



Dropbox Announces Fiscal 2020 Third Quarter Results

November 5, 2020

Revenue of \$487.4 Million, Up 14% Year-over-year

Net Cash Provided by Operating Activities of \$200.9 Million and Free Cash Flow of \$187.0 Million

GAAP and Non-GAAP Operating Income of \$30.0 Million and \$112.2 Million, Up 261% and 100% Year-over-year

SAN FRANCISCO--(BUSINESS WIRE)--Nov. 5, 2020-- Dropbox, Inc. (NASDAQ: DBX), today announced financial results for its third fiscal quarter ended September 30, 2020.

"In Q3, we saw momentum across the business with strong operating income, profitability, and free cash flow," said Dropbox Co-founder and Chief Executive Officer Drew Houston. "Our margin expansion demonstrates the strength of our business model and execution against our long-term targets. We believe the opportunity to redesign work has never been bigger, and now, as a Virtual First company, we'll truly live our mission as we build better products for distributed teams."

Third Quarter Fiscal 2020 Results

- Total revenue was \$487.4 million, an increase of 14% from the same period last year. On a constant currency basis, year-over-year growth would have been 14%.⁽¹⁾
- Total ARR ended at \$1.981 billion, an increase of \$49.8 million quarter-over-quarter and an increase of 12% year-over-year. On a constant currency basis, year-over-year growth would have been 13%.⁽²⁾
- Paying users ended at 15.25 million, as compared to 14.00 million for the same period last year. Average revenue per paying user was \$128.03, as compared to \$123.15 for the same period last year.
- GAAP gross margin was 78.8%, as compared to 75.5% in the same period last year. Non-GAAP gross margin was 80.0%, as compared to 76.7% in the same period last year.
- GAAP operating margin was 6.2%, as compared to (4.3)% in the same period last year. Non-GAAP operating margin was 23.0%, as compared to 13.1% in the same period last year.
- GAAP net income (loss) was \$32.7 million, as compared to (\$17.0) million in the same period last year. Non-GAAP net income was \$110.2 million, as compared to \$55.9 million in the same period last year.
- Net cash provided by operating activities was \$200.9 million, as compared to \$149.7 million in the same period last year. Free cash flow was \$187.0 million, as compared to \$102.5 million in the same period last year.
- GAAP net income (loss) per share attributable to common stockholders was \$0.08, as compared to (\$0.04) in the same period last year. Non-GAAP net income per share attributable to common stockholders was \$0.26, as compared to \$0.13 in the same period last year.⁽³⁾
- Cash, cash equivalents and short-term investments ended at \$1.226 billion.

⁽¹⁾ We calculate constant currency revenue growth rates by applying the prior period weighted average exchange rates to current period results.

⁽²⁾ We calculate total annual recurring revenue ("Total ARR") as the number of users who have active paid licenses for access to our platform as of the end of the period, multiplied by their annualized subscription price to our platform. We adjust our exchange rates used to calculate Total ARR on an annual basis, at the beginning of each fiscal year. We calculate constant currency Total ARR growth rates by applying the current period rate to prior period results.

⁽³⁾ Non-GAAP net income per share attributable to common stockholders is calculated based upon 419.9 million and 418.7 million diluted weighted-average shares of common stock for the three months ended September 30, 2020 and 2019, respectively.

Financial Outlook

Dropbox will provide forward-looking guidance in connection with this quarterly earnings announcement on its conference call, webcast, and on its investor relations website at <http://investors.dropbox.com>.

Conference Call Information

Dropbox plans to host a conference call today to review its third quarter financial results and to discuss its financial outlook. This call is scheduled to begin at 2:00 p.m. PT / 5:00 p.m. ET and can be accessed by dialing (877) 300-7844 from the United States or (786) 815-8440 internationally with reference to the company name and conference title, and a live webcast and replay of the conference call can be accessed from the Dropbox investor

relations website at <http://investors.dropbox.com>. Following the completion of the call, a telephonic replay will be available through 11:59 PM ET on November 12, 2020 at (855) 859-2056 from the United States or (404) 537-3406 internationally with recording access code 5575556.

