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PRESENTATION

Operator

Greetings and welcome to the Appian Corporation's Second Quarter 2017 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Staci Mortenson, Investor Relations.

Staci Mortenson

Thank you, operator. Good afternoon, and thank you for joining us today to review Appian's second quarter 2017 financial results. With me on the call today are Matt Calkins, Chairman and Chief Executive Officer, and Mark Lynch, Chief Financial Officer. After prepared remarks, we will open up the call to a question and answer session.

During this call, we may make statements related to our business that are forward-looking statements under federal securities laws and are pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995, including statements related to our financial results, trends, and guidance for the third quarter and full year 2017, the benefits of our platform, industry, and market trends, our go-to-market and growth strategy, our market opportunity and ability to expand leadership position, our ability to maintain and up-sell existing customers, and our ability to acquire new customers.

The words anticipate, continue, estimate, expect, intend, will, 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 the final prospectus related to our initial public offering and our other periodic filings with the SEC. These documents are available in the investor relations section of our website at www.appian.com.

Additionally, non-GAAP financial measures will be discussed on this conference call. Please refer to the tables in our earnings release and the investor relations portion of our website for a reconciliation of these measures to their most directly comparable GAAP financial measure.

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

Matthew W. Calkins - *Appian Corporation - Co-Founder, Chairman, CEO and President*

Thanks, Staci. And thank you all for joining us today on our first conference call as a public company.

Our IPO this May was an important event for Appian, particularly for the way it drew attention to our low-code market and to Appian as a low-code leader. As a result of this event, tens of thousands of people heard that it's possible to build their next unique application on a platform rather than in lines of code.

In the second quarter of 2017, Appian grew subscription revenue 38% year-over-year to $19.9 million. Subscription growth has been accelerating across three successive quarters, from 34% in Q4 to 36% in Q1 to 38% now. Our subscription revenue has tripled over the last two years.

Our non-GAAP gross profit in the second quarter was $27.9 million, a 65% margin versus the year-ago total of $18.9 million and a 58% margin. This dual trend of simultaneous rising gross profits and expanding markets expresses well our intention for the business. To be precise, that intention is to deliver elite level margins in both software and services, in this case 91% and 38% respectively, 91% for software, 38% for services, plus a beneficial mix shift toward software.

Appian has been highly successful on a per customer basis. We averaged $475,000 in revenue per customer in 2016, and nearly one-tenth of our subscription clients pay more than $1 million for our software on an annualized basis. We intend not only to expand within our existing customers, but also and specifically to gather more customers.

We added 23 net new subscription customers in the first half of 2017 versus 28 in all of last year. We will continue to focus on customer acquisition with prioritization of partners as a complement to our direct sales model, a published price list, and free trials of Appian software, the latter two of which are new this quarter.

These days every company needs to be a software company and build their own unique applications. Appian provides a platform that makes it easy to create, deploy, and use bespoke software. Applications built on our platform can be powerful and they can be created quickly. Powerful and quick, that's a combination that we believe no competitor can match.

The digital transformation trend has driven this demand even higher. Companies now seek to create unique relationships with their clients by means of new and unique technology. There is a large and growing gap between the worldwide demand for custom software and the limited number of people capable of making it. Appian addresses this gap by making applications much easier to create, thus multiplying developer productivity.

Low-code platforms like Appian can accelerate developers' speed by six to 20 times, according to use cases cited in a recent Forrester report. We believe our platform is at the top end of that range. 20 times means that a developer using Appian could create an application 20 times as quickly, or they could make 20 applications in the time that they otherwise would have created one. It's a revolutionary, and not an evolutionary, change.

We aim to make building an application as simple as drawing a picture. We think there's great demand for that concept, and every year we get closer to fulfilling it. We continue to focus on making our software more approachable and easier to use. Our platform now appeals to more users, customers, and applications because it has better UIs for the end user and allows developers to more quickly build powerful applications.

We demonstrated our ease of use advantage in a couple of key wins last quarter. We closed a deal at one of the fastest growing banks in the Middle East. The bank was able to build a production ready payroll servicing application in just three weeks, despite having no training or experience. This is relatively fast compared to industry norms, as you may know.

With this new application, they are now able to more quickly and accurately meet payroll for their customers as compared to their old manual process. Based on this success, the bank purchased Appian to facilitate its digital transformation to replace other manual processes with Appian.

We won another good deal at one of the top 20 mutual fund companies in the United States. They needed a platform to support their corporate digital transformation plan, including a modern client on-boarding application which was to be used to replace a manual process that required half a dozen departments to collaborate for up to six months to on-board each client. That doesn't sound too good. I'm sure they could do better.

