

Upwork Q2 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 third 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 share repurchases, 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. As such, they 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 Quarterly Report on Form 10-Q for the three months ended March 31, 2024, filed with the SEC on May 1, 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 June 30, 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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Top line
growth with
continued
margin
accretion

Q2'24

GSV

\$1.0B

-2.7% year-over-year

Revenue

\$193.1M

+15% year-over-year

GAAP Gross Margin

77%

+100 bps year-over-year

Adjusted EBITDA

\$40.8M

21% adjusted EBITDA margin

Free Cash Flow

\$33.5M

82% FCF/adjusted EBITDA

Take Rate

19.2%

+290 bps year-over-year

"GSV," "Adjusted EBITDA," "Free Cash Flow," and "Take Rate" are defined in the definitions section of this presentation. Adjusted EBITDA, adjusted EBITDA margin, free cash flow, and free cash flow conversion rate 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 second quarter 2024 results, please refer to our press release dated August 7, 2024 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2024, when filed.

Second quarter highlights



GSV from AI-related work up
67% year-over-year in Q2



Net income of \$22.2 million –
highest ever



Completed \$100M share repurchase
program; purchased 2.9M shares in Q2
and 8.2M shares in 2024



Strong Free Cash Flow generation –
\$33.5M in Q2

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.

Advancing AI work + innovation

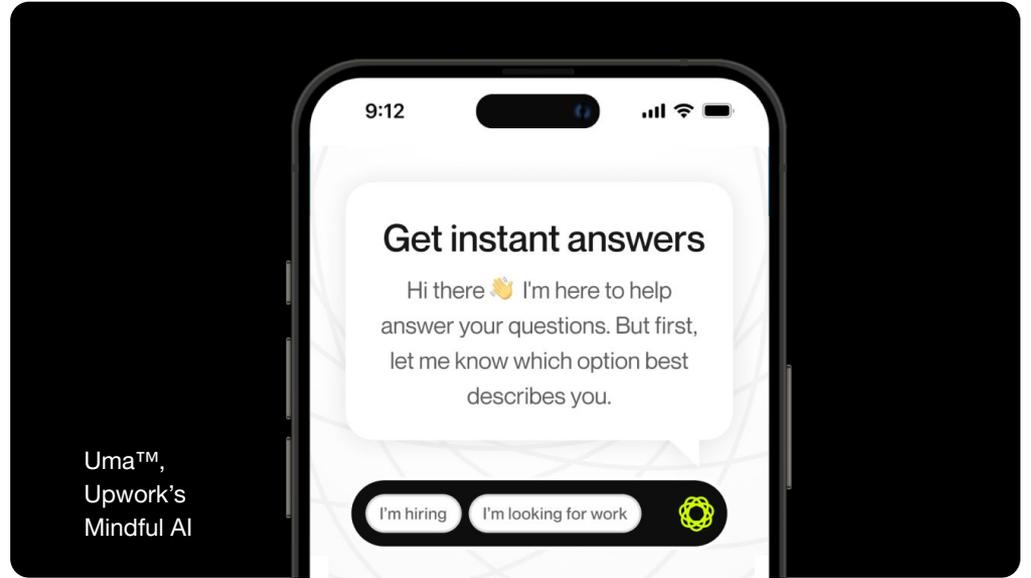
Rise in AI work + adoption yielding 67% YoY increase in AI-related work GSV

Freelancers working on AI-related work earned 47% more per hour than those working on non-AI-related work in Q2

Freelancers on Upwork using AI tools and apps at 5x the rate of corporate employees

Emerging Use Cases

- AI integration work
- Prompt engineering
- Generative AI modeling
- Data labeling



