

Upwork's Q1'25 Prepared Remarks

SAMUEL MEEHAN, Vice President, Investor Relations

Thank you and welcome to Upwork's discussion of its first quarter 2025 financial results. Joining me today are Hayden Brown, Upwork's President and Chief Executive Officer, and Erica Gessert, Upwork's Chief Financial Officer. Following management's prepared remarks, they 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. Forward-looking statements include all statements other than statements of historical fact. 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.

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 earnings press release. Additional information will also be set forth in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2025 when filed.

In addition, reference will be made to certain non-GAAP financial measures. Information regarding non-GAAP financial measures, including reconciliations to their most directly comparable GAAP financial measures, can be found in the press release that was issued this afternoon on our Investor Relations website at investors.upwork.com.

Unless otherwise noted, reported figures are rounded, comparisons of the first quarter of 2025 are to the first quarter of 2024. Adjusted EBITDA, adjusted EBITDA margin, and free cash flow are non-GAAP financial measures, and all other financial measures are GAAP unless cited as non-GAAP.

Now, I'll turn the call over to Hayden.

HAYDEN BROWN, President & CEO

Good afternoon and welcome to Upwork's first quarter 2025 earnings call. Upwork had a strong start to the year, as our first-quarter results beat our plan on both the top and bottom lines. Revenue of \$192.7 million exceeded the high end of our guidance range. Combined with consistent cost discipline that led to record-high adjusted EBITDA of \$56 million and adjusted EBITDA margin of 29%, we have proven, quarter after quarter, that we can execute well and lead our industry in any market environment.

Our business is extraordinarily resilient, and our strategy and execution have resulted in industry-leading performance over multiple years despite the uncertain operating environment. Additionally, Upwork is not directly exposed to announced tariffs nor to ongoing federal cost savings measures.

Our core Marketplace performed well in Q1, where GSV per active client grew year-over-year for the first time in six quarters and increased sequentially for a third consecutive quarter. We also drove sizable GSV outperformance in Marketplace through several product enhancements to search, recommendations, and other customer experiences.

Upwork has helped businesses reinvent through every work transformation of the last 20 years, enabling them with the highly skilled talent required to deliver cloud solutions, build e-commerce storefronts, and embrace the eras of mobile and social media. With AI being the next and biggest paradigm shift for organizations, Upwork is becoming the critical infrastructure for enabling the combination of humans and AI to work together to achieve business outcomes. While AI is rapidly changing every company, from the smallest startups to the largest enterprises, an AI skills gap exists today, with 63% of employers citing a lack of AI skills as the top barrier to transforming their businesses.

We are a critical resource to clients as they navigate this tectonic transformation. One of the world's largest social media platforms has engaged highly skilled math experts on Upwork to safeguard the quality of their training data for integral LLMs. Multiple companies, including one of the top pharmaceutical companies in the world, have relied on a South Carolina-based AI and data science agency on Upwork for healthcare-specific low-code apps and AI solutions. A midsize law firm in Florida that specializes in representing veterans turned to Upwork freelancers to transform their knowledge management system with AI, building a custom GPT to organize their massive corpus of documents and access key information in an instant. These examples are a testament to how Upwork's talent base constantly evolves to meet new business needs: today we have a deep reservoir of 80,000 AI specialists on our platform globally who have already put their expertise to work in designing, developing, and deploying AI systems for clients, and that pool is growing every day. Clients of all sizes are coming to Upwork to find this expert AI talent for complex, long-term projects ranging from model training and tuning, to integrating LLMs into new products, to building AI-powered workflows across departments.

As our customers have been embracing AI, we ourselves have been racing ahead to make Upwork a truly AI-native platform. Our investments in Uma, Upwork's Mindful AI, are transforming our customer

experience by offloading mundane tasks and making the work journey on Upwork more productive and seamless. This is just the beginning of how, with Uma, we envision providing customers with a fully-capable AI work agent that can do everything from informing hiring decisions to helping freelancers win work to end-to-end project management. Uma-powered features we recently launched like Proposal Writing and Candidate Evaluation experienced strong uptake: We saw 52% more users engaging with Uma overall in Q1 than in Q4 2024, including a 58% lift in engagement with Uma-powered Proposal Writing, as just one example. AI features have already had positive impacts across our platform, driving up volumes of proposals and bids, new client conversion, hiring rates, contract volumes, time-to-hire, time-to-start, and freelancer earnings.