Despite having a couple of competitors as incumbents at the company, they chose Appian because our low-code approach allows them to quickly build powerful applications with their existing internal resources instead of depending on external experts.

As these examples support, our goal is to remain so intuitive, so productivity enhancing, and so differentiated that we are the clear choice of any company building unique applications and processes.

So far this year, we've launched two meaningful technology partnerships with MuleSoft and Blue Prism, MuleSoft for data connectivity, Blue Prism for robotic process automation, or RPA, which is one of the most demanded technologies for use in complement with Appian. In each partnership, we have in-production client successes, in addition to the tech cooperation and the co-marketing.

Last month we deepened our relationship with Blue Prism further and launched a new product offering called Appian RPA with Blue Prism. It brings together leading low-code application development and BPM and robotic workforce software for the first time from a single vendor. This offering builds on our already well established partnership while giving organizations a one-stop shop for enterprise automation with the highest levels of auditing, security, and scalability.

Appian's approach to tech partnerships is to remain open and facilitate and support the customer's choice of complementary technologies. We let our customers pick best of breed. We may create a partnership with a leading vendor or two, but we think openness is a big edge between us and some of our competitors, who tend to be locked into one partner or product, often through acquisition. We consider Appian best of breed, and we cater to buyers who prefer the best of breed approach.

I'll mention a few other initiatives that had an impact in Q2. We increased our international investment by opening a Swiss office. We hired some senior leadership in EMEA. Our past international investments are bearing fruit internationally, as shown by Q2 international revenue rising year-over-year from 19% of global revenue last year to 25% of global revenue this year. We also signed up three of the top five Spanish banks as customers since establishing our operations in Spain just nine months ago.

Last quarter we also established two programs to increase lead generation and reduce friction in our sales cycle. First, we launched a free online trials program, giving prospects the ability to provision a custom Appian experience on our cloud. Second, we published pricing on our website. Both these initiatives allow prospects to more effectively and quickly determine whether our platform is a good fit for their needs.

We're building stronger partnerships with global system integrators. Several global partners have practices on our software and refer new accounts to us. Notably, PwC referred and helped us win one of Europe's five largest banks as a new customer. The customer wanted an application that would link their anti-money laundering teams around the world.

And with the help of PwC, Appian beat half a dozen competitors in three rounds of evaluations. In the final round, Appian's two-person team was able to complete the proof of concept in one week, less than one-fifth of the development time needed by the other competitor.

Appian was selected due to our ability to build powerful applications quickly. This is why we win again and again. But the strength of our PwC partnership was also essential. Half of the new customers we acquired last quarter were influenced by our partners.

Our focus on new logo acquisition didn't distract us from our current customers. We also closed some large expansion deals, including million dollar deals at one of the world's top five defense contractors, one of the top five largest investment banks, one of the five largest pharmaceutical companies, and the fourth largest public university in the United States.

That institution, the University of South Florida, is an interesting case study in expansion. Over their first 17 months as an Appian customer, they automated processes for their College of Public Health students and 15,000 employees. Now they plan to use our platform university wide to enable every applicant, student, faculty, and staff, a total of 150,000 licensed users.

We also expanded our relationship with one of the world's top five largest investment banks. The customer initially engaged with us to roll out a new product division on our platform. They were able to build that business from scratch in less than six months. Because of their success with Appian, the firm expanded their licenses last quarter from several hundred users to several thousand across multiple countries. This additional purchase will allow them to innovate by launching an international arm of the new product division to develop new financial products.

Our customers like our value proposition, and they often buy more. Customers who've been with us since before 2014 have expanded, on average, 7 times from their initial purchase to last year. Even better, the top 25 customers purchased 13 times as much as they did in their first buy.

In conclusion, we are disrupting and reinventing one of the biggest areas of IT spend, that of custom software. We have a proven market, but we're only touching a corner of that potential. Where we do touch the market, we create value. We're finding ways, new ways now, to reach customers and expand within our existing clients.

We're making investments to build our sales force globally and leverage our partners to expand our reach, so I'm optimistic about Appian's future. We've got a good team and a great product pursuing a big market.

With that, let me turn the call over to Mark to walk you through the financials. Mark?

Mark Lynch - *Appian Corporation - CFO*

Thanks, Matt. I'd like to reiterate that we are pleased with Appian's financial performance in our first quarter as a public company. Before discussing the details of results, I wanted to start with an overview of the four key aspects of our financial profile, as this is our first call with the investment community.