23%

QoQ increase in users interacting with Uma™ as a conversational work companion

68%

QoQ increase in Upwork Chat Pro DAUs - a feature powered by GPT-4o

Ads & monetization momentum

One of Upwork's fastest-growing revenue streams

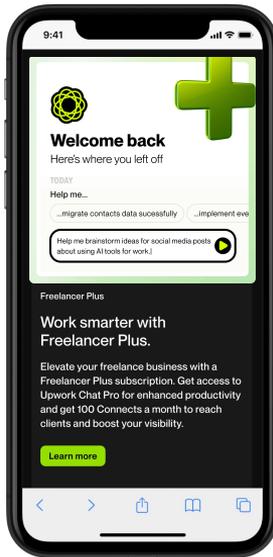
75% year-over-year revenue growth in ads & monetization products in Q2

Revenue from Connects grew 81% year-over-year in Q2

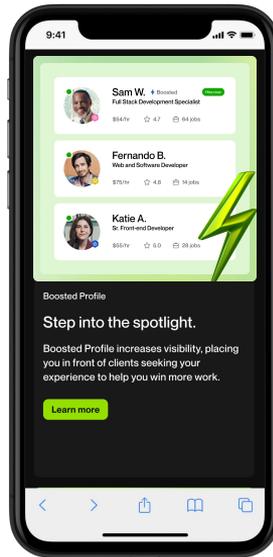
Ads & monetization products include:

- Freelancer Plus
- Boosted Profiles
- Boosted Proposals
- Connects Purchases

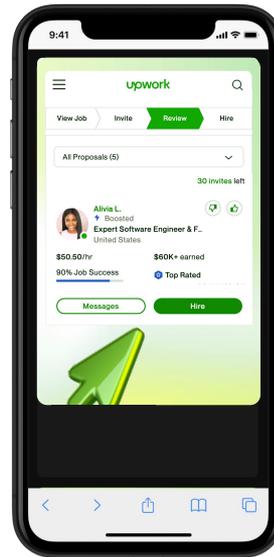
Freelancer Plus



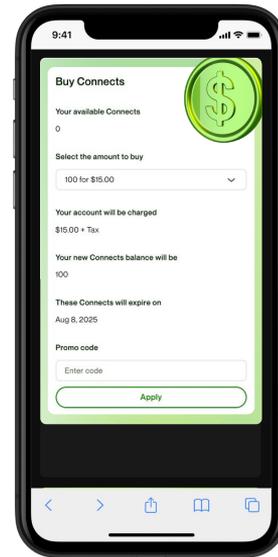
Boosted Profiles



Boosted Proposals



Connects Purchases



Agility and strong foundations in Enterprise



46 new Enterprise logos in Q2, including Builders FirstSource, Guidepoint, and Labelbox



27 of 46 new logos signed via a new test offering in our Enterprise Solutions portfolio



Welcomed Beeline, one of the largest and most familiar VMS providers, as new partner



Enabling our first joint clients – including Nasdaq – with KellyOCG, Upwork's first MSP partner

Vendor Management System Partners

SAP Fieldglass 

beeline[®]

 VNDLY

Second quarter revenue growth and focus on margin expansion

Revenue

\$193.1M

\$ Millions

\$200

\$180

\$160

\$140

\$120

\$100

+15%
YoY



Adjusted EBITDA

\$40.8M

\$ Millions

\$40.0

\$30.0

\$20.0

\$10.0

\$0.0

-\$10.0

21%
Margin



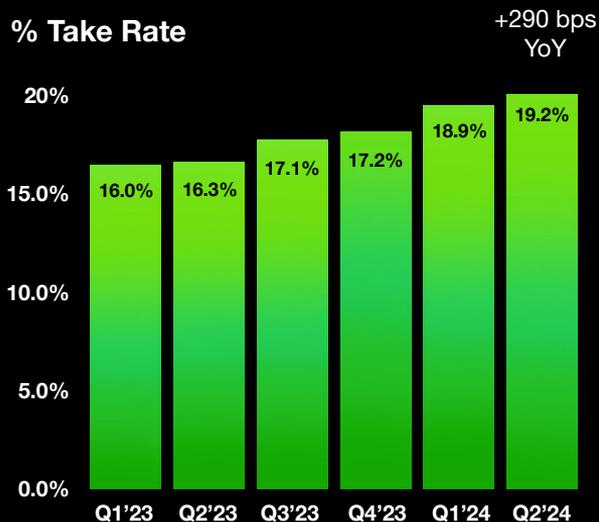
Adjusted EBITDA and adjusted EBITDA margin are non-GAAP measures and are presented for supplemental purposes only and should not be considered in isolation or as substitutes for financial information presented in accordance with GAAP. An explanation of non-GAAP measures and reconciliations to their most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

