

Smartsheet Inc. Announces Third Quarter Fiscal Year 2025 Results

2024-12-05

- Entered into a definitive agreement to be acquired by Blackstone and Vista Equity Partners
- Third quarter total revenue grew 17% year over year to \$286.9 million
- Annualized recurring revenue grew 15% year over year to \$1.133 billion
- Third quarter operating cash flow of \$63.5 million and free cash flow of \$61.8 million
- Ended the quarter with cash, cash equivalents, and short-term investments of \$760.9 million

BELLEVUE, Wash.--(BUSINESS WIRE)-- Smartsheet Inc. (NYSE: SMAR), the AI enhanced enterprise grade work management platform, today announced financial results for its third fiscal quarter ended October 31, 2024.

Third Quarter Fiscal 2025 Financial Highlights

- Revenue: Total revenue was \$286.9 million, an increase of 17% year over year. Subscription revenue was \$273.7 million, an increase of 18% year over year. Professional services revenue was \$13.2 million, a decrease of (2)% year over year.
- Operating loss: GAAP operating loss was \$(3.4) million, or (1)% of total revenue, compared to \$(35.5) million, or (14)% of total revenue, in the third quarter of fiscal 2024.
- Non-GAAP operating income: Non-GAAP operating income was \$56.4 million, or 20% of total revenue, compared to \$19.4 million, or 8% of total revenue, in the third quarter of fiscal 2024.
- Net income (loss): GAAP net income was \$1.3 million, compared to GAAP net loss of \$(32.4) million in the third quarter of fiscal 2024. GAAP basic and diluted net income per share was \$0.01, compared to GAAP basic and diluted net loss per share of \$(0.24) in the third quarter of fiscal 2024.
- Non-GAAP net income: Non-GAAP net income was \$61.0 million, compared to \$22.6 million in the third

quarter of fiscal 2024. Non-GAAP basic and diluted net income per share was \$0.44 and \$0.43, respectively, compared to non-GAAP basic and diluted net income per share of \$0.17 and \$0.16, respectively, in the third quarter of fiscal 2024.

- Cash flow: Net operating cash flow was \$63.5 million, compared to \$15.1 million in the third quarter of fiscal 2024. Free cash flow was \$61.8 million, or 22% of total revenue, compared to \$11.4 million, or 5% of total revenue, in the third quarter of fiscal 2024.

Third Quarter Fiscal 2025 Operational Highlights

- Annualized recurring revenue ("ARR") was \$1.133 billion, an increase of 15% year over year
- Average ARR per domain-based customer was \$10,708, an increase of 16% year over year
- Dollar-based net retention rate was 111%
- Number of all customers with ARR of \$100,000 or more grew to 2,137, an increase of 20% year over year
- Number of all customers with ARR of \$50,000 or more grew to 4,293, an increase of 15% year over year
- Number of all customers with ARR of \$5,000 or more grew to 20,430, an increase of 5% year over year

Third Quarter Fiscal 2025 Business Highlights

- **Announced** that Smartsheet entered into a definitive agreement to be acquired by Blackstone and Vista Equity Partners in an all-cash transaction valued at approximately \$8.4 billion, or \$56.50 per share
- Sold out our **U.S. ENGAGE** customer conference for the second consecutive year, welcoming over 4,000 attendees to Seattle to participate in more than 60 breakout sessions
- **Unveiled** the most comprehensive transformation of our offerings to date, debuting a new user experience and a range of first-of-a-kind features to empower organizations to operate at their peak
- **Introduced** a Smartsheet connector for Amazon Q Business, which will give Amazon Q Business customers the power to ask an intelligent assistant for information about their work in Smartsheet, eliminating data silos and enhancing visibility

The section titled "Use of Non-GAAP Financial Measures" below contains a description of the non-GAAP financial measures with a reconciliation between GAAP and non-GAAP information. The section titled "Definitions of Key Business Metrics" contains definitions of certain non-financial metrics provided within this press release.

