



Sprout Social Announces Fourth Quarter 2022 Financial Results

*Delivers record net new ARR
Expects accelerating ARR growth in 2023*

CHICAGO, February 21, 2023 – 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 fourth quarter ended December 31, 2022.

“We are pleased with another exceptional quarter, anchored by record net new ARR, which we believe sets the foundation for accelerating ARR growth in 2023,” said Justyn Howard, Sprout Social’s CEO and co-founder. “We achieved multiple new high water marks in both new business and expansion, led by outstanding new business momentum in the enterprise. Our pricing changes are performing well, our partnerships are strengthening and social has never been more critical to our customers.”

Fourth Quarter 2022 Financial Highlights

Revenue

- Revenue was \$69.7 million, up 31% compared to the fourth quarter of 2021.
- Subscription revenue was \$69.2 million, up 31% year-over-year.
- Services revenue was \$0.5 million. Partnership demand was materially stronger than expected. We offered free implementation and onboarding for the 175 Social Studio customers that transitioned to Sprout Social during the fourth quarter of 2022, which contributed to a \$0.8M to \$1.2M shortfall in services revenue relative to our prior plan.
- ARR was \$296.6 million, up 32% compared to the end of 2021.

Operating Loss

- GAAP operating loss was (\$13.1) million, compared to (\$9.7) million in the fourth quarter of 2021.
- Non-GAAP operating income was \$0.6 million, compared to a Non-GAAP operating loss of (\$2.6) million in the fourth quarter of 2021.

Net Loss

- GAAP net loss was (\$11.9) million, compared to (\$9.9) million in the fourth quarter of 2021.
- Non-GAAP net income was \$1.8 million, compared to a Non-GAAP net loss of (\$2.7) million in the fourth quarter of 2021.
- GAAP net loss per share was (\$0.22) based on 54.9 million weighted-average shares of common stock outstanding, compared to (\$0.18) based on 54.1 million weighted-average shares of common stock outstanding in the fourth quarter of 2021.
- Non-GAAP net income per share was \$0.03 based on 55.2 million weighted-average shares of common stock outstanding, compared to Non-GAAP net loss per share of (\$0.05) based on 54.1 million weighted-average shares of common stock outstanding in the fourth quarter of 2021.

Cash

- Cash and equivalents and marketable securities totaled \$185.8 million as of December 31, 2022, up from \$181.9 million as of September 30, 2022.
- Net cash generated by operating activities was \$3.0 million, compared to \$2.5 million in the fourth quarter of 2021.
- Free cash flow was \$2.6 million, compared to \$2.2 million in the fourth quarter of 2021.

See “Customer Metrics” and “Use of Non-GAAP Financial Measures” below for how Sprout Social defines ARR, Non-GAAP operating income (loss), Non-GAAP net income (loss), Non-GAAP net income (loss) per share, free cash flow and the financial tables that accompany this release for reconciliations of these measures to their closest comparable GAAP measures.

Fiscal Year 2022 Financial Highlights

Revenue

- Total revenue was \$253.8 million, up 35% compared to fiscal 2021.

Operating Loss

- GAAP operating loss was (\$51.7) million, compared to (\$28.1) million in fiscal 2021.
- Non-GAAP operating loss was (\$3.9) million, compared to (\$6.4) million in fiscal 2021.

Customer Metrics

- Grew number of customers to 34,390 as of December 31, 2022, up 8% compared to December 31, 2021.
- Grew number of customers contributing over \$10,000 in ARR to 6,652 customers as of December 31, 2022, up 35% compared to December 31, 2021.
- Grew number of customers contributing over \$50,000 in ARR to 972 customers as of December 31, 2022, up 59% compared to December 31, 2021.
- Dollar-based net retention rate was 109% in 2022, compared with 112% in 2021.
- Dollar-based net retention rate excluding small-and-medium-sized business (SMB) customers was 116% in 2022, compared with 118% in 2021.

Recent Customer Highlights

- During the fourth quarter, we had the opportunity to help new customers like Hormel Foods, Standard Insurance, Insight Investment Management, Visteon Corporation, The University of Michigan, Sotheby's, Q2 Holdings, Razorfish, The University of Kentucky, Vitamin Shoppe and Orangetheory Fitness.
- We executed growth deals with great brands and organizations like Ecolab, Square, Carrier, Booz Allen Hamilton and Louisiana State University.

