



AppFolio, Inc. Announces Third Quarter 2024 Financial Results

October 24, 2024

*Q3 revenue grows 24%
Company announces acquisition of LiveEasy as part of its expanded resident vision*

SANTA BARBARA, Calif., Oct. 24, 2024 (GLOBE NEWSWIRE) -- AppFolio, Inc. (NASDAQ: APPF) ("AppFolio" or the "Company"), a technology leader powering the future of the real estate industry, today announced its financial results for the third quarter ended September 30, 2024.

"Our results reflect relentless customer focus and strong execution of our strategy," said Shane Trigg, President and CEO, AppFolio. "With our next-generation resident application, FolioSpace™, we are redefining how property managers and residents connect, and demonstrating our commitment to investing in innovation that builds the platform where the real estate industry comes to do business."

Financial Highlights for Third Quarter of 2024

- Revenue grew 24% year-over-year to \$206 million.
- Total units under management grew 9% year-over-year to 8.5 million.
- GAAP operating income was \$43 million, or 20.7% of revenue, compared to an operating loss of (\$0 million), in Q3 2023.
- Non-GAAP operating income was \$59 million, or 28.7% of revenue, compared to an operating income of \$27 million, or 16.1% of revenue, in Q3 2023.
- Net cash provided by operating activities was \$58 million, or 28.1% of revenue, compared to \$37 million, or 22.2% of revenue, in Q3 2023.
- Non-GAAP free cash flow was \$56 million, or 27.1% of revenue, compared to \$34 million, or 20.3% of revenue, in Q3 2023.

Business Highlight

- AppFolio acquired LiveEasy, a concierge platform providing moving and home services throughout the resident onboarding process. These services will be integrated into FolioSpace, AppFolio's next-generation resident application.

Executive Management Transition

- Fay Sien Goon, the Company's Chief Financial Officer, will depart AppFolio as of October 25, 2024. The Company has commenced a search for a successor to Ms. Goon and will consider internal and external candidates. Pending the appointment of Ms. Goon's successor, AppFolio has appointed Tim Eaton as the Company's interim Chief Financial Officer, effective October 25, 2024. Mr. Eaton has served as the Company's Chief of Staff to the Chief Executive Officer since 2022, and in various other leadership roles within the Company since 2020.

Financial Outlook

Based on information available as of October 24, 2024, AppFolio's outlook for fiscal year 2024 follows:

- Full year revenue is expected to be in the range of \$786 million to \$790 million.
- Full year non-GAAP operating margin as a percentage of revenue is expected to be in the range of 24.5% to 25.5%.
- Full year non-GAAP free cash flow margin as a percentage of revenue is expected to be in the range of 22% to 24%.
- Diluted weighted average shares outstanding are expected to be approximately 37 million for the full year.

Conference Call Information

As previously announced, the Company will host a conference call today, October 24, 2024, at 2:00 p.m. Pacific Time (PT), 5:00 p.m. Eastern Time (ET), to discuss the company's third quarter 2024 financial results. A live webcast of the call will be available at: <https://edge.media-server.com/mmc/p/56effhwx>. To access the call by phone, please go to the following link: <https://register.vevent.com/register/B10592d6d11ce14a179afe199e2d07039c>, and you will be provided with dial in details. A replay of the webcast will also be available for a limited time on AppFolio's Investor Relations website at <https://ir.appfolioinc.com/news-events/events>.

The Company also provides announcements regarding its financial results and other matters, including SEC filings, investor events, and press releases, on its Investor Relations website at <https://ir.appfolioinc.com/>, as a means of disclosing material nonpublic information and for complying with AppFolio's disclosure obligations under Regulation FD.

About AppFolio

AppFolio is a technology leader powering the future of the real estate industry. Our innovative platform and trusted partnership enable our customers to connect communities, increase operational efficiency, and grow their business. For more information about AppFolio, visit ir.appfolioinc.com.

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Use of Non-GAAP Financial Measures

Reconciliations of current and historical non-GAAP financial measures to AppFolio's financial results as determined in accordance with GAAP are included at the end of this press release following the accompanying financial data. For a description of these non-GAAP financial measures, including the reasons management uses each measure, please see the section of the tables entitled "Statement Regarding the Use of Non-GAAP Financial Measures."