We are encouraged by the impact of these advancements in making Upwork the leading AI-native work marketplace operating at scale. Our significant AI investments are paying off, both organically and as we have put capital to work through tech and talent acquisitions that have accelerated our AI roadmap. In Q4, we successfully integrated Objective's AI-native search technology and team. As planned, this team is already injecting incremental innovation capacity into our business, contributing new capabilities in search and match that are showing promising effects on GSV.

Upwork is well-positioned to lead this AI revolution for our category, with clear advantages in the largest work dataset and scaled marketplace, the right talent and tech platform, and ample R&D investment. We have much more in store throughout 2025, including building more personalized, AI-powered experiences for acquisition and onboarding that set up customers for immediate success, along with AI matching features that improve hiring efficiency and drive superior hiring outcomes.

We made solid progress in Q1 on our strategies to unlock spend from larger clients. Upwork Business Plus, our new premium Marketplace offering focused on larger clients, is performing well. Active clients on Business Plus more than doubled quarter-over-quarter, reflecting both net-new additions and upgrades from our standard Marketplace plan. Business Plus has become an attractive value proposition for new customers, with approximately 40% of active Business Plus clients being new customers. This is true without any significant paid marketing, a testament to the offering's value proposition meeting a clear client need.

Taken together, Business Plus and Enterprise are delivering growth in GSV and revenue from large customers. While the first half of 2025 represents transitional quarters for Enterprise, we are on track with our plan and making steady progress. As we mentioned last quarter, our Enterprise strategy is evolving as we align our approach to access a greater share of traditional contingent staffing budgets, and we will share more on these developments on the Enterprise front in coming quarters.

The strength of our business is evident in record first-quarter revenue, adjusted EBITDA and adjusted EBITDA margin. Following our better-than-expected results in Q1 and our continued accelerated execution, we are reiterating our revenue guidance for the full year and increasing our adjusted EBITDA guidance range for 2025.

We're excited about the massive opportunities ahead of us in AI, Enterprise and ads and monetization, along with the pace at which we are innovating and executing to realize those opportunities.

2025 will be a year where we continue our market share gains while growing profitability, free cash flow and long-term shareholder value. We are confident we have the right model, talent, investments and plan to deliver results in 2025 and to continue on the path toward more meaningful topline growth in the future.

With that, I'll turn the call over to our CFO, Erica Gessert.

ERICA GESSERT, CFO

Thanks, Hayden.

Upwork kicked off 2025 delivering a strong first quarter, driven by outperformance in our core Marketplace. Our Q1 revenue of \$192.7 million was a record for a first quarter. Our focused, disciplined approach to margin expansion was evident across our business, as our gross margin reached 78.3% and our adjusted EBITDA margin was our highest ever, at 29%. We are firmly on track to achieve our 5-year 35% adjusted EBITDA margin target and are raising our full-year 2025 adjusted EBITDA guidance. While the macro environment remains turbulent, we continue to deliver, even after multiple quarters of macroeconomic pressures.

First quarter GSV of \$988 million was stronger than we expected coming into the year, and we're encouraged by some early signals from continued enhancements in search, match and other key platform capabilities, which helped drive some positive customer spend dynamics. Average GSV per active client increased 3% year-over-year following multiple quarters of sequential growth, giving us confidence in the value we are driving for customers. GSV per active client grew year over year in every client segment. This was driven by our large client segment, in which GSV per active client grew 11% year over year.

While our active client count continues to experience some pressure, this is the cumulative effect of the top-of-funnel demand pressure our business and many others have been experiencing over the past year. To address the challenging demand environment, we have rebalanced our performance marketing spend to focus on higher-LTV clients, so while total volume of active clients may be down year-over-year, we are attracting higher-quality customers and contracts. Even with these adjustments, it's worth noting that in Q1 we saw client activations increase quarter-over-quarter for the first time in over a year.

