Dropbox Q2 2026 Prepared Remarks

SARAH SCHUBACH, INVESTOR RELATIONS

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

As a reminder, we will discuss non-GAAP financial measures on this call. Definitions and reconciliations between our GAAP and non-GAAP results can be found in our earnings release and our earnings presentation posted on our IR website at investors.dropbox.com.

We will also make forward-looking statements on this call, including statements about our future outlook for our third quarter and fiscal year 2026, as well as our expectations regarding our business, assets, strategies, and the macroeconomic environment. Such statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those described.

Many of those risks and uncertainties are described in our SEC filings, including our most recent report on Form 10-Q and forthcoming report on Form 10-Q. Forward-looking statements represent our beliefs and assumptions only as of the date such statements are made. We disclaim any obligation to update any forward-looking statements except as required by law.

I will now turn the call over to Dropbox's co-founder and co-CEO, Drew Houston.

DREW HOUSTON, CO-FOUNDER AND CO-CHIEF EXECUTIVE OFFICER

Thank you Sarah, and good afternoon everyone.

Before I turn it over to Ashraf, I want to briefly address the CEO transition we announced in May.

Ashraf and I are currently serving as co-CEOs, and after this transition period I'll become Executive Chairman and Ashraf will become sole CEO. We're taking a deliberate approach to the handoff, and I'll remain deeply engaged as Executive Chairman.

I want to say a word about why I have so much confidence in Ashraf. When he took over our core business, there were real questions about whether we could change our trajectory. He made a series of difficult calls, and the business has gotten stronger every quarter since. He's built a strong leadership team and brought a level of operating rigor that has made this company better. You'll hear the results directly from him in a moment.

The next phase for Dropbox is about execution turning the progress we've made into consistent, durable growth. Ashraf is the right leader for our next chapter, and I'm looking forward to supporting him and the team.

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

ASHRAF ALKARMI, CO-CHIEF EXECUTIVE OFFICER

Thanks, Drew, and good afternoon, everyone.

Before I turn to the quarter, I want to start by thanking Drew. Dropbox exists because of his vision and leadership over the past two decades. He built one of the most recognized technology brands in the world, and I am grateful not only for the opportunity to help lead this company, but for the trust he has placed in me to help write its next chapter.

I joined Dropbox because I believed it had significantly more potential than the market and customers appreciated.

Dropbox has over 18 million paying users, one of the most trusted consumer and business brands on the internet, strong cash generation, and a global infrastructure built over nearly two decades. At the same time, I saw a real opportunity to improve execution, modernize the product experience, and return Core to durable, sustainable growth.

Today, my conviction is even stronger.

Over the last eighteen months we've strengthened the leadership team, sharpened our execution, and focused relentlessly on the fundamentals: improving conversion, onboarding, activation, retention, pricing and packaging, and delivering a better customer experience.

While we're still early in the journey, the results are encouraging. We've turned Core from a business that had been slowing for years into one that is once again demonstrating sustainable growth. There is still a great deal of work ahead, and a few quarters don't define success, but we're putting points on the board and reinforcing the belief that brought me here in the first place.

The second thing that has strengthened my conviction is something I did not fully appreciate when I joined, and that’s how valuable Dropbox's foundation would become in an AI-first world.

Over the last two decades, we have built far more than a storage application. We have built one of the world's largest and most optimized content platforms, one responsible for storing, synchronizing, securing, searching, processing, and governing hundreds of billions of pieces of content across multiple exabytes of data.

As AI makes intelligence more abundant, trusted content becomes more valuable, not less. Every AI application ultimately needs content to reason over, permissions to respect, governance to enforce, version history to rely on, and infrastructure that scales globally and securely. Those are capabilities we have been building for nearly two decades, and they are what allow us to turn AI into durable value for customers rather than a feature that is easy to copy.

That realization has shaped how we think about Dropbox's future.

Our priority remains exactly what it has been since I joined: continue strengthening and growing Core and build on it. I think about that opportunity in three connected parts.

First, we're bringing Dropbox services onto a common platform built around shared content, identity, permissions, search, and AI. Smaller teams, increasingly powered by AI, can build richer workflows faster because they're building on capabilities that already exist instead of recreating them. That also means showing up where our customers already work: we've launched integrations with tools like Claude and ChatGPT, and even without much dedicated investment behind them, we’ve already seen over 150 thousand users connect to the integrations, an early signal of how embedded Dropbox already is in the way people work.

