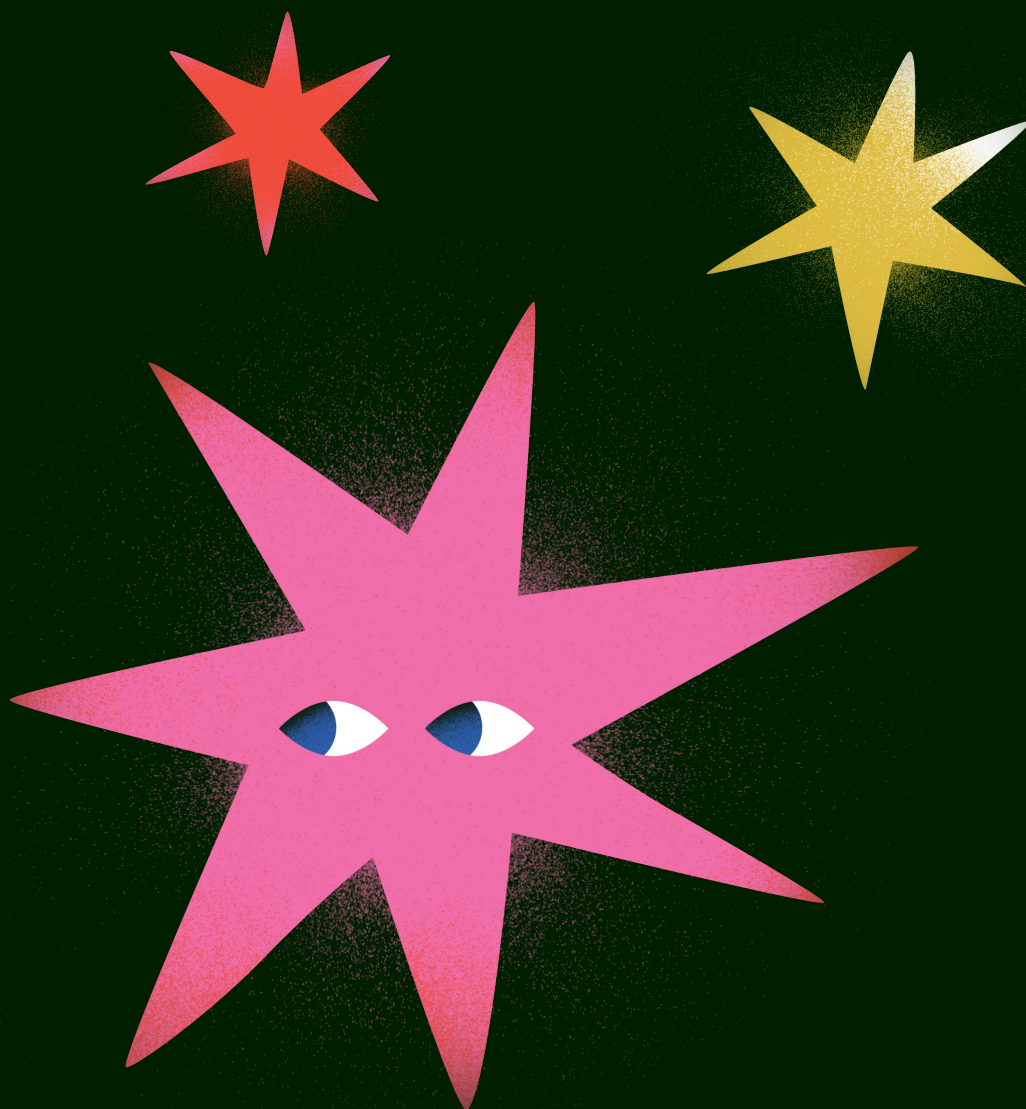


upwork

Q2 2023 Shareholder Letter



Dear Shareholders



In the second quarter of 2023, Upwork made strong progress on delivering innovative solutions for our customers and driving durable, profitable growth. We achieved better-than-expected results across our financial goals, while making significant strides in generative AI and growth across our business. This resulted in second-quarter 2023 revenue of \$168.6 million, up 7% from a year ago, and Gross Services Volume (GSV) that again exceeded \$1 billion for the quarter. We recorded GAAP net loss of \$(4.0) million and adjusted EBITDA of \$14.4 million this quarter, compared to GAAP net loss of \$(23.8) million and adjusted EBITDA loss of \$(1.9) million in the second quarter of 2022. These strong results are largely the outcome of the cost savings actions we took earlier in the second quarter, along with additional cost savings measures taken throughout the quarter, which we expect to yield incremental benefits over the remainder of 2023. With the momentum that we have built, we are raising our adjusted EBITDA guidance for 2023 to \$50 million to \$55 million.

In the beginning of the second quarter, we moved quickly to adapt to the macroeconomic environment by reducing costs, primarily in brand marketing and through reductions to our workforce. Throughout the quarter, we identified and implemented supplemental cost-saving measures including an additional reduction of brand marketing investments, deprioritization of lower return on investment (ROI) vendor expenses and consulting projects, and reassessment of hiring plans to focus on our most important strategic initiatives. We expect to continue to identify new areas of efficiency within our organization, and at the same time, continue to invest prudently in the focused areas of growth that we see across the business.

One of the most important and diverse growth opportunities for Upwork is in the AI space, and we are delivering on this opportunity by serving clients with a singular destination for sourcing the full breadth of AI-focused talent they need; premiering new AI-powered features for discovering and matching with expert talent across every category of work; and enabling talent on Upwork to access the most modern generative AI tools to supercharge their productivity and quality of work. Collectively, these steps move our customers closer to unlocking the magic of Upwork to accomplish more than they ever thought possible. We continue to see clients come to Upwork for the professionals and solutions they need to execute on their most ambitious AI initiatives, hiring talent spanning roles from prompt engineers and AI model trainers to researchers, data annotators, and code checkers. Outstanding growth in this category of work continued in the second quarter, as AI was the fastest-growing category on Upwork in the first half of 2023⁽¹⁾. In fact, generative AI job posts on our platform were up more than 1000% while related searches were up more than 1500% when comparing the second quarter of 2023 to the fourth quarter of 2022.

Over the past few weeks, we [unveiled](#) the first of many generative AI innovations in our ecosystem, which we expect to further accelerate our momentum in this flourishing space. On July 11, we launched a new centralized [AI Services hub](#) that connects clients to highly skilled AI-focused talent, features partnerships with leading AI providers, and highlights resources and tools for businesses and talent looking to boost their work with AI. We further advanced this priority through a partnership with OpenAI [announced](#) earlier this week, establishing [OpenAI Experts on Upwork](#).