Other Upcoming Events

- Tim Regan, Chief Financial Officer, will be presenting at the RBC Capital Markets Technology, Internet, Media and Telecommunications Conference on Tuesday, November 17th.
- Tim Regan, Chief Financial Officer, will be presenting at the NASDAQ Virtual Investor Conference on Tuesday, December 1st.

During these events, a live webcast will be accessible from the Dropbox investor relations website at

<http://investors.dropbox.com>. Following the event, a replay will be made available at the same location.

About Dropbox

Dropbox is the one place to keep life organized and keep work moving. With more than 600 million registered users across 180 countries, we're on a mission to design a more enlightened way of working. Dropbox is headquartered in San Francisco, CA, and has offices around the world. For more information on our mission and products, visit <http://dropbox.com>.

Use of Non-GAAP Financial Measures

Reconciliations of non-GAAP financial measures to the most directly comparable financial results as determined in accordance with GAAP are included at the end of this press release following the accompanying financial data. For a description of these non-GAAP financial measures, including the reasons management uses each measure, please see the section of the tables titled "About Non-GAAP Financial Measures."

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, among other things, our expectations regarding anticipated market opportunities and our ability to utilize insights from our Virtual First work model to improve or develop additional products and services. Words such as "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "plans," and similar expressions are intended to identify forward-looking statements. Dropbox has based these forward-looking statements largely on its current expectations and projections about future events and financial trends that the Company believes may affect its business, financial condition, and results of operations. These forward-looking statements speak only as of the date of this press release and are subject to risks, uncertainties, and assumptions including, but not limited to: (i) our ability to realize anticipated benefits to our business from our shift to a Virtual First work model as well as impacts to our financial results and business operations as a result of this shift, (ii) impacts to our financial results, business operations and the business of our customers, suppliers, partners and the economy as a result of the COVID-19 pandemic, and related public health measures, as well as the potential for a more permanent global shift to remote work, (iii) our ability to retain and upgrade paying users, in particular paying users impacted by the COVID-19 pandemic, and increase our recurring revenue; (iv) our ability to attract new users or convert registered users to paying users, in particular prospective paying users financially impacted by the COVID-19 pandemic; (v) our future financial performance, including trends in revenue, costs of revenue, gross profit or gross margin, operating expenses, paying users, and free cash flow; (vi) our history of net losses and our ability to achieve or maintain profitability; (vii) our liability for any unauthorized access to our data or our users' content, including through privacy and data security breaches; (viii) significant disruption of service on our platform or loss of content, particularly from any potential disruptions in the supply chain for hardware necessary to offer our services that may result from the COVID-19 pandemic; (ix) any decline in demand for our platform or for content collaboration solutions in general; (x) changes in the interoperability of our platform across devices, operating systems, and third-party applications that we do not control; (xi) competition in our markets; (xii) our ability to respond to rapid technological changes, extend our platform, develop new features or products, or gain market acceptance for such new features or products, particularly in light of potential disruptions to the productivity of our employees that may result from our shift to a Virtual First work model; (xiii) our ability to manage our growth or plan for future growth; (xiv) our acquisition of other businesses and the potential of such acquisitions to require significant management attention, disrupt our business, or dilute stockholder value; (xv) our ability to attract and retain key personnel and highly qualified personnel; (xvi) our capital allocation plans with respect to our stock repurchase program and other investments; and (xvii) the dual class structure of our common stock and its effect of concentrating voting control with certain stockholders who held our capital stock prior to the completion of our initial public offering. Further information on risks that could affect Dropbox's results is included in our filings with the Securities and Exchange Commission ("SEC"), including our Form 10-Q for the quarter ended June 30, 2020. Additional information will be made available in our quarterly report on Form 10-Q for the quarter ended September 30, 2020 and other reports that we may file with the SEC from time to time, which could cause actual results to vary from expectations. If the risks materialize or assumptions prove incorrect, actual results could differ materially from the results implied by these forward-looking statements. Dropbox assumes no obligation to, and does not currently intend to, update any such forward-looking statements after the date of this release, except as required by applicable law.

