



Upwork Reports Second Quarter 2021 Financial Results

July 29, 2021

SAN FRANCISCO, July 29, 2021 (GLOBE NEWSWIRE) -- Upwork Inc. (Nasdaq: UPWK), the world's largest work marketplace that connects businesses with independent talent, as measured by gross services volume ("GSV"), today announced its second quarter 2021 financial results.

"The second quarter marks our fourth consecutive quarter of accelerating year-over-year growth in GSV and revenue," said Hayden Brown, President and Chief Executive Officer of Upwork. "We continue to execute strongly against our plan and operate at record levels as businesses of every size across the globe continue to embrace freelancers. At the same time, we continue on our path of innovation this quarter with the launch of Talent Scout, which offers businesses hands-on recruiting assistance without the expensive price tag of a traditional staffing agency and follows the successful introduction of Project Catalog earlier this year. We will continue to innovate, scale, and increase awareness of our work marketplace as we transform from a single product company to a multi-product company to capture an even larger part of our \$1.3 trillion market opportunity."

Second Quarter 2021 Financial Results

- **GSV** increased by 50% year-over-year to \$875.8 million;
- **Revenue** grew 42% year-over-year to \$124.2 million;
- **Marketplace revenue** grew 46% year-over-year to \$114.5 million;
- **Marketplace take rate** was 13.2%, down from 13.7% a year ago;
- **Gross margin** increased two percentage points year-over-year to 73%;
- **Net loss** was \$16.5 million, or \$(0.13) per basic share, compared to a net loss of \$11.0 million, or \$(0.09) per basic share, in the second quarter of 2020;
- **Non-GAAP net income** was \$4.6 million, or \$0.03 per diluted share, compared to non-GAAP net loss of \$3.0 million, or \$(0.03) per basic share, in the second quarter of 2020; and
- **Adjusted EBITDA**, a non-GAAP financial measure, was \$7.3 million compared to a loss of \$1.2 million in the second quarter of 2020.

Note: Reported figures are rounded; unless otherwise noted, comparisons of the second quarter of 2021 are to the second quarter of 2020. All financial measures are GAAP unless cited as non-GAAP. Certain operating metrics used here, including "GSV" and "marketplace take rate," are defined in our Annual Report on Form 10-K for the year ended December 31, 2020 and will also be set forth in our most recently filed Quarterly Report on Form 10-Q when filed.

A reconciliation of GAAP to non-GAAP financial measures has been provided at the end of this press release. An explanation of these measures is also included below under the heading "Non-GAAP Financial Measures."

Guidance

The guidance we are providing today factors in the expected impacts of the COVID-19 pandemic that are available to us as of today.

As of July 29, 2021, Upwork is providing the following guidance for its third quarter and full year 2021:

For the third quarter of 2021, Upwork expects to report:

- Revenue in the range of \$125 million to \$127 million
- Adjusted EBITDA in the range of \$4 million to \$5 million
- Diluted weighted-average shares outstanding in the range of 134 million to 136 million
- Non-GAAP diluted EPS in the range of \$0.01 to \$0.03

For the full year 2021, Upwork expects to report:

- Revenue in the range of \$490 million to \$494 million
- Adjusted EBITDA in the range of \$16 million to \$20 million
- Diluted weighted-average shares outstanding in the range of 133 million to 137 million
- Non-GAAP diluted EPS in the range of \$0.05 to \$0.07

We have not reconciled our adjusted EBITDA guidance to GAAP net income (loss) or non-GAAP diluted EPS to GAAP diluted EPS because certain items that impact GAAP net income (loss) 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 2021 will have a significant impact on our future GAAP financial results. Accordingly, a reconciliation of adjusted EBITDA to net income (loss) and non-GAAP diluted EPS to GAAP diluted EPS is not available without unreasonable effort.

Second Quarter 2021 Financial Results Conference Call and Webcast

Upwork will host a conference call today at 2 p.m. Pacific Time/5 p.m. Eastern Time to discuss the company's second quarter 2021 financial results. An audio webcast archive will be available following the live event for approximately one year at investors.upwork.com. The prepared remarks corresponding to the information reviewed on today's conference call will also be available on our Investor Relations website, once the call has concluded.