(1) Compared to the second half of 2022, as measured by the total number of professionals hired.

This program provides OpenAI customers and other businesses access to highly skilled, pre-vetted independent professionals deeply experienced with the OpenAI platform so they can bring the power of OpenAI technologies to their products, solutions, and projects, just as Upwork has. OpenAI is leveraging talent from the Upwork marketplace to support its own innovation and growth, and quickly saw value in helping its customers connect to talent on Upwork, leading to the new partnership.

In the second quarter, we implemented changes to our sales team and strategy, generating improved productivity and increased revenue, while reducing staffing and expenses. We grew our Enterprise customer base, adding notable new Enterprise Clients like Mastercard, R.R. Donnelley (RRD), and Las Vegas Sands during the quarter, and Enterprise Revenue grew 16% year-over-year. We have continued strong conviction in the long-term opportunity and our ability to execute on our Enterprise strategy, and took a significant step in driving that strategy forward with the [appointment](#) of Zoë Diamadi as our new general manager of Enterprise in the second quarter. Zoë brings a wealth of experience in building businesses and go-to-market strategies, and we are thrilled to gain her leadership of this important growth vector for Upwork.

We are pleased with the rapid progress we have made against our priorities of driving durable, profitable growth; innovating to make Upwork the preeminent destination for AI-related talent and work; and driving growth within our Enterprise business during a time of change. Our confidence in the long-term growth opportunity for Upwork is unwavering. We are proud of the advancements we made in the second quarter and our stellar team members who executed them, and we are excited about the future. Our continued focus as a management team is on innovation, cost discipline, and identifying the highest ROI investments to generate profitable growth and shareholder value.

Career Innovator: [Arun Godwin Patel](#)

“The thing I find most fulfilling about helping customers with AI is helping them bring a vision to life from start to finish,” said Arun Godwin Patel, an MIT-educated data scientist and machine learning engineer. Based in London, Godwin Patel holds a Master’s degree in AI and has deep experience with a variety of AI and machine learning frameworks and languages.

When he was young, Godwin Patel says it was his creativity that first drew him to wanting to work in this field. “I always loved building things,” Godwin Patel said. He realized he wanted to specialize in AI while he was working at SAP, a multinational software company, about nine years ago. Since then, he’s been using AI, data science, and machine learning to help companies solve business problems. In 2019, he left the corporate world to freelance.

“I love working on Upwork,” Godwin Patel said. “I originally turned to the platform to expand upon my client base and since then it has snowballed. Today, I pick and choose who I work with and when I work, which gives me complete control over both my day-to-day as well as my career.”

“My top tip for clients looking to hire freelancers for AI is to provide them with a deep overview of both the data you have as well as the business challenge you are trying to solve,” Godwin Patel said. Read more about Godwin Patel’s work, how he upskills, and his advice for those wanting to leverage AI [here](#).



Q2'23 Business Highlights



Given the large and diverse opportunities for our business in AI, we are devoting the majority of this quarter's Business Highlights to the progress we have made in establishing ourselves as the preeminent destination for AI-related talent and work.

Making Upwork the Preeminent Destination for AI-Related Talent and Work

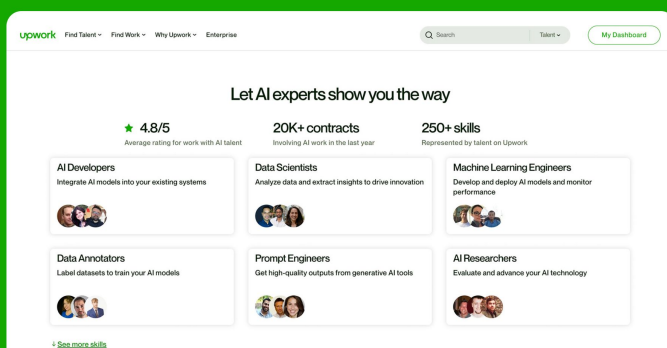
Driven by the continued significant growth in demand for AI-focused talent, tools, and technology on our platform, much of our focus in the second quarter was on innovation in the AI space. We delivered on this by giving clients a singular destination for sourcing the AI professionals they need, premiering new AI-powered features for discovering and matching with expert talent across every category of work, and enabling talent on Upwork to access the most modern generative AI tools to fuel their productivity and work quality. This body of work was headlined by the launch of our new [AI Services hub](#), an interactive experience that helps connect organizations with some of the most skilled independent professionals in AI fields from across the globe.

Career Innovator: [Greg Schwartz](#)

After working as a senior user experience designer, full-stack engineer, and user researcher for about 13 years, in early 2023, Greg Schwartz saw an opportunity to pivot his skills to help customers with AI.

Schwartz holds an MS in human computer interaction from Stanford and a BS in information & computer science from the University of California, Irvine. Rather than creating a new Upwork profile, Schwartz used the [specialized profile feature](#) to separate his AI and prompt engineering offerings from his user experience work. He also offers chatbot development and IT consultation services through [Project Catalog™](#). Today, 98% of his work on Upwork is in AI and prompt engineering.

"I'm finding it really helpful to have a stream of people reaching out to me on Upwork as well as available projects for which I can submit proposals," Schwartz said. "I receive some interest in my services through my prompt engineering podcast and peer-to-peer mentoring groups, but I'd say that's probably only about one-tenth of my AI and prompt engineering work, with the rest coming from Upwork." Read more about Schwartz's pivot to prompt engineering [here](#).



Detailed look at the AI experts page, one component of the AI Services hub

As the world's destination for expert AI-focused talent, this week we announced a groundbreaking partnership with OpenAI, called [OpenAI Experts on Upwork](#). Upwork and OpenAI co-designed the program to feature talent adept at working with the OpenAI API platform and to draw from the 250 unique AI skills available on Upwork, like GPT-4, Whisper, and AI model integration. The program leverages Upwork's talent managers to pre-vet and curate talent with AI expertise and experience with the OpenAI platform. Clients can engage with OpenAI Experts on Upwork via 1:1 consultations or project-based contracts.

The partnership builds on the recent launch of several new beta features powered by [OpenAI](#) technologies that help customers get work done faster and more effectively on Upwork. The AI-powered features make it easier than ever to get started on the platform and include a job post generator designed to help clients create fully customizable job post drafts in seconds, an enhanced Upwork chat experience that helps businesses new to Upwork navigate the platform, learn how to hire, and jumpstart their talent search, and proposal tips that help talent create more professional job proposals in an instant so they can more easily make their skills and experience shine to win more work. During the initial testing phase, we observed these features enhancing our customers' experience and success, including cutting job post time almost in half for clients that use the new job post generator.