Dropbox, Inc.

Condensed Consolidated Statements of Operations

(In millions, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue	\$ 487.4	\$ 428.2	\$ 1,409.8	\$ 1,215.3
Cost of revenue ⁽¹⁾	103.2	104.8	308.8	306.1
Gross profit	384.2	323.4	1,101.0	909.2
Operating expenses ⁽¹⁾ :				
Research and development	183.3	172.8	550.9	485.2
Sales and marketing	105.8	108.2	312.9	317.0
General and administrative	65.1	61.0	167.6	180.9
Total operating expenses	354.2	342.0	1,031.4	983.1
Income (loss) from operations	30.0	(18.6)	69.6	(73.9)
Interest income, net	0.1	3.0	2.6	9.9
Other income, net	3.5	0.2	23.1	14.4
Income (loss) before income taxes	33.6	(15.4)	95.3	(49.6)
Benefit from (provision for) income taxes	(0.9)	(1.6)	(5.8)	3.5
Net income (loss)	\$ 32.7	\$ (17.0)	\$ 89.5	\$ (46.1)
Net income (loss) per share attributable to common stockholders	\$ 0.08	\$ (0.04)	\$ 0.21	\$ (0.11)
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders	419.9	414.4	419.9	412.4

⁽¹⁾ Includes stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenue	\$ 4.6	\$ 4.1	\$ 12.6	\$ 11.8
Research and development	46.9	38.9	131.1	107.1
Sales and marketing	8.9	7.7	25.1	23.6
General and administrative ⁽²⁾	15.3	17.5	23.3	49.4

(2) On March 19, 2020, one of the Company's co-founders resigned as a member of the board and as an officer of the Company, resulting in the reversal of \$23.8 million in stock-based compensation expense. Of the total amount reversed, \$21.5 million related to expense recognized prior to December 31, 2019.

Dropbox, Inc.

Condensed Consolidated Balance Sheets

(In millions)

(Unaudited)

As of

September 30, 2020 December 31, 2019

Assets

Current assets:

Cash and cash equivalents	\$ 452.7	\$ 551.3
Short-term investments	773.8	607.7
Trade and other receivables, net	49.6	36.7
Prepaid expenses and other current assets	54.1	47.5
Total current assets	1,330.2	1,243.2
Property and equipment, net	488.4	445.3
Operating lease right-of-use asset	705.9	657.9
Intangible assets, net	37.0	47.4
Goodwill	234.3	234.5
Other assets	66.5	70.9
Total assets	\$ 2,862.3	\$ 2,699.2

Liabilities and stockholders' equity

Current liabilities:

Accounts payable	\$ 29.5	\$ 40.7
Accrued and other current liabilities	129.4	161.9
Accrued compensation and benefits	93.3	101.4

Operating lease liability	89.7	79.9
Finance lease obligation	86.4	76.7
Deferred revenue	598.6	554.2
Total current liabilities	1,026.9	1,014.8
Operating lease liability, non-current	777.3	711.9
Finance lease obligation, non-current	169.4	138.2
Other non-current liabilities	37.4	25.9
Total liabilities	2,011.0	1,890.8
Stockholders' equity:		
Additional paid-in-capital	2,608.8	2,531.3
Accumulated deficit	(1,764.3)	(1,726.2)
Accumulated other comprehensive income	6.8	3.3
Total stockholders' equity	851.3	808.4
Total liabilities and stockholders' equity	\$ 2,862.3	\$ 2,699.2

Dropbox, Inc.

