

Upwork Q1 2024 Earnings

Safe Harbor Statement

This presentation of Upwork Inc. (the “Company,” “we,” “us,” or “our”) contains "forward-looking" statements within the meaning of the federal securities laws. Forward-looking statements include all statements other than statements of historical fact, including any statements regarding our future operating results and financial position, including expected financial results for the second quarter and full year 2024, information or predictions concerning the future of our business or strategy, anticipated events and trends, potential growth or growth prospects, competitive position, technological and market trends, including artificial intelligence, industry environment, the economy, our plans with respect to our share repurchase program, and other future conditions.

We have based these forward-looking statements largely on our current expectations and projections as of the date hereof 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 inherent uncertainties, known and unknown risks, and changes in circumstances that are difficult to predict and in many cases outside our control, and you should not rely on such forward-looking statements as predictions of future events. We make no representation that the projected results will be achieved or that future events and circumstances will occur, and actual results may differ materially and adversely from our expectations. The forward-looking statements are made as of the date hereof, and we do not undertake, and expressly disclaim, any obligation to update or revise any forward-looking statements, to conform these statements to actual results or to make changes in our expectations, except as required by law. Additional information regarding the risks and uncertainties that could cause actual results to differ materially from our expectations is included under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 15, 2024, and in our other SEC filings. Additional information will also be set forth under the caption “Risk Factors” in our Quarterly Report on Form 10-Q for the three months ended March 31, 2024, when filed.

Undue reliance should not be placed on the forward-looking statements in this presentation. Neither we nor any other person makes any representation or warranty as to the accuracy or completeness of the information herein. This presentation is made solely for informational purposes.

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Strong top line growth and margin accretion

Q1'24

GSV

\$1.0B

+1% year-over-year

Revenue

\$190.9M

+19% year-over-year

GAAP Gross Margin

77%

*+200 bps
year-over-year*

Adjusted EBITDA

\$33.3M

*17% Adjusted
EBITDA Margin*

Adjusted Free Cash Flow

\$15.5M

Take Rate

18.9%

*+290 bps
year-over-year*

“GSV,” “Adjusted EBITDA,” “Adjusted Free Cash Flow,” and “Take Rate” are defined in the definitions section of this presentation. Adjusted EBITDA, adjusted EBITDA margin, and adjusted free cash flow are non-GAAP measures and are presented for supplemental purposes only and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. An explanation of non-GAAP measures and reconciliations to their most directly comparable GAAP measures can be found in the appendix of this presentation. For more information regarding our first quarter 2024 results, please refer to our press release dated May 1, 2024 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, when filed.