We use our investor relations website (investors.upwork.com), our Twitter handle (twitter.com/Upwork) and Hayden Brown's Twitter handle (twitter.com/hydenbrwn) and LinkedIn profile (linkedin.com/in/haydenlbrown) as a 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 a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. The content of our websites and information that we may post on or provide to online and social media channels, including those mentioned above, and information that can be accessed through our websites or these online and social media channels are not incorporated by reference into this press release or in any report or document we file with the SEC, and any references to our websites or these online and social media channels are intended to be inactive textual references only.

Safe Harbor Statement

This press release includes forward-looking statements, which are statements other than statements of historical facts, and statements in the future tense. These statements include, but are not limited to, statements regarding the future performance of Upwork and its market opportunity, including expected financial results for the third quarter and full year of 2021, expectations regarding the impact of the COVID-19 pandemic on our business and industry, and expectations for capturing market share and regarding the changing landscape of work, as well as statements regarding our planned investments to support growth. Accordingly, actual results could differ materially or such uncertainties could cause adverse effects on our results. Forward-looking statements are based upon various estimates and assumptions, as well as information known to Upwork as of the date of this press release, and are subject to risks and uncertainties, including but not limited to: the impact and duration of the COVID-19 pandemic on our business and global economic conditions; the impact, severity and duration of safety measures put in place to mitigate the impact of the COVID-19 pandemic; our ability to attract and retain a community of freelancers and clients; our limited operating history under our current business strategy and pricing model; our focus on the long-term and our investments in sustainable, profitable growth; our ability to develop and release new products and services, and develop and release successful enhancements, features, and modifications to our existing products and services; the impact of new and existing laws and regulations; our ability to generate revenue from our marketplace offerings and the effects of fluctuations in our level of client spend retention; our ability to develop, maintain, and enhance our brand and reputation cost-effectively; competition; challenges to contractor classification or employment status of freelancers on our work marketplace; the possibility that the market for freelancers and the services they offer will develop more slowly than we expect; user circumvention of our work marketplace; our ability to sell to large enterprise, global account, and mid-market clients; the success of our investments in our enterprise sales organization and our related marketing efforts, and expectations for the ability for enterprise sales to drive incremental revenue and GSV growth; changes in the amount and mix of services facilitated through our work marketplace from period to period; changes in our level of investment in sales and marketing, research and development, and general and administrative expenses, and our hiring plans for sales personnel; the market for information technology; future changes to our pricing model; payment and fraud risks; security breaches; privacy; litigation and related costs; changes in management; and other general market, political, economic, and business conditions. Actual results could differ materially from those predicted or implied, and reported results should not be considered as an indication of future performance. Additionally, these forward-looking statements, particularly our guidance, involve risks, uncertainties and assumptions, including those related to the impacts of the COVID-19 pandemic on our clients' spending decisions. Significant variation from the assumptions underlying our forward-looking statements could cause our actual results to vary, and the impact could be significant.

Additional risks and uncertainties that could affect our financial results are included under the caption "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K filed with the SEC on February 24, 2021 and in our Quarterly Report on Form 10-Q filed with the SEC on May 4, 2021 and our other SEC filings, which are available on the Investor Relations page of our website at investors.upwork.com and on the SEC website at www.sec.gov. Additional information will also be set forth in our Quarterly Report on Form 10-Q for the three months ended June 30, 2021 when filed. All forward-looking statements contained herein are based on information available to us as of the date hereof, and we do not assume any obligation to update these statements as a result of new information or future events.

Undue reliance should not be placed on the forward-looking statements in this press release. These statements are based on information available to Upwork on the date hereof, and Upwork assumes no obligation to update such statements.

Non-GAAP Financial Measures

To supplement our condensed consolidated financial statements, which are prepared in accordance with GAAP, we present non-GAAP cost of revenue (and as a percentage of revenue), non-GAAP gross profit (and as a percentage of revenue), non-GAAP operating expenses (total and each line item, and total and each non-GAAP operating expense item as a percentage of revenue), non-GAAP income (loss) from operations (and as a percentage of revenue), non-GAAP net income (loss) (and as a percentage of revenue and on a per basic and diluted share basis), and adjusted EBITDA in this press release. Our use of non-GAAP financial measures has limitations as an analytical tool, and these measures should not be considered in isolation or as a substitute for analysis of financial results as reported under GAAP.