AppFolio is unable, at this time, to provide GAAP equivalent guidance measures on a forward-looking basis for non-GAAP operating margin and non-GAAP free cash flow margin because certain items that impact these measures are uncertain, out of our control, or cannot be reasonably predicted, such as charges related to stock-based compensation expense. The effect of these excluded items may be significant.

Forward-Looking Statements

This press release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements are subject to considerable risks and uncertainties. Forward-looking statements include all statements that are not statements of historical fact contained in this press release, and can be identified by words such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "future," "predicts," "projects," "target," "seeks," "contemplates," "should," "will," "would" or similar expressions and the negatives of those expressions. In particular, forward-looking statements contained in this press release relate to future operating results and financial position, including the Company's fiscal year 2024 financial outlook, anticipated future expenses and investments, the Company's business opportunities, the impact of the Company's strategic actions and initiatives, the potential benefits and effect of the FolioSpace resident app and the acquisition of LiveEasy and their impact on the Company's plans, objectives, expectations and capabilities.

Forward-looking statements represent AppFolio's current beliefs and expectations based on information currently available and speak only as of the date the statement is made. Forward-looking statements are subject to numerous known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. The risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to materially differ from those expressed or implied by these forward-looking statements include the Company's ability to successfully launch the FolioSpace resident app and integrate the LiveEasy business, the Company's ability to implement its plans, objectives and expectations with respect to the FolioSpace resident app and the LiveEasy business, negative effects of the announcement of the FolioSpace resident app and/or the Live Easy acquisition on the Company's business operations, operating results or share price, and unknown liabilities associated with the acquisition as well as those risks, uncertainties and other factors described in the section entitled "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023, which was filed with the SEC on February 1, 2024, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's most recently filed Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as well as in the Company's other filings with the SEC. You should read this press release with the understanding that the Company's actual future results may be materially different from the results expressed or implied by these forward-looking statements.

The Company undertakes no obligation to update any forward-looking statements made in this press release to reflect events or circumstances after the date of this press release or to reflect new information or the occurrence of unanticipated events, except as required by law.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED) (in thousands)

	September 30, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	\$ 62,417	\$ 49,509
Investment securities—current	268,951	162,196
Accounts receivable, net	25,581	20,709
Prepaid expenses and other current assets	38,194	39,943
Total current assets	395,143	272,357
Property and equipment, net	25,478	28,362
Operating lease right-of-use assets	17,744	19,285
Capitalized software development costs, net	16,330	21,562
Goodwill	56,060	56,060
Other long-term assets	12,542	11,263
Total assets	\$ 523,297	\$ 408,889
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 509	\$ 1,141
Accrued employee expenses	33,625	35,567
Accrued expenses	14,899	21,723

Other current liabilities		14,664	11,335
Total current liabilities		63,697	69,766
Operating lease liabilities		38,402	41,114
Other liabilities		8,371	697
Total liabilities		110,470	111,577
Stockholders' equity		412,827	297,312
Total liabilities and stockholders' equity		<u>\$ 523,297</u>	<u>\$ 408,889</u>

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)**

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue ⁽¹⁾	\$ 205,733	\$ 165,440	\$ 590,538	\$ 448,615
Costs and operating expenses:				
Cost of revenue (exclusive of depreciation and amortization) ⁽²⁾	71,631	62,739	205,878	176,801
Sales and marketing ⁽²⁾	25,406	29,701	77,161	86,101
Research and product development ⁽²⁾	40,662	41,592	118,079	116,517
General and administrative ⁽²⁾	21,139	23,907	62,525	74,417
Depreciation and amortization	4,327	7,568	14,209	22,055
Total costs and operating expenses	<u>163,165</u>	<u>165,507</u>	<u>477,852</u>	<u>475,891</u>
Income (loss) from operations	42,568	(67)	112,686	(27,276)
Other income (loss), net	—	(249)	—	(283)
Interest income, net	4,014	1,788	10,482	4,627
Income (loss) before provision for income taxes	46,582	1,472	123,168	(22,932)
Provision for (benefit from) income taxes	13,576	(24,973)	21,834	4,634
Net income (loss)	<u>\$ 33,006</u>	<u>\$ 26,445</u>	<u>\$ 101,334</u>	<u>\$ (27,566)</u>
Net income (loss) per common share:				
Basic	<u>\$ 0.91</u>	<u>\$ 0.74</u>	<u>\$ 2.80</u>	<u>\$ (0.78)</u>
Diluted	<u>\$ 0.90</u>	<u>\$ 0.72</u>	<u>\$ 2.76</u>	<u>\$ (0.78)</u>
Weighted average common shares outstanding				
Basic	<u>36,306</u>	<u>35,691</u>	<u>36,211</u>	<u>35,567</u>
Diluted	<u>36,756</u>	<u>36,482</u>	<u>36,752</u>	<u>35,567</u>

