

Q1'21 Earnings Prepared Remarks

Denise Garcia, Investor Relations

Welcome to Upwork's discussion of its first quarter 2021 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 Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 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 first quarter of 2021 are to the first quarter of 2020. 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 first quarter revenue grew 37% year-over-year to reach \$114 million, and first quarter Gross Services Volume grew 41% year-over-year to reach \$787 million, marking our third consecutive quarter of accelerating year-over-year growth.

This year's strong start builds on last year to clearly underscore the rapid acceleration of freelancing adoption by companies big and small across the globe. The pandemic has changed work forever, permanently shattering the biggest impediment to online freelancer adoption, which is prior discomfort with remote work. Regardless of their comfort levels before the pandemic, companies now know they can build and grow their businesses faster, and with greater efficiency by incorporating remote talent. Freelancers are joining companies' teams to do critical work that goes beyond old freelancer stereotypes, challenging the traditional notions of who participates in a high performing workforce. We're in the midst of a tectonic shift in how work gets done, and there's no going back. The new way we work is defined by opportunity, not constraint; flexibility, not restricted by four office walls; and trusted relationships, not rigid employment contracts.

As we head down this exciting path, our goal is to reflect Upwork's critical role in aiding businesses and professionals to push past current misconceptions and limitations to achieve more together. We realize that companies' different working models may necessitate different ways of incorporating freelancers into their workforces. This is why we have focused so intensely on expanding our platform's capabilities, to go beyond the Talent Marketplace with Project Catalog, Talent Scout, and our Enterprise Suite. The comprehensiveness of our platform is unmatched and delivers what no other company can: a complete ecosystem that empowers companies to work any way they want on Upwork.

Despite our strong performance over the past year, we haven't shone a bright enough light yet on our breadth as a core differentiator. That's why we are introducing our industry category today, calling it the work marketplace from now forward. Our strategy remains unchanged, but starting today, we are turning the floodlights on all the ways that companies can work on Upwork because this breadth and depth enables customers to get exactly what they need, exactly how they want it. We will seek to introduce more companies to this incredibly unique value of Upwork, and to help those customers leverage the comprehensiveness of our offering to even more rapidly evolve their Upwork experience from single transactions to strategic engagements. Our goal is to become the "always on" solution for all companies of every size hiring and managing freelancer programs at scale. We are unveiling a new identity and advertising campaign to show companies and freelancers what is truly possible in this new world of work, and how Upwork's work marketplace experience can help them achieve more together.

I am so excited by where work is headed and by the unique opportunity Upwork has to enable the entire work marketplace industry. We can see that this journey is already underway through our strong first quarter performance, which I would now like to focus on by discussing the key drivers of our growth.

I'll start with new client acquisition. In the first quarter, we grew new clients by 55% year-over year, marking our fourth consecutive quarter of accelerating growth rates. We continue to execute with discipline against the marketing strategy we put in place last year. As an example, our SEM performance continued to strengthen quarter-over-quarter as we were able to increase SEM-acquired new clients by 113% in Q1 while meaningfully lowering our cost per acquisition. We are pleased with our client acquisition performance to date, and we see continued runway for further growth and optimization across SEM, SEO, mobile, and international.

Next, I'd like to discuss client retention. The strength of our model was evident in the increase in Client Spend Retention from 102% in Q4 2020 to 106% in Q1 2021, the fastest acceleration we have seen in the last 5 years. As a reminder, this metric measures the spend retention of clients who were with us 13-24 months ago. We also saw strong retention in our more recently acquired clients. For example, clients acquired in Q4 2020 increased spend by 9% in Q1 2021, which is also the highest quarter-over-quarter growth in spend retention that we have seen in the last 5 years. Furthermore, we grew our core clients by more than 7,000, approximately 61% more than the increase we achieved in Q1 2020.

Next, I'd like to touch on our Sales team, which saw strengthening performance this quarter as the previous quarters' adjustments normalized. Q1 was our strongest quarter ever with respect to the number of new Enterprise clients signed, which grew more than 40% quarter-over-quarter. Sales cycles have also been shortening with Standard deals down significantly, to around three months, and Compliance deals averaging around six months. The number of customers spending more than a million dollars with us over the trailing twelve months was up 15% quarter-over-quarter, and the number of customers spending over one hundred thousand dollars in the trailing twelve months was up 27% year-over-year. Given these strong signals, we're considering increasing investment as early as Q3 2021.