We use these non-GAAP financial measures in conjunction with financial measures prepared in accordance with GAAP for planning purposes, including in 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 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. We exclude the following items from one or more of our non-GAAP financial measures: stock-based compensation expense (non-cash expense calculated by companies using a variety of valuation methodologies and subjective assumptions), depreciation and amortization (non-cash expense), interest expense, other (income) expense, net, income tax (benefit) provision, and, if applicable, other non-cash transactions. For the three and six months ended June 30, 2021, other non-cash transactions included an impairment charge of \$7.4 million relating to certain of our operating lease assets and related property and equipment.

Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as an analytical tool. In particular,

(1) stock-based compensation expense 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; (c) tax payments that may represent a reduction in cash available to us; or (d) expense from our common stock warrant issued to the Tides Foundation, which is recurring and will be reflected in our financial results for the foreseeable future. The non-GAAP measures we use may be different from non-GAAP financial measures used by other companies, 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. A reconciliation of these non-GAAP measures has been provided in the financial statement tables included in this press release and investors are encouraged to review the reconciliation.

About Upwork

Upwork is the world's largest work marketplace that connects businesses with independent talent, as measured by GSV. We serve everyone from one-person startups to 30% of the Fortune 100 with a powerful, trust-driven platform that enables companies and freelancers to work together in new ways that unlock their potential. Our talent community earned over \$2.3 billion on Upwork in 2020 across more than 10,000 skills, including website & app development, creative & design, customer support, finance & accounting, consulting, and operations. Learn more at www.upwork.com and join us on [LinkedIn](#), [Twitter](#), [Facebook](#), and [Instagram](#).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue				
Marketplace	\$ 114,460	\$ 78,464	\$ 219,130	\$ 153,246
Managed services	9,721	9,067	18,670	17,481
Total revenue	124,181	87,531	237,800	170,727
Cost of revenue	33,083	25,408	63,524	48,893
Gross profit	91,098	62,123	174,276	121,834
Operating expenses				
Research and development	28,124	20,547	54,737	39,895
Sales and marketing	45,817	34,440	85,421	65,118
General and administrative	32,355	17,102	55,886	34,926
Provision for transaction losses	1,197	1,018	2,324	1,930
Total operating expenses	107,493	73,107	198,368	141,869
Loss from operations	(16,395)	(10,984)	(24,092)	(20,035)
Interest expense	110	258	309	488
Other (income) expense, net	17	(248)	(61)	483
Loss before income taxes	(16,522)	(10,994)	(24,340)	(21,006)
Income tax provision	(16)	(30)	(33)	(39)
Net loss	\$ (16,538)	\$ (11,024)	\$ (24,373)	\$ (21,045)
Net loss per share, basic and diluted	\$ (0.13)	\$ (0.09)	\$ (0.19)	\$ (0.18)
Weighted-average shares used to compute net loss per share, basic and diluted	126,742	116,524	126,011	115,321

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

	June 30, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 131,448	\$ 94,081

Marketable securities	40,990	75,570
Funds held in escrow, including funds in transit	165,082	135,042
Trade and client receivables, net	62,232	47,018
Prepaid expenses and other current assets	12,526	9,090
Total current assets	412,278	360,801
Property and equipment, net	23,683	28,139
Goodwill	118,219	118,219
Intangible assets, net	—	667
Operating lease asset	13,674	19,729
Other assets, noncurrent	1,406	1,672
Total assets	\$ 569,260	\$ 529,227

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Accounts payable	\$ 8,625	\$ 6,455
Escrow funds payable	165,082	135,042
Debt, current	6,344	7,581
Accrued expenses and other current liabilities	33,211	32,868
Deferred revenue	19,164	16,801
Total current liabilities	232,426	198,747
Debt, noncurrent	633	3,142
Operating lease liability, noncurrent	18,757	20,506
Other liabilities, noncurrent	8,916	7,522
Total liabilities	260,732	229,917
Stockholders' equity		
Common stock	13	12
Additional paid-in capital	527,712	494,122
Accumulated deficit	(219,197)	(194,824)
Total stockholders' equity	308,528	299,310
Total liabilities and stockholders' equity	\$ 569,260	\$ 529,227

