



Sprout Social Announces First Quarter 2020 Financial Results Above Guidance Range

May 6, 2020

*Revises 2020 Guidance
First Quarter Total Revenue of \$30.5 Million
24,083 Customers as of March 31, 2020*

CHICAGO, May 06, 2020 (GLOBE NEWSWIRE) -- Sprout Social, Inc. ("Sprout Social", the "Company") (Nasdaq: SPT), an industry-leading provider of cloud-based social media management software, today announced financial results for its first quarter ended March 31, 2020.

"As we all find ourselves in a very challenging time, we're fortunate to have delivered a strong Q1 and durable growth outlook for 2020. Our data indicates stabilizing business trends through April. More importantly, I'm proud that our team has continued to deliver, adapt and look after the well-being of our people and our customers," said Justyn Howard, Sprout Social's CEO and co-founder. "In the first quarter, strong execution and expanding adoption of Sprout Social's platform drove total revenue growth of 31% year-over-year and organic revenue growth of 41% year-over-year."

"Our diverse customer base, agile team, strong culture and high-volume business model have provided resilience through this crisis, and the ability to make thoughtful decisions and investments in our growth as we look forward."

First Quarter 2020 Financial Highlights

Revenue

- Total revenue was \$30.5 million, up 31% compared to the first quarter of 2019.
- Organic revenue (excluding the impact of legacy Simply Measured revenue) was up 41% compared to the first quarter of 2019.
- Total ARR was \$124.6 million, up 30% compared to the first quarter of 2019.
- Organic ARR was \$123.1 million, up 39% compared to the first quarter of 2019.

Operating Income (Loss)

- GAAP operating loss was (\$10.9) million, compared to (\$5.4) million in the first quarter of 2019. The increase in operating loss was primarily a result of public-company operating expenses and higher stock-based compensation associated with the achievement of performance based goals.
- Non-GAAP operating loss was (\$7.4) million, compared to (\$5.4) million in the first quarter of 2019.

Net Income (Loss)

- GAAP net loss was (\$10.5) million, compared to (\$5.2) million in the first quarter of 2019.
- Non-GAAP net loss was (\$7.0) million, compared to (\$5.2) million in the first quarter of 2019.
- GAAP net loss per share was (\$0.21) based on 50.1 million weighted-average shares of common stock outstanding, compared to (\$0.31) based on 16.7 million weighted-average shares of common stock outstanding in the first quarter of 2019.
- Non-GAAP net loss per share was (\$0.14) based on 50.1 million basic shares of common stock outstanding, compared to (\$0.31) based on 16.7 million weighted-average shares of common stock outstanding in the first quarter of 2019.

Cash

- Cash and equivalents totaled \$137.4 million as of March 31, 2020, up from \$135.3 million as of December 31, 2019.
- Net cash used by operating activities was (\$4.5) million, compared to (\$3.9) million in the first quarter of 2019.
- Free cash flow margin improved by 146 basis points, from (17%) to (16%); free cash flow was (\$4.8) million, compared to (\$4.0) million in the first quarter of 2019.

See "Use of Non-GAAP Financial Measures" below for how Sprout defines total ARR, organic ARR, non-GAAP operating loss, non-GAAP net loss and non-GAAP net loss per share and the financial tables that accompany this release for reconciliations of these measures to their closest comparable GAAP measures.

Customer Metrics

- Grew number of customers to 24,083 customers as of March 31, 2020, up from 23,693 customers as of December 31, 2019, and up from 21,718 customers as of March 31, 2019.
- Grew number of customers contributing over \$10,000 in ARR to 2,404 customers as of March 31, 2020, up 58% compared to March 31, 2019.

Business Awards

- Sprout Social was announced as a winner in five different categories for G2's annual 2020 Best Software Awards: (1) Top 100 software products, (2) Best software companies, (3) Best product for marketers, (4) Top 50 products and (5) Highest satisfaction award.
- Sprout Social was ranked as the Top Solution in several categories by TrustRadius, including Social Media Analytics, Customer Service and Marketing.

Second Quarter and Revised 2020 Financial Outlook

For the second quarter of 2020, the Company currently expects:

- Total revenue between \$31.1 and \$31.2 million, or overall growth of roughly 26%. We expect that our organic growth rate will exceed our reported growth rate by a mid to high single digit percentage point range.
- Non-GAAP operating loss between (\$8) million and (\$7) million.
- Non-GAAP net loss per share of between (\$0.15) and (\$0.14) based on approximately 50.5 million basic shares of common stock outstanding.