Condensed Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cash flow from operating activities				
Net income (loss)	\$ 32.7	\$ (17.0)	\$ 89.5	\$ (46.1)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	40.9	40.6	120.5	132.5
Stock-based compensation	75.7	68.2	192.1	191.9

Net (gains) losses on equity investments	—	1.7	(17.5)	(5.7)
Amortization of deferred commissions	6.7	4.6	17.5	12.7
Other	(0.8)	(0.7)	(0.9)	(8.3)
Changes in operating assets and liabilities:				
Trade and other receivables, net	(4.1)	(1.0)	(12.9)	(9.5)
Prepaid expenses and other current assets	(1.6)	(7.6)	(24.0)	(26.1)
Other assets	22.3	15.6	55.4	41.8
Accounts payable	3.9	(0.6)	(8.9)	(2.4)
Accrued and other current liabilities	2.0	(1.0)	(22.7)	9.5
Accrued compensation and benefits	22.2	21.7	(8.1)	(3.1)
Deferred revenue	14.7	26.7	43.4	54.7
Other non-current liabilities	(16.4)	(18.4)	(42.6)	(45.6)
Tenant improvement allowance reimbursement	2.7	16.9	19.3	45.4
Net cash provided by operating activities	200.9	149.7	400.1	341.7
Cash flow from investing activities				
Capital expenditures	(13.9)	(47.2)	(67.8)	(110.6)
Business combinations, net of cash acquired	—	—	—	(171.6)
Purchases of short-term investments	(111.9)	(193.0)	(541.1)	(582.7)
Proceeds from sales of short-term investments	37.7	160.0	183.0	341.0
Proceeds from maturities of short-term investments	83.0	75.1	221.9	236.7
Other	3.1	(3.2)	12.4	8.4
Net cash used in investing activities	(2.0)	(8.3)	(191.6)	(278.8)
Cash flow from financing activities				
Shares repurchased for tax withholdings on release of restricted stock units and awards	(22.5)	(19.0)	(66.5)	(67.1)
Proceeds from issuance of common stock, net of repurchases	0.1	—	1.6	2.0
Principal payments on finance lease obligations	(21.5)	(21.2)	(64.9)	(71.8)
Common stock repurchases	(37.5)	—	(177.3)	—

Other	(0.3)	0.3	(0.8)	(0.4)
Net cash used in financing activities	(81.7)	(39.9)	(307.9)	(137.3)
Effect of exchange rate changes on cash and cash equivalents	1.4	(1.9)	0.8	(1.7)
Change in cash and cash equivalents	118.6	99.6	(98.6)	(76.1)
Cash and cash equivalents - beginning of period	334.1	343.6	551.3	519.3
Cash and cash equivalents - end of period	\$ 452.7	\$ 443.2	\$ 452.7	\$ 443.2

Supplemental cash flow data:

Property and equipment acquired under finance leases	\$ 41.5	\$ 31.6	\$ 105.9	\$ 107.0
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Dropbox, Inc.

Three months ended September 30, 2020

Reconciliation of GAAP to Non-GAAP results

(In millions, except for percentages, which may not foot due to rounding)

(Unaudited)

	GAAP	Stock-based compensation	Acquisition-related and other expenses	Intangibles amortization	Non-GAAP
Cost of revenue	\$ 103.2	\$ (4.6)	\$ —	\$ (1.0)	\$ 97.6
<i>Cost of revenue margin</i>	21.2 %	(0.9) %	— %	(0.2) %	20.0 %
Gross profit	384.2	4.6	—	1.0	389.8
<i>Gross margin</i>	78.8 %	0.9 %	— %	0.2 %	80.0 %
Research and development	183.3	(46.9)	(4.1)	—	132.3
<i>Research and development margin</i>	37.6 %	(9.6) %	(0.8) %	— %	27.1 %
Sales and marketing	105.8	(8.9)	—	(1.4)	95.5
<i>Sales and marketing margin</i>	21.7 %	(1.8) %	— %	(0.3) %	19.6 %
General and administrative	65.1	(15.3)	—	—	49.8

<i>General and administrative margin</i>	13.4	%	(3.1	)	%	—	%	—	%	10.2	%
Income from operations	\$ 30.0		\$ 75.7			\$ 4.1		\$ 2.4		\$ 112.2	
<i>Operating margin</i>	6.2	%	15.5	%	0.8	%	0.5	%	23.0	%	

Dropbox, Inc.