Transaction with Blackstone and Vista Equity Partners

In a separate press release issued on September 24, 2024, we announced that we have entered into a definitive agreement ("Merger Agreement"), to be acquired by Blackstone and Vista Equity Partners. A copy of the press release and supplemental materials can be found on the "Investors" page of our website at www.investors.smartsheet.com and on the Securities and Exchange Commission, or the SEC, website at

www.sec.gov. Additional details and information about the terms and conditions of the Merger Agreement and the transactions contemplated by the Merger Agreement are available in the Current Report on Form 8-K filed with the SEC on September 24, 2024.

Given the announced transaction, we will not be hosting an earnings conference call nor providing financial guidance in conjunction with this press release. For further detail and discussion of our financial performance, please refer to our third quarter 2025 Form 10-Q for the quarter ended October 31, 2024, filed today with the SEC.

Use of Non-GAAP Financial Measures

To supplement our condensed consolidated financial statements, which are prepared and presented in accordance with GAAP, we use certain non-GAAP financial measures, as described below, to understand and evaluate our core operating performance. These non-GAAP financial measures, which may be different than similarly titled measures used by other companies, are presented to enhance investors' overall understanding of our financial performance and should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. Investors are encouraged to review the reconciliation of these non-GAAP measures to their most directly comparable GAAP financial measures. A reconciliation of the non-GAAP financial measures to such GAAP measures can be found in the accompanying financial statements included with this press release.

We believe that these non-GAAP financial measures provide useful information about our financial performance, enhance the overall understanding of our past performance and future prospects, and allow for greater transparency with respect to important metrics used by our management for financial and operational decision-making. We are presenting these non-GAAP financial metrics to assist investors in seeing our financial performance through the eyes of management, and because we believe that these measures provide an additional tool for investors to use in comparing our core financial performance over multiple periods with other companies in our industry.

We define non-GAAP operating income as GAAP operating loss excluding share-based compensation expense, amortization of acquisition-related intangible assets, one-time costs associated with mergers and acquisitions, lease restructuring costs, and litigation expenses and settlements related to matters that are outside the ordinary course of our business, as applicable. We define non-GAAP net income as GAAP net income (loss) excluding non-recurring income tax adjustments associated with mergers and acquisitions and the same exclusions that are used to derive non-GAAP operating income.

We define basic non-GAAP net income per share as non-GAAP net income divided by weighted-average shares outstanding ("WASO"). We define diluted non-GAAP net income per share as non-GAAP net income divided by diluted WASO. Diluted WASO includes the impact of potentially dilutive securities, which include stock options,

restricted share units, performance share units, and shares subject to our 2018 employee stock purchase plan. There are a number of limitations related to the use of these non-GAAP measures as compared to GAAP operating loss and net income (loss), including that the non-GAAP measures exclude share-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of our compensation strategy.

We use the non-GAAP financial measure of free cash flow, which is defined as GAAP net cash flows from operating activities, reduced by cash used for purchases of property and equipment (inclusive of spend on internal-use software) and principal payments on finance lease obligations. We believe free cash flow is an important liquidity measure of the cash that is available, after capital expenditures and operational expenses, for investment in our business, share repurchases, and potential acquisitions. Free cash flow is useful to investors as a liquidity measure because it measures our ability to generate excess cash beyond what is required for our operations. Once our business needs and obligations are met, cash can be used to maintain a strong balance sheet and invest in future growth. There are a number of limitations related to the use of free cash flow as compared to net cash from operating activities, including that free cash flow includes capital expenditures, the benefits of which are realized in periods subsequent to those when expenditures are made.

Definitions of Key Business Metrics

Annualized recurring revenue

We define annualized recurring revenue, or ARR, as the annualized recurring value of all active subscription contracts at the end of a reporting period. We exclude the value of non-recurring revenue streams, such as our professional services revenue, that are recognized at a point in time. We use ARR as one of our operating measures to assess the strength of the Company's subscription services. ARR is a performance metric and should be viewed independently of revenue and deferred revenue, and is not intended to be a substitute for, or combined with, any of these items. Both multi-year contracts and contracts with terms less than one year are annualized by dividing the total committed contract value by the number of months in the subscription term and then multiplying by 12. Annualizing contracts with terms less than one year results in amounts being included in our ARR calculation that are in excess of the total contract value for those contracts at the end of the reporting period. The value of subscription contracts that are sold through third-party resellers, wherein we do not have visibility into the pricing provided, is based on the list price.

