

APPFOLIO INC
Form 10-K
February 28, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

o 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

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

Title of each class	Name of exchange on which registered
Class A common stock, par value \$0.0001 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Exchange Act:
None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES ☒ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

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 every Interactive Data File required to be submitted 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 such files). YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 ☐ 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. ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of the registrant's Class A common stock on June 29, 2018 (the last business day of the registrant's mostly recently completed second fiscal quarter), as reported on the NASDAQ Global Market on such date, was approximately \$1,036 million. Shares of the registrant's Class A common stock and Class B common stock held by each executive officer, director and holder of 10% or more of the registrant's outstanding Class A common stock and Class B common stock have been excluded from this calculation as such persons may be deemed to be affiliates. The determination of affiliate status for this purpose does not reflect a determination that any of such persons shall be deemed to be an affiliate of the registrant for any other purpose.

At February 15, 2019, the number of shares of the registrant's Class A common stock outstanding was 15,833,617 and the number of shares of the registrant's Class B common stock outstanding was 18,071,665.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2019 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed with the Securities and Exchange Commission (the "SEC") pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K (this "Annual Report"), are incorporated by reference in Part III, Items 10-14 of this Annual Report. Except for the portions of the Proxy Statement specifically incorporated by reference in this Annual Report, the Proxy Statement shall not be deemed to be filed as part hereof.

APPFOLIO, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the fiscal year ended December 31, 2018, or this Annual Report, includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which statements are subject to considerable risks and uncertainties. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements included in or incorporated by reference in this Annual Report that are not statements of historical facts, which can generally be identified by words such as “anticipates,” “believes,” “seeks,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “could,” “will,” “would” or similar words 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 Annual 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 Annual 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 set forth below under the caption “Risk Factors” in Part I, Item 1A and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7, and elsewhere in this Annual Report, as well as in the other reports we file with the Securities and Exchange Commission, or the SEC. You should read this Annual Report with the understanding that our actual future results may be materially different from and worse than what we expect.

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.

PART I

ITEM 1. BUSINESS

Unless otherwise stated in this Annual Report, references to "AppFolio," "we," "us," and "our" refer to AppFolio, Inc. and its consolidated subsidiaries.

Overview

Our mission is to revolutionize vertical industry businesses by providing great software and services. To that end, today we offer industry-specific, cloud-based business software solutions, services and data analytics to the real estate market, which comprises a significant majority of our revenue, and, to a lesser extent, to the legal market. Our real estate software solutions provide our property manager customers with a system of record to automate essential business processes, a system of engagement to enhance business interactions between our customers and their clients and other stakeholders, and a system of intelligence designed to leverage data to predict and optimize business workflows in order to enable superior customer experiences and increase efficiency across our customers' businesses. Our mobile-optimized software solutions are designed for use across multiple devices and operating systems. Our software solutions are all operated as a service for our customers and hosted using a modern cloud-based architecture. This architecture leads to rich data sets that have a consistent schema across our customer base and enables us to deploy data-powered products and services for our customers. We also provide software solutions to the legal market that enable law firms to administer their practice and manage their caseloads more efficiently by centralizing case details in a single system of record and system of engagement.

Many companies face a common set of challenges that divert limited time and resources away from serving their clients and growing their businesses. In certain industries, day-to-day operations may be managed through inefficient manual processes and disparate software point solutions. This lack of automation and integrated technology results in a significant administrative burden on these businesses, particularly in industries that involve unique workflows, relationships among multiple industry participants, significant data inputs and management, and compliance or regulatory requirements. While larger enterprises and consumers have been experiencing a transformational shift into the digital age, the legacy systems and manual business processes currently used by many other businesses are lagging behind in terms of technological sophistication and ease of use.

