Dropbox Q4 2025 Prepared Remarks

PETER STABLER, INVESTOR RELATIONS

Good afternoon, and welcome to Dropbox's fourth quarter 2025 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 first 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 and forthcoming reports on Form 10-K. 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 CEO and co-founder, Drew Houston.

DREW HOUSTON, CHIEF EXECUTIVE OFFICER

Thanks, Peter, and good afternoon everyone. Welcome to our Q4 2025 earnings call. Joining me today is Ross Tennenbaum, our Chief Financial Officer, who joined Dropbox in December.

I'll start with a recap of the quarter and how we closed out 2025, then talk about how we're thinking about the business and our priorities going forward. Ross will then walk through our financial results and outlook.

We closed out 2025 on a strong note.

Fourth-quarter revenue came in above the high end of our guidance, and, excluding the impact of our Formswift wind-down, constant currency revenue was flat for the quarter and the full year — a better-than-expected outcome.

We also made meaningful progress on efficiency. Margin performance in Q4 exceeded our expectations, and we generated over $1 billion of unlevered free cash flow. At the same time, through our share repurchase program, we reduced diluted share count by more than 50 million shares in 2025.

Taken together, Q4 was a good reflection of what we're working to do consistently: execute well, deliver against our plans, and steadily improve the underlying trajectory of the business.

In 2025, our priorities were focused on strengthening our core business and scaling Dash in pursuit of returning to revenue growth. We're still executing on these objectives, but we now have proof points that these changes are starting to work.

Coming into last year, our Core FSS business had strong fundamentals and scale, but execution velocity, product experience, and our go-to-market motion had not kept pace with customer expectations.

In late '24 and early '25, we did a leadership reset in Core FSS, bringing in a new General Manager and rebuilding key leadership across product, engineering, and go-to-market.

Since then we've made significant improvements in how decisions get made, how we prioritize customers, and how we deliver value. And we're beginning to see positive signals.

The team first focused on improving funnel quality, pricing and packaging, product fundamentals, and retention drivers. As a result, the Individuals business saw steady growth across 2025.

That matters because it demonstrates that the core product can still respond to focused innovation, and better retention and growth are achievable with the right execution.

The objective for 2026 is to maintain our momentum with the Individuals business and return Teams to positive net license growth. Work already underway includes simplified pricing and packaging, higher intent trials, reduced onboarding and admin friction, and a sharper focus on retention.

Early tests in Q4 showed promising signs — including improved Teams trial conversion rates and higher first-week engagement — and we began rolling these changes out more broadly in Q1.

In short, we're not simply maintaining our Core FSS business, our goal is to bend the curve. 2025 delivered proof points, and 2026 is about scaling that momentum.

Our next focus area is what we call Dash in Dropbox, which represents the most important evolution of the Core FSS experience in years.

Dash in Dropbox provides an AI intelligence layer directly inside our customers' everyday workflows, with minimal setup and immediate relevance.

In Q4, we launched embedded Dash capabilities inside our Teams plans, including semantic search, chat, and Stacks organization and sharing, rolling out in phases to eligible Dropbox Teams customers.

We're seeing solid early engagement among the initial Dash in Dropbox cohorts. In Q4, over half of these active users returned multiple days per week, evidence that Dash is providing value and becoming a part of user workflows. Based on these results, we've begun scaling up our rollout to additional customer cohorts.

Dash in Dropbox increases the value of Core FSS, should further improve retention economics, and serves as a natural on-ramp to broader Dash adoption. This is the most credible and immediate way AI creates value for Dropbox customers today.

Now, turning to our plans to scale the Dash standalone opportunity.

While it's true that we've introduced several iterations of the Dash experience over the last two years, the sequencing of our rollout was intentional to ensure we build and scale the product and business thoughtfully.

First, we focused our investment on building a best-in-class Dash product experience — including investments in its underlying infrastructure and performance.

