.

Speaking of growth, most of our seven-figure software deals signed this quarter were with our AI-inclusive license tiers. I'll share two examples of AI impact, in big applications for big customers. First, an international grocery retailer and seven-figure ARR customer manages supply chain logistics and insurance claims with Appian. In Q2, it deployed Appian AI into an existing field-dispatching application built on our platform. Before AI, drivers filed paperwork when they encountered a shipment issue and back-office workers manually recorded discrepancies before correcting the information and reissuing a new dispatch order in their Appian application. Managing these exceptions was slow and there were sometimes human errors. Now, drivers upload their paperwork into Appian and our AI automatically reconciles the information. It's faster and more accurate.

Second, a top global asset management firm and longtime Appian customer has deployed our platform across its enterprise. It runs dozens of Appian applications. This quarter, it upgraded -- purchased a seven-figure software deal to upgrade its licenses to deploy features like Appian AI into areas like its client investment operations. Appian AI agents will accelerate the processing of customer requests. Agents will classify forms and extract data related to opening, closing, and changing accounts.

Turning to the US Public Sector, our performance in the first half of this year has been strong. Our Federal business outgrew the global business in cloud revenue, new bookings, and software pipeline. We have a reputation for driving efficiency in a sector which now prioritizes efficiency higher than ever before. We're seeing some good opportunities. A US agency supporting national healthcare is unifying its enterprise, and in Q2 it chose Appian as the backbone to all virtual care operations and signed a seven-figure software deal. Millions of patients will use our platform to engage with clinicians, coordinating virtual appointments and sharing health data in real time. The agency expects to save $38M per year using Appian.

We've been using the phrase 'cautiously optimistic' all year to describe our expectations for the Federal business in the face of DOGE and other volatility, and I'll stick with that wording, but looking back our cautious optimism has been validated by results.

We see a large opportunity emerging in the modernization of legacy applications. We've been modernizing applications for a decade already, but the industry is about to transform as AI lowers the cost of extracting old applications and translating them into a new format. Businesses modernize applications to reduce cost, eliminate technical debt, improve functionality, and unify silos.

Let's start with an example. Aviva is a multinational insurer that consolidated 22 legacy call-center systems into a single Appian application. They achieved 40% cost savings and the ability to service customers 9 times faster.

Now that AI makes it easy to achieve modernization, the industry is set to grow. Modernization was the hottest topic on my latest customer tour, and generally customers brought it up themselves. This industry is going to be big because each major organization supports hundreds or thousands of applications, at great expense, and would rather have fewer, and wishes they were better integrated, and they regret the data incongruity, and they worry about the long security perimeter, and they want to access them all in modern ways. Nobody likes silos – silos are just the way applications are laid down as IT departments solve one problem at a time, but it's not a good way to structure an enterprise.

Appian brings three powerful advantages to the revitalized field of app modernization. First, our platform is a great destination for translated applications. It's full of powerful pre-written functionality. It's secure, reliable, and enterprise grade. Second, re-creating an application, in Appian, is a dialogue not a delegation. We manage a multistep dialogue between the designer and AI. The AI presents the designer with proposals, like for the interface or the data structure, and the designer can modify them. When the

designer is satisfied, the AI builds the new app. Even then, the app remains highly modifiable, in Appian's process modelling interface. Third, Appian consolidates many applications into one. The modernization process is a unique opportunity to consolidate old applications into fewer new ones that offer the same functionality in a more coherent way. Last quarter a customer asked me if we could translate 3,000 old applications; he didn't want us to give him 3,000 new ones. Appian is built to unify functionality and data into a combined application experience. I love this modernization market for its scale and universality, and also because Appian's advantages won't be easy for rivals to duplicate.

Another example: a leading Spanish bank is running a large-scale modernization campaign to decommission inflexible technology. In Q2, it purchased thousands of Appian software licenses and became a new customer. It'll migrate all back-office workflows from legacy tools and consolidate them on our platform. We expect the bank will run core processes 30% faster and save millions of dollars annually with Appian.

Last customer example: A prominent US health insurer is undergoing a company-wide initiative to consolidate its tech stack and save $1 billion. It selected Appian two years ago to modernize its core applications and deployed a single application to unify its previously dispersed approval process for prescription fulfillments. In Q2, it signed a seven-figure software expansion deal to deploy Appian across its business, starting with Medicare and Medicaid enrollment.

Finally, I have one personnel announcement. Last month, David Crozier joined Appian as our new Chief Marketing Officer. David holds a deep understanding of enterprise software and AI and brings decades of experience leading marketing teams and scaling operations globally. I'm excited for him to join our team.

With that, I'll turn the floor over to Serge. Welcome, Serge!

Serge Tanjga, Chief Financial Officer

Thanks, Matt, and thank you everyone joining us today. Since this is my first earnings call as Appian CFO, I want to take a moment to share my reasons for joining Appian and the opportunity I see ahead.

