

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): March 2, 2020

AppFolio, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

001-37468

(Commission File Number)

26-0359894

(IRS Employer Identification Number)

50 Castilian Drive

Santa Barbara, CA 93117

(Address of principal executive offices)

Registrant's telephone number, including area code: **(805) 364-6093**

N/A

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, \$0.0001 par value	APPF	NASDAQ Global Market

Item 2.02. Results of Operations and Financial Condition.

On March 2, 2020, AppFolio, Inc. (the "Company") issued a press release announcing its financial results for its fourth fiscal quarter and year ended December 31, 2019. A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

The information contained in this Item 2.02, including the press release attached as Exhibit 99.1 hereto, is being furnished and shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that Section. Such information shall not be deemed to be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing, except as otherwise expressly set forth by specific reference in such a filing.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

On March 2, 2020, the Company announced Klaus Schauer's intention to retire from his position as Chief Strategist, effective as of May 1, 2020. Mr. Schauer will continue to serve as a Class II Director on the Company's Board of Directors (the "Board"). Mr. Schauer's retirement from his position as Chief Strategist was not the result of any disagreement with respect to the Company's operations, policies or practices.

On March 2, 2020, James Peters notified the Board of his decision not to stand for re-election at the Company's 2020 Annual Meeting of Stockholders (the "2020 Annual Meeting"). Mr. Peters is currently serving as a Class II Director, with a term that will end concurrent with the 2020 Annual Meeting, as Chairperson of the Audit Committee and as a member of the Nominating and Corporate Governance Committee. The decision by Mr. Peters not to stand for re-election was not the result of any disagreement with respect to the Company's operations, policies or practices.

Item 7.01. Regulation FD Disclosure

During our earnings call we reiterate that investors and analysts are invited to submit questions to management via our website. These statements were made as part of our policy regarding public disclosure of corporate information in connection with questions received from investors and analysts (the "Policy"), which is briefly summarized below.

Corporate Disclosure Policy - Questions and Answers

Pursuant to the Policy, we encourage investors and analysts to submit their questions to management via the Investor Q&A form located on the "Investor Overview" section of our website located at www.appfolioinc.com. We intend to provide written responses to investor and analyst questions on a periodic basis.

We currently intend to provide responses to questions properly submitted to us pursuant to the Policy by filing a Current Report on Form 8-K. However, in the future, we may announce our intention to provide responses to questions, as well as other corporate information, through other channels of distribution, including through disclosure on our website.

The following answer responds to a question received pursuant to the Policy:

Dollar-Based Net Expansion Rate

Question:

Could you please update investors on the trends in your dollar-based net expansion rate ("DBNE")?

Company Response:

As of December 31, 2019, our annual DBNE was 118% for our property management customers, and 121% for our law firm customers. This compares to 116% and 113%, respectively, as of December 31, 2018.

Our ability to maintain and grow relationships with our existing customers can be measured by our annual DBNE for a given fiscal year, which compares the revenue generated from the sale of our core solutions and Value+ services in that year (e.g., 2019) and the preceding year, or base year (e.g., 2018), from our base customers. For this purpose, we establish our base customers by determining the customers from which we generated revenues during the month of December in the year preceding the base year (e.g., December 2017). We then calculate our annual DBNE for a given fiscal year by dividing (x) revenue generated from the sale of our core solutions and Value+ services in the given fiscal year (e.g., 2019) from our base customers by (y) revenue generated from the sale of our core solutions and Value+ services in the base year (e.g., 2018) from our base customers.

Investors are cautioned that our historical annual DBNE results are not necessarily indicative of the results we expect in the future. Investors are further cautioned that our annual DBNE from year to year may be subject to significant fluctuation as a result of a number of factors, including, without limitation:

- our ability to retain our existing customers, and to expand adoption and utilization of our core solutions and Value+ services by our existing customers;
- the scope of, and potential revenue opportunity associated with, the Value+ services that are available to our property management customers and law firm customers during any given year, and the timing and rate of adoption of those Value+ services;
- the mix of our core solutions and Value+ services sold to our property management customers and law firm customers during any given year;
- variations in the timing of sales of our core solutions and Value+ services as a result of trends impacting the verticals in which we sell our software solutions;
- the timing and market acceptance of new core functionality, Value+ services and other products introduced by us and our competitors; and
- changes in our pricing policies or those of our competitors.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits:

Exhibit Number	Description
99.1	Press release issued on March 2, 2020.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AppFolio, Inc.

By: /s/ Ida Kane

Name: Ida Kane

Title: Chief Financial Officer

EXHIBIT INDEX

**Exhibit
Number**

Description

99.1

Press release issued on March 2, 2020.



