

Q1 2020 Prepared Remarks

Denise Garcia, Investor Relations

Welcome to Upwork's discussion of its first quarter 2020 financial results. Leading the discussion today are Hayden Brown, Upwork's President and Chief Executive Officer, and Brian Kinion, Upwork's Chief Financial Officer. Following management's prepared remarks, we will be happy to take your questions. But first, let me review the safe harbor statement.

Safe Harbor Statement

During this call, we may make statements related to our business that are forward-looking statements under the federal securities laws. These statements are not guarantees of future performance, but rather are subject to a variety of risks, uncertainties and assumptions. Our actual results could differ materially from expectations reflected in any forward-looking statements. In addition, any statements regarding the current and future impacts of the COVID-19 pandemic on our business and actions we have taken in response to the COVID-19 pandemic are forward-looking statements and related to matters beyond our control and are changing rapidly. For a discussion of the material risks and other important factors that could affect our actual results, please refer to our SEC filings available on the SEC website and on our Investor Relations website as well as the risks and other important factors discussed in today's press release. Additional information will also be set forth in our Quarterly Report on Form 10-Q for the three months ended March 31, 2020 when filed. In addition, reference will be made to non-GAAP financial measures. Information regarding reconciliation of non-GAAP to GAAP measures can be found in the press release that was issued this afternoon on our Investor Relations website at investors.upwork.com.

As always, reported figures are rounded; unless otherwise noted, comparisons of the first quarter of 2020 are to the first quarter of 2019. All measures are GAAP unless cited as non-GAAP.

Please note that, consistent with recent SEC guidance, today we will be disclosing more current and detailed information regarding our operating results and financial condition in order to provide insight into the impact of the COVID-19 pandemic on our business. We do not currently plan to provide these types of disclosures in future earnings calls.

The prepared remarks corresponding to the information reviewed on today's conference call will also be available on our Investor Relations website, shortly after the call has concluded.

Now I'll turn the call over to Hayden.

Hayden Brown, President and CEO

Thanks, Denise, and thanks everyone for dialing in today.

The COVID-19 pandemic has unsettled all of us. I'd like to start by saying that our hearts are with everyone impacted by this unprecedented event. We are so incredibly grateful for the many individuals on the front lines of this crisis. Thank you.

In the face of the pandemic and the associated economic crisis, Upwork is focusing with a renewed sense of purpose on our mission, which is to create economic opportunities so people have better lives. In the current environment, we are drawing on our 20 years of practicing and enabling remote work in order to support our clients, many of

whom are mobilizing to expand their remote work capabilities internally, as well as seeking the talent they need to address urgent and emerging challenges and opportunities. I am pleased to say that given our prior experience working as a highly remote company, the transition to remote work for us has been smooth. More than half of our team members were already working from home across 800 cities before the pandemic, and today all of our approximately 2,000 team members are working remotely. As a result, we have successfully maintained high-performing operations while continuing to innovate our product offering. I want to express deep gratitude for the incredible efforts by our dedicated Upwork team, who have stayed focused on serving our customers during this time of unparalleled change.

Last quarter, I shared that our company is positioned at the crossroads of four major trends:

First, a planet blanketed by high-speed internet access, offering the potential to connect people across the globe like never before.

Second, better and better collaboration tools, making remote work increasingly comparable to being face-to-face.

Third, shifting sands in the labor force, in which people increasingly demand to work differently, seeking freedom from the traditional nine-to-five workplace and greater autonomy in when and for whom they work.

And fourth, an increasing war for talent, with companies running out of options for how to attract and retain the types of workers they need to be competitive.

In the last eight weeks, two of these trends have accelerated at an astonishing pace. Remote work has gone mainstream, and the genie is not going back in the bottle. A recent [Gartner](#) CFO study found that 74% of companies plan to permanently shift to more remote work after the current crisis passes. Additionally, working from home has opened many more workers' eyes to the benefits of remote work, A recent [Citrix poll](#) found that 28% of people who moved to work remotely during this crisis plan to seek out a job that lets them work remotely after the crisis passes.

