

Upwork Q1 2024 Prepared Remarks

Hayden Brown, President & CEO

Welcome everyone to Upwork's first quarter 2024 earnings call.

Upwork started the year off strong, with first quarter revenue of \$190.9 million representing 19% growth year-over-year. Our commitment to running a profitable business continued in the first quarter, as GAAP net income was \$18.4 million and adjusted EBITDA was \$33.3 million. These results reflect the strength of our business and ability to deliver consistent results, even in a fluid operating environment. Our unwavering focus on increasing operating leverage while investing in future growth is allowing us to raise our 2024 outlook for both revenue and adjusted EBITDA. We are committed to continuing to grow operating leverage into 2025 and beyond. Erica will share details on these plans in a few minutes.

Our marketplace business continues to deliver steady GSV performance within a dynamic macro environment, as GSV again exceeded \$1 billion for the quarter. Historically, one of the most important leading indicators of GSV growth is the addition of new clients, and we were very pleased to drive active client growth of 5% year-over-year to 872 thousand in the first quarter. In addition to growth via attracting new clients, we are igniting growth in GSV via product innovations. These include investing in new AI-enabled products, features and partnerships that equip clients and freelancers to achieve desired outcomes faster and easier than ever before. With the launch of these new experiences, and encouraged by early success signals showing a lift in GSV, we anticipate our growth rate will continue to accelerate.

Our strength in revenue growth stems from several areas, including our Ads and Monetization products, which displayed impressive performance and stand out as the fastest-growing revenue stream for Upwork. The Freelancer Plus subscription, which provides freelancers with Connects and tools to develop new skills, increase their visibility and improve their efficiency with AI, had over 100,000 active subscribers in the first quarter. Year-over-year, we've grown subscribers 60% and driven 76% growth in revenue from this offering. And we continue to make Freelancer Plus more compelling for customers, as the subscription now includes exclusive access to Upwork Chat Pro, powered by GPT-4 and customized with Upwork data.

In the first quarter, we also premiered instant consultations, a new way for clients to get expert advice within minutes from skilled professionals who are online and available to consult in real time, ultimately getting projects started and completed faster. Building instant consultations on top of our already successful consultations product is a promising avenue for us, because we have seen the repeat usage rate of regular consultation clients is more than 50% higher than that of clients who start with a standard Marketplace engagement. We are optimistic that instant consultations will gain similar traction and produce similar results.

Demand for Upwork's services was also evident in the slate of new partners signing up for our burgeoning Upwork Partner Experts program in the first quarter. These partnerships are designed to drive incremental GSV by acquiring clients who are active in third-party SaaS ecosystems and can benefit from talent on Upwork that is specialized in deploying, customizing, and maintaining these SaaS technologies. In Q1, GoDaddy, BigCommerce, and Constant Contact joined existing partners like OpenAI and ClickUp, and are now able to connect their customers directly with exactly the right freelancer on Upwork, at exactly the moment they need to get work done, thus enabling greater usage of their own products. This is a true multi-dimensional win-win in which our partners, their customers who become our clients, and Upwork talent and shareholders all benefit.

The Enterprise business unit exhibited very good progress in the first quarter, with accelerated revenue growth at 10% year-over-year. Momentum in signing new customers continues, exceeding our own target by adding 28 new enterprise client logos in the first quarter, including WPP, Unisys and Ansys. Building atop our December announcement of inaugural vendor management system and managed service provider partnerships, we are rapidly expanding the workforce management ecosystem in which talent pools on Upwork can be tapped and leveraged, bringing on Workday VNDLY and KellyOCG as Enterprise Suite partners, with KellyOCG serving as our first MSP partner.

Velocity of our product innovation is rapidly increasing. We are shipping new features to our clients and freelancers on a daily basis. The speed to market of new features and experiences on the platform is accelerating so quickly, that we realized we needed to provide our customers with a single place and moment to get to know all of the enhancements we have released and new ways they can use our platform to get more done. As a result, yesterday we launched Upwork Updates: our new, semi-annual product showcase that highlights what's new with our innovative products, features and partnerships across the world's work marketplace. Upwork Updates will help educate our customers and the market about the value of our offering, and the rapid progress we are making in delivering the features that enable them to work faster, better, and more effortlessly than ever.

One highlight of our Spring 2024 Update is the launch of Uma, which stands for Upwork's Mindful AI. We're developing Uma on top of industry-leading large language models and fine-tuning it with trillions of tokens of highly relevant Upwork platform data across a range of work interactions. Today, Uma intelligence underpins key steps in the hiring and matching process, which is critical to clients and freelancers getting started and completing more high-quality work, faster. Uma powers new features like Best Match insights, an AI-powered matching capability that surfaces not just the best talent, but the most relevant skills, qualifications and client reviews, to help clients make hiring decisions with ease and confidence. Uma's capabilities also power performance improvements to recent innovations and experiences including Upwork's Job Post Generator, Proposal Tips, and Upwork Chat Pro.