Three months ended September 30, 2019

Reconciliation of GAAP to Non-GAAP results

(In millions, except for percentages, which may not foot due to rounding)

(Unaudited)

	GAAP		Stock-based compensation		Acquisition-related and other expenses		Intangibles amortization		Non-GAAP			
Cost of revenue	\$ 104.8		\$ (4.1	)	\$ —		\$ (1.0	)	\$ 99.7	
<i>Cost of revenue margin</i>	24.5	%	(1.0)	%	—	%	(0.2)	%	23.3	%
Gross profit	323.4		4.1		—		1.0		328.5			
<i>Gross margin</i>	75.5	%	1.0	%	—	%	0.2	%	76.7	%		
Research and development	172.8		(38.9	)	(4.0	)	—		129.9	
<i>Research and development margin</i>	40.4	%	(9.2)	%	(0.9)	%	—	%	30.3	%
Sales and marketing	108.2		(7.7	)	—		(1.4	)	99.1	
<i>Sales and marketing margin</i>	25.3	%	(1.9)	%	—	%	(0.3)	%	23.1	%
General and administrative	61.0		(17.5	)	—		—		43.5		
<i>General and administrative margin</i>	14.2	%	(4.0)	%	—	%	—	%	10.2	%	
Income (loss) from operations	\$ (18.6	)	\$ 68.2		\$ 4.0		\$ 2.4		\$ 56.0		
<i>Operating margin</i>	(4.3)	%	16.0	%	0.9	%	0.5	%	13.1	%	

Dropbox, Inc.

Nine months ended September 30, 2020

Reconciliation of GAAP to Non-GAAP results

(In millions, except for percentages, which may not foot due to rounding)

(Unaudited)

	GAAP	Stock-based compensation	Acquisition-related and other expenses	Intangibles amortization	Non-GAAP
Cost of revenue	\$ 308.8	\$ (12.6)	\$ —	\$ (3.0)	\$ 293.2
<i>Cost of revenue margin</i>	21.9 %	(0.9) %	— %	(0.2) %	20.8 %
Gross profit	1,101.0	12.6	—	3.0	1,116.6
<i>Gross margin</i>	78.1 %	0.9 %	— %	0.2 %	79.2 %
Research and development	550.9	(131.1)	(12.6)	—	407.2
<i>Research and development margin</i>	39.1 %	(9.3) %	(0.9) %	— %	28.9 %
Sales and marketing	312.9	(25.1)	—	(4.1)	283.7
<i>Sales and marketing margin</i>	22.2 %	(1.8) %	— %	(0.3) %	20.1 %
General and administrative	167.6	(23.3)	(0.1)	—	144.2
<i>General and administrative margin</i>	11.9 %	(1.7) %	— %	— %	10.2 %
Income from operations	\$ 69.6	\$ 192.1	\$ 12.7	\$ 7.1	\$ 281.5
<i>Operating margin</i>	4.9 %	13.6 %	0.9 %	0.5 %	20.0 %

Dropbox, Inc.

