

Q4'20 Earnings Prepared Remarks

Denise Garcia, Investor Relations

Welcome to Upwork's discussion of its fourth quarter and full year 2020 financial results. Leading the discussion today are Hayden Brown, Upwork's President and Chief Executive Officer, and Jeff McCombs, Upwork's Chief Financial Officer. Following management's prepared remarks, we will be happy to take your questions. But first, I'll 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 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 current and future impacts of actions we have taken in response to the COVID-19 pandemic are forward-looking statements and related to matters that are beyond our control and 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 Annual Report on Form 10-K for the year ended December 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 fourth quarter of 2020 are to the fourth quarter of 2019, and comparisons for the full year 2020 are to the full year 2019. All measures are GAAP unless cited as non-GAAP.

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 thank you all for joining today.

I'm pleased to report that fourth quarter revenue grew 32% year-over-year to reach \$106 million, and fourth quarter Gross Services Volume grew 33% year-over-year to reach \$728 million. This is our best year-over-year growth performance since going public and was driven by our aggressive execution during the pandemic to enable our customers with a better way to work. I applaud our team for greatly expanding our operating capabilities to serve our customers today, while simultaneously building toward

the future we envision: a reordering of the world of work with independent talent at the heart of every business.

Covid has forced the mass experiment of remote work across the business landscape, proving what we always knew: old models of work were in need of, and capable of, change. People can be just as, if not more, productive when not in an office. Nearly a year into the pandemic, we see that remote work is actually getting easier, as shown in our recently published [Economist Report: Future Workforce](#).

But, to focus solely on remote work would be to overlook something much more important. While most see 2020 as the year when people figured out how to work remotely, we see a much bigger trend emerging. There is a new openness across the spectrum of our clients to rethink not just “where” work happens, but to rethink “who” does the work and “how” it gets done. They realize that much of their critical work needs a more flexible, dynamic, skilled, and efficient solution - it needs to be done by independent talent.

And this is where the real power of Upwork’s work marketplace is unleashed. Companies that truly want to work with the best people for the job at hand are realizing that many of the best professionals today are now freelancers. This is an undeniable new reality in an age where in the U.S. alone, more than 50% of Gen Z college grads and 59 million Americans are now freelancers. So many more companies are awakening to this truth. Small businesses to large enterprises are bringing independent talent on to do more work, ever closer to the core of their companies.

We see that the work landscape has shifted, and we believe this has increased our total addressable market opportunity to more than \$1 trillion. With this incredible potential still ahead of us, it’s evident that the step change comfort that companies gained with remote work last year was only the first step on the path towards this exciting horizon.

As we step into this new era of work, we see the work world rapidly evolving. The biases and barriers between full-time employees and independent talent are dissolving quickly as their contributions are being equally valued and increasingly sought after at every level of the organization. We see everyone benefitting in this new way of working. Full-time employees gain access to much-needed partners who can traverse the increasingly fluid walls of their companies. Freelancers are able to contribute critical skills and expertise while continuing to work on their own terms. And companies benefit from harnessing the power of a global, creative, and diverse talent pool that gives them exactly the people they need for the work at hand, offering the competitive advantages of agility and speed in an ever-changing environment.

We know what it takes to unlock the market opportunity ahead of us. It takes more than being a gig company, a talent network, or a vertically-integrated single category provider. To unlock the tremendous potential ahead requires being the work marketplace for the world.

For clients, this means serving them with the multiple ways that they want to find and build their Virtual Talent Bench™: whether that is posting jobs in our Talent Marketplace™, one-click models like Project

Catalog™, complex project and team collaboration offerings like our Agency solution, recruiting services such as Talent Scout™ where our specialized recruiters pinpoint pre-vetted talent that aligns with our clients' goals, or our full range of Enterprise solutions. For independent talent, being the work marketplace means serving them with the high-quality clients and varied earning opportunities they seek, the control to dial up or down the pipeline of work they want as they build their freelance careers, a suite of offerings to support their businesses, and the tools to nurture trusted client relationships for the long-term.

