

Dropbox Q3 2026 Prepared Remarks

SARAH SCHUBACH, INVESTOR RELATIONS

Good afternoon, and welcome to Dropbox's third 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 fourth quarter and fiscal year 2026, as well as our expectations regarding fiscal year 2027, our business, assets, strategies, the macroeconomic environment, and the planned acquisition of Tigris Data, which remains subject to the satisfaction or waiver of certain customary closing conditions. 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-CEO, Ashraf Alkarmi.

ASHRAF ALKARMI, CO-CHIEF EXECUTIVE OFFICER

Thanks Sarah, and good afternoon, everyone.

I'm proud of what this team delivered in Q3. Five months into this role, I'm more convinced than ever that Dropbox is on the right path, and this quarter showed why.

Q3 was another beat-and-raise quarter. We delivered revenue of $637 million and operating margin of over 42%, both ahead of our guidance, as well as our fifth straight quarter of year-over-year revenue growth excluding FormSwift. We added approximately 20,000 net new

paying users, our fourth consecutive quarter of paying user growth. In our upmarket managed sales motion, North America had its strongest quarter in two years.

Today, we also took two major steps forward. We rolled out AI-powered Dropbox, which now takes action directly on the content customers already keep with us. And we announced DBX Agent Cloud, our new infrastructure business for companies and developers building AI applications, together with our planned acquisition of Tigris, an already proven player in object storage. Both move us toward our vision: Dropbox as the trusted, independent content foundation for the AI era.

Last quarter, I laid out a three-pillar strategy to get there. First, restore durable growth in our core business through foundational improvements, including bringing AI and context directly into Dropbox. Second, use that stronger foundation to build intelligent workflows that automate critical work for our customers. And third, put the platform we've built to work across the broader AI ecosystem. This quarter, we made progress on all three. Let me walk through each.

First, Dropbox now brings AI directly to the content customers already keep with us, and we've continued to expand the rollout. This changes what Dropbox is for our customers: it's no longer just where their work is stored, but where their work gets done. And it does that with the controls that make customers comfortable handing AI a shared folder: Dropbox works within existing permissions, shows its plan before anything changes, and customers can roll back anything with one click. With a new desktop experience, we're also bringing these capabilities to the many customers who work primarily in their Dropbox folders.

Here's one example: A customer had a catch-all folder of more than 1,200 images with file names that made no sense, and it had simply never gotten organized. Dropbox sorted them into folders in about 10 minutes. And that's just one use case. Customers are using Dropbox to find old files and images just by describing them, pull a project's drawings and documents together into a single PDF, transcribe recordings, and create and refine video clips, all from the content they already keep with us.

That's what we mean by one secure home for content and context. Dropbox does the work, but the customer always stays in control.

Early signals are encouraging: almost 90% of users who've received the experience preferred it, and of the teams that have received the new experience, over 20% have started using the AI credits included in their plan.

As an independent, neutral platform, Dropbox also lets customers choose how they bring AI into their work. They can switch models within Dropbox, or work on their Dropbox content in ChatGPT, Claude, Gemini, Muse and other tools. Last quarter, 150,000 users had connected Dropbox to ChatGPT and Claude. Today, more than 1.4 million have connected Dropbox to our AI integrations. And that work comes back to Dropbox: since September, weekly uploads from these AI tools into Dropbox have grown from over 600,000 to more than 2 million. More agents, better Dropbox.

Second, we're building intelligent workflows that automate critical work for our customers. Dropbox Replay is a prime example. It's a video review and approval solution for creative teams, which we rebuilt from the ground up this year as an AI-native application. Teams can review, approve and deliver work to clients in one place, built on the content they already keep in Dropbox. Next week, we'll begin putting the new Replay in the hands of select customers.

Third, DBX Agent Cloud, which opens an entirely new growth opportunity for Dropbox.

Every company's need for storage keeps growing, and AI applications and agents are accelerating that demand. The datasets, model artifacts, images and video they depend on need a reliable, portable home that works across clouds, models and compute environments, and agents need persistent access to their files across tasks and sessions. Keeping content reliable, protected and accessible at scale is what Dropbox has done for nearly two decades.

