

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2022

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period from _____ to _____

Commission File Number 001-39156

SPROUT SOCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware 27-2404165

(State or other jurisdiction of
incorporation or organization) (I.R.S. Employer
Identification No.)

131 South Dearborn St. , Suite 700

Chicago , Illinois

60603

(Address of principal executive offices and zip code)

(866) 878-3231

(Registrant's telephone number, including area
code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, \$0.0001 par value per share	SPT	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

Securities registered pursuant to section 12(g) of the Act:

None

Indicate by a check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

As of June 30, 2022, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the stock held by non-affiliates was approximately \$2.7 billion.

As of February 17, 2023, there were 47,661,689 shares and 7,400,532 shares of the registrant's Class A and Class B common stock, respectively, \$0.0001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for its 2023 Annual Meeting of Stockholders, which is expected to be held on May 23, 2023, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2022.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in this Annual Report on Form 10-K (“Annual Report”) not based on historical facts are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include statements about Sprout Social, Inc.’s (“Sprout Social”) plans, objectives, strategies, financial performance and outlook, trends, prospects or future events and involve known and unknown risks that are difficult to predict. As a result, our actual financial results, performance, achievements or prospects may differ materially from those expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “explore,” “intend,” “long-term model,” “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, as they relate to Sprout Social, our business and our management. Forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by Sprout Social and our management based on their knowledge and understanding of the business and industry, are inherently uncertain. These forward-looking statements should not be read as a guarantee of future performance or results, and stockholders should not place undue reliance on forward-looking statements. There are a number of risks, uncertainties and other important factors, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking statements contained in this Annual Report. Such risks, uncertainties and other important factors include, among others, the risks, uncertainties and factors set forth under “Part I—Item 1A. Risk Factors” and “Part II—Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the risks and uncertainties related to the following:

- our ability to attract, retain, and grow customers;
- our ability to access third-party APIs and data on favorable terms;
- our future financial performance, including our revenue, cost of revenue, gross profit, operating expenses, ability to generate positive cash flow, and ability to achieve and maintain profitability;
- our ability to increase spending of existing customers;
- the evolution of the social media industry, including adapting to new regulations and use cases;
- our ability to innovate and provide a superior customer experience;
- worldwide economic conditions, including the macroeconomic impacts of the COVID-19 pandemic and the ongoing conflict between Russia and Ukraine, and their impact on information technology spending;
- our ability to securely maintain customer and other third-party data;
- our ability to maintain and enhance our brand;
- the effects of increased competition from our market competitors or new entrants to the market;
- our estimates of the size of our market opportunities;
- our ability to comply with modified or new laws and regulations applying to our business, including data privacy and security regulations;
- our ability to successfully enter new markets, manage our international expansion and comply with any applicable laws and regulations;

- our ability to maintain, protect and enhance our intellectual property;
- our ability to attract and retain qualified employees and key personnel;
- our ability to effectively manage our growth and future expenses; and
- the other factors set forth under “Risk Factors.”

These factors are not necessarily all of the important factors that could cause our actual financial results, performance, achievements or prospects to differ materially from those expressed in or implied by any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth above. Forward-looking statements speak only as of the date they are made, and we do not undertake or assume any obligation to update forward-looking statements to reflect actual results, changes in assumptions, laws or other factors affecting forward-looking information, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

MARKET AND INDUSTRY DATA

Unless otherwise indicated, information contained in this Annual Report concerning our industry, including industry statistics and forecasts, competitive position and the markets in which we operate is based on information from independent industry and research organizations, other third-party sources and management estimates. Management estimates are derived from publicly available information released by independent industry analysts and other third-party sources, as well as data from our internal research, and are based on assumptions made by us upon reviewing such data, and our experience in, and knowledge of, such industry and markets, which we believe to be reasonable. In addition, projections, forecasts, assumptions and estimates of the future performance of the industry in which we operate and our future performance are necessarily subject to uncertainty and risk due to a variety of factors, including those described in “Cautionary Note Regarding Forward-Looking Statements” and “Part I—Item 1A. Risk Factors.” These and other factors could cause results to differ materially from those expressed and forecasts in the estimates made by the independent parties and by us.

Unless expressly stated, we obtained industry, business, market and other data from the reports, publications and other materials and sources listed below. In some cases, we do not expressly refer to the sources from which this data is derived. In that regard, when we refer to one or more sources of this type of data in any paragraph, you should assume that other data of this type appearing in the same paragraph is derived from the same sources unless otherwise expressly stated or the context otherwise requires.

- G2, Inc. (“G2”), research data, January 26, 2022
- Glassdoor, Inc. (“Glassdoor”), Best Places to Work, companies under 1,000 employees, 2017, 2019, 2020, 2021, 2022 and 2023
- Glassdoor rating and CEO approval rating, February 10, 2023
- Great Place to Work and PEOPLE®, 2022 PEOPLE Companies that Care list,
- Statista, Total Global Social Media Users, January 2022
- The 2017 Sprout Social Index, Edition XI: Social Personality
- The 2022 Sprout Social Index: Edition XVIII (“The 2022 Sprout Social Index”)

CERTAIN DEFINED TERMS

Except where the context suggests otherwise, we defined certain terms in this Annual Report as follows:

“API” means application programming interface.

“Co-Founders” means each of Justyn Howard, our Chairman and Chief Executive Officer, Aaron Rankin, our Chief Technology Officer, Gilbert Lara, our Chief Creative Officer, and Peter Soung, our Director, Engineering, and trusts for the benefit of such founders, their respective spouses and/or their lineal descendants.

“CRM” means customer relationship management.

“Enterprise” means organizations that we have identified or that self-identified as having 1,000 or more employees.

“Lightbank” means entities affiliated with Lightbank, LLC.

“Mid-market” means organizations that we have identified or that self-identified as having 50 to 999 employees.

“NEA” means entities affiliated with New Enterprise Associates, Inc.

“SEC” means the U.S. Securities and Exchange Commission.

“SMB” or “small-and-medium-sized businesses” mean organizations that we have identified or that self-identified as having less than 50 employees.

PART I

Item 1. Business

Sprout Social — Powering the Evolution of Customer Experience

With more than 4.5 billion global users consuming and sharing billions of posts per day, social media has fundamentally changed the customer experience. Social media has become mission-critical to the way organizations reach, engage and understand their target audience and customers.

Sprout Social is a powerful, centralized platform that provides the critical business layer to unlock the massive commercial value of social media. We have made it increasingly easy to standardize on Sprout Social as the centralized system of record for social and to help customers maximize the value of this mission critical channel. Currently, more than 34,000 customers across more than 100 countries rely on our platform.

Overview

Sprout Social empowers businesses to tap into the power and opportunity presented by the shift to social communication. Social media reaches almost half of the world's population, influences buying behaviors and has changed the way the world communicates. Billions of users are sharing their interests, opinions and values with their social networks every day and are using social media to communicate with and about businesses, organizations and causes on an unprecedented scale. Virtually every aspect of business has been impacted by social media, from marketing, sales, commerce and public relations to customer service, product and strategy, creating a need for an entirely new category of software and an entirely new system of record. We offer our customers a centralized, secure and powerful platform that can scale horizontally across an organization to drive maximum business value.

Introduced in 2011, our cloud software brings together social messaging, data and workflows in a unified system of record, intelligence and action. Operating across major networks, including Twitter, Facebook, Instagram, TikTok, Pinterest, LinkedIn, Google, Reddit, Glassdoor and YouTube, and commerce platforms Facebook Shops, Shopify and WooCommerce, we provide organizations with a centralized platform to manage their social media efforts across stakeholders and business functions.

Our platform is easy-to-use and can be deployed rapidly by new customers without direct engagement from our sales or services teams. In 2022, the majority of our new customer revenue resulted from our trials and other inbound sources. Our 30-day free trial model allows prospective customers to set up and use our software within minutes and without assistance.

We operate a single code-base without the need for customizations or professional services, allowing us to efficiently scale our platform and quickly react to changes in the market. Relative to our primary competitors, our platform is the top user-rated social media management software across all major categories and customer segments according to G2, reinforcing our leading market position and brand.

We have proven success in the SMB, Mid-market and Enterprise segments. Each of our segments is growing, but we expect that our current and future growth will likely be driven by outsized contributions from Mid-market and Enterprise. We estimate that less than 5% of the millions of businesses on social media have adopted software solutions to centrally manage their social media efforts, providing a large, nascent opportunity to drive significantly increased market adoption of our solution and continued growth across all customer segments.

We have a highly efficient, product-driven go-to-market strategy that has enabled us to scale rapidly, attracting more than 34,000 current customers from small businesses to global brands as well as marketing agencies and government, non-profit and educational institutions. In 2022, the strength of our brand, content marketing, and search engine optimization resulted in the majority of our inbound trials generated through unpaid marketing. The scale of these trials allows us to rapidly test, adapt and optimize our go-to-market approach for sustained, capital-efficient growth.

Increased adoption of our platform across functions within an organization also represents a large growth opportunity within our existing customer base. Our platform is licensed on a per-user basis with numerous upsell opportunities through additional users and product modules. As social becomes a critical channel for virtually all aspects of the customer experience, including brand awareness, customer acquisition, social customer care, commerce, advocacy and reputation management, we expect that our customers will increase adoption of our platform across departments.

With our efficient go-to-market model and over 99% of our revenue in 2022 from software subscriptions, we have experienced strong unit economics across all customer segments as we continue to grow and refine our sales and marketing efforts. Our single code-base also creates a scalable and capital-efficient model that enables us to add new customers at little incremental cost. We believe that the single code-base and scalability of our technology are also meaningful technology differentiators.

Our success and innovation are driven by an experienced leadership team and award-winning culture with a reputation for caring deeply about the success of our customers and employees. This strong employer brand allows us to attract and retain high-quality talent and deliver a premium experience for our customers. Glassdoor has recognized us as one of the “Best Places to Work” in 2017, 2018, 2020, 2021, 2022 and 2023.

Our strong culture, world-class management team, leading platform and efficient go-to market strategy have led to revenue of \$253.8 million, \$187.9 million and \$132.9 million during the years ended December 31, 2022, 2021 and 2020, respectively, representing growth of 35% from 2021 to 2022 and representing growth of 41% from 2020 to 2021. Additionally, we generated over \$296 million in annualized recurring revenue, or ARR, as of December 31, 2022. For more information on how we define and calculate ARR, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Business Metrics—ARR.” We generated net losses of \$50.2 million, \$28.7 million and \$31.7 million during the years ended December 31, 2022, 2021 and 2020, respectively.

Our Industry

Social media began as a way for individuals to connect and share experiences. Networks like Twitter, Facebook, LinkedIn and subsequent major networks allowed individuals to more easily communicate with friends, family, colleagues and those who shared common interests. As social media grew, savvy businesses recognized its power as a channel to market to consumers at scale. A new form of advertising was born and brands rushed to establish a presence and following on social media as a powerful new way to connect with their customers.

With more than 3.9 billion users and millions of businesses adopting social media, it has fundamentally changed communication and commerce, and we are just beginning to understand its implications and importance.

We believe social media is simultaneously many things:

- social media is a facilitator of shared human experiences;
- social media is shaping our perception of the world around us;
- social media is driving consumer trends and influencing purchases;

- social media is shifting power to consumers;
- social media is holding brands to higher standards;
- social media is replacing existing communication channels; and
- social media is an unprecedented source of business intelligence.

While businesses have begun to adapt by establishing a presence on social media and incorporating social media into advertising strategies, we believe the adjustments necessary to remain competitive and relevant amidst this disruption are substantial and require new software solutions, business processes and approaches in every corner of the organization.

Social Media's Impact on Business

Businesses must face the reality that social media is not simply a place to advertise. Social media has evolved to impact aspects of marketing, public relations, sales, customer relationships, customer service, product feedback, commerce, business intelligence and strategy. Social media is a new layer that will embed in the digital technology stack across an organization:

- ***Consumer influence has expanded.*** The ubiquity and ease of social media has enabled a new, public form of casual opinion, observation, endorsement or criticism. Social media has given consumers a powerful, public voice that can reward or penalize organizations. Organizations must listen and respond to this voice.
- ***The balance of power has shifted from brands to consumers.*** For as long as media and commerce have existed, brands have largely been in control of their message. Brands determined how and when to communicate with their audience, giving them significant control over their reputation. With the rise of social media, the balance of power has shifted to the consumer. Nearly half of the world's population is sharing opinions across social media daily, shaping public perception and influencing purchasing decisions at enormous scale.
- ***Social media is driving trends and purchasing decisions.*** A significant number of purchasing decisions are originating from, influenced by or transacted through social media. According to our report, Social Shopping in 2022: Consumer Behaviors in the Social Shopping Cart, 40% of consumers find products via organic social posts from the brand and 34% of consumers research products using social media.
- ***Consumer expectations are high.*** Consumers demand that brands be present and responsive across social networks, with more than 76% anticipating a response to a social media message within 24 hours and more than 90% expecting a response within 48 hours, according to The 2022 Sprout Social Index. According to the same report, when brands take too long to respond, 36% of consumers say they'll share that negative experience with friends and family, 31% say they won't complete their purchase, and 30% say they will buy from a competitor instead.
- ***All aspects of business communication are shifting to social.*** Billions of conversations that were previously taking place via email or over the telephone are now occurring over social media. Customers are turning to social for customer service, sales inquiries, product feedback and virtually all aspects of the customer experience. Business systems that were built around telephone and email communication cannot adequately address this shift, requiring a new system of record.
- ***Unprecedented business intelligence.*** We believe social media provides the largest source of business intelligence that has ever existed. This represents a real time pulse of consumer sentiment that is unbiased and includes a broad universe not only of current

customers, but of potential future customers. Real-time consumer opinions, market trends, competitive insights, product performance and market research can be measured and analyzed using social data. Business decisions and strategy can be derived and validated more efficiently with data available at a larger scale than ever before.

Challenges Facing Our Target Market

The global adoption of social media requires a fundamental shift in business processes and practices across an organization. It requires recalibration and retooling on the same scale as were mandated by the historical shifts to email and telephone.

There are several challenges facing businesses trying to adapt to this new reality:

- **Consumers are forcing adoption.** Social media is becoming the default communication channel for consumers in coveted demographics. Consumers are expressing their opinions and talking to and about brands through billions of posts per day. Most organizations are not equipped for this new reality and must adjust their business processes and implement tools to manage this new communication channel.
- **The alternative is irrelevance.** A failure to solve the challenges posed by the shift to social communication would mean disconnecting from large and growing demographics. Organizations seeking to engage and connect with their audience without utilizing social tools and strategies are at a severe disadvantage.
- **The stakes are incredibly high for brands.** Social media gives consumers the power to put everything a brand does into the public eye and under a microscope. A misstep on social media is magnified and can lead to boycott or brand erosion overnight. The need for centralized tools with the necessary workflows, security and visibility across an organization has never been more critical. A mistake over email or the telephone is typically isolated to the sender and recipient. A mistake on social is public, permanent and can be catastrophic.
- **Social touches every aspect of business.** While marketers and advertisers were the early adopters of social media, its impact and importance have spread across the entire organization to customer acquisition, support, retention and growth. Like email and the telephone before it, social is not constrained to a particular business purpose. It touches the entire customer experience and impacts virtually every part of a business.
- **Managing social is highly complex.** Social media communication and consumption are happening billions of times per day across multiple platforms and formats, requiring businesses to be every place at once. Organizations are forced to manage dozens to hundreds of social profiles, a multitude of public and private conversations and billions of data points in real time. Managing this complex landscape in an efficient, secure and scalable manner is not viable without a centralized platform.
- **It is difficult to gather intelligence.** Social is one of the largest sources of business intelligence in the world and possesses the ability to answer critical questions and inform strategy. However, most organizations currently lack the tools necessary to access and analyze available data.
- **Significant security and compliance concerns exist.** Security and privacy issues have dominated the discussion around social media in recent years, leading to increased complexity, risk and regulation. Conforming to these requirements and maintaining security across dozens to hundreds of social profiles on multiple social networks reinforces the need for centralized management.

- **Brands need a centralized solution.** Managing the complexity of social media and providing a positive customer experience require that all parts of an organization share a single system of record, intelligence and action. For example, a social media message from a customer may require collaborative input and action from multiple departments at once. Without a centralized platform to provide visibility, workflow and coordination across business functions, the customer experience can become disjointed and inconsistent.

Our Solution

Our powerful, easy-to-use platform enables customers to manage the complexities of social media across their entire organization. Our relationships with Twitter, Facebook, Instagram, Pinterest, LinkedIn and Google, among others, allow us to build robust solutions that meet today's business needs while maintaining our focus on innovation as the market evolves.

Our relentless focus on customer relationships and building the highest-quality products have made our platform the highest customer-rated product across all major categories and customer segments relative to our primary competitors according to G2.

The key benefits of our solution include:

- **Comprehensive, all-in-one solution.** Our platform brings every aspect of the social experience together into a single, elegant and robust solution. From engagement, publishing, and reporting and analytics to reputation management, business intelligence, advocacy, and workflow and collaboration, our customers can manage their entire social experience seamlessly and more effectively through a single pane of glass.
- **Single platform for the entire organization.** Our platform delivers a compelling experience by enabling users across all functions and use-cases to work side-by-side. Rather than isolating these use-cases and toolsets, we have brought them together seamlessly through a centralized solution to drive visibility and collaboration across the entire organization.
- **Easy to deploy and use.** As the impact of social media spreads further across organizations, ease of deployment and usability are critical. With no professional services or customizations required, a typical customer is fully operational within minutes of starting their trial. Our powerful platform is designed to be easy to use so that it can be rapidly adopted and leveraged by novice users while also having the robust capabilities needed by the most demanding Enterprise users. Our solution enables seamless collaboration across departments and is consistently rated the easiest-to-use social media management software available amongst our primary competitors.
- **Purpose-built to handle the velocity of social.** We have the ability to quickly adapt as the market changes because all of our customers are served from a single code-base. We can deploy a change in minutes for the benefit of our over 34,000 current customers to address changes in network functions, expanded capabilities and evolving compliance requirements. We remove this burden from our customers while continuing to drive innovation with constant enhancements across our platform.
- **Democratizing business intelligence.** When businesses have access to better information, everyone benefits. Our platform harnesses and delivers the power of vast business intelligence across the organization where it can be translated into value and innovation. Our customers have immediate access to social analytics, competitive insights, peer benchmarking, market research and consumer trend information. Combining and benchmarking billions of data points, we help our customers measure their performance, identify opportunities for improvement and understand how their brands should evolve.

- **Proven scale, reliability and security.** With over 34,000 current customers, our platform and architecture have the massive scale needed to deliver exceptional performance and reliability, as well as visibility into trends that can indicate where our market is headed. We have the robust security and compliance tools needed to be successful.

Our Competitive Strengths

The competitive strengths of our platform include:

- **Product-led platform.** We organically built the core capabilities of our platform, allowing us to maintain our high-quality standards and a seamless customer experience. Recognizing that using our product is often the first experience our prospective customers have with Sprout, our focus from inception has been to build elegant, powerful and easy-to-use products. Further, our proprietary single code-base allows us to adapt and update our products quickly as social platforms evolve.
- **Market leadership and premium brand.** Our solution is highly regarded and recognized in the industry. Our robust content marketing engine delivers thought leadership to all decision makers in the buying process, from practitioners to executives. As a result of our strong brand and reputation for quality and service, we generated more than 80% of our revenue from new customers in 2022 from unpaid channels.
- **Diverse customer base with a highly efficient go-to-market strategy.** We serve a large number of customers across industry and customer segments. With our self-serve, inside and field sales strategies, we seek to efficiently provide each customer segment with an exceptional experience and efficient scalability.
- **Minimal time to value.** Our unified code-base and efficient sales strategy allow us to deliver the product to each customer quickly and seamlessly. Within minutes of requesting our products, our customers can implement our platform across their organizations.
- **Massive and growing dataset.** With over 34,000 current customers and billions of data points, we are able to harness massive amounts of feedback to optimize our products rapidly and in real-time, benefiting our platform by enabling us to understand the key features and products that are important to our customers and create compelling user experiences.
- **Network relationships.** We have built strong relationships with major social media networks, including Twitter, Facebook, Instagram, TikTok, Pinterest, LinkedIn and Google, among others. We work together closely with these networks to address the evolving needs of our customers and to bring new ideas and innovation to market.
- **Superior customer service.** We offer live customer support to each customer regardless of spend, and customer success has always been deeply rooted in our DNA. As a result, we have been recognized on G2's 2023 list of the Highest Satisfaction Products, defined as products that "leave the most positive impact on their users"
- **Large and growing barriers to entry.** Due to the technical complexities on the back end of social media, required network relationships and rising customer emphasis on security, compliance and data privacy, we believe the barriers to entry in our market have risen materially over the past several years.
- **World-class culture.** Our success is possible because of our award-winning culture, which allows us to attract and retain top talent. We have a deep commitment to our people and our customers that compounds our competitive advantages as we continue to grow.

Our Culture

At Sprout, culture is a business strategy. We do not view culture as a set of perks but rather an intentional approach to our employees, customers and communities. We believe our culture serves as a strong competitive advantage, allowing us to build the kind of company that can lead a market, adapt and continue to innovate for our customers. We believe our ability to execute on our growth strategy is directly related to our award-winning culture with a reputation for caring deeply about our customers and our employees. This is evidenced by our top user rating on G2 and 4.3 rating and 92% CEO approval rating on Glassdoor.

Glassdoor has recognized us as one of the “Best Places to Work” in 2017, 2019, 2020, 2021, 2022 and 2023. In 2022, we were also recognized by Great Place to Work and PEOPLE magazine on the 2022 PEOPLE Companies that Care list, which is based on data from companies representing more than 6.1 million U.S. employees. In that survey, 96% of employees said Sprout Social is a great place to work, which is 68% higher than the average U.S. company. Sprout was also recognized as the #6 Best Workplace in Chicago and #9 Best Workplace for Parents by Great Place to Work. This strong employer brand allows us to continue to attract high-quality talent and deliver a premium experience for our customers. Our culture is centered on seven core values:

- **Care deeply.** We genuinely and deeply care about our customers, people, communities and families. We cannot serve one of these groups without serving them all well.
- **Embrace accountability.** We are accountable as individuals and as an organization, and celebrate our wins and our failures with equal appreciation.
- **Champion diversity, equity and inclusion.** Our success comes from our diverse and talented people with varied perspectives who can be their whole selves in an equitable and inclusive environment.
- **Promote open, authentic communication.** Our business was built on the idea that open communication moves the world forward.
- **Seek simplicity.** We strive to make our products, our processes, our policies and our operations as free from complexity as possible, allowing us the ability to grow, adapt and thrive.
- **Solve hard problems.** We solve hard problems in thoughtful, elegant ways to provide remarkable experiences for our customers and team.
- **Celebrate change.** Our industry was created from a transformative shift in the way people communicate. We are a company that sees thoughtful change as an opportunity rather than a burden.

The alignment of our values and shared goals allows us to move quickly in a space that is constantly evolving.

Our Market Opportunity

Due to social media’s rapidly growing strategic importance, we believe all organizations of adequate scale around the globe would benefit from using a social media management solution to engage with their consumers and drive insights from social data. We also believe our platform addresses this significant capability gap, serving what we refer to as the social media management market.

We estimate that, based on our current average customer spending levels, the annual served addressable market (SAM) for our platform in 2021 exceeded \$44 billion. We estimate that our SAM opportunity will exceed \$100 billion by 2025, an annual market growth rate of greater than 20%.

We calculated our current SAM estimate as follows: (i) utilized data from The U.S. Small Business Administration, The U.S. Census Bureau, The Organisation for Economic Co-operation and Development and Statista to estimate the total number of businesses in the United States and globally in each of our served market segments (Enterprise, Mid-Market, SMB) with a social media presence; (ii) utilized internal data and estimates to estimate the number of such businesses that require a social media management platform (the “Target Businesses”); (iii) calculated the average of our annual contract value (ACV) and our estimate of our primary competitors’ ACVs in each segment; and (iv) multiplied the estimated average segment ACVs by the estimated number of Target Businesses in each segment.

We calculated our greater than \$100 billion 2025 SAM forecast using the methodology above. We used internal estimates informed by research from the Harris Poll to determine the projected business presence on social media in 2025 that will require a social media management platform, multiplied by our internal projected average segment ACVs in 2025 for Sprout Social and its primary competitors in the applicable segment.

Our Growth Strategies

We intend to capitalize on our large market opportunity with the following key growth strategies:

- **Acquire new customers.** We believe there is a substantial opportunity to increase adoption of our solution. We have experienced strong organic new customer growth due to low-friction, self-serve onboarding that allows us to acquire customers with relatively low sales and marketing investment. We intend to aggressively pursue new customers with increasing efficiency in our go-to-market approach while expanding our sales capacity. Although many new customers adopt our solution during their first engagement with us, we intend to drive higher conversion of product demonstrations and new trials through various sales, marketing and product initiatives as one component of our customer acquisition strategy.
- **Further penetrate our existing customer base.** We believe we can achieve significant organic growth by expanding penetration of our existing customer base with the addition of new users, new add-on products and new use-cases for our platform. As social media drives businesses to evolve their strategies holistically across customer service and support, corporate communications, product development and recruiting and training, we believe that we have a significant opportunity to increase our sales further into, and outside of, the marketing business unit.
- **Continue to innovate and develop new products.** We are focused on investing in research and development to continue to enhance our platform and release new features, and we have one of the largest independent datasets of consumer social media presence. As we make this investment, we expect to develop new products leveraging our valuable dataset and broadening our offerings, while expanding into adjacent markets.
- **Expand into international markets.** We are still early in the global adoption curve for social media solutions, which presents a large opportunity to capture market share in an underserved and growing market. As we invest in acquiring new customers, we expect to continue to develop our presence in international markets, such as Europe, Australia and New Zealand, to address this large opportunity. For example, we opened an office in Dublin, Ireland to better serve the EMEA market, and we have sales representatives in Canada, the United Kingdom, Singapore, India and Australia.

Our Platform

Social media has created significant opportunities for businesses to reach, acquire, retain and connect with their customers. It has also introduced a high level of complexity and the need for a centralized platform to manage these efforts across the organization. Our platform brings all of the

necessary tools together for organizations to expertly and efficiently manage this new channel and create compelling experiences for their audience.

Our powerful, easy-to-use cloud platform allows organizations of all sizes to create stronger relationships through social media, create and publish effective content, measure and improve performance and better understand their markets and customers.

We provide robust and fully integrated tools across a variety of functions:

- Social Engagement / Response;
- Publishing;
- Reporting and Analytics;
- Social Listening and Business Intelligence;
- Reputation Management;
- Social Commerce;
- Employee Advocacy; and
- Automation and Workflows.

These tools serve a broad range of use-cases within our customers' organizations including:

- Social and Community Management;
- Public Relations;
- Marketing;
- Customer Service and Care;
- Commerce;
- Sales and Customer Acquisition;
- Recruiting and Hiring;
- Product Development; and
- Business Strategy.

Ease of Use / Implementation

Our platform does not require long deployment and implementation cycles, or high services costs to maintain. Our customers can be up and running in a matter of minutes, which serves as one of our key competitive advantages. We believe our product is the industry standard for product quality, design and user experience, taking the complexity of social and putting it in one simple platform so our customers can focus on growing their business.

Moving at the Pace of Social

Keeping pace with the evolution of social networks alongside our customers' usage is a prerequisite for our success. We believe our competitive advantage is partly due to the relationships we have built with the social networks over the past nine years. These relationships have enabled us to

actively collaborate in lockstep with their respective product and engineering teams to roll out new features for our customers.

Components of our Platform

Engagement: managing social media conversations

Social media messaging has taken the place of telephone and email for many customer and business interactions. Our engagement tools allow our customers to efficiently and effectively receive and respond to messages across social platforms and provide the collaboration and visibility necessary to create seamless customer experiences across the organization.

- **Smart inbox.** We bring public and private messages from across social networks and profiles into a single, unified inbox. This allows our customers to centralize interactions with their audiences and customers and provides the necessary tools and workflows to deliver seamless customer experiences.
- **Social CRM.** When interacting across social channels, context is important. We provide historical conversations, notes and user information in-line to ensure responses are relevant and productive.
- **Social monitoring and alerts.** In addition to messages sent to our customers, our platform also captures messages relating to our customers, for awareness and response when needed. We also provide an alerts engine to notify our customers when critical messages are received.
- **Customer service tools.** Many of the messages received through social media are customer service related. We provide tools to route and assign messages, and to measure the performance of our customer's customer service efforts through social media.
- **Automation.** We provide our customers the ability to automate alerts and categorization of messages, as well as a bot-builder technology that can automate high-volume customer conversations in private social channels.

