Upwork Q3’25 Prepared Remarks

Tyler Stahl

Thank you and welcome to Upwork’s discussion of its third 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 September 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 third quarter of 2025 are to the third 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 third quarter 2025 earnings call.

Q3 marked a turning point for our company. The work we have done over the last 18 months to rewire our business for the AI era came to fruition in the form of GSV growth. After five quarters of GSV growth headwinds, the payoffs of our strategy are now visible. In Q3, we delivered 2% year-over-year growth in GSV and expect to see continued positive GSV growth from this point forward, including acceleration in this metric in 2026.

Our record-breaking performance on both revenue and profitability, against a still sluggish labor market, offers tangible proofpoints that Upwork is a structural beneficiary in the AI era of work. We exceeded $200 million in quarterly revenue for the first time in company history, with $201.7 million in revenue and GAAP net income of $29.3 million in Q3. We delivered all-time highs in adjusted EBITDA, at $59.6 million, and adjusted EBITDA margin, which came in at 29.6%. Our strong performance is enabling us to increase our revenue and adjusted EBITDA outlook for the full year.

At this time, companies of all sizes are wrestling with the question: "How can AI benefit my business?" A recent MIT study found that 95% of GenAI pilots fail; and 63% of employers still cite skills gaps as a major hurdle to business transformation, according to the World Economic Forum. Upwork demonstrates how embracing AI technology can positively impact both topline and bottomline performance, and our solutions are increasingly essential for other companies looking to realize this potential.

As evidence of this, significant contributors to our GSV and revenue growth were targeted AI customer experience and product innovations, AI category growth on our Marketplace, and robust adoption of Upwork Business Plus. Let me take a moment to unpack each of these.

First, in Q3 we continued our investment in transforming the Upwork Marketplace into an AI-native platform. Product enhancements to Uma, Upwork's Mindful AI, enabled it to become more embedded across multiple workflows, unlocking the tremendous power of our data for customers. We added highly requested capabilities to Uma's toolkit, including sourcing and interviewing talent on clients' behalf, drafting end-to-end talent proposals, and assisting both clients and talent with project management tasks like proposing project milestones and deliverables. Uma is eliminating manual work for clients and talent across our experience. Uma Recruiter drives higher-quality matches, doubling the acceptance rate from talent invited to submit proposals; and our upgraded Uma proposal writing feature saw a 15% increase in Uma-generated proposals, saving talent significant time.

While each of these wins is valuable in isolation, we are now starting to see the compounding effects of these enhancements working together as we continue to launch and iterate on Uma-powered features. Beyond improving the customer experience, they've delivered significant business impact, with search and recommendation improvements – largely driven by AI – expected to contribute a total of $100 million in incremental GSV in 2025.

As companies struggle to get AI work done and invest more in AI products and applications, we saw a notable expansion of AI projects and jobs on our platform in Q3. Businesses of all sizes continue to come to Upwork to find the critical, skilled talent they need to integrate this technology and derive more immediate ROI. The number of clients engaging in AI-related projects was up 45% year-over-year in Q3, and as a result, GSV from AI-related work increased 53% year-over-year during the same time period – up significantly from 30% year-over-year growth in Q2. The AI-enabled talent base on Upwork is expanding to meet the moment, with 41% more professionals engaging in AI projects versus a year ago.

Next, let's turn to our strategy to deepen our reach with SMBs, a segment that is also performing ahead of our plans. In Q3, we enhanced our tailored SMB product, Upwork Business Plus, with additional premium features that streamline the talent sourcing and evaluation process, as well as offering more collaborative hiring capabilities for teams. As SMBs try to navigate what AI means for their businesses, they're increasingly relying on Upwork as an "AI equalizer," the powerful platform that helps them scale their AI initiatives. As a result, Business Plus adoption from both new and existing clients outperformed our expectations in Q3, with active clients on Business Plus growing 36% quarter-over-quarter.

Turning to our Enterprise business, this quarter we achieved a major milestone in our journey to unlock the $650 billion contingent work market with the launch of our new subsidiary Lifted. While we have always been best-in-class in offering enterprise clients talent through the independent contractor model, through Lifted, we are now able to provide talent sourcing, contracting, and workforce management across every type of contingent work. Not only is this a unique value proposition in the industry, but we are the only player in the market with a comprehensive, digitally-native solution that's purpose-built for enterprises and integrates seamlessly into their existing systems.

We're thrilled with the customer reception of Lifted and are already seeing stronger-than-expected demand for this offering from both new and existing clients. Our team is working at lightning speed towards our next milestone of onboarding our first customers onto the Lifted platform by early 2026. Anticipation for Lifted's new suite of products is high; while the sales cycle for very large, multi-million-dollar enterprise agreements can take up to a year or more, early signals make us optimistic about the growth potential of this strategy.

With our return to GSV growth and the launch of Lifted, Q3 was a historic quarter for Upwork. Our AI-native platform, AI category growth, and tailored offerings for SMBs are delivering tangible results.