First, we primarily have a subscription-based model which provides us with a high level of visibility into future revenue. Second, as demonstrated by our 38% year-over-year increase in Q2 subscription revenue, we have a consistent strong growth track record. Third, our sales and customer success model is highly effective. We have strong subscription revenue retention rates, a proven ability to expand our customer relationships, and highly attractive customer economics with an LTV to CAC ratio that has exceeded 6 over each of the past three years. And fourth, we have high gross margins that provide us with significant operating leverage as our subscription revenue mix continues to scale over time.

Let me provide a bit more color on the components of our revenue and typical pricing and billing terms. As I mentioned earlier, we have a recurring subscription-based software revenue model. 98% of our 2016 and 99% of our year-to-date 2017 software revenue was subscription-based. The very small remaining percentage of our software revenue was related to perpetual licenses.

Whether the customers chose to deploy our platform in the cloud, on premises, or in the hybrid cloud environment, it's a subscription agreement and our pricing methodology is generally the same. Our contracts are usually priced on a per user basis, and they typically range from one to five years, with three years being most common. This provides us with a high level of predictability and visibility into this revenue stream.

With respect to our billing terms, the majority of our customers invoice on an annual upfront basis. However, we also have some large customers that are billed quarterly and others that are billed monthly. As such, it is important to understand that changes in our deferred revenue are not always indicative of the momentum in the business.

As it relates to professional services, we typically price on a time and materials basis, which enables us to have solid control over our services margins.

Now let's go over the second quarter results. Subscription revenue was $19.9 million for the second quarter, or growth of 38% year-over-year. This represents an increase of 36% year-over-year growth last year and 34% in the fourth quarter of 2016, in the last quarter -- and 34% in the fourth quarter of 2016.

We believe our subscription revenue growth is the most relevant revenue metric when evaluating the momentum of our business and market share gains. Our total subscription software and support revenue for the quarter was $22 million, an increase of 27% year-over-year.

Professional services revenue in the second quarter was $21.2 million compared to $15.1 million in the prior year period. During the second quarter of 2017, our professional services revenue benefitted from the pace of new and expansion software deals signed in the prior two quarters. Professional services revenue for the first half of 2017 was $38.1 million versus $35.5 million in the prior period, an increase of 7% year-over-year.

Drilling down further, our services revenue declined by 17% in the first quarter of 2017 and it grew by 40% in the second quarter. We often have a high level of quarter-to-quarter variability in our services revenue due to the timing of engagements which can be large at times.

From a strategic perspective, our goal is to pass a growing amount of professional services business to our systems integrator partners. Our focus from a professional services perspective is to enable successful deployments of our software, which leads to the type of significant customer expansions that Matt described earlier.

In fact, as we disclosed in our prospectus, the median subscription component in our revenue mix rises from 44% in year one of a new customer relationship to 77% in year two to 90% in year three, demonstrating our belief that professional services leads to increases in subscription revenue over time.

While there will be quarter-to-quarter fluctuations, our expectation remains that services will grow slower than subscription revenue on an annual basis, such that over the long term we believe that subscription revenue will make up 80% or more of our total revenue.

During the first half of 2017, subscription software support represented 53% of our total revenue, which was up from 48% in the prior year period. Total revenue in the second quarter was $43.2 million, up 33% year-over-year. Our subscription revenue retention rate was at 120% for the second quarter, which was up from 117% for the first quarter 2017 and 112% in Q4 2016.

This metric demonstrates the fact that overall our customers expand their use of our platform as they realize the value from our software. The range of our net revenue retention rate metric was 112% to 122% over the past year, and we expect that this metric will vary quarter-to-quarter based on the timing of larger deals within our customer base.

Now let me turn to our profitability metrics. Before getting into the details, I wanted to point out that we incurred a $9.3 million non-cash stock compensation charge as a result of our IPO. Prior to the IPO, we did not expense our stock options, since one of the vesting requirements required the occurrence of a qualifying event, defined as either a change in control transaction or the completion of an IPO. For comparative purposes, in analyzing our margins I will be using the related expenses prior to the $9.3 million charge. For a detailed breakout of the charge, please refer to Footnote 6 in our recently filed Form 10-Q.

On a non-GAAP gross margin -- our non-GAAP gross margin was 65% compared to 58% in the same period last year. We expect our total gross margin will increase over time, as our higher margin subscription revenue grows at a faster rate than services.

If we look at the two different components of our gross margin, you will see that they are elite. Subscription software and support non-GAAP gross margin was 91% for the second quarter compared to 89% in the second quarter of 2016. Our non-GAAP professional services gross margin for the second quarter was higher than typical at 38%.

Total non-GAAP operating expenses were $33.4 million, an increase of 43% from $23.4 million in the year-ago period, principally because we grew sales and marketing and R&D faster than revenue to fuel our strong momentum.