Raising the bar in the first quarter



AI & Machine Learning category
GSV grew 50% year-over-year



Raising revenue and adjusted
EBITDA outlook for 2024



Repurchased
5.2M shares in Q1



Establishing long-term adjusted
EBITDA margin target of 35%

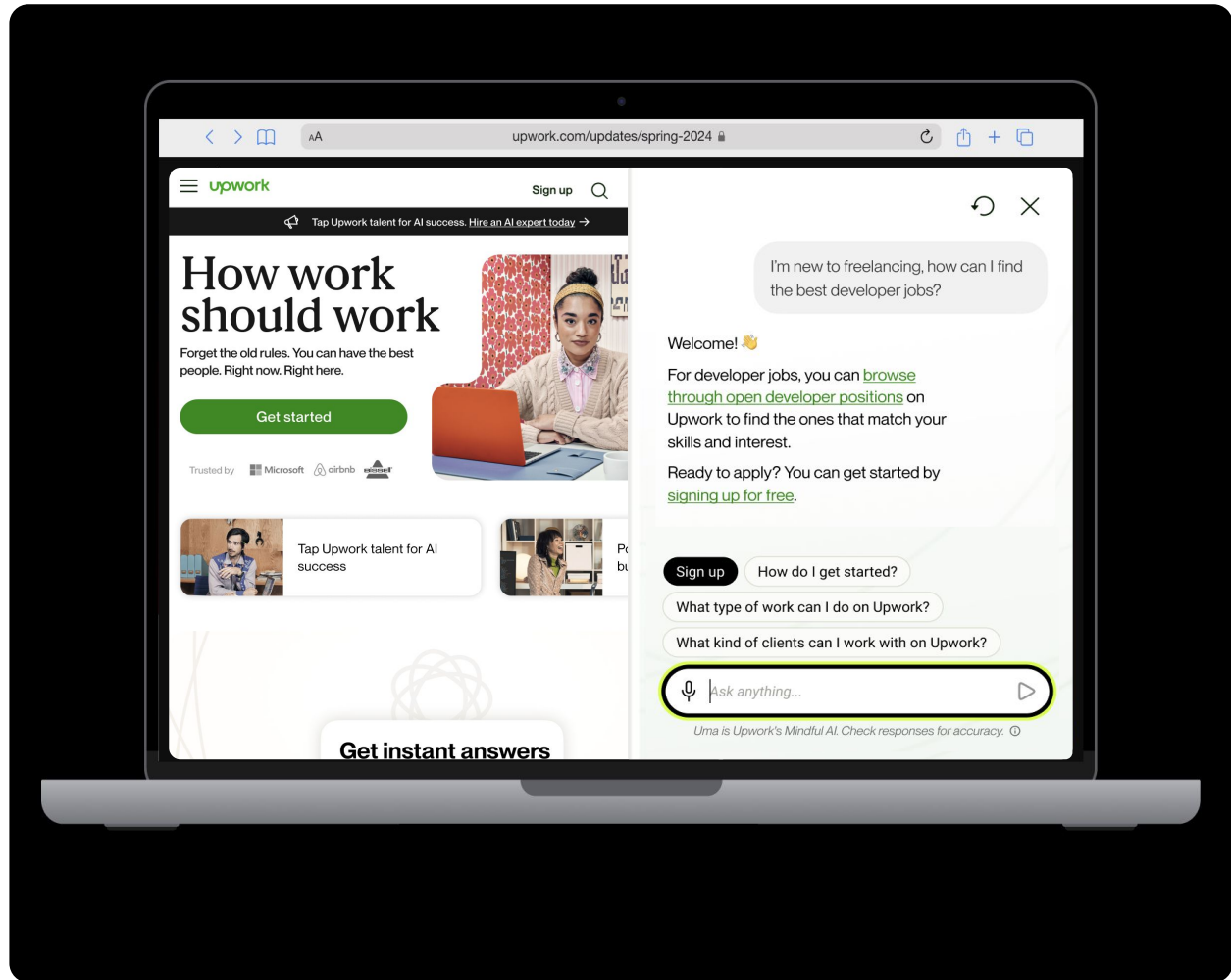
Introducing Uma: Upwork's Mindful AI

Developed on top of
industry-leading LLMs

Customized with Upwork
platform data

Uma powers new features like
Best Match, and improves
existing features like Job Post
Generator, Proposal Tips, and
Upwork Chat Pro

Conversational companion to
help guide clients and
freelancers to success



Platform enhancements

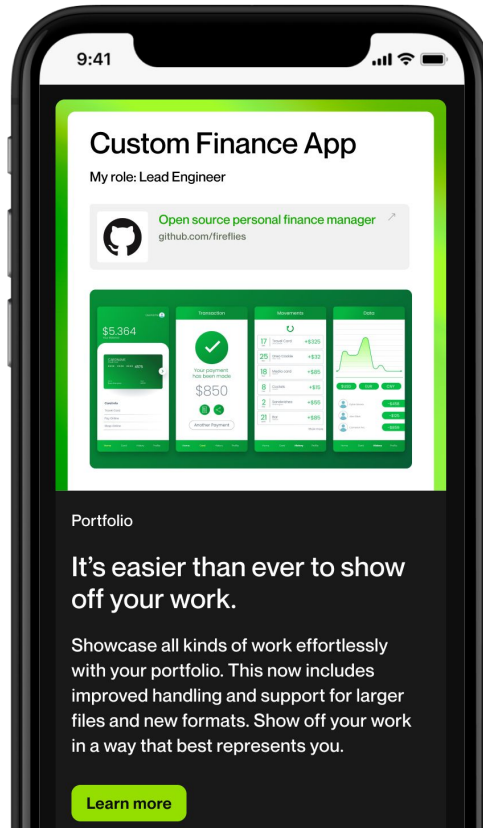
Upwork Coaching Services

Personalized strategy calls and workshops help 24-34% of freelancers increase their earnings

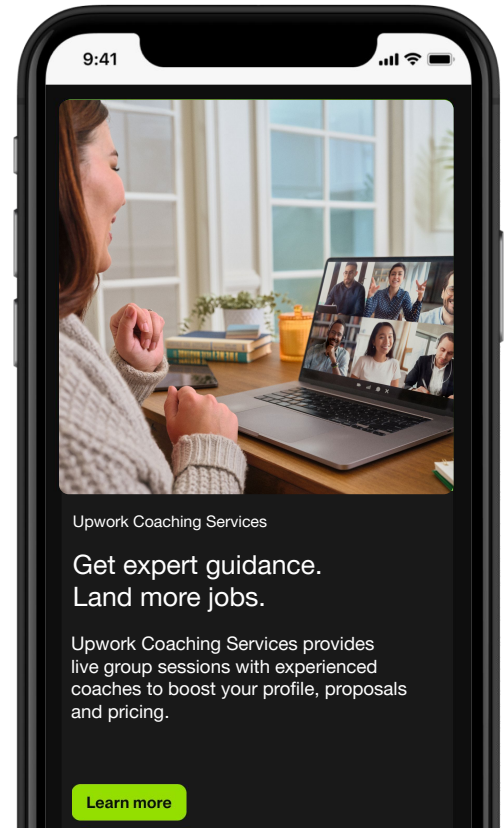
Portfolio Creator

Improved portfolio provides an upgraded experience for uploading and organizing content to display on Freelancer profiles

