

Upwork's Q2'25 Prepared Remarks

SAMUEL MEEHAN, Vice President, Investor Relations

Thank you and welcome to Upwork's discussion of its second 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 June 30, 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 second quarter of 2025 are to the second 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 second quarter 2025 earnings call. Upwork delivered another record quarter on both the top and bottom lines. We generated our highest-ever Q2 revenue of \$194.9 million, with our outperformance driven by AI enhancement of the platform, accelerated client hiring in AI-related work, ads & monetization strategies, and our thriving Business Plus offering. We also exceeded our guidance by generating net income of \$32.7 million and adjusted EBITDA of \$57.1 million, resulting in a 16.8% profit margin and 29.3% adjusted EBITDA margin.

Based on our performance in the first half of the year and positive momentum, we are raising our full-year guidance for both revenue and adjusted EBITDA. Our strong results and increased guidance underscore the success of our AI and M&A strategies in attracting and converting larger clients in the Marketplace. This increase is driven in part by a more than \$80 million dollar in-year lift in GSV attributable to our AI and customer experience enhancements.

Our innovation velocity was on display in our Summer 2025 Upwork Updates, announced on July 23. This product release was rooted in our unique ability to combine the world's best human talent with cutting-edge AI to deliver unparalleled outcomes and pioneering customer experiences. We are seeing the fruits of evolving Uma™, Upwork's Mindful AI, into a more fully capable, always-on AI work agent.

Clients can now leverage Uma™ to interview talent on their behalf and find the right fit, saving them time on manual reviews. This capability also helps freelancers find work faster, interviewing on their own time and showcasing their skills more effectively than a cover letter can.

New Uma™-powered Upwork Video Meetings generate transcripts, summaries, and action items which enhance collaboration, propose project milestones, and turn meetings into real progress.

We completed the integration of Objective AI's AI-native search technology and released several core search and recommendation enhancements, including contextually-aware Uma™-powered search. These drove a 4% lift in average spend per contract and 3% increase in Connects revenue compared to our prior feature set.

Finally, a reimagined AI-driven job posting experience provides tailored, actionable tips to clients based on our differentiated trove of work interaction data. And on the talent side, Uma™ Proposal Writer enhancements led to a 58% increase in freelancers utilizing Uma™ to submit a bid compared to the previous product experience.

Our strategy to rapidly grow AI work across categories is also working, as GSV from AI-related work accelerated to 30% year-over-year growth from 25% in the first quarter. Businesses are coming to Upwork to access our pool of 250,000 AI experts offering more than 365 unique AI skills. This work spans everything from model tuning and generative design to LLM integration and prompt engineering. For example, one of the largest multinational CPG companies is tapping into AI developer talent on Upwork

to build AI-powered, interactive, personalized ordering systems and to redesign the user experience for some of the world's most recognizable brands.

The number of clients posting AI jobs grew 38% year-over-year—a positive future GSV signal, as clients engaging in AI work spend more than three times as much as the average client on the platform. GSV from prompt engineering grew 51% year-over-year in Q2. And categories that not long ago seemed ripe for AI substitution—like Accounting & Bookkeeping, Video & Animation, and Contract Law—are actually being augmented and accelerated by AI tools, leading to category growth, due to demand for human creativity and judgment. While we continue to see the simplest tasks and smallest projects substituted by AI in some categories, like Writing and Translation, our GSV is now outperforming expectations. We expect AI augmentation to continue across many categories on our platform, supporting growth of GSV per active client. With accelerating momentum in AI work and much higher average spend, AI is an important growth multiplier for us.

In our Marketplace, Business Plus—our premium plan for teams and larger SMB clients—continues to exceed our goals in attracting and expanding share of wallet with larger customers. Active Business Plus clients increased 45% quarter-over-quarter, while GSV from those clients surged 190% quarter-over-quarter. Importantly, Business Plus appeals to both existing customers as well as new prospects; 35% of Business Plus clients in Q2 were brand new to Upwork. Business Plus' success is a key beachhead for our strategy to serve larger businesses in our Marketplace with a differentiated and tailored value proposition.

Ads and monetization offerings were a strong contributor in the quarter, as revenue from these products grew 17% year-over-year, including 19% year-over-year growth in Connects revenue and 13% year-over-year growth in Freelancer Plus subscription revenue. These products empower freelancers to improve their visibility and increase the yield on their efforts, while also expanding our take rate.

In the second quarter, we made huge strides on our strategy to expand our share of wallet with large Enterprise customers, which is a transformational opportunity. Today, we are announcing two acquisitions by our new wholly-owned Upwork Enterprise subsidiary. These acquisitions complete our feature set in Enterprise and, together with our existing capabilities, enable us to offer a unique, highly differentiated solution.

