



Dropbox Q2 2025 Prepared Remarks

PETER STABLER, INVESTOR RELATIONS

Good afternoon, and welcome to Dropbox's second quarter 2025 earnings call.

As a reminder, we will disclose 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 the third quarter and fiscal year 2025, 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-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 CEO and co-founder, Drew Houston.

DREW HOUSTON, CHIEF EXECUTIVE OFFICER

Thanks Peter, and good afternoon everyone. Welcome to our Q2 2025 earnings call. I'm here with Tim Regan, our CFO.

I'll start with our business and product highlights, then Tim will walk through our Q2 results and outlook for the rest of the year. Let's dive in.

Q2 capped off a solid first half of the year. Revenue came in ahead of guidance, and our continued focus on operating efficiency delivered another quarter of strong margin performance.

Now I'll share an update on our two strategic priorities for this year which are scaling Dash and simplifying and strengthening our Core FSS business.

Starting with Dash. I'll walk through what's going well, highlight areas we're focused on improving, and share where we're headed.

We just finished the second full quarter where Dash for Business has been in market, and it's clear the value proposition is resonating. We're seeing customers expand their license counts, which is a great early signal.

Our top priority has been building a great product experience and gathering user feedback to inform future development. As we noted last quarter, in April we launched features designed to expand Dash's use cases and improve user productivity, and we're excited by the feedback and engagement gains we're seeing. Since launch, we've continued building new capabilities and most recently launched intranet features like org charts, people pages, and top-requested integrations like Workday. We've also made meaningful improvements to support faster activation and a more intuitive first-use experience as we concentrate on streamlining onboarding.

With a strong feature set in place, we're now focused on fine-tuning Dash's performance to build deeper user engagement, and, although we're in early stages, recent results are encouraging. Rich media search (part of our April launch) now accounts for double-digit percent of total queries, and we're seeing growing adoption of Dash chat for answering questions, summarizing long documents, and providing draft writing assistance. We've also seen strong sequential growth in key cohort metrics like weekly active users and activity rates per week, which is evidence that as customers gain familiarity with Dash, repeat usage climbs.

Building on this product and engagement momentum, for the second half of the year we're ramping our focus on user growth and monetization. Customer conversations and usage data have helped us to refine our ideal customer profiles across industries and team sizes, as we look to better target our outbound sales motion toward marketing, creative and technology teams in the SMB to mid-market space, which are all historically strong verticals for us.

Of course, our large base of FSS customers represents a huge opportunity for Dash, since virtually all of our FSS users also have cloud content. By bringing elements of Dash into our FSS product experience, we can accelerate awareness of Dash's functionality and ultimately help bridge our FSS users onto Dash. Finally, we remain on track to complement our outbound sales effort with a self-serve version of Dash in the coming months to address the underserved SMB space for both our current FSS customers and those using other FSS solutions.

Moving on to core FSS.

As a reminder, our key focus for FSS this year is strengthening and simplifying our user experience while also improving operating efficiency. This quarter we made solid progress against both objectives and are beginning to see tangible improvement in key operating metrics.

For example, we redesigned the Teams onboarding experience to make it easier than ever to get users up and running. The early signal we're seeing is that faster onboarding has improved activation and setup rates by 5% and 10%, respectively, while at the same time driving a 100% increase in desktop downloads. This is an important metric since web and desktop cross-platform activity is associated with higher engagement and improved retention. Our new unified checkout provides frictionless multi-product purchasing, which enables customers to transact multiple purchases, including Dash, within a single purchase flow.

We've also been making good progress on our retention initiatives. A good example is our redesigned cancellation flow that more clearly highlights the value we're providing. As a result of these and other initiatives, we've seen meaningful retention gains for both Teams and Individual customers.

On the infrastructure side, we continued investing in backend improvements aimed at strengthening the usability and security of our platform. This quarter, improvements to our desktop sync engine reduced startup times for large accounts, and we continue to drive higher adoption of important security features like multi-factor authentication with new

prompts and Teams admin controls. Within the Individuals business, we continue to see good traction with our Simple plan, which is our low-price entry level plan designed for mobile-first consumers.