We were formed in 2006 with a vision to revolutionize the way that small and medium-sized businesses, or SMBs, grow and compete by enabling their digital transformation. In 2008, we entered the real estate market with our first product, AppFolio Property Manager, or APM, a property management solution designed to address the unique operational and business requirements of property management companies. Recognizing that our customers and their stakeholders would benefit from additional business critical services, we launched a series of Value+ services beginning in 2009. Our first Value+ service assisted our customers in the marketing of their rental properties by offering property level website design and hosting services. In 2010, we commenced the roll out of our electronic payment services, thereby facilitating the payment of rent via ACH by tenants. In 2011, we launched tenant screening services, further assisting our customers with the leasing process. In 2012, we introduced our legal liability to landlord insurance program, which protects property owners and managers from certain defined losses. In 2013, we expanded our electronic payment services by allowing residents to pay rent by Electronic Cash Payment and credit or debit card. In 2014, we launched a tenant-facing contact center solution to assist our property managers with resolving incoming maintenance requests. In 2015, with the acquisition of RentLinx, we expanded the marketing services offered to our property manager customers with a premium leads service and expanded our electronic payment services to facilitate payments made between our customers and property owners and vendors. In 2016, we introduced a tenant debt collection Value+ service to assist our property managers with running a more efficient business. In 2017, we expanded our insurance services to enable tenants to purchase renters insurance from within APM, protecting both our property manager customers and their tenants. In 2018, we acquired substantially all of the assets of WegoWise, Inc., or WegoWise, and expect that this acquisition will serve as a building block for a future utility analytics and management Value+ service. In 2018, we also released AppFolio Property Manager PLUS, or APM PLUS, a new tier of APM designed for larger businesses with more complex needs. APM PLUS builds upon the functionality of APM and additionally offers data analytics, configurable workflows, and revenue management and optimization

functionality for our customers. In early 2019, we acquired Dynasty Marketplace, Inc., or Dynasty, and expect the team and technology related to this acquisition, combined with our internal resources, technology and data, to serve as a foundation for future artificial-intelligence, or AI, software and services for the real estate market.

We entered the legal market with the acquisition of MyCase in 2012. In 2013, we introduced website design and hosting services, our first Value+ service for our legal market customers, designed to assist smaller law firms and solo practitioners with the marketing of their practices, electronic storage of case information and communications. In 2016, we launched electronic payments services for the legal market, which streamlined the billing and receivables process through MyCase.

We sell our software solutions and services through our direct sales organization and from within our software applications. We offer our core solutions to customers on a subscription basis, with subscription fees that scale to the size and type of their businesses. Customers who adopt our Value+ services pay either subscription fees or usage-based fees, depending on the Value+ service. We do not separately charge customers for ongoing training and support, which we believe is critical to retaining customers and increasing adoption and utilization of our Value+ services. We also charge one-time fees in connection with certain services.

We evaluate the success of our business during the periods presented based on factors such as the development and launch of new and innovative core functionality and Value+ services, enhancements to user experience, customer satisfaction, growth in our revenue and customer base, fluctuations in costs and operating expenses as a percentage of revenue, operating loss or income and cash flows from operating activities. We have managed, and plan to continue to manage, our business towards the achievement of long-term growth that we believe will positively impact long-term stockholder value, and not towards the realization of short-term financial or business metrics, or short-term stockholder value. We have invested, and intend to continue to invest, heavily in our business to capitalize on our market opportunity.

For the years ended December 31, 2018, 2017 and 2016, our revenue was \$190.1 million, \$143.8 million and \$105.6 million, respectively. During each of these years we have derived more than 90% of our revenue from our solutions serving the real estate market. Our revenue has limited seasonality as discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report, within the section entitled "Quarterly Revenue and Cost Trends."

Our Solutions

Although specific functionality varies by product, our core solutions address common business operations and interactions of businesses in our targeted verticals by providing key functionality, including accounting, document management, real-time interactive search, data analytics and communication options. In addition to our core solutions, we offer a range of optional, but often business-critical, Value+ services. Our Value+ services are available on an as-needed basis and enable our customers to adapt our platform to their specific operational requirements.

