

APPFOLIO INC
Form 10-Q
May 02, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark one)

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

For the quarterly period ended March 31, 2019.

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

For the transition period from _____ to _____.

Commission File Number 001-37468
AppFolio, Inc.
(Exact name of registrant as specified in its charter)

Delaware 26-0359894
(State of incorporation or organization) (I.R.S. Employer Identification No.)
50 Castilian Drive 93117
Santa Barbara, California
(Address of principal executive offices) (Zip Code)
(805) 364-6093
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

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

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

As of April 25, 2019, the number of shares of the registrant's Class A common stock outstanding was 15,944,323 and the number of shares of the registrant's Class B common stock outstanding was 18,061,471.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2019 (this "Quarterly Report"), includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which statements are subject to considerable risks and uncertainties. Forward-looking statements include all statements that are not statements of historical facts contained in this Quarterly Report and can be identified by words such as "anticipates," "believes," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "would" or similar expressions and the negatives of those expressions. Forward-looking statements also include the assumptions underlying or relating to such statements. In particular, forward-looking statements contained in this Quarterly Report relate to, among other things, our future or assumed financial condition, results of operations and liquidity, business forecasts and plans, certain trends affecting our business and industry, capital needs and financing plans, capital resource allocation plans, potential repurchase of our shares, research and product development plans, future products and Value+ services, growth in the size of our business and number of customers, strategic plans and objectives, the impact of acquisitions and investments, changes in the competitive environment, the outcome of legal proceedings or regulatory matters, and the application of accounting guidance. We caution you that the foregoing list may not include all of the forward-looking statements made in this Quarterly Report.

Our forward-looking statements are based on our management's current beliefs, assumptions and expectations about future events and trends, which affect or may affect our business, strategy, operations or financial performance. Although we believe these forward-looking statements are based upon reasonable assumptions, they are subject to numerous known and unknown risks and uncertainties and are made in light of information currently available to us. Our actual financial condition and results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed in the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report and in the section entitled "Risk Factors" of this Quarterly Report and in our Annual Report on form 10-K for the fiscal year ended December 31, 2018 (our "Annual Report"), as well as in the other reports we file with the Securities and Exchange Commission (the "SEC"). You should read this Quarterly Report, and the other documents that we have filed with the SEC, with the understanding that our actual future results may be materially different from the results expressed or implied by these forward-looking statements.

Moreover, we operate in an evolving environment. New risks and uncertainties emerge from time to time and it is not possible for our management to predict all risks and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual future results to be materially different from those expressed or implied by any forward-looking statements.

Forward-looking statements speak only as of the date they were made, and, except to the extent required by law or the rules of the NASDAQ Global Market, we undertake no obligation to update or review any forward-looking statement because of new information, future events or other factors.

We qualify all of our forward-looking statements by these cautionary statements.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

APPFOLIO, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except par values)

	March 31, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 16,783	\$ 74,076
Investment securities—current	17,712	16,631
Accounts receivable, net	7,966	5,516
Prepaid expenses and other current assets	15,086	11,775
Total current assets	57,547	107,998
Investment securities—noncurrent	6,300	11,256
Property and equipment, net	7,169	6,871
Operating lease right-of-use assets	16,004	—
Capitalized software, net	22,396	20,485
Goodwill	57,496	15,548
Intangible assets, net	26,644	5,895
Other long-term assets	7,026	7,688
Total assets	\$ 200,582	\$ 175,741
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 1,557	\$ 1,481
Accrued employee expenses	10,795	12,377
Accrued expenses	9,450	8,281
Deferred revenue	4,045	3,414
Other current liabilities	11,099	1,447
Long-term debt, net—current portion	1,213	1,213
Total current liabilities	38,159	28,213
Operating lease liabilities	19,064	—
Long-term debt, net	48,290	48,602
Other long-term liabilities	14	7,080
Total liabilities	105,527	83,895
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 25,000 authorized and no shares issued and outstanding at March 31, 2019 and December 31, 2018	—	—
Class A common stock, \$0.0001 par value, 250,000 shares authorized at March 31, 2019 and December 31, 2018; issued - 16,269 and 16,159, shares at March 31, 2019 and December 31, 2018; outstanding - 15,899 and 15,789 shares at March 31, 2019 and December 31, 2018, respectively;	2	2
Class B common stock, \$0.0001 par value, 50,000 shares authorized at March 31, 2019 and December 31, 2018; 18,071 and 18,109 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively;	2	2

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Additional paid-in capital	157,253	157,898
Accumulated other comprehensive loss	(49)	(178)
Treasury stock, at cost, 370 Class A shares at March 31, 2019 and December 31, 2018	(21,562)	(21,562)
Accumulated deficit	(40,591)	(44,316)
Total stockholders' equity	95,055	91,846
Total liabilities and stockholders' equity	\$200,582	\$ 175,741

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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APPFOLIO, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (UNAUDITED)
 (in thousands, except per share amounts)

	Three Months Ended March 31,	
	2019	2018
Revenue	\$57,091	\$42,340
Costs and operating expenses:		
Cost of revenue (exclusive of depreciation and amortization)	24,181	16,613
Sales and marketing	11,219	7,405
Research and product development	8,481	5,333
General and administrative	8,192	5,316
Depreciation and amortization	5,076	3,500
Total costs and operating expenses	57,149	38,167
Income (loss) from operations		