DBX Agent Cloud brings that expertise to companies and developers, starting with standalone, S3-compatible object storage they can buy independently and use with the tools they already know.

Our planned acquisition of Tigris gets us there faster. Tigris has thousands of customers who depend on it to keep their applications running, and a developer business that would take us substantially longer to build ourselves.

We see four clear ways to make the business stronger. First, capability: When the acquisition is complete, Tigris will bring features built for AI workloads, and we can add Dropbox's strengths in organizing and governing content. Second, reach: Tigris' rapid growth has come from developers, and we expect our enterprise sales motion and relationships with larger customers will open up use cases it can't easily reach on its own today, like backup, disaster recovery and media archives. Third, scale: demand for Tigris' storage is growing quickly, and we plan to bring efficient, exabyte-scale infrastructure to support it. And fourth, team: The combination would bring together a proven leadership team with a deep developer focus and experience building for AI workloads.

Together, we can support larger workloads while keeping Tigris' focus on reliability and developer experience. We expect the acquisition to close in Q4 2026.

And object storage is the entry point, not the destination. Agents need what people need: a place to keep their work, the right permissions, history, and a way to recover when something goes wrong. We plan to add filesystem and content-processing capabilities next, giving applications and agents a persistent place to manage files and continue their work across sessions. Over time, we see DBX Agent Cloud becoming a portable content and data foundation for AI applications and agents, across models and compute environments.

Executing this strategy requires focus. This year, we brought our Dash and Dropbox teams together, rebalanced our go-to-market organization, and stepped back from work outside our priorities. And most recently, as we tightened our focus and shifted resources to align with our new strategy, we made the difficult decision to reduce our workforce by

approximately 9%. I want to thank the colleagues who are leaving for everything they've contributed. Together, these changes put our resources behind the three pillars where we have the strongest right to win, and let us invest in our strategy while expanding margins.

Everything we're doing points in one direction: Dropbox is becoming the trusted, independent content foundation for the AI era. For people and teams, that's AI-powered Dropbox; for companies and developers, it's DBX Agent Cloud. In both, customers keep control of their content, and it stays portable across the AI models, tools and compute they choose as AI evolves.

We're still early, and the measure of this strategy is whether it shows up in growth. That's the standard I'm holding us to. But Q3 gives me confidence: another beat-and-raise quarter, AI-powered Dropbox in customers' hands, and an entirely new avenue of growth with DBX Agent Cloud and Tigris. I'm excited about what's ahead.

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

ROSS TENNENBAUM, CHIEF FINANCIAL OFFICER

Thank you, Ashraf.

Ashraf laid out our vision for Dropbox to be the trusted, independent content foundation for the AI era. We're building on our durable storage foundation with AI-powered capabilities that bring intelligence to the content our customers already keep with us, creating a smarter Dropbox experience. And DBX Agent Cloud, accelerated by our planned acquisition of Tigris Data, builds on our storage heritage to provide object storage and the content infrastructure, governance, and developer capabilities companies need to build AI applications.

Q3 was another beat-and-raise quarter. We delivered our fifth straight quarter of revenue growth excluding FormSwift, another quarter of net new paying user growth, and operating

margin nearly four points ahead of our guidance. And we're again raising our full-year outlook.

And our three pillar growth strategy is taking shape. With the new Dropbox experience and Dropbox Agent Cloud, supported by our planned acquisition of Tigris, we're opening an entirely new avenue of growth in object storage, built on top of a profitable, cash-generative Core business.

We're also building a more efficient Dropbox to support it. This year, we consolidated our Dash and core FSS teams as we brought Dash intelligence into Dropbox; we rebalanced our go-to-market organization in Q3; and we've now announced a workforce reduction to further de-duplicate resource investments and concentrate more intensely on our three pillar strategy. Together, these actions allow us to invest behind our strategy while expanding operating margin, and I'll quantify that impact when I discuss 2027.

These initiatives are exciting, but they're early, and we'll scale our investment in step with the results they deliver. That same discipline shapes how we are approaching our acquisition of Tigris.