(1) The following table presents our revenue categories:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Core solutions	\$ 46,030	\$ 39,756	\$ 132,974	\$ 115,440
Value Added Services	157,726	123,188	451,677	326,108
Other	1,977	2,496	5,887	7,067
Total revenue	<u>\$ 205,733</u>	<u>\$ 165,440</u>	<u>\$ 590,538</u>	<u>\$ 448,615</u>

(2) Includes stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Costs and operating expenses:				
Cost of revenue (exclusive of depreciation and amortization)	\$ 1,126	\$ 1,149	\$ 3,261	\$ 2,905
Sales and marketing	2,071	2,041	5,284	4,902
Research and product development	7,471	6,064	19,625	15,851
General and administrative	5,367	6,003	16,133	16,274

Total stock-based compensation expense	\$	16,035	\$	15,257	\$	44,303	\$	39,932
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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Cash from operating activities				
Net income (loss)	\$ 33,006	\$ 26,445	\$ 101,334	\$ (27,566)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	3,912	6,980	12,804	20,115
Amortization of operating lease right-of-use assets	488	509	1,541	1,618
Gain on lease modification	—	—	—	(4,281)
Stock-based compensation, including as amortized	16,449	15,845	45,707	41,872
Other	(2,141)	(806)	(6,146)	(1,514)
Changes in operating assets and liabilities:				
Accounts receivable	110	(327)	(4,872)	(3,857)
Prepaid expenses and other assets	(4,046)	1,354	1,111	(712)
Accounts payable	(728)	(496)	(291)	(1,485)
Operating lease liabilities	(1,778)	1,558	(3,196)	(3,080)
Accrued expenses and other liabilities	12,498	(14,305)	3,601	7,990
Net cash provided by operating activities	<u>57,770</u>	<u>36,757</u>	<u>151,593</u>	<u>29,100</u>
Cash from investing activities				
Purchases of available-for-sale investments	(113,780)	(35,322)	(265,319)	(108,919)
Proceeds from sales of available-for-sale investments	—	—	—	1,013
Proceeds from maturities of available-for-sale investments	69,300	44,635	163,755	94,252
Purchases of property and equipment	(363)	(3,761)	(1,821)	(5,932)
Capitalization of software development costs	(1,583)	(1,243)	(4,112)	(3,394)
Proceeds from sale of equity-method investment	—	—	—	629
Net cash (used in) provided by investing activities	<u>(46,426)</u>	<u>4,309</u>	<u>(107,497)</u>	<u>(22,351)</u>
Cash from financing activities				
Proceeds from stock option exercises	15	683	3,913	2,185
Tax withholding for net share settlement	(8,581)	(6,510)	(35,101)	(19,766)
Net cash used in financing activities	<u>(8,566)</u>	<u>(5,827)</u>	<u>(31,188)</u>	<u>(17,581)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	2,778	35,239	12,908	(10,832)
Cash, cash equivalents and restricted cash				
Beginning of period	59,889	24,948	49,759	71,019
End of period	<u>\$ 62,667</u>	<u>\$ 60,187</u>	<u>\$ 62,667</u>	<u>\$ 60,187</u>