Portfolio Creator

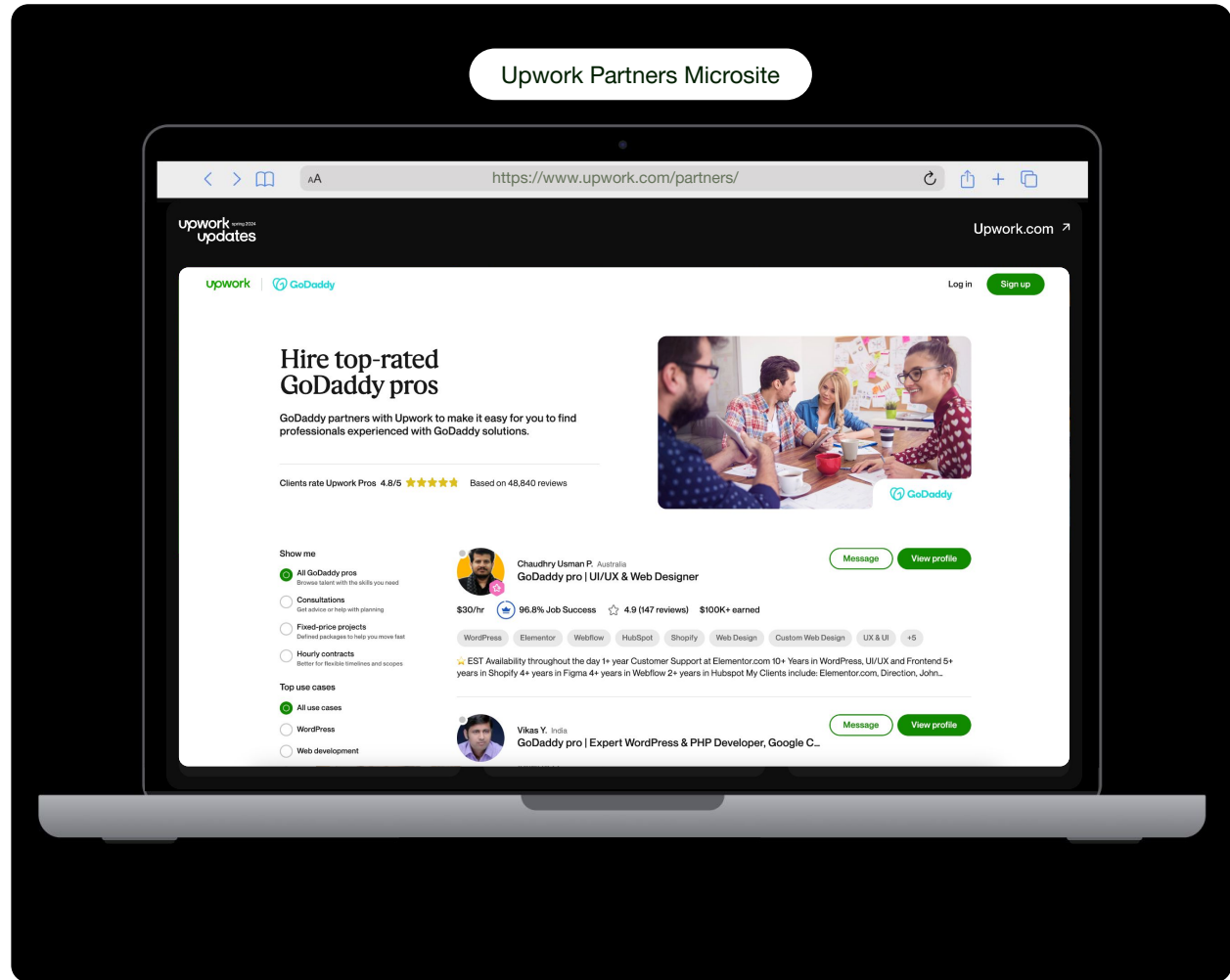


Upwork Coaching Services

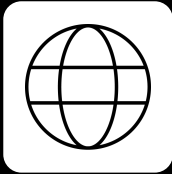


Upwork Partner Experts

Partners can offer their customers immediate direct access to a network of trusted, independent experts in their respective technologies