As part of our strategy to enable professionals on Upwork to be the most productive, AI-empowered talent in the world, we launched a partnership with [Jasper](#), a leading generative AI content generation platform. We are offering professionals on our Talent Marketplace differentiated access to tools, offers, and insights related to technologies that amplify their work, and the Jasper partnership spurred impressive interest in its first few weeks of availability. Talent on Upwork can now claim an exclusive offer for a 30-day free trial to Jasper, providing access to an array of powerful generative AI tools that assist with copywriting, marketing, and image creation and enabling them to increase productivity and creativity, communicate with clients more effectively, and elevate the quality of their work.

Career Innovator: [Guy Pistone](#)

After a successful 10-year career building and launching consumer software products (with two products acquired), Guy Pistone started Valere Labs—a team of highly talented software engineers, machine learning engineers, digital strategists, designers, and quality assurance professionals. He and his team build custom AI and machine learning (ML) solutions from scratch that are capable of autonomously analyzing complex data, identifying trends and patterns, forecasting outcomes, and finding solutions to operational problems.

"I like to build meaningful things that scale," Pistone said. "I aim to have 50 percent of our projects focused exclusively on solving real-world problems." His advice for clients who want to leverage AI to achieve their most pressing goals? Hire an ML developer to deep dive on the opportunities within your business and externally. "There's always going to be a need for highly skilled software developers and project managers, because clients aren't always sure what they need," he said.

Read more of Pistone's advice for clients and learn how Valere Labs is leveraging AI for impact [here](#).



Upwork in the Spotlight

During the second quarter and into the early third quarter, the marketing team launched our new AI campaign “[Work, Smarter](#),” educating the market on the first set of generative AI innovations in our ecosystem and highlighting our progress in making Upwork the preeminent destination for AI-related talent and work. This campaign includes both digital takeovers and full-page print ad features in *The Wall Street Journal* and *The New York Times*, along with a print ad feature in *Bloomberg Businessweek*, as well as a multitude of content and resources available on our new [AI Services hub](#) that help clients and talent approach generative AI and integrate it into their critical work.

We have continued to see strong progress in driving unaided awareness growth through our marketing strategies. From September 2022 through June 2023, unaided awareness among all business decision-makers has increased nearly 90%. With business decision-makers among the large business segment (1,000 employees or more), we have seen unaided awareness grow nearly 250% over that same timeframe.

In addition, we continue to invest in performance marketing as a growth lever to bring new customers into the business. We saw record effectiveness and efficiency with our performance marketing dollars in the second quarter, including a 28% year-over-year improvement in cost per client registration. We will continue to focus our marketing efforts and investments on efficient growth in the quarters ahead, building on the momentum of our “Work, Smarter” AI campaign through cost-effective performance marketing and direct response channels.

Workplace Innovator: Bee Line Transport

“A few years ago, I made the decision to take our company from a paper-based system to a full-blown, tech-enabled business,” said Ryan McCrae, general manager of Bee Line Transport Inc., a transportation company based in Oregon. McCrae’s father had started the business and asked him to take over just two years before his passing. “I felt a responsibility to make our company what I knew it could be. I started looking on Upwork, talked to a few developers, and eventually landed with Valere Labs. From flow charts and specifications of exactly what we wanted to the finished project, Valere was amazing.”

By leveraging machine learning and AI, Valere helped McCrae facilitate a digital transformation of his transportation business. Now, drivers log into Bee Line’s iOS app with their thumbprint; keep track of receipts from car washes, tolls, and more; and have instant access to all of the information they need to embark on their next job at their fingertips, wherever they are. “This has helped us retain employees and, in turn, improve our customer service,” McCrae said. The app uses computer vision to scan a label applied to every vehicle, which feeds into a full database that provides McCrae and his team with a real-time view of every detail of their business. “We used to work with stacks of worksheets and tally them up, one by one,” McCrae said. “With a small crew, time is money. You have to be efficient. If you are duplicating work, you’re wasting time. With our new web-based system, we are much more efficient, and everything moves smoothly. There is no way we could have done this without Upwork.”



Progress on Our Enterprise Strategy

In the second quarter, our Land team added 19 new Enterprise Clients, delivering an increase in sales rep productivity of 13% quarter-over-quarter and executing gracefully while navigating the headcount reductions we announced in May. We recorded our highest month ever for Enterprise Revenue in June 2023—the first full month with this newly organized team—as second-quarter Enterprise Revenue increased 16% year-over-year to \$14.3 million. This substantial growth was catalyzed by spend from new Enterprise Clients as well as existing Enterprise Clients shifting spend to Enterprise offerings that have a higher take rate.

Workplace Innovator: Athes.io

“Having [Valere](#) as a software partner plays a crucial role in the success of my business,” said Joshua Crandall, founder of Athes.io, the first and most intelligent youth sports trainer designed to revolutionize athletic journeys. “I selected Valere based on their outstanding reputation, as evidenced by positive reviews, high ratings, and their impressive revenue generation of nearly a million dollars on the Upwork platform.”

“I approached Valere with a highly ambitious concept in the youth sports domain. Working closely with them has allowed me to refine and optimize the platform to effectively engage the youth sports market. Leveraging advanced technologies such as AI, we are able to offer an unprecedented experience. Now the new technology we are working on is still in the testing phase, however we are getting exceptional feedback, and I am eagerly anticipating its launch,” Crandall said.

“Valere exhibits a high level of professionalism, organization, creativity, and expertise surpassing that of other developers I have previously collaborated with. This partnership and business relationship will serve as a significant differentiating factor for my enterprise.”

The logo for Athes.io, featuring the word "ATHES" in a bold, blue, sans-serif font. The letter 'A' is stylized with a triangular shape above it.

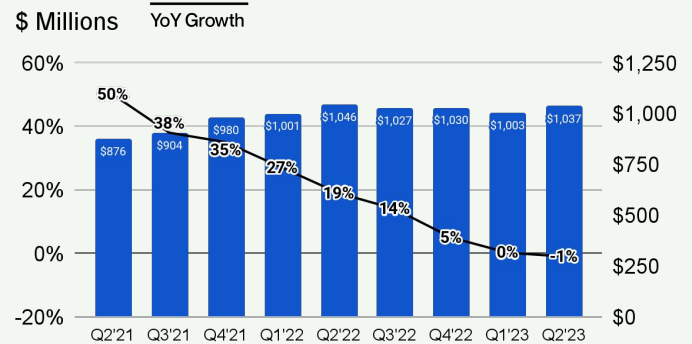
Q2'23 Financial Results



Gross Services Volume (GSV)

GSV increased 3% quarter-over-quarter and was down slightly by approximately (1)% year-over-year. The year-over-year decline was primarily driven by the lapping of strong growth in the previous two years, as well as client marketplace pricing changes implemented in April 2022.