RECONCILIATION FROM GAAP TO NON-GAAP RESULTS
(UNAUDITED)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Costs and operating expenses:				
GAAP cost of revenue (exclusive of depreciation and amortization)	\$ 71,631	\$ 62,739	\$ 205,878	\$ 176,801
Stock-based compensation expense	(1,126)	(1,149)	(3,261)	(2,905)
Workforce reduction costs	—	(2,135)	—	(2,135)
Non-GAAP cost of revenue (exclusive of depreciation and amortization)	<u>\$ 70,505</u>	<u>\$ 59,455</u>	<u>\$ 202,617</u>	<u>\$ 171,761</u>

GAAP cost of revenue (exclusive of depreciation and amortization) as a percentage of revenue	35%	38%	35%	39%
Non-GAAP cost of revenue (exclusive of depreciation and amortization) as a percentage of revenue	34%	36%	34%	38%
GAAP sales and marketing	\$ 25,406	\$ 29,701	\$ 77,161	\$ 86,101
Stock-based compensation expense	(2,071)	(2,041)	(5,284)	(4,902)
Workforce reduction costs	—	(3,401)	—	(3,401)
Non-GAAP sales and marketing	<u>\$ 23,335</u>	<u>\$ 24,259</u>	<u>\$ 71,877</u>	<u>\$ 77,798</u>
GAAP sales and marketing as a percentage of revenue	12%	18%	13%	19%
Non-GAAP sales and marketing as a percentage of revenue	11%	15%	12%	17%
GAAP research and product development	\$ 40,662	\$ 41,592	\$ 118,079	\$ 116,517
Stock-based compensation expense	(7,471)	(6,064)	(19,625)	(15,851)
Workforce reduction costs	—	(2,635)	—	(2,635)
Non-GAAP research and product development	<u>\$ 33,191</u>	<u>\$ 32,893</u>	<u>\$ 98,454</u>	<u>\$ 98,031</u>
GAAP research and product development as a percentage of revenue	20%	25%	20%	26%
Non-GAAP research and product development as a percentage of revenue	16%	20%	17%	22%
GAAP general and administrative	\$ 21,139	\$ 23,907	\$ 62,525	\$ 74,417
Stock-based compensation expense	(5,367)	(6,003)	(16,133)	(16,274)
Gain on lease modification	—	—	—	4,281
CEO separation costs, net	—	—	—	(11,520)
Workforce reduction costs	—	(2,106)	—	(2,106)
Non-GAAP general and administrative	<u>\$ 15,772</u>	<u>\$ 15,798</u>	<u>\$ 46,392</u>	<u>\$ 48,798</u>
GAAP general and administrative as a percentage of revenue	10%	14%	11%	17%
Non-GAAP general and administrative as a percentage of revenue	8%	10%	8%	11%
GAAP depreciation and amortization	\$ 4,327	\$ 7,568	\$ 14,209	\$ 22,055
Amortization of stock-based compensation capitalized in software development costs	(414)	(589)	(1,404)	(1,940)
Amortization of purchased intangibles	(118)	(617)	(355)	(1,857)
Non-GAAP depreciation and amortization	<u>\$ 3,795</u>	<u>\$ 6,362</u>	<u>\$ 12,450</u>	<u>\$ 18,258</u>
GAAP depreciation and amortization as a percentage of revenue	2%	5%	2%	5%
Non-GAAP depreciation and amortization as a percentage of revenue	2%	4%	2%	4%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Income (loss) from operations:				
GAAP income (loss) from operations	\$ 42,568	\$ (67)	\$ 112,686	\$ (27,276)
Stock-based compensation expense	16,035	15,257	44,303	39,932
Amortization of stock-based compensation capitalized in software development costs	414	589	1,404	1,940
Amortization of purchased intangibles	118	617	355	1,857
Gain on lease modification	—	—	—	(4,281)
CEO separation costs, net	—	—	—	11,520
Workforce reduction costs	—	10,278	—	10,278
Non-GAAP income from operations	<u>\$ 59,135</u>	<u>\$ 26,674</u>	<u>\$ 158,748</u>	<u>\$ 33,970</u>
Operating margin:				
GAAP operating margin	20.7%	—%	19.1%	(6.1)%
Stock-based compensation expense as a percentage of revenue	7.7	9.2	7.5	8.9
Amortization of stock-based compensation capitalized in software development costs as a percentage of revenue	0.2	0.4	0.2	0.4

