Upwork's Q4'24 and Full Year 2024 Prepared Remarks

SAMUEL MEEHAN, Vice President, Investor Relations
Thank you and welcome to Upwork's discussion of its fourth quarter and full year 2024 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.

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 Annual Report on Form 10-K for the year ended December 31, 2024 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 fourth quarter of 2024 are to the fourth quarter of 2023, and comparisons of the full year 2024 are to the full year 2023. 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 fourth quarter and full year 2024 earnings call. Upwork had a record year in 2024 with all-time highs for full-year revenue, adjusted EBITDA and adjusted EBITDA margin.

The strategic foundation for Upwork has never been stronger, nor more timely. As the AI work tide builds, organizations of all sizes are seeking out more flexible talent models that match their needs for new and emerging skills, with partners who integrate cutting edge AI technology and valued human workers seamlessly and at scale to rapidly deliver on their priorities. At the same time, professionals across geographies, specialties and industries want digitally-powered ways of working that give them easy access to more autonomy, flexibility and earning power.

Upwork is uniquely positioned to capitalize on these massive work trends. We are delivering new and exciting ways for businesses to access the expert global talent and work outcomes they need, and for highly skilled professionals to find lucrative work opportunities and grow their independent careers.

Last year was a year of transformation for Upwork. We achieved record performance in the face of a challenging macroeconomic environment. We optimized the organization to increase efficiency and execution velocity, creating a leaner, more agile company that is moving faster and operating more profitably than ever before. We gained market share and substantially outperformed the incumbent staffing industry, a testament to the inherent advantages of our business model, the resilience of our platform, and Upwork's industry-leading innovation and scale. We grew revenue 12% year-over-year in 2024 compared to an estimated 9% year-over-year decline in the broader staffing industry. This was the sixth consecutive year of double-digit growth outperformance for Upwork compared to the staffing industry, and we expect the strategic moves we made in 2024 to fuel our continued industry outperformance this year.

2025 will be a year of accelerated execution around our focused portfolio of growth catalysts: AI, Enterprise, and ads and monetization. I'll discuss each of these catalysts and how they "load the spring" for 2026, setting us up for long-term success.

First, AI. We've rapidly unlocked demand for AI-related work on our platform. GSV from AI-related work grew 60% year-over-year in 2024, lifted by subsets of AI work like prompt engineering, which was up 93% year-over-year in the fourth quarter. AI-related work is substantially higher-paying, with freelancers working on AI-related projects earning 44% more per hour than those working on non-AI-related projects across the platform in 2024. And the number of Upwork clients engaging in AI-related projects grew 42% year-over-year in 2024 – an encouraging signal about the ability of our model and the talent on Upwork to continuously address critical skills gaps and business needs at the most advanced technology frontiers.

We are also leveraging AI on our platform to underpin the evolution of predictive and delightful conversational customer experiences. In 2024, we improved customer productivity, engagement and work outcomes with Uma™, Upwork's Mindful AI. For example, more than 70% of new clients are opting into using our Uma-powered Job Post Generator, and its use is increasing job post activity, job post quality, and job fill rates. For example, our high value jobs from new clients are filling at an 8% higher rate since the introduction of Uma. We added additional capabilities to Uma over the course of 2024, such as Proposal Writing for talent, which lifted bid volumes by 2.5%. Our fourth quarter acquisition of Objective AI, an AI-native search-as-a-service company, is already enhancing our search and match results, helping us end the year with all-time-high fill rates. As we accelerate execution of our AI roadmap in 2025, Uma and our other AI innovations will continue to drive our flywheel with even better matching experiences, more productivity for customers and higher-quality work outcomes.

Second, Enterprise. In Q4, we outperformed our Enterprise targets, which was one of the main reasons for our overperformance in the quarter compared to our overall revenue guidance. We saw increased engagement from retained customers in the quarter, with GSV per active Enterprise account growing year-over-year for the first time in recent quarters. Managed Services revenue also grew 12% year-over-year in 2024, reflecting increasing demand for delivery of fully managed work outcomes among some of our largest clients. Overall, Enterprise was a $107 million business for us in 2024, growing 4% year-over-year against an incredibly challenging macro environment in which enterprise companies were trimming budgets across the board.

We have taken further steps to capture the Enterprise opportunity with the announcement of Upwork Business Plus in October. Business Plus is a premium plan that provides a smoother glidepath for larger clients and is closing the gap between our current Marketplace and Enterprise offerings. The launch of Business Plus is unlocking a higher-velocity approach to the Enterprise market, with both sales and self-service channels working in tandem to activate and retain high-value clients. We acquired over 1,000 active users of Business Plus since launch and are seeing higher conversion rates of clients using Business Plus moving from registration to job post and registration to project start when compared to our overall Marketplace clients. Business Plus is just one of multiple expansion opportunities underway for us to take increased wallet share in Enterprise, including ongoing product work and integrations with several partners as we pursue new growth opportunities.