Tigris is small but growing rapidly: they are already a proven player in object storage, have an established AI developer flywheel, have landed thousands of customers including large AI-native platforms, and have an experienced team already operating in this market. This acquisition enables us to accelerate our pillar 3 infrastructure strategy and capitalize on this emerging opportunity now.

With that, let me turn to our Q3 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 gains on equity investments. Our non-GAAP net income also includes the income tax effect of the aforementioned adjustments.

Revenue: In Q3, revenue increased 0.5% year-over-year to $637.3 million. Excluding FormSwift, revenue grew 1.0% year-over-year, ahead of the roughly flat growth implied by our guidance. On a constant currency basis, revenue excluding FormSwift increased 0.2%. The outperformance was driven primarily by self-serve Teams, where simplified pricing and packaging drove stronger upsells.

ARR: Total ARR was $2.555 billion, up 0.8% year-over-year, and no longer includes any FormSwift ARR following its sunset at the end of the quarter. As a result, ARR declined $10 million sequentially. Excluding FormSwift, ARR grew 1.9% year-over-year, or 0.4% on a constant currency basis. Excluding FormSwift, ARR grew $5 million sequentially, led by self-serve Teams.

Paying users and ARPU: We exited the quarter with 18.20 million paying users, a sequential increase of approximately 20,000. Excluding FormSwift, we added approximately 60,000 paying users, led by our Simple plan and self-serve Teams. Average revenue per paying user was $138.76, compared to $139.07 in the year-ago quarter, as growth in our lower-priced Simple plan was largely offset by FX tailwinds and a mix shift to monthly plans.

Gross margin was 81.8%, up roughly 40 basis points year-over-year. Infrastructure efficiencies and the move of more of our storage onto our own data centers more than offset the added AI compute costs of rolling out the new Dropbox experience.

Operating margin was 42.2%, ahead of our guidance of approximately 38.5%, driven by higher revenue, lower headcount costs following our go-to-market changes, and the timing of marketing spend, which will shift to Q4 alongside the new Dropbox experience launch.

Net income was $197.8 million, compared to $196.7 million in the year-ago quarter. Diluted EPS was $0.88, compared to $0.74 in the year-ago quarter, based on 225.1 million

diluted weighted average shares outstanding, compared to 265.1 million in the year-ago period.

Cash flow from operations was $259.2 million, compared to $302.1 million in the year-ago period, primarily reflecting higher interest payments related to our term loan facility. Capital expenditures were $7.4 million. Unlevered free cash flow was $303.9 million, and unlevered free cash flow per share was $1.35, up 14% year-over-year.

Balance sheet: We ended the quarter with cash and short-term investments of $1.142 billion, and our $400 million revolving credit facility remained undrawn. In Q3, we repurchased approximately 4.7 million shares for approximately $150 million, and we had approximately $1.235 billion remaining under our authorization.

Guidance

I'll now offer our outlook for Q4 and the full year 2026.

Please note our outlook **excludes the announced acquisition of Tigris** because we have not yet closed the transaction.

For the fourth quarter of 2026, we expect:

- Total revenue to be in the range of $630 to $633 million.
- As a reminder, we fully discontinued FormSwift at the end of Q3, so it contributes no revenue in Q4, compared to approximately $3 million in Q3. Excluding FormSwift, our Q4 guidance implies 0.2% year-over-year growth at the midpoint.
- We are expecting a currency tailwind of approximately $3 million as we have continued to see FX tailwinds moderate. On a constant currency basis, we expect total revenue to be in the range of $627 to $630 million.
- We expect our non-GAAP operating margin to be approximately 40%.

    - This includes a partial quarter's benefit from the reduction in force action announced last week and excludes approximately $22.5 million of expenses related to our workforce reduction.
    - As additional context to our expectations for Q4: When we provided our Q3 guidance, we expected operating margin to step up sequentially from Q3 to Q4. However, as I mentioned, we saw delayed spend in Q3, particularly marketing spend, which we now plan to spend in Q4 as we continue to expand the rollout of our new Dropbox experience. And, Q4 reflects only a partial quarter of savings from our workforce reduction. As a result, we expect Q4 operating margin to be slightly lower than Q3.
- And we expect diluted weighted average shares outstanding to be in the range of 224 to 229 million shares.