Amortization of purchased intangibles as a percentage of revenue	0.1	0.4	0.1	0.4
Gain on lease modification as a percentage of revenue	—	—	—	(1.0)
CEO separation costs, net as a percentage of revenue	—	—	—	2.6
Workforce reduction costs as a percentage of revenue	—	6.1	—	2.4
Non-GAAP operating margin	<u>28.7%</u>	<u>16.1%</u>	<u>26.9%</u>	<u>7.6%</u>

Net income (loss):

GAAP net income (loss)	\$ 33,006	\$ 26,445	\$ 101,334	\$ (27,566)
Stock-based compensation expense	16,035	15,257	44,303	39,932
Amortization of stock-based compensation capitalized in software development costs	414	589	1,404	1,940
Amortization of purchased intangibles	118	617	355	1,857
Gain on lease modification	—	—	—	(4,281)
CEO separation costs, net	—	—	—	11,520
Workforce reduction costs	—	10,278	—	10,278
Income tax effect of adjustments	(2,211)	(31,642)	(20,474)	(3,859)
Non-GAAP net income	<u>\$ 47,362</u>	<u>\$ 21,544</u>	<u>\$ 126,922</u>	<u>\$ 29,821</u>

Net income (loss) per share, basic:

GAAP net income (loss) per share, basic	\$ 0.91	\$ 0.74	\$ 2.80	\$ (0.78)
Non-GAAP adjustments to net income (loss)	0.39	(0.14)	0.71	1.62
Non-GAAP net income per share, basic	<u>\$ 1.30</u>	<u>\$ 0.60</u>	<u>\$ 3.51</u>	<u>\$ 0.84</u>

Net income (loss) income per share, diluted:

GAAP net income (loss) per share, diluted	\$ 0.90	\$ 0.72	\$ 2.76	\$ (0.78)
Non-GAAP adjustments to net income (loss)	0.39	(0.13)	0.69	1.60
Non-GAAP net income per share, diluted	<u>\$ 1.29</u>	<u>\$ 0.59</u>	<u>\$ 3.45</u>	<u>\$ 0.82</u>

Weighted-average shares used in GAAP per share calculation

Basic	36,306	35,691	36,211	35,567
Diluted	36,756	36,482	36,752	35,567

Weighted-average shares used in non-GAAP per share calculation

Basic	36,306	35,691	36,211	35,567
Diluted	36,756	36,482	36,752	36,345

**Three Months Ended
September 30,**

**Nine Months Ended
September 30,**

	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Free cash flow:				
GAAP net cash provided by operating activities	\$ 57,770	\$ 36,757	\$ 151,593	\$ 29,100
Purchases of property and equipment	(363)	(3,761)	(1,821)	(5,932)
Capitalized software development costs	(1,583)	(1,243)	(4,112)	(3,394)
CEO separation costs payment	—	—	—	14,926
Partial lease termination payment	—	—	—	2,851
Severance payments for workforce reduction	—	1,801	566	1,801
Non-GAAP free cash flow	<u>\$ 55,824</u>	<u>\$ 33,554</u>	<u>\$ 146,226</u>	<u>\$ 39,352</u>

Free cash flow margin:

GAAP net cash provided by operating activities as a percentage of revenue	28.1%	22.2%	25.7%	6.5%
Purchases of property and equipment as a percentage of revenue	(0.2)	(2.3)	(0.3)	(1.3)
Capitalized software development costs as a percentage of revenue	(0.8)	(0.8)	(0.7)	(0.8)
CEO separation costs payment as a percentage of revenue	—	—	—	3.4
Partial lease termination payment as a percentage of revenue	—	—	—	0.6

Severance payments for workforce reduction as a percentage of revenue	—	1.2	0.1	0.4
Non-GAAP free cash flow margin	<u>27.1%</u>	<u>20.3%</u>	<u>24.8%</u>	<u>8.8%</u>

Statement Regarding the Use of Non-GAAP Financial Measures

We use the following non-GAAP financial measures in addition to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP.