Finally, our ads and monetization business continued to provide a substantive revenue tailwind while enhancing marketplace quality, efficiency and take rate. Ads and monetization revenue grew 51% year-over-year in 2024, with Freelancer Plus revenue increasing 58% year-over-year as we further augmented the value of that subscription package for talent. We continue to introduce new ads and monetization products and capabilities, and make our existing options more effective for our customers. We expect ads and monetization to drive continued take rate increases in 2025, albeit at a more modest pace as we let changes made in 2024 continue to settle and optimize current ads and monetization products.

2024 was a transformational year for Upwork as we injected further discipline and agility into the business. 2025 will be marked by accelerated execution as we build on last year's progress – executing with the speed of a startup and the scale of a market leader to deliver record profitability now and durable growth in the years ahead.

This year, we intend to gain further market share from traditional staffing firms, leveraging our competitive edge as a source for the most in-demand talent – including those with AI skills – and notching bigger wins for our Enterprise business. We are investing in AI innovation to rapidly reimagine the way our business operates, every corner of our platform experience, and how our customers achieve outcomes – with our continued advances of Uma as an always-on work agent and integration of Objective.ai's AI-first search technology serving as prime examples.

These accelerated priorities, combined with the inherent size, scale and yield advantages of our business, will allow us to continue to lead our category. As we build the future of human- and AI-powered work, we are excited about the strategic plan we are rapidly executing to deliver a powerful combination of growth, profitability and shareholder value in the quarters and years ahead.

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

ERICA GESSERT, CFO
Thanks, Hayden.

Upwork finished 2024 in a position of strength within a tough operating environment. Our pace of execution continues to accelerate and, despite the headwinded environment of the past couple years, our financial position has never been stronger. For the full year and the fourth quarter of 2024, we delivered record revenue and profitability, and our growing free cash flow profile and strong balance sheet give us tremendous flexibility, even as the operating environment for our industry remains challenging and unpredictable. The strong profitability characteristics of our marketplace model give us confidence that we will continue to increase margins and generate value for our customers and shareholders while investing in growth over the next few years.

We have been building the growth levers Hayden just outlined to be catalysts for our business over the medium to long term, and when macroeconomic conditions improve, these catalysts will be additional growth drivers for us. As we head into 2025, our outlook reflects our caution with regard to the current macroeconomic environment. While some of the indicators we watch for our business, such as the JOLTS report and other macro data, showed signs of stabilization in Q4, they remain at multi-year lows. Historically, these indicators tend to have a 6- to 9-month lag effect on our business. The current macro uncertainty makes us cautious about the outlook for 2025, but despite that, Upwork continues to perform well and we are executing across every area of our business.

Now on to our results. As I mentioned, we are ending the year with record-high revenue and profitability:

- Our gross margin was 77.7% for Q4 and 77.4% for the full year 2024.
- Adjusted EBITDA margin was 26.2% for Q4 and 21.8% for the full year 2024, both all-time highs. Our adjusted EBITDA margins have expanded 26 points in the last eight quarters and we remain on track to hit our 5-year, 35% adjusted EBITDA margin target.

Revenue grew 4% year-over-year to $191.5 million in the quarter and 12% for the full year to a record $769.3 million, above our previous guidance, and driven by stronger-than-expected engagement from retained Enterprise and Marketplace clients. When normalized for the Sunday effect, Q4 revenue growth was 8% year-over-year. As a reminder, GSV and revenue growth rates were impacted from fewer Sundays in the fourth quarter in 2024 versus 2023. Excluding the Sunday effect, GSV declined 3.6% year-over-year in Q4 and has been relatively stable for three quarters now following the top of funnel pressure we experienced in the second quarter. In Q4, we drove better-than-expected performance across both our Marketplace and our Enterprise business units.

Fourth quarter Marketplace revenue was $163.7 million, a 4% increase compared to $157.5 million in the fourth quarter last year. And we continued to grow our Enterprise business in a challenging market, with total Enterprise revenue increasing 5% year-over-year to $27.8 million in Q4, and 4% year-over-year to $107.2 million for the full year. As I mentioned last quarter, Business Plus is reported as Marketplace revenue and we expected our traditional Enterprise plan deal number to decline in the fourth quarter as we shifted our focus to the growth of Business Plus and higher-value, more strategic accounts. During the fourth quarter, we closed 21 traditional Enterprise deals. Managed Services revenue grew 8% year-over-year for the fourth quarter and 12% to $59.4 million for the full year, reflecting steady demand for outcome-based delivery of work and our focus on expanding share of wallet amongst our largest Enterprise clients.

Our active client base at the end of 2024 was 832,000, reflecting top of funnel weakness experienced earlier in the year. Our average spend, or GSV per active client, showed continued strength in the fourth quarter, increasing sequentially across every business segment for the second consecutive quarter. We are very pleased with this progress, which is a reflection of the substantial customer experience improvements we have invested in over the past several quarters, including the launch of Uma and the AI enablement of our platform.

Our Marketplace take rate was 18.1% in Q4 2024, compared to 15.9% in the fourth quarter of 2023, driven by pricing improvements and continued growth in our ads and monetization business. In 2025, we expect more modest take rate accretion, driven by the ongoing growth in our ads and monetization businesses rather than wholesale pricing changes. We continue to focus on introducing new and innovative ways to bring value to our customers on our marketplace, and we do expect to continue to launch new experiences that will drive meaningful take rate expansion in 2026 and beyond.