Upwork was built to help companies excel in the very conditions that businesses are finding themselves in today — a world in which companies of all sizes are comfortable with a portion of their workforce being remote, and a time when companies recognize the strategic value of greater flexibility in how, when and at what cost that talent is engaged. We believe these two values — embracing remote talent and placing a premium on workforce agility and efficiency — will be hallmarks of the 'new normal' that emerges from the current crisis.

We are staying focused on serving our customers through this difficult time and setting our business up to support them as a 'new normal' is established. First and foremost, we are regularly providing our clients and highly-skilled independent professionals with the information, resources and tools to help them adapt quickly. I want to share a few examples of the steps we have taken in the last eight weeks to [meet the emerging needs](#) of our customers.

We launched a [Remote Work Resource Center](#) with best practices for how to build and manage a remote workforce, we began a series of training webinars for our customers, and together with Udacity, we developed a [Managing Remote Teams](#) online course.

Our team moved quickly to address the critical needs of freelancers. We were a founding partner of the [Freelancers Relief Fund](#), which assists independent workers experiencing financial hardship as a result of the pandemic. We mobilized to offer our Top Rated freelancers [faster access to their funds](#), accelerating their hourly contract payments by 50%. We also launched a new product called [Direct Contracts](#), which enables freelancers to receive the payments

protection of our escrow service for fixed-price engagements outside of the Upwork marketplace. Finally, we have seen unprecedented influxes of new talent to our platform and are streamlining our talent onboarding experience to better identify the most qualified professionals possessing the most in-demand skills to fast-track them to open opportunities.

The most important way we can help our freelancer community through this difficult time is by bringing them more work. Last week we debuted our [“Work Together Talent Grants program”](#) which offers one million dollars in grants for companies that hire independent professionals on Upwork to work on COVID-19-related projects. We also launched a [curated set of job templates](#) to help clients identify and immediately act on their crisis response and business continuity needs they have. Speaking of these needs, I’d like to briefly provide some color on how our clients have been looking to Upwork for critical help during this crisis.

We have received requests from multiple clients for help reviewing and analyzing which of their open staff augmentation roles they can source via remote workers. We are working with a large, U.S.-based multinational corporation to deliver on projects that are typically completed by contingent and statement of work providers and are creating a talent pipeline in case employees or current contractors cannot work due to the crisis. For another European-based Enterprise client, we identified roles across software development, devops, finance, accounting and HR that could move to Upwork, supported by our employer-of-record services.

Another area of activity is urgent project-based work. A small tech non-profit turned to Upwork for the user experience design, translation and marketing talent they needed to rapidly launch a COVID-19 resource center. Another small business client, a commercial lender, turned to Upwork to grow its customer service team to meet increased customer demand due to the COVID-19 crisis. Larger clients are also coming to Upwork for large, project-based work. The training and enablement teams of a multinational cybersecurity company used Upwork to source instructional designers and e-learning developers to create new training materials for their customers and internal teams. A sports marketing agency is hiring highly-skilled independent professionals on Upwork with expertise in software development, quality assurance testing, user experience design, graphics and animation as they develop entirely new products offering augmented reality experiences and gamification programs.

We also heard from clients asking to move their non-Upwork contractors and agencies to our platform to take advantage of our global payroll and Work Protection products, which enable businesses to classify and pay independent professionals compliantly in 160 countries. These customers wanted the unified billing, enhanced visibility and reporting, strong spend control and worker classification peace of mind offered by our platform. One client, a global electronics conglomerate, was faced with the sudden inability to relocate a pool of newly-hired international team members to a U.S. office due to COVID-19 border restrictions. Instead of having to cancel this program and rescind these team members’ offers, they were able to onboard these employees onto our remote talent infrastructure, ensuring continuity of the program.

It is truly humbling to see the human ingenuity and creativity revealed on our platform as businesses nimbly adapt to the current challenges.