AppFolio Property Manager - Core Solution

APM is a cloud-based software solution for the real estate market that provides property managers of various sizes (including third-party managers, owner-operators and real estate investors) innovative tools and services designed to streamline their property management businesses. Our software solution serves a variety of property types, including single- and multi-family residential, commercial, community association, and student housing, and is continuously evolving to help our customers more effectively market, manage and grow their businesses. Core functionality addresses key operational issues, including accounting and business analytics and management, marketing and leasing functionality, and communications with key stakeholders, among other things.

AppFolio Property Manager - Value+ Services

In addition to our core solution, we offer Value+ services built to enhance, automate and streamline property management processes and support workflows essential to our customers' businesses. Our Value+ services generally fall into the categories of marketing and leasing, electronic payment services, resident services, business optimization and risk mitigation. Value+ services are seamlessly integrated with APM and APM PLUS so customers and their stakeholders may benefit from added efficiency and ease of use.

We deliver and maintain professionally designed and architected Websites that showcase our customers' businesses. Our websites are fully-integrated with APM functionality, including vacancy postings, electronic payment services, owner portals, and maintenance requests. Property managers can track and analyze site traffic and lead generation and identify prospects by evaluating guest cards that are completed by prospective tenants who visit the websites in connection with posted vacancies.

Our accounting features include Electronic Payment Services that allow property managers to streamline their payables and receivables online. Our customers can collect rental application fees, rent payments and other tenant charges through a secure online portal and mobile app, as well as receive owner contributions. They can quickly and conveniently pay owners, vendors and their own management company as well.

Tenant Screening Services include background screening and credit checks for use in connection with the rental application process. In addition to obtaining an applicant's credit history, property managers have the option of leveraging an automated nationwide eviction and criminal records search, as well as accessing and/or contributing to rental payments history data, to better identify qualified tenants and reduce risk.

We offer two insurance options, Liability to Landlord Insurance and Renters Insurance, that can be tailored to help property managers protect their properties and meet renters' needs. Property managers can instantly enroll residents in Liability to Landlord Insurance, which offers owners and investors increased protection against tenant-caused damage. Renters have the option of purchasing renters insurance through an online portal to protect their personal belongings, as well as the property itself, from certain unexpected damages.

Our Maintenance Contact Center is built into our customers APM maintenance workflow and is staffed 24/7/365 by trained agents, each acting as an extension of our property manager customers' teams to resolve or route incoming maintenance requests. Contact center agents are able to enter non-emergency work orders directly into APM's property maintenance software for a property manager's approval, and to dispatch vendors immediately in case of an emergency.

Premium Leads allow customers to upgrade property listings to premium status and syndicate them to dozens of pay-to-list websites, including featured placement on many sites. Customers also receive advance call tracking and pay only for the verified leads they receive through the Value+ service.

With Tenant Debt Collections, our customers can electronically send past due tenant debt from their APM database to a national fully-licensed third party debt collection agency to recover uncollected revenue. This Value+ service also includes reporting unpaid balances to three major credit bureaus.

With the acquisitions of WeGoWise in September 2018 and Dynasty in January 2019, we expect to extend our Value+ offerings to the real estate market in the future to include a Utility Management Platform and an Artificial Intelligence Leasing Service for hire.

MyCase - Core Solution

Our legal software solution, MyCase, enables small law firms to more efficiently administer their practice and manage their caseload. MyCase is continuously evolving to help our customers more effectively market, manage and grow their businesses, and contains core functionality that addresses key operational issues, including managing calendars, contacts and documents, time tracking, billing and collections, communicating with clients and sharing sensitive and privileged materials.

MyCase - Value+ Services

In addition to our core solution for MyCase, we offer the following optional Value+ services to our legal customers.