Across our document workflow business, we continue to invest in DocSend, and we've improved document upload flows, processing speeds, and simplifying sharing and permissions. These improvements are resonating with customers, as DocSend continues to grow at a double-digit pace year-over-year. As mentioned previously, we remain focused on operating both Sign and FormSwift for maximum profitability, and both of these business lines continue to perform well against this objective.

In closing, we're pleased with the progress we made on our two key objectives in the first half of this year. Our Dash offering continues to improve and we're seeing positive early signals within key engagement metrics. While we continue to optimize our outbound sales motion and improve our onboarding flows, we have a strong roadmap in place to unlock product-led adoption of Dash that will accelerate the adoption among our customers.

I'll now turn the call over to Tim to share a recap of our second quarter financial performance as well as our updated full year outlook.

TIM REGAN, CHIEF FINANCIAL OFFICER

Thank you, Drew.

I'll cover our financial highlights from Q2, and then provide guidance for the third quarter and the full-year 2025.

We executed well in the quarter, with results coming in ahead of guidance and operating margin meaningfully exceeding our expectations. This performance reflects our continued commitment to driving efficiency within our Core file sync and share and document workflow businesses, as well as the stability of our Core business which gives us the opportunity to invest in future growth opportunities.

With that context in mind, let's turn to our Q2 financial performance.

Starting with revenue, where we're managing through expected year-over-year revenue headwinds related to our strategic decisions to scale back our FormSwift business and to reduce the number of outbound sellers supporting our Core FSS business. In Q2, total revenue declined 1.4% year-over-year to \$626 million. Constant currency revenue declined 1.3% year-over-year to \$626 million. Excluding the impact of FormSwift, which acted as a 140 basis point headwind to revenue, our year-over-year revenue growth would have been flat.

Total ARR was \$2.542 billion, down 1.2% year-over-year, and 1.1% on a constant currency basis. FormSwift acted as a 160 basis point headwind to ARR in the quarter.

We exited the quarter with 18.13 million paying users, a sequential decline of approximately 34,000 paying users. The quarter's decline in paying users was primarily driven by our reduced level of investment in FormSwift. Excluding the impact of FormSwift, paying users would have grown nominally in the quarter.

The outperformance relative to our prior paying user expectations was primarily driven by our Individual SKUs, aided by retention gains stemming from improvements to our cancellation flows. Our Simple plan also contributed modestly.

Average revenue per paying user was \$138.32 as compared to \$139.26 in the prior quarter. ARPU declined sequentially primarily due to the impact of FormSwift as well as the continued rollout of our Simple plan.

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 our 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 82.2% for the quarter, down 230 basis points from the year ago period, as we continue to support our data center refresh cycle.

Operating margin was 41.5%, ahead of our guidance of 37.5%, and up roughly 560 basis points from the year ago period. Operating margin increased year-over-year largely due to our headcount reduction from our RIF last fall and lower marketing spend following the strategic shift away from FormSwift. Compared to our guidance, operating margin benefited primarily from a disciplined approach to hiring, as well as targeted reductions in performance marketing within our Core business as we continue to find ways to drive efficiencies within our business.

Net income for the second quarter was \$198 million, up 2% year over year. Diluted EPS for the second quarter was \$0.71 based on 277 million diluted weighted average shares outstanding, compared to \$0.60 in the year ago quarter, representing an 18% year-over-year increase.

Moving on to our cash flow and balance sheet. Cash flow from operations was \$261 million, an increase of 13% versus the year ago period. Q2 also included \$18 million of interest payments, net of the associated tax benefit, related to amounts drawn under our term loan facility.

Capital Expenditures were \$2 million in the quarter, resulting in unlevered free cash flow of \$276 million, or \$1.00 per share. In the quarter, we also added \$25 million to our finance leases for data center equipment as we continue to invest in refreshing our data centers.