Now, I’d like to transition into discussing the performance of our business, including the impact of the pandemic. Our first quarter revenue was strong, \$83.2 million, representing 21% year-over-year growth and exceeding the high end of our guidance range. The pandemic started to impact our platform during the second week of March. For two weeks, we saw a deceleration in clients initiating new work, which we believe was a symptom of companies entering a “triage” phase as they pivoted focus in response to the crisis and the impending shelter-in-place orders. By the fourth week of March, this client activity started to rebound and accelerate week-over-week. In early to mid-April,

we began to surpass pre-crisis levels on numerous client activity metrics, and momentum has continued to build. In the last week, for example, we broke our own records by a significant margin on leading indicators such as client registrations and new job posts.

While it's still early in these trends, we are optimistic that these leading indicators of future spend will translate, as they typically do, into GSV and revenue. These signals indicate companies have shifted from the "triage" phase in March to a "transition" phase in April, as they are now focused on getting work done in new ways as they navigate the opportunities and constraints this crisis has created.

That said, significant, unpredictable macroeconomic risks will continue to persist throughout 2020 and beyond. The biggest unknown for our business this year is how well our existing small and mid-sized business customers will fare, since these businesses comprise a majority of our GSV. So far, these businesses appear to be weathering the pandemic well. We observed average weekly GSV from small and mid-sized clients decrease 3% starting in the week of March 9th and lasting through early April, compared to the average levels seen earlier in the quarter. This relatively muted impact may be due to our clients' industry mix, with approximately one-third of our GSV generated by clients in industries classified by a Goldman Sachs research report as "Low Exposure" to recession risk. Another one-third of our clients' industries are classified as "Moderate Exposure," and only 1% as "High Exposure," with the remainder having an unspecified industry. Further, our own analysis of changes in demand that we saw as the crisis hit in March suggests that approximately half of the GSV on our platform comes from categories of work that are "Essential" to our clients' businesses, and an additional one-third is from categories that are "Somewhat Essential." This leads us to believe that the large majority of work being performed on the Upwork platform will endure as long as these clients are still in business.

I want to emphasize that the data, analyses, and perspectives shared today are recent and may be subject to change given the unpredictable and volatile nature of the pandemic and its ongoing impact. Personally, I am concerned about the pace at which we as a global community will emerge from the shadow of this pandemic. However, I continue to believe in the resiliency of our business and our customers and am confident in the positive impact we will see over time as a result of the hard work we are doing now to ensure current and prospective customers understand the strategic advantage of embracing Upwork in a significant and sustaining way.

Against that backdrop, I'll provide an update on our focus areas for Q2.

On our last call, I shared our three-pronged growth strategy for 2020, which is our plan for achieving and sustaining a 20% plus annual revenue growth rate in the years to come. While the global economic climate has changed dramatically since the beginning of the year, I continue to believe this goal is achievable, and that these three pillars are as critical to delivering growth now as they were a quarter ago.

The first goal — **to attract more, bigger clients** — has been at the forefront as we aim to close the perception versus reality gap that we face. Too many prospective clients have either never heard of Upwork, or wrongly believe that we are only a site for small gig work. In Q1, we saw significant traction on this goal, with our year-over-year brand awareness among prospects increasing 70%, accompanied by increasing strength in the volume of high-value job posts in our marketplace. This quarter, we are retooling our sales assets and talk tracks to speak to our target clients' needs at the current moment and are launching new solution-focused landing pages that showcase the ways companies can leverage independent professionals immediately for their most pressing needs.

We are also encouraged by progress on our second growth goal — **enabling more spend per client**. In Q1, even through the pandemic onset, we substantially grew the number of users per Enterprise account, increased the number of accounts spending a million dollars or more, and exceeded our goal for GSV per contract every single

week of the quarter. We continued to improve our secure authentication options for businesses of all sizes, including enhanced Single Sign-On (SSO) capabilities that streamline user onboarding in corporate accounts, and we began engineering work on a roadmap of enhancements for our employer-of-record service. We continue to invest to ensure this solution is truly unparalleled in enabling clients to work with highly distributed, flexible teams around the globe.