Take rate achieved all-time high; Marketplace increased to 18%

Take Rate

19.2%

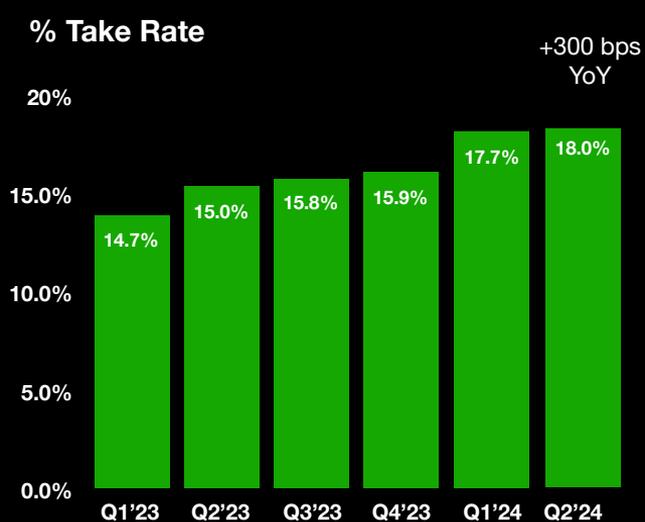
% Take Rate



Marketplace Take Rate

18.0%

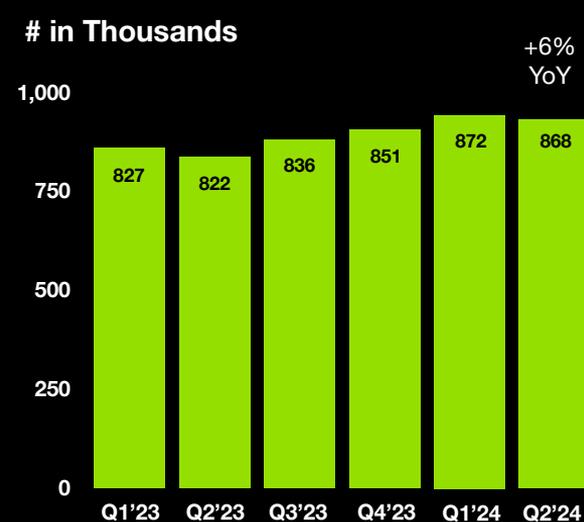
% Take Rate



Active Clients

868K

in Thousands

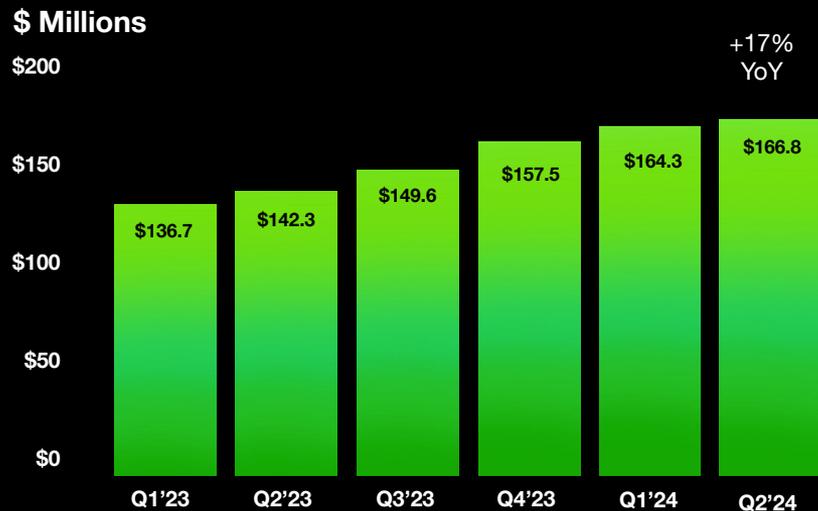


"Take Rate," "Marketplace Take Rate," and "Active Clients" are defined in the definitions section of this presentation.