We know from experience that the ability to build trusted, long-term relationships on our platform makes the work being done on our work marketplace further differentiated from what happens in other parts of the freelance economy. It is the unique characteristics of freelancing on Upwork that enables companies to change their entire operating models to rely on the independent talent on our platform, and to completely reconsider not just with whom they work but also how they get core work done - gaining incredible agility, productivity, and efficiency in the process. When businesses and talent fully embrace the power that they gain from this reimagining of what's possible, we see that they have tapped into the full potential of our work marketplace. Our singular focus this year is bringing this transformational awareness to the market in a bigger way, while continuing to enhance and innovate our platform as we bolster our position as not just the market leader, but the only company offering these unique capabilities. This is our 2021 strategy: we are innovating, scaling, and evangelizing the work marketplace for the world.

With that perspective, let's step back and take a look at our fourth quarter performance, focusing on the key drivers of our growth, namely new client acquisition, client retention, product, and sales.

I'll start with new client acquisition. We started the year with an aggressive plan for growth in SEO, SEM, mobile and international, and we executed strongly against that plan, adding a record number of new clients at attractive acquisition costs.

We acquired new clients at a faster clip and with greater efficiencies during the fourth quarter than in any of the previous quarters since becoming a public company. The efficiencies and success of the programs we had been building with discipline throughout the year were evident; for example, new clients from SEM grew 86% year-over-year in Q4 and 50% for the year as a whole. Our laser focus in 2020 on tuning our marketing programs around lifetime value was also apparent, as the new clients we acquired in Q4 spent over 10% more per client than new clients in the same quarter of the previous year. We saw our best quarter of growth in both international and mobile client acquisition, with further runway ahead. In 2021, we will increase our SEM spend, given these strong signals in order to drive additional new customers to Upwork and help them see the value of our expanding work marketplace.

Moving to client spend retention, we were pleased with an acceleration to 102% in the fourth quarter, as our core clients increased by more than 6,400, 64% more than the increase in Q4 2019. GSV from clients acquired before Q4 was up 30% and GSV from clients acquired before 2020 was up 27%, as existing and new clients deepened their usage of Upwork to build, operate, and grow their companies.

I'd like to now talk about some of our fourth quarter product developments, which are being led by our new Chief Product & Experience Officer, Sam Bright, who joined us from eBay in November.

Last quarter, we announced Project Catalog, a brand-new way to use Upwork. We launched Project Catalog a full month earlier than planned, across 300 marketplace categories. The customer response has been positive. Project Catalog allows clients to immediately understand the massive breadth of talent on Upwork through pre-defined, ready to purchase projects. Not only does it create a powerful new client pathway into Upwork, it allows existing clients to augment larger and more complex role-based work with smaller, well-defined projects and serves as a strong discovery engine for the rest of the platform. We see Project Catalog as an ideal complement to our other offerings, together broadening the spectrum of pathways to get work done in our work marketplace.

In the quarter, we expanded our Direct Contracts offering for freelancers to enable them to invoice and bill their clients for hourly work in addition to using our Escrow protections for fixed-price jobs. While this offering is still nascent, we see freelancers continue to grow the portfolio of clients and work they are billing through our platform as they consolidate more of their freelance work on Upwork.

Throughout the course of 2020 we saw increased demand from clients wanting to onboard their various team members and agencies onto Upwork for easy and unified billing, program management and collaboration, and competitive bidding in our marketplace. Our larger clients are enthusiastic about our Bring Your Own Talent, or BYOT, solution, not just because we automatically handle all of the money movement, local currency payments on a global scale, and associated paperwork, but also because, for our Enterprise Compliance clients, we solve the worker classification and other headaches normally associated with these tasks, which are increasingly daunting for many companies in a fragmented and distributed work landscape. To enhance this experience, we launched an integrated-onboarding process in Q4 that reduced our industry-leading start time on payroll contracts from 9 to 2.5 days. This past quarter we landed a global tech firm that onboarded over a thousand freelancers, running over \$1 million through this BYOT product all within Q4. We are bullish on the prospects that our highly-attractive offering has for the expanding set of clients seeking solutions for their challenges paying and project managing distributed teams.

Building the world's work marketplace means both developing and integrating best-of-breed tools that customers love to use for their work. During the fourth quarter, we announced a partnership with Zoom that integrates Zoom's video and voice communication tools into Upwork. This provides our customers a frictionless and secure communications experience for interviewing candidates, vetting opportunities, and collaborating on projects. The customer feedback has been phenomenal, resulting in a significant increase in calls and collaboration activity on our platform, and is an example of the types of further integrations we have in the pipeline.