Onboarding key Enterprise partners and clients



28 new logos in the first quarter, including Ansys, Unisys, and WPP



Brought on Workday's VNDLY as newest vendor management systems partner



Introduced Kelly OCG as Upwork's first MSP partner

**Vendor Management
System Partners**

SAP Fieldglass 

 **FLEXTRACK®**

 **VNDLY**

Continued success in burgeoning ads business

Freelancer Plus

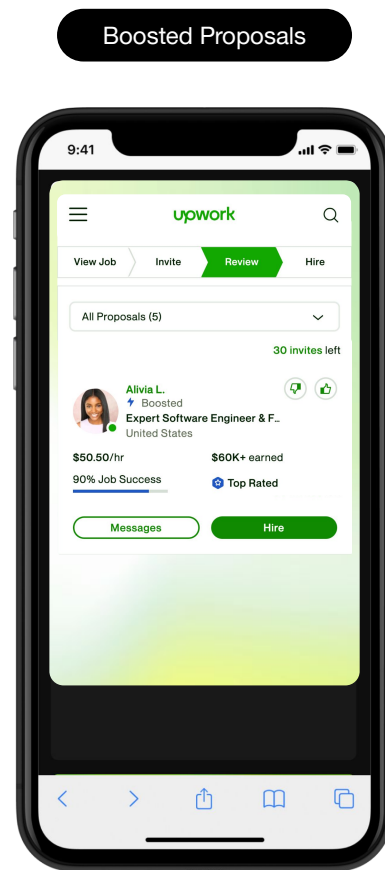
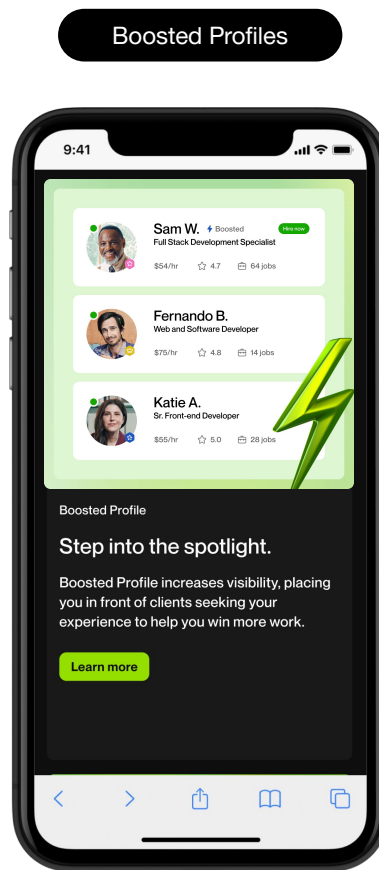
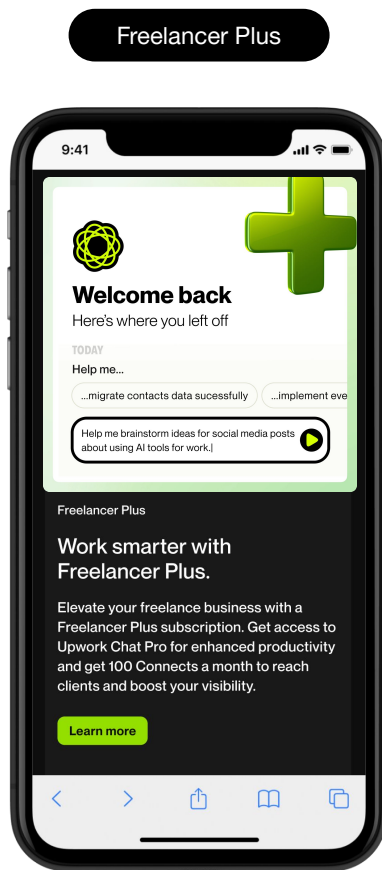
Over 100 thousand active subscriptions in Q1

Boosted Profiles

Boosted Profiles deliver 4x more earnings on ad spend, making this a compelling solution for freelancers to get noticed and win work

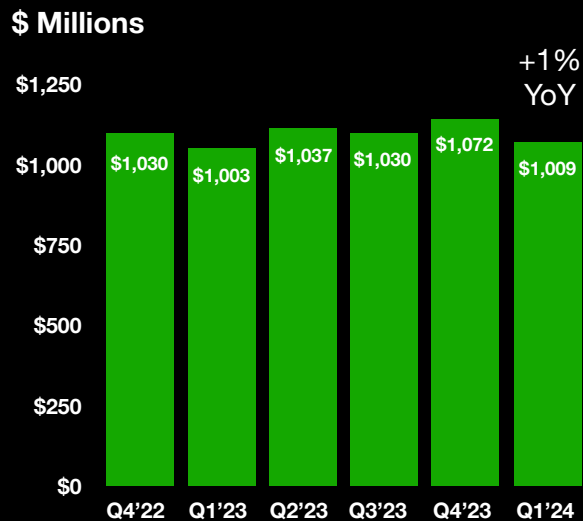
Boosted Proposals

Boosted Proposals are delivering 10x more earnings on ad spend for freelancers who elect to boost