Gross Services Volume



Active Clients

Active Clients increased 2% year-over-year as of June 30, 2023 to approximately 822,000. Active Client growth was driven by relatively flat new client acquisition, offset by a year-over-year increase in retained clients.

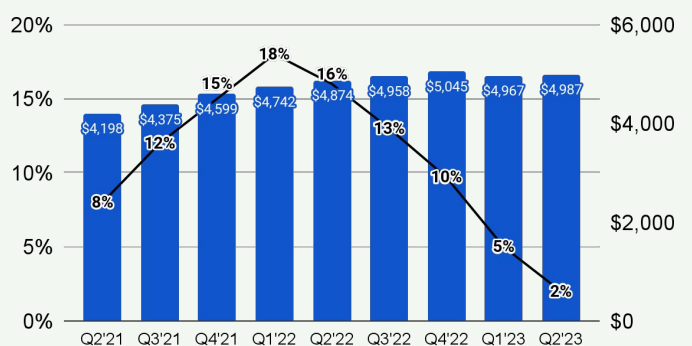
Active Clients



GSV per Active Client

GSV per Active Client increased 2% year-over-year to \$4,987 as of June 30, 2023. We continue to see higher average spend growth from retained clients when compared to growth in spend from more newly acquired clients.

GSV per Active Client

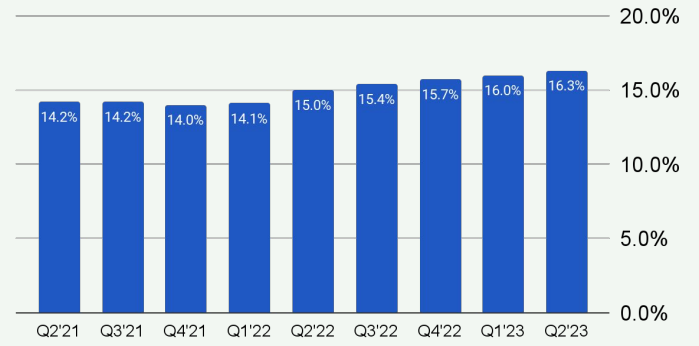


Take Rate

Total take rate in the second quarter of 2023 was 16.3%, up from 16.0% in the previous quarter and from 15.0% in the second quarter of 2022.

Marketplace take rate for the second quarter of 2023 was 15.3%, up from 14.9% in the previous quarter and from 14.0% in the second quarter of 2022. The increase was largely due to the simplification of our freelancer pricing structure implemented in May 2023, as well as other Connects monetization strategies implemented in the marketplace.

Take Rate



Revenue

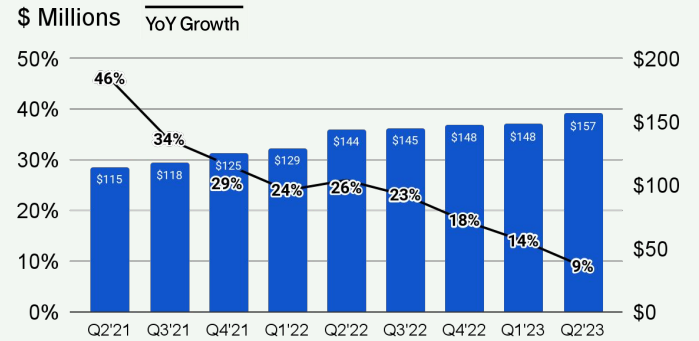
Revenue grew 7% year-over-year to \$168.6 million in the second quarter of 2023. Marketplace revenue for the second quarter of 2023 was \$156.6 million, reflecting a year-over-year increase of 9%. In the second quarter of 2023, total revenue growth was primarily driven by client fee changes related to the shift to our Client Marketplace offering in April 2022, as well as other monetization efforts implemented on our platform.

Total Revenue

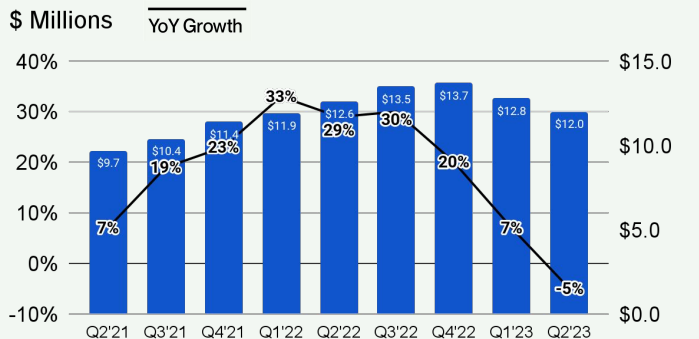


Managed services revenue declined (5)% year-over-year in the second quarter to \$12.0 million. The decrease in managed services revenue for the past two quarters was due to reduction in average spend by our managed services clients.

Marketplace Revenue



Managed Services Revenue

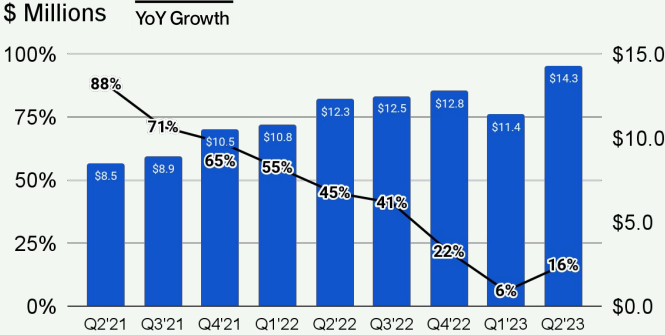


Enterprise Revenue

Enterprise Revenue grew 16% year-over-year to \$14.3 million in the second quarter of 2023.

Enterprise Revenue growth was due to both the growth of our Enterprise client base and existing Enterprise Clients shifting spend to enterprise offerings that have a higher take rate.