Then, we focused on launching two growth motions for Dash: the sales-led motion that launched in late '24, and a self-serve version that launched in Q4 of last year.

Now, we're focused on engagement and adoption, before we focus on monetization. The good news is that we're seeing positive early signals of demand. At the same time, we're clear-eyed that onboarding friction, time to value, and connector setup need to improve.

So, in the first half of '26, we're focused on improving the new-user experience to demonstrate connector value from first touch, investing in Stacks as a sharing-driven growth engine, and compressing the time between signup and first value for the Dash experience.

Historically, Dropbox has been primarily a product-led growth company. We have a sales-led motion today, but it needs meaningful improvement given our broader product portfolio.

In December, we hired Eric Webster as our new Chief Business Officer. His mandate is to evolve and improve our existing sales-led motion into one capable of selling multiple products with the right funnel, process, and enablement.

That includes Core FSS, Dash — both standalone and bundled — Protect and Control, DocSend, and other emerging products. Protect and Control is showing particular promise. As every company works to roll-out AI tools, admins are confronting critical security challenges with overshared content and improper use of consumer AI tools.

We’re in a unique position to help these customers. By complementing our Dash offering with Protect and Control, we can both index customer data and use the underlying context engine to power capabilities that prevent unauthorized sharing and access beyond our secure perimeter.

Capitalizing on this emerging demand, we closed a six-figure international deal for Dash’s Protect and Control features in Q4, and we expect it to play an important role across our portfolio in the years to come, as AI data security emerges as both a standalone opportunity and an AI adoption enabler.

Stepping back, here’s how this all comes together.

Our Core FSS business is stabilizing and showing credible paths back to growth. Dash is both a force multiplier for Core and a standalone AI opportunity, while sales-led growth and AI data security expand our addressable market.

Together, these vectors give us multiple paths to drive modest but meaningful growth — enough to shift the narrative from decline to durability and progress.

In closing, 2025 laid the foundation. Now, 2026 is about execution, scaling what works, and proving consistency.

We’re realistic about the work ahead, but confident in the direction, the team, and the opportunity in front of us.

Lastly, I’d like to acknowledge the many contributions of Tim Regan, our departing CFO, and thank him for making Ross’s transition a smooth one.

With that, I’ll turn the call over to Ross to walk through our fourth-quarter results and our outlook.

ROSS TENNENBAUM, CHIEF FINANCIAL OFFICER

Thanks, Drew, and good afternoon, everyone.

As many of you know, this is my first earnings call as CFO of Dropbox. Before I walk through our financial results and outlook, I wanted to share a brief perspective on how I think about the business and the opportunity ahead.

What I'm about to share reflects my observations from my first couple months in the role. It's not a new operating framework, and it doesn't represent a change in how we guide the business. But I believe it's useful context as you assess Dropbox's long-term value creation potential.

What initially attracted me to Dropbox was the strength of the foundation.

This is a company with a strong, global brand and a large and loyal customer base of roughly 18 million paying users and 575,000 paying Business teams, and products that are deeply embedded in everyday workflows for both individuals and teams.

That foundation is clearly reflected in the financial profile. A $2.5 billion revenue business, with operating margins around 40%, approximately $1 billion of annual unlevered free cash flow, and a 21% three year CAGR for unlevered free cash flow per share. That combination of scale, profitability, and cash generation has proven to be durable and resilient over time.

Our north star is to grow free cash flow per share over time through a judicious capital allocation strategy.

As CFO, my goal is to prioritize investments in the business where we see attractive returns — initiatives that drive sustainable revenue growth and margin. At this time restoring revenue growth is our top priority. When our shares trade at compelling valuations, repurchasing stock remains a disciplined and efficient use of capital. Reducing share count under those conditions increases free cash flow per share and enhances long-term shareholder returns.

What ultimately drew me to DBX was the opportunity to grow free cash flow itself — not just optimize the denominator — by growing revenue and improving margins.