- First, our product is great, which is reflected in our strong retention rates. I have consistently heard from our customers that they are happy with Appian and want to find ways to do more with our platform. That satisfaction is a great foundational asset on which to build the company.
- Second, Appian's AI value proposition resonates in the market. Enterprises are wary of AI hype and want to deploy this technology in ways that are safe, compliant, and most importantly, generate tangible value. Appian's focus on deploying AI agents within a process achieves just that.
- Third, Appian is focused on efficiency, as evidenced by an impressive improvement in profitability over the past 18 months. Since joining, I've seen the work done behind the scenes to improve our processes, systems, and execution. We are building a strong foundation that will help us drive efficient growth going forward.
- Finally and most importantly, Appian's culture deeply resonates with me. Appian's values are intensity and excellence, and those are also my personal values. This team is ambitious and wants to win, and I am excited to be a part of it.

Now let's turn to our Q2 results. Appian exceeded the guidance ranges we provided on our key metrics of cloud revenue, total revenue, and adjusted EBITDA. We had a strong quarter of new business signings, due to continued momentum at the high end of the market and AI demand, as Matt mentioned in his remarks. Cloud subscriptions revenue was $106.9 million, an increase of 21% year over year. Total subscriptions revenue was $132.7 million, an increase of 17% year over year. On a constant currency basis, total subscriptions revenue grew 14% year over year. Professional services revenue was $38.0

million, up 13% compared to the second quarter of 2024. As a reminder, services revenue can be variable quarter to quarter.

Subscriptions revenue represented 78% of total revenue, compared to 77% in the year ago period, and 81% in the prior quarter. Total revenue was $170.6 million, an increase of 17% year over year. On a constant currency basis, total revenue grew 14% year over year. Our cloud subscriptions revenue retention rate was 111% as of June 30, 2025, compared to 118% a year ago, and 112% in the prior quarter. Our international operations contributed 38% of total revenue, unchanged from the year ago period.

Moving down the income statement, I will discuss our results on a non-GAAP basis unless otherwise noted. Gross margin was 75%, unchanged from the year ago period, and down from 78% in the prior quarter. Our subscriptions gross margin was 87%, compared to 89% in both the year ago period and prior quarter. Professional services gross margin was 33%, compared to 30% in both the year ago period and prior quarter. Total operating expenses were $122.7 million, flat with $123.2 million in the year ago period.

Adjusted EBITDA was positive $8.1 million, versus our guidance of negative ($5) to negative ($2) million, and compared to an adjusted EBITDA loss of ($10.5) million in the year ago period. This outperformance relative to our guide was largely driven by greater than expected revenue, as well as timing of certain expenses, which we now expect to incur in the second half of this year.

Net income was $0.3 million, or breakeven per diluted share, compared to a net loss of ($18.2) million, or ($0.25) cents per share for the second quarter of 2024. This is based on 74.6 million diluted shares outstanding for the second quarter of 2025 and 72.3 million diluted shares outstanding for the second quarter of 2024. Turning to our balance sheet, as of the end of Q2, cash and cash equivalents and

investments were $184.8 million, compared with $159.9 million at the end of last year. For the second quarter, cash used by operations was ($1.9) million compared to ($17.6) million cash used by operations for the same period last year.

Turning to guidance, for the third quarter of 2025, cloud subscriptions revenue is expected to be between $109 and $111 million, representing year-over-year growth between 16% and 18%. Total revenue is expected to be between $172 and $176 million, representing year-over-year growth between 12% and 14%.

Adjusted EBITDA is expected to be between positive $9 and positive $12 million. Non-GAAP earnings per share is expected to be between $0.03 and $0.07 cents. This assumes 74.7 million fully diluted weighted average shares outstanding.

For the full year 2025, we are increasing our guidance for cloud subscriptions revenue, total revenue, and Adjusted EBITDA. Cloud subscriptions revenue is expected to be between $429 and $433 million, representing year-over-year growth between 17% and 18%. Total revenue is expected to be between $695 and $703 million, representing year-over-year growth between 13% and 14%.

Adjusted EBITDA is now expected to range between $49 and $55 million. Non-GAAP earnings per share is expected to be between $0.28 and $0.36 cents. This assumes 74.7 million fully diluted weighted average shares outstanding.

Our guidance assumes the following:

- First, we expect professional services to grow modestly on a year over year basis, for both Q3 and the full year.

- Second, we anticipate term license revenue to be flat on a year over year basis in Q3 and grow modestly for the full year 2025.
- Third, total other income and interest expense will be approximately $3.5 million in Q3 and $15.0 million for the full year 2025.
- Finally, our guidance assumes FX rates as of August 1st, 2025.

In closing, we're pleased with our Q2 results, and in particular with our ability to win new business. We're confident in the opportunity ahead and we'll continue to invest responsibly to maximize our long term value.

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