Our sales team has fully implemented the changes we announced last quarter and has been making progress against our sharper go-to-market strategy. Our team is engaged in strategic conversations at the highest levels to help clients implement and manage their remote and independent talent programs and

is pleased by the reception in the market. One example was recent work we did for a leading global technology conglomerate. The client needed a solution that would enable them to continue working with their existing independent talent while aggressively scaling their team. We seamlessly onboarded more than 30 freelancers in five countries in the first day, and now serve as the operational “backbone” of their globally distributed team, spanning 30 sub-categories of work. Since inception, the account has seen 400% growth in new projects.

2020 was a watershed year for Upwork. We understood early on that although the tide of remote work was rising, it was imperative to create long-term strategies that would retain customers on our platform and grow their value over time, well after Covid passed, laying the foundation for Upwork’s durable, long-term growth.

As we look to 2021, our focus is clear. We have a single strategic priority: innovating, scaling, and evangelizing the work marketplace for the world. We are humbled and excited to be in a position to transform work so positively for so many people, pursuing with purpose our mission to create economic opportunities so people have better lives.

I’ll now turn the call over to Jeff to discuss our financial results in more detail.

Jeff McCombs, Chief Financial Officer

Thanks Hayden.

Our fourth quarter and full year financial results were strong, and I’m looking forward to the year ahead. I joined Upwork to be part of a team passionate about our mission, and I am proud to see that we are executing strongly against our strategy, increasing efficiencies in our business, and delivering products ahead of schedule.

Now, I will discuss the financial results for the fourth quarter and full year 2020 and provide our revenue and EBITDA guidance for the first quarter and full year 2021, which we included in our earnings release filed earlier today.

GSV in the fourth quarter and full year was \$728 million and \$2.5 billion, respectively, and represents strong year-over-year growth of 33% and 21%. Revenue grew 32% year-over-year to \$106 million in the fourth quarter and grew 24% to \$374 million for the full year 2020. Marketplace revenue for the fourth quarter was \$97 million, reflecting a year-over-year increase of 34%. For the full year 2020, Marketplace revenue was \$338 million, an increase of 26% from 2019. Managed services revenue grew 15% to \$9.3 million for the fourth quarter and was \$35 million for the full year.

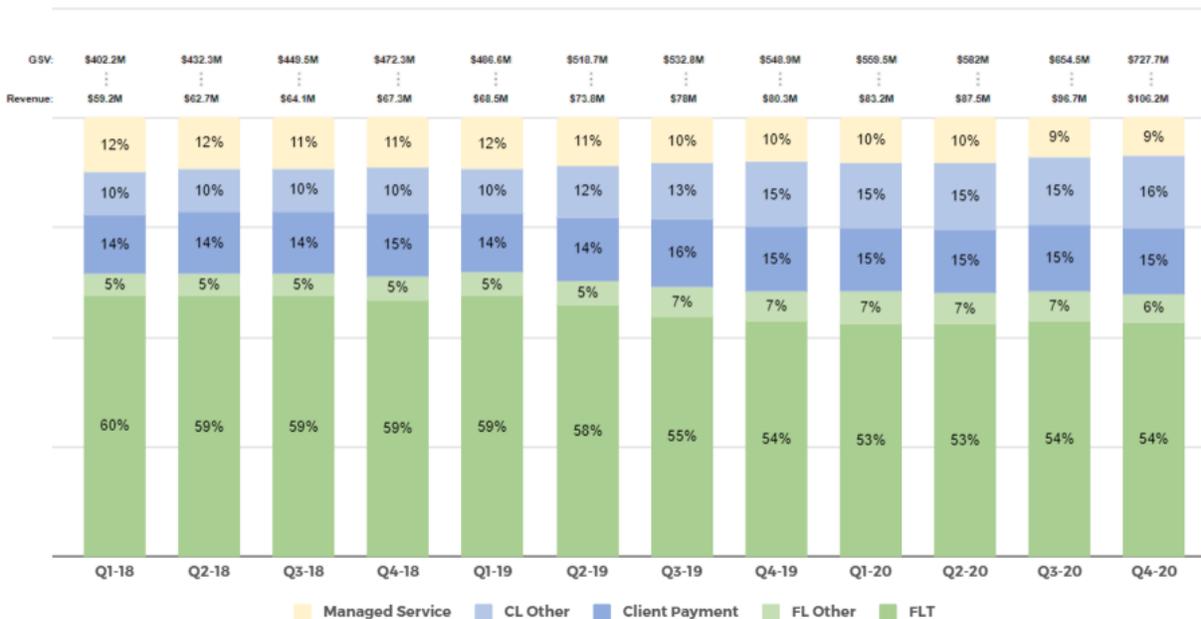
I want to touch briefly on our strong beat vs. Q4 revenue guidance. Our business typically experiences a seasonal slowdown starting in November and peaking in the last two weeks of the year. This year, the seasonal slowdown was virtually non-existent, which we had not assumed in guidance. In addition to particularly strong acquisition and quarter-over-quarter retention, this atypical seasonality was a key