Let me start with our current investment priority - growth.

Naturally, since onboarding I have been most focused on our initiatives to restore growth.

While many discussions regard Dash, our opportunities to restore growth in our core FSS business are also exciting.

We recognize FSS operates in a mature and competitive market, and we're realistic about that backdrop. At the same time, over the past year we've taken meaningful steps to strengthen the organization and evolve the product. In late 2024, we brought in new leadership to lead the core business, who are experienced operators from large-scale tech companies. I've been genuinely impressed by both the caliber of talent we've been able to attract and the pace at which they're working to evolve the business - across product, pricing, packaging, and go-to-market motions.

Last year, we focused on simplifying and strengthening our Core business which drove improvements in monetization and retention. That work continues. At the same time, the team has been integrating Dash AI capabilities into FSS, allowing customers to derive more value from the content they already store in Dropbox. From my perspective, this represents the most significant innovation to the core FSS offering in a long time.

Looking at the top of the funnel, one of the biggest surprises to me early on was the magnitude of gross new ARR that core FSS still generates each year. Today, much of that is offset by churn. But by delivering more value through innovation like Dash in Dropbox, improved pricing and packaging, and better end-to-end customer lifecycle workflows, I believe there is a real opportunity to improve retention and grow net new ARR over time.

Turning to Dash.

I see Dash as a genuinely valuable product and use it regularly in my day-to-day work. More importantly, nearly all Dropbox employees are weekly active users, and we're seeing strong engagement from active users in early customer trials. We have an impressive engineering team rapidly innovating on an ambitious roadmap.

At a minimum, I see Dash as a highly impactful evolution of our core FSS offering, and believe, in addition to all our other efforts, it will help attract new customers, drive upsell, and reduce churn. More optimistically, we will also drive adoption, and later monetization, of Dash as a standalone product. Regardless, anywhere along this spectrum, I see meaningful value creation potential for Dash and our AI product strategy.

The third growth lever I'll touch on briefly is M&A.

I don't view M&A as a silver bullet, and I know first hand that not every transaction delivers as expected. But I also know that disciplined, strategic acquisitions can meaningfully expand a product portfolio and contribute incremental ARR over time.

Any acquisition we consider must meet a high bar for strategic fit and financial return. Over time, I see M&A as a lever that can accelerate product roadmaps, deepen our relevance with customers, and complement the organic growth initiatives already underway.

Taken together — core FSS, Dash, and M&A — these were the growth vectors I evaluated when deciding to join Dropbox. And after a couple months inside the company, I see opportunity for each.

Let me now turn to margins.

The second driver of free cash flow growth is margin expansion.

Should we someday decide to curtail our growth pursuits, I believe this business has the capacity to operate at margins meaningfully above current levels. That said, given the growth opportunities in front of us, we believe it's prudent to maintain our current investment levels to pursue growth.

At the same time, I do believe that over time we can be more aggressive on cost discipline.

We see the potential for additional margin upside driven by scale, continued cost discipline, and productivity improvements. AI, in particular, offers great potential to automate many manual, people-intensive processes across all functions — not just engineering or customer support.

We believe that when employed these initiatives will drive significant productivity gains. In addition, we continue to look for opportunities to operate more efficiently through better tooling and geographic mix, shifting more work to lower-cost regions. Taken together, we believe these efforts can generate savings which we can elect to drive margin or reinvest in growth initiatives.

To be clear, these are observations from my first couple of months. There's real work ahead to translate them into execution.

So, stepping back, this is how I see Dropbox today.

A strong brand with a durable financial profile, significant free cash flow generation, and multiple avenues for long-term value creation.

And as I look at how the business is trending, we're making progress toward returning to growth while optimizing for efficiency. In that context, I see meaningful optionality in the business that I believe is underappreciated by the market, reinforcing share repurchases as an important part of our strategy.