For the full year 2026:

- We are raising the midpoint of our as reported revenue guidance range by $12M, now expecting a range of $2.528 to $2.531 billion.
- Excluding FormSwift, this implies 120 basis points of year-over-year growth at the midpoint.
- We are expecting a currency tailwind of approximately $28 million.
- On a constant currency basis, we are raising the midpoint by $15M, now expecting a range of $2.500 to $2.503 billion.
- We expect gross margin to be approximately 81.5%.
- We are raising our non-GAAP operating margin guidance to 40.5%, up 25 basis points from the mid-point of our prior guidance. Our prior guidance already assumed savings from our workforce reduction, so this increase reflects our Q3 outperformance.

- We are also raising our unlevered free cash flow guidance, which we now expect to be at or above $1.075 billion, an increase of $5 million.
    - This accounts for our severance expectations, where we ultimately expect to pay approximately $30M in severance and benefits as related to our workforce reduction, with roughly $20M expected to be paid in 2026 and the remainder to be paid in 2027.
- 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 228 to 233 million shares, which reflects our 30 day trailing average stock price.

Guidance Supplemental Information

Now I'll provide additional context as it relates to guidance:

Paying users and ARPU: We continue to expect positive net new paying user growth for 2026.

Gross margin: Regarding gross margin, our Q4 outlook reflects rolling out the new Dropbox experience to all eligible self-serve teams by year-end, which increases AI compute costs, partially offset by the infrastructure efficiencies we have been delivering. We expect some quarter-to-quarter variability as rollout and adoption progress.

Early Thoughts on 2027

Finally, some early thoughts on 2027. We'll provide formal guidance, including for Tigris, in February.

- **Revenue:** Excluding the acquisition of Tigris, we expect 2027 revenue to be roughly flat. First, we have now fully discontinued the sale of Formswift, which contributed $13M to revenue in 2026, and will thus have no contribution in 2027. Second, the new Dropbox experience and workflow products are early in their rollout, and we believe monetization will build gradually. Finally, we have continued to see FX tailwinds moderate, and expect this to continue. We will also be more prepared to guide to contribution from our new initiatives when we have more evidence in February.
- **Operating margin:** We expect at least 150 basis points of operating margin expansion in 2027, reflecting the full-year benefit of the efficiency measures I described: consolidating our Dash and core FSS teams; rebalancing our go-to-market organization; and our recently announced workforce reduction. That expansion is net of reinvesting a portion of those savings behind our three pillar growth strategy. [As a reminder, Tigris has not yet closed and isn't included in these expectations. If it does close, we may reinvest some of these savings to support it, and we'll reflect that in our guidance in February.]
- **Stock based compensation**: Our workforce reduction will also lower stock-based compensation, and beyond that, we continue to look for ways to use our equity more efficiently and bring stock-based compensation down as a percentage of revenue.
- **Unlevered free cash flow:** We expect unlevered free cash flow to expand in line with operating margin, driven by the same efficiency measures.
- **Tigris**: Turning to Tigris: the transaction hasn’t closed yet, and we’ll provide a more fulsome update when we report in February. Tigris is a small but fast-growing business that is not material to our total revenue in the TTM period. They already serve thousands of customers, including several large companies and AI-native platform players. Tigris runs at a modest burn, and given how quickly this market is moving, we see it as a time-sensitive opportunity to accelerate our time to market as

we extend our infrastructure to sell object storage and power AI workloads. As it relates to their capacity needs, we expect our recent and ongoing infrastructure efficiency initiatives will unlock sufficient storage capacity to absorb Tigris's existing customer footprint and support its expected growth in 2027.

To bring it together: Q3 was another beat-and-raise quarter. With the new AI powered Dropbox experience, DBX Agent Cloud, and the acquisition of Tigris, we've opened an entirely new avenue of growth as the trusted, independent content foundation for the AI era. And we've rebalanced our resources to invest behind that strategy while expanding margins and cash flow. We still need to demonstrate sustained growth, and that's the standard we're holding ourselves to, but we believe we are well positioned to pursue the opportunity ahead.

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