And our third goal — **to make more high-quality matches** — has been a particular focus as we make the most of the massive influx of new talent we have seen since the start of the pandemic, as well as the heightened activity levels from existing freelancers on our site. Our ability to precisely categorize highly-skilled independent professionals and jobs, and match them at scale, is more important than ever. And we made a number of positive changes in Q1, including modifications to our Connects program — the virtual tokens used to submit proposals for jobs — as well as changes to our search and matching system that have contributed to pushing our fill rate up. In Q2, we are focused on key enhancements to our search and match capabilities, as well as rolling out easier access to pre-vetted talent that is ready to work for our Business and Enterprise clients.

Now, I'd like to take a minute to talk about how we're managing expenses during this time of uncertainty. We have trimmed spending in areas such as T&E and ancillary office-related expenses, and we have stepped up our cost-management efforts across the board. This includes re-evaluating vendor and headcount spend, although we are continuing to hire for roles that support our growth priorities. We saw some sales productivity softness in Q1 as a result of the pandemic's immediate impact on larger companies' general willingness to sign new contracts; consequently, we have paused further sales hiring and are adapting our sales approach to better address clients' most top-of-mind concerns. We continue to have confidence in the economics of our sales model and the imperative of serving larger clients, as evidenced by the sales team achieving close to full Q1 quota, despite the challenges in March. We will re-initiate sales team hiring once we see more predictable economic activity from larger clients during this crisis.

Given our strong balance sheet and relevant value proposition, we are redeploying these cost savings and incrementally investing to take advantage of this unprecedented moment to reach and serve customers like never before. On the marketing side, we see a unique opportunity to drive higher performance from both direct and brand advertising, given the stronger appetite for more remote-friendly and flexible solutions from customers right now. And on the R&D side, we are continuing to invest in product innovations that will drive growth both this year and in the years ahead. I'm confident that the steps we are taking today by investing in serving our customers in critical ways are moving us towards a sustainable 20% plus revenue growth rate in the future, with the goal of fully unlocking our \$560B market opportunity.

I'd like to thank our teams for their around-the-clock work during this unprecedented time, our customers for their continued loyalty and trust, and our investors for seeing the future that we see — a future with greater talent access for businesses, as organizations unshackle themselves from outdated location-based constraints that have governed with whom and how they work. A future with greater freedom for workers, as they trade in painful commutes and pointless facetime requirements in exchange for greater autonomy and job satisfaction. And a future with greater productivity in our economy, as businesses integrate the powerful advantages that modern capabilities and tools, including Upwork, can deliver.

Now I'll turn the call over to Brian before we open the call to your questions.