Recent Business Highlights

Sprout Social recently:

- Acquired Repustate, an innovative sentiment analysis and natural language processing company ([here](#)).
- Was named to Glassdoor's 2023 Best Places to Work List for the fourth consecutive year ([here](#)).
- Was recognized by G2's 2023 Best Software Awards for the seventh consecutive year ([here](#)).
- Was named a Best Workplace for Parents by Great Place to Work.
- Launched Tableau integration ([here](#)).

First Quarter and 2023 Financial Outlook

For the first quarter of 2023, the Company currently expects:

- Total revenue between \$75.0 and \$75.1 million, or growth of 31% year-over-year. Services revenue will be lower than the first quarter of 2022.
- Non-GAAP operating loss between (\$0.7) million and (\$0.5) million.
- Non-GAAP net loss per share of (\$0.01) based on approximately 55.4 million weighted-average shares of common stock outstanding.

"We are pleased to deliver a record breaking quarter with healthy quarterly Non-GAAP operating profit," said Joe Del Preto, CFO. "The quality of our financial model is improving as we continue to deliver durable, efficient growth. Led by very strong momentum in the mid market & enterprise, successful monetization changes and a rapidly maturing market opportunity, we expect to deliver accelerating ARR growth in 2023. And we expect we'll do it profitably on a non-GAAP basis."

For the full year 2023, the Company currently expects:

- Total revenue between \$332 to \$333 million, or growth of 31% year-over-year. Services revenue will be lower than 2022 levels.
- Total 2023 ARR growth will exceed total reported revenue growth by at least 200bps.
- Non-GAAP operating income between \$1.6 and \$2.0 million.
- This range implies at least 210bps of year-over-year Non-GAAP operating margin improvement.
- Non-GAAP net income per share of between \$0.03 and \$0.04 based on approximately 56.0 million weighted-average shares of common stock outstanding.

The Company's first quarter and 2023 financial outlook is based on a number of assumptions that are subject to change and many of which are outside the Company's control. 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 income, net loss per share, the most directly comparable GAAP measure to non-GAAP net income per share, or operating margin, the most directly comparable GAAP measure to Non-GAAP operating margin, and similarly cannot provide a reconciliation between its forecasted non-GAAP operating income, non-GAAP net income per share and Non-GAAP operating margin 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

The financial results and business highlights will be discussed on a conference call and webcast scheduled at 4:00 p.m. Central Time (5:00 p.m. Eastern Time) today, February 21, 2023. Online registration for this event conference call can be found at <https://conferencingportals.com/event/WCLZyewU>. The live webcast of the conference call can be accessed from Sprout Social's investor relations website at <http://investors.sproutsocial.com>.

Following completion of the events, a webcast replay will also be available at <http://investors.sproutsocial.com> for 12 months.

About Sprout Social

[Sprout Social](https://sproutsocial.com) is a global leader in social media management and analytics software. Sprout's unified platform puts powerful social data into the hands of more than 34,000 brands so they can make strategic decisions that drive business growth and innovation. With a full suite of social media management solutions, Sprout offers comprehensive publishing and engagement functionality, customer care, connected workflows and AI-powered business intelligence. Sprout's [award-winning](#) software operates across all major social media networks and digital platforms. For more information about Sprout Social (NASDAQ: SPT), visit sproutsocial.com.

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," "can," "continue," "could," "estimate," "expect," "explore," "intend," "long-term model," "may," "might," "outlook," "plan," "potential," "predict," "project," "should," "strategy," "target," "will," "would," 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 our market size and growth strategy, our estimated and projected costs, margins, revenue, expenditures and customer and financial growth rates, our Q1 and 2023 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: we may not be able to sustain our revenue and customer growth rate in the future; price increases may negatively impact demand for our products, customer acquisition and retention and reduce the total number of customers or customer additions; our business would be harmed by any significant interruptions, delays or outages in services from our platform, our API providers, or certain social media platforms; if we are unable to attract potential customers through unpaid channels, convert this traffic to free trials or convert free trials to paid subscriptions, our business and results of operations may be adversely affected; the effects and duration of the ongoing COVID-19 pandemic are unpredictable and may materially affect our customers and how we operate our business, and the duration and extent to which the pandemic continues to threaten our future results of operations; unstable market and economic conditions, such as recession risks, effects of inflation, labor shortages, supply chain issues, higher interest rates and geopolitical impacts of Russia's invasion of Ukraine, could adversely impact our business and that of our existing and prospective customers, which may result in reduced demand for our products; any cybersecurity-related attack, significant data breach or disruption of the information technology systems or networks on which we rely could negatively

affect our business; and changing regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information and harm our brand. 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, 2021 filed with the SEC on February 23, 2022, as supplemented by our subsequent Quarterly Reports on Form 10-Q, and our Annual Report on Form 10-K for the year ended December 31, 2022, to filed with the SEC, as well as any other future 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 current instability in market and economic conditions. 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.