Publishing: plan and publish effective content

Publishing effective, compelling content on social media is critical to growing an audience and keeping them engaged. We provide the tools necessary to plan, create and publish content to reach the right audience, with the right message at the right time.

- **Centralized content planning, creation and publishing.** We enable customers to create text and multimedia content to be sent across multiple social networks using an intuitive publishing interface, as well as a shared publishing calendar and campaign organization for collaboration across teams and departments.
- **Automated scheduling.** Our platform allows content to be scheduled across social networks immediately or at specific dates and times. Content can also be drafted, added to an automated queue or sent using our patented Viralpost technology for optimal reach. Viralpost uses machine learning to determine the best times to reach a customer's most engaged audience.
- **Content performance reporting.** We provide reporting and analytics on the performance of content and campaigns to help our customers better understand their performance and increase the effectiveness of their publishing efforts.

- **Suggested content.** We help customers identify compelling content to share with their audience based on global trends. We surface content such as posts that have been shared widely across major social networks so that customers can better understand what content is resonating with their audiences.
- **Message approval workflows.** Publishing content to social media often requires approvals from within an organization. We provide the workflows to obtain these approvals from single or multiple parties prior to posting to social media.
- **Publishing permissions & governance.** Maintaining control over social media publishing permissions and records of publishing activity is critical for security and compliance. Our granular permissions allow customers to grant access as needed without sharing critical social profile credentials and records all publishing and approval activity.
- **Content and asset libraries.** Social media content and campaigns are often shared and repurposed across an organization. We provide libraries for shared content and assets that can be used across teams, locations or departments.

Analytics: measure and improve your social media performance

Our reporting suite helps our customers drive strategic decision making across their business with access to rich social data and analytics. We provide them the tools to measure their effectiveness and productivity, benchmark against peers, measure content performance and business impact, and gain insights on areas of improvement.

- **Comprehensive social media reporting.** Our customers can measure and analyze their performance across Twitter, Facebook, Instagram, Pinterest and LinkedIn through rich experiences designed to extract actionable insights from data. Reporting can be done across networks, analyzing paid and organic performance compared to historic and peer or competitor performance.
- **Content performance reporting.** Measuring the effectiveness, reach and reaction to published content allows our customers to optimize their social publishing efforts to drive incremental value for their audiences.
- **Customer service and team reporting.** Customer service conducted through social media requires rapid response and resolution. Our service- and support-focused reports allow our customers to understand their response rates and times, measure team member activity, measure net promoter scores and benchmark against peers.
- **Custom report builder.** In addition to our presentation-ready reports, customers can customize reports to meet their needs, and export those reports in several formats to share with peers and stakeholders across their business.
- **Reporting API.** Data provided in our reporting suite can be delivered via API for integration with existing business intelligence tools.

Social Listening: business intelligence at scale

Every day, hundreds of millions of data points are created across social networks that contain information that can help businesses better understand their markets, their customers and their

competition. We provide affordable, powerful and approachable tools to access this rich data in order to make better business decisions. Social data is a real-time focus group at a global scale.

- **Market research.** We provide dynamic visualizations of historical and real-time analysis of our customer's social data so they can extract actionable insights and make better business decisions.
- **Brand health.** Our customers can monitor their brand's general health, analyze campaign performance and gain visibility into consumer needs and sentiment drivers to help them understand and improve their brand performance.
- **Competitive insights.** Our customers can identify opportunities to differentiate their brand, products and services through competitor comparison, sentiment research and share of voice analysis. This helps them to keep ahead of their competition.
- **Consumer trends.** We provide a cross-channel conversational analysis to help our customers uncover emerging trends and identify influencers to fine-tune campaigns to strengthen market positioning.
- **Product feedback.** Social conversations often point to product related feedback. Our customers can leverage these consumer insights to upgrade their customer experiences and refine products and services.

Additional features:

As social media use expands throughout our customers' organizations, their use-cases and needs expand. We respond to these increasing demands by continuously enhancing our platform and expanding our offering.

- **Social Commerce.** Commerce transactions are shifting to social, which is a primary point of product discovery for consumers. We allow brands to easily link their commerce platforms, currently Shopify and Facebook Shops, for a unified view of product catalogs, SKU availability and purchase history, which help inform proactive marketing efforts and create seamless, unified customer service experiences.
- **Reputation management.** Brand reputations are being shaped by social media and customer review sites. We provide customers a seamless, integrated solution to manage their reputation across review sites and social media.
- **Employee advocacy.** An organization's employees are highly trusted by their followers and can extend a brand's reach on social media. Our advocacy solutions allow our customers to distribute pre-approved content to their team to facilitate sharing across the individual's social network.
- **Mobile applications.** Social media is 24/7 and extends well beyond the work day. Our mobile applications give our customers access to our platform on any current Android or iOS device.
- **Chat bot creation and management.** To manage high volumes of customer messaging, we provide our customers with an intuitive interface to build and deploy chat experiences to help their audience get the information they need quickly and efficiently.

Pricing

Following an initial 30-day free trial, our subscription-based model allows our customers to choose a core plan based on their needs and license the platform on a per user per month basis.

Here is how it works:

1. Customers choose a core plan and license the platform per-user.
2. Customers add users, social profiles, and use-cases.
3. Customers add product modules (e.g., Listening) for an additional monthly rate depending on their needs.

Customers

We have a highly diverse base of over 34,000 current customers across SMBs, Mid-market companies, Enterprises and marketing agencies, as well as government, non-profit and educational institutions. We have been increasingly focused on the Mid-market and Enterprise segments. We expect that our current and future growth will likely be driven by outsized contributions from Mid-market and Enterprise. Aligning to this focus, we announced a price increase in November 2022, which values our software consistent with the expectations of these segments of the market. As a result, our total number of customers or the number of net new customers we add each quarter may decrease even if the average spend of each new customer increases over time.

Sales and Marketing

Our go-to-market approach is driven by the effectiveness and innovation of our platform and unpaid customer demand. Our model is focused on a product driven strategy, where potential customers are led to our website to sign up for a free trial or to request a demonstration of our products. A subscription is designed to be easily purchased. A substantial number of our customers subscribe without any interaction from our sales team. This approach allows us to cost-effectively drive strong lead generation, upgrade free trials to paying subscription customers, drive strong conversion of demonstration requests and achieve growth of our platform.. As an organization realizes the strength of our platform, adoption of our products increases across the organization. Our product is effective for nearly every part of an organization and the adoption of our platform spreads across departments through word of mouth.

Our marketing team is focused on generating awareness of our social media management platform and on inbound marketing through our industry leading blog and other social content, including our own large social media following. The majority of inbound trials and demonstration requests are generated from unpaid marketing, allowing us to rapidly test, adapt and optimize our go-to-market for sustained growth.

As of December 31, 2022, our sales and marketing department had 599 employees. Our sales and marketing expenses were \$123.7 million, \$84.2 million and \$59.1 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Customer Service

Our global support team provides support to all of our customers, regardless of spend or segment, in the channel they prefer. Customer success has always been deeply rooted in our DNA and we have been intentional with our focus on delivering an exceptional level of quality service to our customers. As a result, we have the highest-rated customer support according to G2 when compared to our primary competitors.

We provide 24/7 support through email, telephone, chat and social media and weekend support through email and social. We also offer support in English, Spanish, Portuguese and French to our global customer base.

As of December 31, 2022, our customer service department had 59 employees. Customer service costs are included in Cost of revenue within the Consolidated Statement of Operations and Comprehensive Loss.

Research and Development

We have a proven research and development team that rapidly delivers high-quality products, which has driven our customer growth. Our ability to lead in the social media management market depends on our introduction of new products and continuing to improve our current offerings. We work diligently to respond to our customers' needs to create the best user experience possible.

Our research and development team is responsible for the design, development and testing of our products. We invest substantial resources in research and development to drive our technology innovation and bring new products to the market. As of December 31, 2022, our research and development department had 261 employees. Our research and development expenses were \$61.4 million, \$40.0 million and \$30.5 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Competition

There are a number of established and emerging competitors in the social media management software market. While the market remains fragmented, there has been increasing consolidation in recent years with rising barriers to entry. We consider the competitive differentiators in our market to be:

- all-in-one platform;
- scalability of the platform;
- ease of use, security and reliability; and
- ease & cost to deploy and run the platform.

We believe we compete favorably on all of these factors.

We primarily face competition from other social media management companies such as Hootsuite, Khoros and Sprinklr, as well as a range of independent point solutions. In order to compete, we work tirelessly to innovate and improve our products, while at the same time, preserving our unique culture.

Intellectual Property

We rely on a combination of patent, trade secret, copyright and trademark laws, a variety of contractual arrangements, such as license agreements, assignment agreements, confidentiality and non-disclosure agreements, and confidentiality procedures and technical measures to protect rights in our proprietary property.

We have three issued U.S. patents and two U.S. patent applications pending. We intend to pursue additional patent protection to the extent we believe it would be beneficial and cost-effective.

We actively pursue registration of our trademarks, logos, service marks and domain names in the United States and in other key jurisdictions. We are the registered holder of a variety of domain names

that include the term “Sprout Social” and similar variations. We also own numerous trademarks, trade names, service marks, logos and design marks, including SPROUT SOCIAL and our leaf logo.

In addition to our registered intellectual property, we rely on trade secrets and confidential information to develop and maintain our competitive position. We seek to protect our trade secrets and confidential information through a variety of methods, including confidentiality agreements with employees and third parties who may have access to our proprietary information. We also require most employees to sign agreements, pursuant to which such they assign to us any inventions, developments and other technology generated by them on our behalf.

Accordingly, while we believe our intellectual property is sufficiently protected, the failure to obtain or the loss of some of these rights could have an adverse effect on our business, financial condition and results of operations. We protect and enforce our intellectual property rights, including through litigation as necessary. See “Risk Factors—Risks Related to our Business and Industry—Any failure to protect our intellectual property rights could impair our business.”

Government Regulation

The legal environment of Internet-based businesses is evolving rapidly in the United States and elsewhere. The manner in which existing laws and regulations are applied in this environment, and how they will relate to our business in particular, both in the United States and internationally, is often unclear. For example, we sometimes cannot be certain which laws will be deemed applicable to us given the global nature of our business, including with respect to such topics as data privacy and security, pricing, credit card fraud, advertising, taxation, content regulation and intellectual property ownership and infringement.

Our customers, and those with whom they communicate using our platform, upload and store data onto our platform, generally without any restrictions imposed by us. This presents legal challenges to our business and operations, such as rights of privacy or intellectual property rights related to the content loaded onto our platform. Both in the United States and internationally, we must monitor and comply with a host of legal concerns regarding the data stored and processed on our platform as well as the operation of our business. These laws include, without limitation, the following:

Data Privacy and Security Laws

In the ordinary course of our business, we may process personal data. Accordingly, we are, or may become, subject to numerous data privacy and security obligations, including federal, state, local, and foreign laws, regulations, guidance, and industry standards governing data privacy, security, and protection. Such obligations may include, without limitation, the Federal Trade Commission Act, the California Consumer Privacy Act of 2018, as amended by the California Privacy Rights Act of 2020 (“CPRA”) (collectively, the “CCPA”), the Canadian Personal Information Protection and Electronic Documents Act, Canada’s Anti-Spam Legislation, the European Union’s General Data Protection Regulation 2016/679 (“EU GDPR”), and the EU GDPR as it forms part of United Kingdom (“UK”) law by virtue of section 3 of the European Union (Withdrawal) Act 2018 (“UK GDPR”). In addition to the CCPA, several other states within the United States, such as Virginia and Colorado, have passed comprehensive privacy laws and similar laws are being considered in several other states, as well as at the federal and local levels.

The CCPA and EU GDPR are examples of the increasingly stringent and evolving regulatory frameworks related to personal data processing that may increase our compliance obligations and exposure for any actual or perceived noncompliance. For example, the CCPA imposes obligations on covered businesses to provide specific disclosures related to the business’s collection, use, and disclosure of personal data and to respond to certain requests from California residents related to their personal data (for example, requests to know of the business’s personal data processing activities, to delete or correct the individual’s personal data, and to opt out of certain personal data disclosures). Also,

the CCPA provides for administrative fines and a private right of action for certain data breaches which may include an award of statutory damages. In addition, the CPRA's recent amendments to the CCPA established a new regulatory agency to implement and enforce the law.

European data privacy and security laws (including the EU GDPR and UK GDPR) impose significant and complex compliance obligations on entities that are subject to those laws. For example, the EU GDPR applies to any company established in the European Economic Area (“EEA”) and to companies established outside the EEA that process personal data in connection with the offering of goods or services to data subjects in the EEA or the monitoring of the behavior of data subjects in the EEA. These obligations may include limiting personal data processing to only what is necessary for specified, explicit, and legitimate purposes; requiring a legal basis for personal data processing; requiring the appointment of a data protection officer in certain circumstances; increasing transparency obligations to data subjects; requiring data protection impact assessments in certain circumstances; limiting the collection and retention of personal data; increasing rights for data subjects; formalizing a heightened and codified standard of data subject consents; requiring the implementation and maintenance of technical and organizational safeguards for personal data; mandating notice of certain personal data breaches to the relevant supervisory authority(ies) and affected individuals; and mandating the appointment of representatives in the UK and/or the EU in certain circumstances.

See the section titled “Risk Factors—Legal and Regulatory Risks” for additional information about the laws and regulations to which we are or may become subject and about the risks to our business associated with such laws and regulations.

Copyright & Trademark

U.S. and international copyright and trademark laws protect the rights of third parties from infringement of their intellectual property. Our customers can use our platform to upload and present a wide variety of content. In general, our customer terms of service state that customers agree not to, nor authorize or permit any third parties to use our products to post, upload, link to, send, distribute, or store any content that is protected by copyright, trademark, or any other proprietary right without first having obtained all rights, permissions, and consents necessary to make such content available on or through our products. As our business expands to other countries, we must respond to regional and country-specific intellectual property considerations, including takedown and cease-and-desist notices in foreign languages, and we must build infrastructure to support these processes. The Digital Millennium Copyright Act, or DMCA, also applies to our business in the United States. This statute provides relief for claims of circumvention of copyright-protected technologies but includes a safe harbor that is intended to reduce the liability of online service providers for listing or linking to third-party websites or hosting content that infringes copyrights of others. The copyright infringement practices that we have implemented for our platform are intended to satisfy the DMCA safe harbor.

Culture and Workforce

Sprout Social was named a Best Place to Work in 2022 by the Glassdoor Employees' Choice award, marking the fifth time in six years that we have received this recognition. In the third quarter of 2022, Great Place to Work and PEOPLE magazine named Sprout Social to the 2022 PEOPLE Companies that Care list, which is based on data from companies representing more than 6.1 million U.S. employees. In that survey, 96% of employees said Sprout Social is a great place to work, which is 68% higher than the average U.S. company. Sprout Social was also recognized as the #6 Best Workplace in Chicago and #9 Best Workplace for Parents by Great Place to Work in 2022.

As of December 31, 2022, we had a total of 1,141 full-time employees, including 206 employees located outside the United States. None of our employees are represented by a labor union. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

Our commitment to our employees is to foster a culture that enables every member of the Sprout Social team to do their best work of their career and have fun along the way.

Hybrid Work

At Sprout Social, we aspire to create a world-class flexible-first hybrid experience that enables exceptional work, fosters belonging, and transcends location.

Our employees choose where they perform best - whether that's from home, the office, or a mix. We default to digital collaboration and async communication norms to stay connected and work effectively to solve hard problems, and also taking great care in creating meaningful connections while physically apart.

We equally see the value of in-person, human connection and prioritize opportunities that bring our distributed teams together to strengthen the bonds within our global community, and will continue to create community and engagement around our offices. In 2022, we gathered our global team in Chicago for a 'Midyear Meetup' focused on building connection and rapport. We also hired a leader of distributed work to continue to develop these targeted investments and improve hybrid work operations, reinforce trust, and lay the groundwork for the future.

Employee Engagement & Development

We listen to our employees and use their feedback to shape our employee experience priorities. Based on results from our internal employee survey, our employee engagement in 2022 remained above our industry benchmark.

Our commitment to leadership development and developing careers at Sprout Social continues to be a key focus area.

We continue to invest in leadership development at Sprout Social through our GOLD (Growth Oriented Leadership Development) program. The program consists of 'Ignite,' which focuses on new leaders including those new to the role of leadership itself or to leadership at Sprout Social, 'Evolve,' which is tailored towards experienced managers and directors, and 'Amplify' (launched in 2022) which is designed for our most senior leaders. This year we also launched a DEI Leadership Accelerator Program, a four-month experience aimed at supporting the continued growth and retention of our United States-based BIPOC employees through a series of professional development, leadership and peer coaching, and networking opportunities.

In addition to supporting our leaders, in late 2022 we created and launched The Career Studio, our first ever career development resource center for all employees. This is an approachable virtual hub of career development tools designed to empower all employees to take ownership of their career journey at Sprout Social. We continue to invest in our Grow@ digital and on-demand platform, which provides education and development opportunities through internal programs and third party vendors.

Diversity, Equity and Inclusion

We continue to provide public transparency into where we stand, where we've progressed and where we need to improve in the areas of DEI through our DEI Demographic report. Our most recent report was published in February 2023, and we intend to continue to report our progress against the initiatives identified on an ongoing basis.

We established a company-wide workforce diversity vision focused on increasing the representation of women globally and BIPOC employees in the United States through targeted hiring and retention efforts. We regularly track, report progress and identify targeted interventions to support this vision.

We focus our sourcing efforts on underrepresented backgrounds including investing in strategic partnerships such as re:work training and held our Recruitment Team accountable to prospective diverse talent. We actively recruit from Historically Black Colleges and Universities and Hispanic Serving Institutions, including partnering with student organizations that serve traditionally underrepresented groups in tech. In addition, we continued our scholarship program with the United Negro College Fund to provide scholarships for Black/African American students majoring in software engineering. Scholarship recipients were also given the opportunity to interview for our Associate Software Engineering Program.

We run a formal DEI learning curriculum to increase DEI awareness and ensure employees support and help drive our DEI efforts. This includes unconscious bias training for all new hires as part of their onboarding. We also encourage employees to attend our company-wide DEI Guild meetings to discuss relevant topics such as faith inclusion in the workplace, the impact of COVID-19 on the disability community and the exploration of black hair history and culture. We avoid scheduling any other meetings during this time so employees could prioritize this experience.

We have ten Community Resource Groups (CRGs), which are volunteer led groups centered around common identities and life experiences that work to serve the unique needs of their community members, foster a sense of belonging through connection, support and empathy. Each group works with an executive sponsor and receives an annual budget to support their initiatives and our CRG co-leads are compensated for their efforts.

Social Impact

Our Sprout Social Serves Mission is to promote the equity and social justice of historically marginalized communities through advocacy, access to quality education and technology for good. Last year, we donated approximately \$500,000 to support these causes through various not-for-profits.

Total Rewards

We strive to evolve our reward programs to be market competitive and comprehensive to cover employees at every stage of their personal and professional path and are focused on keeping wellness as the foundation for all employees globally. To recruit and retain the best talent in the marketplace, we routinely review and refresh our total rewards program and we rely on employee feedback to shape and evolve our offerings.

We strive to offer options that are competitive, locally relevant and provide the resources needed to live fully, healthily, and balanced in work and life. Our benefits include comprehensive healthcare, a global parental leave program with an equal length of time for all parents, a generous PTO policy, retirement programs and additional resources to support employees' overall mental health and well-being. We also offer a family planning benefit of \$5,000 USD towards surrogacy and adoption. We continue to provide a stipend to all new employees to ensure an optimal home setup and provide a Wi-Fi reimbursement to all employees to support them in our hybrid work environment.

In addition to competitive salaries that are reviewed bi-annually against market-based data, we are committed to pay equity and perform a global pay equity analysis on an annual basis. We also offer stock-based compensation awards for every new employee, regardless of role, eligible to receive annual equity grants (in addition to new hire equity awards), and an Employee Stock Purchase Plan (currently United States only) to provide the opportunity to purchase Sprout Social stock at a discounted price to further benefit from the financial success and growth of the company.

Our Website and Availability of SEC Reports and Other Information

We maintain a website at the following address: www.sproutsocial.com. The information on our website or our social media profiles is not incorporated by reference in this Annual Report.

We make available on or through our website certain reports and amendments to those reports we file with or furnish to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act. These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q, and our current reports on Form 8-K. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC.

Investors and others should note that we routinely announce 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 certain social media profiles (including www.twitter.com/SproutSocial, www.facebook.com/SproutSocialInc, www.linkedin.com/company/sprout-social-inc-/, www.instagram.com/sproutsocial/) as a means of disclosing information about us to our customers, investors and the public. While not all of the information that we post to the Sprout Investors website or to social media profiles is of a material nature, some information could be deemed to be material. Accordingly, we encourage investors, the media and others interested in Sprout Social to review the information that we share at the Investors link located at the bottom of the page on 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 "Request Email Alerts" on the website at investors.sproutsocial.com.

Item 1A. Risk Factors

Investing in our Class A common stock involves a high degree of risk. You should carefully consider the risks described below, as well as the other information in this Annual Report and in our other public filings, including our audited consolidated financial statements and the related notes and the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” before deciding whether to invest in our Class A common stock. The occurrence of any of the events or developments described below could materially and adversely affect our business, financial condition, results of operations and growth prospects. In such an event, the market price of our Class A common stock could decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

Risk Factors Summary

Risks Related to our Business Model and Other Operations Risks

- If we fail to attract new customers and retain and increase the spending of existing customers, our revenue, business, results of operations, financial condition and growth prospects would be harmed.
- Our platform and products are dependent on APIs built and owned by third parties, including social media networks, and, if we lose access to data provided by such APIs or the terms and conditions on which we obtain such access become less favorable, our business could suffer.
- We have experienced rapid revenue growth in recent periods and our recent growth rates may not be indicative of our future growth.
- If we are unable to attract potential customers through unpaid channels, convert this traffic to free trials and other leads or convert free trials and other leads to paid subscriptions, our business and results of operations may be adversely affected.
- If we fail to adapt and respond effectively to rapidly changing technology, new social media platforms, evolving industry standards or changing customer needs, requirements, tastes or preferences, our products may become less competitive.
- If we do not adequately fund our research and development efforts, or use research and development teams effectively, we may not be able to compete effectively, and our business and operating results may be harmed.
- If we fail to offer high-quality customer support, or if the cost of such support is not consistent with corresponding levels of revenue, our business and reputation may be harmed.
- Our rapid growth and limited history with key features of our platform make it difficult to evaluate our prospects and future operating results.

Risks Related to the Use of Technology

- 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.
- We rely upon third parties to operate our platform and any disruption of or interference with our use of such third party providers would adversely affect our business, results of operations and financial condition.

Market and Competition Risk

- Our business depends on a strong brand, and if we are not able to maintain, develop, and enhance our brand, our business and operating results may be negatively impacted. Moreover, our brand and reputation could be harmed if we were to experience significant negative publicity.
- The market in which we operate is competitive, and if we do not compete effectively, our operating results could be harmed.
- Our estimates of market opportunity, forecasts of market growth and our operating metrics may prove to be inaccurate.

Legal and Regulatory Risks

- We are subject to stringent and changing U.S. and foreign laws, regulations, rules, contractual obligations, policies, and other obligations related to data privacy and security. Our actual or perceived failure to comply with such obligations could lead to regulatory investigations or actions; litigation; fines and penalties; disruptions of our business operations; reputational harm; loss of revenue or profits; loss of customers or sales; and other adverse business consequences.
- Changes in laws and regulations related to the internet, perceptions toward the use of social media and changes in internet infrastructure itself may diminish the demand for our platform or products and could adversely affect our business and results of operations.

Risks Related to Ownership of Our Class A Common Stock

- Our share price has been and may continue to be volatile, and you could lose all or part of your investment.
- The dual class structure of our common stock and the existing ownership of capital stock by our Co-Founders have the effect of concentrating voting control with our Co-Founders for the foreseeable future, which will limit the ability of our other investors to influence corporate matters.

Risks Related to Tax and Accounting Matters

- Failure to maintain effective internal control over financial reporting could result in our failure to accurately or timely report our financial condition or results of operations, which could have a material adverse effect on our business and stock price.
- Taxing authorities may successfully assert that we should have collected or withheld, or in the future should collect or withhold, sales and use, gross receipts, value-added, federal, state, or foreign employment, or similar taxes and may successfully impose additional obligations on us, and any such assessments or obligations could adversely affect our business, financial condition and results of operations.

General Risk Factors

- We may make acquisitions of, or invest in, other businesses or technologies, which may divert our management's attention and result in the incurrence of indebtedness or dilution to our stockholders. We may be unable to integrate acquired businesses or technologies successfully or achieve the expected benefits of such acquisitions and investments.
- We depend largely on the continued service of our senior management and other key employees, the loss of any of whom could adversely affect our business, results of operations and financial condition.
- If we cannot attract and retain qualified personnel or maintain our culture as we grow, we may be unable to execute our business strategy.

Risks Related to our Business Model and Other Operations Risks

If we fail to attract new customers and retain and increase the spending of existing customers, our revenue, business, results of operations, financial condition and growth prospects would be harmed.

We derive, and expect to continue to derive, substantially all of our revenue and cash flows from sales of subscriptions to our platform and products. Our ability to generate increasing revenue is dependent on our capacity to attract new customers and retain and increase the spending of existing customers. Demand for our platform and products is affected by a number of factors, many of which are beyond our control, such as:

- continued market acceptance of our platform and products for existing and new use-cases;
- the timing of development and release of new products and functionality introduced by us and our competitors;
- our ability to develop functionality and integrations with third parties, including social media networks, based on customer demand;
- the usability and time to value of our products;
- the pricing of our products and the impact of any future price increases;
- the level of customer service that we provide;
- technological change;
- growth or contraction in our addressable market; and
- macroeconomic factors and their impacts on users of our platform and products.

Our current and prospective customers are impacted by worsening macroeconomic conditions to varying degrees and as a result, in some cases we are experiencing slower growth of existing customers most impacted by these conditions. We cannot predict the impact macroeconomic conditions will have on our customers and how that may impact their spending with us.

We announced a price increase in November 2022 and may announce additional price increases in the future. As a result of this and any future pricing increase, we may experience a decrease in the number of prospective customers requesting demonstrations, signing up for our free trial or converting to paying customers, and the number of new customers who purchase subscriptions to our products and services may decrease. As a result, our total number of customers or the number of net new customers we add each quarter may decrease even if the average spend of each new customer increases over time. We may also experience softening demand or negative sentiment from our customers and prospective customers as a result of our increased pricing, which could impact our brand and competitiveness.

If we are unable to meet customer demands and manage customer experiences through flexible solutions designed to address their needs or otherwise achieve more widespread market acceptance of our platform and products, our revenue, business, results of operations and financial condition and growth prospects will be adversely affected.

In order for us to maintain or improve our operating results, it is important that our existing customers renew their subscriptions, maintain or increase the level of their plans and add additional users, social profiles and products to their subscriptions. Our customers have no obligation to renew their subscriptions, and we cannot assure you that our customers will renew subscriptions with a similar or increased subscription term or plan level or with the same or a greater number of users, social profiles or products. Some of our customers have elected not to renew their agreements with us and we may not be able to accurately predict renewal rates. Moreover, while our contracts are generally non-cancellable during the contractual subscription term, certain customers have the right to cancel their agreements prior to the expiration of the subscription term. Our renewal rates may decline or fluctuate and our cancellation

rates may increase as a result of a number of factors, including customer satisfaction with our platform and products, our customer success and support experience, the price and functionality of our solutions relative to those of our competitors, mergers and acquisitions affecting our customer base, the effects of global economic conditions, or reductions in our customers' spending levels. This may also cause our calculation of the lifetime value of our customers to decline or fluctuate between periods as this calculation assumes the subscription renewal rate for a given year will remain consistent in future years. If our customers cancel or do not renew their subscriptions, renew on less favorable terms, fail to add more users or products or fail to purchase additional products, our revenues and growth prospects may decline.