Sales and marketing was 47% of revenue in the second quarter, up from 43% of revenue in the year-ago period. With our powerful customer economics and strong subscription revenue retention, we believe it's important to ramp investments in sales and marketing. We're in the early stages of realizing the payback in these investments, but subscription revenue growth has accelerated the last two quarters, and we have growing momentum in the field that we expect to benefit from in the future.

R&D was 18% of revenue in the second quarter, up from 16% of revenue in the year-ago period. We are highly focused on maintaining and extending our innovation leadership, continually increasing the power and speed of our platform. As a result, we will continue to aggressively invest in our R&D function. We believe this will lead to a continued enterprise migration from custom code practices to Appian's platform as a service.

While G&A reduced as a percentage of revenue from 13% in the year-ago period to 12% in the second quarter, we would expect G&A to increase modestly as we take on the additional costs of being a public company.

Non-GAAP loss from operations was $5.5 million compared to a non-GAAP loss from operations of $4.5 million in the year-ago period. As you know, foreign exchange gains and losses can fluctuate. During the quarter, we had $1.5 million of foreign exchange gains compared to $0.6 million of foreign exchange losses in Q2 of 2016. Our guidance does not consider any additional potential impact to financial and other income and expense associated with foreign exchange gains or losses, as we do not estimate movements in foreign currency exchange rates.

Non-GAAP net loss was $4.4 million for the second quarter of 2017, or a loss of $0.08 per basic and diluted share, compared to non-GAAP net loss of $4.1 million, or a loss of $0.08 per basic and diluted share for the second quarter of 2016. This is based on 55 million and 52.4 million basic and diluted shares outstanding for the second quarter of 2017 and the second quarter of 2016 respectively.

Turning to our balance sheet, as of June 30 we had cash and cash equivalents of $77.7 million compared with $31.1 million as of December 31, 2016. This is inclusive of $77.8 million in net cash raised during our IPO. As we disclosed in our S-1, part of the proceeds from the IPO were used to repay our $20 million term loan and to pay a $7.6 million dividend to our Series A investors.

Total deferred revenue was $72.8 million, up 31% year-over-year and 2% sequentially. All the sequential growth in deferred revenue was in short term deferred, while our long term deferred declined by a little over $1 million, as we only had a couple of very small deals in the second quarter in which we billed multiple years on an upfront basis.

Moving on, during the first six months of 2017 we had negative $5.8 million in cash flow from operations, an improvement compared with negative $12.3 million in the prior year period.

Now turning to guidance, for the full year 2017 subscription revenue is expected to be in the range of $80.4 million and $80.8 million, representing a year-over-year growth of between 34% and 35%. Total revenue is expected to be in the range of $162.3 million and $163.5 million, representing year-over-year growth of between 22% and 23%.

Non-GAAP loss from operations is expected to be in the range of $28.4 million and $27.4 million. Non-GAAP net loss per share is expected to be in the range of $0.48 and $0.46. This assumes 57.5 million non-GAAP basic and diluted commons shares outstanding.

For the third quarter of 2017, subscription revenue is expected to be in the range of $20.1 million and $20.3 million, representing year-over-year growth of between 31% and 33%. Total revenue is expected to be in the range of $40.4 million and $41.1 million, representing year-over-year growth of between 32% and 34%.

Non-GAAP loss from operations is expected to be in the range of $9.6 million and $9.1 million. Non-GAAP net loss per share is expected to be in the range of $0.16 and $0.15. This assumes 60.2 million basic and diluted common shares outstanding.

In summary, we are addressing a substantial TAM, we have a disruptive offering, and our momentum in the market continues to grow.

And we'll now turn it over to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Sanjit Singh of Morgan Stanley.

Sanjit Kumar Singh - *Morgan Stanley, Research Division - VP*

I just had a couple of questions, the first one related to your hiring plans. This is going to be a year where you guys are expected to really fuel investments in sales and marketing. Matt, you talked a little bit about your international initiatives. But just in terms of hiring, were you able to meet plan this quarter? And if you weren't, do you expect to be on target for 2017?

Matthew W. Calkins - *Appian Corporation - Co-Founder, Chairman, CEO and President*

Our hiring is operating as we wish it to. We're on our plan. The recruiting department is doing great. We expect that we'll be able to fulfill our plans.

Sanjit Kumar Singh - *Morgan Stanley, Research Division - VP*

And then I guess maybe on a more strategic level question, some of the players in this space, you can take a ServiceNow or Salesforce.com, are really in -- when they talk about their long term opportunities, they're talking about automating workflows, automating service opportunities across the IT department and among business departments. I wanted to get your view of where is it that Appian plays. What type of workflows are up for grabs for you guys versus someone like a ServiceNow, or are all of you guys going after the same opportunities?

