

C3 AI Statement on Kerrisdale Capital Short Seller

REDWOOD CITY, Calif. — April 5, 2023

There have been some questions regarding yesterday's Kerrisdale report, to which we want to provide clarification.

While we do not usually comment on short seller market antics, we did issue the following statement yesterday:

The Kerrisdale letter appears to be a highly creative and transparent attempt by a self-acclaimed short seller to short the stock, publish an inflammatory letter to move the stock price downward, then cover the short and pocket the profits.

Without comment on the legality of stock manipulation nor the innuendo replete in the letter, we will note that their allegation that C3 AI's financial disclosures regarding Baker Hughes are somehow incorrect manifests a fundamental misunderstanding of U.S. GAAP accounting practices and principles.

The accounting disclosures and financial statement referenced in the letter have been reviewed by our independent audit firm for which we have an unqualified opinion and are complete and correct.

UNBILLED RECEIVABLES:

Kerrisdale suggests that there is something unusual, nefarious, and/or deceptive about our unbilled receivables balance as reported in our financial statements. They further state that it is highly unusual that a software company would have an unbilled receivables balance.

This is a straightforward accounting matter that has been fully disclosed:

In simple terms, an unbilled receivable occurs when a subscription, license, or service was provided to the customer which, under U.S. GAAP, requires the revenue to be recognized in the current period under ASC 606, but some portion of the sales price is not yet due as the contractual billing terms specify the invoice date to occur after some portion of the subscription, license, or service has been provided.

An example would be a non-cancellable subscription or license for \$100,000 per month for a six-month period, and the billing terms in the agreement specify that the invoice is not sent to the customer until the first day of month seven, and payment is not due to C3 AI until end of month seven. At the end of month six, that would result in \$600,000 of revenue; at that time \$600,000 will be an unbilled receivable as the amounts are not due, and the invoice will not have been issued, per the terms negotiated in the purchase agreement. At month seven, the invoice will be issued in the amount of \$600,000; the amount of the invoice will be recorded as accounts receivable and the unbilled receivables balance will be decremented by \$600,000.

Contrary to Kerrisdale's assertion, unbilled receivables and contract assets are quite common in the software industry. Examples include: Alteryx with \$131 million; Datadog with \$60 million; SAP with €343 million; Adobe with \$183 million; and Salesforce with \$648 million.

As it relates to Baker Hughes, in accordance with U.S. GAAP, we have fully disclosed in our financial statements the receivables from Baker Hughes, breaking out the unbilled portion for transparency. We have no collection concerns as it relates to Baker Hughes. The unbilled receivable balance related to Baker Hughes was \$79.6M as of January 31, 2023. These are in line with the payment and invoicing terms we agreed to with Baker Hughes.

GROSS MARGIN:

Kerrisdale alleges that our gross margin from the Baker Hughes arrangement is 99%+ and implies that there must be something improper about that. The statement that our gross margin from that account is 99% is simply not true and cannot be inferred from our financial statements, as we do not provide that information on a customer-specific basis.

Kerrisdale is confusing a transaction we disclosed where C3 AI purchased expert services from Baker Hughes in the amount \$600,000 to support a third-party customer. We disclosed that we charged that purchase as a cost of revenue, as is proper. This has no relationship to the cost of revenue that we incur to fulfill the Baker Hughes contract.

This letter contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this letter other than statements of historical facts, including the business strategy, plans, and objectives for future operations of C3.ai, Inc. and its subsidiaries (“we,” “us,” or “our”), and our financial outlook, are forward-looking statements. The words “anticipate,” “believe,” “continue,” “estimate,” “expect,” “intend,” “may,” “will” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks and uncertainties, including difficulties in evaluating our prospects and future results of operations given our limited operating history, our dependence on a limited number of existing customers that account for a substantial portion of our revenue, our ability to attract new customers and retain existing customers, market awareness and acceptance of enterprise AI solutions in general and our products in particular, and our history of operating losses. Some of these risks are described in greater detail in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended April 30, 2022, and other filings and reports we make with the Securities and Exchange Commission from time to time, including our Quarterly Reports on Form 10-Q for the fiscal quarters ended July 31, 2022, October 31, 2022 and January 31, 2023, although new and unanticipated risks may arise. The future events and trends discussed in this letter may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, achievements, or events and circumstances reflected in the forward-looking statements will occur. Except to the extent required by law, we do not undertake to update any of these forward-looking statements after the date of this letter to conform these statements to actual results or revised expectations.

This letter also contains estimates and other statistical data made by independent parties and by us relating to market size and growth and other data about our industry. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. Neither we nor any other person makes any representation as to the accuracy or completeness of such data or undertakes any obligation to update such data after the date of this letter. In addition, projections, assumptions, and estimates of our future performance and the future performance of the markets in which we operate are necessarily subject to a high degree of uncertainty and risk.

In addition to the financial information presented in accordance with U.S. generally accepted accounting principles (“GAAP”), this letter includes non-GAAP financial information. We believe that non-GAAP financial information, when taken collectively with financial information presented in accordance with GAAP, may be helpful to investors because it provides consistency and comparability with past financial performance. There are a number of limitations related to the use of non-GAAP financial metrics versus their nearest GAAP equivalents. For example, other companies may calculate non-GAAP metrics differently or may use other metrics to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial metrics as tools for comparison. We urge you to review the non-GAAP financial information with the financial information presented in accordance with GAAP, and not to rely on any single financial measure to evaluate our business.