Our platform and products are dependent on APIs built and owned by third parties, including social media networks, and if we lose access to data provided by such APIs or the terms and conditions on which we obtain such access become less favorable, our business could suffer.

Our platform and products depend on the ability to access and integrate with third-party APIs. In particular, we have developed our platform and products to integrate with certain social media network APIs and the third-party applications of other parties. Generally, APIs and the data we receive from the APIs are written and controlled by the application provider. Any changes or modifications to the APIs or the data provided could negatively impact the functionality of, or require us to make changes to, our platform and products, which would need to occur quickly to avoid interruptions in service for our customers.

To date, we have not relied on negotiated agreements to govern our relationships with most data providers and, in general, we rely on publicly available APIs. As a result, in many cases, we are subject to the standard terms and conditions for application developers of such providers, which govern the distribution, operation and fees of such integrations, and which are subject to change by such providers from time to time. In some cases, we rely on negotiated agreements with social media networks and other data providers. These negotiated agreements may provide increased access to APIs and data that allow us to provide a more comprehensive solution for our customers. These agreements are subject to termination in certain circumstances, and there can be no assurance that we will be able to renew those agreements or that the terms of any such renewal, including pricing and levels of service, will be favorable. We cannot accurately predict the potential impact of the termination of any of our agreements with social media networks and other data providers, including the impact on our access to the related APIs. There can be no assurance that following any such termination, we would be able to maintain our platform's current level of functionality in such circumstances, as a result of more limited access to APIs or otherwise, which could adversely affect our results of operations. For example, we are currently a member of the Twitter Official Partner Program (TOPP). There can be no assurance that Twitter will maintain TOPP in its current form or at all and any change to the program, our access or the terms of our membership may have a negative impact on our business. In addition, there can be no assurance that we will not be required to enter into new negotiated agreements with data providers in the future to maintain or enhance the level of functionality of our platform, or that the terms and conditions of such agreements, including pricing and levels of service, will not be less favorable, which could adversely affect our results of operations.

Our business, cash flows or results of operations may be harmed if any data provider:

- changes, limits or discontinues our access to its APIs and data;
- modifies its terms of service or other policies, including fees charged or restrictions on us or application developers;
- changes or limits how customer information is accessed by us or our customers;
- changes or limits how we can use customer information and other data collected through the APIs;
- establishes more favorable relationships with one or more of our competitors; or
- experiences disruptions of its technology, services or business generally.

We have experienced rapid revenue growth in recent periods and our recent growth rates may not be indicative of our future growth.

We have experienced rapid revenue growth in recent years. In 2022, our revenue was \$253.8 million, an increase of 35% as compared to our revenue of \$187.9 million in 2021, which was an increase of 41% as compared to our revenue of \$132.9 million in 2020. Although we have experienced rapid revenue growth in recent years, we may not continue to grow as rapidly in the future and our revenue growth rates may decline. Our revenue growth may slow or our revenue may decline for a number of other reasons, including reduced demand for our platform or products, increased competition, a decrease in the growth or reduction in size of our overall market, failure to capitalize on growth opportunities, and the impacts to our business from macroeconomic factors such as the Russia-Ukraine war, global geopolitical tension and more recently, rising inflation and interest rates, volatility in the capital markets and related market uncertainty the COVID-19 pandemic, or if we cannot capitalize on growth opportunities. Our current and prospective customers are impacted by worsening macroeconomic conditions to varying degrees and as a result, in some cases we are experiencing slower growth of existing customers most impacted by these conditions. If we are unable to maintain consistent revenue or revenue growth, our stock price could be volatile or decline, and we may not achieve or maintain profitability. You should not rely on our revenue for any prior quarterly or annual periods as any indication of our future revenue or revenue growth.

If we are unable to attract potential customers through unpaid channels, convert this traffic to free trials and other leads or convert free trials and other leads to paid subscriptions, our business and results of operations may be adversely affected.

Our primary go-to-market strategy is an inbound marketing funnel designed to drive traffic to our web properties that offer prospective customers the ability to sign up for free trials or demonstrations of our platform and certain products. We utilize various unpaid content marketing strategies, including webinars, blogs, thought leadership and social media engagement, as well as paid advertising, to attract visitors to our web properties, free trials and demonstrations. We cannot assure you that these unpaid or paid efforts will continue to attract the same volume and quality of traffic to our web properties and free trials and demonstrations and, in the future, we may be required to increase our marketing spend to maintain the same volume and quality of traffic. The conversion rate of free trials and other lead sources to paid subscriptions is impacted by a number of factors, including our ability to promptly demonstrate value to trial and other prospective customers, drive trial customer adoption deeper into our product capabilities and deliver a favorable trial and demonstration customer experience with our sales and customer support teams. Any change in the number or quality of prospective customers entering free trials or requesting demonstrations or the conversion rates for such free trials or demonstrations to paid subscriptions could have an adverse impact on our business and results of operations.

If we fail to adapt and respond effectively to rapidly changing technology, new social media platforms, evolving industry standards or changing customer needs, requirements, tastes or preferences, our products may become less competitive.

Social media and the software industry are each subject to rapid technological change, evolving industry standards and practices and changing customer and user needs, requirements, tastes and preferences. The success of our business will depend, in part, on our ability to adapt and respond effectively to these changes on a timely basis. If we are unable to develop and sell new products that satisfy our customers and provide enhancements and new features for our existing platform and products that keep pace with the rapid change in social media and the software industry, our revenue and operating results could be adversely affected. Our platform must also integrate with a variety of network, hardware, browser, mobile and software platforms, and technologies, and we must continuously modify and enhance our products to adapt to changes and innovation in these technologies. If new technologies emerge or our competitors are able to deliver solutions at lower prices or more efficiently, conveniently or securely, such technologies or solutions could adversely affect our ability to compete.

The social media industry has experienced and is likely to continue to experience rapid change due to the evolving trends, tastes and preferences of users. If consumers widely adopt new social media networks and other third-party platforms or our customers' use cases require new integrations with third-party platforms, we may need to develop integrations and functionality related to these new networks and platforms. This development effort may require significant research and development and sales and marketing resources, as well as licensing fees, all of which could adversely affect our business and operating results. In addition, new social media networks and other third-party platforms may not provide us with sufficient access to data from their platforms, preventing us from building effective integrations with our platform and products. Changing consumer tastes may also render our current integrations or functionality obsolete and the financial terms, if any, under which we obtain such integrations or functionality unfavorable. Any failure of our products to operate effectively with the social media networks and other third-party platforms used most frequently by consumers or customers could reduce the demand for our products. If we are unable to respond to these changes in a cost-effective manner, our products may become less marketable and less competitive or obsolete, and our operating results may be negatively affected. In addition, the technology industry has experienced, and may continue to experience, leadership changes, layoffs and other corporate changes that could have a negative impact on our ability to work effectively with the partner.

If we do not adequately fund our research and development efforts, or use research and development teams effectively, we may not be able to compete effectively, and our business and operating results may be harmed.

To remain competitive, we must continue to develop new product offerings, as well as features and enhancements to our existing platform and products. Maintaining adequate research and development personnel and resources to meet the demands of the market is essential. If we experience high employee turnover, lack of management ability or a lack of other research and development resources, we may miss market opportunities. The success of our business is dependent on our research and development teams developing a roadmap that allows us to retain and increase the spending of our existing customers and attract new customers. Social media is quickly evolving and we may invest significantly in particular functionality or integrations that may become obsolete in the future. Further, many of our competitors may expend a considerably greater amount of funds on their research and development programs, and those that do not may be acquired by larger companies that would allocate greater resources to our competitors' research and development programs. Our failure to maintain adequate research and development resources, to use our research and development resources efficiently or to compete effectively with the research and development programs of our competitors could materially adversely affect our business.

If we fail to offer high-quality customer support, or if the cost of such support is not consistent with corresponding levels of revenue, our business and reputation may be harmed.

Our customers rely on our customer support organization to respond to inquiries and resolve issues related to their use of our platform quickly and effectively. Our customer support relies on third-party technology platforms, which may become unavailable or otherwise prevent our customers and customer support team from interacting on a timely basis. Our response times to customers and prospects may be impacted for reasons outside our control, such as changes to social media networks and other third-party APIs, which may interrupt aspects of our service to our customers. From time to time, we experience spikes in the number of customer support tickets that we receive, which may result in an increase in customer requests and significant delays in responding to our customers' requests. Increased customer demand for our support services, without corresponding revenue increases, could increase our costs and harm our operating results. As we continue to grow our operations and support our global user base, we need to continue to provide efficient and high-quality support that meets our customers' needs globally at scale. Our sales process is highly dependent on the ease of use of our platform and products, our business reputation and positive recommendations from our existing

customers. Any failure to maintain a high-quality customer support organization, or a market perception that we do not maintain such levels of support, could harm our reputation, our ability to sell to existing and prospective customers and our business.

Our international sales and operations subject us to additional risks and costs, including exposure to foreign currency exchange rate fluctuations, that can adversely affect our business, operating results and financial condition.

For each of the years ended December 31, 2022, 2021 and 2020, we derived 28%, 28% and 29%, respectively, of our revenue from customers located outside of the United States. We are continuing to expand our international operations as part of our growth strategy. However, there are a variety of risks and costs associated with our international sales and operations, which include making investments prior to the proven adoption of our products, the cost of conducting our business internationally and hiring and training international employees and the costs associated with complying with local law. Furthermore, we cannot predict the rate at which our platform and products will be accepted in international markets by potential customers. We believe our ability to attract new customers to subscribe to our platform or to attract existing customers to renew or expand their use of our platform is directly correlated to the level of engagement we obtain with the customer. To the extent we are unable to effectively engage with non-U.S. customers due to our limited international sales force capacity, we may be unable to grow in international markets effectively.

As our international operations expand, our exposure to the effects of fluctuations in currency exchange rates grows. While we have primarily transacted with customers and vendors in U.S. dollars historically, we expect to continue to expand the number of transactions with our customers that are denominated in foreign currencies in the future. Fluctuations in the value of the U.S. dollar and foreign currencies may make our subscriptions more expensive for international customers, which could harm our business. Additionally, we incur expenses for employee compensation and other operating expenses at our non-U.S. locations in the local currency for such locations. Fluctuations in the exchange rates between the U.S. dollar and other currencies could result in an increase to the U.S. dollar equivalent of such expenses. These fluctuations could cause our results of operations to differ from our expectations or the expectations of our investors. Additionally, such foreign currency exchange rate fluctuations could make it more difficult to detect underlying trends in our business and results of operations.

We do not currently maintain a program to hedge transactional exposures in foreign currencies. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

If we are unable to develop and maintain successful relationships with channel partners, our business, results of operations and financial condition could be harmed.

We have established relationships with certain channel partners, including resellers and referral partners, to distribute our platform. We believe that continued growth in our business is dependent upon identifying, developing and maintaining strategic relationships with our existing and potential channel partners that can drive substantial revenue and provide additional value-added services to our customers. We expect channel partners to become increasingly important as we expand within the United States and internationally. Although a small portion of our revenue is currently derived from our channel partners, loss of or reduction in sales through these third parties could reduce our revenue. Our competitors may, in some cases, be more effective than we are in utilizing channel partners to increase sales of their products and services. Recruiting and retaining qualified resellers in our network and training them in our

technology and product offerings requires significant time and resources. If we fail to maintain relationships with our resellers, fail to develop relationships with new resellers in new markets or expand the number of resellers in existing markets or fail to manage, train or provide appropriate incentives to our existing resellers, our ability to increase the number of new customers and increase sales to existing customers could be adversely impacted, which would harm our business. In addition, if resellers do not effectively market and sell our products, or fail to meet the needs of our customers, our reputation and ability to grow our business may also be harmed.

Changes in the sizes or types of organizations that purchase our platform or products could affect our business and our financial results may fluctuate due to increasing variability in our sales cycles.

Our strategy is to sell subscriptions of our platform to organizations of all sizes with a focus on Mid-market and Enterprise customers. Selling to small-to-medium businesses may involve greater credit risk and uncertainty, as well as lower retention rates and limited interaction with our sales and other personnel. Conversely, sales to Enterprise customers may entail longer sales cycles, more significant selling efforts and greater uncertainty. We plan our expenses based on certain assumptions about the length and variability of our sales cycle based upon historical trends for sales and conversion rates associated with our existing customers. If we are successful in expanding our customer base to include more Enterprise customers, our sales cycles may lengthen and become less predictable, which, in turn, may adversely affect our financial results.

If there are changes in the mix of organizations that purchase our platform and products, our gross margins, number of customers, and operating results could be adversely affected, and fluctuations increasing the variability in our sales cycles could negatively affect our financial results.

We have incurred and expect to continue to incur significantly increased costs and substantial demands on management time to operate as a public company.

As a public company, we have incurred and expect to continue to incur significant legal, accounting, and other expenses that we did not incur as a private company. We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, the listing requirements of the Nasdaq Capital Market on which our Class A common stock is traded and other applicable securities rules and regulations. Furthermore, we no longer qualify as an emerging growth company and, as a result, are subject to additional reporting requirements and standards and accelerated filing deadlines for our periodic reports. For example, we have incurred and continue to incur significant expenses and devoted substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. We also became subject to enhanced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and requirements to hold a nonbinding advisory vote on executive compensation. Compliance with these requirements has increased our legal and financial compliance costs and has made some activities more time consuming and costly. In addition, our management and other personnel devote substantial time to our public company requirements, which diverts attention from operational and other business matters. We have and will continue to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge and maintain an internal audit function. We cannot predict or estimate the amount of additional costs we may incur as a result of operating as a public company or the timing of such costs.

Our rapid growth and limited history with key features of our platform make it difficult to evaluate our prospects and future operating results.

We were incorporated in 2010 and we introduced our first solution in 2011. Since then, our business has grown rapidly and evolved significantly. Many of the key features of our platform and products have only launched in the past few years. As a result of the rapid growth and evolution of our

business, our ability to forecast our future operating results is limited and subject to a number of uncertainties, including our ability to plan for and model future growth. As such, any predictions about our future revenue and expenses may not be as accurate as they could be if we had a longer operating history with our current platform or products or operated in a more predictable market. We have encountered and will encounter risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described herein. If our assumptions regarding these risks and uncertainties, which we use to plan our business, are incorrect or change, or if we do not address these risks and uncertainties successfully, our operating and financial results could differ materially from our expectations and our business could suffer.

We have a history of losses and may not achieve profitability in the future.

We have incurred net losses since inception and expect to incur net losses in the future. We incurred net losses of \$50.2 million, \$28.7 million and \$31.7 million in 2022, 2021 and 2020, respectively. As of December 31, 2022, we had an accumulated deficit of \$226.0 million. We have never achieved profitability on an annual or quarterly basis and we do not know if we will be able to achieve or sustain profitability. We plan to continue to invest in our research and development and sales and marketing efforts, and we anticipate that our operating expenses will continue to increase as we scale our business and expand our operations.

Our business and results of operations may be materially adversely affected by the ongoing COVID-19 pandemic or other similar outbreaks.

The ongoing COVID-19 pandemic has resulted in a widespread health crisis that has adversely affected businesses, economies and financial markets worldwide and has caused significant volatility in U.S. and international debt and equity markets. The COVID-19 pandemic continues to evolve and measures remain in place to varying degrees as the rate and pace of recovery from COVID-19 has differed and continues to differ by geography and industry. The extent of COVID-19's effect on our operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. For example, the COVID-19 pandemic and related worsening macroeconomic conditions, including rising interest rates and volatility in the capital markets, may cause companies to decrease marketing and social media spending, or pause such spending altogether, making it more difficult for us to acquire new customers, as well as retain and upsell existing customers. Similarly, customers under economic stress related to the COVID-19 pandemic may be less likely to pay us on time or at all. As a result of this uncertainty, it is not currently possible to ascertain the overall impact of COVID-19 on our business.

Risks Related to the Use of Technology

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.

Our operations rely on information technology systems for the use, storage and transmission of sensitive and confidential information with respect to our customers, our customers' consumers or other social media audiences, the third-party technology platforms of other parties and our employees. A malicious cybersecurity-related attack, intrusion or disruption by either an internal or external source or other breach of the systems on which our platform and products operate, and on which our employees conduct business, could lead to unauthorized access to, use of, loss of or unauthorized disclosure of sensitive and confidential information, disruption of our services, and resulting regulatory enforcement actions, litigation, indemnity obligations and other possible liabilities, as well as negative publicity, which could damage our reputation, impair sales and harm our business. In addition to traditional computer "hackers," malicious code (such as viruses and worms), phishing, employee theft or misuse, and denial-of-service attacks, sophisticated nation-state and nation-state supported actors now engage in attacks (including advanced persistent threat intrusions). Despite efforts to create security barriers to such

threats, it is not feasible, as a practical matter, for us to entirely mitigate these risks. If our security measures are compromised as a result of third-party action, employee, customer, or user error, malfeasance, stolen or fraudulently obtained log-in credentials or otherwise, our reputation would be damaged, our data, information or intellectual property, or those of our customers, may be destroyed, stolen or otherwise compromised, our business may be harmed and we could incur significant liability. We have not always been able in the past and may be unable in the future to anticipate or prevent techniques used to obtain unauthorized access to or compromise of our systems because they change frequently and are generally not detected until after an incident has occurred. We also cannot be certain that we will be able to prevent vulnerabilities in our software or quickly address vulnerabilities that we may become aware of in the future. Further, as we rely on third-party cloud infrastructure, we depend in part on third-party security measures to protect against unauthorized access, cyberattacks and the mishandling of data and information. Any cybersecurity event, including any vulnerability in our software, cyberattack, intrusion or disruption, could result in significant increases in costs, including costs for remediating the effects of such an event, lost revenue due to network downtime, and a decrease in customer and user trust, increases in insurance premiums due to cybersecurity incidents, increased costs to address cybersecurity issues and attempts to prevent future incidents, and harm to our business and our reputation because of any such incident.

There can be no assurance that any limitation of liability provisions in our subscription agreements would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any claim related to a cybersecurity incident. We also cannot be sure that our existing general liability insurance coverage and coverage for cyber liability or errors or omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, would harm our business.

Many governments have enacted laws requiring companies to provide notice of data security incidents involving certain types of personal data. In addition, some of our customers require us to notify them of data security breaches. Security compromises experienced by our competitors, by our customers or by us may lead to public disclosures, which may lead to widespread negative publicity. Any security compromise in our industry, whether actual or perceived, could harm our reputation, erode confidence in the effectiveness of our security measures, negatively affect our ability to attract new customers, encourage consumers to restrict the sharing of their personal data with our customers or the social media networks, cause existing customers to elect not to renew their subscriptions or subject us to third-party lawsuits, regulatory fines or other action or liability, which could harm our business.

We rely upon third parties to operate our platform and any disruption of or interference with our use of such third party providers would adversely affect our business, results of operations and financial condition.

We rely upon third parties to operate our platform and any disruption of or interference with our use of such third party providers would adversely affect our business, results of operations and financial condition.

We outsource the vast majority of our cloud infrastructure to Amazon Web Services, or AWS, which hosts our platform and products and which we refer to as our Hosting Provider. Our customers must have the ability to access our platform at any time, without interruption or degradation of performance. Our Hosting Provider runs its own platform upon which our platform and products depend, and we are, therefore, vulnerable to service interruptions at our Hosting Provider. We have experienced, and expect that in the future we may experience interruptions, delays and outages in service and availability from time to time due to a variety of factors, including infrastructure changes, human or software errors, website hosting disruptions and capacity constraints. Capacity constraints could be due

to a number of potential causes including technical failures, natural disasters, fraud or security attacks. In addition, if our security, or that of our Hosting Provider, is compromised, our platform or products are unavailable or our users are unable to use our products within a reasonable amount of time or at all, then our business, results of operations and financial condition could be adversely affected. We note that our ability to conduct security audits on our Hosting Provider is limited and our contracts do not contain strong indemnification terms in our favor. In some instances, we may not be able to identify and/or remedy the cause or causes of these performance problems within a period of time acceptable to our customers. It may become increasingly difficult to maintain and improve our platform performance, especially during peak usage times, as our products become more complex and the usage of our products increases. To the extent that we do not effectively address capacity constraints, either through our Hosting Provider or an alternative provider of cloud infrastructure, our business, results of operations and financial condition may be adversely affected. In addition, any changes in service levels from our Hosting Provider may adversely affect our ability to meet our customers' requirements.

The substantial majority of the services we use from AWS are for cloud-based server capacity and, to a lesser extent, storage and certain other proprietary offerings. AWS enables us to order and reserve server capacity in varying amounts and sizes distributed across multiple availability zones and regions. We access AWS infrastructure through standard intellectual property, or IP, connectivity. AWS provides us with computing and storage capacity pursuant to an agreement that continues until terminated by either party. If any of the AWS data centers become unavailable to us without sufficient advance notice, we would likely experience delays in delivering our platform and products until we could migrate to an alternate data center provider. Our disaster recovery program contemplates transitioning our platform and products to our backup data centers or regions in the event of a catastrophe, but we have not yet fully tested the procedure, and our platform and products may be unavailable, in whole or in part, during any transition procedure. Although we expect that we could receive similar services from other third parties, if any of our arrangements with AWS are terminated, we could experience interruptions on our platform and in our ability to make our products available to customers, as well as delays and additional expenses (including research and development expenses) in arranging alternative cloud infrastructure services.

Any of the above circumstances or events may harm our reputation, cause customers to stop using our products, impair our ability to attract new customers and increase revenue from existing customers, subject us to financial penalties and liabilities under our service level agreements and otherwise harm our revenue, business, results of operations and financial condition.

We are subject to subscription and payment processing risk from our third-party vendors and any disruption to such processing systems could adversely affect our business and results of operations.

We rely on a third-party subscription management platform to process the subscription plans and billing frequencies of our customers. In addition, we rely primarily on a single third party for credit card payment processing services for the portion of our customers paying by credit card. If either of these third-party vendors were to experience an interruption, delay or outages in service and availability, we may be unable to process new and renewing subscriptions or credit card payments. In addition, if either of these third-party vendors experience a cybersecurity breach affecting data related to services provided to us, we could experience reputational damage or incur liability. Although alternative providers may be available to us, we may incur significant expense and research and development efforts to deploy any alternative providers. To the extent there are disruptions in our or third-party subscription and payment processing systems, we could experience revenue loss, accounting issues and harm to our reputation and customer relationships, which would adversely affect our business and results of operations.

Real or perceived errors, failures or bugs in our platform or products could materially and adversely affect our operating results and growth prospects.

The software underlying our platform and products is highly technical and complex. Our software has previously contained, and may now or in the future contain, undetected errors, bugs or vulnerabilities. In addition, errors, failures and bugs may be contained in open source software utilized in building and operating our products or may result from errors in the deployment or configuration of open source software. Some errors in our software may only be discovered after the software has been deployed or may never be generally known. Any errors, bugs or vulnerabilities discovered in our software after it has been deployed, or never generally discovered, could result in interruptions in platform availability, product malfunctioning or data breaches, and thereby result in damage to our reputation, adverse effects upon customers and users, loss of customers and relationships with third parties, including social media networks, loss of revenue or liability for damages. In some instances, we may not be able to identify the cause or causes of these problems or risks within an acceptable period of time.

Market and Competition Risk

Our business depends on a strong brand, and if we are not able to maintain, develop, and enhance our brand, our business and operating results may be negatively impacted. Moreover, our brand and reputation could be harmed if we were to experience significant negative publicity.

We believe that maintaining, developing, and enhancing our brand is critical to achieving widespread acceptance of our platform and products, attracting new customers, retaining existing customers, persuading existing customers to adopt additional products and use-cases, and hiring and retaining our employees. We believe that the importance of our brand will increase as our awareness and business continue to expand. Successful promotion of our brand will depend on a number of factors, including the effectiveness of our marketing efforts, our thought leadership, our ability to provide a high-quality, reliable and cost-effective platform, the actions of our employees, executives, and board members, the perceived value of our platform and products, and our ability to provide quality customer success and support experience. The promotion of our brand, however, may not directly generate customer awareness or increase revenue, and any increase in revenue may not offset the expenses we incur in building and maintaining our brand.

We operate in a public-facing industry in which every aspect of our business is impacted by social media. Negative publicity, whether or not justified, can spread rapidly through social media. To the extent that we are unable to respond timely and appropriately to negative publicity, our reputation and brand could be harmed. Moreover, even if we are able to respond in a timely and appropriate manner, we cannot predict how negative publicity may affect our reputation and business. We and our employees also use social media to communicate externally. There is risk that the use of social media by us, our employees, executives, or board members to communicate about our business or other matters may give rise to liability, damage our brand, or result in public exposure of personal data of our employees or customers, each of which could affect our revenue, business, results of operations and financial condition.

The market in which we operate is competitive, and if we do not compete effectively, our operating results could be harmed.

The market for our social media management platform is fragmented, rapidly evolving, and competitive. In addition to competing with comprehensive social media management platforms with diverse capabilities, we compete with point solutions for sentiment monitoring, compliance, social listening, content management and distribution, employee advocacy, relationship management and social commerce, among others, as well as native use of individual social media networks. To remain competitive, we must deliver features and functionality that enhance the utility of our platform to our new and prospective customers, without the presence of software defects, adapt to changing functionality and APIs of the social media networks and other third party platforms, maintain and develop integrations with third parties that provide value to our customers, ensure our platform and products are easy to use and

deliver value to our customers, provide a superior customer success and support experience and demonstrate value to our current and prospective customers across multiple functions within their organizations. We may not be successful in delivering on some or all of the foregoing or doing so while maintaining competitive pricing of our platform and products, which could result in customer dissatisfaction and adversely affect our business.

Many of our current and future competitors may benefit from competitive advantages over us, such as greater name recognition, longer operating histories, more varied products and services, larger sales and marketing or research and development budgets, more established relationships with social media networks and different or a greater number of third-party integrations. In addition, some of our competitors may make acquisitions or enter into strategic relationships to offer a broader range of products and services than we do. These combinations may make it more difficult for us to compete effectively. We expect this to continue as competitors attempt to strengthen or maintain their market positions.

Many factors, including our marketing, customer acquisition and technology costs, and the pricing and marketing strategies of our competitors, can significantly affect our pricing strategies. Certain competitors offer, or may in the future offer, lower-priced products or services that compete with our platform or may bundle and offer a broader range of products and services. Similarly, certain competitors may use marketing strategies that enable them to acquire customers at a lower cost than we can. Even if such products do not include all the features and functionality that our platform provides, we could face pricing pressure to the extent that users find such alternative products to be sufficient to meet their needs. There can be no assurance that we will not be forced to engage in price-cutting initiatives or other discounts or to increase our sales and marketing and other expenses to attract and retain customers in response to competitive pressures, either of which would harm our business and operating results.

Our estimates of market opportunity, forecasts of market growth and our operating metrics may prove to be inaccurate.

Market opportunity estimates and growth forecasts, including those we have generated ourselves, are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The variables that go into the calculation of our market opportunity are subject to change over time, and there is no guarantee that any particular number or percentage of addressable users or companies covered by our market opportunity estimates will purchase our products at all or generate any particular level of revenue for us. Any expansion in the markets in which we operate depend on a number of factors, including the cost, performance, and perceived value associated with our platforms and those of our competitors. Even if the markets in which we compete meet the size estimates, our business could fail to grow at similar rates. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties. Accordingly, our forecasts of market growth should not be taken as indicative of our future growth. For more information regarding the estimates of market opportunity and the forecasts of market growth, see “Business—Our Industry”.

Legal and Regulatory Risks

We are subject to stringent and changing obligations related to data privacy and security. Our actual or perceived failure to comply with such obligations could lead to regulatory investigations or actions; litigation; fines and penalties; disruptions of our business operations; reputational harm; loss of revenue or profits; loss of customers or sales; and other adverse business consequences.

In the ordinary course of business, we process personal data, including proprietary and confidential business data, intellectual property, and other third-party data. For example, we process personal data about our customers’ consumers and other social media users that interact with our customers’ social media pages. Our data processing activities subject us to numerous data privacy and

security obligations, such as various laws, regulations, guidance, industry standards, external and internal privacy and security policies, contracts, and other obligations that govern the processing of personal data by us and on our behalf. While we contractually prohibit our customers from using our platform to process, store, or collect sensitive information (such as personal health information or credit card information), our customers may breach these use prohibitions without our knowledge. Such breach may cause us to inadvertently violate laws, rules, or regulations regarding the use and protection of personal information, which in turn may adversely impact our business.