Strong growth in Marketplace revenue

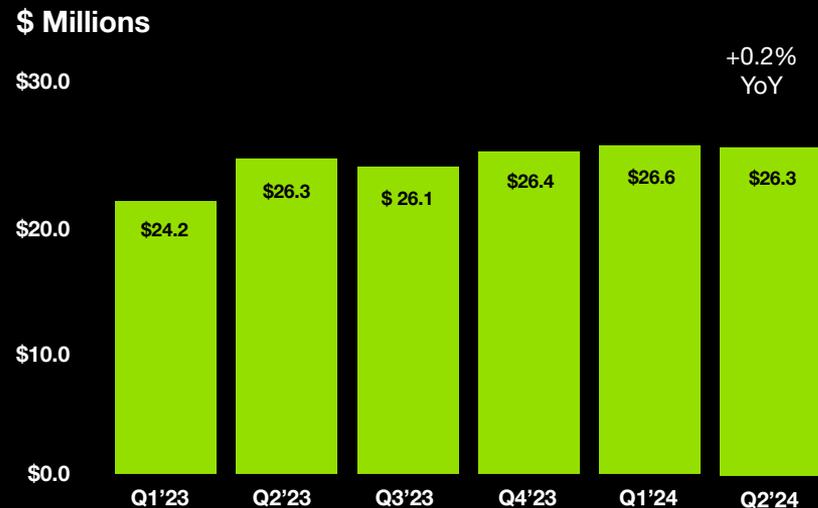
Marketplace Revenue

\$166.8M



Enterprise Revenue

\$26.3M



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 + strong cash flow

Free Cash Flow

In the second quarter 2024

\$33.5M

Shares
Repurchased

In the second quarter 2024

2.9M

Cash and cash equivalents
and marketable securities

As of June 30, 2024

\$497.7M

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.

Full-year guidance

	Q3 2024 Guidance	FY 2024 Guidance
Revenue	\$179 million - \$184 million	\$735 million - \$745 million
Adjusted EBITDA	\$36 million - \$39 million	\$140 million - \$150 million
Diluted weighted-average shares outstanding	139 million - 141 million	139 million - 143 million
Non-GAAP diluted EPS	\$0.23 - \$0.25	\$0.90 - \$0.94
Stock-based compensation expense	Stock-based compensation expense is expected to average less than \$20 million per quarter for 2024	

Appendix + Definitions

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue				
Marketplace ⁽¹⁾	\$ 166,786	\$ 142,308	\$ 331,116	\$ 278,984
Enterprise ⁽¹⁾	26,343	26,303	52,950	50,485
Total revenue	193,129	168,611	384,066	329,469
Cost of revenue	43,852	40,882	88,045	81,309
Gross profit	149,277	127,729	296,021	248,160
Operating expenses				
Research and development	52,465	43,246	105,381	87,727
Sales and marketing	47,333	59,069	95,184	124,069
General and administrative	29,924	28,983	61,925	58,270
Provision for transaction losses	1,774	2,547	2,701	9,248
Total operating expenses	131,496	133,845	265,191	279,314
Income (loss) from operations	17,781	(6,116)	30,830	(31,154)
Other income, net	5,620	3,982	12,342	46,982
Income (loss) before income taxes	23,401	(2,134)	43,172	15,828
Income tax provision	(1,181)	(1,857)	(2,510)	(2,652)
Net income (loss)	\$ 22,220	\$ (3,991)	\$ 40,662	\$ 13,176