With that, let me turn to our fourth quarter financial results and our outlook going forward.

Q4'2025 Financial Results

In Q4, revenue declined 110 basis points year-over-year to $636 million, but increased 40 basis points year-over-year when excluding Formswift, which acted as a 150 basis point headwind to revenue. Constant currency revenue declined 160 basis points year-over-year to $633 million, but was roughly flat year-over-year excluding the 150 basis point headwind from Formswift. Relative to our guidance, revenue outperformance was driven primarily by retention improvements across our self-serve SKUs.

Total ARR was $2.526 billion, down 190 basis points year-over-year, and excluding the impact of Formswift--which was a 160 basis point headwind--ARR was down 30 bps year-over-year. Total ARR declined 170 basis points on a constant currency basis.

We exited the quarter with 18.08 million paying users - a sequential increase of approximately 10,000 paying users. The quarter's paying user growth was driven primarily by momentum in our Simple plan. Average revenue per paying user was $139.68 as compared to $139.07 in the prior quarter. ARPU increased sequentially primarily due to FX tailwinds as well as an overall mix shift from annual to monthly plans.

Non-GAAP disclaimer: Before we continue with further discussion of our P&L, I would like to note that unless otherwise indicated, all income statement figures mentioned are non-GAAP and exclude stock-based compensation, amortization of purchased intangibles, certain acquisition-related expenses, net gains and losses on real estate assets, workforce reduction expenses, and net losses on equity investments. Our non-GAAP net income also includes the income tax effect of the aforementioned adjustments.

Gross margin was 80.8% for the quarter, down 230 basis points from the year ago period, reflecting higher depreciation associated with our hardware refresh and ongoing data center build outs, as well as increased infrastructure costs associated with the expansion of Dash trials.

Operating margin was 38.2%, ahead of our guidance of 37.0%, and up roughly 130 basis points from the year ago period. Operating margin increased year-over-year largely due to lower headcount following our RIF in 2024, and elimination of marketing support for Formswift. Compared to our guidance, operating margin benefited primarily from revenue outperformance, as well as lower outside services and marketing spend.

Net income for the fourth quarter was $174 million. Diluted EPS for the fourth quarter was $0.68 based on 254 million diluted weighted average shares outstanding, compared to $0.73 in the year ago quarter. The decrease was largely due to higher interest expense.

Moving on to our cash flow and balance sheet. Cash flow from operations was $235 million, an increase of 10% versus the year ago period, primarily due to payments related to our reduction in force in Q4’24. Q4’25 also included $26M of interest payments, net of the associated tax benefit, related to amounts drawn under our term loan facility. Unlevered free cash flow was $251 million, or $0.99 per share, up 44% year-over-year.

Capital Expenditures were $11 million in the quarter, primarily related to data center build outs. In the quarter, we also added $34 million to our finance leases for data center equipment, marking the end of elevated spend for our hardware refresh cycle.

And now I’ll provide a brief update on our real estate strategy, as we continue to actively pursue subleases across our real estate portfolio. Last month, we executed a sublease of all remaining available square footage in our current San Francisco headquarters, including the portion of the space we were occupying, over a 3 year term. We also executed an extension and expansion of an existing sublease. As a result of these two subleases, we expect to generate approximately $97 million in total future cash payments over the remaining term of our lease through 2033, net of the cost to lease a smaller San Francisco headquarters, given we will vacate our current headquarters.

From a cash perspective, the 2026 impact is immaterial due to lease structure and investments we plan to make later this year in our new San Francisco HQ. From a P&L standpoint, we expect a modest benefit in 2026. The impact of both of these new agreements has been factored into the guidance we’ll provide today. As we move beyond 2026, both the cash flow and earnings benefits become more meaningful as the sublease income builds.