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	\$ (16,538)	\$ (11,024)	\$ (24,373)	\$ (21,045)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Provision for transaction losses	1,006	839	1,907	1,606
Depreciation and amortization	2,554	2,478	5,748	4,786
Amortization of debt issuance costs	20	13	39	26
Amortization of premium (discount) on purchases of marketable securities, net	12	(83)	22	(257)
Amortization of operating lease asset	863	976	1,774	1,945
Tides Foundation common stock warrant expense	187	188	375	376
Stock-based compensation expense	13,534	7,134	24,760	12,671
Impairment expense	7,389	—	7,389	—
Changes in operating assets and liabilities:				
Trade and client receivables	(11,251)	1,118	(16,835)	(4,773)
Prepaid expenses and other assets	(1,329)	(504)	(2,871)	(968)
Operating lease liability	(460)	(466)	(861)	(925)
Accounts payable	(3,372)	3,409	2,168	4,403
Accrued expenses and other liabilities	6,018	3,351	(273)	7,232
Deferred revenue	1,911	935	3,451	1,585
Net cash provided by operating activities	544	8,364	2,420	6,662
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of marketable securities	(8,991)	(20,959)	(29,967)	(47,748)
Proceeds from maturities of marketable securities	33,500	31,000	64,500	64,000

Purchases of property and equipment	(264)	(4,339)	(334)	(5,627)
Internal-use software and platform development costs	(1,283)	(1,560)	(3,581)	(3,559)
Net cash provided by investing activities	22,962	4,142	30,618	7,066
CASH FLOWS FROM FINANCING ACTIVITIES:				
Changes in escrow funds payable	3,680	5,998	30,040	20,832
Proceeds from exercises of stock options	3,130	12,845	5,727	16,010
Proceeds from borrowings on debt	—	3,000	—	18,000
Repayment of debt	(1,893)	(19,893)	(3,786)	(21,786)
Proceeds from employee stock purchase plan	2,688	2,661	2,688	2,661
Net cash provided by financing activities	7,605	4,611	34,669	35,717
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	31,111	17,117	67,707	49,445
Cash, cash equivalents, and restricted cash—beginning of period	269,059	191,931	232,463	159,603
Cash, cash equivalents, and restricted cash—end of period	<u>\$ 300,170</u>	<u>\$ 209,048</u>	<u>\$ 300,170</u>	<u>\$ 209,048</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 the following (in thousands):

	June 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 131,448	\$ 94,081
Restricted cash	3,640	3,340
Funds held in escrow, including funds in transit	165,082	135,042
Total cash, cash equivalents, and restricted cash as shown in the condensed consolidated statement of cash flows	<u>\$ 300,170</u>	<u>\$ 232,463</u>

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2021	2020	Change		2021	2020	Change	
Cost of revenue	\$ 33,083	\$ 25,408	\$ 7,675	30 %	\$ 63,524	\$ 48,893	\$ 14,631	30 %
Components of cost of revenue:								
Cost of freelancer services to deliver managed services	7,796	7,272	524	7 %	15,003	14,234	769	5 %
Other components of cost of revenue	25,287	18,136	7,151	39 %	48,521	34,659	13,862	40 %
Total gross margin	73 %	71 %			73 %	71 %		

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
GAAP Net Loss	\$ (16,538)	\$ (11,024)	\$ (24,373)	\$ (21,045)
Add back (deduct):				
Stock-based compensation expense	13,534	7,134	24,760	12,671
Depreciation and amortization	2,554	2,478	5,748	4,786
Interest expense	110	258	309	488
Other (income) expense, net	17	(248)	(61)	483
Income tax provision	16	30	33	39
Tides Foundation common stock warrant expense	187	188	375	376
Impairment expense	7,389	—	7,389	—
Non-GAAP Adjusted EBITDA	<u>\$ 7,269</u>	<u>\$ (1,184)</u>	<u>\$ 14,180</u>	<u>\$ (2,202)</u>

Cost of Revenue Reconciliation:

Cost of revenue, GAAP	\$ 33,083	\$ 25,408	\$ 63,524	\$ 48,893
Stock-based compensation	(179)	(202)	(380)	(376)
Cost of revenue, Non-GAAP	<u>\$ 32,904</u>	<u>\$ 25,206</u>	<u>\$ 63,144</u>	<u>\$ 48,517</u>
% of revenue, GAAP	27 %	29 %	27 %	29 %