Second, we’re embedding Dash intelligence directly into Dropbox itself. Rather than treating AI as a separate destination that customers need to learn or adopt independently, customers expect intelligence to be a native part of how they interact with their content: helping them find it faster, understand it more deeply, organize it more effectively, and ultimately do more of the work around it, all grounded in the trust, permissions, and context already built into Dropbox. One of our biggest learnings throughout building Dash is that customers respond most to AI that's grounded in their own context and helps them get their work done. That's informed how we think about Dash going forward: we've come to see the bigger opportunity as Dash and Core together, bringing that same in-context intelligence natively into the Dropbox experience for all of our customers, not a standalone product for a subset of them.

The third is using those capabilities to build deeper workflows in the markets where we are best positioned to win. The goal is not to become a broad software suite. It is to go deeper in a focused set of areas where content sits at the center of customers' work and where our existing assets give us a genuine advantage. Replay, our video and media review and approval tool, is a good example, and we are validating adjacent opportunities such as digital asset management and other AI-powered workflows that extend naturally from our platform.

Let me make that more tangible with an example.

Take Westchester Publishing: What started as a place to securely store and sync files has grown over time into the foundation for much of their business operations. The core Dropbox platform they’ve relied on for years also powers a custom portal they use to collaborate with internal teams and external partners. On top of that foundation, they’ve adopted Dash to find and organize content, helping teams quickly synthesize information and draft materials, while piloting agentic capabilities that automate previously manual and time-intensive workflows.

We're also seeing that the infrastructure behind Dropbox has become increasingly relevant in an AI-first world. AI models need trusted content, source permissions, audit trails, governance, multi-player functionality, and workflow continuity to deliver real value, and those are capabilities we've been building for nearly two decades. As AI companies build new products, many want to leverage that existing foundation rather than recreate it themselves and we're seeing this demand already with our ChatGPT and Claude integrations. It's still early, but we believe Dropbox can play an increasingly important role as the layer that connects AI to trusted customer knowledge and infrastructure across the broader ecosystem.

That, in short, is our strategy. Continue executing to restore durable growth in Core through foundational improvements that increase our baseline. Use that stronger foundation to build increasingly intelligent workflows for our customers and grow the flywheel that made Dropbox successful in the first place. And over time, put the platform we've built to work more broadly across the AI ecosystem, wherever that creates real value.

Turning to the quarter, our Q2 performance was largely the product of the foundational work that we believe is so critical to returning to sustainable growth in the long term. The platform, intelligence, and workflow strategy I just walked through is what we believe compounds on top of that foundation and unlocks a higher level of sustainable growth over time.

We continued to see positive year-over-year revenue growth in Q2 excluding FormSwift, and we added 96,000 paying users, our third consecutive quarter of paying user growth. We also exceeded our guidance on non-GAAP operating margin, achieving over 39%, and generated $283.5 million of unlevered free cash flow.

Within Teams, our continued investment in pricing, packaging, onboarding, checkout, and activation translated into stronger conversion, and Teams net new ARR grew sequentially. Within Individuals, targeted retention initiatives, along with Apple Pay, Simple, and a clearer upgrade experience for customers approaching their storage limits, all contributed to stronger monetization. These are not isolated wins. They are the kind of steady execution that compounds over time and is returning Core to sustainable growth.

At the same time, we continued to build toward a smarter Dropbox with AI natively embedded in the experience. As the product has evolved, we are transitioning the rollout of what we previously called Dash in Dropbox to the next-generation Smart FSS experience, which we are currently testing with a select group of customers. This evolution does not change our rollout timeline, and we remain on track to significantly expand access to our base throughout the remainder of 2026. We will scale thoughtfully, validating customer value, engagement, and business impact along the way.

As we enter the second half of the year, our priorities remain clear: keep building on the momentum we have established in Core. We'll use that stronger foundation to innovate faster, adding AI as a native, in-context capability across our product portfolio. That's the platform, intelligence, and workflows we believe will define Dropbox's next phase of growth, reaching more of the over 18 million paying users already on Dropbox and leveraging the same flywheel that made us successful in the first place.