We are also excited to introduce Uma as an indispensable work companion, accessible via an easy-to-use conversational interface that guides clients and freelancers to success throughout their Upwork journey. We have started to roll out Uma on the Upwork homepage, and in subsequent releases, we will expand capabilities to other areas of the platform. We are building Uma to serve as an always-on, intelligent companion for our customers, assisting them across the entire Upwork experience.

Our very early testing of Uma is already showing benefits as a conversational companion for new customers. Clients who used Uma started spending on Upwork in their first month at a 7% higher rate than non-users. These very early lift signals are compelling and are only the beginning, because Uma will continue to get smarter and more effective with additional customer usage, which trains the model. Additionally, Uma will improve its capabilities and extend its customer and business impact as it is released across more experiences on our platform.

At the end of last year, we acquired AI startup Headroom and deepened our bench of technical talent and leadership in this area. Uma is an illustration of how this team is accelerating the delivery of our vision for how to serve customer needs using AI. It's a key development towards realizing a much larger vision, as we leverage AI to deliver an experience where customers move from idea to outcome, from dream to delivery, powered by a combination of AI and humans working effortlessly together.

To further catalyze this new reality and solidify Upwork as the premier destination for where that happens most effectively, we continued to expand the ecosystem of partners offering industry-leading tools through our apps and offers page, welcoming a cohort of new partners including Dropbox, Notion and iStock by Getty Images. Data

shows that freelancers are already ahead of their full-time employee peers inside businesses in the adoption of AI tools: the Upwork Research Institute found that freelancers are more than two times more likely to regularly use generative AI in their work versus non-freelance professionals. Our goal is to equip freelancers on Upwork with preferential access to the best tools, to become the most highly skilled and sought-after AI-enabled talent pool in the world. This directly taps into a growing chorus of client demand for skilled workers who already know how to create exponential business value using these technologies. We are already serving this need, as evidenced by the 50% year-over-year growth rate in our AI services category in Q1.

We are extremely excited for our customers to benefit from the many new products, features and partnerships included in our Spring 2024 Update to supercharge their businesses and work. If you haven't yet, take a moment to visit upwork.com/updates, where you can learn more about these exciting innovations and how they address customer needs.

This encouraging start to the year, including our rapid pace of innovation and enhanced financial outlook on both revenue and adjusted EBITDA, gives us confidence in the year ahead, our growth prospects, and the exciting long-term framework for Upwork's profitability. We look forward to continuing to update you on our progress in the quarters to come.

With that, I will turn it over to Erica to review our financials.

Erica Gessert, CFO

Thanks, Hayden.

While we have accelerated our pace of innovation in all the ways Hayden just outlined, in Q1 we also rapidly identified new levers to deepen our focus on durable, profitable growth. We are committed to driving revenue growth and growing operating margins regardless of the macroeconomic backdrop we're executing in, and our first quarter results and increased outlook for 2024 clearly show our ability to do that.

And I'm delighted to say that our plans to continually and meaningfully grow our operating leverage extend beyond 2024. Our highly profitable business model, with gross margins over 75%, as well as the investments we are making in operational improvements like engineering productivity and back office automation, mean that we can make clear and concrete commitments to growing our margins and free cash flow for the foreseeable future. As I strategize with Hayden and the team, I have grown confident in our ability to drive growth, while also increasing profitability and adjusted free cash flow. We are now in the position to commit to hitting 35% adjusted EBITDA margin in the next five years, and I'm confident we can increase our operating leverage each and every year as we get there.

Turning back to our most recent results, I'll hit a few highlights. Revenue growth in the first quarter was very strong, growing 19% year-over-year to \$190.9 million, and was driven in part by the final transition to the new flat fee pricing structure we started last year. Marketplace revenue was \$164.3 million and grew 20% year-over-year. In our Enterprise business unit, our unique breadth of offerings drove total Enterprise revenue growth of 10% year-over-year to \$26.6 million dollars. Within Enterprise revenue, Enterprise Solutions revenue was \$11.7 million and grew 3% year-over-year. Managed Services performed particularly well, driving revenue of \$14.9 million dollars, representing growth of 17% year-over-year.

Our active client base continues to grow, driven by increasing demand, with growth in Q1 in both activations and reactivations. We added over twenty thousand new active clients in the first quarter of 2024, and we now have

over 872 thousand active clients, representing 5% year-over-year growth. This is the highest growth in active clients in two years.