"We are pleased with our Q1 financial performance," said Joe Del Preto, CFO. "And we have seen many business indicators stabilize through the course of April and move within our historic ranges. The low end of our 2020 guidance range assumes that we see no improvement to our business, relative to what we saw in March and April, for the remainder of the year. The midpoint and high-end of our range reflect marginal improvements to the business, consistent with the trends we've seen during April, with variation based on how quickly those trends materialize."

For the full year 2020, the Company is revising guidance to reflect the following:

- Total revenue between \$125.5 to \$130.5 million, or overall growth of 25% at the midpoint. We continue to expect that our organic growth rate will exceed our reported growth rate by a mid to high single digit percentage point range.
- Non-GAAP operating loss between (\$28.3) and (\$25.3) million.
- Non-GAAP net loss per share of between (\$0.55) and (\$0.50) based on approximately 50.6 million basic shares of common stock outstanding.

The Company's second quarter and 2020 financial outlook is based on a number of assumptions that are subject to change and many of which are outside the Company's control, including the impact of COVID-19 on our financial performance and customer demand. If actual results vary from these assumptions, the Company's expectations may change. There can be no assurance that the Company will achieve these results.

The Company does not provide guidance for operating loss, the most directly comparable GAAP measure to non-GAAP operating loss, or net loss per share, the most directly comparable GAAP measure to non-GAAP net loss per share, and similarly cannot provide a reconciliation between its forecasted non-GAAP operating loss and non-GAAP net loss per share and these comparable GAAP measures without unreasonable effort due to the unavailability of reliable estimates for certain items. These items are not within the Company's control and may vary greatly between periods and could significantly impact future financial results.

Conference Call Information

Sprout Social will host a conference call and webcast scheduled at 4:00 p.m. Central Time (5:00 p.m. Eastern Time) today, May 6, 2020 to discuss financial results and business highlights. The conference call can be accessed by dialing (877) 658-9099 from the United States and Canada or (602) 563-8734 internationally with conference ID 1086133. The live webcast of the conference call can be accessed from Sprout Social's investor relations website at <http://investors.sproutsocial.com>.

Following the completion of the call through 8:00 p.m. Eastern Time on May 13, 2020, a telephone replay will be available by dialing (855) 859-2056 from the United States and Canada or (404) 537-3406 internationally with conference ID 1086133. A webcast replay will also be available at <http://investors.sproutsocial.com> for 12 months.

About Sprout Social

Sprout Social offers deep social media listening and analytics, social management, customer care, and advocacy solutions to more than 24,000 brands and agencies worldwide. Sprout's suite of solutions supports every aspect of a cohesive social program and enables organizations of all sizes to extend their reach, amplify their brand and create the kind of real connection with their consumers that drives their businesses forward. Headquartered in Chicago, Sprout operates across major social and digital platforms, including Twitter, Facebook, Instagram, Pinterest, LinkedIn and Google.

Forward-Looking Statements

This press release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "estimate," "expect," "intend," "outlook," "may," "might," "plan," "project," "will," "would," "should," "could," "can," "predict," "potential," "strategy," "target," "explore," "continue," or the negative of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These statements may relate to the impact on our business and the businesses of our prospective and existing customers of the COVID-19 pandemic, our market size and growth strategy, our estimated and projected costs, margins, revenue, expenditures and customer and financial growth rates, our Q2 and 2020 financial outlook, our plans and objectives for future operations, growth, initiatives or strategies. By their nature, these statements are subject to numerous uncertainties and risks, including factors beyond our control, that could cause actual results, performance or achievement to differ materially and adversely from those anticipated or implied in the forward-looking statements. These assumptions, uncertainties and risks include that, among others, the effects of the COVID-19 pandemic and the governmental actions taken to combat the pandemic may materially affect how we and our customers operate our businesses, and the duration and extent to which this threatens our future results of operations and overall financial performance remains uncertain, any decline in new customers, renewals or

upgrades, our limited operating history makes it difficult to evaluate our prospects and future results of operations, we operate in competitive markets, we may not be able to sustain our revenue growth rate in the future, our business would be harmed by any significant interruptions, delays or outages in services from our platform or certain social media platforms, and a cybersecurity-related attack, significant data breach or disruption of the information technology systems or networks could negatively affect our business. Additional risks and uncertainties that could cause actual outcomes and results to differ materially from those contemplated by the forward-looking statements are included under the caption "Risk Factors" and elsewhere in our filings with the Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 28, 2020, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 to be filed with the SEC, as well as any other future quarterly and current reports that we file with the SEC. Moreover, you should interpret many of the risks identified in those reports as being heightened as a result of the ongoing and numerous adverse impacts of the COVID-19 pandemic. Forward-looking statements speak only as of the date the statements are made and are based on information available to Sprout Social at the time those statements are made and/or management's good faith belief as of that time with respect to future events. Sprout Social assumes no obligation to update forward-looking statements to reflect events or circumstances after the date they were made, except as required by law.