% of revenue, Non-GAAP	26 %	29 %	27 %	28 %
Gross Profit Reconciliation:				
Gross profit, GAAP	\$ 91,098	\$ 62,123	\$ 174,276	\$ 121,834
Stock-based compensation	179	202	380	376
Gross profit, Non-GAAP	<u>\$ 91,277</u>	<u>\$ 62,325</u>	<u>\$ 174,656</u>	<u>\$ 122,210</u>
% of revenue, GAAP	73 %	71 %	73 %	71 %
% of revenue, Non-GAAP	74 %	71 %	73 %	72 %
Operating Expenses Reconciliation:				
Research and development, GAAP	\$ 28,124	\$ 20,547	\$ 54,737	\$ 39,895
Stock-based compensation	(3,988)	(2,769)	(7,285)	(4,719)
Research and development, Non-GAAP	<u>\$ 24,136</u>	<u>\$ 17,778</u>	<u>\$ 47,452</u>	<u>\$ 35,176</u>
% of revenue, GAAP	23 %	23 %	23 %	23 %
% of revenue, Non-GAAP	19 %	20 %	20 %	21 %
Sales and marketing, GAAP	\$ 45,817	\$ 34,440	\$ 85,421	\$ 65,118
Stock-based compensation	(1,613)	(1,312)	(2,891)	(2,240)
Sales and marketing, Non-GAAP	<u>\$ 44,204</u>	<u>\$ 33,128</u>	<u>\$ 82,530</u>	<u>\$ 62,878</u>
% of revenue, GAAP	37 %	39 %	36 %	38 %
% of revenue, Non-GAAP	36 %	38 %	35 %	37 %
General and administrative, GAAP	\$ 32,355	\$ 17,102	\$ 55,886	\$ 34,926
Stock-based compensation	(7,754)	(2,851)	(14,204)	(5,336)
Amortization of intangible assets	—	(667)	(667)	(1,334)
Tides Foundation common stock warrant expense	(187)	(188)	(375)	(376)
Impairment expense	(7,389)	—	(7,389)	—
General and administrative, Non-GAAP	<u>\$ 17,025</u>	<u>\$ 13,396</u>	<u>\$ 33,251</u>	<u>\$ 27,880</u>
% of revenue, GAAP	26 %	20 %	24 %	20 %
% of revenue, Non-GAAP	14 %	15 %	14 %	16 %
Loss from Operations Reconciliation:				
Loss from operations, GAAP	\$ (16,395)	\$ (10,984)	\$ (24,092)	\$ (20,035)
Stock-based compensation	13,534	7,134	24,760	12,671
Amortization of intangible assets	—	667	667	1,334
Tides Foundation common stock warrant expense	187	188	375	376
Impairment expense	7,389	—	7,389	—
Income (loss) from operations, Non-GAAP	<u>\$ 4,715</u>	<u>\$ (2,995)</u>	<u>\$ 9,099</u>	<u>\$ (5,654)</u>
% of revenue, GAAP	-13 %	-13 %	-10 %	-12 %
% of revenue, Non-GAAP	4 %	-3 %	4 %	-3 %
Net Loss Reconciliation:				
Net loss, GAAP	\$ (16,538)	\$ (11,024)	\$ (24,373)	\$ (21,045)
Stock-based compensation	13,534	7,134	24,760	12,671
Amortization of intangible assets	—	667	667	1,334
Tides Foundation common stock warrant expense	187	188	375	376
Impairment expense	7,389	—	7,389	—
Net income (loss), Non-GAAP	<u>\$ 4,572</u>	<u>\$ (3,035)</u>	<u>\$ 8,818</u>	<u>\$ (6,664)</u>
% of revenue, GAAP	-13 %	-13 %	-10 %	-12 %
% of revenue, Non-GAAP	4 %	-3 %	4 %	-4 %
Net Loss per Share Reconciliation:				
Weighted-average shares outstanding used in computing loss per share, GAAP				
Basic	126,742	116,524	126,011	115,321
Basic loss per share, GAAP	\$ (0.13)	\$ (0.09)	\$ (0.19)	\$ (0.18)
Weighted-average shares outstanding used in computing income (loss) per share, Non-GAAP				
Basic	126,742	116,524	126,011	115,321
Diluted ¹	133,977	—	134,194	—
Basic income (loss) per share, Non-GAAP	\$ 0.04	\$ (0.03)	\$ 0.07	\$ (0.06)

Diluted income per share, Non-GAAP ¹	\$	0.03	\$	—	\$	0.07	\$	—
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¹ Not applicable when in a net loss position.