Matthew W. Calkins - *Appian Corporation - Co-Founder, Chairman, CEO and President*

Yes. Well, I could draw it in Venn diagrams for you, but let me try to put it in a simple explanation. I think we could absolutely address workflows and processes, be they simple or complex. Appian's specialization lies in being able to automate something complicated in a simple way. We will minimize how much work it takes to instantiate that new process, to execute that new process, to upgrade and modify that process, and also, as the user, to engage with that process.

We're trying to take a complex, sophisticated, and important application, or process if you prefer, and make it extremely easy to make it real. Our competitors, and they include the ones you mentioned but they include others as well, may be able to make you a simple thing. But if you want to create a complex application, they won't be able to do that as simply as Appian technology can do it.

We've been doing this for a long time. This market is our home. And I believe we've achieved a degree of capability in the simplification of creating complex processes that right now nobody else in this market can match.

So, their presence in the market -- the market's got a lot of opportunity, a lot of growth here. There's plenty of upside. But I think in a way they're helping us by creating some commotion, creating some interest around low-code or around workflow or process automation. I believe that the additional publicity and higher profile is a good thing for Appian, and it allows customers who are feature sensitive to first realize that this market exists and then to explore their options within the market. Some of those customers are going to find that trail leads right to Appian.

Sanjit Kumar Singh - *Morgan Stanley, Research Division - VP*

Mark, I wonder if you could update us on the renewal rate that you saw this quarter. It seemed like you guys were consistently doing 95% plus, so wondering if you could update us on that. And then secondly, on the gross margin improvement this quarter, specifically on the software side, what are the factors that are driving that 90% plus gross margin? Is that just scale impacts or there's something else going on there?

Mark Lynch - *Appian Corporation - CFO*

Well, if you look at it historically -- I'll take your second question first. If you look at it historically, the software margins have been historically around 90%. There's really two components. We have our on-prem subscription licenses, which consist of the term licenses along with maintenance, and then you also have the cloud.

And if you break out those two components, the cloud margins are in the high 80%'s, and then the on-prem margins are in the low 90%'s, which gets you to the 89% to 90% and to 91%. It kind of bounces around a little bit, but they're been very consistent over the past several years.

One of the benefits that we've found is that our code base is identical for being in cloud or on-prem. And it allows us to have a very small team that can take care and update the code, and we don't need a ton of people to do it. So, we're very good at that.

On the other question, could you refresh my memory?

Sanjit Kumar Singh - *Morgan Stanley, Research Division - VP*

Renewal rate.

Mark Lynch - *Appian Corporation - CFO*

The renewal rates, if you look at it historically in the prospectus, I think the last time we talked about it was 98%, and our renewal rates are very strong. We're basically planning on talking to the renewal rates on an annual basis. But let me just say that for Q2 it was very strong, as you can see by the 120% net revenue retention rate.

Operator

Our next question is from Raimo Lenschow of Barclays.

Raimo Lenschow - *Barclays PLC, Research Division - Director and Analyst*

Matt, can you talk -- one of the kind of benefits of being a public company is that your recognition in the industry is going up. And that was kind of I guess one of the reasons to go public. As I listen to the momentum you had this quarter with kind of some of the larger accounts and larger banks, is that already driven by that? And if not, then do you expect that to be kind of a factor in the coming quarters?

Matthew W. Calkins - *Appian Corporation - Co-Founder, Chairman, CEO and President*

Yes, I agree with you that increased legitimacy and higher profile are some of the big reasons to do an IPO and certain some of the big reasons why Appian chose to do an IPO.

Of the large deals that we inked in the second quarter, I would attribute little to none of that to the IPO event. We have a long sales cycle, and there isn't time to have the IPO, impress somebody, and close a deal in this quarter.

But I will say not only are we coming to the attention of more customers, which is great, and not only is our market coming to the attention of more customers, but it also helps us come to the attention of potential employees in the Washington, D.C. area. And that's been really advantageous. And it's a mark of legitimacy that compels systems integrators to take our concept and our company more seriously. So, we are trying to advance on all fronts with regards to the profile benefits that obtain in the wake of an IPO.

Raimo Lenschow - *Barclays PLC, Research Division - Director and Analyst*

And to follow up on the international expansion, Matt, if you look, at a lot of U.S. companies that went into Europe had to try the partner model or tried a very country-focused model. And most of them started in the U.K. and then never really got much out of it. You've talked a lot of success in, for example, Spain already. What's your model and how are you trying to drive that going forward? Because obviously the opportunity is huge considering kind of how small you still are there.