Nine months ended September 30, 2019

Reconciliation of GAAP to Non-GAAP results

(In millions, except for percentages, which may not foot due to rounding)

(Unaudited)

	GAAP	Stock-based compensation	Acquisition-related and other expenses	Intangibles amortization	Non-GAAP
Cost of revenue	\$ 306.1	\$ (11.8)	\$ —	\$ (2.5)	\$ 291.8

Cost of revenue margin	25.2	% (1.0)	% —	% (0.2)	% 24.0	%
Gross profit	909.2	11.8	—	2.5	923.5	
Gross margin	74.8	% 1.0	% —	% 0.2	% 76.0	%
Research and development	485.2	(107.1)	(10.4)	—	367.7	
Research and development margin	39.9	% (8.7)	% (0.9)	% —	% 30.3	%
Sales and marketing	317.0	(23.6)	—	(3.6)	289.8	
Sales and marketing margin	26.1	% (2.0)	% —	% (0.3)	% 23.8	%
General and administrative	180.9	(49.4)	(1.0)	—	130.5	
General and administrative margin	14.9	% (4.1)	% (0.1)	% —	% 10.7	%
Income (loss) from operations	\$(73.9)	\$ 191.9	\$ 11.4	\$ 6.1	\$ 135.5	
Operating margin	(6.1)	% 15.9	% 0.9	% 0.4	% 11.1	%

Dropbox, Inc.

Three and nine months ended September 30, 2020 and 2019

Reconciliation of GAAP net income (loss) to Non-GAAP net income and Non-GAAP diluted net income per share

(In millions, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
GAAP net income (loss)	\$ 32.7	\$ (17.0)	\$ 89.5	\$ (46.1)
Stock-based compensation	75.7	68.2	192.1	191.9
Acquisition-related and other expenses	4.1	4.0	12.7	11.4
Amortization of acquired intangible assets	2.4	2.4	7.1	6.1
Net (gains) losses on equity investments	—	1.7	(17.5)	(5.7)
Income tax effects of non-GAAP adjustments	(4.7)	(3.4)	(10.7)	(18.0)
Non-GAAP net income	\$ 110.2	\$ 55.9	\$ 273.2	\$ 139.6

Non-GAAP diluted net income per share	\$ 0.26	\$ 0.13	\$ 0.65	\$ 0.33
Weighted-average shares used to compute Non-GAAP diluted net income per share	419.9	418.7	419.9	418.3

Dropbox, Inc.

Three and nine months ended September 30, 2020 and 2019

Reconciliation of free cash flow and supplemental cash flow disclosure

(In millions, except for percentages)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Free cash flow reconciliation:				
Net cash provided by operating activities	\$ 200.9	\$ 149.7	\$ 400.1	\$ 341.7
Less:				
Capital expenditures	(13.9)	(47.2)	(67.8)	(110.6)
Free cash flow	\$ 187.0	\$ 102.5	\$ 332.3	\$ 231.1
<i>Free cash flow margin</i>	38.4 %	23.9 %	23.6 %	19.0 %

Supplemental disclosures:

Capital expenditures related to our corporate headquarters, net of tenant improvement allowances ⁽¹⁾	\$ 3.0	\$ 29.2	\$ 23.9	\$ 51.1
Key employee holdback payments related to the acquisition of HelloSign ⁽²⁾	\$ 4.0	\$ —	\$ 24.2	\$ —

⁽¹⁾ Capital expenditures include cash outflows related to the build-out of our corporate headquarters in San Francisco, CA. Net cash provided by operating activities include tenant improvement allowances related to our corporate headquarters, and represents cash received from our landlord to partially offset this build-out. These amounts are presented net in the table above.

⁽²⁾ As part of our acquisition of HelloSign in 2019, we have employee holdback agreements with key HelloSign personnel consisting of \$48.5 million in cash payments subject to on-going employee service. The related expenses are recognized within research and development expenses over the required service period of three years. The payments began in the first quarter of 2020, and will be paid evenly in quarterly installments over the remaining required service period.