Average ARR per domain-based customer

We use average ARR per domain-based customer to measure customer commitment to our platform and sales force productivity. We define average ARR per domain-based customer as total outstanding ARR for domain-based

subscriptions as of the end of the reporting period divided by the number of domain-based customers as of the same date. We define domain-based customers as organizations with a unique email domain name.

Dollar-based net retention rate

We calculate dollar-based net retention rate as of a period end by starting with the ARR from the cohort of all customers as of the 12 months prior to such period end ("Prior Period ARR"). We then calculate the ARR from these same customers as of the current period end ("Current Period ARR"). Current Period ARR includes any upsells and is net of contraction or attrition over the trailing 12 months, but excludes subscription revenue from new customers in the current period. We then divide the total Current Period ARR by the total Prior Period ARR to arrive at the dollar-based net retention rate. Any ARR obtained through merger and acquisition transactions does not affect the dollar-based net retention rate until one year from the date on which the transaction closed.

The dollar-based net retention rate is used by us to evaluate the long-term value of our customer relationships and is driven by our ability to retain and expand the subscription revenue generated from our existing customers.

About Smartsheet

Smartsheet (NYSE: SMAR) is the modern enterprise work management platform trusted by millions of people at companies across the globe, including over 85% of the 2024 Fortune 500 companies. The category pioneer and market leader, Smartsheet delivers powerful solutions fueling performance and driving the next wave of innovation. Visit www.smartsheet.com to learn more.

Disclosure of Material Information

Smartsheet announces material information to its investors using SEC filings, press releases, public conference calls, and on its investor relations page of the company's website at www.investors.smartsheet.com.

SMARTSHEET INC.
Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

| | Three Months Ended October 31, | | Nine Months Ended October 31, | |
|-----------------------|-----------------------------------|------------|----------------------------------|------------|
| | 2024 | 2023 | 2024 | 2023 |
| Revenue | | | | |
| Subscription | \$ 273,703 | \$ 232,470 | \$ 786,328 | \$ 659,993 |
| Professional services | 13,168 | 13,448 | 39,939 | 41,396 |
| Total revenue | 286,871 | 245,918 | 826,267 | 701,389 |

| | | | | |
|--|----------|-------------|----------|-------------|
| Cost of revenue | | | | |
| Subscription | 41,445 | 34,258 | 115,216 | 101,009 |
| Professional services | 12,291 | 12,780 | 36,693 | 38,948 |
| Total cost of revenue | 53,736 | 47,038 | 151,909 | 139,957 |
| Gross profit | 233,135 | 198,880 | 674,358 | 561,432 |
| Operating expenses | | | | |
| Research and development | 63,477 | 58,257 | 189,514 | 172,805 |
| Sales and marketing | 127,854 | 137,920 | 383,315 | 382,685 |
| General and administrative | 45,155 | 38,153 | 124,489 | 109,654 |
| Total operating expenses | 236,486 | 234,330 | 697,318 | 665,144 |
| Loss from operations | (3,351) | (35,450) | (22,960) | (103,712) |
| Interest income | 8,272 | 6,976 | 24,934 | 18,040 |
| Other income (expense), net | 47 | (790) | (593) | (1,381) |
| Income (loss) before income tax provision | 4,968 | (29,264) | 1,381 | (87,053) |
| Income tax provision | 3,644 | 3,164 | 1,057 | 8,602 |
| Net income (loss) | \$ 1,324 | \$ (32,428) | \$ 324 | \$ (95,655) |
| Net income (loss) per share, basic | \$ 0.01 | \$ (0.24) | \$ 0.00 | \$ (0.71) |
| Net income (loss) per share, diluted | \$ 0.01 | \$ (0.24) | \$ 0.00 | \$ (0.71) |
| Weighted-average shares outstanding used to compute net income (loss) per share, basic | 139,007 | 135,189 | 138,287 | 133,868 |
| Weighted-average shares outstanding used to compute net income (loss) per share, diluted | 142,668 | 135,189 | 141,306 | 133,868 |