Use of Non-GAAP Financial Measures

We have provided in this press release certain financial information that has not been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). Our management uses these non-GAAP financial measures internally in analyzing our financial results and believes that use of these non-GAAP financial measures is useful to investors as an additional tool to evaluate ongoing operating results and trends and in comparing our financial results with other companies in our industry, many of which present similar non-GAAP financial measures. Non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable financial measures prepared in accordance with GAAP and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. A reconciliation of our historical non-GAAP financial measures to the most directly comparable GAAP measures has been provided in the financial statement tables included in this press release, and investors are encouraged to review these reconciliations.

Total annual recurring revenue ("total ARR"). We define total ARR as the annualized revenue run-rate of subscription agreements from all customers as of the last date of the specified period. We believe total ARR is an indicator of the scale of our entire platform while mitigating fluctuations due to seasonality and contract term.

Organic ARR. We define organic ARR as total ARR excluding the impact of recurring revenue generated from legacy Simply Measured products. We believe organic ARR is an indicator of the scale and visibility of our core platform while mitigating fluctuations due to seasonality and contract term.

Non-GAAP operating loss. We define non-GAAP operating loss as GAAP loss from operations, excluding stock-based compensation expense. We believe non-GAAP operating loss provides our management and investors consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations, as it eliminates the effect of stock-based compensation, which is often unrelated to overall operating performance, particularly given the impact of stock-based compensation expense recognized after the completion of our December 2019 IPO.

Non-GAAP net loss. We define non-GAAP net loss as GAAP net loss and comprehensive loss, excluding stock-based compensation expense. We believe non-GAAP net loss provides our management and investors consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations, as this non-GAAP financial measure eliminates the effect of stock-based compensation, which is often unrelated to overall operating performance, particularly given the impact of stock-based compensation expense recognized after the completion of our December 2019 IPO.

Non-GAAP net loss per share. We define non-GAAP net loss per share as GAAP net loss per share attributable to common shareholders, basic and diluted, excluding stock-based compensation expense. We believe non-GAAP net loss per share provides our management and investors consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations, as this non-GAAP financial measure eliminates the effect of stock-based compensation, which is often unrelated to overall operating performance, particularly given the impact of stock-based compensation expense recognized after the completion of our December 2019 IPO.

Free cash flow. We define free cash flow as net cash used in operating activities less purchases of property and equipment. Free cash flow does not reflect our future contractual obligations or represent the total increase or decrease in our cash balance for a given period. We believe free cash flow is a useful indicator of liquidity that provides information to management and investors about the amount of cash used in our core operations that, after purchases of property and equipment, is not available for strategic initiatives.

Free cash flow margin. We define free cash flow margin as free cash flow as a percentage of revenue.

Customer Metrics

Dollar-based net retention rate. We calculate dollar-based net retention rate by dividing the organic ARR from our customers as of December 31st in the reported year by the organic ARR from those same customers as of December 31st in the previous year. This calculation is net of upsells, contraction, cancellation or expansion during the period but excludes organic ARR from new customers. We use dollar-based net retention to evaluate the long-term value of our customer relationships, because we believe this metric reflects our ability to retain and expand subscription revenue generated from our existing customers.

Dollar-based net retention excluding SMB customers. We calculate dollar-based net retention rate excluding SMB customers by dividing the ARR from all customers excluding ARR from customers exclusively using legacy products obtained through the acquisition of Simply Measured and excluding ARR from customers that we have identified or that self-identified as having less than 50 employees as of December 31st in the reported year by the organic ARR from those same customers as of December 31st of the previous year. This calculation is net of upsells, contraction, cancellation or expansion during the period but excludes organic ARR from new customers. We used dollar-based net retention excluding SMB customers to evaluate the long-term value of our larger customer relationships, because we believe this metric reflects our ability to retain and expand subscription revenue generated from our existing customers.

Number of customers. We define a customer as a unique account, multiple accounts containing a common non-personal email domain or multiple accounts governed by a single agreement. Number of customers excludes customers exclusively using legacy products obtained through the acquisition of Simply Measured. We believe that the number of customers using our platform is an indicator not only of our market penetration, but also

of our potential for future growth as our customers often expand their adoption of our platform over time based on an increased awareness of the value of our platform and products.