We deliver and maintain professionally designed and architected Websites that practitioners and their clients can utilize to access case and matter information, communicate internally and externally, and manage bills. Our websites are fully-integrated with the MyCase platform and designed to improve the effectiveness of law firm marketing, streamline daily business tasks, and increase mobile presence.

Our Electronic Payment Services allow practitioners to streamline billing and receivables online. Our customers can quickly and conveniently bill their clients and receive payments electronically through MyCase's secure online portal.

Our Customers

As of December 31, 2018, we had 13,046 real estate property manager customers that directly and indirectly account for more than 90% of our annual revenue. Our real estate customers include third-party property managers, owner-operators and real estate investors who manage single- and multi-family residences, community associations, commercial properties, and student housing, as well as mixed real estate portfolios. As of December 31, 2018, we also

had 10,279 small law firms as legal customers that directly and indirectly account for less than 10% of our annual revenue.

We define our customer base as the number of customers subscribing to our core solutions, exclusive of free trial periods with respect to MyCase. No individual customer represented 10% or more of our total revenue for our fiscal year ended December 31, 2018.

Our Culture and Employees

We believe our people are at the heart of our success and our customers' success, and have worked hard not only to attract and hire quality individuals but also to nurture and develop our valuable human resources. We believe in the strong team we have cultivated, particularly in our deep bench of leaders who continue to execute our strategic plans and encourage innovation across the organization. We further believe that our company culture, driven by a dedication to the following six core values, provides us with a significant competitive advantage:

Simpler Is Better

Great, Innovative Products Are Key To A Great Business

Great People Make A Great Company

Listening To Customers Is In Our DNA

Small, Focused Teams Keep Us Agile

We Do The Right Thing Because It's Good For Business

At December 31, 2018, we had 916 employees, and we consider our relationship with them to be very good. We also hire temporary employees and consultants, and feel similarly about our relationships with them. None of our employees is represented by a labor union or covered by a collective bargaining agreement.

Our Growth Strategy

We have managed, and plan to continue to manage, our business towards the achievement of long-term growth that we believe will positively impact long-term stockholder value, rather than the realization of short-term financial or business metrics, or short-term stockholder value. Our growth strategy is to provide increasingly valuable cloud-based and artificial-intelligence business management software solutions, services and analytics to our customers and their key stakeholders. Key components of our growth strategy include:

Maintain Product and Technology Leadership. We have made, and will continue to make, significant investments in research and new product development to expand our software solutions, services and data analytics capabilities as we deem appropriate in our target markets. We intend to continue using our market validation techniques and close relationships with our customers as a key source of feedback to inform and direct our product roadmap. We may also choose to acquire rather than build certain technology solutions to serve our existing or prospective customers.

Keep Our Existing Customers Happy. Customer success is essential to our long-term success. We place significant emphasis on customer service to differentiate our software solutions from competing products and this will continue to be a critical component of our business strategy in the future. We believe that maintaining our focus on customer satisfaction will drive greater adoption and utilization of our software solutions over time.

Expand Adoption and Use By Existing Customers. We have made, and will continue to make, significant investments that expand our core functionality and add new Value+ services to meet the evolving needs and requirements of our customers and their key stakeholders. We expect our customers will continue to use our technology to manage their businesses and increasingly adopt and use additional Value+ services.

Acquire New Customers. We plan to grow our customer base with our sales and marketing programs, including evolving industry thought leadership and education, and the referral power of satisfied customers.

Enter New Adjacent Markets. We continue to evaluate and expand into adjacent markets based on our market validation strategy and customer feedback. We firmly believe that, while we are continuously developing our software solutions within one market, we can apply certain relevant product enhancements and learnings from that market as we extend our platform into each successive adjacent market.

Expand into New Verticals. We continue to review potential opportunities to expand into additional vertical markets. Any new vertical also must fit within our overall business strategy, including our management team's assessment of available alternatives, such as the number and size of potential adjacent market opportunities, and the relative risk and return of these opportunities.