- *Non-GAAP presentation of income (loss) from operations, costs and operating expenses, operating margin, net income (loss), and net income (loss) per share.* These measures exclude certain non-cash or non-recurring items, including stock-based compensation expense, amortization of stock-based compensation capitalized in software development costs, amortization of purchased intangibles, CEO separation costs, net, gain on lease modification, workforce reduction costs, and the related income tax effect of these adjustments, as applicable and described below. Non-GAAP operating margin is calculated as non-GAAP operating income (loss) from operations as a percentage of revenue.
- *Non-GAAP free cash flow.* Non-GAAP free cash flow is defined as net cash from operating activities, less purchases of property and equipment, capitalization of software development costs, payments for separation costs and lease termination payments and severance payments for workforce reduction. We use free cash flow to evaluate our generation of cash from operations that is available for purposes other than capital expenditures and capitalized software development costs. Additionally, we believe that information regarding free cash flow provides investors with a perspective on the cash available to fund ongoing operations. We review cash flows generated from operations after taking into consideration capital expenditures and the capitalization of software development costs due to the fact that these expenditures are considered to be a necessary component of ongoing operations. Free cash flow margin is calculated as free cash flow as a percentage of revenue.

We use each of these non-GAAP financial measures internally to assess and compare operating results across reporting periods, for internal budgeting and forecasting purposes, and to evaluate our financial performance. We believe these adjustments also provide useful supplemental information to investors and facilitate the analysis of our operating results and comparison of operating results across reporting periods.

In particular, we believe these non-GAAP financial measures are useful to investors and others in assessing our operating performance due to the following factors:

- *Stock-based compensation expense and amortization of stock-based compensation capitalized in software development costs.* We utilize stock-based compensation to attract and retain employees. It is principally aimed at aligning their interests with those of our stockholders while ensuring long-term retention, rather than to address operational performance for any particular period. As a result, stock-based compensation expenses, which include costs related to our workforce reduction, vary for reasons that are generally unrelated to financial and operational performance in any particular period.
- *Amortization of purchased intangibles.* We view amortization of purchased intangible assets as items arising from pre-acquisition activities determined at the time of an acquisition. While these intangible assets are evaluated for impairment regularly, amortization of the cost of purchased intangibles is an expense that is not typically affected by operations during any particular period.
- *CEO separation costs, net.* We incurred one-time separation costs associated with our former Chief Executive Officer's Transition and Separation Agreement, dated March 1, 2023. We have excluded these costs, as we do not consider such amounts to be part of the ongoing operation of our business.
- *Gain on lease modification.* In January 2023 and June 2023, we amended our San Diego lease. We have excluded any gain related to the remeasurement of the lease liability, as we do not consider such amounts to be part of the ongoing operation of our business.
- *Workforce reduction costs.* We incurred one-time severance and related personnel costs associated with our workforce reduction in the third quarter of 2023. We have excluded these costs, along with the subsequent cash payments, as we do not consider such amounts to be part of the ongoing operation of our business.
- *Income tax effects of adjustments.* We utilize a fixed long-term projected tax rate in our computation of non-GAAP income tax effects to provide better consistency across interim reporting periods. In projecting this long-term non-GAAP tax rate, we utilize a financial projection that excludes the direct impact of other non-GAAP adjustments. The projected rate, which we have determined to be 25%, considers other factors such as our current operating structure, existing tax positions in various jurisdictions, and key legislation in major jurisdictions where we operate. We periodically re-evaluate this tax rate, as necessary, for significant events, based on relevant tax law changes, and material changes in the forecasted geographic earnings mix.

Our non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in our industry, as other companies may calculate non-GAAP financial results differently. In addition, there are limitations in using non-GAAP financial measures because non-GAAP financial measures are not prepared in accordance with GAAP and can exclude expenses that may have a material impact on our reported financial results. As such, non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. A reconciliation of the historical non-GAAP financial measures to their most directly comparable GAAP measures has been provided in the tables above. We encourage investors to review the reconciliation of these historical non-GAAP financial measures to their most directly comparable GAAP financial measures.