Share-based compensation expense included in the condensed consolidated statements of operations was as follows (in thousands, unaudited):

| | Three Months Ended October 31, | | Nine Months Ended October 31, | |
|--|-----------------------------------|-----------|----------------------------------|------------|
| | 2024 | 2023 | 2024 | 2023 |
| Cost of subscription revenue | \$ 2,983 | \$ 3,164 | \$ 9,055 | \$ 9,980 |
| Cost of professional services revenue | 1,485 | 1,777 | 4,734 | 5,602 |
| Research and development | 17,763 | 17,220 | 54,036 | 52,263 |
| Sales and marketing | 14,453 | 17,462 | 45,472 | 55,505 |
| General and administrative | 9,151 | 10,024 | 29,827 | 30,099 |
| Total share-based compensation expense | \$ 45,835 | \$ 49,647 | \$ 143,124 | \$ 153,449 |

SMARTSHEET INC.
Condensed Consolidated Balance Sheets
(in thousands, except share data)
(unaudited)

| | October 31, 2024 | January 31, 2024 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 454,281 | \$ 282,094 |
| Short-term investments | 306,640 | 346,701 |
| Accounts receivable, net of allowances of \$5,335 and \$6,560, respectively | 200,436 | 238,708 |
| Prepaid expenses and other current assets | 69,840 | 64,366 |
| Total current assets | 1,031,197 | 931,869 |
| Restricted cash | 18 | 19 |
| Deferred commissions | 156,724 | 148,867 |
| Property and equipment, net | 39,139 | 42,362 |
| Operating lease right-of-use assets | 29,693 | 39,480 |
| Intangible assets, net | 20,635 | 27,960 |
| Goodwill | 141,477 | 141,477 |
| Other long-term assets | 4,408 | 5,445 |
| Total assets | \$ 1,423,291 | \$ 1,337,479 |
| Liabilities and shareholders' equity | | |
| Current liabilities: | | |

| | | |
|--|--------------|--------------|
| Accounts payable | \$ 1,128 | \$ 2,937 |
| Accrued compensation and related benefits | 74,840 | 77,453 |
| Other accrued liabilities | 37,309 | 30,534 |
| Operating lease liabilities, current | 15,288 | 16,040 |
| Finance lease liabilities, current | 255 | 216 |
| Deferred revenue | 556,320 | 568,670 |
| Total current liabilities | 685,140 | 695,850 |
| Operating lease liabilities, non-current | 23,936 | 33,100 |
| Finance lease liabilities, non-current | 279 | 455 |
| Deferred revenue, non-current | 4,095 | 1,785 |
| Other long-term liabilities | 696 | 434 |
| Total liabilities | 714,146 | 731,624 |
| Shareholders' equity: | | |
| Preferred stock, no par value; 10,000,000 shares authorized, no shares issued or outstanding as of October 31, 2024 and January 31, 2024 | — | — |
| Class A common stock, no par value; 500,000,000 shares authorized, 139,302,943 shares issued and outstanding as of October 31, 2024; 500,000,000 shares authorized, 136,884,011 shares issued and outstanding as of January 31, 2024 | — | — |
| Class B common stock, no par value; 500,000,000 shares authorized, no shares issued and outstanding as of October 31, 2024 and January 31, 2024 | — | — |
| Additional paid-in capital | 1,621,429 | 1,468,805 |
| Accumulated other comprehensive income (loss) | 196 | (146) |
| Accumulated deficit | (912,480) | (862,804) |
| Total shareholders' equity | 709,145 | 605,855 |
| Total liabilities and shareholders' equity | \$ 1,423,291 | \$ 1,337,479 |