Sales and Marketing

We leverage a modern marketing approach along with marketing automation technology to build brand recognition and our reputation as an industry leader in our targeted markets.

We participate in and drive industry thought leadership and education with both online and offline activities, and use a variety of marketing techniques to promote our software solutions. Our sales development team acts in partnership with our marketing organization to reach potential customers, generate additional sales opportunities and speed the time from evaluation to close. Our real estate sales representatives assist prospective customers as they evaluate our software solutions. Prospective law firm customers either sign up for a free trial on a self-service basis or speak to our sales development representatives as they evaluate our software solutions.

Our interactive sales methodology allows our sales team to quickly build relationships, assess our customers' business challenges, and demonstrate the benefits of our core functionality and Value+ services. Throughout the customer relationship, we continue to promote adoption and usage of our Value+ services through a variety of channels, including email, webinars, training, sales outreach and from within our software solution via in-app messaging.

Customer Service

Our success is based on long-term customer retention, not a one-time sale, and we partner with our customers throughout the life of our relationship. We design our software solutions to be simple and easy to implement, use and manage, and offer unlimited training and support at no extra charge. We pride ourselves on being customer-centric and strive to educate our customers on the additional core functionality and Value+ services they can use to improve business efficiency and productivity.

Our onboarding team strives to ensure that customers are prepared to run their businesses on our platform and provide a seamless onboarding experience. As a result of our assistance with data migration matters, we are able to provide valuable insights into data integrity and work diligently with our customers to help resolve any issues in their underlying business processes. We also assist our customers with the configuration of our platform for particular property types or cases, as appropriate. We provide a dedicated team throughout the onboarding process and beyond, and share insights on best practices in both of our targeted verticals. In addition, certain members of our Value+ teams are focused on guiding our customers through the adoption and utilization of our Value+ services.

Technology and Operations

Data Security and Availability

We use Ruby-on-Rails as our web application framework for both APM and MyCase. We take great care to keep these application frameworks current in order to mitigate known web application security vulnerabilities. Our software solutions run on a combination of both public and private cloud infrastructure across four distinct geographic U.S. regions, consisting of both our own servers and Amazon's Elastic Compute Cloud platform. Our servers are located in state-of-the-art data centers operated by third-party service providers. Physical security at these facilities includes a variety of access controls, including electronic keycards, pin codes, biometric hand scans and mantraps, and policing by high resolution, motion sensitive video surveillance. These facilities provide redundant power and a system of heating, ventilating and air conditioning, as well as fire-threat detection and suppression. Upon arriving in one of our data centers, customer data is immediately replicated to a datacenter in at least one other geographic region, in order to ensure that no data is ever lost and that customer requests can always be satisfied. In addition to hot standby databases, we regularly back up all customer data to Amazon Simple Storage Service.

Our operators monitor our systems to ensure high performance and availability and our architecture allows our operators significant flexibility in achieving these goals. In particular, our operators have fine-grained control over which data center each customer's data resides, and can easily move customer data between four geographic regions in order to avoid service disruption or to increase service performance.

All sensitive customer data is encrypted during transmission and before being written to disk, including passwords, Social Security and tax identification numbers. We regularly evaluate our Internet security, including through third-party penetration testing. In addition, our software solutions allow our customers to define roles that provide different levels of access to users, allowing them to view and modify specific items depending on their role. Supervisors can distribute work to on-site staff in a secure and controlled environment, while leadership retains visibility across the entire system.

Research and Product Development

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We entrust product design, development and testing to our team of engineers, who coordinate closely with our product management team to launch new core functionality, products and Value+ services. Our engineers are organized in smaller groups to foster agility and continued innovation in responding to the evolving needs of our customers. We leverage a collaborative, team-based and test-driven approach to engineering in order to release new code frequently. We believe that it is easier for our customers to adjust to continuous updates to our software solutions, which incrementally change and improve their user experience, than it is to adapt to infrequent, but more drastic upgrades of legacy on-premise software.