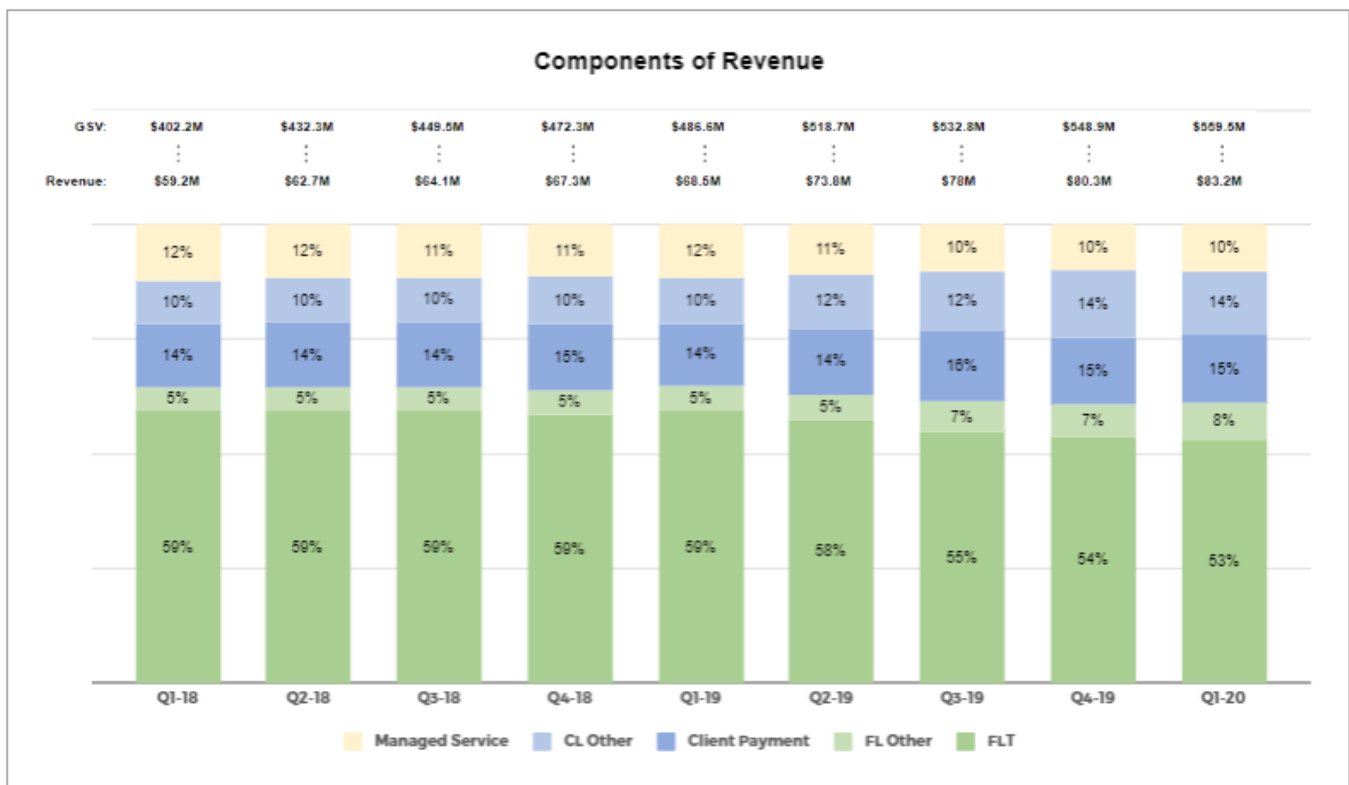
Brian Kinion, CFO

Thank you, Hayden, and good afternoon everyone.

I'd like to start with a brief update on our first quarter financial results and share thoughts regarding our outlook before opening the call to your questions.

GSV, which includes both client spend and additional fees we charge for other value-added services, was \$559.5 million in the first quarter. Core clients increased by approximately 4,000 in the first quarter, to approximately 129,000. Core clients increased in-line with our expectations, given our current emphasis on not just adding new accounts, but expanding our footprint within existing accounts. Client spend retention was 102% as of March 31, 2020, steady with where this metric was in Q4.

Revenue increased by 21% year-over-year to \$83.2 million in the first quarter, exceeding the high-end of our guidance range of \$82.5 million. We estimate that our Q1 revenue year-over-year growth rate was reduced by approximately 1% by the COVID-19 pandemic. Marketplace revenue increased by 24% year-over-year to \$74.8 million in the first quarter, representing 90% of our total revenue. Managed services revenue increased as expected, growing 5% in the first quarter to \$8.4 million.



Revenue for the reporting periods during 2018 are presented in accordance with Accounting Standards Codification Topic 605. Revenue for the reporting periods during 2019 and 2020 are presented in accordance with Accounting Standards Codification Topic 606. "Client Other" is the difference between client revenue and Client Payment Fees. "Freelancer Other" is the difference between freelancer revenue and Freelancer Service Fees.

Our overall take rate in the first quarter was 14.9%, up from 14.1% in the year prior. Our marketplace take rate improved to 13.6% in Q1 compared to 12.6% in the year prior. This improvement was primarily from several changes we made after the first quarter of last year, including the adoption of new paid client subscription plans, changes to Connects – which are the virtual tokens that allow independent professionals to bid on projects on our platform – and the increase in client payment fees for Upwork Basic and Plus from 2.75% to 3%.

Non-GAAP gross profit was \$59.9 million, representing 72% of revenue, compared with 69% in the first quarter of 2019. The increase was primarily due to the growth in marketplace revenue, and improvements in the management of our cloud computing costs.

