

Topic 606 Overview for Investors



Overview

- As of December 31, 2019, Upwork no longer qualified as an emerging growth company (EGC)
- Consequently, Upwork will adopt Topic 606 upon filing of its Form 10-K for the year ended December 31, 2019. The modified retrospective method was used, meaning that our annual and quarterly results for 2019 will be recast.
- Results for periods prior to 2019 will not be recast and will continue to be reported under Topic 605.
- Amounts related to periods before 2019 will be reflected in beginning accumulated deficit as of January 1, 2019.
- Q4 and full year 2019 results are reported under both Topic 605 and Topic 606.

Revenue Accounting Standard

Topic 606 Overview

1

Identify the contract with the customer

2

Identify the separate performance obligations in the contract

3

Determine the transaction price

4

Allocate the transaction price to the separate performance obligations

5

Recognize revenue when (or as) the entity satisfies a performance obligation

Topic 606 Impacts

WHAT WON'T CHANGE:

Our day-to-day operations or business practices. Overall, the amount and timing of revenue recognized during 2019 remained largely unchanged. The adoption of Topic 606 had no significant impact on cash flows.

WHAT WILL CHANGE:

Going Forward:

Marketplace Revenue and Deferred Revenue: Contracts with our freelancers that are subject to tiered service fees will have multiple performance obligations, resulting in a deferral of revenue which is not expected to be material. The deferral of revenue in a given period is expected to be approximately 1% of marketplace revenue.

Upon Adoption:

Accumulated Deficit: A \$11.8 million increase to accumulated deficit as of January 1, 2019 related to Topic 606 adjustments for periods before 2019.

Deferred revenue: A \$11.8 million increase in deferred revenue as of January 1, 2019 related to deferral of tiered service fees under Topic 606 for prior periods.