We have always been the best-in-class provider of independent contractor talent and management for enterprises. To tap into the remainder of our clients' contingent work spend—spanning employer of record, staff augmentation, statement of work (SOW), and other contract types—we historically relied on EOR partners and workarounds to deploy our IC talent management solution for other contract types. While this approach enabled us to support a variety of programs for our clients, our reliance on partners and lack of a more versatile and deeply integrated workforce management solution limited our ability to deploy our tremendous talent pool against the full range of opportunities enterprise customers approached us with. We therefore made the decision to bring these critical capabilities in-house. Doing so positions Upwork with a single, digitally-native, contract-agnostic and global solution that holistically supports contingent work program needs.

This is why I am so excited to share the update on our M&A progress today. In Q2, our wholly-owned subsidiary acquired Bubty, a contingent workforce management platform built to support large enterprises. Our Enterprise subsidiary has also signed a definitive agreement to acquire Ascen, a digitally-native employment solution for contingent W-2 work. We expect that transaction to close in the second half of this year.

This combination of assets completes our Enterprise offering, bringing talent sourcing, contracting, and workforce management in a unified experience, purpose built for large companies and every type of contingent work. This is a powerful combination. It accelerates our ability to capture a greater share of the \$650 billion contingent workforce TAM, and we expect it to begin driving meaningful GSV and revenue growth starting in late 2026.

Underpinning all of this are rapidly expanding AI workflows across our company. Our focused and disciplined efforts to reinvent our processes with AI are increasing our internal efficiency and, therefore, margin profile, while allowing our teams to spend their time wisely on their highest-impact work. Over 35% of our deployed code is now AI-generated. And in our Search team, fine-tuned LLM evaluations of match quality have reduced our model iteration time and cost by over 70%. This is how we are now able to deliver faster, higher-quality product releases.

Q2 was a standout quarter. Our three-pronged strategy centered on AI, ads & monetization, and Enterprise is exceeding our expectations and bolsters our confidence in a GSV growth outlook for 2026. Today, our platform is more powerful. Our customers are more engaged. Our team is more effective. And our opportunity is bigger than ever. I'd like to thank our incredible team for their talent and dedication, and our customers for their trust and partnership.

With that, I'll turn it over to Erica.

ERICA GESSERT, CFO

Thanks, Hayden.

We delivered an outstanding second quarter with revenue of \$194.9 million and better-than-expected performance across all financial metrics. The quarter's results clearly demonstrate the significant advancement of our AI efforts and product enhancements, resulting in growth of our core Marketplace business, including Business Plus.

Our focused, disciplined approach to margin expansion while investing in growth was evident across our business, as our adjusted EBITDA margin hit a new record high of 29.3%, exceeding our guidance range. This was driven by strong revenue outperformance alongside our continued cost optimization efforts, including internal investments in AI enablement. We are firmly on track to achieve our 35% adjusted EBITDA margin target and we are raising our full-year 2025 revenue and adjusted EBITDA guidance.

While the macro environment remains difficult to predict, we continue to outperform peers and our own plans, while investing in future growth levers.

Second quarter GSV of \$1 billion was stronger than expected due to successful product improvements we've made to the Marketplace, including search & match and Business Plus. We're encouraged by early positive signals that our GSV growth levers are beginning to bend the GSV curve. Average GSV per active client continued on its positive growth trajectory, rising 5% year-over-year and surpassing \$5,000 for the first time since 2022. This marks the second consecutive quarter of positive year-over-year growth and the fourth consecutive quarter of sequential growth. Once again, GSV per active client grew year-over-year in every major client segment, with particularly strong growth of 16% year-over-year in our very large business segment. Our hours per contract in Q2 were also the highest ever, as our platform attracts larger jobs and more complex work.

Our active client count continues to exhibit the cumulative effect of the top-of-funnel demand pressure that we have noted for the past few quarters. We are addressing the challenging demand environment by focusing on quality over quantity, and targeting our marketing spend on higher-LTV clients. In recent quarters, we have also been extensively testing new marketing channels, and are seeing strong yield from alternative channels to traditional SEM and SEO. The success of this strategy is evident as overall spend per contract grew for the third consecutive quarter, increasing 11% year-over-year in Q2, and representing our highest-ever average spend per contract over any 12-month period. This, along with the enhanced, AI-powered customer experience improvements we have been building over the past few quarters, contributed to Q2 Marketplace revenue growth of 2.3% year-over-year.