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

ROSS TENNENBAUM, CHIEF FINANCIAL OFFICER

Thank you, Ashraf.

When I joined Dropbox, investors were asking whether our Core business could grow again. Today, I think they're asking a different question: not whether we can grow, but whether that growth is durable, and ultimately, how much we can sustainably grow over time.

Q2 doesn't answer those questions completely, but it does provide another meaningful proof point.

Ashraf laid out three connected parts to our platform and AI strategy. I think about how those translate financially in three phases.

Phase One was simply returning our FSS product to growth. Over the past several years, we had increasingly shifted our attention away from our FSS product because we no longer believed it represented our greatest opportunity. What changed was refocusing on the fundamentals. Things like pricing and packaging, onboarding, retention, checkout, and that work has returned us back to positive growth.

Phase Two is where I believe we are today: proving that growth is durable, not just a couple-quarter result. We're encouraged by what we're seeing. Three consecutive quarters of paying user growth, Teams returning to positive license growth, and improving retention, but we're not overstating where we are. What lies ahead is proving to you what we believe - that we can build and enhance products that will provide value to our customers, and drive growth higher.

Phase Three is where Ashraf's strategy to bring Dropbox onto a unified platform, embed Dash intelligence natively, and build deeper workflows around our customers' content becomes increasingly important financially.

As we do that, the question changes from whether Dropbox can sustain growth to how fast we can grow over time.

One thing that has strengthened my conviction since joining Dropbox is recognizing that we've spent nearly two decades building and running infrastructure and intelligent services, such as our content processing platform, that becomes more valuable, not less, in an AI-first world.

Agent or human - we believe there is no future where there is not a lot more content.

As Ashraf described, Dropbox is far more than a storage application. It's a trusted content platform with capabilities around storage, synchronization, permissions, governance, search, and content processing that become increasingly important as AI becomes embedded in how work gets done.

We believe those assets give us a differentiated foundation to build on, both inside Dropbox and, over time, potentially other companies can also build on our content platform.

We'll pursue that opportunity the same way we've approached the turnaround of Core: with disciplined execution and capital allocation. We won't scale investment because an opportunity is exciting. We'll scale it because customers demonstrate they value it and because it generates attractive long-term returns.

Ultimately, our objective is to compound free cash flow per share over the long term through sustainable revenue growth and a strong margin profile, investing where we have the strongest right to win, and returning capital to shareholders when that's the highest-return use of capital.

Q2 doesn't complete that journey. But it reinforces our conviction that we're on the right path.

With that, let me turn to our financial results.

Non-GAAP disclaimer: Unless otherwise indicated, all income statement figures mentioned are non-GAAP and exclude stock-based compensation, amortization of purchased intangibles, certain acquisition-related expenses, workforce reduction expenses, and net losses on real estate assets. Our non-GAAP net income also includes the income tax effect of the aforementioned adjustments.

In Q2, revenue increased 0.9% year-over-year to $631.5 million. Excluding FormSwift, revenue grew 1.7% year-over-year. On a constant currency basis, revenue excluding FormSwift increased 0.1% year-over-year. Relative to our guidance, the outperformance was driven primarily by improving core FSS trends.

Total ARR was $2.566 billion, up 1.0% year-over-year. Excluding FormSwift, ARR grew 1.7% year-over-year, or 0.2% on a constant currency basis.

We exited the quarter with 18.19 million paying users, a sequential increase of approximately 96,000, ahead of our expectations coming into the quarter. The outperformance was largely driven by outperformance in our Simple SKU. We also saw positive teams license growth as a result of our ongoing pricing and packaging initiatives. Average revenue per paying user was $139.68, compared to $138.32 in the year-ago quarter, driven by FX rate tailwinds and shift to more monthly plans.

Gross margin was 81.6%, down roughly 60 basis points from the year-ago period, primarily as a result of compute costs associated with rolling out additional AI capabilities to our Teams base.

Operating margin was 39.7%, ahead of our guidance of 38.5%, and down roughly 180 basis points from the year-ago period, driven by the gross margin dynamics I just described, as well as increased marketing investment within our Core business, reflecting a return to more normalized spend following the targeted reductions in performance marketing we made in the year-ago period. Relative to our guidance, the outperformance was primarily driven by higher revenue as well as some timing-related savings shifting to the second-half of the year for brand spend and outside services.