I noted earlier how we are focused on helping our clients evolve their experience with Upwork from single transactions to strategic engagements. I'd like to highlight one Sales-enabled customer, [Digicel](#), which has gone through this exact transformation, seeing their Upwork engagement expand as they uncovered the true value of our platform. Digicel started with us over a year ago to localize creative ad content for their holiday campaign. Subsequently, as they contemplated a global re-launch of their brand, they realized this would be a highly complex effort requiring talent and coordination across 32 markets. This is where the global depth and breadth of the Upwork offering came to bear. Digicel leveraged Upwork's global talent pool to complete the project, reaping the benefits of the reality that new ways of working have enabled more innovation, fresh ideas, and increased agility.

A global Fortune 500 consumer packaged goods company is another example of how companies are increasingly embracing freelancers and leveraging Upwork to get core work done. This company is using freelancers on Upwork to help with product-market fit and user engagement through their online channels. The team began using Upwork in June 2020 to help with a simple landing page design, and over the course of several months engaged a team of freelancers to develop a sophisticated website with integrated online chat, social proofing, and an online library, among other features. The company continues to engage the freelance team as essential partners, providing quick execution of new user engagement ideas and testing the demand for potential new service offerings.

These two examples showcase companies discovering that building a Virtual Talent Bench™ of trusted, highly-skilled freelancers empowers them to instantaneously scale up and down their teams, realizing agility and cost efficiency to meet the changing demands of their businesses and prevent their teams from burning out. And professionals working as freelancers are discovering that freelancing empowers

them to work on their own terms—giving them more control over when, where, for whom, and on what they work. This is a model that is truly a win-win for all parties. It's increasingly becoming evident that organizations that aren't incorporating freelancers into their teams will be at a serious disadvantage to their competitors.

All of this translates into a massive opportunity for Upwork. Our focus is clear: our single strategic priority for 2021 is innovating, scaling, and promoting the work marketplace for the world.

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

Jeff McCombs, Chief Financial Officer

Thanks Hayden.

We are off to a great start to the year, with Q1 results exceeding our expectations on both the top and bottom lines. The business continues to perform strongly across virtually every client-related dimension, from categories to geographies to tenures of clients to acquisition and retention to sales and marketing. On the talent side, we were also very excited to see the strong year-over-year growth in the number of freelancers who were active in the quarter, which accelerated for the fourth consecutive quarter.

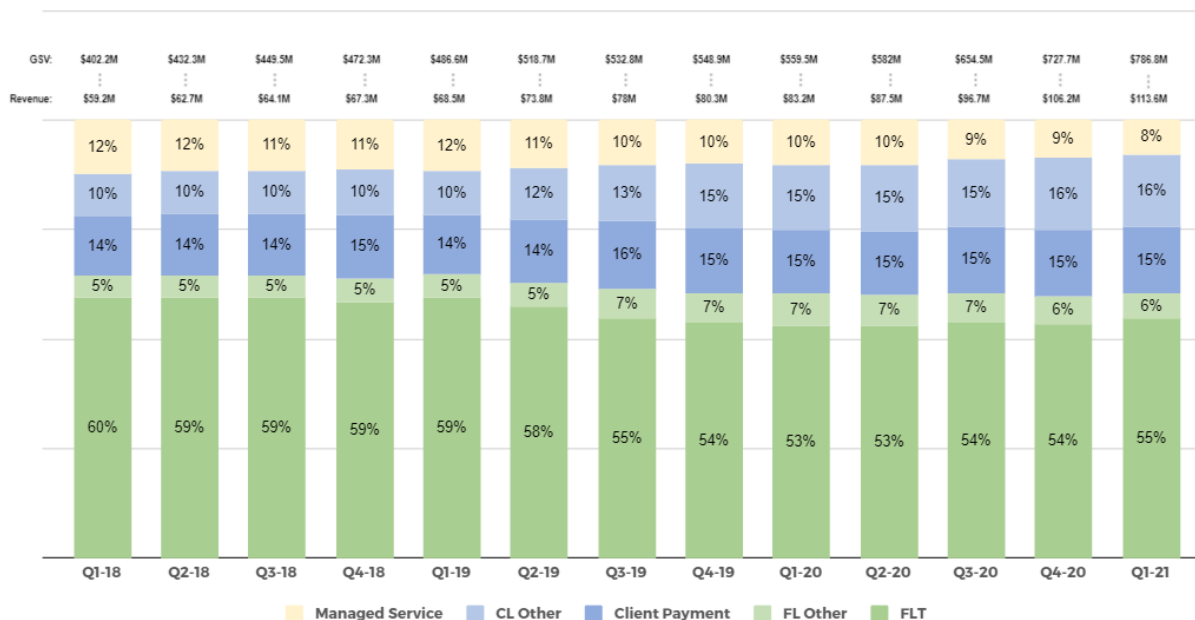
Now, I will discuss the financial results for the first quarter of 2021 and provide our revenue and EBITDA guidance for the second quarter and updated guidance for the full year 2021, which we included in our earnings release filed earlier today.

