



Dropbox Q1 2026 Prepared Remarks

SARAH SCHUBACH, INVESTOR RELATIONS

Good afternoon, and welcome to Dropbox's first 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 second 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-K 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 CEO and co-founder, Drew Houston.

DREW HOUSTON, CHIEF EXECUTIVE OFFICER

Thanks Sarah, and good afternoon everyone. Welcome to our Q1 2026 earnings call. Joining me today is Ross Tennenbaum, our Chief Financial Officer.

I'll start with our business and product highlights from the quarter, and then Ross will review our Q1 financial results and our outlook. Let's get started.

We delivered a strong start to the year, exceeding the high end of our guidance across revenue and operating margin, with year over year revenue growth of 2% excluding Formswift and unlevered free cash flow margin of 38%.

On our Q4 call, I said that our goal in the Core business is not just to maintain it, but to bend the curve back toward sustainable growth. I continue to be very impressed by Ashraf Alkarmi, who we hired in 2024 to lead our entire Core business. Ashraf is an outstanding

leader who has built a strong and talented bench; and together they have been rapidly improving the Core business to drive sustainable growth.

Last quarter, we saw steady growth across our Individuals business as a result of the Core team's consistent execution and their focused strategy, alongside funnel and product quality improvements to stabilize the Teams business, with the ultimate goal of positive net license growth. Now, we're encouraged by our Q1 performance as we continued to build on that momentum.

With that, I'll turn to the key drivers within the Core business.

Within Individuals, retention remains an important near-term revenue lever, and in Q1 we continued to focus on targeted retention interventions, including improvements to prompts for mobile users, loss-aversion messaging, and targeted price promotions for recently canceled customers. Given the growth of mobile as a purchasing channel, we were encouraged to see that these efforts drove our mobile churn rate down mid single digit percentage points. We also made progress monetizing basic users through targeted promotions for additional storage, driving a 50% improvement in conversion among those targeted users nearing or exceeding their storage limits.

For Teams, one of the clearest signals we're seeing is that practical funnel improvements can drive meaningful results. In Q1, that included continued progress on pricing and packaging simplification, a more unified checkout experience, credit card trials, and onboarding and activation improvements.

We also continued to make foundational improvements to the Core FSS experience. We strengthened the reliability, performance, and scalability of sync and uploads, made the experience simpler and more intuitive across desktop, web, and mobile, and are testing new media collaboration tools with streamlined review workflows, leveraging our AI-powered tools.

Taken together, these results reinforce our view that there are still meaningful levers inside the Core business to steadily improve its longterm trajectory, and that the changes we're making are starting to show up more clearly in our results.

Now on to Dash:

Dash in Dropbox represents our evolution from file storage to AI-powered content management. We're bringing together customers' content from across Dropbox and other major cloud apps into a single, content-forward experience, making it easier to find, organize, and share work wherever it lives.

With semantic search, AI-powered organization, and Stacks for curation and sharing, Dash extends Dropbox from a file system into a system for all your cloud content. This direction offers a more seamless product experience and upgrade path with Dash for our existing base, rather than a separate surface for customers to adjust to or learn about.

In Q1, we expanded the rollout of Dash in Dropbox, and plan to significantly expand access to our base throughout the remainder of 2026. While adoption is still early, we're encouraged by repeat engagement with Dash's AI features, with more than 30% of weekly engaged users using those features again the following week and more than 50% of monthly engaged users using them again the following month, and we are seeing stable retention patterns even as we expand beyond our initial target customers and we onboard new cohorts.

Dash inside Dropbox will increasingly be our primary vehicle for scaling AI across Dropbox. As we've shared previously, we've also been evolving our standalone experience for customers who don't use Dropbox today. That work has helped us refine onboarding, activation, and new features, unlocking future greenfield growth opportunities.

Dash is differentiated by its ability to bring together deep business context across work content and cloud apps, paired with core AI capabilities like search and chat. To support this, we've built what we call our context engine, which is proprietary AI infrastructure that

gathers context across content and apps and connects it to leading AI models, to enable faster, more accurate, and more useful results.

As we've expanded access, we're seeing the strongest momentum when these capabilities are integrated directly into the core Dropbox experience. As a result, we're prioritizing bringing Dash learnings and AI features into existing Dropbox surfaces. This approach improves the customer experience while also increasing focus and efficiency across our teams.