We rely heavily on input from our customers in developing products that meet their needs and in anticipating developments in their respective industries. Our product management team leads our research and market validation efforts and provides guidance to management and our engineering team based on our collective domain expertise and in-depth knowledge and understanding of our customers. As a result, our product management team engages regularly with customers, partners and other industry participants, as well as our customer service and sales and marketing organizations. Our product management team manages our development projects generally and serves to align separate functions within the company with a single strategic vision.

Competition

The overall market for business management software is global, highly competitive and continually evolving in response to changes in technology, operational requirements, laws and regulations. We believe our competitors fall into the following primary categories:

- On-premise or cloud-based vertical market business management software providers that serve companies of all sizes in our markets; and

- On-premise or cloud-based horizontal business management software providers that offer broad solutions across multiple verticals.

We also see competition from numerous cloud-based solutions providers that focus almost exclusively on one or more point solutions. For example, in the real estate vertical, we compete with listing services, tenant screening applications and specialists in lease forms. In the legal vertical, we compete with time tracking, legal billing and payment services. Continued consolidation among cloud-based solution providers could lead to significantly increased competition.

We believe the principal competitive factors in each of our vertical markets include the following:

- ease of deployment and use of software solutions and applications;
- total cost of ownership;
- data security and availability;
- breadth and depth of functionality in software solutions and applications;
- nature and extent of mobile interface;
- level of customer satisfaction;
- size of customer base and level of user adoption and usage;
- brand awareness and reputation;
- ability to innovate and respond to customer needs rapidly;
- domain expertise with respect to our targeted verticals; and
- ability to leverage a common technology platform and business strategy.

We believe that we compete favorably on the factors described above. However, some of our competitors may have greater financial, technical and other resources, greater name recognition and larger sales and marketing budgets; therefore, we may not always compare favorably with respect to some or all of the foregoing factors.

Intellectual Property

We rely on a combination of patents, copyrights, trademarks, trade secrets, confidentiality procedures and contractual restrictions to establish and protect our proprietary rights in our core solutions and Value+ services. At January 31, 2019, we had twelve issued United States patents that directly relate to our technology and expire between 2026 and 2033. We intend to pursue additional patent protection to the extent we believe it would be beneficial and cost

effective.

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We have registered “AppFolio” and “MyCase” and certain other marks as trademarks in the United States and several other jurisdictions. We have also acquired certain marks and filed trademark applications and renewals in the United States and certain other jurisdictions, and will pursue additional trademark registrations to the extent we believe it would be beneficial and cost effective. We are the registered holder of a variety of domestic and international domain names that include “appfolioinc.com,” “appfolio.com,” “mycase.com” and similar variations. We also license software from third parties for use in our solutions, including open source software and other software available on standard commercial terms.

We control access to our proprietary technology by entering into confidentiality and invention assignment agreements with our employees and contractors and confidentiality agreements with third parties. Despite our precautions, it may be possible for unauthorized third parties to copy our software solutions and use information that we regard as proprietary to create products and services that compete with ours.

Seasonality

We experience limited seasonality in our Value+ services revenue, primarily with respect to certain leasing-related services we provide to our property manager customers, including our tenant application and tenant screening services. These customers historically have processed fewer applications for new tenants during the winter holiday season; therefore, revenue associated with our leasing services typically declines in the fourth quarter. As a result of this seasonal decline in revenue, we have typically experienced slower sequential revenue growth or a sequential decline in revenue in the fourth quarter of each of our most recent fiscal years. We expect this seasonality to continue in the foreseeable future.

Corporate Information

We were formed in 2006 as a Delaware limited liability company and converted to a Delaware corporation in 2007. Our principal executive offices are located at 50 Castilian Drive, Santa Barbara, California 93117, and our telephone number is (805) 364-6093. Our corporate website is www.appfolioinc.com. The information contained on or accessed through our website does not constitute part of, and is not incorporated by reference into