Non-GAAP gross profit. We define non-GAAP gross profit as GAAP gross profit, excluding stock-based compensation expense. We believe non-GAAP gross profit 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.

Non-GAAP gross margin. We define non-GAAP gross margin as non-GAAP gross profit as a percentage of revenue.

Non-GAAP operating income (loss). We define non-GAAP operating income (loss) as GAAP loss from operations, excluding stock-based compensation expense. We believe non-GAAP operating income (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.

Non-GAAP operating margin. We defined non-GAAP operating margin as non-GAAP operating income (loss) as a percentage of revenue.

Non-GAAP net income (loss). We define non-GAAP net income (loss) as GAAP net loss, excluding stock-based compensation expense. We believe non-GAAP net income (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.

Non-GAAP net income (loss) per share. We define non-GAAP net income (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 income (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.

Free cash flow. We define free cash flow as net cash provided by (used in) operating activities less expenditures for 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 expenditures for 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.

Non-GAAP sales and marketing expenses, non-GAAP research and development expenses and non-GAAP general and administrative expenses. Non-GAAP sales and marketing expenses, non-GAAP research and development expenses and non-GAAP general and administrative expenses are defined as sales and marketing expenses, research and development expenses and general and administrative expenses, respectively, less stock-based compensation expense. We believe these non-GAAP measures provide our management and investors with insight into day-to-day operating expenses given that these measures eliminate the effect of stock-based compensation.

Customer Metrics

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

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. 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.

Number of customers contributing more than \$50,000 in ARR. We define number of customers contributing more than \$50,000 in ARR as those on a paid subscription plan that had more than \$50,000 in ARR as of a period end. We view the number of customers that contribute more than \$50,000 in ARR as a measure of our ability to scale with our largest customers and attract more sophisticated organizations. We believe this represents potential for future growth, including expanding within our current customer base. Over time, our largest customers have constituted a greater share of our revenue.

Dollar-based net retention rate. We calculate dollar-based net retention rate by dividing the ARR from our customers as of December 31st in the reported year by the 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 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 rate excluding SMB customers. We calculate dollar-based net retention rate excluding SMB customers by dividing the ARR from all customers 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 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 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.

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 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.twitter.com/SproutSocialIR

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

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

	Three Months Ended December 31,	
	2022	2021
Revenue		
Subscription	\$ 69,165	\$ 52,621
Professional services and other	495	644
Total revenue	69,660	53,265
Cost of revenue(1)		
Subscription	15,126	13,068
Professional services and other	289	222
Total cost of revenue	15,415	13,290
Gross profit	54,245	39,975
Operating expenses		
Research and development(1)	16,719	12,218
Sales and marketing(1)	35,322	24,824
General and administrative(1)	15,353	12,653
Total operating expenses	67,394	49,695
Loss from operations	(13,149)	(9,720)
Interest expense	(25)	(73)
Interest income	1,363	69
Other (expense) income, net	(22)	(101)
Loss before income taxes	(11,833)	(9,825)
Income tax expense	109	75
Net loss	\$ (11,942)	\$ (9,900)
Net loss per share attributable to common shareholders, basic and diluted	\$ (0.22)	\$ (0.18)

Weighted-average shares outstanding used to compute net loss per share, basic and diluted	54,913,095	54,071,429
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(1) Includes stock-based compensation expense as follows:

	Three Months Ended December 31,	
	2022	2021
Cost of revenue	\$ 603	\$ 364
Research and development	3,373	1,318
Sales and marketing	6,725	3,843
General and administrative	3,007	1,626
Total stock-based compensation expense	\$ 13,708	\$ 7,151

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

	Twelve Months Ended December 31,	
	2022	2021
Revenue		
Subscription	\$ 251,213	\$ 185,726
Professional services and other	2,615	2,133
Total revenue	253,828	187,859
Cost of revenue(1)		
Subscription	58,767	45,791
Professional services and other	1,091	997
Total cost of revenue	59,858	46,788
Gross profit	193,970	141,071
Operating expenses		
Research and development(1)	61,436	40,049
Sales and marketing(1)	123,695	84,182
General and administrative(1)	60,515	44,929
Total operating expenses	245,646	169,160
Loss from operations	(51,676)	(28,089)
Interest expense	(153)	(300)
Interest income	2,535	259
Other (expense) income, net	(580)	(361)
Loss before income taxes	(49,874)	(28,491)
Income tax expense	366	211