Number of customers contributing more than \$10,000 in ARR. We define number of customers contributing more than \$10,000 in ARR as those on a paid subscription plan that had more than \$10,000 in ARR as of a period end. We view the number of customers that contribute more than \$10,000 in ARR as a measure of our ability to scale with our customers and attract larger organizations. We believe this represents potential for future growth, including expanding within our current customer base.

Availability of Information on Sprout Social's Website and Social Media Profiles

Investors and others should note that Sprout Social routinely announces material information to investors and the marketplace using U.S. Securities and Exchange Commission (SEC) filings, press releases, public conference calls, webcasts and the Sprout Social Investors website. We also intend to use the social media profiles listed below as a means of disclosing information about us to our customers, investors and the public. While not all of the information that the Company posts to the Sprout Social Investors website or to social media profiles is of a material nature, some information could be deemed to be material. Accordingly, the Company encourages investors, the media, and others interested in Sprout Social to review the information that it shares at the Investors link located at the bottom of the page on www.sproutsocial.com and to regularly follow our social media profiles. Users may automatically receive email alerts and other information about Sprout Social when enrolling an email address by visiting "Email Alerts" in the "Shareholder Services" section of Sprout Social's Investor website at <https://investors.sproutsocial.com/>.

Social Media Profiles:

www.twitter.com/SproutSocial
www.facebook.com/SproutSocialInc
www.linkedin.com/company/sprout-social-inc/
www.instagram.com/sproutsocial

Sprout Social, Inc.
Consolidated Statements of Operations and Comprehensive Loss (Unaudited)
(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2020	2019
Revenue		
Subscription	\$ 30,329	\$ 23,332
Professional services and other	206	47
Total revenue	<u>30,535</u>	<u>23,379</u>
Cost of revenue(1)		
Subscription	8,086	5,815
Professional services and other	122	30
Total cost of revenue	<u>8,208</u>	<u>5,845</u>
Gross profit	<u>22,327</u>	<u>17,534</u>
Operating expenses		
Research and development(1)	7,281	6,352
Sales and marketing(1)	13,894	10,452
General and administrative(1)	12,096	6,084
Total operating expenses	<u>33,271</u>	<u>22,888</u>
Loss from operations	<u>(10,944)</u>	<u>(5,354)</u>
Interest expense	(95)	(52)
Interest income	460	105
Other income	102	149
Loss before income taxes	<u>(10,477)</u>	<u>(5,152)</u>
Income tax expense	3	11
Net loss and comprehensive loss	<u>\$ (10,480)</u>	<u>\$ (5,163)</u>
Net loss per share attributable to common shareholders, basic and diluted	\$ (0.21)	\$ (0.31)
Weighted-average shares outstanding used to compute net loss per share, basic and diluted	50,143,971	16,684,041

(1) Includes stock-based compensation expense as follows:

	Three Months Ended March 31,	
	2020	2019
Cost of revenue	\$ 295	\$ -
Research and development	484	-
Sales and marketing	469	-
General and administrative	2,274	-
Total stock-based compensation expense	<u>\$ 3,522</u>	<u>\$ -</u>

Sprout Social, Inc.
Consolidated Balance Sheets (Unaudited)
(in thousands, except share data)

	<u>March 31, 2020</u>	<u>December 31, 2019</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 137,376	\$ 135,310
Accounts receivable, net of allowances of \$1,456 and \$706 at March 31, 2020 and December 31, 2019, respectively	12,311	11,099
Deferred Commissions	6,116	5,574
Prepaid expenses and other assets	5,337	5,050
Total current assets	<u>161,140</u>	<u>157,033</u>
Property and equipment, net	13,116	13,529
Deferred commissions, net of current portion	5,836	5,505
Operating lease, right-of-use asset	10,884	5,618
Goodwill	2,299	2,299
Intangible assets, net	5,126	5,482
Other assets, net	125	125
Total assets	<u>\$ 198,526</u>	<u>\$ 189,591</u>
Liabilities and Stockholders' (Deficit)/Equity		
Current liabilities		
Accounts payable	\$ 2,534	\$ 2,049
Deferred revenue	33,794	29,566
Operating lease liability	2,139	2,331
Accrued wages and payroll related benefits	3,335	4,053
Accrued expenses and other	5,201	5,057
Total current liabilities	<u>47,003</u>	<u>43,056</u>
Deferred revenue, net of current portion	281	209
Operating lease liability, net of current portion	23,272	18,196
Total liabilities	<u>70,556</u>	<u>61,461</u>
Stockholders' (deficit)/equity		
Class A common stock, par value \$0.0001 per share; 1,000,000,000 shares authorized; 43,146,159 and 40,404,012 shares issued and outstanding at March 31, 2020, respectively; 41,714,870 and 39,041,065 shares issued and outstanding, at December 31, 2019, respectively		
	4	4
Class B common stock, par value \$0.0001 per share; 25,000,000 shares authorized; 10,045,764 and 9,945,952 shares issued and outstanding at March 31, 2020, respectively; 9,803,933 shares issued and outstanding at December 31, 2019		
	1	1
Additional paid-in capital	277,485	263,943
Treasury stock, at cost	(23,652)	(20,430)
Accumulated deficit	(125,868)	(115,388)
Total stockholders' equity	<u>127,970</u>	<u>128,130</u>
Total liabilities and stockholders' equity	<u>\$ 198,526</u>	<u>\$ 189,591</u>