In the United States, federal, state, and local governments have enacted numerous data privacy and security laws, including data breach notification laws, personal data privacy laws, and consumer protection laws. For example, the CCPA imposes obligations on businesses to which it applies. These obligations include, but are not limited to, providing specific disclosures in privacy notices and affording California residents with certain rights related to their personal data. The CCPA allows for statutory fines for noncompliance of up to \$7,500 per violation. In addition, the CPRA, which went into effect on January 1, 2023, expands the CCPA. For example, the CPRA establishes a new California Privacy Protection Agency to implement and enforce the CPRA, which could increase the risk of an enforcement action. Other states, like Virginia and Colorado, have also enacted or proposed data privacy laws that may differ from the CPRA. If we are or become subject to these laws and/or new or amended data privacy laws, the risk of enforcement actions against us could increase because we may be subject to additional obligations under applicable regulatory frameworks, and the number of individuals or entities that could initiate actions against us may increase, in addition to further complicating our compliance efforts.

Outside the United States, an increasing number of laws, regulations, and industry standards apply to data privacy and security. For example, the EU GDPR and the equivalent law in the UK GDPR impose strict requirements for processing the personal data of individuals. Under the EU GDPR, government regulators may impose temporary or definitive bans on data processing, as well as fines of up to 20 million euros or 4% of annual global revenue, whichever is greater. Similar processing penalties and fines exist under the UK GDPR, and the variations in the application of GDPR in the UK following Brexit has increased the complexity of our compliance efforts. Further, individuals may initiate litigation related to our processing of their personal data. As another example, Brazil's General Data Protection Law (Lei Geral de Proteção de Dados Pessoais, or "LGPD") (Law No. 13,709/2018) may apply to our operations. The LGPD broadly regulates processing of personal data of individuals in Brazil and imposes compliance obligations and penalties comparable to those of the EU GDPR. In Canada, the Personal Information Protection and Electronic Documents Act ("PIPEDA") may apply to our operations. We may also process personal data about our customers' consumers in Asia and therefore, may become subject to new and emerging data privacy regimes in Asia, including China's Personal Information Protection Law, Japan's Act on the Protection of Personal Information, and Singapore's Personal Data Protection Act.

Certain jurisdictions have enacted data localization laws and cross-border personal data transfer laws. For example, absent appropriate safeguards or other circumstances, the EU GDPR, UK GDPR, and laws in Switzerland generally restrict the transfer of personal data to countries such as the United States that these jurisdictions consider to not provide an adequate level of personal data protection. The European Commission released a set of "Standard Contractual Clauses" that are designed to be a valid mechanism by which entities can transfer personal data out of the EEA to jurisdictions that the European Commission has not found to provide an adequate level of protection. Currently, these Standard Contractual Clauses are a valid mechanism to transfer personal data outside of the EEA. The Standard Contractual Clauses, however, require parties that rely upon that legal mechanism to comply with additional obligations, such as conducting transfer impact assessments to determine whether additional security measures are necessary to protect the at-issue personal data. Moreover, due to legal challenges, there exists some uncertainty regarding whether the Standard Contractual Clauses will remain a valid mechanism for transfers of personal data out of the EEA. Similar restrictions and transfer mechanisms exist under the UK GDPR.

In addition to European restrictions on cross-border transfers of personal data, other jurisdictions, such as China's Personal Information Protection Law and Brazil's LGPD, have enacted or are considering similar cross-border personal data transfer laws and local personal data residency laws, any of which could increase the cost and complexity of doing business in foreign jurisdictions. If we cannot implement valid compliance mechanisms for cross-border personal data transfers, we may face increased exposure to regulatory actions, substantial fines, and injunctions against processing or transferring personal data from Europe or elsewhere. The inability to import personal data to the United States could significantly and negatively impact our business operations; limit our ability to collaborate with parties that are subject to European and other data privacy and security laws; or require us to increase our personal data processing capabilities and infrastructure in Europe and/or elsewhere at significant expense.

Our obligations related to data privacy and security are quickly changing in an increasingly stringent fashion, creating some uncertainty as to the effective future legal framework. As our platform and products evolve and the ways we use personal data may change to meet the complex needs of our customer base, we may become subject to additional privacy and security obligations. Additionally, these obligations may be subject to differing applications and interpretations, which may be inconsistent or in conflict among jurisdictions. Our sales cycles may increase due to increasingly rigorous privacy and security assessments that must be completed prior to purchasing our platform and products as a result of increased regulation. Preparation for and compliance with these obligations require us to devote significant resources (including, without limitation, financial and time-related resources). For example, the increased consumer control over the sharing of their personal data afforded by the CCPA may affect our customers' ability to share such personal data with us or may require us to delete or remove consumer information from our records or data sets, which may result in considerable costs for our organization. Further, these obligations may necessitate changes to our information technologies, systems, and practices and to those of any third parties that process personal data on our behalf. In addition, these obligations may require us to change our business model or our products. For example, social media networks (which are integral third-party services to our platform) are under heightened scrutiny from international regulators as well as individuals seeking to bring claims for alleged non-compliance. If the interpretation or application of data privacy or security laws or regulations adversely impact social media networks, this may change the APIs and data made available to us from the social media networks. Although we endeavor to comply with all applicable data privacy and security obligations, we may at times fail (or be perceived to have failed) to do so. Despite our efforts, our personnel or third parties upon whom we rely may fail to comply with such obligations, which could negatively impact our business operations and compliance posture. For example, any failure by a third-party that processes personal data on our behalf to comply with applicable law, regulations, or contractual obligations could result in adverse effects, including inability to operate our business and proceedings against us by governmental entities or others.

If we fail, or are perceived to have failed, to address or comply with data privacy and security obligations, we could face significant consequences. These consequences may include, but are not limited to, government enforcement actions (e.g., investigations, fines, penalties, audits, inspections, and similar); litigation (including class-related claims); additional reporting requirements and/or oversight; bans on processing personal data; and orders to destroy or not use personal data. Any of these events could have a material adverse effect on our reputation, business, or financial condition, including but not limited to, loss of customers; interruptions or stoppages in our business operations; inability to process personal data or to operate in certain jurisdictions; limited ability to develop or commercialize our platform and services; expenditure of time and resources to defend any claim or inquiry; adverse publicity; or revision or restructuring of our operations.

Changes in laws and regulations related to the internet, perceptions toward the use of social media and changes in internet infrastructure itself may diminish the demand for our platform or products and could adversely affect our business and results of operations.

The success of our business depends upon the continued use of the internet and social media networks. Federal, state or foreign government bodies or agencies have in the past adopted, and may in

the future adopt, laws or regulations affecting the use of the internet as a commercial medium. In addition, government agencies or private organizations have imposed and may impose additional taxes, fees or other charges for accessing the internet, generally. These laws, taxes, fees or charges could limit the use of the internet or decrease the demand for internet-based solutions.

The public's increasing concerns about privacy and the use of social media may negatively affect the use or popularity of social media networks, and, in turn, adversely affect our business. For example, negative publicity surrounding particular forums of social media may have an adverse effect on our customers' and prospective customers' perceived value of our solution and willingness to purchase subscriptions or expand such subscriptions to more users or additional departments across their organizations. Similarly, enhanced scrutiny may lead to an increase in regulation of social media, which in turn could change the data or the manner in which data is shared by social media networks to social media management providers and other developers. Any change to the data we receive from social media networks or other third parties may negatively affect the functionality of our platform and products.

In addition, the use of the internet as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of internet activity, security, reliability, cost, ease-of-use, accessibility and quality of service. If the use of the internet is reduced as a result of these or other issues, then demand for our platform and products could decline, which could adversely affect our revenue, business, results of operations and financial condition.

If our information technology systems or data, or those of third parties upon which we rely, are or were compromised, we could experience adverse consequences resulting from such compromise, including but not limited to regulatory investigations or actions; litigation; fines and penalties; disruptions of our business operations; reputational harm; loss of revenue or profits; loss of customers; and other adverse consequences.

In the ordinary course of our business, we may collect, store, use, transmit, disclose, or otherwise process proprietary and confidential data, including personal data and intellectual property. We may rely upon third party service providers and technologies to operate critical business systems to process confidential and personal data in a variety of contexts, including, without limitation, third-party providers of cloud-based infrastructure, encryption and authentication technology, employee email, content delivery to customers, and other functions. Our ability to monitor these third parties' cybersecurity practices is limited, and these third parties may not have adequate information security measures in place. We may inadvertently share or receive sensitive data with or from third parties.

Cyberattacks, malicious internet-based activity, and online and offline fraud are prevalent and continue to increase. These threats are becoming increasingly difficult to detect.

We and the third parties upon which we rely may be subject to a variety of evolving threats, including but not limited to social-engineering attacks (including through phishing attacks), malicious code (such as viruses and worms), malware (including as a result of advanced persistent threat intrusions), denial-of-service attacks (such as credential stuffing), personnel misconduct or error, ransomware attacks, supply-chain attacks, software bugs, server malfunctions, software or hardware failures, loss of data or other information technology assets, adware, telecommunications failures, earthquakes, fires, floods, and other similar threats. Ransomware attacks, including those perpetrated by organized criminal threat actors, nation-states, and nation-state-supported actors, are becoming increasingly prevalent and severe and can lead to significant interruptions in our operations, loss of data and income, reputational harm, and diversion of funds. Extortion payments may alleviate the negative impact of a ransomware attack, but we may be unwilling or unable to make such payments due to, for example, applicable laws or regulations prohibiting such payments. Similarly, supply-chain attacks have increased in frequency and severity, and we cannot guarantee that third parties and infrastructure in our supply chain or our third-party partners' supply chains have not been compromised or that they do not contain exploitable defects

or bugs that could result in a breach of or disruption to our information technology systems (including our platform) or the third-party information technology systems that support us and our services.

Our remote workforce poses increased risks to our information technology systems and data, as more of our employees work from home, utilizing network connections outside our premises. Future business transactions (such as acquisitions or integrations) could expose us to additional cybersecurity risks and vulnerabilities, as our systems (including our platform) could be negatively affected by vulnerabilities present in acquired or integrated entities' systems and technologies.

We may expend significant resources or modify our business activities in an effort to further protect against security incidents. Certain data privacy and security obligations may require us to implement and maintain specific security measures to protect our information technology systems, including our platform, and data. While we have implemented security measures designed to protect against security incidents, there can be no assurance that these measures will be effective.

Applicable data privacy and security obligations may require us to notify relevant stakeholders of security incidents. Such disclosures are costly, and the disclosures or the failure to comply with such requirements could lead to adverse consequences. If we (or a third party upon whom we rely) experience a security incident or are perceived to have experienced a security incident, we may experience adverse consequences. These consequences may include: government enforcement actions (for example, investigations, fines, penalties, audits, and inspections); additional reporting requirements and/or oversight; restrictions on processing data (including personal data); litigation (including class claims); indemnification obligations; negative publicity; reputational harm; monetary fund diversions; interruptions in our operations (including availability of data); financial loss; and other similar harms.

We are subject to U.S. economic sanctions and export control and anti-corruption laws and regulations that could impair our ability to compete in international markets or subject us to liability if we violate such laws and regulations.

We are subject to U.S. economic sanctions and export control laws and regulations that prohibit the provision of certain products and services to certain countries, governments, and persons targeted by U.S. sanctions. We have taken precautions to prevent our services from being exported in violation of U.S. export control and U.S. sanctions laws and regulations. However, we cannot be certain that the precautions we take will prevent violations of these laws. Currently, we do not allow users with IP addresses associated with countries that are the target of comprehensive U.S. economic sanctions to access our platform on a subscription or free trial basis. In the past, parties who self-identified as being in a country that is the target of comprehensive U.S. sanctions signed up for our free trial offering. However, we believe the free-trial features of our offering are consistent with the general licenses issued by the U.S. Department of the Treasury's Office of Foreign Assets Control, authorizing access to personal communication tools by parties in countries subject to comprehensive sanctions. If in the future we are found to be in violation of U.S. sanctions or export control laws, we may be fined or other penalties could be imposed. Finally, changes in export control or economic sanctions laws and enforcement could also result in increased compliance requirements and related costs, which could materially adversely affect our business, results of operations, financial condition and/or cash flows.

We are also subject to various U.S. and international anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, as well as other similar anti-bribery and anti-kickback laws and regulations. These laws and regulations generally prohibit companies and their employees and intermediaries from authorizing, offering or providing improper payments or benefits to officials and other recipients for improper purposes. Our exposure for violating these laws may increase as we continue to expand our international presence, and any failure to comply with such laws could harm our business.

Our use of “open source” software could negatively affect our ability to offer and sell access to our platform and products and subject us to possible litigation.

We use open source software in our platform and products and expect to continue to use open source software in the future. There are uncertainties regarding the proper interpretation of and compliance with open source licenses, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to use such open source software, and consequently to provide or distribute our platform and products. Although use of open source software has historically been free, recently several open source providers have begun to charge license fees for use of their software. If our current open source providers were to begin to charge for these licenses or increase their license fees significantly, this would increase our research and development costs and have a negative impact on our results of operations and financial condition.

Additionally, we may from time to time face claims from third parties claiming ownership of, or seeking to enforce the terms of, an open source license, including by demanding release of source code for the open source software, derivative works or our proprietary source code that was developed using or that is distributed with such open source software. These claims could also result in litigation and could require us to make our proprietary software source code freely available, require us to devote additional research and development resources to change our platform or incur additional costs and expenses, any of which could result in reputational harm and would have a negative effect on our business and operating results. In addition, if the license terms for the open source software we utilize change, we may be forced to reengineer our platform or incur additional costs to comply with the changed license terms or to replace the affected open source software. Further, use of certain open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of software or indemnification for third party infringement claims. Although we have implemented policies to regulate the use and incorporation of open source software into our platform and products, we cannot be certain that we have not incorporated open source software in our platform and products in a manner that is inconsistent with such policies.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement and other losses.

Our agreements with customers and other third parties may include indemnification or other provisions under which we agree to indemnify or otherwise be liable to them for losses suffered or incurred as a result of claims of intellectual property infringement, damages caused by us to property or persons, or other liabilities relating to or arising from our platform, products or other acts or omissions. For some of our larger customers, we sometimes negotiate additional indemnification for breaches of our obligations, representations or warranties in the subscription agreement, gross negligence or willful misconduct, breaches of confidentiality, losses related to security incidents, breach of the data processing addendum or violations of applicable law. The term of these contractual provisions often survives termination or expiration of the applicable agreement. Large indemnity payments or damage claims from contractual breach could harm our business, operating results and financial condition.

From time to time, third parties may assert infringement claims against our customers. These claims may require us to initiate or defend protracted and costly litigation on behalf of our customers, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages on behalf of our customers or may be required to obtain licenses for the platform or products they use or modify our platform or products. If we cannot obtain all necessary licenses on commercially reasonable terms or made such modifications to avoid a claim, our customers may be forced to stop using our platform or products. Further, customers may require us to indemnify or otherwise be liable to them for breach of confidentiality or failure to implement adequate security measures with respect to their data stored, transmitted or processed by our employees, platform or products. Although we normally contractually limit our liability with respect to such obligations, we may still incur substantial liability related to them. Any dispute with a customer with respect to such obligations could have adverse effects on our

relationship with that customer and other current and prospective customers, reduce demand for our platform or products, and harm our revenue, business and operating results.

We may be subject to litigation, disputes or regulatory inquiries for a variety of claims, which could adversely affect our results of operations, harm our reputation or otherwise negatively affect our business.

From time to time, we may be involved in litigation, disputes or regulatory inquiries that arise in the ordinary course of business. These may include claims, lawsuits and proceedings involving labor and employment, wage and hour, commercial, alleged securities law violations or other investor claims, and other matters. We expect that the number and significance of these potential disputes may increase as our business expands and our company grows larger. While our agreements with customers generally limit our liability for damages arising from our platform, we cannot assure you that these contractual provisions will protect us from liability for damages in the event we are sued. Although we carry general liability insurance coverage, our insurance may not cover all potential claims to which we are exposed or may not be adequate to indemnify us for all liability that may be imposed. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, adversely affect our reputation and result in the diversion of significant operational resources. Because litigation is inherently unpredictable, we cannot assure you that the results of any of these actions will not have a material adverse effect on our revenue, business, brand, results of operations and financial condition.

Risks Related to Ownership of Our Class A Common Stock

Our share price has been and may continue to be volatile, and you could lose all or part of your investment.

The market price of our Class A common stock has been, and is likely to continue to be, volatile and could be subject to wide fluctuations in response to many risk factors listed in this section, and others beyond our control, including:

- actual or anticipated fluctuations in our financial condition and operating results, including fluctuations in our quarterly and annual results;
- our failure to meet the estimates and projections of the investment community or that we may otherwise provide to the public;
- rumors, announcements or articles regarding our or our competitors' operations, management, organization, financial condition or financial statements; and
- issuance of new or updated research or reports by securities analysts or the failure of a security analyst to continue covering our company.

Furthermore, the stock markets and software and technology stocks have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies, as recently illustrated by the impact on stock markets from weakening macroeconomic conditions and other adverse effects or developments relating to the effects of the ongoing COVID-19 pandemic, macroeconomic factors including inflation and rising interest rates, and geopolitical instability, including instability resulting from the invasion of Ukraine by Russia and the related sanctions imposed against Russia. These broad market and industry fluctuations may negatively impact the market price of our Class A common stock. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

The dual class structure of our common stock and the existing ownership of capital stock by our Co-Founders have the effect of concentrating voting control with our Co-Founders for the foreseeable future, which will limit the ability of our other investors to influence corporate matters.

Our Class B common stock has ten votes per share and our Class A common stock has one vote per share. As of December 31, 2022, our outstanding Class B common stock represented approximately 61.1% of the voting power of our outstanding capital stock. In addition, as a result of our dual class stock, the holders of Class B common stock, our Co-Founders, collectively control all matters submitted to our stockholders for approval. This concentrated control limits the ability of our other investors to influence corporate matters for the foreseeable future. For example, these stockholders will control elections of directors, amendments of our certificate of incorporation or bylaws, increases to the number of shares available for issuance under our equity incentive plans or adoption of new equity incentive plans, and approval of any merger, sale of assets or other major corporate transaction for the foreseeable future. This may also prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders. This control may adversely affect the market price of our Class A common stock.

In addition, future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain transfers effected for estate planning purposes. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term.

We cannot predict the effect our dual class structure may have on the market of our Class A common stock.

We cannot predict whether our dual class structure will result in a lower or more volatile market price of our Class A common stock, in adverse publicity or other adverse consequences. For example, certain index providers have announced restrictions on including companies with multiple-class share structures in certain of their indices. S&P Dow Jones and FTSE Russell have announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500, pursuant to which, companies with multiple classes of shares of common stock are excluded. In addition, several stockholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual class structure of our common stock may cause stockholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any such exclusion from indices or any actions or publications by stockholder advisory firms critical of our corporate governance practices or capital structure could adversely affect the value and trading market of our Class A common stock.

Future sales of our common stock in the public market could cause our share price to fall.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our Class A common stock and could impair our ability to raise capital through the sale of additional equity securities. As of December 31, 2022, we had 47,562,911 shares of Class A common stock outstanding and 7,460,432 shares of Class B common stock outstanding.

We may issue our shares of common stock or securities convertible into our common stock from time to time in connection with financings, acquisitions, investments, equity incentive plan awards or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the trading price of our Class A common stock to decline.

We have never paid dividends on our capital stock and we do not intend to pay dividends for the foreseeable future.

We have never declared or paid any dividends on our Class A common stock and do not intend to pay any dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the operation and growth of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments. Furthermore, any debt agreement we may enter into may contain negative covenants that limit our ability to pay dividends.

Our charter documents and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

- providing for a classified board of directors with staggered, three-year terms;
- authorizing our board of directors to issue preferred stock with voting or other rights or preferences that could discourage a takeover attempt or delay changes in control;
- prohibiting cumulative voting in the election of directors;
- providing that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- prohibiting the adoption, amendment or repeal of our amended and restated bylaws or the repeal of the provisions of our amended and restated certificate of incorporation regarding the election and removal of directors without the required approval of at least 66.67% of the shares entitled to vote at an election of directors;
- prohibiting stockholder action by written consent;
- limiting the persons who may call special meetings of stockholders; and
- requiring advance notification of stockholder nominations and proposals.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, we are subject to the anti-takeover provisions contained in Section 203 of the Delaware General Corporation Law, or the DGCL. Under Section 203 of the DGCL, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other exceptions, the board of directors has approved the transaction.

These and other provisions in our amended and restated certificate of incorporation and our amended and restated bylaws and under Delaware law could discourage potential takeover attempts, reduce the price investors might be willing to pay in the future for shares of our Class A common stock and result in the market price of our Class A common stock being lower than it would be without these provisions.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our

stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of a fiduciary duty owed by, or other wrongdoing by, any of our current or former directors, officers, employees or our stockholders;
- any action asserting a claim against us arising under the DGCL, our amended and restated certificate of incorporation, or our amended and restated bylaws (as either may be amended from time to time) or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware; and
- any action asserting a claim against us that is governed by the internal-affairs doctrine.

By becoming a stockholder in our Company, you are deemed to have notice of and have consented to the provisions of our amended and restated certificate of incorporation related to choice of forum. This exclusive forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers and other employees, which may discourage lawsuits against us and our directors, officers and other employees. This provision does not apply to claims arising under the Securities Act, the Exchange Act or other federal securities laws for which there is exclusive federal or concurrent federal and state jurisdiction. If a court were to find the exclusive forum provision in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could seriously harm our business.

If securities or industry analysts do not continue to publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our Class A common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our Class A common stock or publish inaccurate or unfavorable research about our business, our Class A common stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our Class A common stock could decrease, which might cause our Class A common stock price and trading volume to decline.

Risks Related to Tax and Accounting Matters

Failure to maintain effective internal control over financial reporting could result in our failure to accurately or timely report our financial condition or results of operations, which could have a material adverse effect on our business and stock price.

The rapid growth of our operations and becoming a publicly traded company have created a need for additional resources within the accounting and finance functions due to the increasing need to produce timely financial information and to ensure the level of segregation of duties customary for a U.S. public company. We continue to reassess the sufficiency of finance personnel in response to these increasing demands and expectations.

We have and expect to continue to expend significant resources in developing the necessary documentation and testing procedures required by Section 404 of the Sarbanes-Oxley Act. However, we cannot be certain that the actions we have taken and may in the future take to improve our internal controls over financial reporting will be sufficient, or that we will be able to implement our planned processes and procedures in a timely manner. Furthermore, as we grow as a business, including through

acquisitions, our internal controls may become more complex and require additional resources to implement and be effective. We have in the past, and may in the future, fail to maintain adequate internal controls. The existence of any material weakness or significant deficiency could result in errors in our financial statements. If we are unable to produce accurate financial statements on a timely basis, investors could lose confidence in the reliability of our financial statements, which could cause the market price of our Class A common stock to decline and make it more difficult for us to finance our operations and growth.

Taxing authorities may successfully assert that we should have collected or withheld, or in the future should collect or withhold, sales and use, gross receipts, value added, federal, state, or foreign employment, or similar taxes and may successfully impose additional obligations on us, and any such assessments or obligations could adversely affect our business, financial condition and results of operations.

The application of indirect taxes, such as sales and use, value-added, goods and services, business, gross receipts taxes, and employment taxes to businesses like ours is a complex and evolving issue. Many of the fundamental statutes and regulations that impose these taxes were established before the adoption and growth of the internet or remote work. In many cases, the ultimate tax determination is uncertain because it is not clear how new and existing statutes might apply to our business. Significant judgment is required on an ongoing basis to evaluate applicable tax obligations and, as a result, amounts recorded are estimates and are subject to adjustments. Additionally, we often rely on third-party technology and consulting firms for tax advice and compliance tools, both of which could fail to work as intended.

Our business is, or may be, subject to such indirect taxes in the United States and various foreign jurisdictions, and we may face indirect tax audits in various U.S. and foreign jurisdictions. In certain jurisdictions, we collect and remit indirect taxes. However, taxing authorities may raise questions about or challenge or disagree with our calculation, reporting or collection of such taxes and may require us to collect and remit such taxes in jurisdictions in which we do not currently do so, and could impose associated interest, penalties and fees. For example, after the U.S. Supreme Court decision in *South Dakota v. Wayfair Inc.*, certain states have adopted, or started to enforce, laws that may require us to calculate, collect and remit taxes on sales in their jurisdictions, even if we do not have a physical presence in such jurisdictions.

A successful assertion by one or more tax authorities requiring us to collect indirect taxes in jurisdictions in which we do not currently do so, to collect additional indirect taxes in a jurisdiction in which we currently collect such taxes, or to withhold additional employment taxes, could, among other things, result in substantial tax liabilities (including taxes on past sales, as well as penalties and interest), create significant administrative burdens for us, discourage users from utilizing our products or otherwise harm our business, financial condition and results of operations.

We recognize subscription revenue ratably over the term of our customer contracts. Consequently, downturns or upturns in new sales may not be immediately reflected in our operating results and may be difficult to discern.

We generally recognize subscription revenue from customers ratably over the terms of their contracts, which can range from monthly to one-year or multi-year arrangements. As a result, a substantial portion of the subscription revenue we report in each period is derived from the recognition of deferred revenue relating to subscriptions entered into during previous periods. Consequently, a decline in new sales or renewals in any one period may not be immediately reflected in our results of operations for such period. However, the cumulative impact of such declines could negatively impact our business and results of operations in future periods. Accordingly, the effect of significant downturns in sales and market acceptance of our solutions, and potential changes in our pricing policies or rate of expansion or retention, may not be fully reflected in our results of operations until future periods. We also may be unable to adjust our cost structure to reflect the changes in revenue, resulting in lower margins and

earnings. In addition, our subscription-based model also makes it difficult to rapidly increase our revenue through additional sales in any period, as revenue from new customers generally will be recognized over the term of the applicable agreement.

Our ability to utilize our net operating loss carryforwards may be limited.

As of December 31, 2022, we had U.S. federal and state net operating loss carryforwards of approximately \$56.8 million and \$10.1 million, respectively. Our ability to utilize our federal net operating loss carryforwards may be limited under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code. The limitations apply if we experience an “ownership change,” which is generally defined as a greater than 50 percentage point change (by value) in the ownership of our equity by certain stockholders over a rolling three-year period. Similar provisions of state tax law may also apply to limit the use of our state net operating loss carryforwards. Future changes in our stock ownership, which may be outside of our control, may trigger an ownership change and, consequently, the limitations under Section 382 of the Code. As a result, if or when we earn net taxable income, our ability to use our pre-change net operating loss carryforwards to offset such taxable income may be subject to limitations, which could adversely affect our future cash flows.

Risks Related to Intellectual Property Matters

Inability or failure to protect our intellectual property rights could impair our business.

Our success and ability to compete depend in part upon our intellectual property. We attempt to protect our intellectual property rights through a combination of trademark, patent, copyright and trade secret laws, as well as licensing agreements and third-party nondisclosure and assignment agreements. However, the steps we take to protect our intellectual property rights may be inadequate. Additionally, because of the differences in foreign intellectual property laws, our intellectual property rights may not receive the same degree of protection in foreign countries as they would in the United States.

Furthermore, it is not always possible to predict where our business will expand to adequately secure our intellectual property rights or obtain protection in countries where we do not currently do business. The inability or failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business, results of operations and financial condition.

In order to protect our intellectual property, we may be required to spend significant resources to monitor and protect our rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management, and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our failure to secure, protect and enforce our intellectual property rights could adversely affect our brand and adversely affect our business.

We rely on our intellectual property to distinguish our products, services, inventions and works of authorship, including software, from those of our competitors and to create competitive advantages in the marketplace. We have applied for and registered much of this intellectual property in the United States and also applied for trademark protection in certain foreign countries. We cannot assure you that our intellectual property applications will be approved. Additionally, although we rely on copyright laws to protect our works of authorship, including our software, we do not apply to register the copyrights in any of our works.

We also rely on unpatented proprietary technology that is only protected to the extent that it is kept secret from and not independently developed by others. To protect our trade secrets and other proprietary technology and information, we have entered into confidentiality agreements with most of our

employees and consultants. We cannot assure you that these agreements will provide meaningful protection against unauthorized use, misappropriation or unlawful disclosure of such trade secrets, know-how or other proprietary technology information. If we are unable to maintain the proprietary nature of our technologies and information, our business, financial condition and results of operations could be harmed.