Turning to the balance sheet, we ended the quarter with cash and short term investments of $1.04 billion. In the fourth quarter, we repurchased approximately 14 million shares, spending approximately $415 million. As of the end of the fourth quarter, we had approximately $1.17 billion remaining under our existing share repurchase authorization and $1.2B of additional term loan liquidity, with $700M allocated to retire our March 2026 convertible notes.

I'll now offer our outlook for Q1 and the full year 2026.

For the first quarter of 2026, we expect:

Revenue to be in the range of $618 to $621 million. Excluding Formswift, this implies 0.4% growth year-over-year at the mid-point. We are expecting a currency tailwind of approximately $8 million. On a constant currency revenue basis, we expect revenue to be in the range of $610 to $613 million. We expect our non-GAAP operating margin to be approximately 38%. Finally, we expect diluted weighted average shares outstanding to be in the range of 241M to 246M million shares, based on our 30-day trailing average share price.

For the full year 2026, we expect:

Revenue to be in the range of $2.485 to $2.500 billion. Excluding Formswift, this implies roughly flat growth year-over-year at the mid-point. We are expecting a currency tailwind of approximately $27 million. On a constant currency revenue basis, we expect revenue to be in the range of $2.458 to $2.473 billion. Gross margin to be in the range of 81.5% to 82.0%. Non-GAAP operating margin to be in the range of 39.0% to 39.5%. We expect unlevered Free Cash Flow to be at or above $1.040 billion. We expect cash interest expense, net of tax benefits, of approximately $190 million. We 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 227M to 232M million shares.

Guidance Supplemental Information – FY'2026

I'll now share some additional perspective on this guidance for 2026. Excluding Formswift, we are guiding to a flat revenue year in 2026 while continuing to invest. That reflects a disciplined approach as we validate execution, refine go-to-market motions, and ensure that improvements translate into measurable results. Our guidance reflects that balance: we see long-term opportunity, but we are pairing that conviction with near-term prudence.

Revenue: Regarding revenue, Following the elimination of marketing support for Formswift at the beginning of last year, the business has experienced gradual user decline each quarter and will continue to be a modest headwind this year. Further, we have made the decision to sunset Formswift by the end of the year.

ARPU/NNPU: For paying users, last year we offered directional commentary because of strategic decisions we made, including the wind down of the Formswift business. Looking ahead to 2026, we expect modestly negative NNPU in Q1 largely due to seasonality and Formswift headwinds, with roughly flat paying user growth for the remainder of the year.

Gross Margin: On gross margin, we expect modest pressure this year as we scale Dash trials, partially offset by ongoing structural infrastructure improvements.

Operating Margins: For operating margins, as we mentioned last quarter, we do not expect this to be a year of margin expansion. We remain confident in our ability to execute and believe it is prudent to invest in near-term growth opportunities. Our margin outlook reflects material investment in Dash as we expand trials across both new customers and a larger segment of our FSS user base. We expect these investments to be partially offset by ongoing cost discipline and efficiency initiatives.

Regarding finance leases: This quarter marks the end of elevated spend for our latest hardware refresh cycle and as a result, we expect materially lower infrastructure investment this year, with finance lease activity more heavily weighted toward the second half. As a reminder, we typically refresh our infrastructure every five years.

Regarding CapEx, we expect a slight increase in CapEx as a result of a one-time incremental investment related to the buildout of our new SF headquarters. Excluding that investment, capex would be down year over year, as we have completed our hardware refresh cycle.

uFCF: Our unlevered Free cash flow guidance reflects a benefit this year from lower cash taxes related to the One Big Beautiful Bill Act, along with the absence of one-time cash outflows we had in 2025 related to the San Francisco lease buyout and reduction in force.

Interest Expense: Our interest expense outlook assumes we draw the remaining balance on our term loans. Once drawn, total outstanding term loan debt will equal $2.7 billion.

WASO: Lastly, we expect our weighted average shares outstanding to decrease to approximately 227 million to 232 million shares, which assumes we exhaust the remaining balance on our share repurchase authorization.

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