The momentum is palpable as we write this next, exciting growth chapter for Upwork.

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

ERICA GESSERT, CFO

Thanks, Hayden.

Q3 2025 was an exceptional quarter for Upwork, as we reported GSV and revenue growth and record profit margins. We are executing with tremendous velocity, and we are seeing very strong growth potential across multiple strategies. As a result, we have resumed GSV growth two quarters earlier than planned.

Third quarter GSV of $1.02 billion grew 2% year over year. This growth was driven by both our Marketplace and Enterprise businesses. Average GSV per active client continued to grow, rising 5% year-over-year and remaining over $5,000. This underscores our success in attracting and retaining high-value relationships on the Upwork Marketplace. Once again, GSV per active client grew year-over-year in every major client segment.

We continue to invest in features and functionality to attract larger clients and more complex work, and our investments are showing real traction. Overall spend per contract grew for the fourth consecutive quarter, increasing 12% year-over-year in Q3, and once again represented our highest-ever average spend per contract over any 12-month period. Hours per contract in Q3 surpassed Q2 as our highest ever.

On the client side, we ended the quarter with 794,000 active clients. Our strategy of focusing on quality over quantity is working - resulting in GSV per new client growth of 7% year over year. Q2 marked a trough in our year-over-year active client growth, as both new client acquisition and churn rate improved. Our churn rate declined over 70bps quarter over quarter, marking our lowest Q3 churn rate in years. This, along with the enhanced, AI-powered customer experience improvements we have been building over the past few quarters, contributed to Q3 Marketplace revenue growth of 4% year-over-year.

As Hayden mentioned, the development of our new Enterprise subsidiary, Lifted, is progressing well. In the third quarter, Enterprise revenue increased 3% year-over-year, with a minor contribution from the acquisitions of Bubty and Ascen by Lifted. We continue to expect these acquisitions to contribute to topline growth as they ramp in the back half of 2026, while being somewhat margin dilutive throughout the year as we absorb the cost structures and invest in integration and launch. We expect Lifted to be meaningfully accretive to GSV, revenue and adjusted EBITDA in 2027.

Our Marketplace take rate was 18.9% in Q3, compared to 18.3% in the third quarter of 2024, as we saw benefit from multiple strategies, including dynamic pricing and Business Plus. Our Marketplace take rate has high potential for ongoing growth. Ongoing product testing has helped us to identify several strategies which we expect will drive both volume and value in the future. While successful new strategies have led to strength in total take rate this year, we expect a lower total take rate in the fourth quarter due to lower seasonal volumes from Managed Services customers.

Gross margin was 77.3% in Q3, as we continue to execute disciplined cost management across every part of our business. Non-GAAP operating expense was $101 million in the third quarter, or 50% of revenue, compared to 57% of revenue in the third quarter of 2024.

Adjusted EBITDA was $59.6 million in the third quarter, and once again we produced a record quarterly adjusted EBITDA margin of 29.6%. We reported GAAP net income of $29.3 million for the third quarter, a 6% increase over Q3 2024.

Free cash flow for the third quarter was also a record, at $69.4 million. In the quarter, we used $31 million in cash to buy back 2.1 million shares, as part of our commitment to driving long-term shareholder value. Cash, cash equivalents and marketable securities were approximately $643 million at the end of the third quarter.

Now, turning to guidance. For the fourth quarter of 2025, we expect to generate revenue in the range of $193 to $198 million. For adjusted EBITDA in the fourth quarter, we are guiding to a range of $49 to $52 million, which represents an adjusted EBITDA margin in the range of 25 to 26%. Included in this guidance are incremental costs related to the acquisitions of both Ascen and Bubty by Lifted, as well as temporary integration costs to support the new Lifted subsidiary. We are pleased with the step up of our adjusted EBITDA margin outlook for this year, even as we absorb incremental costs related to our M&A execution. 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 $782 to $787 million. The vast majority of the revenue guidance raise is due to the ongoing strength in our Marketplace business. We are also increasing our full-year adjusted EBITDA guidance to be in the range of $222 to $225 million, or 28% adjusted EBITDA margin at the midpoint. This represents a more than 6-point margin expansion versus 2024. We expect full-year 2025 non-GAAP diluted EPS to be between $1.35 and $1.37, an increase of 30% at the midpoint from 2024 non-GAAP EPS. We have built a solid foundation for accelerated, multi-year growth, as reflected in our increased 2025 guidance ranges.

In closing, Q3 2025 was a pivotal quarter for Upwork, marking our return to growth mode on a highly profitable foundation. We achieved record revenue and profitability, exceeded guidance on all financial metrics, and reached a critical inflection point by returning to GSV growth. Our strategy centered on AI, winning with SMBs and Enterprise expansion is delivering results ahead of schedule. We are executing with discipline and speed, positioning Upwork for accelerated, multi-year growth starting in 2026. We remain focused on driving operational excellence and increasing long-term shareholder value, and I look forward to seeing you all at our Investor Day in a couple of weeks.

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