Third party intellectual property infringement claims could impair our business.

From time to time, our competitors or other third parties may claim, and it may be found, that we are infringing upon or otherwise violating their intellectual property rights, which we may not be aware of prior to such claims. Third parties have and may in the future challenge, attempt to invalidate or attempt to circumvent our intellectual property rights or applications, or may use and register similar intellectual properties in the United States and in other jurisdictions. We cannot assure you that our intellectual property may be of sufficient scope or strength to provide us with any meaningful protection or commercial advantage.

Any claims of intellectual property infringement or other intellectual property violations or challenges, even those without merit, could be expensive and time consuming to defend. Any licensing agreements to use any third party's intellectual property, if required, may not be available to us on acceptable terms. A successful claim of infringement against us could result in our being required to pay significant damages, enter into costly settlement agreements, or prevent us from offering our platform or products in their present form or at all, or under their current trademarks, any of which could have a negative impact on our results of operations and financial condition and harm our future prospects.

We may also be obligated to indemnify our customers or business partners in connection with any such litigation or refund subscription fees, which could further exhaust our resources. Disruptions to our platform or products from such claims could adversely affect our customer satisfaction and ability to attract customers. In the event that our intellectual property is successfully challenged, we could be forced to amend, revise or rebrand our products and services, which could result in loss of brand recognition, and could require us to devote resources to advertising and marketing new brands.

General Risk Factors

Unstable market and economic conditions, including a global or domestic recession or the fear of a recession, may have serious adverse consequences on our business, financial condition and share price.

The global economy, including credit and financial markets, has experienced extreme volatility and disruptions, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, increases in inflation rates, higher interest rates and uncertainty about economic stability. For example, the COVID-19 pandemic resulted in widespread unemployment, economic slowdown and extreme volatility in the capital markets. Similarly, the Russia-Ukraine war has created extreme volatility in the global capital markets and is expected to have further global economic consequences, including disruptions of the global supply chain and energy markets. In addition, rising inflation and other macroeconomic pressures in the United States and the global economy could exacerbate extreme volatility in the global capital markets and heighten unstable market conditions. Any such volatility and disruptions may have adverse consequences on us, our customers, partners or other third parties on whom we rely. If the equity and credit markets continue to deteriorate, including as a result of global geopolitical tension or a global or domestic recession or the fear thereof, it may make any necessary debt or equity financing more difficult to obtain in a timely manner or on favorable terms, more costly or more dilutive. Increased inflation rates can adversely affect us by increasing our costs, including labor and employee benefit costs. In addition, higher inflation also could increase our customers' operating costs, which could result in reduced social media budgets for our customers and potentially less demand for our platform and products. Any significant increases in inflation

and related increase in interest rates could have a material adverse effect on our business, results of operations and financial condition.

We may make acquisitions of, or invest in, other businesses or technologies, which may divert our management's attention and result in the incurrence of indebtedness or dilution to our stockholders. We may be unable to integrate acquired businesses or technologies successfully or achieve the expected benefits of such acquisitions and investments.

We may evaluate and consider potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products and other assets in the future. We also may enter into relationships with other businesses to expand our platform and products, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies.

Any acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures or business liabilities. In particular, we may encounter difficulties integrating the businesses, technologies, products, personnel or operations of the acquired companies, particularly if key personnel of the acquired company choose not to work for us, the acquired platform, products or services are not easily adapted to work with our platform or products or we have difficulty retaining the customers of any acquired business due to changes in ownership, management or otherwise. Acquisitions may also disrupt our business, divert our resources and require significant management and research and development attention that would otherwise be available for development of our existing platform and products. Moreover, the anticipated benefits of any acquisition, investment or business relationship may not be realized, we may be exposed to unknown risks or liabilities, may be required to obtain financing on unfavorable terms, become subject to adverse tax consequences, substantial depreciation or deferred compensation charges, or our ability to complete these transactions may often be subject to approvals that are beyond our control. Consequently, these transactions, even if announced, may not be completed. The occurrence of any of the foregoing could adversely affect our revenue, business, results of operations and financial condition.

We depend largely on the continued service of our senior management and other key employees, the loss of any of whom could adversely affect our business, results of operations and financial condition.

Our future performance depends on the continued service and contributions of our senior management and other key employees to execute on our business plan, to develop our platform and products, to attract and retain customers and to identify and pursue strategic opportunities. The loss of service of senior management or other key employees could significantly delay or prevent the achievement of our development and strategic objectives. In particular, we depend to a considerable degree on the vision, skills, experience and effort of our Co-Founder, Chairman and Chief Executive Officer, Justyn Howard, President, Ryan Barretto and Co-Founder and Chief Technology Officer, Aaron Rankin. The replacement of any of our senior management personnel would likely involve significant time and costs, and such loss could adversely affect our revenue, business, results of operations and financial condition.

If we cannot attract and retain qualified personnel or maintain our culture as we grow, we may be unable to execute our business strategy.

We believe that a critical component of our success has been our company culture and values. We have invested substantial time and resources in building our team and we believe our strong employer brand has been instrumental in our ability to attract and retain highly qualified personnel. Competition for executives, software developers, product managers, sales personnel and other key personnel in the software industry is intense. We have experienced and may in the future experience difficulty attracting and retaining qualified candidates to fill open positions. Many of the companies with which we compete for talent have greater resources than we have and may offer greater compensation

packages. To remain competitive, we must also retain and motivate existing employees through compensation practices, career development opportunities and our company culture and values. As we continue to grow, including expanding our presence domestically and internationally, and to allow our employees to work remotely, we will need to maintain our company culture and values among a larger number of employees dispersed in various geographic regions. Any failure to preserve the company culture and values we have created could negatively affect our future success, including our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives.

Our recent growth and any future growth in headcount may be difficult to manage effectively.

We have recently experienced, and anticipate that we will continue to experience, a period of rapid growth in our operations and headcount. Our growth has placed, and future growth will place, a significant strain on our management, technical, administrative, operational and finance, tax, and accounting infrastructure. Our success will depend in part on our ability to manage this growth effectively. To manage the expected growth of our operations and personnel, we will need to continue to improve our management, technical, administrative, operational, finance, tax, and accounting controls and our reporting systems and procedures. Failure to effectively manage our growth could result in difficulty or delays in effectively scaling our platform or products, declines in quality or customer satisfaction, increases in costs, difficulties in introducing new features, regulatory and legal action, or other difficulties. Any of these difficulties could adversely affect our revenue, business, results of operations and financial condition.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.

We have funded our operations since inception primarily through sales of equity securities, bank loans and subscription payments by our customers for use of our platform and products. We do not know when or if our operations will generate sufficient cash to fund our ongoing operations. In the future, we may require additional capital to respond to business opportunities, challenges, acquisitions, a decline in the level of subscriptions for our platform or products or unforeseen circumstances. We may not be able to timely secure additional debt or equity financing on favorable terms, or at all. Recently worsening macroeconomic conditions, including rising interest rates and volatility in the capital markets, exacerbate this risk. Any debt financing obtained by us could involve restrictive covenants relating to financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our Class A common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

There are risks associated with potential future indebtedness that may adversely affect our financial condition and future financing agreements may contain restrictive operating and financial covenants that could limit our operating flexibility.

Future financing agreements may contain restrictive operating and financial covenants that could limit our operating flexibility, including covenants that limit our ability to incur additional indebtedness or liens, merge with other companies or consummate certain changes of control, acquire other companies, engage in new lines of business, add new offices or business locations, make certain investments, pay dividends, transfer or dispose of certain assets, liquidate or dissolve, amend certain material agreements and enter into various specified transactions. Our ability to remain in compliance with the covenants under any future debt instruments, and to pay fees, interest and principal on our indebtedness will depend on, among other things, our operating performance and market conditions. Accordingly, our cash flow may not be sufficient to allow us to pay principal and interest on future indebtedness and meet our other business obligations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We do not own any real property. Our corporate headquarters are located in Chicago, Illinois, where we lease approximately 128,000 square feet of office space pursuant to a lease that expires in 2028. In January 2020, we entered into a new lease agreement for an office in Seattle, Washington with a lease commencement date in September 2020 and an expiration date of January 31, 2031.

We also entered into a new lease agreement for an office in Dublin, Ireland with a lease commencement date in July 2022 and an expiration date of June 30, 2024.

We believe that our facilities are suitable to meet our current needs.

Item 3. Legal Proceedings

From time to time, we are involved in various legal proceedings arising from the normal course of business. We are not currently a party to any material pending legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our Class A common stock has been listed on the Nasdaq Capital Market under the symbol "SPT" since December 13, 2019.

Our Class B common stock is not listed or traded on any stock exchange.

Holdings of Record

As of February 17, 2023, we had 8 holders of record of our Class A common stock and 14 holders of record of our Class B common stock. Because many of our shares of Class A common stock are held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of beneficial owners of our Class A common stock represented by these holders.

Dividend Policy

We currently intend to retain all available funds and any future earnings to fund the development and growth of our business and to repay future indebtedness, if any, and therefore we do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors, subject to compliance with contractual restrictions and covenants in the agreements governing our current and future indebtedness. Any such determination will also depend upon our business prospects, results of operations, financial condition, cash requirements and availability, industry trends and other factors that our board of directors may deem relevant.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

Use of Proceeds from Initial Public Offering of Class A Common Stock

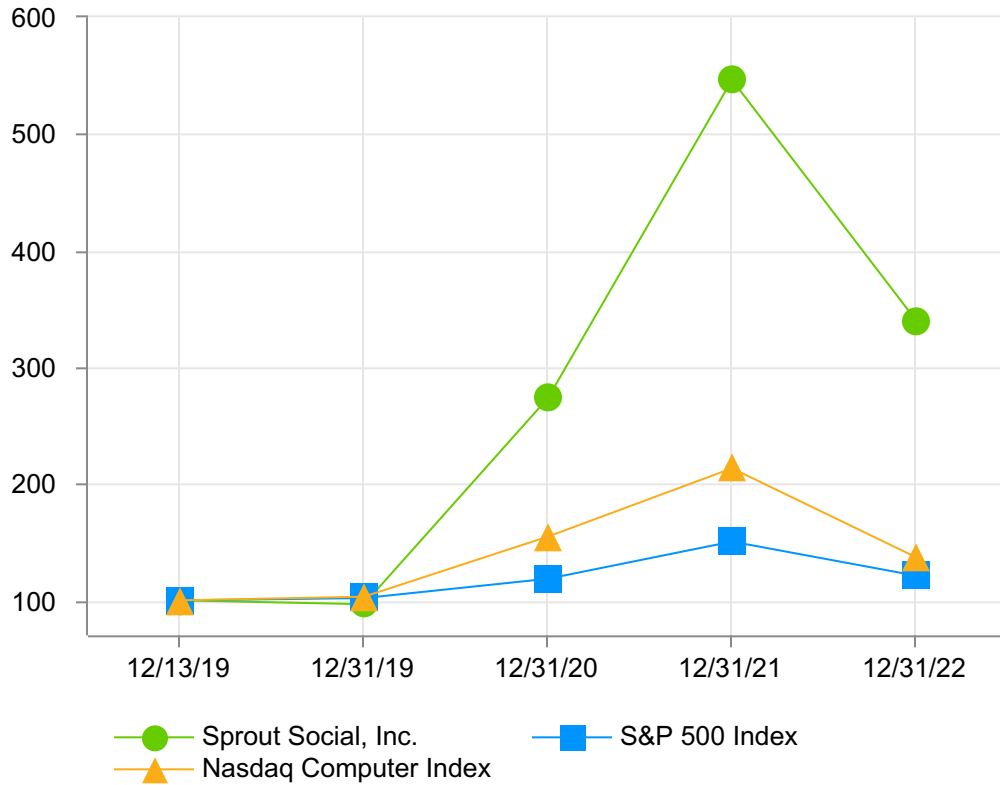
On December 17, 2019, we closed our IPO at a price to the public of \$17.00 per share. The offer and sale of the shares in our IPO were registered under the Securities Act pursuant to our Registration Statement on Form S-1 (Registration No. 333-234316), which was declared effective on December 12, 2019.

There has been no material change in the planned use of IPO proceeds from that described in the final prospectus filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act on December 13, 2019.

Performance Graph

The following performance graph shall not be deemed soliciting material or to be filed with the SEC for Purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that section, nor shall such information be incorporated by reference into any of our other filings under the Exchange Act or the Securities Act.

The graph below compares the cumulative total stockholder return on our Class A common stock with the cumulative total return on the S&P 500 Index and the Nasdaq Computer Index. The graph assumes an initial investment of \$100 in our Class A common stock at the market close on December 13, 2019, which was our initial trading day. Data for the S&P 500 Index and the Nasdaq Computer Index assume reinvestment of dividends. The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our Class A common stock.



Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with our audited consolidated financial statements and related notes included elsewhere in this Annual Report. This discussion contains forward-looking statements based upon current plans, expectations and beliefs involving risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and in other parts of this Annual Report.

Overview

Sprout Social is a powerful, centralized platform that provides the critical business layer to unlock the massive commercial value of social media. We have made it increasingly easy to standardize on Sprout Social as the centralized system of record for social and to help customers maximize the value of this mission critical channel. Currently, more than 34,000 customers across more than 100 countries rely on our platform.

Introduced in 2011, our cloud software brings together social messaging, data and workflows in a unified system of record, intelligence and action. Operating across major networks, including Twitter, Facebook, Instagram, TikTok, Pinterest, LinkedIn, Google, Reddit, Glassdoor and YouTube, and commerce platforms Facebook Shops, Shopify and WooCommerce, we provide organizations with a centralized platform to manage their social media efforts across stakeholders and business functions. Virtually every aspect of business has been impacted by social media, from marketing, sales, commerce and public relations to customer service, product and strategy, creating a need for an entirely new category of software. We offer our customers a centralized, secure and powerful platform to manage this broad, complex channel effectively across their organization.

Since our founding, we have achieved several key milestones:

- 2010 — Founded Company, launched V1 beta and Lightbank became an investor;
- 2011 — Launched our Sprout platform, surpassed 1,000 customers and entities affiliated with NEA became investors;
- 2015/16 — Surpassed 15,000 customers, surpassed 250 employees and Goldman Sachs became an investor;
- 2017 — Completed first business acquisition and awarded one of Glassdoor's "Best Places to Work, companies under 1,000 employees, 2017" and one of the "Top CEOs, companies under 1,000 employees, 2017";
- 2018 — Surpassed 20,000 customers, opened EMEA office, reached 500 employees, launched first add-on module (Listening), Future Fund became an investor and awarded one of Glassdoor's "Best Places to Work, companies under 1,000 employees, 2018" and one of the "Top CEOs, companies under 1,000 employees, 2018";
- 2019 — Completed our IPO resulting in \$134.3 million of net proceeds (excluding \$10.0 million of additional net proceeds from the underwriters' exercise of their over-allotment option in January 2020), surpassed \$100 million in ARR and awarded one of Glassdoor's "Top CEOs, companies under 1,000 employees, 2019";
- 2020 — Completed our follow-on offering resulting in \$42.1 million in net proceeds, awarded one of Glassdoor's "Best Place to Work" in 2020, recognized as one of Fortune's 100 Best Small and Medium Workplaces, one of Fortune's 25 Best Small and Medium Workplaces for

Women, and selected as a recipient of the 2020 Tech Cares Award from TrustRadius, awarded to tech companies that went above and beyond to support their clients and communities during the COVID-19 Pandemic;

- 2021 — Surpassed 31,000 customers and \$220 million in Annualized Recurring Revenue (ARR), awarded one of Glassdoor’s “Best Place to Work” in 2022, ranked #3 on Battery Venture’s 25 Highest Rated Public Cloud Computing Companies to Work For, added a new level of transparency to its Environmental, Social and Governance (ESG) commitments, announced a first-of-its kind social commerce solution, and recognized by G2 as one of the 2021 Best Software Companies; and
- 2022 — Surpassed 34,000 customers and \$296 million in ARR, awarded one of Glassdoor’s “Best Place to Work” in 2023, named to the 2022 PEOPLE Companies that Care list, recognized by G2 as one of the 2022 Best Software Companies, integrated with TikTok and announced a new partnership with Salesforce making it easy for Salesforce customers to manage their social media presence through Sprout Social.

We generate revenue primarily from subscriptions to our social media management platform under a software-as-a-service model. Our subscriptions can range from monthly to one-year or multi-year arrangements and are generally non-cancellable during the contractual subscription term. Subscription revenue is recognized ratably over the contract terms beginning on the date the product is made available to customers, which typically begins on the commencement date of each contract. We also generate revenue from professional services related to our platform provided to certain customers, which is recognized at the time these services are provided to the customer. This revenue has historically represented less than 1% of our revenue and is expected to be immaterial for the foreseeable future.

Our tiered subscription-based model allows our customers to choose among three core plans to meet their needs. Each plan is licensed on a per user per month basis at prices dependent on the level of features offered. Additional product modules, which offer increased functionality depending on a customer’s needs, can be purchased by the customer on a per user per month basis.

We generated revenue of \$253.8 million, \$187.9 million and \$132.9 million during the years ended December 31, 2022, 2021, and 2020, respectively, representing growth of 35% in 2022 and 41% in 2021. In 2022, software subscriptions contributed 99% of our revenue. We generated net losses of \$50.2 million, \$28.7 million, and \$31.7 million during the years ended December 31, 2022, 2021, and 2020, respectively. Our net losses include stock-based compensation expense of \$47.7 million, \$21.7 million and \$11.1 million in the years ended December 31, 2022, 2021, and 2020, respectively. We expect to continue investing in the growth of our business and, as a result, generate net losses for the foreseeable future.

Macroeconomic Conditions

As a company with a global footprint, we are subject to risks and exposures caused by significant events and their macroeconomic impacts, including, but not limited to, the COVID-19 pandemic, the Russia-Ukraine war, global geopolitical tension and more recently, rising inflation and interest rates, volatility in the capital markets and related market uncertainty. We continuously monitor the direct and indirect impacts, and the potential for future impacts, of these circumstances on our business and financial results, as well as the overall global economy and geopolitical landscape. Given the importance of our technology platform and heightened market awareness of social media as a strategic communications channel, these factors have not had a material adverse impact on our operational and financial performance to date. However, the potential implications of these macroeconomic events on our business, results of operations and overall financial position, particularly in the long term, introduce additional uncertainty.

Our current and prospective customers are impacted by worsening macroeconomic conditions to varying degrees and as a result, in some cases we are observing slower expansion by existing customers. We are continuing to evaluate this and other potential future direct and indirect impacts on our business and results of operations.

Key Factors Affecting Our Performance

Acquiring new customers

We are focused on continuing to organically grow our customer base by increasing demand for our platform and penetrating our addressable market. We have invested, and expect to continue to invest, heavily in expanding our sales force and marketing efforts to acquire new customers. Currently, we have more than 34,000 customers. We calculate the lifetime value of our customers and associated customer acquisition costs for a particular year by comparing (i) gross profit from net new ARR for the year divided by one *minus* the estimated subscription renewal rate to (ii) total sales and marketing expense incurred in the preceding year. On this basis, we estimate that for each of 2022 and 2021, the calculated lifetime value of our customers has exceeded six times the associated cost of acquiring them. This calculation assumes the actual subscription renewal rate for the period will remain consistent in future years. While we believe this assumption is reasonable based on our historic data and experience, subscription renewal rates may vary year-to-year, and the lifetime value of our customers may decline or fluctuate between periods. Moreover, our sales and marketing expense reflects the amortization of sales commissions, which are deferred and amortized over a three-year period in accordance with GAAP. If all sales commissions incurred in the year were expensed and not amortized, the result would not have a material impact on the lifetime value of our customers. See “—Key Business Metrics—ARR” for more information on how we define and calculate ARR.

Expanding within our current customer base

We believe that there is a substantial and largely untapped opportunity for organic growth within our existing customer base. Customers often begin by purchasing a small number of user subscriptions and then expand over time, increasing the number of users or social profiles, as well as purchasing additional product modules. Customers may then expand use-cases between various departments to drive collaboration across their organizations. Our sales and customer success efforts include encouraging organizations to expand use-cases to more fully realize the value from the broader adoption of our platform throughout an organization. We will continue to invest in enhancing awareness of our brand, creating additional uses for our products and developing more products, features and functionality of existing products, which we believe are vital to achieving increased adoption of our platform. We have a history of attracting new customers and we have recently increased our focus on expanding their use of our platform over time.

We use dollar-based net retention rate 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. Our dollar-based net retention rate for the years ended December 31, 2022 and 2021 was 108% and 112%, respectively. Our dollar-based net retention rate excluding our SMB customers for the years ended December 31, 2022 and 2021 was 115% and 118%, respectively.

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. See “—Key Business Metrics—ARR” for more information on how we define and calculate ARR.

Sustaining product and technology innovation

Our success is dependent on our ability to sustain product and technology innovation and maintain the competitive advantage of our proprietary technology. We continue to invest resources to enhance the capabilities of our platform by introducing new products, features and functionality of existing products.

International expansion

We see international expansion as a meaningful opportunity to grow our platform. Revenue generated from non-U.S. customers during the year ended December 31, 2022 was approximately 28% of our total revenue. We have built local teams in Ireland, Canada, the United Kingdom, Singapore, India, Australia and the Philippines to support our growth internationally. We believe global demand for our platform and offerings will continue to increase as awareness of our platform in international markets grows. We plan to continue adding to our local sales, customer support and customer success teams in select international markets over time.

Key Business Metrics

We review the following key business metrics to evaluate our business, measure our performance, identify trends, formulate financial projections and make strategic decisions.

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.

	As of December 31,	
	2022	2021
Number of customers	34,390	31,762

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.

	As of December 31,	
	2022	2021
	<i>(in thousands)</i>	
ARR	\$ 296,601	\$ 224,158

Number of customers contributing more than \$10,000 in ARR

We define 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. Over time, larger customers have constituted a greater share of our revenue.

	As of December 31,	
	2022	2021
Number of customers contributing more than \$10,000 in ARR	6,652	4,917

Number of customers contributing more than \$50,000 in ARR

We define 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.

	As of December 31,	
	2022	2021
Number of customers contributing more than \$50,000 in ARR	972	610

Components of our Results of Operations

Revenue

Subscription

We generate revenue primarily from subscriptions to our social media management platform under a software-as-a-service model. Our subscriptions can range from monthly to one-year or multi-year arrangements and are generally non-cancellable during the contractual subscription term. Subscription revenue is recognized ratably over the contract terms beginning on the date our product is made available to customers, which typically begins on the commencement date of each contract. Our customers do not have the right to take possession of the online software solution. We also generate a small portion of our subscription revenue from third-party resellers.

Professional Services

We sell professional services consisting of, but not limited to, implementation fees, specialized training, one-time reporting services and recurring periodic reporting services. Professional services revenue is recognized at the time these services are provided to the customer. This revenue has

historically represented less than 1% of our revenue and is expected to be immaterial for the foreseeable future.

Cost of Revenue

Subscription

Cost of revenue primarily consists of expenses related to hosting our platform and providing support to our customers. These expenses are comprised of fees paid to data providers, hosted data center costs and personnel costs directly associated with cloud infrastructure, customer success and customer support, including salaries, benefits, bonuses and allocated overhead. These costs also include depreciation expense and amortization expense related to acquired developed technologies. Overhead associated with facilities and information technology is allocated to cost of revenue and operating expenses based on headcount. Although we expect our cost of revenue to increase in absolute dollars as our business and revenue grows, we expect our cost of revenue to decrease as a percentage of our revenue over time.

Professional Services and Other

Cost of professional services primarily consists of expenses related to our professional services organization and are comprised of personnel costs, including salaries, benefits, bonuses and allocated overhead.

Gross Profit and Gross Margin

Gross margin is calculated as gross profit as a percentage of total revenue. Our gross margin may fluctuate from period to period based on revenue earned, the timing and amount of investments made to expand our hosting capacity, our customer support and professional services teams and in hiring additional personnel, and the impact of acquisitions. We expect our gross profit and gross margin to increase as our business grows over time.

Operating Expenses

Research and Development

Research and development expenses primarily consist of personnel costs, including salaries, benefits and allocated overhead. Research and development expenses also include depreciation expense and other expenses associated with product development. We plan to increase the dollar amount of our investment in research and development for the foreseeable future as we focus on developing new features and enhancements to our plan offerings.

Sales and Marketing

Sales and marketing expenses primarily consist of personnel costs directly associated with our sales and marketing department, online advertising expenses, as well as allocated overhead, including depreciation expense and amortization related to acquired developed technologies. Sales force commissions and bonuses are considered incremental costs of obtaining a contract with a customer. Sales commissions are earned and recorded at contract commencement for both new customer contracts and expansion of contracts with existing customers. Sales commissions are deferred and amortized on a straight-line basis over a period of benefit of three years. We plan to increase the dollar amount of our investment in sales and marketing for the foreseeable future, primarily for increased headcount for our sales department.

General and Administrative

General and administrative expenses primarily consist of personnel expenses associated with our finance, legal, human resources and other administrative employees. Our general and administrative expenses also include professional fees for external legal, accounting and other consulting services, depreciation and amortization expense, as well as allocated overhead. We expect to increase the size of our general and administrative functions to support the growth of our business. We also expect to continue to incur additional expenses as a result of operating as a public company, including costs to comply with rules and regulations applicable to companies listed on a U.S. securities exchange, costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC, investor relations and professional services. We expect the dollar amount of our general and administrative expenses to increase for the foreseeable future. However, we expect our general and administrative expenses to decrease as a percentage of revenue over time.

Interest Income (Expense), Net

Interest income (expense), net consists primarily of interest expense related to our line of credit and is offset by interest income earned on our cash and investment balances.

Other (Expense) Income, Net

Other (expense) income, net consists foreign currency transaction gains and losses and sublease rental income from the former Seattle, Washington office where our lease terminated in July 2020.

Income Tax Provision

The income tax provision consists of current and deferred taxes for our United States and foreign jurisdictions. We have historically reported a taxable loss in our most significant jurisdiction, the United States, and have a full valuation allowance against our deferred tax assets. We expect this trend to continue for the foreseeable future.

Results of Operations

The following tables set forth information comparing the components of our results of operations in dollars and as a percentage of total revenue for the periods presented.

	Years Ended December 31,		
	2022	2021	2020
	<i>(in thousands)</i>		
Revenue			
Subscription	\$ 251,213	\$ 185,726	\$ 131,804
Professional services and other	2,615	2,133	1,145
Total revenue	253,828	187,859	132,949
Cost of revenue⁽¹⁾			
Subscription	58,767	45,791	34,196
Professional services and other	1,091	997	721
Total cost of revenue	59,858	46,788	34,917
Gross profit	193,970	141,071	98,032
Operating expenses			
Research and development ⁽¹⁾	61,436	40,049	30,491
Sales and marketing ⁽¹⁾	123,695	84,182	59,137
General and administrative ⁽¹⁾	60,515	44,929	40,406
Total operating expenses	245,646	169,160	130,034
Loss from operations	(51,676)	(28,089)	(32,002)
Interest expense	(153)	(300)	(366)
Interest income	2,535	259	617
Other (expense) income, net	(580)	(361)	223
Loss before income taxes	(49,874)	(28,491)	(31,528)
Income tax expense	366	211	127
Net loss	\$ (50,240)	\$ (28,702)	\$ (31,655)

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

	Years Ended December 31,		
	2022	2021	2020
	<i>(in thousands)</i>		
Cost of revenue	\$ 2,491	\$ 1,062	\$ 749
Research and development	11,280	4,039	1,935
Sales and marketing	23,066	10,636	2,464
General and administrative	10,901	5,993	5,931
Total stock-based compensation	\$ 47,738	\$ 21,730	\$ 11,079

	Years Ended December 31,		
	2022	2021	2020
<i>(as a percentage of total revenue)</i>			
Revenue			
Subscription	99 %	99 %	99 %
Professional services and other	1 %	1 %	1 %
Total revenue	100 %	100 %	100 %
Cost of revenue			
Subscription	23 %	24 %	26 %
Professional services and other	— %	1 %	— %
Total cost of revenue	24 %	25 %	26 %
Gross profit	76 %	75 %	74 %
Operating expenses			
Research and development	24 %	21 %	23 %
Sales and marketing	49 %	45 %	45 %
General and administrative	24 %	24 %	30 %
Total operating expenses	97 %	90 %	98 %
Loss from operations	(21)%	(15)%	(24)%
Interest expense	— %	— %	— %
Interest income	1 %	— %	— %
Other (expense) income, net	— %	— %	— %
Loss before income taxes	(20)%	(15)%	(24)%
Income tax expense	— %	— %	— %
Net loss	(20)%	(15)%	(24)%

Note: Certain amounts may not sum due to rounding

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Revenue

	Years Ended December 31,		Change	
	2022	2021	Amount	%
<i>(dollars in thousands)</i>				
Revenue				
Subscription	\$ 251,213	\$ 185,726	\$ 65,487	35 %
Professional services and other	2,615	2,133	482	23 %
Total revenue	\$ 253,828	\$ 187,859	\$ 65,969	35 %
Percentage of Total Revenue				
Subscription	99 %	99 %		
Professional services and other	1 %	1 %		

The increase in subscription revenue was primarily driven by revenue from new customers and expansion within existing customers. The total number of customers grew from 31,762 as of December 31, 2021 to 34,390 as of December 31, 2022. Customers contributing over \$10,000 in ARR grew 35% versus the prior year and customers contributing over \$50,000 in ARR grew 59% versus the prior year. The increase in new customers was primarily driven by our growing sales force capacity to meet market demand. Expansion within existing customers was driven by our ability to increase the number of users, social profiles and products purchased by customers. This is in part attributable to the expansion of use-cases across various functions within our existing customers' organizations.