As a result of these dynamics, Q1 revenue grew 1% year-over-year, above our guidance for the quarter. This performance is particularly notable in the context of the unstable macro environment and the fact that we are lapping strong take rate growth in Q1 of 2024. Enterprise revenue of \$26.4 million was relatively flat year-over-year as we shifted our sales teams' focus to the growth of Business Plus on the Marketplace along with higher-value, more strategic retained accounts. Managed Services revenue grew

3% year-over-year to \$15.3 million in the first quarter. We have made tremendous strides on our Enterprise strategy over the past few quarters and, while we are in a transitional phase with the Enterprise business, we are more excited than ever about the Enterprise strategy at Upwork.

Our Marketplace take rate was 18.3% in Q1 2025, compared to 17.7% in the first quarter of 2024, driven by continued growth in our ads and monetization business. We expect relatively stable take rates throughout 2025. We continue to focus on introducing new and innovative ways to bring value to our customers, and we expect to launch new products and experiences that will drive meaningful take rate expansion in 2026 and beyond.

Non-GAAP gross margin reached a record high of 78.3%, as we continued to execute disciplined cost management across every part of our business. Non-GAAP operating expense was \$98.1 million in the first quarter, or 51% of revenue, compared to 61% of revenue in the first quarter of 2024.

Adjusted EBITDA was \$56.0 million in the first quarter, leading to a record adjusted EBITDA margin of 29%. We reported GAAP net income of \$37.7 million for the first quarter, a 105% increase over 2024, and a record for any first quarter in our company's history.

Free cash flow for the first quarter was \$30.8 million. In the quarter, we utilized \$33.1 million in cash to buy back 2.3 million shares, as part of our commitment to driving long-term shareholder value. Cash and cash equivalents were approximately \$622 million at the end of the first quarter.

Now, turning to guidance. For the second quarter of 2025, we expect to produce revenue in the range of \$184 to \$189 million. For adjusted EBITDA in the second quarter, we are guiding to a range of \$45 to \$49 million, which represents an adjusted EBITDA margin of 25% at the midpoint. As we indicated last quarter, Q1 is expected to be the high-water mark for margins in our business this year, as we reinvest in the ample growth opportunities in front of us. As our first-quarter results demonstrate, we are making strong and steady progress towards our 35% adjusted EBITDA margin goal, while investing in key growth levers, particularly Enterprise and AI enablement strategies, to reignite topline growth in our business.

For the full year 2025, we are reiterating our revenue guidance range of between \$740 and \$760 million. We remain confident in this guidance based on what we see today. Our excellent execution and improving customer dynamics offset the slight macro headwinds that weighed on customer activity in the quarter and these dynamics are factored into our guidance. Looking further out, our pace of execution and our multiple growth levers give us confidence that we will resume revenue growth in 2026.

As a result of our strong operational execution and business model, we are increasing our full-year adjusted EBITDA guidance to be in the range of \$190 to \$200 million, or 26% adjusted EBITDA margin at the midpoint. This represents a four-point margin expansion versus 2024. Our ability to meaningfully expand margins, even in a tough operating environment, reflects our commitment to profitability and

shareholder value. We expect full-year 2025 non-GAAP diluted EPS to be between \$1.05 and \$1.10, up from our 2024 results.

On stock-based compensation, we have been taking proactive steps to reduce our SBC expense, and these actions will have a lasting benefit on our recorded stock-based compensation and GAAP profitability. Stock-based compensation is expected to be between \$60 and \$65 million for the year.

I'll briefly touch on our capital allocation strategy. We have a \$100 million buyback authorization in place, of which we had approximately \$67 million remaining at the end of Q1. We intend to fully offset any dilution from stock-based compensation this year through stock repurchases. Beyond that, taking into account the current market environment, we intend to be opportunistic in deploying the remainder of the authorization.

Before closing, I'd like to take a moment to acknowledge the unusual times we are all navigating through. It's in times like these that the strongest, most resilient businesses stand out from the field and ultimately emerge as winners. Our rapid pace of innovation, inherently profitable and high cash yield business, and cost optimization muscle will serve us incredibly well as we navigate through the next uncertain months and quarters. The opportunities for Upwork are tremendous, and we are excited about the road ahead.

Our team is executing better than ever, and I want to thank everyone at Upwork for your commitment to excellence and innovation.

With that, we would be happy to take your questions.