Sprout Social, Inc.
Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

Three Months Ended March 31,

	2020	2019
Cash flows from operating activities		
Net loss	\$ (10,480)	\$ (5,163)
Adjustments to reconcile net loss to net cash (used in) operating activities		
Depreciation of property and equipment	725	669
Amortization of line of credit issuance costs	65	47
Amortization of acquired intangible assets	357	385
Amortization of deferred commissions	1,627	1,020
Amortization of right-of-use operating lease asset	309	317
Stock-based compensation expense	3,522	-
Provision for accounts receivable allowances	910	222
Changes in operating assets and liabilities		
Accounts receivable	(2,122)	(768)
Prepaid expenses and other current assets	(313)	(102)
Deferred commissions	(2,500)	(1,228)
Accounts payable and accrued expenses	(305)	(1,518)
Deferred revenue	4,299	2,565
Lease liabilities	(597)	(319)
Net cash (used in) operating activities	<u>(4,503)</u>	<u>(3,873)</u>
Cash flows from investing activities		
Purchases of property and equipment	(313)	(156)
Net cash (used in) investing activities	<u>(313)</u>	<u>(156)</u>
Cash flows from financing activities		
Proceeds from underwriters' purchase of over-allotment shares, related to the Company's initial public offering, net of underwriters' discounts and commissions	9,954	-
Payments for line of credit issuance costs	(132)	(47)
Proceeds from exercise of stock options	142	6
Employee taxes paid related to the net share settlement of stock-based awards	(3,082)	-
Payments of deferred offering costs	-	(202)
Net cash provided by (used in) financing activities	<u>6,882</u>	<u>(243)</u>
Net increase (decrease) in cash and cash equivalents	2,066	(4,272)
Cash and cash equivalents		
Beginning of period	135,310	26,190
End of period	<u>\$ 137,376</u>	<u>\$ 21,918</u>

The following schedule reflects our non-GAAP financial measures and reconciles our non-GAAP financial measures to the related GAAP financial measures (in thousands, except per share data):

Summary of Non-GAAP Financial Measures

	Three Months Ended March 31,	
	2020	2019
Non-GAAP operating loss	\$ (7,422)	\$ (5,354)
Non-GAAP net loss	(6,958)	(5,163)
Non-GAAP net loss per share	(0.14)	(0.31)
Free cash flow	\$ (4,816)	\$ (4,029)

Reconciliation of Non-GAAP Financial Measures

	Three Months Ended March 31,	
	2020	2019
Reconciliation of Non-GAAP operating loss		
Loss from operations	\$ (10,944)	\$ (5,354)
Stock-based compensation expense	3,522	-
Non-GAAP operating loss	<u>\$ (7,422)</u>	<u>\$ (5,354)</u>
Reconciliation of Non-GAAP net loss		
Net loss and comprehensive loss	\$ (10,480)	\$ (5,163)

Stock-based compensation expense	3,522	-
Non-GAAP net loss	<u>\$ (6,958)</u>	<u>\$ (5,163)</u>
Reconciliation of Non-GAAP net loss per share		
Net loss per share attributable to common shareholders, basic and diluted	\$ (0.21)	\$ (0.31)
Stock-based compensation expense per share	0.07	-
Non-GAAP net loss per share	<u>\$ (0.14)</u>	<u>\$ (0.31)</u>
Reconciliation of Non-GAAP free cash flow		
Net cash (used in) operating activities	\$ (4,503)	\$ (3,873)
Purchases of property and equipment	(313)	(156)
Non-GAAP free cash flow	<u>\$ (4,816)</u>	<u>\$ (4,029)</u>

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