Cost of Revenue and Gross Margin

	Years Ended December 31,		Change	
	2022	2021	Amount	%
<i>(dollars in thousands)</i>				
Cost of revenue				
Subscription	\$ 58,767	\$ 45,791	\$ 12,976	28 %
Professional services and other	1,091	997	94	9 %
Total cost of revenue	59,858	46,788	13,070	28 %
Gross profit	\$ 193,970	\$ 141,071	\$ 52,899	37 %
Gross margin				
Total gross margin	76 %	75 %		

The increase in cost of subscription revenue for the year ended December 31, 2022 compared to the year ended December 31, 2021 was primarily due to the following:

	Change
	<i>(in thousands)</i>
Data provider fees	\$ 9,100
Personnel costs	2,546
Stock-based compensation expense	1,429
Other	(99)
Subscription cost of revenue	<u>\$ 12,976</u>

Fees paid to our data providers increased due to revenue growth. Personnel costs increased primarily as a result of a 5% increase in headcount as we continue to grow our customer support and customer success teams to support our customer growth. The increase in stock-based compensation expense was due to the increased headcount.

Operating Expenses

Research and Development

	Years Ended December 31,		Change	
	2022	2021	Amount	%
<i>(dollars in thousands)</i>				
Research and development	\$ 61,436	\$ 40,049	\$ 21,387	53 %
Percentage of total revenue	24 %	21 %		

The increase in research and development expense for the year ended December 31, 2022 compared to the year ended December 31, 2021 was primarily due to the following:

	Change <i>(in thousands)</i>
Personnel costs	\$ 13,470
Stock-based compensation expense	7,241
Other	676
Research and development	<u>\$ 21,387</u>

Personnel costs increased as a result of increased headcount to grow our research and development teams to drive our technology innovation through the development of new products and features. During the year ended December 31, 2022, we increased headcount within our engineering team by 30%. The increase in stock-based compensation expense was due to the increased headcount.

Sales and Marketing

	Years Ended December 31,		Change	
	2022	2021	Amount	%
<i>(dollars in thousands)</i>				
Sales and marketing	\$ 123,695	\$ 84,182	\$ 39,513	47 %
Percentage of total revenue	49 %	45 %		

The increase in sales and marketing expense for the year ended December 31, 2022 compared to the year ended December 31, 2021 was primarily due to the following:

	Change <i>(in thousands)</i>
Personnel costs	\$ 26,652
Stock-based compensation expense	12,430
Other	431
Sales and marketing	<u>\$ 39,513</u>

Personnel costs increased primarily as a result of a 43% increase in headcount as we continue to expand our sales teams to grow our customer base, as well as additional sales commission expense due to the year over year sales growth, which increased the amortization of contract acquisition costs. The increase in stock-based compensation expense was primarily due to the increased headcount and awards granted to our President.

General and Administrative

	Years Ended December 31,		Change	
	2022	2021	Amount	%
<i>(dollars in thousands)</i>				
General and administrative	\$ 60,515	\$ 44,929	\$ 15,586	35 %
Percentage of total revenue	24 %	24 %		

The increase in general and administrative expense for the year ended December 31, 2022 compared to the year ended December 31, 2021 was primarily due to the following:

	Change <i>(in thousands)</i>
Personnel costs	\$ 8,087
Stock-based compensation expense	4,908
Credit losses on accounts receivable	585
Accounting fees	502
Other	1,504
General and administrative	<u>\$ 15,586</u>

Personnel costs increased primarily as a result of a 26% increase in headcount as we continue to grow our business and operate as a publicly traded company. The increase in stock-based compensation expense was due to the increased headcount. The increase in credit losses on accounts receivable was primarily driven by higher accounts receivable balances. The remaining increase was driven by various expenses related to overhead and operating as a publicly traded company.

Interest Income (Expense), Net

	Years Ended December 31,		Change	
	2022	2021	Amount	%
<i>(dollars in thousands)</i>				
Interest income (expense), net	\$ 2,382	\$ (41)	\$ 2,423	n/m ⁽¹⁾
Percentage of total revenue	1 %	— %		

(1) Calculated metric is not meaningful.

The increase in interest income (expense), net was primarily driven by the increased investment in marketable securities and higher interest rates.

Other (Expense) Income, Net

	Years Ended December 31,		Change	
	2022	2021	Amount	%
<i>(dollars in thousands)</i>				
Other (expense) income, net	\$ (580)	\$ (361)	\$ (219)	n/m
Percentage of total revenue	— %	— %		

The decrease in other (expense) income, net was primarily driven by foreign exchange transaction losses.

Income Tax Expense

	Years Ended December 31,		Change	
	2022	2021	Amount	%
<i>(dollars in thousands)</i>				
Income tax expense	\$ 366	\$ 211	\$ 155	73 %
Percentage of total revenue	— %	— %		

The increase in income tax expense is due to higher earnings in foreign jurisdictions.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

	Years Ended December 31,		Change	
	2021	2020	Amount	%
<i>(dollars in thousands)</i>				
Revenue				
Subscription	\$ 185,726	\$ 131,804	\$ 53,922	41 %
Professional services and other	2,133	1,145	988	86 %
Total revenue	\$ 187,859	\$ 132,949	\$ 54,910	41 %
Percentage of Total Revenue				
Subscription	99 %	99 %		
Professional services and other	1 %	1 %		

The increase in subscription revenue was primarily driven by revenue from new customers and expansion within existing customers. The total number of customers grew from 26,718 as of December 31, 2020 to 31,762 as of December 31, 2021. The increase in new customers was primarily driven by our growing sales force capacity to meet market demand. Expansion within existing customers was driven by our ability to increase the number of users, social profiles and products purchased by customers. This is in part attributable to the expansion of use-cases across various functions within our existing customers' organizations.

Cost of Revenue and Gross Margin

	Years Ended December 31,		Change	
	2021	2020	Amount	%
<i>(dollars in thousands)</i>				
Cost of revenue				
Subscription	\$ 45,791	\$ 34,196	\$ 11,595	34 %
Professional services and other	997	721	276	38 %
Total cost of revenue	46,788	34,917	11,871	34 %
Gross profit	\$ 141,071	\$ 98,032	\$ 43,039	44 %
Gross margin				
Total gross margin	75 %	74 %		

The increase in cost of subscription revenue for the year ended December 31, 2021 compared to the year ended December 31, 2020 was primarily due to the following:

	<u>Change</u> <i>(in thousands)</i>
Data provider fees	\$ 9,630
Personnel costs	2,191
Stock-based compensation expense	313
Other	(539)
Subscription cost of revenue	<u>\$ 11,595</u>

Fees paid to our data providers increased due to revenue growth. Personnel costs increased primarily as a result of a 10% increase in headcount as we continued to grow our customer support and customer success teams to support our customer growth. The increase in stock-based compensation expense was due to the increased headcount.

Operating Expenses

Research and Development

	<u>Years Ended December 31,</u>		<u>Change</u>	
	<u>2021</u>	<u>2020</u>	<u>Amount</u>	<u>%</u>
	<i>(dollars in thousands)</i>			
Research and development	\$ 40,049	\$ 30,491	\$ 9,558	31 %
Percentage of total revenue	21 %	23 %		

The increase in research and development expense for the year ended December 31, 2021 compared to the year ended December 31, 2020 was primarily due to the following:

	<u>Change</u> <i>(in thousands)</i>
Personnel costs	\$ 7,269
Stock-based compensation expense	2,104
Other	185
Research and development	<u>\$ 9,558</u>

Personnel costs increased as a result of increased headcount to grow our research and development teams to drive our technology innovation through the development of new products and features. During the year ended December 31, 2021, we increased headcount within our engineering team by 28%. The increase in stock-based compensation expense was due to the increased headcount.

Sales and Marketing

	Years Ended December 31,		Change	
	2021	2020	Amount	%
<i>(dollars in thousands)</i>				
Sales and marketing	\$ 84,182	\$ 59,137	\$ 25,045	42 %
Percentage of total revenue	45 %	45 %		

The increase in sales and marketing expense for the year ended December 31, 2021 compared to the year ended December 31, 2020 was primarily due to the following:

	Change <i>(in thousands)</i>
Personnel costs	\$ 14,134
Stock-based compensation expense	8,172
Advertising	1,371
Other	1,368
Sales and marketing	<u>\$ 25,045</u>

Personnel costs increased primarily as a result of an 18% increase in headcount as we continued to expand our sales teams to grow our customer base, as well as additional sales commission expense due to the year over year sales growth, which increased the amortization of contract acquisition costs. The increase in stock-based compensation expense was due to the increased headcount and awards granted to our President. The increase in other was driven by an increase in general marketing costs.

General and Administrative

	Years Ended December 31,		Change	
	2021	2020	Amount	%
<i>(dollars in thousands)</i>				
General and administrative	\$ 44,929	\$ 40,406	\$ 4,523	11 %
Percentage of total revenue	24 %	30 %		

The increase in general and administrative expense for the year ended December 31, 2021 compared to the year ended December 31, 2020 was primarily due to the following:

	Change <i>(in thousands)</i>
Personnel costs	\$ 4,386
Charitable contributions	288
Credit losses on accounts receivable	(1,390)
Other	1,239
General and administrative	<u>\$ 4,523</u>

Personnel costs increased primarily as a result of a 33% increase in headcount as we continued to grow our business and operate as a publicly traded company. Credit losses on accounts receivable decreased due to improved collections in 2021 and a reserve taken in the prior year related to the potential impact of COVID-19 on our customers' ability to pay. The increase in other was driven by various expenses related to overhead and operating as a publicly traded company.

Interest Income (Expense), Net

	Years Ended December 31,		Change	
	2021	2020	Amount	%
<i>(dollars in thousands)</i>				
Interest income (expense), net	\$ (41)	\$ 251	\$ (292)	n/m ⁽¹⁾
Percentage of total revenue	— %	— %		

(1) Calculated metric is not meaningful.

The decrease in interest income (expense), net was primarily driven by higher interest rates earned in the prior year on cash deposits related to our IPO proceeds.

Other (Expense) Income, Net

	Years Ended December 31,		Change	
	2021	2020	Amount	%
<i>(dollars in thousands)</i>				
Other (expense) income, net	\$ (361)	\$ 223	\$ (584)	n/m
Percentage of total revenue	— %	— %		

The decrease in other (expense) income, net is due to sublease rental income as our Seattle, Washington office lease expired in July 2020 as well as foreign exchange transaction losses.

Income Tax Expense

	Years Ended December 31,		Change	
	2021	2020	Amount	%
<i>(dollars in thousands)</i>				
Income tax expense	\$ 211	\$ 127	\$ 84	66 %
Percentage of total revenue	— %	— %		

The increase in income tax expense is due to higher earnings in foreign jurisdictions.

Non-GAAP Financial Measures

In addition to our results determined in accordance with U.S. generally accepted accounting principles, or GAAP, we believe the following non-GAAP measures are useful in evaluating our operating performance. We use the below non-GAAP financial information, collectively, to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance by excluding certain items that may not be indicative of our business, operating results or future outlook.

However, non-GAAP financial information is presented for supplemental informational purposes only, has limitations as an analytical tool and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. In addition, other companies, including companies in our industry, may calculate non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures, and not to rely on any single financial measure to evaluate our business.

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 this non-GAAP financial measure eliminates the effect of stock-based compensation, which is often unrelated to overall operating performance.

	Year Ended December 31,		
	2022	2021	2020
Reconciliation of Non-GAAP gross profit	<i>(dollars in thousands)</i>		
Gross Profit	\$ 193,970	\$ 141,071	\$ 98,032
Stock-based compensation expense	\$ 2,491	\$ 1,062	\$ 749
Non-GAAP gross profit	<u>\$ 196,461</u>	<u>\$ 142,133</u>	<u>\$ 98,781</u>

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 this non-GAAP financial measure eliminates the effect of stock-based compensation, which is often unrelated to overall operating performance.

	Year Ended December 31,		
	2022	2021	2020
Reconciliation of Non-GAAP operating loss	<i>(dollars in thousands)</i>		
Loss from operations	\$ (51,676)	\$ (28,089)	\$ (32,002)
Stock-based compensation expense	\$ 47,738	\$ 21,730	\$ 11,079
Non-GAAP operating loss	<u>\$ (3,938)</u>	<u>\$ (6,359)</u>	<u>\$ (20,923)</u>

Non-GAAP Net Loss

We define non-GAAP net loss as GAAP net 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.

	Year Ended December 31,		
	2022	2021	2020
<i>(dollars in thousands)</i>			
Reconciliation of Non-GAAP net loss			
Net loss	\$ (50,240)	\$ (28,702)	\$ (31,655)
Stock-based compensation expense	47,738	21,730	11,079
Non-GAAP net loss	<u>\$ (2,502)</u>	<u>\$ (6,972)</u>	<u>\$ (20,576)</u>

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.

	Year Ended December 31,		
	2022	2021	2020
Reconciliation of Non-GAAP net loss per share			
Net loss per share attributable to common shareholders, basic and diluted	\$ (0.92)	\$ (0.53)	\$ (0.62)
Stock-based compensation expense per share	0.87	0.40	0.22
Non-GAAP net loss per share	<u>\$ (0.05)</u>	<u>\$ (0.13)</u>	<u>\$ (0.40)</u>

Free Cash Flow

Free cash flow is a non-GAAP financial measure that we define as net cash used in operating activities less expenditures for property and equipment. We believe that 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 the expenditures for property and equipment, is not available to be used for strategic initiatives. For example, if free cash flow is negative, we may need to access cash reserves or other sources of capital to invest in strategic initiatives. One limitation of free cash flow is that it does not reflect our future contractual obligations. Additionally, free cash flow does not represent the total increase or decrease in our cash balance for a given period.

	Year Ended December 31,		
	2022	2021	2020
<i>(dollars in thousands)</i>			
Reconciliation of Free cash flow			
Net cash provided by (used in) operating activities	\$ 10,668	\$ 14,817	\$ (11,352)
Expenditures for property and equipment	(1,824)	(926)	(4,015)
Free cash flow	<u>\$ 8,844</u>	<u>\$ 13,891</u>	<u>\$ (15,367)</u>

Liquidity and Capital Resources

As of December 31, 2022, our principal sources of liquidity were cash and cash equivalents of \$79.9 million, marketable securities of \$105.9 million, and net accounts receivable of \$35.8 million. Historically, we have generated losses from operations and negative cash flows from operations, as evidenced by our accumulated deficit and statement of cash flows. However, during the years ended December 31, 2022 and 2021, we generated positive cash flows from operations. We expect to continue to incur operating losses and may have negative operating cash flows for the foreseeable future due to the investments in our business we intend to make as described above. We may experience greater than anticipated operating losses in the short- and long-term due to macroeconomic, financial and other factors that are beyond our control, such as rising inflation rates and a potential recession. The impact of these factors on our customers and our operations going forward remains uncertain, and we continue to proactively monitor our liquidity position.

Prior to our IPO in December 2019, we financed our operations primarily through private issuance of equity securities and line of credit borrowings. In our IPO, we received net proceeds of \$134.3 million after deducting underwriting discounts and commissions of \$10.5 million and offering expenses of \$5.2 million. See Note 1 of our audited consolidated financial statements for more information regarding these transactions. We subsequently received an additional \$10.0 million of net proceeds after deducting underwriting discounts and commissions in January 2020 as a result of the over-allotment option exercise by the underwriters of our IPO. In August 2020, we received \$42.1 million of net proceeds from our equity follow-on offering after deducting underwriting discounts and commissions. Our principal uses of cash in recent periods have been to fund operations and invest in capital expenditures.

We believe our existing cash and cash equivalents will be sufficient to meet our operating and capital needs for at least the next 12 months. We believe we will meet longer-term expected future cash requirements and obligations through a combination of cash flows from operating activities, available cash and investment balances and potential future equity or debt transactions. Our future capital requirements will depend on many factors, including our subscription growth rate, subscription renewal activity, billing frequency, the impact of macroeconomic conditions on our customers and our operations, the timing and extent of spending to support our research and development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced product offerings, and the continuing market acceptance of our product. We have in the past, and may in the future, enter into arrangements to acquire or invest in complementary businesses, products and technologies, including intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us, or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations, our business, results of operations and financial condition could be adversely affected.

SVB Credit Facility

In December 2017, we entered into a Loan and Security Agreement with Silicon Valley Bank, or SVB, which comprised a \$15.0 million line of credit, or the Revolver, and a \$5.0 million incremental revolving line commitment, or the Incremental Revolver, and, together with the Revolver, the SVB Credit Facility.

In November 2019, we amended the SVB Credit Facility to increase the Revolver (including the exercise of the Incremental Revolver, as amended) to \$40.0 million and amended, among other terms, levels for the minimum adjusted EBITDA and minimum liquidity covenants, the advance rate and the interest rate.

The SVB Credit Facility expired by its terms on January 31, 2022.

The following table summarizes our cash flows for the periods presented:

	Years Ended December 31,		
	2022	2021	2020
	<i>(in thousands)</i>		
Net cash provided by (used in) operating activities	\$ 10,668	\$ 14,817	\$ (11,352)
Net cash (used in) investing activities	(37,672)	(22,118)	(53,802)
Net cash (used in) provided by financing activities	(193)	(100)	44,359
Net decrease in cash and cash equivalents	<u>\$ (27,197)</u>	<u>\$ (7,401)</u>	<u>\$ (20,795)</u>

Operating Activities

Our largest source of operating cash is cash collections from our customers for subscription services. Our primary uses of cash from operating activities are for personnel costs across the sales and marketing and research and development departments and hosting costs. Historically, we have generated negative cash flows from operating activities. However, for the years ended December 31, 2022 and 2021, we generated positive cash flows from operations.

Net cash provided by operating activities during the year ended December 31, 2022 was \$10.7 million, which resulted from a net loss of \$50.2 million adjusted for non-cash charges of \$71.9 million and net cash outflow of \$11.0 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of \$47.7 million of stock-based compensation expense, \$3.9 million of depreciation and intangible asset amortization expense, \$18.6 million for amortization of deferred contract acquisition costs, which were primarily commissions, \$1.2 million for credit losses on accounts receivable and \$1.0 million of amortization of right-of-use, or ROU, operating lease assets. The net cash outflow from changes in operating assets and liabilities was primarily the result of a \$30.3 million increase in deferred commissions due to the addition of new customers and expansion of the business, an \$11.5 million increase in gross accounts receivable and a \$2.9 million decrease in operating lease liabilities. These outflows were partially offset by a \$26.9 million increase in deferred revenue and a \$7.1 million increase in accounts payable and other accrued liabilities.

Net cash provided by operating activities during the year ended December 31, 2021 was \$14.8 million, which resulted from a net loss of \$28.7 million adjusted for non-cash charges of \$40.2 million and net cash inflow of \$3.4 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of \$21.7 million of stock-based compensation expense, \$4.0 million of depreciation and intangible asset amortization expense, \$12.2 million for amortization of deferred contract acquisition costs, which were primarily commissions, \$0.6 million for credit losses on accounts receivable and \$0.7 million of amortization of right-of-use, or ROU, operating lease assets. The net cash inflow from changes in operating assets and liabilities was primarily the result of a \$25.6 million increase in deferred revenue, a \$3.5 million decrease in prepaid expenses and an \$8.5 million increase in accounts payable and other accrued liabilities. These inflows were offset by a \$23.1 million increase in deferred commissions due to the addition of new customers and expansion of the business, an \$8.9 million increase in gross accounts receivable and a \$2.2 million decrease in operating lease liabilities.

Net cash used in operating activities during the year ended December 31, 2020 was \$11.4 million, which resulted from a net loss of \$31.7 million adjusted for non-cash charges of \$26.7 million and net cash outflow of \$6.4 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of \$11.1 million of stock-based compensation expense, \$4.2 million of depreciation and intangible asset amortization expense, \$7.7 million for amortization of deferred contract acquisition costs, which were primarily commissions, \$2.0 million for credit losses on accounts receivable and \$1.1

million of amortization of right-of-use, or ROU, operating lease assets. The net cash outflow from changes in operating assets and liabilities was primarily the result of a \$14.0 million increase in deferred commissions due to the addition of new customers and expansion of the business, a \$8.1 million increase in gross accounts receivable, a \$4.7 million increase in prepaid expenses and a \$0.2 million decrease in operating lease liabilities. These outflows were offset by a \$14.0 million increase in deferred revenue and a \$6.6 million increase in accounts payable and other accrued liabilities.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2022 was \$37.7 million, which was primarily due to \$190.0 million in purchases of marketable securities, partially offset by \$154.1 million in proceeds from maturities of marketable securities.

Net cash used in investing activities for the year ended December 31, 2021 was \$22.1 million, which was primarily due to \$109.6 million in purchases of marketable securities, partially offset by \$88.4 million in proceeds from maturities of marketable securities.

Net cash used in investing activities for the year ended December 31, 2020 was \$53.8 million, which was primarily due to the purchase of marketable securities and leasehold improvements for the new Seattle office.

Financing Activities

Net cash used in financing activities for the year ended December 31, 2022 was \$0.2 million, primarily driven by \$1.9 million in payments related to employee withholding taxes as a result of the net settlement of stock-based awards, offset by \$1.7 million of proceeds under our employee stock purchase plan.

Net cash used in financing activities for the year ended December 31, 2021 was \$0.1 million, primarily driven by \$1.6 million in payments related to employee withholding taxes as a result of the net settlement of stock-based awards and other financing related costs, offset by \$1.7 million in proceeds from the disgorgement of stockholder short-swing profits under Section 16(b) of the Exchange Act. See Note 15 to our audited consolidated financial statements for more information regarding the disgorgement.

Net cash provided by financing activities for the year ended December 31, 2020 was \$44.4 million, which was primarily the result of \$42.1 million of net proceeds from our equity follow-on offering, \$10.0 million of net proceeds from our sale of over-allotment shares to the underwriters of our IPO, offset by \$8.6 million in payments related to the employee withholding taxes as a result of the net settlement of stock-based awards. Additionally, we received \$1.1 million from the disgorgement of stockholder short-swing profits under Section 16(b) of the Exchange Act.

Contractual Obligations

As of December 31, 2022, we have non-cancellable contractual obligations related primarily to operating leases and minimum guaranteed purchase commitments for data and services. As of December 31, 2022, the total obligation for operating leases was \$25.5 million of which \$4.6 million is expected in the next twelve months. As of December 31, 2022, our purchase commitment for primarily data and services was \$21.2 million, of which \$18.1 million is expected in the next twelve months. See Note 5 and Note 10 of our audited consolidated financial statements for more information regarding these obligations.

Recent Accounting Pronouncements

Refer to section titled “Recently Adopted Accounting Pronouncements” in Note 1 to our audited consolidated financial statements for more information.

Critical Accounting Policies and Estimates

Our audited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these audited consolidated financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates.

The significant accounting policies used in the preparation of our audited financial statements are discussed in Note 1 under Item 8, "Financial Statements and Supplementary Data." The accounting assumptions and estimates discussed in the section below are those that we consider most critical to an understanding of our financial statements because they inherently involve a greater degree of judgment and complexity. By their nature, these judgments and estimates are subject to an inherent degree of uncertainty. Although we believe our use of estimates and underlying accounting assumptions conforms to GAAP and is consistently applied, actual results could differ from our estimates.

Deferred Sales Commissions

Sales force commissions are considered incremental costs of obtaining a contract with a customer. Sales commissions earned for initial contracts and for expansion of contracts with existing customers are deferred and amortized on a straight-line basis over a period of benefit of three years. Determining the period of benefit of requires judgment for which we take into consideration products sold, expected customer life, expected contract renewals, technology life cycle and other factors.

Revenue Recognition

We generate revenue from subscriptions to our social media management platform under a software-as-a-service model. Our subscriptions can range from monthly to one-year or multi-year arrangements and are generally non-cancellable during the contractual subscription term. Subscription revenue is recognized ratably over the contract terms beginning on the date our product is made available to customers, which typically begins on the commencement date of each contract.

We have determined that subscriptions for our online software products are a distinct performance obligation, because the online software product is fully functional once a customer has access. In addition, we sell additional professional services, which are considered a distinct performance obligation, as they are sold separately, and the customer can benefit from the services to make better use of the online product purchased. For contracts containing multiple performance obligations, the transaction price is allocated to each performance obligation based on the relative standalone selling price, or SSP, of the services provided to the customer. We determine the SSP based upon the prices at which we separately sell subscription and various professional services, and based on our overall pricing objectives, taking into consideration market conditions, the value of our contracts, the types of offerings sold, customer demographics and other factors. Judgment is required to determine whether each product or service sold is a distinct performance obligation that should be accounted for separately.

Stock-Based Compensation

For equity awards with only service conditions, we recognize compensation expense based on the grant-date fair value on a straight-line basis over the remaining requisite service period for the award. For equity awards with both service and performance conditions, compensation expense is recognized on a graded vesting basis over the requisite service period once the achievement of the performance condition is considered probable. Assessing whether performance conditions are probable to be achieved and estimating the timing upon which the condition may be achieved requires judgment. We estimate the probability and timing of achievement at the grant date and reassess each reporting period.

Restricted Stock Units

At the end of 2015, we began issuing restricted stock units to certain of our employees. The general terms of the restricted stock units required both a service and performance condition to be satisfied prior to vesting. The service condition is satisfied upon the participant's completion of a required period of continuous service from the vesting start date. The performance condition was satisfied upon the consummation of our IPO, which resulted in recognition of stock-based compensation expense in the fourth quarter of 2019 for awards that had vested prior to December 31, 2019. In late 2019, we began issuing restricted stock units to certain employees that require a service condition to be satisfied prior to vesting, but that do not require a liquidity event condition to be satisfied prior to vesting.

In both December 2020 and October 2021, we granted 120,000 restricted stock units to our President requiring both the satisfaction of a service condition and a performance condition prior to vesting. For each of these awards, the performance condition was considered probable at the grant date and the awards have been recognized as compensation expense over their respective requisite service periods. In 2022 and 2021, we recognized \$6.4 million and \$3.1 million, respectively, of stock-based compensation expense in relation to these awards.