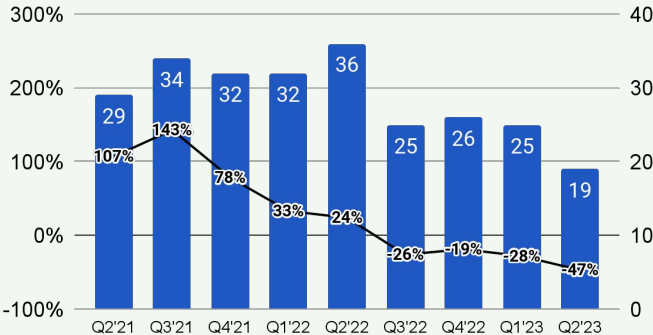
Enterprise Revenue



New Enterprise Clients

We signed 19 new Enterprise Clients in the second quarter of 2023.

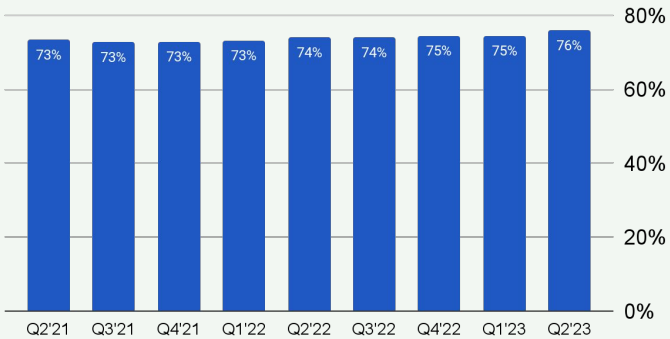
New Enterprise Clients



Gross Profit and Margin

GAAP gross profit was \$127.7 million for the second quarter of 2023, or 76% of revenue, compared with 74% of revenue in the prior year period. Non-GAAP gross profit was \$128.2 million, or 76% of revenue, in the second quarter of 2023, compared with 74% in the second quarter of 2022. The increase in gross margin is primarily due to pricing changes and other platform monetization strategies we have implemented over the past 12 months.

GAAP Gross Margin



OPEX

GAAP operating expenses for the second quarter of 2023 were \$133.8 million, representing 79% of revenue, compared to 89% in the prior year period, with R&D expense increasing 21% year-over-year, while sales and marketing, G&A, and provision for transaction losses were all down significantly year-over-year. Non-GAAP operating expenses for the second quarter of 2023 were \$115.7 million, representing 69% of revenue, compared to 77% in the prior year period, with R&D expense increasing 24% year-over-year, while sales and marketing, G&A, and provision for transaction losses were all down significantly year-over-year. The strong improvements in operating costs were the result of aggressive management action to focus on efficiency and profitable growth. We will continue to identify ways to improve efficiency while investing in new innovations to grow our business.

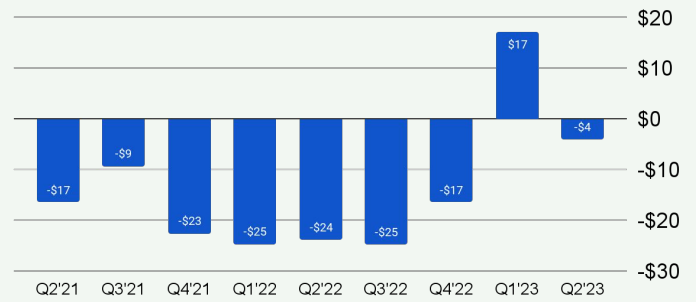
Net Income (Loss)

GAAP net loss was \$(4.0) million in the second quarter of 2023 compared to GAAP net loss of \$(23.8) million in the second quarter of 2022. GAAP net loss per basic and diluted share was \$(0.03) in the second quarter of 2023 as compared to GAAP net loss per basic and diluted share of \$(0.18) in the second quarter of 2022.

Non-GAAP net income was \$13.5 million in the second quarter of 2023 compared to non-GAAP net loss of \$(4.7) million in the second quarter of 2022. Our non-GAAP net income per basic and diluted share was \$0.10 in the second quarter of 2023 as compared to non-GAAP net loss per basic and diluted share of \$(0.04) in the second quarter of 2022.

Net Income (Loss)

\$ Millions



Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA was \$14.4 million in the second quarter of 2023, compared to \$(1.9) million in the second quarter of 2022. Adjusted EBITDA margin was 9% in the second quarter of 2023, compared to adjusted EBITDA margin of (1)% in the second quarter of 2022. Second-quarter 2023 adjusted EBITDA includes approximately \$2.5 million of non-recurring severance-related costs. Our strong Adjusted EBITDA results are due to the rapid execution of our strategy to focus on durable, profitable growth.

Adjusted EBITDA

\$ Millions



Cash Flow and Balance Sheet

Cash, cash equivalents, and marketable securities were approximately \$516.7 million at the end of the second quarter of 2023.

Guidance

Based on the current trends in our business, we are guiding third-quarter 2023 revenue to be between \$165 million and \$170 million, which is a 6% year-over-year increase at the midpoint, and raising our full-year 2023 revenue guidance to between \$665 million and \$675 million, which is 8% year-over-year growth at the midpoint.

We expect third-quarter adjusted EBITDA to be between \$14 million and \$17 million, which represents an adjusted EBITDA margin of 8.5% to 10.0%. We are increasing full-year 2023 adjusted EBITDA guidance to between \$50 million and \$55 million, which represents an adjusted EBITDA margin of 7.5% to 8.1%, as we remain committed to focusing on profitable growth and increasing margins in 2023. We also expect to generate positive free cash flow going forward.

We expect third-quarter 2023 non-GAAP diluted EPS to be between \$0.09 and \$0.11 and diluted weighted-average shares outstanding in the range of 142 million to 144 million. For full-year 2023, we now expect non-GAAP diluted EPS to be between \$0.36 and \$0.39 and diluted weighted-average shares outstanding in the range of 136 million to 140 million. We expect stock-based compensation expense to average less than \$20 million per quarter for 2023.

We have not reconciled our adjusted EBITDA guidance to GAAP net income (loss), adjusted EBITDA margin guidance to GAAP net income (loss) margin, or non-GAAP diluted EPS to GAAP diluted EPS because certain items that impact GAAP net income (loss), GAAP net income (loss) margin, 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 2023 will have a significant impact on our future GAAP financial results. Accordingly, a reconciliation of adjusted EBITDA to GAAP net income (loss), adjusted EBITDA margin to GAAP net income (loss) margin, and non-GAAP diluted EPS to GAAP diluted EPS is not available without unreasonable effort.