Turning to some additional color on GSV. Excluding the impact to GSV growth rate from the pricing change, we estimate Q1 GSV growth would have been approximately 3% year over year. While GSV grew approximately 1% year over year, this included some temporary headwinds associated with the final transition to our simplified flat fee pricing structure, which occurred on January 1st. While we naturally see some temporal headwinds to GSV as we make appropriate strategic adjustments to our pricing structure, these changes are driving growth for our business and a simplified value prop for our customers, making it easier to price and negotiate contracts. Even after these changes, our marketplace take rate at 17.7% remains one of the lowest in the industry, which means we have capacity to continue to develop targeted monetization opportunities on the platform that will bring value to our customers.

Non-GAAP gross margin continued to improve both on a year-over-year and sequential basis. Non-GAAP gross margin of 77.1% increased nearly 200 basis points year-over-year.

Non-GAAP operating expense was \$116.6 million in the first quarter, representing 61% of revenue, a significant reduction compared to \$125.8 million or 78% of revenue in the comparable prior year period. For the first quarter, non-GAAP R&D expense was \$45.1 million dollars, increasing 23% year-over-year, as we continued to accelerate our pace of innovation and new product releases, culminating in our Upwork Updates announcement and our launch of Uma yesterday. The sequential increase in R&D also reflects the growth of our AI and machine learning talent bench, through the acquisition of Headroom in Q4 and other investments. Even with our commitment to ongoing innovation, we anticipate growth in R&D expenses to moderate in the future, through our work on engineering productivity and other levers. Non-GAAP Sales & Marketing expense of \$44.9 million dollars declined 27% year-over-year, even as we continued to accelerate our active client growth.

Our provision for transaction losses remains low at \$0.9 million dollars for Q1, representing less than 1% of total revenue. PFTL benefitted from some one-time items in the first quarter, and we expect our absolute dollar run-rate to be slightly higher going forward, while still remaining very low as a percentage of revenue.

Adjusted EBITDA was \$33.3 million dollars in the first quarter, representing a margin of 17.4%. Our profitable business model continues to generate GAAP earnings per share growth, which includes the impact of stock-based compensation. For the first quarter of 2024, fully diluted GAAP earnings per share was \$0.13.

Adjusted free cash flow for the first quarter was \$15.5 million dollars. Adjusted free cash flow is lower in the first quarter every year due to the timing of our employee bonus payout. Cash, cash equivalents and marketable securities were approximately \$490.6 million dollars at the end of the first quarter.

I'm very pleased to highlight our active execution of our share repurchase authorization. I want to emphasize our commitment to ongoing shareholder returns. In the first quarter, we repurchased approximately 5.2 million shares. And as of April 23rd, we have completed the entire \$100 million dollar repurchase program, repurchasing approximately 8.1 million shares. This program represents the return of value to our shareholders, and we expect our share count in 2024 to be lower than in 2023.

Turning to guidance. For the second quarter, we expect to produce revenue in the range of \$190 to \$195 million dollars, representing 14.2% year-over-year growth at the midpoint. For adjusted EBITDA, we are guiding to a range of \$32 to \$36 million dollars, which represents an adjusted EBITDA margin of 17.7% at the midpoint. We anticipate non-GAAP diluted EPS to be between \$0.21 cents and \$0.23 cents. Our outlook for weighted average shares outstanding for the quarter is now in the range of 139 to 141 million.

For the full year 2024, we are increasing our revenue guidance to \$770 to \$782 million dollars, representing 12.6% year-over-year growth at the midpoint. As we mentioned on our last earnings call, we expect our year-over-year revenue growth rates to moderate in the second half of 2024 as we lap the pricing changes implemented in 2023.

For adjusted EBITDA, we are increasing our guidance to a range of \$140 to \$150 million dollars, up from our previous guidance of \$125 to \$135 million and representing a margin of 18.7% at the midpoint. This increase reflects our multi-quarter efforts to identify structural and persistent efficiencies in our business. Through these efforts, we will increase our operating margin every quarter this year.

We expect full year 2024 non-GAAP diluted EPS to be between \$0.88 and \$0.92 cents, up from our guidance last quarter of \$0.77 to \$0.81 cents. This improvement is driven both by our focus on efficiencies, as well as our share repurchase program. For the full year, weighted average shares outstanding will decline to a range of 140 to 144 million, down from our prior guidance last quarter of 148 to 152 million.

As I survey our progress in the first few months of 2024, I am excited about Upwork's trajectory. We are at the forefront of the future of work. Our business model and our position as market leader mean that we can invest in innovation, achieve ongoing profitability gains and produce adjusted free cash flow to fund our business while driving strong shareholder returns. We are committed to producing steady and significant operating margin and adjusted free cash flow growth this year, next year and into the future, and because of the profitability of our marketplace model, we can continue to invest in growth as we do it. As always, I want to extend thanks to our incredible team at Upwork for their contributions this quarter. I am seeing our pace of execution accelerate every single day, and I am proud to be a part of this great team.

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