SMARTSHEET INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

| | Nine Months Ended October 31, | |
|--|-------------------------------|-------------|
| | 2024 | 2023 |
| Cash flows from operating activities | | |
| Net income (loss) | \$ 324 | \$ (95,655) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Share-based compensation expense | 143,124 | 153,449 |
| Depreciation and amortization | 21,121 | 20,008 |
| Net amortization of premiums (discounts) on investments | (6,059) | (8,746) |
| Amortization of deferred commission costs | 50,328 | 38,439 |
| Unrealized foreign currency (gain) loss | (577) | 684 |
| Non-cash operating lease costs | 7,513 | 9,450 |
| Impairment of long-lived assets | 3,237 | 1,448 |
| Other, net | 5,495 | 3,089 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 33,770 | 16,541 |
| Prepaid expenses and other current assets | (5,576) | 1,060 |
| Other long-term assets | (1,039) | (1,401) |
| Accounts payable | (1,665) | (997) |
| Other accrued liabilities | 6,656 | 4,100 |
| Accrued compensation and related benefits | (5,483) | 2,021 |
| Deferred commissions | (58,185) | (58,705) |
| Deferred revenue | (9,952) | 25,439 |
| Other long-term liabilities | 262 | 278 |
| Operating lease liabilities | (10,544) | (12,326) |
| Net cash provided by operating activities | 172,750 | 98,176 |
| Cash flows from investing activities | | |
| Purchases of short-term investments | (235,421) | (375,387) |
| Maturities of short-term investments | 281,965 | 281,900 |
| Purchases of property and equipment | (1,437) | (2,097) |
| Proceeds from sale of property and equipment | 53 | 28 |
| Capitalized internal-use software development costs | (6,549) | (7,850) |
| Net cash provided by (used in) investing activities | 38,611 | (103,406) |
| Cash flows from financing activities | | |
| Proceeds from exercise of stock options | 10,957 | 1,330 |
| Taxes paid related to net share settlement of restricted stock units | (14,896) | (1,644) |
| Proceeds from contributions to Employee Stock Purchase Plan | 14,403 | 15,664 |
| Principal payments of finance leases | (141) | — |
| Repurchases of Class A Common Stock and related costs | (50,000) | — |

| | | |
|--|------------|------------|
| Net cash provided by (used in) financing activities | (39,677) | 15,350 |
| Effects of changes in foreign currency exchange rates on cash, cash equivalents, and restricted cash | 379 | (248) |
| Net increase in cash, cash equivalents, and restricted cash | 172,063 | 9,872 |
| Cash, cash equivalents, and restricted cash at beginning of period | 282,442 | 223,757 |
| Cash, cash equivalents, and restricted cash at end of period | \$ 454,505 | \$ 233,629 |

Supplemental disclosures

| | | |
|---|-------|-------|
| Cash paid for interest | \$ 43 | \$ — |
| Cash paid for income tax | 7,655 | 9,471 |
| Accrued purchases of property and equipment, including internal-use software | 1,081 | 1,264 |
| Share-based compensation expense capitalized in internal-use software development costs | 2,355 | 3,283 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | 558 | 1,684 |
| Right-of-use asset reductions related to operating leases | 2,832 | 4,451 |
| Purchases of fixed assets under finance leases | — | 693 |

SMARTSHEET INC. Reconciliation from GAAP to Non-GAAP Financial Measures (unaudited)

Reconciliation from GAAP operating loss to non-GAAP operating income and operating margin

| | Three Months Ended October | | Nine Months Ended October | |
|--|----------------------------|------------------|---------------------------|------------------|
| | 31, | | 31, | |
| | 2024 | 2023 | 2024 | 2023 |
| | (dollars in thousands) | | | |
| Loss from operations | \$ (3,351) | \$ (35,450) | \$ (22,960) | \$ (103,712) |
| Add: | | | | |
| Share-based compensation expense ⁽¹⁾ | 46,842 | 50,170 | 145,511 | 154,919 |
| Amortization of acquisition-related intangible assets ⁽²⁾ | 2,308 | 2,701 | 7,320 | 8,117 |
| Lease restructuring costs ⁽³⁾ | 40 | 1,934 | 3,359 | 2,051 |
| One-time acquisition costs | 10,525 | — | 10,525 | — |
| Non-GAAP operating income | <u>\$ 56,364</u> | <u>\$ 19,355</u> | <u>\$ 143,755</u> | <u>\$ 61,375</u> |
| Operating margin | (1)% | (14)% | (3)% | (15)% |
| Non-GAAP operating margin | 20% | 8% | 17% | 9% |

(1)Includes amortization related to share-based compensation that was capitalized in internal-use software and other assets in previous periods.