Matthew W. Calkins - *Appian Corporation - Co-Founder, Chairman, CEO and President*

Yes. I would say there's a bit of an Appian model, so I'll walk through some of the basics of it. I believe that it doesn't make sense to enter a new market unless you can enter it with critical mass. Critical mass means a support network, a team on the ground, the ability to create a level of reputation and awareness amongst possible buyers that would lead them to you.

I and we don't believe in putting one person in-country and having them build a partner network and hope that that's going to go somewhere. We don't arrive but what we arrive in force. And I think that that may have something to do with our success in Spain, but we try to play that out everywhere we are. We're doing that in Italy, in Switzerland, Germany, France, of course the U.K., which was our first European office, as per your example. But that is our model, and it will continue to be as we expand in the future.

Operator

Our next question is from Jesse Hulsing of Goldman Sachs.

Jesse Wade Hulsing - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Matt, I have kind of a longer term question about your philosophy of investing versus showing margins over time. Historically, you've kind of run this business around break-even, and then you ramped investment as you kind of ran towards the IPO and I think your underlying market took off. How do you think about investment versus margin expansion? And I guess as a follow up, how are you thinking about leverage over I guess the medium term?

Matthew W. Calkins - *Appian Corporation - Co-Founder, Chairman, CEO and President*

Okay. First of all, you're absolutely right. We've been through a long bootstrap phase in which we covered our own expenses, and I think we're a lot stronger for it. For the majority of the history of Appian, we've had a relatively low profile and not much cash to spend. And we encountered this market and we found that we had an ideal offering for this market.

And so we have, as a result of that, found ways to increase our profile and our spending commensurate with the opportunity and timing the moment. So, coming out of the IPO, we obviously see some of that opportunity, even leading into it, as you pointed out.

Now, we believe that we should spend -- we should invest proportional to the opportunity, which is not the same as the revenue growth, but it's indicated by revenue growth and by some other factors as well. And when we ramp up spending, it's in reflection of that opportunity.

So, for example, take the fact that our OpEx is slightly increasing in the second half relative to prior. That is a reflection partly of our outperformance relative to internal estimates in the quarter just completed. But it is also a more nuanced take on the state of the market and the state of the opportunity as it's shaping up for us.

So, we look, for example, at the fact that our net revenue retention rose to 120%, up from 117% and up from 112% in the prior two quarters. We look at our margins, up to 38% from 36% last quarter, 34% two quarters ago. We're seeing this rising of the market, the receptivity, for example the rising demand for Appian professional services and the relative price insensitivity that you see in the 38% margins we delivered on our services, or for that matter the international growth, up to 25% of global revenue.

We see a lot of green lights. And everything we do -- we're not going to be dramatic, right? We're going to be deliberate and careful here. But we see a potential to diversify our strategy. Here in the past, Appian focused on maximizing the amount of value we could show that we delivered on a per customer basis. And you see that we demonstrated that in spades, in my opinion.

We have a very high per customer revenue, per customer annual value. A very high percentage of our customers are million dollars annual value customers. So, I feel like Appian did very well extending along the dollar per customer axis. But coming out of the IPO, we see the opportunity to extend also on the number of customers axis. And that is a function partly of money in addition to being partly profile, legitimization, right, access to partners, that sort of thing.

You'll see us expanding now on both axes. And I think part of our core strategy in Q2 and going forward was to think about both axes equally, whereas in the past we would have thought only about the first one. So, that does involve an investment and an outlay, but it wouldn't be being made did we not see all these indicators lining up and showing that this business proposition looks very good.

So, when we make investments like this and when we tweak them in the positive direction, it's a vote of confidence in the business plan, in the offering, in the market receptivity. That's how I'm seeing it. We're going to play this quarter by quarter. We are taking very close soundings of how the market responds. But these are the things that go into our thought process when we choose to make that investment decision.

Operator

Our next question is from Ben McFadden of KeyBanc Capital Markets.

Benjamin J. McFadden - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

Matt, I wanted to start with just kind of a question around -- you've talked a lot about sort of citizen developers, but I wanted to ask a question kind of as we think about growth of the platform of different users, you have power users, you have maybe less sophisticated internal users, and external users as well. Kind of how should we be thinking about the growth that you're seeing across these different personas?

Matthew W. Calkins - *Appian Corporation - Co-Founder, Chairman, CEO and President*

Right. Thank you for that question. I love questions like this because the long term vision is interesting and it'll be interesting to see how we evolve into it.

I believe that there's potential in the long term to bring a lot more development capability to the non-developer, to democratize the specification of processes and software. But for the most part, that's not where we are today.

Our job is to increase -- today our job is to increase the productivity of the developer, of the IT employee so that their development hour goes further than it used to. Every IT department's got a major backlog. We mean to help them work that off.