We're also increasingly excited by the signal we're seeing in our emerging data security solution, which we call Dropbox Protect. As AI adoption grows, so does concern around governance, visibility, and control, and we're seeing that demand resonate clearly with IT and security buyers.

That is why Protect fits naturally into the broader platform story. The same indexing and context engine we are building to improve search and knowledge work can also improve security posture and governance. In other words, our platform investment supports both productivity and protection. Over time, that has the potential to expand our addressable market and strengthen the return on the broader platform work we're already doing as we seek to position Dropbox as the leading provider that can help customers find, organize, share, and protect their content in one place.

To wrap up, Q1 was an encouraging step in our effort to bend the curve in Core. The changes we've made are beginning to translate to our financial results, and in Dash and Protect we're continuing to see healthy customer signal and learnings to reinforce our conviction in the opportunity ahead.

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

ROSS TENNENBAUM, CHIEF FINANCIAL OFFICER

Thank you, Drew.

Q1 was a strong quarter with important proof points for the thesis I laid out on my first earnings call.

Last quarter, I told you that what ultimately drew me to Dropbox was the strength of the foundation and my belief in our growth opportunities. While our north star is to grow free cash flow per share, restoring revenue growth remains our top priority in the near term. I pointed to the caliber of our new core leadership team led by Ashraf Alkarmi, and the untapped potential I saw across Core, Dash, and our broader capital allocation strategy.

This quarter, we saw tangible evidence that those opportunities are real.

Excluding FormSwift, revenue grew 200 basis points year over year. We also expanded our paying user base, maintained bottom-line discipline, and improved cash flow generation.

Now turning to the Core business:

As we have been discussing, our work in Core is centered on driving sustainable growth. Those efforts include a range of initiatives to improve customer lifecycle metrics, while also evolving the product to deliver more value to both new and existing customers.

We saw additional proof points of that work in Q1. As Drew noted, we saw encouraging strength in both retention and conversion across the business. In Individuals, targeted retention interventions and monetization efforts delivered improvement, while in Teams, pricing and packaging, checkout, and onboarding changes continued to improve funnel performance. Excluding FormSwift, Core trends improved year-over-year, and paying users increased sequentially. Taken together, these results further increased our confidence that we are stabilizing Core and moving it toward a position of sustainable growth.

We also expanded the cohort of customers using Dash in Dropbox and continue to see encouraging engagement from those users, even though overall exposure remains limited today. We are continuing to bring Dash and Core Dropbox features together into a more AI-forward product experience that we believe will create meaningful additional value for customers over time. We remain focused on a phased rollout of Dash in Dropbox across our Teams customer base throughout 2026.

To recap, the foundation I described last quarter is proving durable, and the growth opportunities I identified, while still early, are beginning to materialize. That's exactly the trajectory I came here to help build.

With that context, let me turn to our financial results.

Q1'26 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 equity investments. Our non-GAAP net income also includes the income tax effect of the aforementioned adjustments.

In Q1, revenue increased 80 basis points year-over-year to \$629 million, but increased 200 basis points year-over-year when excluding Formswift, which acted as a 120 basis point headwind to revenue growth. Constant currency revenue declined 80 basis points year-over-year to \$620 million, but was up 40bps year-over-year excluding the headwind from Formswift. Relative to our guidance, revenue outperformance was driven primarily by retention improvements across our self-serve SKUs.

Total ARR was \$2.560 billion, up 30 basis points year-over-year. Excluding the impact of Formswift, which was a 100 basis point headwind, ARR was up 130 bps year-over-year. Total ARR excluding Formswift was roughly flat on a constant currency basis.

We exited the quarter with 18.09 million paying users, a sequential increase of approximately 14,000 paying users. Versus our prior quarter commentary to expect a Q1 decline in paying users, we exceeded our expectations, primarily due to retention strength throughout the quarter as well as Individuals gross adds outperformance.

Average revenue per paying user was \$141.18 as compared to \$139.68 in the prior quarter. ARPU increased sequentially primarily due to seasonal promotions on our individuals plan

in Q4, which slightly depressed ARPU last quarter, as well as a larger mix of monthly plans, and FX rate tailwinds.

Gross margin was 81.1% for the quarter, down 180 basis points from the year ago period, reflecting increased infrastructure costs associated with the expansion of Dash in Dropbox, as well as higher depreciation as a result of our hardware refresh cycle.