(2)Consists entirely of amortization of intangible assets that were recorded as part of purchase accounting. The amortization of intangible assets related to acquisitions will recur in future periods until such intangible assets have been fully amortized.

(3)Includes charges related to the reassessment of our real estate lease portfolio.

Reconciliation from GAAP net income (loss) to non-GAAP net income and per share data

| | Three Months Ended | | Nine Months Ended October | |
|--|--------------------|------|---------------------------|------|
| | October 31, | | 31, | |
| | 2024 | 2023 | 2024 | 2023 |

| (in thousands, except per share data) | | | | |
|--|------------------|------------------|-------------------|------------------|
| Net income (loss) | \$ 1,324 | \$ (32,428) | \$ 324 | \$ (95,655) |
| Add: | | | | |
| Share-based compensation expense ⁽¹⁾ | 46,842 | 50,170 | 145,511 | 154,919 |
| Amortization of acquisition-related intangible assets ⁽²⁾ | 2,308 | 2,701 | 7,320 | 8,117 |
| Lease restructuring costs ⁽³⁾ | 40 | 2,142 | 3,359 | 2,258 |
| One-time acquisition costs | 10,525 | — | 10,525 | — |
| Non-GAAP net income | <u>\$ 61,039</u> | <u>\$ 22,585</u> | <u>\$ 167,039</u> | <u>\$ 69,639</u> |
| Non-GAAP net income per share, basic | \$ 0.44 | \$ 0.17 | \$ 1.21 | \$ 0.52 |
| Non-GAAP net income per share, diluted | \$ 0.43 | \$ 0.16 | \$ 1.18 | \$ 0.51 |

(1) Includes amortization related to share-based compensation that was capitalized in internal-use software and other assets in previous periods.

(2) Consists entirely of amortization of intangible assets that were recorded as part of purchase accounting. The amortization of intangible assets related to acquisitions will recur in future periods until such intangible assets have been fully amortized.

(3) Includes charges related to the reassessment of our real estate lease portfolio.

SMARTSHEET INC.
Reconciliation from GAAP to Non-GAAP Financial Measures
(unaudited)

Non-GAAP reconciliation from basic to diluted weighted-average shares outstanding

| | Three Months Ended October 31, | | Nine Months Ended October 31, | |
|---|-----------------------------------|----------------|----------------------------------|----------------|
| | 2024 | 2023 | 2024 | 2023 |
| | (in thousands) | | | |
| Weighted-average shares outstanding; basic | 139,007 | 135,189 | 138,287 | 133,868 |
| Effect of dilutive securities: | | | | |
| Shares subject to outstanding common stock awards | 3,661 | 3,232 | 3,019 | 3,653 |
| Weighted-average common shares outstanding; diluted | <u>142,668</u> | <u>138,421</u> | <u>141,306</u> | <u>137,521</u> |

Reconciliation from net operating cash flow to free cash flow

| | Three Months Ended October 31, | | Nine Months Ended October 31, | |
|---|-----------------------------------|------------------|----------------------------------|------------------|
| | 2024 | 2023 | 2024 | 2023 |
| | (in thousands) | | | |
| Net cash provided by operating activities | \$ 63,528 | \$ 15,146 | \$ 172,750 | \$ 98,176 |
| Less: | | | | |
| Purchases of property and equipment | (414) | (702) | (1,437) | (2,097) |
| Capitalized internal-use software development costs | (1,232) | (3,035) | (6,549) | (7,850) |
| Principal payments of finance leases | (89) | — | (141) | — |
| Free cash flow | <u>\$ 61,793</u> | <u>\$ 11,409</u> | <u>\$ 164,623</u> | <u>\$ 88,229</u> |

Smartsheet Inc.

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