Pursuant to his employment agreement, our Chairman and CEO was eligible to receive awards of fully vested restricted stock units with respect to shares of our Class B common stock under our 2019 Class B Incentive Plan, or the Class B Plan, covering up to 1.0% of our fully diluted common equity determined as of the date of our IPO, or 483,663 shares, following the consummation of our IPO, depending on the valuation of the Company in connection with our IPO and the achievement of market capitalization thresholds thereafter, which we refer to as the Howard IPO Award. The initial grant under the Howard IPO Award was based on the valuation of the Company (calculated based on the closing price of the Company's Class A common stock on its first trading day on The Nasdaq Capital Market on December 13, 2019) and calculated as follows: (i) a valuation between \$750,000,000 and \$999,999,999, would result in an initial grant under the Howard IPO Award equal to 0.5% of our outstanding fully diluted common equity; (ii) a valuation of at least \$1,000,000,000 but less than \$2,000,000,000 would result in an initial grant under the Howard IPO Award equal to 0.75% of our fully diluted common equity; and (iii) a valuation of at least \$2,000,000,000 would result in an initial grant under the Howard IPO Award equal to 1.0% of our outstanding fully diluted common equity. No initial grant under the Howard IPO Award would be made as a result of our IPO if the valuation of the Company calculated as described above was below \$750,000,000. The initial Howard IPO Award resulted in a grant equal to 0.5% of our fully diluted common equity, or 241,831, shares on December 17, 2019, which settled in March 2020. In connection with these RSUs granted to Mr. Howard pursuant to the Howard IPO Award that immediately vested in December 2019, we recognized \$4.1 million of stock-based compensation expense in the fourth quarter of 2019.

If during the twenty-four month period immediately following the effectiveness of our IPO, the Company achieved a "market cap threshold" (calculated based on the 30-day average of the product of the closing price per share of our Class A common stock on a trading day and the number of shares outstanding on such trading day using the treasury stock method) of \$1,000,000,000 or greater, Mr. Howard was eligible to receive RSU awards under our Class B Plan equal to: (i) 0.25% of our fully diluted common equity as of the date of our IPO, or 120,916 shares, upon the Company's achievement of a market capitalization threshold of \$1,000,000,000; and (ii) 0.25% of our fully diluted common equity as of the date of our IPO, or 120,916 shares, upon the Company's achievement of a market capitalization threshold of \$2,000,000,000, in each case, to the extent the applicable market capitalization threshold value was not previously achieved in connection with any previous grant made under the Howard IPO Award, and subject to Mr. Howard's continued service to the Company through each applicable award date. All such RSUs granted pursuant to the Howard IPO Award would be fully vested and the maximum number of Class B common stock issuable upon settlement of such RSUs will not exceed 1.0% of our fully diluted common equity (as described above).

In February 2020, Mr. Howard received 120,916 RSUs upon the Company's achievement of a market capitalization threshold of \$1,000,000,000. In October 2020, Mr. Howard received 120,916 shares

upon the Company's achievement of a market capitalization threshold of \$2,000,000,000. The Company recognized approximately \$2.0 million of stock-based compensation expense during 2020 in relation to these awards.

Mr. Howard is not entitled to any further awards under the Howard IPO Award.

Item 7A. Quantitative and Qualitative Disclosures of Market Risk

Interest Rate Risk

We had cash and cash equivalents totaling \$79.9 million as of December 31, 2022, the majority of which was invested in money market accounts. We also had marketable securities of \$105.9 million which were invested in investment-grade corporate bonds, commercial paper, asset-backed securities, U.S. Treasury securities, and agency securities. Such interest-earning instruments carry a degree of interest rate risk with respect to the interest income generated. Additionally, certain of these cash investments are maintained at balances beyond Federal Deposit Insurance Corporation, or FDIC, coverage limits or are not insured by the FDIC. Accordingly, there may be a risk that we will not recover the full principal of our cash investments. To date, fluctuations in interest income have not been significant. Because these accounts are highly liquid, we do not have material exposure to market risk. Our cash is held for working capital purposes. We do not enter into investments for trading or speculative purposes.

We did not have any outstanding debt during any of the periods presented under our \$40.0 million revolving credit line which expired on January 31, 2022.

We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our financial statements.

Foreign Currency Exchange Risk

We are not currently subject to significant foreign currency exchange risk as our U.S. and international sales are predominantly denominated in U.S. dollars. However, we have some foreign currency risk related to a small amount of sales denominated in Canadian dollars. Sales denominated in Canadian dollars reflect the prevailing U.S. dollar exchange rate on the date of invoice for such sales. Decreases in the relative value of the U.S. dollar to the Canadian dollar may negatively affect revenue and other operating results as expressed in U.S. dollars. We do not believe that an immediate 10% increase or decrease in the relative value of the U.S. dollar to the Canadian dollars would have a material effect on operating results.

We have not engaged in the hedging of foreign currency transactions to date. However, as our international operations expand, our foreign currency exchange risk may increase. If our foreign currency exchange risk increases in the future, we may evaluate the costs and benefits of initiating a foreign currency hedge program in connection with non-U.S. dollar denominated transactions.

Item 8. Financial Statements and Supplementary Data

Sprout Social, Inc.
Consolidated Financial Statements
As of December 31, 2022 and 2021 and for the Years Ended December 31, 2022, 2021 and 2020

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Sprout Social, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Sprout Social, Inc. and its subsidiaries, (the “Company”) as of December 31, 2022 and 2021, and the related consolidated statements of operations and comprehensive loss, of stockholders’ equity, and of cash flows for each of the three years in the period ended December 31, 2022, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition - Subscription Revenue

As described in Note 1 to the consolidated financial statements, the Company generates revenues from subscriptions to the Company's web-based social media management platform under a software-as-a-service model. The Company's subscriptions can range from monthly to one-year or multi-year arrangements and are generally non-cancellable. The Company's customers do not have the right to take possession of the online software solution. The Company commences revenue recognition when control of these products is transferred to customers in an amount that reflects the consideration management expects the Company to be entitled to in exchange for such products. The Company's subscription revenue was \$251.2 million for the year ended December 31, 2022.

The principal considerations for our determination that performing procedures relating to revenue recognition – subscription revenue is a critical audit matter are the significant audit effort in performing procedures and evaluating audit evidence relating to the accuracy and existence of subscription revenue.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the subscription revenue recognition process, including controls over the accuracy and existence of subscription revenue recognized. These procedures also included, among others, evaluating, on a test basis, the accuracy and existence of subscription revenue recognized by obtaining and inspecting invoices, customer agreements, and cash receipts from customers, where applicable, and recalculating the appropriateness of the subscription revenue recognized based on the terms of each arrangement.

/s/ PricewaterhouseCoopers LLP

Chicago, Illinois
February 22, 2023

We have served as the Company's auditor since 2018.

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

	December 31,	
	2022	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 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	\$ 293,920	\$ 264,717
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	132,806	98,429
Deferred revenue, net of current portion	490	132
Operating lease liability, net of current portion	18,287	20,946
Total liabilities	151,583	119,507
Commitments and contingencies (Note 10)		
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	142,337	145,210
Total liabilities and stockholders' equity	\$ 293,920	\$ 264,717

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2022	2021	2020
Revenue			
Subscription.....	\$ 251,213	\$ 185,726	\$ 131,804
Professional services and other.....	2,615	2,133	1,145
Total revenue.....	253,828	187,859	132,949
Cost of revenue			
Subscription.....	58,767	45,791	34,196
Professional services and other.....	1,091	997	721
Total cost of revenue.....	59,858	46,788	34,917
Gross profit.....	193,970	141,071	98,032
Operating expenses			
Research and development.....	61,436	40,049	30,491
Sales and marketing.....	123,695	84,182	59,137
General and administrative.....	60,515	44,929	40,406
Total operating expenses.....	245,646	169,160	130,034
Loss from operations.....	(51,676)	(28,089)	(32,002)
Interest expense.....	(153)	(300)	(366)
Interest income.....	2,535	259	617
Other (expense) income, net.....	(580)	(361)	223
Loss before income taxes.....	(49,874)	(28,491)	(31,528)
Income tax expense.....	366	211	127
Net loss.....	\$ (50,240)	\$ (28,702)	\$ (31,655)
Net loss per share attributable to common shareholders, basic and diluted.....	\$ (0.92)	\$ (0.53)	\$ (0.62)
Weighted-average shares outstanding used to compute net loss per share, basic and diluted.....	54,611,616	53,768,301	51,368,737

See Notes to Consolidated Financial Statements.

Sprout Social, Inc.
Consolidated Statements of Comprehensive Loss
(in thousands)

	Year Ended December 31,		
	2022	2021	2020
Net loss	\$ (50,240)	\$ (28,702)	\$ (31,655)
Other comprehensive loss:			
Net unrealized loss on available-for-sale securities, net of tax	(369)	—	—
Comprehensive loss	<u>\$ (50,609)</u>	<u>\$ (28,702)</u>	<u>\$ (31,655)</u>

See Notes to Consolidated Financial Statements.

Sprout Social, Inc.
Consolidated Statements of Stockholders' Equity
(in thousands, except share data)

	Voting Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balances at December 31, 2019	48,844,998	\$ 5	\$ 263,943	2,673,805	\$ (20,430)	\$ —	\$ (115,388)	\$ 128,130
Exercise of stock options	963,157	—	370					370
Stock-based compensation expense			11,079					11,079
Issuance of common stock from settlement of equity awards	1,189,254	—						—
Taxes paid related to net share settlement of equity awards				324,298	(8,636)			(8,636)
Issuance of common stock in connection with underwriters' purchase of over-allotment shares, related to initial public offering, net of underwriters' discounts, commissions and offering costs	629,603	—	9,738					9,738
Exercise of warrants	26,960	—	140	8,345	(140)			—
Issuance of common stock in connection with follow-on public offering, net of underwriters' discounts, commissions and offering costs	1,612,500		41,936					41,936
Proceeds from disgorgement of stockholder short-swing profits			1,137					1,137
Net loss							(31,655)	(31,655)
Balances at December 31, 2020	53,266,472	5	328,343	3,006,448	(29,206)	—	(147,043)	152,099
Exercise of stock options	62,955	—	37					37
Stock-based compensation expense			21,730					21,730
Issuance of common stock from settlement of equity awards	824,344	—						—
Taxes paid related to net share settlement of equity awards				19,952	(1,618)			(1,618)
Proceeds from disgorgement of stockholder short-swing profits			1,664					1,664
Net loss							(28,702)	(28,702)
Balances at December 31, 2021	54,153,771	5	351,774	3,026,400	(30,824)	—	(175,745)	145,210
Exercise of stock options	41,045	—	16					16
Stock-based compensation expense			47,906					47,906
Issuance of common stock from settlement of equity awards	793,023	—						—

Sprout Social, Inc.
Consolidated Statements of Stockholders' Equity
(in thousands, except share data)

Taxes paid related to net share settlement of equity awards			31,048	(1,909)			(1,909)	
Issuance of common stock in connection with employee stock purchase plan	35,504		1,723				1,723	
Other comprehensive loss, net of tax				(369)			(369)	
Net loss						(50,240)	(50,240)	
Balances at December 31, 2022	<u>55,023,343</u>	<u>\$ 5</u>	<u>\$ 401,419</u>	<u>3,057,448</u>	<u>\$ (32,733)</u>	<u>\$ (369)</u>	<u>\$ (225,985)</u>	<u>\$ 142,337</u>

See Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2022	2021	2020
Cash flows from operating activities			
Net loss	\$ (50,240)	\$ (28,702)	\$ (31,655)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Depreciation of property and equipment	2,859	2,991	2,838
Amortization of line of credit issuance costs	30	188	215
Amortization of premium (accretion of discount) on marketable securities	(625)	736	423
Amortization of acquired intangible assets	1,039	1,043	1,394
Amortization of deferred commissions	18,638	12,175	7,702
Amortization of right-of-use operating lease asset	1,035	673	1,053
Stock-based compensation expense	47,738	21,731	11,079
Provision for accounts receivable allowances	1,199	614	2,005
Changes in operating assets and liabilities			
Accounts receivable	(11,549)	(8,920)	(8,083)
Prepaid expenses and other current assets	(125)	3,465	(4,737)
Deferred commissions	(30,328)	(23,113)	(14,002)
Accounts payable and accrued expenses	7,051	8,502	6,635
Deferred revenue	26,878	25,589	13,987
Lease liabilities	(2,932)	(2,155)	(206)
Net cash provided by (used in) operating activities	<u>10,668</u>	<u>14,817</u>	<u>(11,352)</u>
Cash flows from investing activities			
Expenditures for property and equipment	(1,824)	(926)	(4,015)
Purchases of marketable securities	(189,962)	(109,552)	(53,143)
Proceeds from maturity of marketable securities	154,114	88,360	3,356
Net cash used in investing activities	<u>(37,672)</u>	<u>(22,118)</u>	<u>(53,802)</u>
Cash flows from financing activities			
Proceeds from underwriters' purchase of overallotment shares, related to the Company's initial public offering, net of underwriters' discounts and commissions	—	—	9,954
Proceeds from follow-on offering of common stock, net of underwriters' discounts and commissions	—	—	42,127
Payments for line of credit issuance costs	(23)	(183)	(187)
Proceeds from exercise of stock options	16	37	370
Proceeds from employee stock purchase plan	1,723	—	—
Proceeds from disgorgement of stockholders short-swing profits	—	1,664	1,137
Employee taxes paid related to the net share settlement of stock-based awards	(1,909)	(1,618)	(8,636)
Payments of deferred offering costs	—	—	(406)
Net cash (used in) provided by financing activities	<u>(193)</u>	<u>(100)</u>	<u>44,359</u>
Net decrease in cash and cash equivalents	<u>(27,197)</u>	<u>(7,401)</u>	<u>(20,795)</u>

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

Cash and cash equivalents			
Beginning of year	107,114	114,515	135,310
End of year	<u>\$ 79,917</u>	<u>\$ 107,114</u>	<u>\$ 114,515</u>
Supplemental cash flow information			
Cash paid for interest	\$ 62	\$ 111	\$ 138
Cash paid for income taxes	\$ 211	\$ 127	\$ 66
Supplemental disclosure of noncash investing and financing activities			
Operating lease liability arising from operating ROU asset obtained	\$ 1,079	\$ —	\$ 5,472
Noncash exercise of stock warrants	\$ —	\$ —	\$ 140
Capital expenditures incurred but not yet paid	\$ —	\$ 4	\$ 367

See Notes to Consolidated Financial Statements.

Sprout Social, Inc.

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Sprout Social, Inc. (“Sprout Social” or the “Company”), a Delaware corporation, began operating on April 21, 2010 to design, develop and operate a web-based comprehensive social media management tool enabling companies to manage and measure their online presence. Customers access their accounts online via a web-based interface or a mobile application. Some customers also purchase the Company’s professional services, which primarily consist of consulting and training services. The Company’s fiscal year end is December 31. The Company’s customers are primarily located throughout the United States, and a portion of customers are located in foreign countries. The Company is headquartered in Chicago, Illinois.

Follow-on Offering

On August 17, 2020, the Company completed an equity offering in which it issued and sold 1,612,500 shares of Class A common stock, inclusive of the exercised over-allotment option, at a public offering price of \$27.50 per share. In addition, 5,287,500 shares of the Company’s common stock were sold by selling shareholders of the Company, inclusive of the over-allotment, as part of this offering. The Company received net proceeds of \$42.1 million after deducting underwriting discounts and commissions. The Company did not receive any proceeds from the sale of common stock by selling shareholders.

Initial Public Offering Over-allotment

On January 15, 2020, the Company issued and sold 629,603 shares of Class A common stock for total net proceeds of \$10.0 million after deducting underwriting discounts and commissions, as a result of the over-allotment option exercise by the underwriters of the Company’s initial public offering.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The consolidated financial statements and accompanying notes were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company bases its estimates on historical experience and on other assumptions that its management believes are reasonable under the circumstances. Actual results could differ from those estimates. The Company’s estimates and judgments include, but are not limited to, the estimated period of benefit for incremental costs of obtaining a contract with a customer, the incremental borrowing rate for operating leases, calculation of allowance for credit losses, valuation of assets and liabilities acquired as part of business combinations, useful lives of long-lived assets, stock-based compensation, income taxes, commitments and contingencies and litigation, among others.

Segment Information

The Company operates as one operating segment. The Company’s chief operating decision maker (“CODM”) is its chief executive officer, who reviews financial information for purposes of making

Sprout Social, Inc.

Notes to Consolidated Financial Statements

operating decisions, assessing financial performance and allocating resources. The Company's CODM evaluates financial information on a consolidated basis. As the Company operates as one operating segment, all required segment financial information is found in the consolidated financial statements.

Fair Value of Financial Instruments

The Company has the following financial instruments: cash, cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities. The carrying value of the Company's cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates fair value due to their short-term nature.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are recorded at cost, which approximates fair value. Interest earned on cash and cash equivalents is recorded as interest income in the consolidated statement of operations.

Marketable Securities

Marketable securities consist of corporate bonds, commercial paper, U.S. Treasury securities, asset-backed securities, and agency securities. The Company classifies marketable securities as available-for-sale at the time of purchase and reevaluates such classification as of each balance sheet date. All marketable securities are recorded at their estimated fair values. Unrealized gains and losses for the available-for-sale debt securities that are unrelated to credit loss factors are recorded in accumulated other comprehensive income (loss), or AOCI. As of December 31, 2022 and 2021, the Company's AOCI balance was insignificant. Unrealized losses determined to be credit-related are recorded as Other (expense) income, net in the consolidated statements of operations and comprehensive loss and as an allowance for credit losses on Marketable securities on the consolidated balance sheet. As of December 31, 2022 and 2021, the gross unrealized gains and losses on available-for-sale debt securities were immaterial and there were no expected credit losses related to the Company's available-for-sale debt securities.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable primarily consist of amounts billed and currently due from customers, net of an allowance for credit losses. Subscription fees billed in advance of the related subscription term represent contract liabilities and are presented as accounts receivable and deferred revenues upon establishment of an unconditional right to payment under non-cancellable contracts. Our typical payment terms provide for customer payment within 30 days of the date of the contract.

Accounts receivable are subject to collection risk. The Company performs evaluations of its customers' financial positions and generally extends credit on account, without collateral. The Company determines the need for an allowance for credit losses based upon various factors, including past collection experience, credit quality of the customer, age of the receivable balance and current economic conditions.

If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Amounts are charged against the allowance for credit losses once collection efforts are unsuccessful. Credit losses on accounts receivable were \$1.2 million, \$0.6 million and \$2.0 million for the years ended December 31, 2022, 2021 and 2020, respectively. The allowance for credit losses was \$1.8 million and \$1.3 million as of

Sprout Social, Inc.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021, respectively. The activity related to the allowance for credit losses for the years ended December 31, 2022, 2021 and 2020 was as follows (in thousands):

Balance at December 31, 2019	\$ 706
Additions	2,005
Write-offs, net of recoveries	(1,283)
Balance at December 31, 2020	\$ 1,428
Additions	614
Write-offs, net of recoveries	(744)
Balance at December 31, 2021	1,298
Additions	1,199
Write-offs, net of recoveries	(708)
Balance at December 31, 2022	<u>\$ 1,789</u>

Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk are primarily cash and cash equivalents, accounts receivable and marketable securities. The Company's cash and cash equivalents are generally held with large financial institutions. Although the Company's deposits may exceed federally insured limits, the financial institutions that the Company uses have high investment-grade credit ratings and, as a result, the Company believes that, as of December 31, 2022, its risk relating to deposits exceeding federally insured limits was not significant.

The Company has credit risk regarding trade accounts receivable as the Company generally does not require collateral. Allowances are maintained for potential credit losses. As of December 31, 2022 and 2021, there were no individual customers that accounted for more than 10% of the Company's total revenue or net accounts receivable.

The Company's marketable securities consist of investment-grade corporate bonds, commercial paper, U.S. Treasury securities, asset-backed securities, and agency securities. The Company limits the amount of investments in any single issuer and believes that, as of December 31, 2022, its concentration of credit risk related to marketable securities was not significant.

Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the following estimated useful lives:

Computer equipment and hardware	3-5 years
Furniture and fixtures	3-7 years
Internal-use software	3 years
Leasehold improvements	Lesser of useful life or remaining lease term

Maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. Upon retirement or sale, the cost of assets disposed and the related accumulated depreciation are written off, and any resulting gain or loss is credited or charged to income.

Sprout Social, Inc.

Notes to Consolidated Financial Statements

Goodwill

Goodwill consists of the excess purchase price over the fair value of net assets acquired in purchase business combinations. The Company conducts a test for the impairment of goodwill on at least an annual basis as of October 1st or sooner if indicators of impairment arise. The Company first assesses qualitative factors to determine whether it is more likely than not that goodwill is impaired. As part of the qualitative assessment, the Company evaluates factors including macroeconomic conditions, industry and market considerations, cost factors and overall financial performance of its reporting unit.

The Company has a single reporting unit. If the Company concludes that it is more-likely-than-not that its single reporting unit is impaired or if the Company elects not to perform the optional qualitative assessment, a quantitative assessment is performed. For the quantitative assessment, the fair value of the Company's reporting unit is compared with the carrying amount of net assets, including goodwill, related to the reporting unit. The Company recognizes an impairment charge for the amount, if any, by which the carrying amount of a reporting unit exceeds the fair value of the reporting unit. The Company did not record any impairment loss during the years ended December 31, 2022, 2021 and 2020.

Impairment of Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets, which includes property and equipment and intangible assets, whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable. Recoverability of an asset is measured by comparison of its carrying amount to the anticipated future undiscounted cash flows that the asset is expected to generate. If that comparison indicates that the carrying amount is not recoverable, an impairment loss is recorded in the amount by which the carrying amount of the asset exceeds its fair value. The Company did not record any impairment loss during the years ended December 31, 2022, 2021 and 2020.

Revenue Recognition

The Company generates revenues from subscriptions to the Company's web-based social media management platform under a software-as-a-service model. Our subscriptions can range from monthly to one-year or multi-year arrangements and are generally non-cancellable. The Company's customers do not have the right to take possession of the online software solution.

The Company commences revenue recognition when control of these products is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for such products.

The Company determines revenue recognition through the following steps:

- identify the contract with a customer;
- identify the performance obligations in a contract;
- determination of the transaction price;
- allocate the transaction price to the performance obligations identified in the contract; and
- recognize revenue when (or as) performance obligations are satisfied.

Sprout Social, Inc.

Notes to Consolidated Financial Statements

Identify the contract with a customer

A customer contract is generally identified when the Company and a customer have executed an agreement or online acceptance that requires the Company to grant access to its online software products and provide professional services in exchange for consideration from the customer.

Identify the performance obligations in a contract

A performance obligation is a promise to provide a distinct service or a series of distinct services. A service that is promised to a customer is distinct if the customer can benefit from the service either on its own or together with other readily available resources, and a company's promise to transfer the service to the customer is separately identifiable from other promises in the contract.

The Company has determined that subscriptions for its online software products are a distinct performance obligation, because no implementation work is required and the online software product is fully functional once a customer has access.

In addition, the Company sells professional services consisting of, but not limited to, implementation fees, specialized training, one-time reporting services and recurring periodic reporting services. Professional services are distinct, as they are sold separately, and the customer can benefit from the services to make better use of the online product purchased.

Determination of the transaction price

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company estimates any variable consideration it will be entitled at contract inception and will reassess as circumstances change, when determining the transaction price. The transaction price for subscription and professional services is generally fixed at contract inception; therefore, the Company's contracts do not contain a significant amount of variable consideration. As a result, the amount of revenue recognized in the periods presented from performance obligations satisfied (or partially satisfied) in previous periods due to changes in the transaction price was not material.

Allocate the transaction price to the performance obligations identified in the contract

If the contract contains a single performance obligation, the Company allocates the entire transaction price to the single performance obligation. For contracts containing multiple performance obligations, the transaction price is allocated to each performance obligation based on the relative standalone selling price ("SSP") of the services provided to the customer. The Company determines the SSP based upon the prices at which the Company separately sells subscription and various professional services, and based on the Company's overall pricing objectives, taking into consideration market conditions, value of the Company's contracts, the types of offerings sold, customer demographics and other factors.

Recognize revenue when (or as) performance obligations are satisfied

Subscription revenues are recognized ratably over the contract terms beginning on the date the Company's service is made available to customers, which typically begins on the commencement date of each contract as no implementation work is required. The Company's customers do not have the right to take possession of the online software solution. The Company's subscription service arrangements are generally non-cancellable and do not provide for refund of subscription fees.

Sprout Social, Inc.

Notes to Consolidated Financial Statements

Professional services are typically provided for a fixed fee, and revenues are recognized over time for these contracts as services are provided to the customer. Professional services revenue represents less than 1% of revenue for the periods presented.

Sales Commissions

Sales force commissions are considered incremental costs of obtaining a contract with a customer. Sales commissions are paid on initial contracts with new customers and for expansion of contracts with existing customers. Commissions are not paid on customer renewals. Sales commissions are deferred and amortized on a straight-line basis over a period of benefit of three years, as determined by the Company. The Company determined the three-year period by taking into consideration the products sold, expected customer life, expected contract renewals, technology life cycle and other factors. Amortization expense is included as a component of sales and marketing expense. Deferred commissions during the year ended December 31, 2022 increased \$11.7 million as a result of deferring incremental costs of obtaining contracts with customers of \$30.3 million, which was offset by \$18.6 million of amortization. Deferred commissions during the year ended December 31, 2021 increased \$10.9 million as a result of deferring incremental costs of obtaining contracts with customers of \$23.1 million, which was offset by \$12.2 million of amortization. The Company periodically reviews the deferred sales commissions for impairment and noted no impairment loss for the years ended December 31, 2022, 2021 and 2020.

Cost of Revenues

Cost of revenues primarily consist of expenses related to hosting the Company's service and providing support to customers, depreciation associated with computers and hardware and amortization expense related to acquired developed technologies. These expenses are comprised of hosted data center global costs, fees paid to third-party data providers and personnel-related costs directly associated with cloud infrastructure and customer support, including salaries, benefits, bonuses and allocated overhead. Overhead associated with facilities and information technology is allocated to cost of revenue and operating expenses based on headcount.

Advertising Costs

Advertising costs primarily include online advertising on search engines. Advertising costs are expensed as incurred and included as a component of sales and marketing expenses. The Company incurred approximately \$4.4 million, \$4.5 million and \$3.1 million in advertising costs during the years ended December 31, 2022, 2021 and 2020, respectively.

Research and Development Costs

Research and development expenses include payroll, employee benefits and other expenses associated with product development.

Capitalized Internal-Use Software Costs

Certain payroll and stock compensation costs incurred to develop functionality for the Company's platform, as well as certain upgrades and enhancements that are expected to result in enhanced functionality are capitalized during the development stage. Costs incurred in the preliminary stages of development are expensed as incurred. Once software has reached the development stage, direct and incremental costs are capitalized until the software is substantially complete and ready for its intended use. Capitalized internal-use software costs are included within property and equipment, net on the

Sprout Social, Inc.

Notes to Consolidated Financial Statements

consolidated balance sheets, and are amortized over the estimated useful life of the software, which is typically three years.

Stock-Based Compensation

The Company recognizes compensation expense for equity awards based on the grant-date fair value over the remaining requisite service period for the award. For equity awards with only service conditions, the Company recognizes compensation expense on a straight-line basis over the remaining requisite service period for the award. For equity awards with both service and performance conditions, compensation expense is recognized on a graded vesting basis over the requisite service period once the achievement of the performance condition is considered probable. The grant-date fair value of RSUs that contain a market condition is determined using a Monte Carlo valuation model. The Company recognizes forfeitures as they occur.

Foreign Currency

The functional currency of the Company's foreign subsidiaries is the U.S. dollar. Accordingly, monetary balance sheet accounts are remeasured using exchange rates in effect at the balance sheet dates and non-monetary items are remeasured at historical exchange rates. Expenses are generally remeasured at the average exchange rates for the period. Foreign currency related gains and losses have been immaterial during the periods presented.

Leases

The Company determines if an arrangement is a lease at inception, and all significant lease arrangements are generally recognized at lease commencement. Operating lease right-of-use, or ROU, assets and operating lease liabilities are recognized at commencement based on the present value of fixed payments not yet paid over the remaining lease term. ROU assets also include any initial indirect costs incurred and any lease payments made at or before the lease commencement date, less lease incentives received. For short-term leases of 12 months or less, no ROU asset or lease liability is recorded. The Company records rent expense in its consolidated statement of operations and comprehensive loss on a straight-line basis over the term of the lease and records variable lease payments as incurred. Additionally, the Company has elected to combine lease and non-lease components and account for them as a single component. ROU assets represent the Company's right to use an underlying asset during the lease term, and lease liabilities represent its obligations to make lease payments arising from the lease. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that it will exercise the option. The Company uses its incremental borrowing rate in determining the lease liabilities, as its leases generally do not provide an implicit rate. The incremental borrowing rate is an estimate of the collateralized borrowing rate the Company would incur on future lease payments over a similar term based on the information available at the commencement date. The Company does not have any finance leases.