Net loss	\$ (50,240)	\$ (28,702)
Net loss per share attributable to common shareholders, basic and diluted	\$ (0.92)	\$ (0.53)
Weighted-average shares outstanding used to compute net loss per share, basic and diluted	54,611,616	53,768,301

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

	Twelve Months Ended December 31,	
	2022	2021
Cost of revenue	\$ 2,491	\$ 1,062
Research and development	11,280	4,039
Sales and marketing	23,066	10,636
General and administrative	10,901	5,993
Total stock-based compensation expense	\$ 47,738	\$ 21,730

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

	December 31, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	\$ 79,917	\$ 107,114
Marketable securities	92,929	69,821
Accounts receivable, net of allowances of \$1,789 and \$1,298 at December 31, 2022 and December 31, 2021, respectively	35,833	25,483
Deferred Commissions	20,369	13,915
Prepaid expenses and other assets	6,418	6,199

Total current assets	235,466	222,532
Marketable securities, noncurrent	12,995	-
Property and equipment, net	11,949	12,854
Deferred commissions, net of current portion	19,638	14,402
Operating lease, right-of-use asset	9,503	9,459
Goodwill	2,299	2,299
Intangible assets, net	2,006	3,045
Other assets, net	64	126
Total assets	<u>\$ 293,920</u>	<u>\$ 264,717</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 4,988	\$ 2,888
Deferred revenue	95,740	69,220
Operating lease liability	3,499	2,693
Accrued wages and payroll related benefits	14,257	12,556
Accrued expenses and other	14,322	11,072
Total current liabilities	<u>132,806</u>	<u>98,429</u>
Deferred revenue, net of current portion	490	132
Operating lease liability, net of current portion	<u>18,287</u>	<u>20,946</u>
Total liabilities	<u>151,583</u>	<u>119,507</u>
Stockholders' equity		
Class A common stock, par value \$0.0001 per share; 1,000,000,000 shares authorized; 50,413,415 and 47,562,911 shares issued and outstanding, respectively, at December 31, 2022; 48,663,781 and 45,844,325 shares issued and outstanding, respectively, at December 31, 2021		
	4	4
Class B common stock, par value \$0.0001 per share; 25,000,000 shares authorized; 7,667,376 and 7,460,432 shares issued and outstanding, respectively, at December 31, 2022; 8,516,390 and 8,309,446 shares issued and outstanding, respectively, at December 31, 2021		
	1	1
Additional paid-in capital	401,419	351,774
Treasury stock, at cost	(32,733)	(30,824)
Accumulated other comprehensive loss	(369)	-
Accumulated deficit	(225,985)	(175,745)
Total stockholders' equity	<u>142,337</u>	<u>145,210</u>
Total liabilities and stockholders' equity	<u>\$ 293,920</u>	<u>\$ 264,717</u>

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

	Three Months Ended December 31,	
	2022	2021
Cash flows from operating activities		
Net loss	\$ (11,942)	\$ (9,900)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation of property and equipment	732	761
Amortization of line of credit issuance costs	-	44
Amortization of premium (accretion of discount) on marketable securities	(605)	234
Amortization of acquired intangible assets	257	261
Amortization of deferred commissions	5,328	3,555
Amortization of right-of-use operating lease asset	339	170
Stock-based compensation expense	13,708	7,152
Provision for accounts receivable allowances	637	473
Changes in operating assets and liabilities		
Accounts receivable	(9,742)	(9,915)
Prepaid expenses and other current assets	2,083	955
Deferred commissions	(10,590)	(8,125)
Accounts payable and accrued expenses	2,243	4,088
Deferred revenue	11,185	13,358
Lease liabilities	(681)	(634)
Net cash provided by operating activities	<u>2,952</u>	<u>2,477</u>
Cash flows from investing activities		
Expenditures for property and equipment	(397)	(264)
Purchases of marketable securities	(54,220)	(30,028)
Proceeds from maturity of marketable securities	35,744	19,650
Net cash used in investing activities	<u>(18,873)</u>	<u>(10,642)</u>
Cash flows from financing activities		
Payments for line of credit issuance costs	-	(60)
Proceeds from exercise of stock options	2	7
Employee taxes paid related to the net share settlement of stock-based awards	(353)	-
Proceeds from employee stock purchase plan	1,048	-
Net cash (used in) provided by financing activities	<u>697</u>	<u>(53)</u>
Net decrease in cash and cash equivalents	<u>(15,224)</u>	<u>(8,218)</u>
Cash and cash equivalents		