Net income was $170.0 million, compared to $197.7 million in the year-ago quarter, with the decrease primarily due to higher interest expense related to our term loan facility. Diluted EPS was $0.75, compared to $0.71 in the year-ago quarter, based on 226.8 million diluted weighted average shares outstanding, compared to 276.7 million shares in the year-ago period.

Cash flow from operations was $238.5 million, compared to $260.5 million in the year-ago period. The year-over-year decline primarily reflects an increase of $30 million of interest payments, net of the associated tax benefit, related to borrowings under our term loan facility. Capital expenditures were $3 million.

Unlevered free cash flow was $283.5 million, compared to $276.4 million in the year-ago period. Unlevered free cash flow per share was $1.25 per share, up 25% year-over-year.

Turning to the balance sheet, we ended the quarter with cash and short-term investments of $1.114 billion. During the quarter, we completed a new $400 million revolving credit facility, further strengthening our liquidity profile. The facility remains undrawn at quarter end and provides additional balance sheet flexibility.

We also announced a new $900 million share repurchase authorization, reflecting our confidence in the business and reinforcing our commitment to long-term shareholder value creation.

In the second quarter, we repurchased approximately 12.6 million shares, spending approximately $315 million. As of the end of the second quarter, we had approximately $1.385 billion remaining under our existing share repurchase authorization.

Guidance

I'll now offer our outlook for Q3 and our updated outlook for the full year 2026.

For the third quarter of 2026, we expect:

- Total revenue to be in the range of $627 to $630 million
- Excluding FormSwift, this implies roughly flat year-over-year growth at the midpoint.
- We are expecting a currency tailwind of approximately $6 million. On a constant currency revenue basis, we expect total revenue to be in the range of $621 to $624 million.
- We expect our non-GAAP operating margin to be approximately 38.5%.
- And we expect diluted weighted average shares outstanding to be in the range of 223 to 228 million shares.

For the full year 2026, we expect:

- Total revenue to be in the range of $2.513 to $2.523 billion, an increase of $13.5 million at the midpoint of guidance.
- Excluding FormSwift, this implies 80 basis points of year-over-year growth at the midpoint.
- We are expecting a currency tailwind of approximately $31 million. On a constant currency revenue basis, we expect total revenue to be in the range of $2.482 to $2.492 billion.
- We expect gross margin to be approximately 81.5%
- We are raising our non-GAAP operating margin guidance by 50 basis points, to be in the range of 40.0% to 40.5%. This implies an increase of approximately $18M at the midpoint of guidance.
- We are also raising our unlevered free cash flow guidance, which we now expect to be at or above $1.070 billion, an increase of $15M.
- We continue to expect CapEx to be in the range of $20 to $25 million and additions to finance lease lines to be approximately 4% of revenue.
- Finally, we expect diluted weighted average shares outstanding to be in the range of 226 to 231 million shares.

Guidance Supplemental Information — 2026

I will now provide supplemental information as it relates to guidance:

NNPU/ARPU: In Q2 we were pleased with our performance on paying user growth, and continue to expect positive paying user growth for 2026. For ARPU, we expect modest sequential declines throughout the rest of the year.

Gross Margin: As I mentioned last quarter, our gross margin guidance assumes modest pressure this year from embedding Dash intelligence natively into Dropbox and expanding across our Teams base, partially offset by infrastructure efficiencies. Going forward, our gross margin profile will continue to depend on rollout pace, customer adoption, and optimization work, so we continue to expect some quarter-to-quarter variability.

Operating & uFCF Margin: We're increasing our operating margin and unlevered free cash flow guidance relative to our prior guidance as a result of Q2 performance and expected performance in the remainder of the year. As we touched on last quarter, we will continue to realize efficiencies within our R&D organization as we bring Dash and Dropbox closer together, giving our teams a shared foundation so they can build and ship faster with AI. Additionally, we see an opportunity to evolve and improve our go-to-market team and execution, and we are in the process of rebalancing that organization to focus resources on our priority markets, segments, and routes to market, which we believe will drive greater efficiency and productivity through the remainder of 2026 and going forward.

WASO: Lastly, we expect our full year weighted average shares outstanding to increase to approximately 226 million to 231 million shares, as a result of an increase in our 30-day trailing average share price.

Conclusion:

With that, Operator, please open the line for questions.