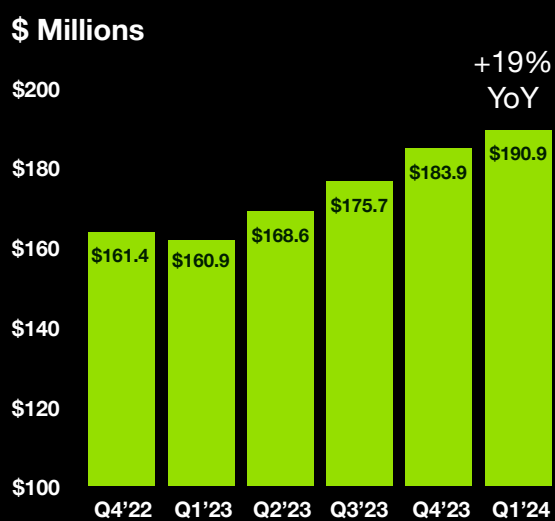


Strong first quarter revenue and focus on margin expansion

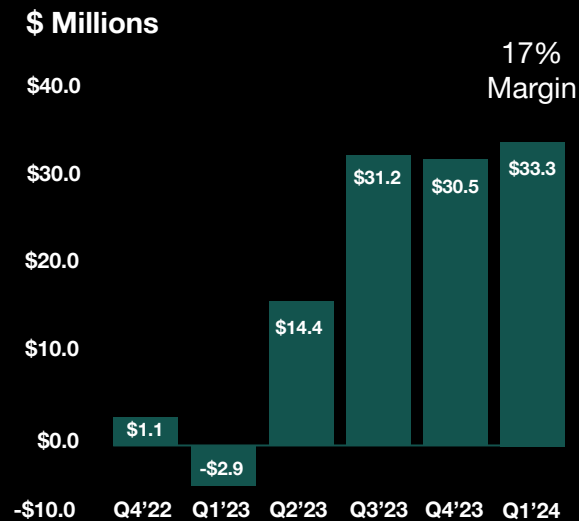
GSV
\$1.0B



Revenue
\$190.9M



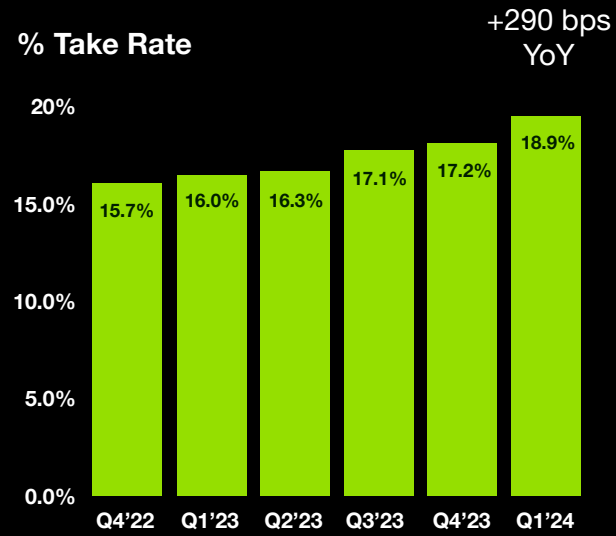
Adjusted EBITDA
\$33.3M



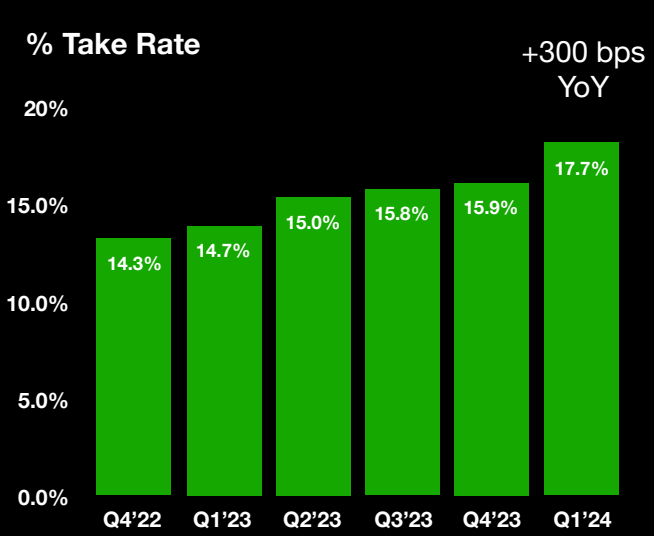
Adjusted EBITDA and adjusted EBITDA margin are non-GAAP measures and are presented for supplemental purposes only and should not be considered in isolation or as substitutes for financial information presented in accordance with GAAP. An explanation of non-GAAP measures and reconciliations to their most directly comparable GAAP measures can be found in the appendix of this presentation.

Take rate achieved all time high; acceleration in new client adds in Q1

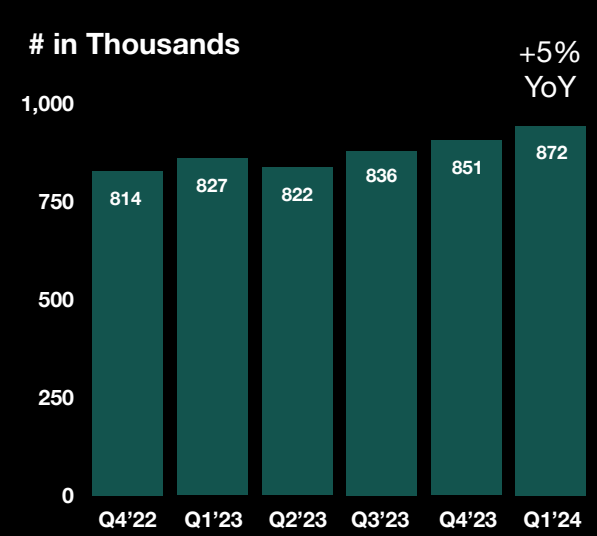
Take Rate
18.9%



Marketplace Take Rate
17.7%



Active Clients
872K



"Take Rate," "Marketplace Take Rate," and "Active Clients" are defined in the definitions section of this presentation.

Strong growth in Marketplace and Enterprise revenue

Marketplace Revenue

\$164.3M

\$ Millions

\$200

\$150

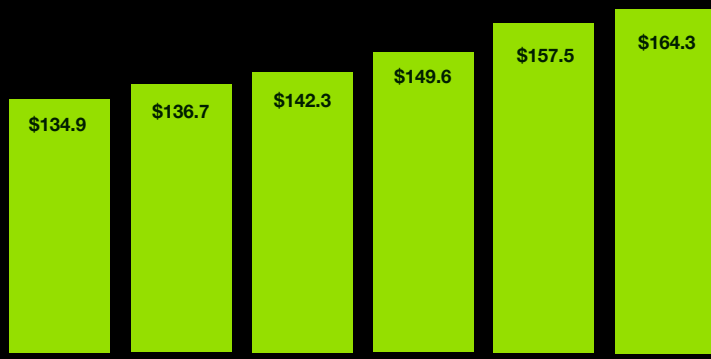
\$100

\$50

\$0

+20%
YoY

Q4'22 Q1'23 Q2'23 Q3'23 Q4'23 Q1'24



Enterprise Revenue

\$26.6M

\$ Millions

\$30.0

\$20.0

\$10.0

\$0.0

+10%
YoY

Q4'22 Q1'23 Q2'23 Q3'23 Q4'23 Q1'24



In order to conform to the current period presentation as of December 31, 2023, we present revenue from Enterprise Solutions and Managed Services together as Enterprise revenue in prior periods and no longer report revenue from our Enterprise Solutions offering in Marketplace revenue.