Turning to operating expenses, in February 2020 prior to the COVID-19 pandemic, we made significant organizational changes to streamline the delivery of our end-to-end customer experiences that resulted in a one-time charge of \$1.6 million. Operating expenses will increase in absolute dollars but fluctuate as a percentage of revenue from period-to-period as we continue to invest for growth.

Non-GAAP sales and marketing expenses were \$29.8 million in the first quarter, representing 36% of total revenue as compared to 29% in the year prior. The year-over-year increase was driven by the build out of our direct sales team through the back half of 2019 and by increased marketing investments including our brand campaign. In the second quarter, we expect to spend an additional \$3-5 million above what we typically spend, as we are focused on driving both brand awareness and performance marketing given the market's increased appetite for remote-friendly and flexible workforce solutions.

Non-GAAP R&D expenses were \$17.4 million, representing 21% of total revenue as compared to 21% in the first quarter of 2019. We continue to invest in product innovation as a core part of our growth strategy.

Lastly, non-GAAP G&A expenses were \$14.5 million, representing 17% of total revenue compared to 18% in the first quarter of 2019.

Transaction losses were \$0.9 million in the first quarter, representing approximately 1% of total revenue. Our typical range has been between 1% and 2% of revenue. We expect transaction losses will return to the high-end of the typical range during the COVID-19 pandemic, due to changes in clients' ability to pay and due to our move to pay top-rated freelancers faster.

Non-GAAP net loss was \$3.6 million in the first quarter of 2020 compared to non-GAAP net income of \$0.1 million in the first quarter of 2019. Our basic and diluted non-GAAP net loss per share was \$0.03 in the first quarter of 2020 compared to breakeven in the first quarter of 2019. Adjusted EBITDA loss was \$1.0 million in the first quarter compared to adjusted EBITDA of \$0.8 million in the first quarter of 2019.

Now, I'd like to share thoughts regarding our outlook.

Given the rapidly evolving and unpredictable environment, and the combination of both tailwinds and headwinds that we can contemplate impacting our revenue performance in the next few quarters, we are withdrawing our annual revenue guidance. We are, however, providing guidance for the second quarter of 2020. We expect revenue to be in the range of \$79 million to \$81 million. This anticipates the effect of the aforementioned March slowdown in client activity, which will impact our business in the second quarter, as weaker new activity in March translates into less associated recurring revenue going forward.

Our approach regarding guidance on EBITDA and our focus on investing for growth versus profitability this year have not changed. At this time, we do not expect EBITDA to be positive in 2020 as we remain bullish on our business opportunities and plan to continue funding both near-term and long-term growth initiatives while closely monitoring our performance to achieve our ROI thresholds. We will continue to manage costs with discipline while preserving our cash and maintaining our strong balance sheet, which includes cash and marketable securities of over \$145 million at the end of the first quarter.

While there are many unknowns about the future of this pandemic and its macroeconomic effects, we remain optimistic about the outlook for our business given the secular trends that are being cemented today. Upwork's business model is durable to a variety of potential impacts, and we are executing on a plan that will allow us to exit the current crisis stronger than before. While we are buoyed by the speed and strength of the resurgence in activity we have seen on our platform in recent weeks, we are also taking measures to ensure we are prepared for whatever

the future holds. Our ongoing scenario planning anticipates a range of economic outcomes, and these plans give us confidence that we have ample cash runway even in the event of years of macroeconomic hardship.

We are committed to providing regular investor updates and plan to participate in virtual investor conferences and alternative meetings as much as possible, despite the challenging macroeconomic environment.

We will now take your questions.