News Release

AppFolio, Inc. Announces Fourth Quarter and Fiscal Year 2019 Financial Results

SANTA BARBARA, Calif., March 2, 2020 (GLOBE NEWSWIRE) -- AppFolio, Inc. (NASDAQ: APPF) ("AppFolio" or the "Company"), a leading provider of cloud-based business software solutions, services, and data analytics to the real estate and legal markets, today announced its financial results for the fourth quarter and fiscal year ended December 31, 2019.

AppFolio's operating results for the fourth quarter and fiscal year 2019 are summarized in the tables accompanying this press release. The Company nevertheless urges investors to read its Annual Report on Form 10-K for the year ended December 31, 2019, which will be filed with the Securities and Exchange Commission (the "SEC") on March 2, 2020, and will be available on AppFolio's website at <http://ir.appfolioinc.com>. The limited information that follows in this press release is not adequate for making an informed investment judgment.

Financial Outlook

Based on information available as of March 2, 2020, AppFolio's outlook for fiscal year 2020 follows:

- Full year revenue is expected to be in the range of \$312.0 million to \$320.0 million.
- Diluted weighted average shares are expected to be approximately 36 million for the full year.

Executive Leadership Transition

Today the Company also announced that Klaus Schauer will retire from his position as Chief Strategist, effective as of May 1, 2020. Mr. Schauer will remain a Class II Director on the Company's Board of Directors. As an active member of AppFolio's Board, Mr. Schauer will continue to contribute to the Company's vision and strategy.

Conference Call Information

As previously announced, the Company will host a conference call today, March 2, 2020, at 1:30 p.m. Pacific Time, 4:30 p.m. Eastern Time, to discuss its financial results. Investors are invited to submit questions to management via the Investor Q&A form located on the Investor Overview section of AppFolio's website.

The conference call can be accessed by dialing 844.624.1561 and entering ID #5869959. International callers may dial 647.253.8652. A replay of the conference call will be available at 800.585.8367, and at 416.621.4642 for international callers. A live and recorded webcast of the conference call will be available at <http://ir.appfolioinc.com>.

About AppFolio, Inc.

AppFolio offers industry-specific, cloud-based business software solutions, services, and data analytics to the real estate and legal markets. Today our products include real estate software (AppFolio Property Manager, AppFolio Property Manager PLUS and AppFolio Investment Management) and legal practice management software (MyCase). AppFolio was founded in 2006 and is headquartered in Santa Barbara, CA. Learn more at www.appfolioinc.com.

Investor Relations Contact: ir@appfolio.com

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,” “seeks,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “could,” “will,” “would,” or similar expressions and the negatives of those expressions. In particular, forward-looking statements contained in this press release relate to the Company’s future or assumed revenues and weighted-average outstanding shares, as well as its future growth and success.

Forward-looking statements represent AppFolio's current beliefs and assumptions based on information currently available. Forward-looking statements involve 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. Some of the risks and uncertainties that may cause the Company's actual results to materially differ from those expressed or implied by these forward-looking statements are described in the section entitled “Risk Factors” in AppFolio's Annual Report on Form 10-K for the year ended December 31, 2019, which will be filed with the SEC on March 2, 2020, 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.

Except as required by applicable law or the rules of the NASDAQ Global Market, AppFolio assumes no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except par values)

	December 31, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 15,813	\$ 74,076
Investment securities—current	22,876	16,631
Accounts receivable, net	7,562	5,516
Prepaid expenses and other current assets	15,540	11,775
Total current assets	61,791	107,998
Investment securities—noncurrent	12,089	11,256
Property and equipment, net	14,744	6,871
Operating lease right-of-use assets	27,803	—
Capitalized software, net	30,023	20,485
Goodwill	58,425	15,548
Intangible assets, net	21,377	5,895
Deferred taxes	27,574	—
Other long-term assets	6,276	7,688
Total assets	\$ 260,102	\$ 175,741
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 1,927	\$ 1,481
Accrued employee expenses	17,758	12,377
Accrued expenses	10,833	8,281
Deferred revenue	4,586	3,414
Other current liabilities	11,139	1,447
Long-term debt, net—current portion	1,208	1,213
Total current liabilities	47,451	28,213
Operating lease liabilities	33,312	—
Long-term debt, net	47,375	48,602
Other long-term liabilities	14	7,080
Total liabilities	128,152	83,895
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 25,000 authorized and no shares issued and outstanding at December 31, 2019 and December 31, 2018	—	—
Class A common stock, \$0.0001 par value, 250,000 shares authorized at December 31, 2019 and December 31, 2018; issued - 16,923 and 16,160, shares at December 31, 2019 and December 31, 2018, respectively; outstanding - 16,552 and 15,789 shares at December 31, 2019 and December 31, 2018, respectively;	2	2
Class B common stock, \$0.0001 par value, 50,000 shares authorized at December 31, 2019 and December 31, 2018; 17,594 and 18,109 shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively;	2	2
Additional paid-in capital	161,509	157,898
Accumulated other comprehensive income (loss)	33	(178)
Treasury stock, at cost, 371 Class A shares at December 31, 2019 and December 31, 2018	(21,562)	(21,562)
Accumulated deficit	(8,034)	(44,316)
Total stockholders' equity	131,950	91,846
Total liabilities and stockholders' equity	\$ 260,102	\$ 175,741