Beginning of period	95,141	115,332
End of period	<u>\$ 79,917</u>	<u>\$ 107,114</u>

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

	Twelve Months Ended December 31,	
	2022	2021
Cash flows from operating activities		
Net loss	\$ (50,240)	\$ (28,702)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation of property and equipment	2,859	2,991
Amortization of line of credit issuance costs	30	188
Amortization of premium (accretion of discount) on marketable securities	(625)	736
Amortization of acquired intangible assets	1,039	1,043
Amortization of deferred commissions	18,638	12,175
Amortization of right-of-use operating lease asset	1,035	673
Stock-based compensation expense	47,738	21,731
Provision for accounts receivable allowances	1,199	614
Changes in operating assets and liabilities		
Accounts receivable	(11,549)	(8,920)
Prepaid expenses and other current assets	(125)	3,465
Deferred commissions	(30,328)	(23,113)
Accounts payable and accrued expenses	7,051	8,502
Deferred revenue	26,878	25,589
Lease liabilities	(2,932)	(2,155)
Net cash provided by operating activities	<u>10,668</u>	<u>14,817</u>
Cash flows from investing activities		
Expenditures for property and equipment	(1,824)	(926)
Purchases of marketable securities	(189,962)	(109,552)
Proceeds from maturity of marketable securities	154,114	88,360
Net cash used in investing activities	<u>(37,672)</u>	<u>(22,118)</u>
Cash flows from financing activities		
Payments for line of credit issuance costs	(23)	(183)
Proceeds from exercise of stock options	16	37
Proceeds from employee stock purchase plan	1,723	-
Proceeds from disgorgement of stockholders short-swing profits	-	1,664
Employee taxes paid related to the net share settlement of stock-based awards	(1,909)	(1,618)
Net cash used in financing activities	<u>(193)</u>	<u>(100)</u>
Net decrease in cash and cash equivalents	(27,197)	(7,401)
Cash and cash equivalents		
Beginning of period	107,114	114,515
End of period	<u>\$ 79,917</u>	<u>\$ 107,114</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):

Reconciliation of Non-GAAP Financial Measures

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2022	2021	2022	2021
Reconciliation of Non-GAAP gross profit				
Gross profit	\$ 54,245	\$ 39,975	\$ 193,970	\$ 141,071
Stock-based compensation expense	603	364	2,491	1,062
Non-GAAP gross profit	\$ 54,848	\$ 40,339	\$ 196,461	\$ 142,133
Reconciliation of Non-GAAP operating income (loss)				
Loss from operations	\$ (13,149)	\$ (9,720)	\$ (51,676)	\$ (28,089)
Stock-based compensation expense	13,708	7,151	47,738	21,730
Non-GAAP operating income (loss)	\$ 559	\$ (2,569)	\$ (3,938)	\$ (6,359)
GAAP operating margin	(19%)	(18%)	(20%)	(15%)
Non-GAAP operating margin	1%	(5%)	(2%)	(3%)
Reconciliation of Non-GAAP net income (loss)				
Net loss	\$ (11,942)	\$ (9,900)	\$ (50,240)	\$ (28,702)
Stock-based compensation expense	13,708	7,151	47,738	21,730
Non-GAAP net income (loss)	\$ 1,766	\$ (2,749)	\$ (2,502)	\$ (6,972)
Reconciliation of Non-GAAP net income (loss) per share				
Net loss per share attributable to common shareholders, basic and diluted	\$ (0.22)	\$ (0.18)	\$ (0.92)	\$ (0.53)
Stock-based compensation expense	0.25	0.13	0.87	0.40
Non-GAAP net income (loss) per share (*)	\$ 0.03	\$ (0.05)	\$ (0.05)	\$ (0.13)
Reconciliation of free cash flow				
Net cash provided by operating activities	\$ 2,952	\$ 2,477	\$ 10,668	\$ 14,817
Expenditures for property and equipment	(397)	(264)	(1,824)	(926)
Free cash flow	\$ 2,555	\$ 2,213	\$ 8,844	\$ 13,891

(*) For the three months ended December 31, 2022, Non-GAAP Basic and Diluted net income per share were both \$0.03. Non-GAAP Diluted net income per share for the three months ended December 31, 2022 was calculated using 55,179,912 weighted-average shares of common stock outstanding, which includes the impact of dilutive shares related to options and restricted stock units. All other GAAP and Non-GAAP net loss per share calculations excluded these common stock equivalents as their effect is antidilutive.