Peter Sanborn, Chief Business Officer

Thank you and welcome to Upwork's discussion of its second quarter 2026 financial results. Joining me today is Hayden Brown, Upwork's President and Chief Executive Officer. Following our prepared remarks, we 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 those 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 is also available in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2026, which was filed today.

In addition, references will be made to certain non-GAAP financial measures. Adjusted EBITDA, adjusted EBITDA margin, non-GAAP gross margin, non-GAAP operating expense, non-GAAP net income, non-GAAP diluted EPS, and free cash flow are non-GAAP financial measures, and all other financial measures are GAAP unless cited as non-GAAP. 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, and comparisons of the second quarter of 2026 are to the second quarter of 2025.

With that, I'll now turn the call over to Hayden.

Hayden Brown

Good afternoon, and welcome to Upwork's second-quarter 2026 earnings call.

In Q2, Upwork demonstrated strong execution in an operating environment that continues to be challenging. We delivered revenue of $191.7 million, at the high end of our guidance range, and Adjusted EBITDA of $64.1 million, **exceeding** the high end of our guidance range. This was driven by disciplined cost management across our entire business.

Our growth building blocks of SMB, Enterprise and AI are delivering results: we are driving momentum with larger clients, capturing higher-value projects, and scaling our position as the platform of choice for complex, AI-enabled work.

In SMB, our prioritization of quality and customer value – not volume – continues to pay off. Business Plus continues to pace ahead of plan, with GSV growing 174% year-over-year as larger customers utilize Upwork for complex, recurring needs. GSV per active client reached another record, at $5,230, up 5% year-over-year, marking our eighth consecutive quarter of sequential growth on this metric.

A core part of our SMB strategy is helping these businesses tap into AI for practical outcomes. For many of these customers, the constraint is not access to AI technology, but access to people who understand how to apply it to their specific industry, workflow, or business problem. Upwork is uniquely able to solve this at scale, combining a deep pool of AI-skilled talent with the marketplace infrastructure and trust that lets customers confidently tap into the human expertise they need. This is reflected in the 51% year-over-year growth we saw in our AI strategy and consulting category in Q2. SMBs are telling us that they're hiring AI experts to guide them in making their businesses more AI native, so they can grow and scale.

In Enterprise, our goals for Lifted remain on track and demand signals are strong. We initiated customer migrations to the new platform on schedule in June. We also saw positive developments with customers advancing through later stages of the sales process.

The thesis around serving larger customers with this differentiated offering is working. Our focus on and expanded ability to support and grow larger customers that fit our ideal customer profile contributed to 7% year-over-year growth in GSV per Enterprise account – the highest level it's been in more than 3 years. We also saw 29% year-over-year growth in GSV from employer-of-record, or EOR, solutions, which are made possible due to Lifted's acquisition of Ascen. Moving our employment infrastructure in the US and Canada from third party partners to Ascen's wholly owned entities is garnering the improvement to our value proposition we anticipated: accelerating our sales funnel with the added benefit of improving our gross margins. We continue to expect Lifted to achieve approximately 25% year-over-year GSV growth in 2026.

Our industry is in a period of transition as **AI is changing work and transforming our marketplace in real time.** The near-term AI and macro headwinds we identified last quarter have persisted in Q2, with an acceleration in the pace of AI-related automation. We now have greater visibility into the work transition underway and are updating our guidance outlook accordingly. Short term headwinds do not change our confidence in the enduring value proposition of Upwork. While AI automation shrinks demand for some types of work on our platform, AI creates new demand in other areas. This is evident in the 22% growth in GSV from AI-related jobs we saw in Q2, as defined by jobs stating an explicit AI need. These were up 5% quarter-over-quarter to reach an approximate annualized $330 million run rate.

This quarter we saw indications that the quantum of AI-related work on Upwork is actually much greater. Many clients now simply expect the use of AI tools and capabilities, without feeling the need to specify this in their job posts. For example, nearly half of talent in a recent survey reported that their most recent jobs were AI-related despite only 16% of such jobs explicitly referencing AI in the post, demonstrating how prevalent AI-related work is becoming on Upwork.

AI is also changing search. Our client acquisition strategy is to diversify beyond paid and organic Google Search to build a highly durable growth engine spanning emergent channels, including LLM-based search. Google's changes to search have dampened new customer acquisition, with accelerated negative impact in Q2. Our SEO rankings have continued to step up, but the channel overall is smaller, underscoring the importance of the ongoing paid acquisition efficiencies we've been driving. Paid search has become our largest customer acquisition channel, and we have grown it in both relative and absolute size while increasing efficiency. Cost per new contract start improved 22% QoQ and this performance gives us confidence in increasing our paid acquisition investments for the balance of the year.

We have also been tuning our acquisition approaches for new channels that we expect to scale over time, like Answer Engine Optimization (AEO) and LLM-based referrals. While these channels are still nascent, third-party measures show that our share of AI-based mentions and referrals is 18 percentage points higher than our closest peer. Additionally, our AI integrations are beginning to drive AI-based referral traffic, and set us up for growth from these channels as OpenAI, Anthropic and others enhance their approaches. These levers give us new paths to acquire customers in this unfolding AI and marketing landscape.