Operating margin was 40.1%, ahead of our guidance of 38%, and down roughly 160 basis points from the year ago period. Operating margin decreased year-over-year largely due to the gross margin dynamics I just described, as well as continued investment in R&D to support both Core and Dash initiatives. Compared to our guidance, operating margin benefited primarily from timing-related savings that we expect to be pushed to subsequent quarters, as well as higher revenue and lower services spend.

Net income for the first quarter was \$180 million. Diluted EPS for the first quarter was \$0.76 based on 237 million diluted weighted average shares outstanding, compared to \$0.70 in the year ago quarter.

Cash flow from operations was \$205 million, an increase of 33% versus the year ago period. Unlevered free cash flow was \$236 million, or \$1.00 per share, up 69% year-over-year. This quarter also included \$33M of interest payments, net of the associated tax benefit, related to amounts drawn under our term loan facility as well as \$1 million in capital expenditures.

The year-over-year increase in cash flow primarily reflects stronger operating performance and the absence of certain one-time cash outflows, including a \$36M payment for the buyout of our San Francisco lease and \$10M in payments related to our Q4'2024 reduction in force.

In the quarter, we added \$12 million to our finance leases for data center equipment.

Turning to the balance sheet, we ended the quarter with cash and short term investments of \$1.29 billion. In the first quarter, we repurchased approximately 14.3 million shares, spending approximately \$367 million. As of the end of the first quarter, we had

approximately \$800 million remaining under our existing share repurchase authorization. In Q1 we also drew down \$700M in the quarter to repay our March 2026 convertible notes.

Guidance

I'll now offer our outlook for Q2 and our updated outlook for the full year 2026.

For the second quarter of 2026, we expect:

- Total revenue to be in the range of \$624 to \$627 million.
 - Excluding Formswift, this implies 80 basis points of year-over-year growth at the mid-point.
 - We are expecting a currency tailwind of approximately \$9 million. On a constant currency revenue basis, we expect total revenue to be in the range of \$615 to \$618 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 226 to 231 million shares, based on our 30-day trailing average share price.

For the full year 2026

- We are raising our total revenue guidance by \$12 million, from a prior range of \$2.485 billion to \$2.50 billion to a revised range of \$2.497 billion to \$2.512 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 \$2.470 billion to \$2.485 billion.

- We continue to expect gross margin to be in the range of 81.5% to 82.0%.
- We are raising our Non-GAAP operating margin by 50bps, from 39.0% to 39.5%, to be in the new range of 39.5% to 40.0%.
- We are also raising our unlevered Free Cash Flow guidance, which we now expect to be at or above \$1.055 billion.
- 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 222 to 227 million shares.

Guidance Supplemental Information - 2026

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

Revenue:

With respect to revenue, we are raising our full-year revenue guidance to reflect the progress we saw in Q1. While still early, targeted retention work in Individuals, along with funnel, onboarding, and pricing and packaging improvements in Teams, are beginning to translate into results, which gives us greater confidence in our ability to continue building on that momentum over the balance of the year.

NNPU/ARPU:

Last quarter, we said we expected modestly negative paying user growth in Q1, followed by roughly flat paying user trends for the remainder of the year. We were pleased to see better than expected performance in Q1, with paying users increasing sequentially in the quarter, driven by continued progress across the initiatives I mentioned previously. As a result, we now expect paying user trends for the full year to be modestly better than our prior year, and to be slightly positive overall.

For ARPU, we expect modest sequential declines throughout the rest of the year, driven by the wind-down of Formswift, lower FX tailwinds, and the growth of our Simple plan, which carries a lower price.

Gross Margin:

Our gross margin outlook continues to assume modest pressure this year as we scale Dash in Dropbox and expand across more of our Teams base, partially offset by ongoing infrastructure efficiencies. While we remain confident in the long-term margin profile of these investments, the near-term cost impact will depend in part on the pace of rollout, customer adoption, and the timing of optimization work. As a result, we expect some quarter-to-quarter variability in gross margin as we work through those dynamics.

Operating & uFCF Margin:

We're increasing our operating margin and unlevered free cash flow guidance relative to our prior guidance as a result of Q1 performance, and expected performance in the remainder of the year. Notably, as we prioritize the Dash in Dropbox experience, we expect that bringing Dash and Dropbox closer together will create additional efficiencies as we progress through the year.

WASO:

Lastly, we expect our weighted average shares outstanding to decrease to approximately 222 million to 227 million shares, which continues to assume we exhaust the remaining balance on our share repurchase authorization.

Conclusion:

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