	Q3 2023 Guidance	FY 2023 Guidance
Revenue	\$165 million - \$170 million	\$665 million - \$675 million
Adjusted EBITDA	\$14.0 million - \$17.0 million	\$50.0 million - \$55.0 million
Diluted weighted-average shares outstanding	142.0 million - 144.0 million	136.0 million - 140.0 million
Non-GAAP diluted EPS	\$0.09 - \$0.11	\$0.36 - \$0.39

Q2 2023 Conference Call and Webcast

Upwork will host a conference call today, August 2, 2023, at 2 p.m. Pacific Time/5 p.m. Eastern Time to discuss the company's second-quarter 2023 financial results. An audio webcast archive will be available following the live event for approximately one year at investors.upwork.com.

We use our Investor Relations website (investors.upwork.com), our blog (upwork.com/blog), our Twitter handle (twitter.com/Upwork), Hayden Brown's Twitter handle (twitter.com/hydnbrwn) and LinkedIn profile (linkedin.com/in/haydenlbrown) 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.

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 shareholder letter 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.

Thank you,



Hayden Brown
President & CEO



Erica Gessert
Chief Financial Officer

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,	
	2023	2022	2023	2022
Revenue				
Marketplace	\$ 156,631	\$ 144,325	\$ 304,719	\$ 273,750
Managed services	11,980	12,573	24,750	24,485
Total revenue	168,611	156,898	329,469	298,235
Cost of revenue	40,882	40,857	81,309	78,773
Gross profit	127,729	116,041	248,160	219,462
Operating expenses				
Research and development	43,246	35,830	87,727	73,991
Sales and marketing	59,069	63,283	124,069	120,925
General and administrative	28,983	33,324	58,270	62,465
Provision for transaction losses	2,547	6,652	9,248	8,781
Total operating expenses	133,845	139,089	279,314	266,162
Loss from operations	(6,116)	(23,048)	(31,154)	(46,700)
Interest expense	713	1,120	1,814	2,245
Other income, net	(4,695)	(375)	(48,796)	(443)
Income (loss) before income taxes	(2,134)	(23,793)	15,828	(48,502)
Income tax provision	(1,857)	(27)	(2,652)	(56)
Net income (loss)	\$ (3,991)	\$ (23,820)	\$ 13,176	\$ (48,558)
Net income (loss) per share:				
Basic	\$ (0.03)	\$ (0.18)	\$ 0.10	\$ (0.37)
Diluted	\$ (0.03)	\$ (0.18)	\$ (0.18)	\$ (0.37)
Weighted-average shares used to compute net income (loss) per share				
Basic	134,142	130,061	133,492	129,707
Diluted	134,142	130,061	135,049	129,707

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

	June 30, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 154,106	\$ 129,384
Marketable securities	362,561	557,230
Funds held in escrow, including funds in transit	177,655	161,457
Trade and client receivables, net	66,309	64,888
Prepaid expenses and other current assets	19,396	17,947
Total current assets	780,027	930,906
Property and equipment, net	24,867	22,063
Goodwill	118,219	118,219
Operating lease asset	5,992	7,603
Other assets, noncurrent	1,467	1,454
Total assets	\$ 930,572	\$ 1,080,245
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 4,178	\$ 7,549
Escrow funds payable	177,655	161,457
Accrued expenses and other current liabilities	48,817	53,611
Deferred revenue	24,079	25,075
Total current liabilities	254,729	247,692
Debt, noncurrent	355,166	564,261
Operating lease liability, noncurrent	8,219	11,177
Other liabilities, noncurrent	5,535	8,236
Total liabilities	623,649	831,366
Stockholders' equity		
Common stock	13	13
Additional paid-in capital	635,548	592,900
Accumulated other comprehensive loss	(865)	(3,085)
Accumulated deficit	(327,773)	(340,949)
Total stockholders' equity	306,923	248,879
Total liabilities and stockholders' equity	\$ 930,572	\$ 1,080,245

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	\$ (3,991)	\$ (23,820)	\$ 13,176	\$ (48,558)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Provision for transaction losses	1,730	6,391	5,442	8,310
Depreciation	1,854	2,016	3,878	4,025
Amortization of debt issuance costs	461	741	1,177	1,481
Amortization of premium (accretion of discount) of purchases of marketable securities, net	(2,667)	263	(6,154)	800
Amortization of operating lease asset	811	767	1,611	1,518
Tides Foundation common stock warrant expense	187	187	375	375
Stock-based compensation expense	18,437	18,980	38,337	35,715
Gain on early extinguishment of debt	—	—	(38,945)	—
Changes in operating assets and liabilities:				
Trade and client receivables	(8,947)	(13,851)	(6,957)	(10,861)
Prepaid expenses and other assets	(104)	188	(1,464)	(1,206)
Operating lease liability	(1,447)	(1,322)	(2,866)	(2,614)
Accounts payable	9	(870)	(3,371)	280
Accrued expenses and other liabilities	1,714	9,269	(5,141)	(3,465)
Deferred revenue	(3,738)	615	(3,490)	2,278
Net cash provided by (used in) operating activities	<u>4,309</u>	<u>(446)</u>	<u>(4,392)</u>	<u>(11,922)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of marketable securities	(97,991)	(71,099)	(254,119)	(231,350)
Proceeds from maturities of marketable securities	139,994	84,973	307,410	191,607
Proceeds from sale of marketable securities	6,150	—	149,859	—
Purchases of property and equipment	23	(409)	(135)	(602)
Internal-use software and platform development costs	(3,369)	(1,591)	(6,072)	(2,824)
Net cash provided by (used in) investing activities	<u>44,807</u>	<u>11,874</u>	<u>196,943</u>	<u>(43,169)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Changes in escrow funds payable	(1,766)	(7,934)	16,197	27,632
Proceeds from exercises of stock options	177	556	935	1,044
Proceeds from employee stock purchase plan	2,564	2,462	2,564	2,462
Net cash paid for early extinguishment of debt	(575)	—	(171,327)	—
Net cash provided by (used in) financing activities	<u>400</u>	<u>(4,916)</u>	<u>(151,631)</u>	<u>31,138</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	49,516	6,512	40,920	(23,953)
Cash, cash equivalents, and restricted cash—beginning of period	<u>286,635</u>	<u>321,593</u>	<u>295,231</u>	<u>352,058</u>
Cash, cash equivalents, and restricted cash—end of period	<u>\$ 336,151</u>	<u>\$ 328,105</u>	<u>\$ 336,151</u>	<u>\$ 328,105</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, 2023	December 31, 2022
Cash and cash equivalents	\$ 154,106	\$ 129,384
Restricted cash	4,390	4,390
Funds held in escrow, including funds in transit	177,655	161,457
Total cash, cash equivalents, and restricted cash as shown in the condensed consolidated statement of cash flows	\$ 336,151	\$ 295,231