Healthy balance sheet and strong cash flow

Adjusted
Free Cash Flow

In the first quarter 2024

\$15.5M

Shares
Repurchased

In the first quarter 2024

5.2M

Through April 23, 2024

8.1M

Cash, cash equivalents
and marketable securities

As of March 31, 2024

\$490.6M

Adjusted Free Cash Flow is a non-GAAP measure and is presented for supplemental purposes only and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. An explanation of non-GAAP measures and reconciliations to their most directly comparable GAAP measures can be found in the appendix of this presentation.

Raising full year guidance on top and bottom line

	Q2 2024 Guidance	FY 2024 Guidance
Revenue	\$190 million - \$195 million	\$770 million - \$782 million
Adjusted EBITDA	\$32 million - \$36 million	\$140 million - \$150 million
Diluted weighted-average shares outstanding	139 million - 141 million	140 million - 144 million
Non-GAAP diluted EPS	\$0.21 - \$0.23	\$0.88 - \$0.92
Stock-based compensation expense	Stock-based compensation expense is expected to average slightly more than \$20 million per quarter for 2024	

Appendix + Definitions

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

<i>(In thousands)</i>	Three Months Ended March 31,	
	2024	2023
Revenue		
Marketplace ⁽¹⁾	\$ 164,330	\$ 136,676
Enterprise ⁽¹⁾	26,607	24,182
Total revenue	190,937	160,858
Cost of revenue	44,193	40,427
Gross profit	146,744	120,431
Operating expenses		
Research and development	52,916	44,481
Sales and marketing	47,851	65,000
General and administrative	32,001	29,287
Provision for transaction losses	927	6,701
Total operating expenses	133,695	145,469
Income (loss) from operations	13,049	(25,038)
Other income, net	6,722	43,000
Income before income taxes	19,771	17,962
Income tax provision	(1,329)	(795)
Net income	\$ 18,442	\$ 17,167
Net income (loss) per share:		
Basic	\$ 0.14	\$ 0.13
Diluted	\$ 0.13	\$ (0.15)
Weighted-average shares used to compute net income per share		
Basic	136,357	132,836
Diluted	143,657	135,966

⁽¹⁾ In 2023, we changed the name of our Upwork Enterprise offering to Enterprise Solutions. Concurrently, to align with customer needs and internal decision-making, we combined Enterprise Solutions and Managed Services into a suite of Enterprise offerings. In order to conform to the current period presentation as of March 31, 2024, we present revenue from Enterprise Solutions and Managed Services together as Enterprise revenue in prior periods and no longer report revenue from our Enterprise Solutions offering in Marketplace revenue.

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

	March 31, 2024	December 31, 2023
ASSETS		
Current assets		
Cash and cash equivalents	\$ 24,667	\$ 79,641
Marketable securities	465,939	470,457
Funds held in escrow, including funds in transit	222,937	212,387
Trade and client receivables, net	114,403	103,061
Prepaid expenses and other current assets	20,073	17,825
Total current assets	848,019	883,371
Property and equipment, net	27,128	27,140
Goodwill	118,219	118,219
Intangible assets, net	2,656	3,048
Operating lease asset	3,486	4,333
Other assets, noncurrent	1,311	1,430
Total assets	\$ 1,000,819	\$ 1,037,541
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 5,916	\$ 5,063
Escrow funds payable	222,937	212,387
Accrued expenses and other current liabilities	46,682	58,192
Deferred revenue	13,957	17,361
Total current liabilities	289,492	293,003
Debt, noncurrent	356,547	356,087
Operating lease liability, noncurrent	5,308	6,088
Other liabilities, noncurrent	596	1,288
Total liabilities	651,943	656,466
Stockholders' equity		

Common stock	13	14
Treasury stock	(2,138)	—
Additional paid-in capital	627,007	674,918
Accumulated other comprehensive income (loss)	(386)	205
Accumulated deficit	(275,620)	(294,062)
Total stockholders' equity	<u>348,876</u>	<u>381,075</u>
Total liabilities and stockholders' equity	<u>\$ 1,000,819</u>	<u>\$ 1,037,541</u>