⁽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 June 30, 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, previously referred to as Upwork Enterprise, in Marketplace revenue.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income (loss) per share:				
Basic	\$ 0.17	\$ (0.03)	\$ 0.30	\$ 0.10
Diluted	\$ 0.17	\$ (0.03)	\$ 0.30	\$ (0.18)
Weighted-average shares used to compute net income (loss) per share				
Basic	131,436	134,142	133,809	133,492
Diluted	138,266	134,142	140,798	135,049

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

June 30, 2024

December 31, 2023

ASSETS	June 30, 2024	December 31, 2023
Current assets		
Cash and cash equivalents	\$ 182,803	\$ 79,641
Marketable securities	314,941	470,457
Funds held in escrow, including funds in transit	218,656	212,387
Trade and client receivables, net	116,522	103,061
Prepaid expenses and other current assets	22,743	17,825
Total current assets	855,665	883,371
Property and equipment, net	28,149	27,140
Goodwill	118,219	118,219
Intangible assets, net	2,258	3,048
Operating lease asset	2,627	4,333
Other assets, noncurrent	1,645	1,430
Total assets	\$ 1,008,563	\$ 1,037,541
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 5,863	\$ 5,063
Escrow funds payable	218,656	212,387
Accrued expenses and other current liabilities	49,811	58,192
Deferred revenue	10,766	17,361
Total current liabilities	285,096	293,003
Debt, noncurrent	357,008	356,087
Operating lease liability, noncurrent	4,835	6,088
Other liabilities, noncurrent	528	1,288
Total liabilities	647,467	656,466
Stockholders' equity		

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

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Common stock	13	14
Additional paid-in capital	615,012	674,918
Accumulated other comprehensive income (loss)	(529)	205
Accumulated deficit	(253,400)	(294,062)
Total stockholders' equity	<u>361,096</u>	<u>381,075</u>
Total liabilities and stockholders' equity	<u>\$ 1,008,563</u>	<u>\$ 1,037,541</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	\$ 22,220	\$ (3,991)	\$ 40,662	\$ 13,176
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Provision for transaction losses	1,637	1,730	2,433	5,442
Depreciation and amortization	3,629	1,854	6,775	3,878
Amortization of debt issuance costs	461	461	921	1,177
Accretion of discount on purchases of marketable securities, net	(3,283)	(2,667)	(8,159)	(6,154)
Amortization of operating lease asset	859	811	1,706	1,611
Tides Foundation common stock warrant expense	187	187	375	375
Stock-based compensation expense	19,238	18,437	36,180	38,337
Gain on early extinguishment of convertible senior notes	—	—	—	(38,945)
Changes in operating assets and liabilities:				
Trade and client receivables	(3,769)	(8,947)	(16,158)	(6,957)
Prepaid expenses and other assets	(3,004)	(104)	(5,133)	(1,464)
Operating lease liability	(1,580)	(1,447)	(3,129)	(2,866)
Accounts payable	(81)	9	701	(3,371)
Accrued expenses and other liabilities	4,050	1,714	(6,847)	(5,141)
Deferred revenue	(3,274)	(3,738)	(7,381)	(3,490)
Net cash provided by (used in) operating activities	37,290	4,309	42,946	(4,392)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of marketable securities	(44,423)	(97,991)	(194,299)	(254,119)
Proceeds from maturities of marketable securities	190,074	139,994	321,846	307,410
Proceeds from sale of marketable securities	8,485	6,150	35,394	149,859
Purchases of property and equipment	(598)	23	(775)	(135)
Internal-use software and platform development costs	(3,149)	(3,369)	(5,637)	(6,072)
Net cash provided by investing activities	150,389	44,807	156,529	196,943

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
CASH FLOWS FROM FINANCING ACTIVITIES:				
Changes in escrow funds payable	(4,281)	(1,766)	6,269	16,197
Proceeds from exercises of stock options	664	177	770	935
Proceeds from employee stock purchase plan	2,917	2,564	2,917	2,564
Repurchase of common stock	(33,124)	—	(100,000)	—
Net cash paid for early extinguishment of convertible senior notes	—	(575)	—	(171,327)
Net cash provided by (used in) financing activities	(33,824)	400	(90,044)	(151,631)
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	153,855	49,516	109,431	40,920
Cash, cash equivalents, and restricted cash—beginning of period	251,994	286,635	296,418	295,231
Cash, cash equivalents, and restricted cash—end of period	\$ 405,849	\$ 336,151	\$ 405,849	\$ 336,151