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

	Three Months Ended June 30,			Six Months Ended June 30,			
	2023	2022	Change	2023	2022	Change	
Cost of revenue	\$ 40,882	\$ 40,857	\$ 25 —%	\$ 81,309	\$ 78,773	\$ 2,536	3%
Components of cost of revenue:							
Cost of talent services to deliver managed services	9,140	9,271	(131) (1)%	18,673	18,231	442	2%
Other components of cost of revenue	31,742	31,586	156 —%	62,636	60,542	2,094	3%
Total gross margin	76%	74%		75%	74%		

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net Income (loss)	\$ (3,991)	\$ (23,820)	\$ 13,176	\$ (48,558)
Add back (deduct):				
Stock-based compensation expense	18,437	18,980	38,337	35,715
Depreciation	1,854	2,016	3,878	4,025
Interest expense	713	1,120	1,814	2,245
Other income, net ⁽¹⁾	(4,695)	(375)	(48,796)	(443)
Income tax provision	1,857	27	2,652	56
Other ⁽²⁾⁽³⁾	187	187	375	4,662
Adjusted EBITDA	<u>\$ 14,362</u>	<u>\$ (1,865)</u>	<u>\$ 11,436</u>	<u>\$ (2,298)</u>
Profit margin	(2)%	(15)%	4%	(16)%
Adjusted EBITDA margin	9%	(1)%	3%	(1)%
Cost of revenue, GAAP	\$ 40,882	\$ 40,857	\$ 81,309	\$ 78,773
Stock-based compensation expense	(490)	(347)	(910)	(586)
Other ⁽³⁾	<u>—</u>	<u>—</u>	<u>—</u>	<u>(89)</u>
Cost of revenue, Non-GAAP	40,392	40,510	80,399	78,098
As a percentage of total revenue, GAAP	24%	26%	25%	26%
As a percentage of total revenue, Non-GAAP	24%	26%	24%	26%
Gross profit, GAAP	\$ 127,729	\$ 116,041	\$ 248,160	\$ 219,462
Stock-based compensation expense	490	347	910	586
Other ⁽³⁾	<u>—</u>	<u>—</u>	<u>—</u>	<u>89</u>
Gross profit, Non-GAAP	128,219	116,388	249,070	220,137
Gross margin, GAAP	76%	74%	75%	74%
Gross margin, Non-GAAP	76%	74%	76%	74%
Research and development, GAAP	\$ 43,246	\$ 35,830	\$ 87,727	\$ 73,991
Stock-based compensation expense	(6,903)	(6,565)	(14,532)	(12,180)
Other ⁽³⁾	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,653)</u>
Research and development, Non-GAAP	36,343	29,265	73,195	59,158
As a percentage of total revenue, GAAP	26%	23%	27%	25%
As a percentage of total revenue, Non-GAAP	22%	19%	22%	20%
Sales and marketing, GAAP	\$ 59,069	\$ 63,283	\$ 124,069	\$ 120,925
Stock-based compensation expense	(2,998)	(2,663)	(6,566)	(4,928)
Other ⁽³⁾	<u>—</u>	<u>—</u>	<u>—</u>	<u>(260)</u>

Sales and marketing, Non-GAAP	56,071	60,620	117,503	115,737
As a percentage of total revenue, GAAP	35%	40%	38%	41%
As a percentage of total revenue, Non-GAAP	33%	39%	36%	39%
General and administrative, GAAP	\$ 28,983	\$ 33,324	\$ 58,270	\$ 62,465
Stock-based compensation expense	(8,046)	(9,405)	(16,329)	(18,021)
Other ⁽²⁾⁽³⁾	(187)	(187)	(375)	(1,660)
General and administrative, Non-GAAP	20,750	23,732	41,566	42,784
As a percentage of total revenue, GAAP	17%	21%	18%	21%
As a percentage of total revenue, Non-GAAP	12%	15%	13%	14%
Total operating expenses, GAAP	\$ 133,845	\$ 139,089	\$ 279,314	\$ 266,162
Stock-based compensation expense	(17,947)	(18,633)	(37,427)	(35,129)
Other ⁽²⁾⁽³⁾	(187)	(187)	(375)	(4,573)
Total operating expenses, Non-GAAP	115,711	120,269	241,512	226,460
As a percentage of total revenue, GAAP	79%	89%	85%	89%
As a percentage of total revenue, Non-GAAP	69%	77%	73%	76%
Loss from operations, GAAP	\$ (6,116)	\$ (23,048)	\$ (31,154)	\$ (46,700)
Stock-based compensation expense	18,437	18,980	38,337	35,715
Other ⁽²⁾⁽³⁾	187	187	375	4,662
Income (loss) from operations, Non-GAAP	12,508	(3,881)	7,558	(6,323)
Net income (loss), GAAP	\$ (3,991)	\$ (23,820)	\$ 13,176	\$ (48,558)
Stock-based compensation expense	18,437	18,980	38,337	35,715
Gain on early extinguishment of debt ⁽¹⁾	—	—	(38,945)	—
Tax effect of non-GAAP adjustments	(1,111)	—	(155)	—
Other ⁽²⁾⁽³⁾	187	187	375	4,662
Net income (loss), Non-GAAP	13,522	(4,653)	12,788	(8,181)
Weighted-average shares outstanding used in computing earnings (loss) per share, GAAP				
Basic (in millions)	134.1	130.1	133.5	129.7
Diluted (in millions)	134.1	130.1	135.0	129.7
Basic net income (loss) per share, GAAP	\$ (0.03)	\$ (0.18)	\$ 0.10	\$ (0.37)
Diluted net loss per share, GAAP	\$ (0.03)	\$ (0.18)	\$ (0.18)	\$ (0.37)
Weighted-average shares outstanding used in computing earnings (loss) per share, Non-GAAP				
Basic (in millions)	134.1	130.1	133.5	129.7
Diluted (in millions)	135.7	130.1	136.8	129.7
Basic net income (loss) per share, Non-GAAP	\$ 0.10	\$ (0.04)	\$ 0.10	\$ (0.06)
Diluted net income (loss) per share, Non-GAAP	\$ 0.10	\$ (0.04)	\$ 0.09	\$ (0.06)

⁽¹⁾ During the six months ended June 30, 2023, we recognized a gain on the early extinguishment of debt of \$38.9 million, which is included in other income, net.