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(in thousands, except per share amounts)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2018	2019	2018
Revenue	\$ 67,362	\$ 50,365	\$ 256,012	\$ 190,071
Costs and operating expenses:				
Cost of revenue (exclusive of depreciation and amortization)	26,403	19,925	101,642	73,549
Sales and marketing	14,441	9,577	51,528	33,288
Research and product development	11,086	6,588	39,508	24,111
General and administrative	9,117	7,786	34,478	24,891
Depreciation and amortization	6,226	3,792	22,395	14,576
Total costs and operating expenses	67,273	47,668	249,551	170,415
Income from operations	89	2,697	6,461	19,656
Other income (expense), net	84	(36)	16	(56)
Interest income (expense), net	(330)	156	(1,654)	787
Income (loss) before provision for (benefit from) income taxes	(157)	2,817	4,823	20,387
Provision for (benefit from) income taxes	(4,585)	168	(31,459)	420
Net income	\$ 4,428	\$ 2,649	\$ 36,282	\$ 19,967
Net income per common share:				
Basic	\$ 0.13	\$ 0.08	\$ 1.07	\$ 0.59
Diluted	\$ 0.12	\$ 0.07	\$ 1.02	\$ 0.56
Weighted average common shares outstanding:				
Basic	34,091	34,050	34,016	34,128
Diluted	35,597	35,425	35,567	35,562

Stock-Based Compensation Expense

(in thousands)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2018	2019	2018
Costs and operating expenses:				
Cost of revenue (exclusive of depreciation and amortization)	\$ 393	\$ 351	\$ 1,466	\$ 1,103
Sales and marketing	367	326	1,271	1,034
Research and product development	387	349	1,411	1,079
General and administrative	731	892	3,161	3,121
Total stock-based compensation expense	\$ 1,878	\$ 1,918	\$ 7,309	\$ 6,337

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2018	2019	2018
Cash from operating activities				
Net income	\$ 4,428	\$ 2,649	\$ 36,282	\$ 19,967
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	6,226	3,792	22,395	14,576
Amortization of operating lease right-of-use assets	1,114	—	4,130	—
Stock-based compensation	1,878	1,918	7,309	6,337
Deferred income taxes	(4,423)	—	(31,455)	—
Other	(104)	59	32	224
Changes in operating assets and liabilities:				
Accounts receivable	747	557	(2,031)	(908)
Prepaid expenses and other current assets	372	(859)	(4,031)	(6,073)
Other assets	247	(756)	1,376	(4,447)
Accounts payable	241	137	511	614
Accrued employee expenses	4,056	4,443	4,542	1,219
Accrued expenses	69	(116)	55	3,281
Deferred revenue	154	(342)	1,193	(4,589)
Operating lease liabilities	224	—	(2,662)	—
Other liabilities	245	184	1,241	6,067
Net cash provided by operating activities	15,474	11,666	38,887	36,268
Cash from investing activities				
Purchases of property, equipment and intangible assets	(3,999)	(362)	(8,084)	(2,102)
Additions to capitalized software	(5,329)	(3,307)	(20,998)	(12,304)
Purchases of investment securities	(14,508)	(732)	(25,198)	(29,516)
Sales of investment securities	—	20,199	2,750	20,900
Maturities of investment securities	4,660	4,342	15,660	32,819
Acquisition, net of cash acquired	—	—	(54,004)	(14,441)
Net cash (used in) provided by investing activities	(19,146)	20,140	(89,874)	(4,644)
Cash from financing activities				
Proceeds from stock option exercises	294	322	553	1,035
Tax withholding for net share settlement	(614)	(233)	(6,155)	(3,127)
Purchase of treasury stock	—	(21,562)	—	(21,562)
Proceeds from issuance of debt	472	50,045	2,169	50,138
Principal payments on debt	(785)	(45)	(3,419)	(138)
Payment of debt issuance costs	—	—	(420)	—
Net cash (used in) provided by financing activities	(633)	28,527	(7,272)	26,346
Net (decrease) increase in cash and cash equivalents and restricted cash	(4,305)	60,333	(58,259)	57,970
Cash, cash equivalents and restricted cash				
Beginning of period	20,552	14,173	74,506	16,536
End of period	\$ 16,247	\$ 74,506	\$ 16,247	\$ 74,506