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):

	June 30, 2024	December 31, 2023
Cash and cash equivalents	\$ 182,803	\$ 79,641
Restricted cash	4,390	4,390
Funds held in escrow, including funds in transit	218,656	212,387
Total cash, cash equivalents, and restricted cash as shown in the condensed consolidated statement of cash flows	\$ 405,849	\$ 296,418

UPWORK INC.
RECONCILIATION OF GAAP NET INCOME (LOSS) TO ADJUSTED EBITDA
(In thousands, except for percentages)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income (loss)	\$ 22,220	\$ (3,991)	\$ 40,662	\$ 13,176
Add back (deduct):				
Stock-based compensation expense	19,238	18,437	36,180	38,337
Depreciation and amortization	3,629	1,854	6,775	3,878
Other income, net ⁽¹⁾	(5,620)	(3,982)	(12,342)	(46,982)
Income tax provision	1,181	1,857	2,510	2,652
Other ⁽²⁾	187	187	375	375
Adjusted EBITDA	<u>\$ 40,835</u>	<u>\$ 14,362</u>	<u>\$ 74,160</u>	<u>\$ 11,436</u>
Profit margin	12%	(2)%	11%	4%
Adjusted EBITDA margin	21%	9%	19%	3%

⁽¹⁾ During the six months ended June 30, 2023, we recognized a gain of \$38.9 million on the early extinguishment of a portion of our 0.25% convertible senior notes due 2026, which is included in other income, net.

⁽²⁾ During each of the three and six months ended June 30, 2024 and 2023, we incurred \$0.2 million and \$0.4 million, respectively, of expense related to our Tides Foundation warrant.

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

Three Months Ended

	June 30, 2024	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
Net income (loss)	\$ 22,220	\$ 18,442	\$ 17,374	\$ 16,337	\$ (3,991)	\$ 17,167
Add back (deduct):						
Stock-based compensation expense	19,238	16,942	18,047	17,811	18,437	19,900
Depreciation and amortization	3,629	3,146	3,808	1,763	1,854	2,024
Other income, net ⁽¹⁾	(5,620)	(6,722)	(7,389)	(5,766)	(3,982)	(43,000)
Income tax (benefit) provision	1,181	1,329	(1,557)	895	1,857	795
Other ⁽²⁾	187	188	187	188	187	188
Adjusted EBITDA	\$ 40,835	\$ 33,325	\$ 30,470	\$ 31,228	\$ 14,362	\$ (2,926)

⁽¹⁾ During the three months ended March 31, 2023, we recognized a gain of \$38.9 million on the early extinguishment of a portion of our 0.25% convertible senior notes due 2026, 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 (USED IN)
OPERATING ACTIVITIES TO FREE CASH FLOW
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Cash provided by (used in) operating activities	\$ 37,290	\$ 4,309	\$ 42,946	\$ (4,392)
Less: purchases of property, plant & equipment and cash outflows from internally developed software	(3,747)	(3,346)	(6,412)	(6,207)
Free cash flow	\$ 33,543	\$ 963	\$ 36,534	\$ (10,599)

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.

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.

Free Cash Flow

We define free cash flow as cash provided by (used in) operations less purchases of property, plant & equipment and cash outflows from internally developed software.

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.

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](https://www.upwork.com) and join us on [LinkedIn](https://www.linkedin.com/company/upwork), [Facebook](https://www.facebook.com/upwork), [Instagram](https://www.instagram.com/upwork), [TikTok](https://www.tiktok.com/@upwork), and [X](https://twitter.com/upwork).

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Disclosure Information

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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, free cash flow, and free cash flow conversion rate.

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 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 third 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.