⁽²⁾ During each of the three and six months ended June 30, 2023 and 2022, we incurred \$0.2 million and \$0.4 million, respectively, of expense related to our Tides Foundation warrant.

⁽³⁾ During the six months ended June 30, 2022, in response to Russia's invasion of Ukraine, we incurred certain incremental expenses associated with our humanitarian response efforts. These expenses are not representative of our ongoing operations, and, as a result, we excluded these costs from adjusted EBITDA for the six months ended June 30, 2022. These expenses consisted of (i) \$1.4 million of special one-time bonuses to our team members in the region impacted by Russia's invasion of Ukraine, (ii) \$1.5 million of expenses incurred in connection with the relocation of our team members in the impacted region, (iii) \$1.1 million of donations made to humanitarian aid organizations to support initiatives related to humanitarian response efforts in the impacted region, primarily to Direct Relief International, a humanitarian aid organization, and (iv) \$0.4 million of payments of one-time service award bonuses (and associated taxes) to certain of our team members paid in recognition of contributions made by such team members to our humanitarian response efforts in the impacted region.

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

	Three Months Ended								
	June 30, 2021	September 30, 2021	December 31, 2021	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023
Net Income (loss)	\$ (16,538)	\$ (9,311)	\$ (22,556)	\$(24,738)	\$(23,820)	\$ (24,827)	\$ (16,500)	\$ 17,167	\$ (3,991)
Add back (deduct):									
Stock-based compensation expense	13,534	13,906	14,926	16,735	18,980	20,404	19,382	19,900	18,437
Depreciation	2,554	2,439	2,074	2,009	2,016	1,982	2,050	2,024	1,854
Interest expense	110	746	1,125	1,125	1,120	1,117	1,121	1,101	713
Other (income) expense, net ⁽¹⁾	17	222	(440)	(68)	(375)	(1,772)	(5,543)	(44,101)	(4,695)
Income tax provision	16	26	63	29	27	40	440	795	1,857
Other ⁽²⁾⁽³⁾⁽⁴⁾	7,576	188	1,539	4,475	187	188	187	188	187
Adjusted EBITDA	\$ 7,269	\$ 8,216	\$ (3,269)	\$ (433)	\$ (1,865)	\$ (2,868)	\$ 1,137	\$ (2,926)	\$ 14,362

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

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

⁽³⁾ During the three months ended March 31, 2022, in response to Russia's invasion of Ukraine, we incurred certain incremental expenses associated with our humanitarian response efforts. These expenses are not representative of our ongoing operations, and, as a result, we excluded these costs from adjusted EBITDA for the three months ended March 31, 2022. These expenses consisted of (i) \$1.4 million of special one-time bonuses to our team members in the region impacted by Russia's invasion of Ukraine, (ii) \$1.5 million of expenses incurred in connection with the relocation of our team members in the impacted region, (iii) \$1.1 million of donations made to humanitarian aid organizations to support initiatives related to humanitarian response efforts in the impacted region, primarily to Direct Relief International, a humanitarian aid organization, and (iv) \$0.4 million of payments of one-time service award bonuses (and associated taxes) to certain of our team members paid in recognition of contributions made by such team members to our humanitarian response efforts in the impacted region.

⁽⁴⁾ During the three months ended June 30, 2021 and December 31, 2021, we incurred impairment charges of \$7.4 million and \$1.3 million, respectively.

Key Metric 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; interest expense; other (income) expense, net; income tax (benefit) provision; and, if applicable, certain other gains, losses, benefits, or charges that non-cash or are significant and are 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 needed by talent to bid on projects and paid promotional 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 Upwork Enterprise offering.

Enterprise Revenue

We define Enterprise Revenue as revenue from our Upwork Enterprise offering, including all client fees, subscriptions, and talent service fees.

Gross Services Volume (GSV)

We define gross services volume, or GSV, as the the total amount that clients spend on both our marketplace offerings and our managed services offering as well as additional fees we charge to users 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.

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.

About Upwork



Upwork is the world's largest² 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 2022 across more than 10,000 skills in categories including website & app development, creative & design, customer support, finance & accounting, consulting, and operations. Learn more at [upwork.com](https://www.upwork.com) and join us on [LinkedIn](#), [Twitter](#), [Facebook](#), [Instagram](#), and [TikTok](#).

Safe Harbor Statement

This shareholder letter includes forward-looking statements. 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 2023, 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, potential impacts as the COVID-19 pandemic continues to subside, and other future conditions.

Forward-looking statements are based upon various estimates and assumptions, as well as information known to Upwork as of the date of this shareholder letter, and are subject to risks and uncertainties, including: the impact of challenging macroeconomic conditions on our business, including the impacts of any cost-saving measures that we implement as a result; our ability to attract and retain a community of talent 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; potential impacts as the COVID-19 pandemic continues to

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subside; 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; competition; challenges to contractor classification or employment status of talent on our work marketplace; the possibility that the market for talent 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 and clients with larger, longer-term independent talent needs; 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; our ability to develop, maintain, and enhance our brand and reputation cost-effectively; 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; the impact of increased use of artificial intelligence; future changes to our pricing model; payment and fraud risks, including our ability to reduce transaction losses; security breaches; privacy; litigation and related costs; changes in management; and other general market, political, economic, and business conditions.

(2) As measured by GSV.

Safe Harbor Statement Cont.

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 over which we have no control. Significant variation from the assumptions underlying our forward-looking statements could cause our actual results to vary, and the impact could be significant. Accordingly, undue reliance should not be placed on the forward-looking statements in this shareholder letter.

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 Quarterly Report on Form 10-Q for the three months ended March 31, 2023, filed with the SEC on May 3, 2023, 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, 2023, 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.

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, non-GAAP gross margin, 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, non-GAAP net income (loss) (and on a per share basis), and adjusted EBITDA in this shareholder letter.

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, certain other gains, losses, benefits, or charges that non-cash or are significant and are 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.

Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures 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. 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; (d) expense related to our common stock warrant issued to the Tides Foundation, which is recurring and will be reflected in our financial results for the foreseeable future; or (e) certain incremental expenses associated with our humanitarian response efforts in response to the war in Ukraine, as these expenses are not representative of our ongoing operations. 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. Reconciliations of these non-GAAP measures to their most directly comparable GAAP financial measures have been provided in the financial statement tables included in this shareholder letter, and investors are encouraged to review the reconciliations and not rely on any single financial measure to evaluate our business.