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

	Three Months Ended March 31,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 18,442	\$ 17,167
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for transaction losses	796	3,712
Depreciation and amortization	3,146	2,024
Amortization of debt issuance costs	460	716
Accretion of discount on purchase of marketable securities, net	(4,876)	(3,487)
Amortization of operating lease asset	847	800
Tides Foundation common stock warrant expense	188	188
Stock-based compensation expense	16,942	19,900
Gain on early extinguishment of debt	—	(38,945)
Changes in operating assets and liabilities:		
Trade and client receivables	(12,389)	1,990
Prepaid expenses and other assets	(2,129)	(1,360)
Operating lease liability	(1,549)	(1,419)
Accounts payable	782	(3,380)
Accrued expenses and other liabilities	(10,897)	(6,855)
Deferred revenue	(4,107)	248
Net cash provided by (used in) operating activities	<u>5,656</u>	<u>(8,701)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(149,876)	(156,128)
Proceeds from maturities of marketable securities	131,772	167,416
Proceeds from sale of marketable securities	26,909	143,709
Purchases of property and equipment	(177)	(158)
Internal-use software and platform development costs	(2,488)	(2,703)
Net cash provided by investing activities	<u>6,140</u>	<u>152,136</u>

CASH FLOWS FROM FINANCING ACTIVITIES:			
Changes in escrow funds payable		10,550	17,963
Proceeds from exercises of stock options		106	758
Repurchase of common stock		(66,876)	—
Net cash paid for early extinguishment of debt		—	(170,752)
Net cash used in financing activities		(56,220)	(152,031)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		(44,424)	(8,596)
Cash, cash equivalents, and restricted cash—beginning of period		296,418	295,231
Cash, cash equivalents, and restricted cash—end of period	\$	251,994	\$ 286,635

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

	March 31, 2024	December 31, 2023
Cash and cash equivalents	\$ 24,667	\$ 79,641
Restricted cash	4,390	4,390
Funds held in escrow, including funds in transit	222,937	212,387
Total cash, cash equivalents, and restricted cash as shown in the consolidated statement of cash flows	\$ 251,994	\$ 296,418

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

	Three Months Ended March 31,	
	2024	2023
Net income	\$ 18,442	\$ 17,167
Add back (deduct):		
Stock-based compensation expense	16,942	19,900
Depreciation and amortization	3,146	2,024
Other income, net ⁽¹⁾	(6,722)	(43,000)
Income tax provision	1,329	795
Other ⁽²⁾	188	188
Adjusted EBITDA	\$ 33,325	\$ (2,926)
Profit margin	10 %	11 %
Adjusted EBITDA margin	17 %	(2) %

⁽¹⁾ During the three months ended March 31, 2023, we recognized a gain of \$38.9 million on the early extinguishment of debt, which is included in other income, net.

⁽²⁾ During the three months ended March 31, 2024 and 2023, we incurred \$0.2 million of expense related to our Tides Foundation warrant.

UPWORK INC.
RECONCILIATION OF GAAP NET INCOME TO ADJUSTED EBITDA
(In thousands)
(Unaudited)

	Three Months Ended					
	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022
Net income (loss)	\$ 18,442	\$ 17,374	\$ 16,337	\$ (3,991)	\$ 17,167	\$ (16,500)
Add back (deduct):						
Stock-based compensation expense	16,942	18,047	17,811	18,437	19,900	19,382
Depreciation and amortization	3,146	3,808	1,763	1,854	2,024	2,050
Other income, net ⁽¹⁾	(6,722)	(7,389)	(5,766)	(3,982)	(43,000)	(4,422)
Income tax (benefit) provision	1,329	(1,557)	895	1,857	795	440
Other ⁽²⁾	188	187	188	187	188	187
Adjusted EBITDA	<u>\$ 33,325</u>	<u>\$ 30,470</u>	<u>\$ 31,228</u>	<u>\$ 14,362</u>	<u>\$ (2,926)</u>	<u>\$ 1,137</u>

⁽¹⁾ During the three months ended March 31, 2023, we recognized a gain of \$38.9 million on the early extinguishment of debt, which is included in other income, net.

⁽²⁾ For all periods presented, we incurred \$0.2 million of expense related to our Tides Foundation warrant.

UPWORK INC.
RECONCILIATION OF CASH PROVIDED BY OPERATING ACTIVITIES
TO ADJUSTED FREE CASH FLOW
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2024	2023
Cash provided by (used in) operating activities	\$ 5,656	\$ (8,701)
Less: purchases of property, plant & equipment and cash outflows from internally developed software	(2,665)	(2,861)
Free cash flow	2,991	(11,562)
Add: adjustment for timing differences ⁽¹⁾	12,525	—
Adjusted free cash flow	\$ 15,516	\$ (11,562)

⁽¹⁾ Adjusted for the timing of our invoicing and cash collection from Marketplace clients as a result of Upwork being subject to escrow regulations.

Key Definitions

Active Clients

We define an Active Client as a client that has had spend activity on our work marketplace during the 12 months preceding the date of measurement.

Adjusted EBITDA

We define adjusted EBITDA as net income (loss) adjusted for stock-based compensation expense; depreciation and amortization; other income (expense), net, which includes interest expense; income tax benefit (provision); and, if applicable, certain other gains, losses, benefits, or charges that are non-cash or are significant and the result of isolated events or transactions that have not occurred frequently in the past and are not expected to occur regularly in the future.

Adjusted Free Cash Flow

We define Adjusted Free Cash Flow as cash flow from operations less purchases of property, plant & equipment and cash outflows from internally developed software, adjusted for the timing of our invoicing and cash collection from Marketplace clients as a result of Upwork being subject to escrow regulations.¹

Connects

Virtual tokens that are required for talent to bid on projects and ads products on our work marketplace.