As Hayden mentioned, we are excited to announce two strategic acquisitions by a newly formed Upwork enterprise-focused subsidiary. The combination of these assets is a game-changer for our customers. Having a full-stack, contract-agnostic Enterprise solution will solve key customer pain points and enable us to unlock this massive Enterprise market in an expanded way. We expect these deals will have a minor GSV and revenue benefit to the second half of this year, with an expected mid-single-digit contribution to revenue. The combination of additional opex from these new businesses, as well as integration and expansion costs, will have a dilutive impact of approximately \$10 million on adjusted EBITDA in the back half of 2025, all of which is contemplated in our raised adjusted EBITDA guidance. We expect these acquisitions to contribute to topline growth in 2026, and to be meaningfully GSV, revenue and adjusted EBITDA accretive in 2027. Longer term, we expect this strategy to be a strong driver for both top and bottom line growth.

In the second quarter, Enterprise revenue was down sequentially, due to ongoing pressure from internal budget cuts at a handful of larger customers, some of whom had prominent layoffs in the first half of the year. As a reminder, we also paused the majority of our sales efforts on our traditional Enterprise plans in the first half of the year, as we retooled our Enterprise strategy. We expect the Enterprise business, now part of our newly formed subsidiary, to return to growth in 2026, on the back of the new capabilities the two acquisitions will contribute to our offering and our renewed sales approach.

Our Marketplace take rate was 18.5% in Q2, compared to 18.0% in the second quarter of 2024, as we successfully introduced new ways to price to value in the Marketplace. While successful new pricing tests have led to strength in take rate in the first half of the year, we expect relatively stable take rates through the rest of 2025 as we continue to test approaches to drive both GSV and revenue in 2026 and beyond.

Non-GAAP gross margin reached 77.8%, as we execute disciplined cost management across every part of our business. Non-GAAP operating expense was \$98.9 million in the second quarter, or 51% of revenue, compared to 58% of revenue in the second quarter of 2024.

Adjusted EBITDA was \$57.1 million in the second quarter, leading to a record second-quarter adjusted EBITDA margin of 29.3%. We reported GAAP net income of \$32.7 million for the second quarter, a 47% increase over Q2 2024, and a record for any second quarter in our company's history. These all-time highs in profitability and cash generation are enabling us to strategically put capital to work to grow our business and further extend our market leadership position, exemplified by today's Marketplace results and Enterprise subsidiary acquisitions.

Free cash flow for the second quarter was \$65.6 million. In the quarter, we utilized \$38 million in cash to buy back 2.9 million shares, as part of our commitment to driving long-term shareholder value. At these levels, we expect to be active in share repurchases in the back half of this year. Cash and cash equivalents were approximately \$635 million at the end of the second quarter.

Now, turning to guidance. For the third quarter of 2025, we expect to generate revenue in the range of \$190 to \$195 million. For adjusted EBITDA in the third quarter, we are guiding to a range of \$47 to \$51 million, which represents an adjusted EBITDA margin in the range of 25 to 26%. Included in this guidance is the absorption of incremental costs related to the acquisitions of both Ascen and Bubty, as well as incremental spend to support the expansion of the Enterprise business. Even as we invest in future growth, we will achieve meaningful year-over-year margin improvement in 2025 and we are reiterating our long-term adjusted EBITDA margin target of 35%.

As a result of our strong execution and encouraging early impact from our numerous platform enhancements, we are increasing our full-year revenue guide to be in the range of \$765 to \$775 million. While this guidance does include some minimal topline benefit from the announced Enterprise subsidiary acquisitions, the vast majority of the revenue guidance raise is due to the continued strength in our Marketplace business. We are also increasing our full-year adjusted EBITDA guidance to be in the range of \$206 to \$214 million, or 27% adjusted EBITDA margin at the midpoint. This represents a more than 5-point margin expansion versus 2024. We expect full-year 2025 non-GAAP diluted EPS to be between \$1.24 and \$1.27, up from our 2024 results. We are building the foundation for accelerated, multi-year growth, and this is reflected in our increased 2025 guidance ranges. We are on the path to topline growth in 2026, driven by multiple well-developed catalysts.

On stock-based compensation, we have been taking meaningful 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.

In closing, Q2 2025 was a standout quarter that reflects the strength of our strategy, the power of our platform, and the exceptional execution of our team. We delivered record profitability, exceeded guidance on every major financial metric, and raised our full-year outlook—all while navigating an uncertain macro environment. Our disciplined cost management, expanding gross margins, and ability to bend the GSV curve underscore the effectiveness of our strategy and the speed of our execution. We are making bold, strategic moves to unlock long-term growth—accelerating our Enterprise transformation with two game-changing acquisitions and delivering fully integrated, AI-enabled customer experiences. As we move into the second half of the year, we are confident in our ability to drive continued operational excellence while investing in durable, profitable growth. We remain focused on increasing value for our clients, for our talent, and for our shareholders—and we are just getting started.

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