Non-GAAP gross margin reached a record high of 78%, as we continued to execute disciplined cost management across every part of our business. Non-GAAP operating expense was $102.7 million in the fourth quarter. For the full year, Non-GAAP operating expense was $442.3 million or 57% of revenue, a 9 percentage point improvement over 2023. This reflects our continued focus on cost management and we expect to see additional cost savings in our operating expenses in 2025 as the actions taken at the end of last year flow through to our full year results.

Adjusted EBITDA was $50.2 million in the fourth quarter, representing adjusted EBITDA margin of 26.2%. Adjusted EBITDA in the fourth quarter excludes the impact of a $19.2 million charge associated with the operational realignment we announced in October. For the full year, adjusted EBITDA was a record $167.6 million and well ahead of our guidance range of $155 to $159 million, reflecting our commitment to prudent cost management and profitable growth. In the coming years, we will continue to raise the bar on our yield expectations for this business.

We reported GAAP net income of $147.2 million for the fourth quarter, which included a $140.3 million tax benefit due to a valuation allowance release. Excluding this benefit, we reported non-GAAP net income of $42.4 million for the fourth quarter. For the year, non-GAAP net income was $147.1 million, a historic high. Stock-based compensation of $68.4 million in 2024 declined 8% from the year prior and was well below our guidance of less than $20 million per quarter for the year. This decline is a result of the proactive steps we have taken to reduce stock-based compensation. These actions will have a lasting benefit on our recorded stock-based compensation and GAAP profitability.

Free cash flow for the fourth quarter was $34.7 million including the impact of a restructuring-related charge of $17.1 million. Excluding this charge, free cash flow was $51.8 million dollars, an all-time high. We generated $139.1 million in free cash flow in the full year, which we expect to strategically use to drive long-term shareholder value by supporting the development of our business and share buybacks in 2025. Cash, cash equivalents and marketable securities were approximately $622 million at the end of the fourth quarter.

Now, turning to guidance. For the first quarter of 2025, we expect to produce revenue in the range of $186 to $191 million. For adjusted EBITDA in the first quarter, we are guiding to a range of $46 to $50 million, which represents an adjusted EBITDA margin of 25.5% at the midpoint of the range. Our disciplined execution in 2024 gives us high confidence that we will make strong and steady progress on our 35% margin goal over the next few years, while investing in important growth levers that will reignite top-line growth in our business.

For the full year 2025, we anticipate revenue between $740 and $760 million dollars. We are investing in growth catalysts, including the continued AI enablement of our platform, the advancement of premium products like Business Plus, and new strategies in Enterprise and ads and monetization, which we expect to bear fruit in 2026. Our pace of execution and the multiple growth levers we have, give us confidence that we will resume revenue growth next year.

Stock-based compensation is expected to be approximately $15 million per quarter in 2025, a significant reduction to 2024 levels. We reduced stock-based compensation in 2024 and our results for the full year were well below our guidance range, reflecting our disciplined approach to SBC and our reduction in force. We have taken proactive steps to adjust the balance between stock-based and cash compensation, and this will result in beneficial trends on stock-based compensation going forward.

As a result of our ongoing cost discipline and the strength of our business model, we expect our full-year adjusted EBITDA will be in the range of $180 to $190 million, or 25% adjusted EBITDA margin at the midpoint. Our ability to meaningfully expand margins even in a tough operating environment reflects our commitment to profitability and driving shareholder value. We expect Q1 to be the high point for adjusted EBITDA margin in 2025, as we make some minor additional investments in growth levers throughout the year. We expect full-year 2025 non-GAAP diluted EPS to be between $1.05 and $1.10, up from our 2024 results. For the full year, we expect weighted average shares outstanding between 138 to 142 million, excluding any potential impacts from stock repurchases.

A bit more on our share count outlook as it relates to our repurchase authorization and capital allocation strategy: Given the durable profitability and strong cash generation of our business, we have a capital allocation strategy in place that is intended to fully offset dilution from stock-based compensation through stock repurchases. And, with continued confidence in our ability to execute on our long-term plan, we intend to opportunistically utilize share repurchases to reduce our total share count over time.

I'll close by saying that we are excited about the opportunities for this business and we are very proud of our ability to execute strongly in this challenging environment. 2024 was a record year for Upwork in terms of revenue, GAAP net income and adjusted EBITDA. We ended the year with all-time-high adjusted EBITDA margins and we are well on our way to our 35% adjusted EBITDA margin target. We have been hyperfocused on cost discipline and have successfully taken the opportunity to expand our profitability. We delivered growth well in excess of traditional staffing firms and we continue to take market share from them. Looking ahead, we are investing in the right growth levers that we expect will pay off in accelerated GSV and revenue growth with even greater velocity when the macro headwinds subside.

As always, I want to close by thanking our incredible team at Upwork for their contributions this quarter and their unparalleled creativity, focus and pace of execution.

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