Enterprise Client

We define an Enterprise Client as a client that has entered into a contract for its use of our Enterprise Solutions or Managed Services offerings.

Enterprise Revenue

We define Enterprise Revenue as revenue from our Enterprise offerings, including all client fees, subscriptions, and talent service fees from our Enterprise Solutions offering, previously referred to as Upwork Enterprise, and our Managed Services offering.

Gross Services Volume (GSV)

We define gross services volume, or GSV, as the total amount that clients spend on our offerings as well as additional fees we charge to talent and clients for other services.

GSV per Active Client

GSV per Active Client is calculated by dividing total GSV during the four quarters ended on the date of measurement by the number of active clients on the date of measurement.

¹ Each Sunday, we invoice clients for hourly Marketplace contracts, the majority of which represents amounts payable to talent by clients, which temporarily increases our client receivables balance until we commence cash collections the following day. This impacts our net cash from operations due to the corresponding increase in escrow funds payable to talent being presented in cash flows from financing activities.

Key Definitions

Marketplace Revenue

Marketplace revenue represents the majority of our revenue and is derived from our Marketplace offerings, which include all offerings other than our Enterprise offerings—Enterprise Solutions, previously referred to as Upwork Enterprise, and Managed Services.

Marketplace Take Rate

Marketplace take rate measures the correlation between Marketplace revenue and Marketplace GSV and is calculated by dividing Marketplace revenue by Marketplace GSV.

Take Rate

We define take rate as total revenue divided by total GSV.

About Upwork

About Upwork

Upwork is the world's largest work marketplace that connects businesses with independent talent from across the globe. We serve everyone from one-person startups to large, Fortune 100 enterprises with a powerful, trust-driven platform that enables companies and talent to work together in new ways that unlock their potential. Our talent community earned over \$3.8 billion on Upwork in 2023 across more than 10,000 skills in categories including website & app development, creative & design, data science & analytics, customer support, finance & accounting, consulting, and operations. Learn more at upwork.com and join us on [LinkedIn](#), [Facebook](#), [Instagram](#), [TikTok](#), and [X](#).

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Disclosure Information

We use our Investor Relations website (investors.upwork.com), our Blog (upwork.com/blog), our X handle (twitter.com/Upwork), Hayden Brown's X handle (twitter.com/hydnbrwn) and LinkedIn profile (linkedin.com/in/haydenbrown), and Erica Gessert's LinkedIn profile (linkedin.com/in/erica-gessert) as means of disseminating or providing notification of, among other things, news or announcements regarding our business or financial performance, investor events, press releases, and earnings releases and as means of disclosing material nonpublic information and for complying with our disclosure obligations under Regulation FD.

Non-GAAP Financial Measures

To supplement our consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”), we present certain non-GAAP financial measures in this presentation, including adjusted EBITDA, adjusted EBITDA margin, and adjusted free cash flow.

We use non-GAAP financial measures in conjunction with financial measures prepared in accordance with GAAP for planning purposes, including the preparation of our annual operating budget, as a measure of our core operating results and the effectiveness of our business strategy, and in evaluating our financial performance. These measures provide consistency and comparability with past financial performance, facilitate period-to-period comparisons of our core operating results, and also facilitate comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results. In addition, adjusted EBITDA is widely used by investors and securities analysts to measure a company’s operating performance without regard to certain items that can vary substantially from company to company, and adjusted free cash flow allows investors to evaluate the cash generated from our underlying operations across periods.

Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as analytical tools, and investors should not consider them in isolation or as a substitute for the most directly comparable financial measures prepared in accordance with GAAP. In particular, (1) adjusted EBITDA excludes stock-based compensation expense, which has recently been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy, (2) although depreciation and amortization expense are non-cash charges, the assets subject to depreciation and amortization may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements, and (3) adjusted EBITDA does not reflect: (a) changes in, or cash requirements for, our working capital needs; (b) interest expense, or the cash requirements necessary to service interest or principal payments on our debt, which reduces cash available to us; or (c) tax payments that may represent a reduction in cash available to us. In addition, the non-GAAP measures we use may be different from non-GAAP financial measures used by other companies, including companies in our industry, limiting their usefulness for comparison purposes. We compensate for these limitations by providing specific information regarding the GAAP items excluded from these non-GAAP financial measures. Reconciliations of the non-GAAP measures presented in this presentation to their most directly comparable GAAP financial measures have been provided in the financial statement tables included in this presentation, and investors are encouraged to review the reconciliations and not rely on any single financial measure to evaluate our business.

We have not reconciled our adjusted EBITDA guidance to GAAP net income or non-GAAP diluted EPS guidance to GAAP diluted EPS because certain items that impact GAAP net income and GAAP diluted EPS are uncertain or out of our control and cannot be reasonably predicted. In particular, stock-based compensation expense is impacted by the future fair market value of our common stock and other factors, all of which are difficult to predict, subject to frequent change, or not within our control. The actual amount of these expenses during the second quarter of 2024 and fiscal year 2024 will have a significant impact on our future GAAP financial results. Accordingly, a reconciliation of adjusted EBITDA guidance to GAAP net income and non-GAAP diluted EPS guidance to GAAP diluted EPS is not available without unreasonable effort.