UPWORK INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except for per share data)
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
Revenue		
Marketplace	\$ 74,782	\$ 60,455
Managed services	8,414	8,021
Total revenue	83,196	68,476
Cost of revenue	23,485	21,125
Gross profit	59,711	47,351
Operating expenses		
Research and development	19,348	15,800
Sales and marketing	30,678	20,518
General and administrative	17,824	15,661
Provision for transaction losses	912	637
Total operating expenses	68,762	52,616
Loss from operations	(9,051)	(5,265)
Interest expense	230	373
Other (income) expense, net	731	(479)
Loss before income taxes	(10,012)	(5,159)
Income tax provision	(9)	(1)
Net loss	\$ (10,021)	\$ (5,160)
Net loss per share, basic and diluted	\$ (0.09)	\$ (0.05)
Weighted-average shares used to compute net loss per share, basic and diluted	114,119	106,639

UPWORK INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 65,635	\$ 48,392
Marketable securities	79,693	85,481
Funds held in escrow, including funds in transit	123,556	108,721
Trade and client receivables, net	35,260	30,156
Prepaid expenses and other current assets	8,387	7,885
Total current assets	312,531	280,635
Property and equipment, net	24,989	21,454
Goodwill	118,219	118,219
Intangible assets, net	2,668	3,335
Operating lease asset	22,620	21,908
Other assets, noncurrent	1,040	829
Total assets	<u>\$ 482,067</u>	<u>\$ 446,380</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 1,719	\$ 652
Escrow funds payable	123,556	108,721
Debt, current	22,589	7,584
Accrued expenses and other current liabilities	23,394	18,342
Deferred revenue	14,386	13,799
Total current liabilities	185,644	149,098
Debt, noncurrent	8,814	10,699
Operating lease liability, noncurrent	22,489	21,186
Other liabilities, noncurrent	6,384	5,973
Total liabilities	223,331	186,956
Stockholders' equity		
Common stock	11	11
Additional paid-in capital	440,703	431,370
Accumulated deficit	(181,978)	(171,957)
Total stockholders' equity	258,736	259,424
Total liabilities and stockholders' equity	<u>\$ 482,067</u>	<u>\$ 446,380</u>

UPWORK INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (10,021)	\$ (5,160)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for transaction losses	767	415
Depreciation and amortization	2,308	1,532
Amortization of debt issuance costs	13	13
Amortization of discount on purchases of marketable securities	(174)	(283)
Amortization of operating lease asset	969	1,072
Tides Foundation common stock warrant expense	188	252
Stock-based compensation expense	5,537	4,295
Changes in operating assets and liabilities:		
Trade and client receivables	(5,891)	(26,149)
Prepaid expenses and other assets	(464)	(886)
Operating lease liability	(459)	(378)
Accounts payable	994	(596)
Accrued expenses and other liabilities	3,881	(4,125)
Deferred revenue	650	603
Net cash used in operating activities	<u>(1,702)</u>	<u>(29,395)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(26,789)	(71,713)
Proceeds from maturities of marketable securities	33,000	—
Purchases of property and equipment	(1,288)	(3,604)
Internal-use software and platform development costs	(1,999)	(1,210)
Net cash provided by (used in) investing activities	<u>2,924</u>	<u>(76,527)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Changes in escrow funds payable	14,834	21,899
Proceeds from exercises of stock options	3,165	764
Proceeds from borrowings on debt	15,000	25,000
Repayment of debt	(1,893)	—
Net cash provided by financing activities	<u>31,106</u>	<u>47,663</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	32,328	(58,259)
Cash, cash equivalents, and restricted cash—beginning of period	159,603	230,067
Cash, cash equivalents, and restricted cash—end of period	<u>\$ 191,931</u>	<u>\$ 171,808</u>

The following table reconciles cash, cash equivalents, and restricted cash as reported in the condensed consolidated balance sheets to the total of the same amounts shown in the condensed consolidated statements of cash flows as of March 31, 2020 and December 31, 2019 (in thousands):

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Cash and cash equivalents	\$ 65,635	\$ 48,392
Restricted cash	2,740	2,490
Funds held in escrow, including funds in transit	<u>123,556</u>	<u>108,721</u>
Total cash, cash equivalents, and restricted cash as shown in the condensed consolidated statement of cash flows	<u>\$ 191,931</u>	<u>\$ 159,603</u>

UPWORK INC.
COST OF REVENUE AND GROSS MARGIN
(In thousands, except percentages)
(Unaudited)