About Non-GAAP Financial Measures

To provide investors and others with additional information regarding Dropbox's results, we have disclosed the following non-GAAP financial measures: revenue growth and Total ARR growth excluding foreign exchange effect, which we refer to as on a constant currency basis, non-GAAP cost of revenue, non-GAAP gross profit, non-GAAP operating expenses (including research and development, sales and marketing and general and administrative), non-GAAP income from operations, non-GAAP net income, free cash flow ("FCF") and non-GAAP diluted net income per share.

Dropbox has provided a reconciliation of each non-GAAP financial measure used in this earnings release to the most directly comparable GAAP financial measure. Non-GAAP cost of revenue, gross profit, operating expenses, income from operations, and net income differ from GAAP in that they exclude stock-based compensation expense, amortization of acquired intangible assets, and other acquisition-related expenses, which include third-party diligence costs and expenses related to key employee holdback agreements. Non-GAAP net income also excludes net gains and losses on equity investments, and includes the income tax effect of the aforementioned adjustments, including the tax effects of acquired intangible assets. FCF differs from GAAP net cash provided by operating activities in that it treats capital expenditures as a reduction to net cash provided by operating activities. Free cash flow margin is calculated as FCF divided by revenue. Non-GAAP diluted net income per share differs from GAAP diluted net loss per share in that the numerator utilizes the non-GAAP net income as described above, and the weighted average shares used in the computation include certain shares that are excluded from the GAAP diluted net loss per share calculation because their effect would have been anti-dilutive. For periods that we are in a GAAP net income position, the weighted average shares used in the computation are the same as the shares used in our non-GAAP diluted net income per share computation. In order to present revenue on a constant currency basis for the quarter ended September 30, 2020, Dropbox calculates constant currency revenue growth rates by applying the prior period weighted average exchange rates to current period results. Dropbox calculates constant currency Total ARR growth rates by applying the current period rate to prior period results. Dropbox presents constant currency information to provide a framework for assessing how our underlying business performed excluding the effect of foreign currency rate fluctuations.

Dropbox's management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short and long-term operating plans, and to evaluate Dropbox's financial performance and the ability to generate cash from operations. Management believes these non-GAAP financial measures reflect Dropbox's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in Dropbox's business, as they exclude expenses that are not reflective of ongoing operating results. Management also believes that these non-GAAP financial measures provide useful supplemental information to investors and others in understanding and evaluating Dropbox's operating results and future prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies.

We believe that the non-GAAP financial measures, non-GAAP cost of revenue, gross profit, operating expenses, income from operations, net income, and diluted net income per share are meaningful to investors because they help identify underlying trends in our business that could otherwise be masked by the effect of the expenses that we exclude.

We believe that FCF is an indicator of our liquidity over the long term, and provides useful information regarding cash provided by operating activities and cash used for investments in property and equipment required to maintain and grow our business. FCF is presented for supplemental informational purposes only and should not be considered a substitute for financial information presented in accordance with GAAP. FCF has limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of other GAAP financial measures, such as net cash provided by operating activities. Some of the limitations of FCF are that FCF does not reflect our future contractual commitments, excludes investments made to acquire assets under finance leases, includes capital expenditures related to our corporate headquarters, and may be calculated differently by other companies in our industry, limiting its usefulness as a comparative measure.

The use of non-GAAP cost of revenue, gross profit, operating expenses, income from operations, net income, free cash flow, and diluted net income per share measures has certain limitations as they do not reflect all items of income, expense, and cash expenditures, as applicable, that affect Dropbox's operations. Dropbox compensates for these limitations by reconciling the non-GAAP financial measures to the most comparable GAAP financial measures. Additionally, we have provided supplemental disclosures in our reconciliation of net cash provided by operating activities to free cash flow to include capital expenditures related to our corporate headquarters, net of tenant improvement allowances and key employee holdback payments related to the acquisition of HelloSign. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, measures prepared in accordance with GAAP. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore comparability may be limited. Management encourages investors and others to review Dropbox's financial information in its entirety and not rely on a single financial measure.

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