GSV in the first quarter was \$787 million with strong year-over-year growth of 41%. Revenue grew 37% year-over-year to \$114 million in the first quarter. Marketplace revenue for the first quarter was \$105 million, reflecting a year-over-year increase of 40%. Managed services revenue grew 6% to \$8.9 million for the first quarter.

Total core clients grew by approximately 18% year-over-year or 7,000 in the first quarter to 152,000, with gross new core clients in the quarter growing 46% year-over-year and net additions of core clients up 61% year-over-year.

Our overall take rate in the first quarter was 14.4%, down from 14.9% in Q1'20, and down slightly from 14.6% in Q4. This decrease was expected and driven primarily by the fact that marketplace revenue grew faster than Managed Services Revenue, which has a 100% take rate. Normalizing for this mix shift, our marketplace take rate in the first quarter was 13.5%, down just slightly from 13.6% in Q1'20 driven by the changes to our Connects program which we implemented in Q4 and are performing well. Marketplace take rate for the quarter was in line with the 13.5% in Q4'20.

Components of Revenue



Non-GAAP gross profit was \$83 million for the first quarter, or 73% of revenue, compared with 72% in the first quarter of 2020.

Non-GAAP operating expenses for the first quarter were \$79 million, representing 70% of revenue, down from 75% in the prior year, with G&A decreasing from 17% to 14%, sales and marketing decreasing from 36% to 34%, R&D remaining flat at 21%, and transaction losses remaining flat at 1%.

Non-GAAP net income was \$4.2 million in the first quarter of 2021 compared to non-GAAP net loss of \$3.6 million in the first quarter of 2020. Our basic and diluted non-GAAP net income per share were \$0.03 in the first quarter of 2021 as compared to non-GAAP net loss per share of \$0.03 in the first quarter of 2020.

Adjusted EBITDA was \$6.9 million in the first quarter of 2021, compared to an Adjusted EBITDA loss of \$1.0 million in the first quarter of 2020.

Now, let's move on to guidance. We are guiding second quarter revenue to between \$119 million and \$121 million and are increasing our full year revenue guidance to between \$480 million and \$490 million, representing 30% year-over-year growth at the midpoint. We continue to expect GSV growth to be slightly stronger than revenue growth 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 are bullish about 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 second quarter EBITDA to be between \$2 million and \$3 million and are increasing our full year EBITDA guidance to \$16 million to \$20 million. We also anticipate a \$7 million to \$8 million G&A expense in Q2,

which is an impairment charge we expect to recognize pending the completion of the subleasing of our Santa Clara facility to a third party. This will not be reflected in our EBITDA calculations and, as such, is not reflected in our EBITDA guidance. Cash and marketable securities were approximately \$170 million at the end of the first quarter.

We hope you can all join us for our virtual [Investor Day](#) on June 15. We look forward to sharing more details about our plans for the future and potentially new metrics as well as introducing our extended management team.

Thank you. We will now take your questions.