	Three Months Ended March 31,			
	2020	2019	Change	
Cost of revenue	\$ 23,485	\$ 21,125	\$ 2,360	11 %
Components of cost of revenue:				
Cost of freelancer services to deliver managed services	6,962	6,763	199	3 %
Other components of cost of revenue	16,523	14,362	2,161	15 %
Total gross margin	72 %	69 %		

UPWORK INC.
RECONCILIATION OF GAAP TO NON-GAAP RESULTS
(In thousands, except for percentages and per share data)
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
GAAP Net Loss	\$ (10,021)	\$ (5,160)
Add back (deduct):		
Stock-based compensation expense	5,537	4,295
Depreciation and amortization	2,308	1,532
Interest expense	230	373
Other (income) expense, net	731	(479)
Income tax provision	9	1
Tides Foundation common stock warrant expense	188	252
Non-GAAP Adjusted EBITDA	<u>\$ (1,018)</u>	<u>\$ 814</u>
Cost of Revenue Reconciliation:		
Cost of revenue, GAAP	\$ 23,485	\$ 21,125
Stock-based compensation	(174)	(144)
Cost of revenue, Non-GAAP	<u>\$ 23,311</u>	<u>\$ 20,981</u>
<i>% of revenue, GAAP</i>	28 %	31 %
<i>% of revenue, Non-GAAP</i>	28 %	31 %
Gross Profit Reconciliation:		
Gross profit, GAAP	\$ 59,711	\$ 47,351
Stock-based compensation	174	144
Gross profit, Non-GAAP	<u>\$ 59,885</u>	<u>\$ 47,495</u>
<i>% of revenue, GAAP</i>	72 %	69 %
<i>% of revenue, Non-GAAP</i>	72 %	69 %
Operating Expenses Reconciliation:		
Research and development, GAAP	\$ 19,348	\$ 15,800
Stock-based compensation	(1,950)	(1,380)
Research and development, Non-GAAP	<u>\$ 17,398</u>	<u>\$ 14,420</u>
<i>% of revenue, GAAP</i>	23 %	23 %
<i>% of revenue, Non-GAAP</i>	21 %	21 %
Sales and marketing, GAAP	\$ 30,678	\$ 20,518
Stock-based compensation	(928)	(642)
Sales and marketing, Non-GAAP	<u>\$ 29,750</u>	<u>\$ 19,876</u>
<i>% of revenue, GAAP</i>	37 %	30 %
<i>% of revenue, Non-GAAP</i>	36 %	29 %

General and administrative, GAAP	\$ 17,824	\$ 15,661
Stock-based compensation	(2,485)	(2,129)
Amortization of intangible assets	(667)	(667)
Tides Foundation common stock warrant expense	(188)	(252)
General and administrative, Non-GAAP	<u>\$ 14,484</u>	<u>\$ 12,613</u>
<i>% of revenue, GAAP</i>	21 %	23 %
<i>% of revenue, Non-GAAP</i>	17 %	18 %

Loss from Operations Reconciliation:

Loss from operations, GAAP	\$ (9,051)	\$ (5,265)
Stock-based compensation	5,537	4,295
Amortization of intangible assets	667	667
Tides Foundation common stock warrant expense	188	252
Loss from operations, Non-GAAP	<u>\$ (2,659)</u>	<u>\$ (51)</u>
<i>% of revenue, GAAP</i>	-11 %	-8 %
<i>% of revenue, Non-GAAP</i>	-3 %	— %

Net Loss Reconciliation:

Net loss, GAAP	\$ (10,021)	\$ (5,160)
Stock-based compensation	5,537	4,295
Amortization of intangible assets	667	667
Tides Foundation common stock warrant expense	188	252
Net income (loss), Non-GAAP	<u>\$ (3,629)</u>	<u>\$ 54</u>
<i>% of revenue, GAAP</i>	-12 %	-8 %
<i>% of revenue, Non-GAAP</i>	-4 %	— %

Net Loss per Share Reconciliation:

Weighted-average shares outstanding	114,119	106,639
Net loss per share, GAAP	\$ (0.09)	\$ (0.05)
Net loss per share, Non-GAAP	\$ (0.03)	\$ —