driver behind the revenue beat in the fourth quarter. We hypothesize that this was due to COVID and COVID-related restrictions reducing holiday travel and social gatherings and increasing the amount of work that was being done during this period relative to prior years. We wouldn't anticipate this atypical seasonality to repeat in 2021.

Total core clients grew by approximately 17% year-over-year or 6,460 in the fourth quarter to 145,400, with gross new core clients in the quarter growing 36% year-over-year and net additions of core clients up 64% year-over-year. Client spend retention accelerated from 100% in Q3 to 102% in Q4, as the spending strength of clients acquired in 2019 and earlier performed well.

Our overall take rate in the fourth quarter was 14.6%, in line with Q4'19, but down slightly from the 14.8% we saw in Q3. This decrease was driven primarily by a higher percentage of revenue being earned in the lower pricing tiers due to clients spending more with their freelancers as well as changes we made in Connects to improve liquidity by better balancing the number of job posts and proposals.

Components of Revenue



Non-GAAP gross profit was \$78 million for the fourth quarter, or 73% of revenue, and \$270 million for the full year, or 72% of revenue.

With respect to the fourth quarter, non-GAAP operating expenses were \$70 million, representing 66% of revenue, down from 69% in 2019, with G&A decreasing from 19% to 15% and transaction losses remaining flat at 1%, while sales and marketing increased from 31% to 32% and R&D increased from 18% to 19%.

With respect to the full year, non-GAAP operating expenses were \$264 million, representing 71% of revenue, up from 70% in 2019, with sales and marketing increasing from 31% to 34% and R&D increasing from 19% to 20%, while G&A decreased from 18% to 15%.

Non-GAAP net income was \$7.8 million in the fourth quarter of 2020 compared to \$3.4 million in the fourth quarter of 2019. For the full year, Non-GAAP net income was \$6.1 million compared to \$5.5 million for 2019. Our basic and diluted non-GAAP net income per share was \$0.06 in the fourth quarter of 2020 as compared to \$0.03 in the fourth quarter of 2019. Our basic and diluted non-GAAP net income per share was \$0.05 in both the full year 2020 and the full year 2019.

Adjusted EBITDA was \$9.6 million in the fourth quarter of 2020, compared to \$3.5 million in the fourth quarter of 2019, and materially above our guidance, primarily the result of the flow-through of the revenue beat. For the full year 2020, adjusted EBITDA was \$14 million, compared to \$7.4 million for 2019.

Now, let's move on to guidance. We are guiding first quarter revenue between \$107 million and \$109 million, and full year revenue between \$460 million and \$470 million, representing 24% year-over-year growth at the midpoint. We expect GSV growth to be slightly stronger as marketplace revenue will likely grow faster than Managed Services revenue and due to changes, we have made to our Connects program that are driving better liquidity in the marketplace and higher GSV while lowering Connects-specific revenue.

We remain bullish on the investment opportunities in front of us and will continue funding growth initiatives while closely monitoring our performance to achieve our return thresholds. As such, we expect first quarter EBITDA to be between \$2 million and \$3 million and full year EBITDA to be between \$12 million and \$16 million. We will continue to manage costs with discipline while preserving our cash and maintaining our strong balance sheet, which included cash and marketable securities of approximately \$170 million at the end of the fourth quarter.

While the unique macro environment continues to make forecasting this year more challenging than usual, we expect the strength we have seen in our business to persist, and our current outlook calls for relatively consistent quarter-over-quarter growth throughout the year. We remain committed to a long-term revenue growth rate of 20+%. We ended the year with solid execution across all areas of the business, and we enter 2021 well-positioned to drive growth as we continue to execute on our plans and capture an even larger share of our market opportunity. On a final note, we are hosting a virtual Investor Day June 15 and would like to personally invite all of you to join us. We will provide registration information on our IR website soon.

Thank you. We will now take your questions.