Every IT product developed tends to be developed and abandoned. We mean to give them enough time so they can develop it and then return to it and upgrade it and sustain it and modify it according to changes in strategy or circumstance, to create living objects where otherwise they would have made dead objects. These are the first stages in the easy software revolution, as it were.

We are already touching non IT developers for certain, but we do it in a way that empowers them to follow on the coattails of the developers who have to go first. The developers go first and they create all the objects out of which an Appian application will be built. And you can think of that as like a tray of LEGO bricks or building blocks. And then the citizen developers, the non IT employees, are at liberty to assemble those blocks into applications, very simple applications, of course.

And by virtue of the fact that they were made of the blocks that were built by IT, they're really part of a centralized whole instead of being separate and isolated fringe applications, which is typically what happened if you empowered non IT developers to make their own applications. Those would be incompatible and alienated from central IT systems.

So, that is our step one, to broach the wall that's kept non-developers from being useful at all or contributing at all to the common development of logical systems. But this has to be done in baby steps, and you've got to be so careful about not letting non-developers run amok. There's so many things that can go wrong.

You give the non-developer the power to build software, and pretty soon they've brought down your system or eaten up all your memory or misdefined a key variable, or built something that's fundamentally at odds with other systems or something that constrains data into its silo and doesn't share it more broadly. We're taking a cautious step to incorporate all of the energies of non-developers in a way that still centralizes and makes safe their efforts at process creation.

So, that's the delicate balance we're trying to strike today. And we'll continue to innovate new ways to get every voice to be productive in the creation of unique software.

Benjamin J. McFadden - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

And then, Mark, I wanted to follow up on the thought process around these new sales rep hires. You're hiring at a decent page, and that seems to be showing up in net new subscription deals. But I'm just curious, underneath the covers a bit, as we look at sales rep productivity, how well new sales reps are ramping up from a productivity standpoint. And what's the productivity like with the more mature existing reps? And has that changed relative to just the maturity of the company, or have the new sales reps potentially changed the productivity of the mature base? Just any color on that would be great.

Mark Lynch - *Appian Corporation - CFO*

Okay. Basically we've been -- over the past couple years, we've been fine-tuning the sales engine, and then particularly looking for and identifying the type of salespeople that are successful here. And what we've identified in the past couple years is that sales athletes -- people from ServiceNow, people from Salesforce, etc., coming in here and being able to sell complicated processes and applications are much more successful and are doing much better than historically a few years ago we tried to hire people out of different companies that had point solutions. And they were used to selling things from -- certain widgets, and they just didn't do well.

So, we learned to basically identify the right type of sales reps. And as you can see from the results that are starting to materialize here, especially from the significant investment we put into 2015 and 2016 is starting to bear fruit. And so, we're very optimistic about where we're headed. Obviously, you can see in the results in the first half of the year we're continuing to invest in the sales and marketing engine. And we're very optimistic that the momentum will continue to play itself out over the next couple years.

Matthew W. Calkins - *Appian Corporation - Co-Founder, Chairman, CEO and President*

One of the things we're focused on here is accelerating the time to productivity for salespeople. And we're doing some interesting managerial experiments in order to facilitate that. But acceleration is a theme for us as we pass the midpoint in this year.

We're trying to accelerate the speed at which we can place a new deal, which is to say the sales cycle. We're trying to accelerate the speed at which a salesperson can become fully productive and equally likely to sell the next big deal as a more experienced rep. We're trying to accelerate above all the time it takes for a customer to get value out of our product, because the shorter that is the more addictive and viral the product becomes. You take away that period of uncertainty.

I think that accelerating these key delay cycles will be terrific for the expansion of our business and the proving of our value proposition. So, that was one of our primary areas of focus at our most recent executive retreat.

Operator

(Operator Instructions) Our next question is from Gregg Moskowitz of Cowen & Company.

Gregg Steven Moskowitz - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Matt, from a user productivity standpoint, can you talk about the new or relatively new user interface and just how the uptake of that has been tracking?

Matthew W. Calkins - *Appian Corporation - Co-Founder, Chairman, CEO and President*

Sure. We're excited about changing our interface. Let me give you more of the history here. You roll the clock back a couple of years, and Appian had one interface. And that one interface was good for power users. It gave you a very broad view of all the data, all the interactions, all the activities going on in your combined set of applications at the given moment.

That appealed to a certain kind of user, but we believed that it would be good for our ability to grow if we appealed to users who didn't want all that distraction. And so, we spent the last few years, maybe it was two to three, innovating new ways to reach single purpose users.

And throughout all this period, by the way, we've kept equal attention on the mobile. So, we've had very strong mobile interfaces, and they've run natively on all major devices throughout this entire transition.