This expansion of our acquisition channels goes hand-in-hand with how we're **expanding our platform capabilities.** With the proliferation of AI, we've been seeing clients trying to use AI agents to hire on Upwork for projects. We're also seeing a growing volume of clients come to Upwork to find people who can complete or fix a project they started with AI. Requests like "turn my vibe-coded concept into a production website" or "humanize the translation output from AI," are growing, among many others. In the second quarter, we delivered key milestones on our product roadmap to support these use cases at scale, and today we announced the Upwork MCP Server – our next capability for enabling agentic interactions on both sides of the marketplace, backed by the talent and job access, trust, guarantees, and quality that only Upwork offers.

In Q2, we embedded Upwork directly into both ChatGPT and Claude, and with today's launch, Upwork talent and jobs are now accessible inside any AI tool that connects to our MCP. This lets both humans and their AI tools hire and collaborate with Upwork talent without leaving their own environments, while giving freelancers a way to win and deliver work without leaving their preferred AI tools.

Demand for human taste, judgment, and quality assessment is increasingly commanding a premium. We're building the capabilities that let clients reach directly into our marketplace, from inside the AI tools where they're already working, to find the human expert they need the moment they need them.

And as agents become a bigger part of how work gets done, we're building toward a marketplace where clients and their agents can hire not just human talent, but can also hire specialized AI agents and human-agent teams. Bringing both sides of this emerging human-and-agent economy together on one platform is something no other marketplace can do at our scale. These innovations will help position Upwork as a key beneficiary of the AI shift that is under way.

Now, I'll walk through our financial performance for the second quarter in more detail, as well as our updated guidance. Our financial results in Q2 demonstrate our capability to execute with discipline, driving profit expansion even as top-line volume reflects the transition under way.

GSV was $966 million, reflecting the continued burn-off of lower-value, highly automatable work, the evolving impact of AI on new client acquisition and a subdued labor market. Total revenue for the second quarter was $191.7 million, representing the high end of our guidance range, supported by strong high-margin contributions from our Ads & Monetization levers including dynamic pricing, Connects, and Business Plus. Revenue from these levers was up 15% year-over-year, and Connects and talent subscriptions now represent 15% of total revenue. This drove a strong take-rate of 19.8% with highly accretive, high-margin revenue streams that also improve high quality matching.

Q2 active client count was 763 thousand. Active client count continues to be pressured by AI automation and search trends, labor market conditions and our strategy to focus on client value over volume. Our average spend per contract reached an all-time high over any 12-month period in company history, representing the 6th consecutive quarter of positive year-over-year growth. GSV per new client grew year-over-year for another consecutive quarter, confirming that we are attracting clients with larger initial budgets and longer project horizons.

Non-GAAP gross margin for the second quarter was 77%, remaining near record levels as we manage infrastructure and support costs efficiently. Non-GAAP operating expenses reflected the early execution of our restructuring actions we announced in May, as the annualized $70 million OpEx reduction we initiated is expected to generate approximately $40 million in realized savings in fiscal year 2026, allowing us to continuously fund our growth pillars in SMB, Enterprise, and AI while expanding operating leverage.

Adjusted EBITDA for Q2 was $64.1 million, exceeding the high end of our guidance range and delivering an Adjusted EBITDA margin of 33.4%. Non-GAAP net income and non-GAAP diluted EPS were similarly strong, while our GAAP metrics reflected the impact of our Q2 restructuring charges.

While our capital-light marketplace model consistently yields exceptional free cash flow conversion, this quarter's free cash flow of $35.9 million included the impact of one-time cash payments related to our restructuring.

During the quarter, we closed a new $150 million revolving credit facility with a $50 million accordion. This positions us to repay the August 2026 convertible notes at maturity while supporting our disciplined capital allocation strategy, opportunistic M&A and our share repurchase program. We repurchased approximately 164,000 shares in Q2 while we closed the revolving credit facility. Year-to-date, we have repurchased approximately 8.3 million shares.

Turning now to our updated outlook:

As I mentioned at the top of this call, the near-term AI and macro headwinds we identified last quarter have persisted throughout Q2 and into Q3, with an uptick in the pace of AI-related automation and impacts from SEO. We are adjusting our full-year guidance on both the top and bottom line accordingly.

For the full year 2026, we now expect revenue in the range of $730 to $750 million dollars. This assumes a heightened pace of AI-related automation and no improvements in the labor market. As planned, we will continue to expand take rate this year as a part of our overall growth story.

We expect full-year 2026 adjusted EBITDA of approximately $225 to $235 million, which represents an adjusted EBITDA margin of 31% at the midpoint. This is driven by the flow-through of our reduced revenue outlook, alongside planned marketing spend. We expect full-year 2026 non-GAAP diluted EPS to be between $1.38 and $1.43. Our updated guidance also assumes stock based compensation of approximately $60 to $65 million for the full year 2026.

For the third quarter, we expect to generate revenue in the range of $176 to $184 million, and adjusted EBITDA in the range of $50 to $54 million, which represents an adjusted EBITDA margin of 29% at the midpoint. We expect Q3 non-GAAP diluted EPS to be between $0.31 and $0.33.

Our underlying metrics, including record GSV per active client and continued Business Plus and AI work growth, confirm Upwork's strong value proposition even in a changing market. Our product innovations and tailored offerings for larger customers are deepening our moat and we continue operating with financial discipline. We're navigating the near-term impacts of this significant evolution in how work gets done, while continuing to build Upwork to capture the demand, talent, and economic opportunity that this new era of work offers.

Thank you for your continued support.

Operator, we are now ready to open the call to questions.