We ended the quarter with cash and short term investments of \$955 million. In the second quarter, we repurchased approximately 14 million shares, spending approximately \$400 million. As of the end of the second quarter, we had approximately \$470 million remaining under our existing share repurchase authorization.

Guidance

I'll now offer our updated outlook for Q3 and the full year 2025.

For the third quarter of 2025, we expect:

Revenue to be in the range of \$622 to \$625 million. We are expecting a currency tailwind of approximately \$3 million. On a constant currency revenue basis, we expect revenue to be in the range of \$619 to \$622 million. We expect FormSwift to serve as a roughly 170 basis point headwind to revenue in the third quarter.

We expect our non-GAAP operating margin to be approximately 37%.

Finally, we expect diluted weighted average shares outstanding to be in the range of 269 to 274 million shares, based on our 30-day trailing average share price.

For the full year 2025:

We are raising the midpoint of our as reported revenue guidance range by \$12.5 million, now expecting a range of \$2.490 billion to \$2.500 billion. We are also raising the midpoint of our constant currency revenue guidance by \$2.5 million, now expecting a range of \$2.488 billion to \$2.498 billion. We continue to expect FormSwift to serve as a roughly 150 basis point headwind to revenue this year.

Our gross margin outlook is unchanged at approximately 82%.

We are raising our outlook for non-GAAP operating margin by 50 basis points from the high end of our previously provided range, where we now expect full year operating margin to be approximately 39%.

We are raising unlevered Free Cash Flow to be at or above \$970 million. We also now expect cash interest expense, net of tax benefits, of approximately \$85 million, down from \$90 million.

We are also maintaining our CapEx guidance to be in the range of \$25 to \$30 million for the full year and additions to finance lease lines to be approximately 6% of revenue.

Finally, we continue to expect diluted weighted average shares outstanding to be in the range of 276 to 281 million shares.

Guidance Supplemental Information – FY'2025

I'll now share some additional perspective on this guidance for 2025.

With respect to revenue, we are raising our guidance range as we flow through the benefit of recent FX tailwinds and as we are seeing some positive momentum across our Core business, particularly across our retention efforts.

Turning to paying users, we continue to anticipate a decline of approximately 1.5%, or about 300,000 users for the full year, with the remaining decline to be fairly balanced between Q3 and Q4. We continue to expect that FormSwift will represent roughly half of the paying user decline this year, where these plans also carry a higher average selling price and thus this decline will also introduce some pressure to our ARPU trends. The remainder largely represents expected near-term downsell across our managed sales motion.

Moving on to operating margins, we are raising our full-year guidance by 50 basis points above the high end of our previously provided range, which largely reflects our outperformance thus far this year as we remain disciplined with our hiring and continue to find ways to optimize our marketing spend. We do, however, expect to invest further behind Dash as well as hire open roles in the second half of the year.

We are also maintaining our full-year CapEx and finance lease guidance. We expect cash CapEx to ramp in the back-half of the year to support certain facility restoration costs and data center build-outs.

Regarding free cash flow, we are raising our unlevered free cash flow guidance, roughly in-line with the increase to operating margins, largely reflecting our latest outlook on FX and

the aforementioned cost savings. Our updated outlook also includes a modest expected benefit in the second half from lower cash taxes related to the One Big Beautiful Bill.

Turning to WASO, our latest WASO guidance assumes we exhaust our existing share repurchase program by the end of the year.

In conclusion, we are executing well against our plans for the year. We are generating higher levels of efficiency across our Core FSS as well as our document workflow businesses, and we are seeing stability across our Core business despite reductions in headcount and marketing spend. We've also reduced our share count substantially, thus putting ourselves in a position to drive a meaningful increase in free cash flow per share this year. And we are making progress on both our product and go-to-market efforts for Dash. We look forward to sharing further updates on our progress in future quarters.

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