But we have put emphasis into a new interface which we call Sites, which essentially looks like a single page. And there's very little navigation component on it. You're just looking at your one dashboard. And you've got a couple of other pages you can go to, but it keeps you very focused.

And it's great for users who don't have time to get training, who don't care about other things going on, who maybe even shouldn't get distracted by the conversations and the alternative themes that are bouncing around the business today.

This, I predict, will become our most popular interface. It is not yet. Right now what we see is most of the Appian users -- and I can measure it, by the way, far better for our cloud users, not so much for our subscription on-premise users. But speaking of our cloud users, we find that most of them have already built such an interface, and about one-third of them have it in production. This is my recollection. That statistic is not entirely fresh. It's probably around the turn of the year.

So, we know that adoption is happening. And that was before a major upgrade that we rolled out at Appian World this year. And really in Q1 this year, but formally announced at Appian World, which was to upgrade the look and feel of both the simple interface and the more complicated interface with a new set of technology that looks far more appealing.

Now, I'm a zealot for simplicity, so I wanted an elegant interface. And I think this upgrade is going to make it much more compelling. Users are going to want to use this. They're going to enjoy using it. It'll spread better throughout an organization. We'll get better uptake. And of course, the more users pile into an Appian application, the more valuable it is for everybody. We really believe in that critical mass.

So, we're making efforts to reach out and try to include every user we can, no matter what their usage pattern, their level of training, their interest in multiple topics, their device of choice. Our goal is to be appealing to every kind of user because we know that every one of them is going to add value to every other one.

Gregg Steven Moskowitz - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

A question for Mark as well. So, over each of the last three quarters, we've seen professional services gross margins in the high 30%'s, which obviously is well above industry average. And I suspect you may be loathe to rely on that continuing, but the improvement over these three quarters is certainly not trivial. So, wondering if you can give us your latest thoughts on services margin going forward.

Mark Lynch - *Appian Corporation - CFO*

I think going forward -- these are exceptionally high even for our standards. So, I would look at historical rates in kind of the 30%, low 30%'s, as being something more enduring, if you will. Right now we're enjoying these high margins, but I think over time you probably want to not model those out.

Operator

Our next question is from Richard Davis of Canaccord.

Richard Hugh Davis - *Canaccord Genuity Limited, Research Division - MD and Analyst*

So, where are you guys in terms of kind of attending machine learning kind of data ingestion and workflow routines so you can run logistic regressions on both a supervised and unsupervised basis?

Matthew W. Calkins - *Appian Corporation - Co-Founder, Chairman, CEO and President*

Yes, that's right. As you know, we announced our integration into machine learning. And we did that for Amazon and for Google at Appian World last quarter.

We're serious about not just bringing the fruits of machine learning to our users, but also, and this is the critical bit, making it easy. We know that there are a lot of people who wish they were doing machine learning and AI who aren't because it's too complex because it's too raw. Appian's goal is to bring the power of that to the casual developer, to the non-expert, and still make it useful.

We demonstrated that. We've built applications in public that show how easy that is. And our goal -- I said democratize earlier in this call. I must say again we're here to democratize technology. We're going to take AI and make it approachable. And we're going to allow you to chose the AI that you want and plug into it quickly and upload a dataset, get value right away. This has immediate applicability.

This is useful in call centers recommending actions. This is useful predicting need. This is something that we're really excited about. I know everybody's talking about AI, and I even joked last quarter that if you don't feature AI at your annual conference you don't get to be a software company anymore.

So, there's a bit of me-too in this market, but we mean to do something fundamentally different from what everybody else is doing. We're not going to write AI. We're going to incorporate it. We're not going to make it for PhDs. We're going to make it for regular developers. Our intention

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is to make AI approachable and productive, and I think that would be something of a breakthrough right now in what is a very popular topic, but one which is not broadly in use.

Richard Hugh Davis - *Canaccord Genuity Limited, Research Division - MD and Analyst*

And would you connect in or are you going to create your own versions of Octave and MATLAB in that scenario?

Matthew W. Calkins - *Appian Corporation - Co-Founder, Chairman, CEO and President*

No, no, we don't mean to create our own versions. We're connecting. This is a wonderful time to be connecting and harvesting the fruits of large companies' innovation. We mean to bring that to our customers, not to write it ourselves. So, we'll stick with that strategy.

Operator

Ladies and gentlemen, we have reached the end of the question and answer session. I would like to turn the call back to Matt Calkins for closing remarks.

Matthew W. Calkins - *Appian Corporation - Co-Founder, Chairman, CEO and President*

Well, I just want to say thank you all very much for your interest. Have a good evening.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.