Commitments and Contingencies

The Company evaluates all pending or threatened commitments and contingencies, if any, that are reasonably likely to have a material effect on its operations or financial position. The Company assesses the probability of an adverse outcome and records a provision for a liability when management believes that it is probable that a liability has been incurred and the amount can be reasonably estimated.

Sprout Social, Inc.

Notes to Consolidated Financial Statements

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that these assets are believed to be more likely than not to be realized. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not expected to be realized. In making such a determination, all available positive and negative evidence is considered, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies and results of recent operations.

Tax benefits for uncertain tax positions are based upon management's evaluation of the information available at the reporting date. To be recognized in the financial statements, a tax benefit must be at least more-likely-than-not of being sustained based on technical merits. The benefit for positions meeting the recognition threshold is measured as the largest benefit more-likely-than-not of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The Company's policy is to recognize interest and penalties related to the underpayment of income taxes as a component of provision for income taxes. Accrued interest and penalties are included on the related tax liability line in the consolidated balance sheets, as applicable.

The Company files income tax returns in the U.S. federal jurisdiction, Illinois and other state jurisdictions. It is difficult to predict the final timing and resolution of any particular uncertain tax position. Based on the Company's assessment of many factors, including past experience and complex judgments about future events, the Company does not currently anticipate significant changes in its uncertain tax positions over the next 12 months.

Net Loss per Share

The Company calculates basic net loss per share by dividing net loss attributable to common shareholders by the weighted-average number of the Company's common stock shares outstanding during the respective period. Net loss attributable to common shareholders is net loss minus convertible preferred stock dividends declared, of which there were none during the periods presented.

The Company calculates diluted net loss per share using the treasury stock and if-converted methods, which consider the potential impacts of outstanding stock options and RSUs. Under these methods, the numerator and denominator of the net loss per share calculation are adjusted for these securities if the impact of doing so increases net loss per share. During the periods presented, the impact is to decrease net loss per share and therefore the Company is precluded from adjusting its calculation for these securities. As a result, diluted net loss per share is calculating using the same formula as basic net loss per share.

Recently Adopted Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, Simplifying the Accounting for Income Taxes, which simplifies certain aspects of accounting for income taxes. The guidance is effective for interim and annual reporting periods beginning after December 15, 2020, and early adoption is permitted. The

Sprout Social, Inc.

Notes to Consolidated Financial Statements

Company adopted the ASU as of January 1, 2021, and the adoption did not have a material impact on the Company's consolidated financial statements.

2. Revenue Recognition

Disaggregation of Revenue

The Company provides disaggregation of revenue based on geographic region in Note 11 and based on the subscription versus professional services and other classification on the consolidated statements of operations and comprehensive loss, as it believes these best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Deferred Revenue

Deferred revenue is recorded upon establishment of unconditional right to payment under non-cancellable contracts for subscription and professional services described above and is recognized as the revenue recognition criteria are met. The Company generally invoices customers in advance in monthly, quarterly, semi-annual and annual installments. The deferred revenue balance is influenced by several factors, including the compounding effects of renewals, invoice duration, timing and size.

Deferred revenue during the year ended December 31, 2022, increased \$26.9 million as a result of \$280.7 million of additional invoicing which was offset by \$253.8 million of revenue recognized during the same period. Deferred revenue during the year ended December 31, 2021, increased \$25.6 million as a result of \$213.5 million of additional invoicing which was offset by \$187.9 million of revenue recognized during the same period. The amount of revenue recognized during the years ended December 31, 2022 and 2021 that was included in deferred revenue at the beginning of each period was \$68.6 million and \$42.4 million, respectively.

As of December 31, 2022, including amounts already invoiced and amounts contracted but not yet invoiced, \$163.1 million of revenue is expected to be recognized from remaining performance obligations, of which 75% is expected to be recognized in the next 12 months, 19% is expected to be recognized in the subsequent 12 months and the remainder thereafter.

3. Property and Equipment

As of the dates specified below, property and equipment consisted of the following (in thousands):

	As of December 31,	
	2022	2021
Leasehold improvements	\$ 18,308	\$ 18,308
Furniture and fixtures	4,015	3,992
Computer equipment and hardware	4,528	3,398
Internal-use software	774	—
Total property and equipment	27,625	25,698
Less: Accumulated depreciation	(15,676)	(12,844)
Total property and equipment, net	\$ 11,949	\$ 12,854

The Company recognized depreciation expense on property and equipment of \$2.9 million, \$3.0 million and \$2.8 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Sprout Social, Inc.
Notes to Consolidated Financial Statements

4. Intangible Assets

As of the dates specified below, intangible assets, net consisted of the following (in thousands):

	As of December 31,	
	2022	2021
Customer relationships	\$ 7,300	\$ 7,300
	7,300	7,300
Less: Accumulated amortization		
Customer relationships	(5,294)	(4,255)
	(5,294)	(4,255)
Intangible assets, net	<u>\$ 2,006</u>	<u>\$ 3,045</u>

Amortization of intangible assets totaled \$1.0 million, \$1.0 million, and \$1.4 million for the years ended December 31, 2022, 2021 and 2020, respectively. The expected future amortization of intangible assets as of December 31, 2022 is summarized as follows (in thousands):

Years Ending December 31,	Amortization Expense
2023	\$ 1,043
2024	963
2025	—
2026	—
2027	—
	<u>\$ 2,006</u>

Intangible assets are all amortizable and have weighted-average amortization periods as follows:

Intangible assets	Years
Customer relationships	7

5. Operating Leases

The Company has operating lease agreements for offices in Chicago, Illinois, Seattle, Washington, and Dublin, Ireland. The Chicago lease expires in January 2028, the Seattle lease expires in January 2031, and the Dublin lease expires in June 2024. These operating leases require escalating monthly rental payments ranging from approximately \$47,000 to \$280,000. Under the terms of the lease agreements, the Company is also responsible for its proportionate share of taxes and operating costs, which are treated as variable lease costs. The Company's operating leases typically contain options to extend or terminate the term of the lease. The Company currently does not include any options to extend leases in its lease terms as it is not reasonably certain to exercise them. As such, it has recorded lease obligations only through the initial optional termination dates above.

Sprout Social, Inc.

Notes to Consolidated Financial Statements

During 2022, the Company entered into a new lease agreement for an office in Dublin, Ireland, with an expected total future commitment of \$1.1 million and lease commencement date of July 2022. The lease has an expected expiration date of June 2024. For accounting purposes under ASC 842, the lease commenced on June 30, 2022, resulting in the recording of a \$1.1 million right-of-use operating lease asset and operating lease liability.

The following table provides a summary of operating lease assets and liabilities as of December 31, 2022 (in thousands):

Assets	
Operating lease right-of-use assets	\$ 9,503
Liabilities	
Operating lease liabilities	3,499
Operating lease liabilities, non-current	18,287
Total operating lease liabilities	<u>\$ 21,786</u>

Operating lease expense for the year ended December 31, 2022, 2021, and 2020 was \$2.3 million, \$2.0 million and \$2.5 million, respectively. Variable lease costs for the year ended December 31, 2022, 2021 and 2020 was \$3.5 million, \$3.3 million and \$2.7 million, respectively. Cash payments related to operating leases for the year ended December 31, 2022, 2021 and 2020 were \$7.7 million, \$6.7 million and \$4.4 million, respectively. The Company recognized \$0.2 million of sublease rental income in other (expense) income, net on the consolidated statement of operations in 2020. There was no sublease rental income recognized in 2022 and 2021.

As of December 31, 2022, the weighted-average remaining lease term is 5.9 years and the weighted-average discount rate is 5.5%.

Remaining maturities of operating lease liabilities as of December 31, 2022 are as follows (in thousands):

Years ending December 31,	
2023	\$ 4,599
2024	4,401
2025	4,205
2026	4,298
2027	4,392
Thereafter	3,603
Total future minimum lease payments	<u>\$ 25,498</u>
Less: imputed interest	(3,712)
Total operating lease liabilities	<u>\$ 21,786</u>

Sprout Social, Inc.

Notes to Consolidated Financial Statements

6. Income Taxes

The components of loss before income taxes are as follows (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Domestic	\$ (49,177)	\$ (27,097)	\$ (30,544)
Foreign	(697)	(1,394)	(984)
Loss before income taxes	\$ (49,874)	\$ (28,491)	\$ (31,528)

There is no provision for domestic income taxes because the Company has historically incurred operating losses and maintains a full valuation allowance against its net deferred tax assets. In 2022, 2021, and 2020, the Company recognized an immaterial provision related to foreign income taxes.

A reconciliation of the difference between the federal statutory rate and the effective income tax rate as a percentage of income before taxes for the years ended December 31, 2022, 2021, and 2020 is as follows (in thousands):

	Year Ended December 31,					
	2022		2021		2020	
	Amount	Tax Rate	Amount	Tax Rate	Amount	Tax Rate
Federal statutory income tax	\$ (10,474)	21.00 %	\$ (5,983)	21.00 %	\$ (6,643)	21.00 %
State income tax, net of federal tax benefit ..	(1,863)	3.74	(1,024)	3.59	(1,056)	3.34
Foreign tax	43	(0.09)	(91)	0.32	(51)	0.16
Section 162(m) limitation	2,371	(4.75)	2,591	(9.09)	2,128	(6.73)
Other	687	(1.38)	516	(1.72)	489	(1.45)
Valuation allowance net of deferred tax assets	12,075	(24.21)	16,485	(57.86)	12,432	(39.30)
Stock-based compensation	(2,412)	4.84	(11,865)	41.64	(7,321)	23.14
Return to provision	(61)	0.12	(418)	1.47	149	(0.47)
Effective income tax rate	<u>\$ 366</u>	<u>(0.7)%</u>	<u>\$ 211</u>	<u>(0.7)%</u>	<u>\$ 127</u>	<u>(0.3)%</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax

Sprout Social, Inc.
Notes to Consolidated Financial Statements

purposes. Significant components of the Company's deferred taxes at December 31, 2022 and 2021 are as follows (in thousands):

	As of December 31,	
	2022	2021
Deferred tax assets		
Net operating loss carryforwards	\$ 66,912	\$ 61,202
Research & Development Costs	5,846	—
Operating lease liability	5,363	5,776
Stock-based compensation	4,622	1,615
Other	1,644	1,432
Total deferred tax assets	84,387	70,025
Deferred tax liabilities		
Depreciation and amortization	(1,986)	(2,616)
Deferred commissions and bonus	(9,849)	(6,920)
Operating lease right-of-use asset	(2,340)	(2,311)
Other	(940)	(981)
Total deferred tax liabilities	(15,115)	(12,828)
Less: Valuation allowance	(69,272)	(57,197)
Net deferred tax asset (liability)	\$ —	\$ —

The Company assesses all available positive and negative evidence to evaluate the realizability of its deferred tax assets and whether or not a valuation allowance is necessary. The Company's three-year cumulative loss position was significant negative evidence in assessing the need for a valuation allowance. The weight given to positive and negative evidence is commensurate with the extent such evidence may be objectively verified. Given the weight of objectively verifiable historical losses from operations, the Company has recorded a full valuation allowance on its deferred tax assets. The Company may be able to reverse the valuation allowance when sufficient positive evidence exists to support the reversal of the valuation allowance.

The increase in the valuation allowance for deferred tax assets was approximately \$12.1 million for the year ended December 31, 2022, \$16.5 million for the year ended December 31, 2021, and \$12.4 million for the year ended December 31, 2020. The increase in the valuation allowance was primarily due to the increase in the net operating loss deferred tax asset, the establishment of a deferred tax asset for capitalized research and development (R&D) costs, and the increase in deferred tax asset for stock-based compensation.

The Tax Cuts and Jobs Act (TCJA) of 2017 proposed changes to the Internal Revenue Code (IRC) section 174, which governs the treatment of R&D costs for tax purposes. The changes require companies to capitalize R&D costs incurred after December 31, 2021. Under new IRC Section 174(c)(3), software development costs are treated as R&D expenditures. The Company has capitalized and amortized relevant software development costs under IRC section 174 and recorded a resulting deferred tax asset of \$5.8 million as of December 31, 2022.

The Company elected to account for Global Intangible Low-Taxed Income ("GILTI") as a current-period expense when incurred. Therefore, the Company has not recorded deferred taxes for basis differences expected to reverse in the future periods.

Sprout Social, Inc.

Notes to Consolidated Financial Statements

The Company has total net operating loss carryforwards for federal income tax purposes of approximately \$56.8 million as of December 31, 2022, which begin to expire in 2031. The Company has total net operating loss carryforwards for U.S. state income tax purposes of approximately \$10.1 million as of December 31, 2022, which begin to expire in 2031. The operating loss carryforwards may be limited due to a change in control in the Company's ownership as defined by the Internal Revenue Code Sections 382. Any future changes in the Company's ownership may limit the use of such carryforward benefits.

The Company recognizes tax benefits from uncertain tax positions if it is more likely than not that the tax position will be sustained by the tax authority upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. If a tax position meets the more-likely-than-not threshold, the Company measures the tax position as the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement. The Company had no uncertain tax positions during the years ended December 31, 2022, 2021, and 2020.

The Company recognizes interest and, if applicable, penalties for any uncertain tax positions. Interest and penalties are recorded as a component of income tax expense. In the years ended December 31, 2022, 2021, and 2020 the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Due to its operating loss carryforwards, the U.S. federal statute of limitations remains open for tax year 2010 and onward and the Company continues to be subject to examination by the Internal Revenue Service for tax years 2010 and later. The resolutions of any examinations are not expected to be material to these financial statements.

The Company does not provide for U.S. income taxes on unremitted earnings of foreign subsidiaries. Unremitted earnings of foreign subsidiaries were immaterial at December 31, 2022.

7. Revolving Line of Credit

On December 1, 2017, the Company entered into a Loan and Security Agreement (the "Agreement") with Silicon Valley Bank, which was amended on February 26, 2018, July 26, 2018, January 31, 2019, November 26, 2019 and February 5, 2020. The Agreement included a revolving line of credit facility under which the Company may borrow up to \$40.0 million.

The revolving line of credit facility expired by its terms on January 31, 2022. There was no outstanding balance under the Agreement for any of the periods presented.

The Company is contingently liable under two standby letters of credit which are required as security for the Company's current office leases (Note 5). At December 31, 2022, the Company had \$2.7 million in unsecured letters of credit outstanding. At December 31, 2021, the Company elected to reduce the revolving credit facility borrowing capacity by \$2.7 million as security for future lease payments.

8. Stockholders' Equity

Common Stock

As of December 31, 2022, the Company has authorized 1,000,000,000 shares of Class A common stock with a par value of \$0.0001 per share and 25,000,000 shares of Class B common stock with a par value of \$0.0001 per share. Each holder of Class A and Class B common stock shall be entitled

Sprout Social, Inc.

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to one and ten votes, respectively, for each share held as of the record date and shall be entitled to receive dividends, when, as and if declared by the Board of Directors. Each share of Class B common stock is convertible into one share of Class A common stock at any time and will convert automatically upon certain transfers and upon the earlier of (i) the first date on which the voting power of all then outstanding shares of Class B common stock represents less than 10% of the combined voting power of all then outstanding shares of Class A common stock and Class B common stock, (ii) the date that is seven (7) years from the closing of the IPO on December 17, 2019 and (iii) the date specified by a vote of the holders of a majority of the then outstanding shares of Class B common stock, voting as a separate class. Following such conversion, each share of Class A common stock will have one vote per share and the rights of the holders of all outstanding shares of common stock will be identical. The total Class A and Class B common stock outstanding as of December 31, 2022 is 47,562,911 and 7,460,432 shares, respectively.

9. Incentive Stock Plan

On April 27, 2016, the Company established the Sprout Social, Inc. 2016 Stock Plan (the “2016 Plan”) as an amendment and restatement of the Sprout Social, Inc. 2010 Amended and Restated Stock Incentive Plan, under which awards, including options, restricted stock purchases rights, restricted stock bonus or restricted stock unit awards, for up to 5,467,862 shares of common stock may, at the discretion of the Board of Directors, be issued to employees, consultants, and directors of the Company. Under the 2016 Plan, any shares withheld upon settlement of RSUs, as elected by the employee to cover withholding taxes, will again be available for future grants under the plan. There were no changes to existing stock options outstanding as a result of the amendment and restatement. The exercise price for each award is determined by the Board of Directors. However, each option must have an exercise price of at least the fair market value of the option and no less than 110% of fair market value for options granted to a 10% owner optionee. The Company continues to maintain the 2016 Plan, although no further grants are authorized under the 2016 Plan following the effectiveness of the 2019 Incentive Award Plan.

Effective October 17, 2019, the Company established the Sprout Social, Inc. 2019 Incentive Award Plan (the “2019 Plan”), under which awards, including options, stock appreciation rights, restricted stock awards, restricted stock unit awards, other stock or cash based awards and dividend equivalent awards, for up to 5,293,497 shares of Class A common stock may, at the discretion of the Board of Directors, be issued to employees, consultants, and directors of the Company.

Effective December 12, 2019, the Company established the Sprout Social, Inc. 2019 Class B Incentive Award Plan (the “Class B Plan”), under which cash and equity incentive awards, for up to 550,000 shares of Class B common stock were, at the discretion of the Board of Directors, issued to employees, consultants, and directors of the Company, with the expectation that shares would only be issued to the Company’s CEO depending on the valuation of the Company in connection with the IPO and the achievement of market capitalization thresholds thereafter. There are no further grants authorized under the Class B Plan.

The only awards granted as of December 31, 2022 are stock options and restricted stock units.

Sprout Social, Inc.
Notes to Consolidated Financial Statements

Stock-based Compensation Expense

Stock-based compensation expense is included in the consolidated statement of operations and comprehensive loss as follows (in thousands):

	Years Ended December 31,		
	2022	2021	2020
Cost of revenue	\$ 2,491	\$ 1,062	\$ 749
Research and development	11,280	4,039	1,935
Sales and marketing	23,066	10,636	2,464
General and administrative	10,901	5,993	5,931
 Total stock-based compensation expense	 <u>\$ 47,738</u>	 <u>\$ 21,730</u>	 <u>\$ 11,079</u>

For the periods presented, stock-based compensation expense consisted of expense from restricted stock units and restricted stock awards. There was no expense related to stock options.

Restricted Stock Units

At the end of 2015, the Company began issuing restricted stock units. The general terms of the restricted stock units issued under the 2016 Plan require both a service and performance condition to be satisfied prior to vesting. The service condition is satisfied upon the participant's completion of a required period of continuous service from the vesting start date. The performance condition was satisfied upon the completion of the IPO. The general terms of the restricted stock units issued under the 2019 Plan require only a service condition to be satisfied prior to vesting. However, certain executive grants issued under the 2019 Plan require both the satisfaction of a service condition and a performance condition which includes the achievement of subscription revenue targets, prior to vesting. The restricted stock units issued under the Class B Plan require both a performance condition and a market condition to be satisfied prior to vesting. The performance condition was satisfied upon the completion of the IPO. The grant-date fair value of RSUs that contain a market condition was determined using a Monte Carlo valuation model in order to simulate a range of possible future stock prices. Key assumptions used included a risk-free interest rate of 1.61% and expected volatility of 62.5%.

The table below summarizes the activity regarding unvested restricted stock units for the year ended December 31, 2022:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Unvested at December 31, 2021	1,999,930	\$ 52.08
Granted	1,684,655	64.17
Vested	(824,568)	40.50
Forfeited	(167,740)	59.87
Unvested at December 31, 2022	<u>2,692,277</u>	<u>\$ 62.71</u>

Sprout Social, Inc.

Notes to Consolidated Financial Statements

The weighted-average grant date fair value per share for restricted stock units granted during the years ended December 31, 2022, 2021 and 2020 was \$64.17, \$85.69 and \$29.36, respectively. The total unrecognized stock-based compensation expense relating to these awards as of December 31, 2022 was \$141.2 million, which is expected to be recognized over a weighted-average period of 3.1 years.

Stock Options

The options become fully vested at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria, and restrictions as shall be determined by the Board of Directors and set forth in each stock option notice; provided, however, that no exercise period shall exceed ten years from the grant date.

The fair value of each option is estimated on the date of grant based on the Black-Scholes option pricing model. The annual rate of dividends is expressed as a dividend yield which is a constant percentage of the stock price, which is determined by the board of directors with input from a third-party valuation specialist. The expected life of an option represents the period of time that an option is expected to be outstanding. The risk-free interest rate is based on the rate of U.S. Treasury securities with maturities consistent with the estimated expected term of the awards.

The Company has not paid dividends and does not anticipate paying a cash dividend on common stock in the foreseeable future and, accordingly, uses an expected dividend yield of zero. As the Company was privately held during the life of the options, there is no historical basis of the stock volatility. Accordingly, the expected volatility is based primarily on the historical volatilities of similar entities' common stock over the most recent period commensurate with the estimated expected term of the awards. The expected term of an award is determined using the simplified method for plain vanilla options, consistent with applicable accounting guidance.

At the end of 2015, the Company ceased issuing stock options.

The table below summarizes the stock option activity for the year ended December 31, 2022:

	Number of Options	Weighted Average Exercise Price	Weighted Average Contractual Term <i>(in years)</i>	Aggregate Intrinsic Value <i>(in thousands)</i>
Outstanding at beginning of period	98,055	\$ 0.77	2.20	\$ 8,818
Granted at fair value	—	—		
Exercised	(41,045)	0.42		
Forfeited	—	—		
Outstanding at end of period	<u>57,010</u>	\$ 1.01	1.93	\$ 3,161
Options exercisable at December 31, 2022	57,010	\$ 1.01	1.93	\$ 3,161

The Company has computed the aggregate intrinsic value of amounts disclosed in the above table based on the difference between the original exercise price of the options and the estimated fair value of the Company's common stock as of December 31, 2022.

The intrinsic value of options exercised for the years ended December 31, 2022, 2021 and 2020 was \$2.3 million, \$5.7 million and \$44.8 million, respectively.

Sprout Social, Inc.

Notes to Consolidated Financial Statements

The following summarizes information about the Company's options outstanding as of December 31, 2022:

Exercise Price	Options Outstanding		Options Exercisable	
	Shares	Weighted-Average Remaining Contractual Term	Shares	Weighted-Average Remaining Contractual Term
		(in years)		(in years)
\$0.31 - \$0.69	5,010	0.72	5,010	0.72
\$0.70 - \$1.08	52,000	2.05	52,000	2.05
	<u>57,010</u>		<u>57,010</u>	

10. Commitments and Contingencies

Contractual Obligations

The Company has non-cancellable minimum guaranteed purchase commitments for data and services. Contractual commitments as of December 31, 2022 are as follows (in thousands):

Years ending December 31,	
2023	\$ 18,100
2024	2,523
2025	610
2026	—
2027	—
Thereafter	—
Total contractual obligations	<u>\$ 21,233</u>

Legal Matters

From time to time in the normal course of business, the Company may be subject to various legal matters such as threatened or pending claims or proceedings. There were no material such matters as of and for the year ended December 31, 2022.

Indemnification

In the ordinary course of business, the Company often includes standard indemnification provisions in its arrangements with third parties, including vendors, customers, investors and the Company's directors and officers. Pursuant to these provisions, the Company may be obligated to indemnify such parties for losses or claims suffered or incurred. It is not possible to determine the

Sprout Social, Inc.

Notes to Consolidated Financial Statements

maximum potential loss under these indemnification provisions due to the Company's limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision. There were no material obligations under such indemnification agreements as of and for the year ended December 31, 2022.

11. Geographic Data

As described in the Summary of Significant Accounting Policies, the Company operates as one operating segment.

Long-lived assets by geographical region are based on the location of the legal entity that owns the assets. As of December 31, 2022 and 2021, there were no significant long-lived assets held by entities outside of the United States.

Revenue by geographical region is determined by location of the Company's customers. Revenue from customers outside of the United States was approximately 28%, 28% and 29% for the year ended December 31, 2022, 2021 and 2020, respectively. Revenue by geographical region is as follows (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Americas	\$ 199,516	\$ 148,241	\$ 104,208
EMEA	42,419	30,229	21,341
Asia Pacific	11,893	9,389	7,400
Total	<u>\$ 253,828</u>	<u>\$ 187,859</u>	<u>\$ 132,949</u>

12. Net Loss per Share

Basic net loss per share is calculated by dividing the net loss by the weighted average number of outstanding shares of common stock each period. Diluted net loss per share is calculated by giving effect to all potential dilutive common stock equivalents, which includes stock options and restricted stock units. Because the Company incurred net losses each period, the basic and diluted calculations are the same. Basic and diluted net loss per share are the same for each class of common stock, as both Class A and Class B stockholders are entitled to the same liquidation and dividend rights.

The following table presents the calculation for basic and diluted net loss per share (in thousands, except share and per share data):

	Year Ended December 31,		
	2022	2021	2020
Net loss attributable to common shareholders	\$ (50,240)	\$ (28,702)	\$ (31,655)
Weighted average common shares outstanding	54,611,616	53,768,301	51,368,737
Net loss per share, basic and diluted	<u>\$ (0.92)</u>	<u>\$ (0.53)</u>	<u>\$ (0.62)</u>

Sprout Social, Inc.

Notes to Consolidated Financial Statements

The following outstanding shares of common stock equivalents were excluded from the calculation of diluted net loss per share for each period, as the impact of including them would have been anti-dilutive.

	As of December 31,		
	2022	2021	2020
Stock options outstanding	57,010	98,055	161,010
RSUs outstanding	2,692,277	1,999,930	2,000,582
Total potentially dilutive shares	2,749,287	2,097,985	2,161,592

Sprout Social, Inc.

Notes to Consolidated Financial Statements

13. Fair Value Measurements

The Company measures certain financial assets at fair value. Fair value is determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as determined by either the principal market or the most advantageous market. Inputs used in the valuation techniques to derive fair values are classified based on a three-level hierarchy, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity.

The following tables present information about the Company's financial assets that are measured at fair value and indicate the fair value hierarchy of the valuation inputs used (in thousands):

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Marketable Securities:				
Commercial paper	\$ —	\$ 43,489	\$ —	\$ 43,489
Corporate bonds	—	33,183	—	33,183
U.S. Treasury securities	—	14,145	—	14,145
U.S. agency securities	—	12,950	—	12,950
Asset-backed securities	—	2,157	—	2,157
Total assets	\$ —	\$ 105,924	\$ —	\$ 105,924

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Marketable Securities:				
Corporate bonds	\$ —	\$ 26,274	\$ —	\$ 26,274
Commercial paper	—	33,481	—	33,481
U.S. Treasury securities	—	10,066	—	10,066
Total assets	\$ —	\$ 69,821	\$ —	\$ 69,821

Sprout Social, Inc.

Notes to Consolidated Financial Statements

Marketable securities are classified within Level 2 because they are valued using inputs other than quoted prices that are directly or indirectly observable in the market.

The carrying amounts of certain financial instruments, including cash held in banks, cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate fair value due to their short-term maturities and are excluded from the fair value tables above.

As of December 31, 2022 and December 31, 2021, the Company held investment-grade marketable securities which were accounted for as available-for-sale securities. There was not a significant difference between the amortized cost and fair value of these securities. The gross unrealized gains and losses associated with these securities were immaterial in the periods presented

The following table classifies our marketable securities by contractual maturity (in thousands):

	December 31, 2022	December 31, 2021
Due in one year or less	\$ 92,929	\$ 69,821
Due after one year and within two years	12,995	—
Total	\$ 105,924	\$ 69,821

14. Employee Benefit Plan

The Company sponsors a qualified 401(k) defined contribution plan for the benefit of its employees. The Company made matching contributions to the plan totaling \$2.8 million, \$2.2 million and \$1.7 million for the years ended December 31, 2022, 2021 and 2020, respectively.

15. Related Party Transactions

During the years ended December 31, 2021 and 2020, the Company received \$1.7 million and \$1.1 million, respectively, in cash for the disgorgement of stockholder short-swing profits under Section 16(b) of the Exchange Act. The amounts were recorded as increases to additional paid-in capital on the consolidated balance sheet.

An employee of an affiliate of Goldman Sachs & Co. LLC, a member of the underwriting syndicate of the Company's IPO, previously served on the Company's board of directors pursuant to the Sixth Amended and Restated Voting Agreement, which provides that holders of a majority of the Company's common stock issued or issuable upon conversion of its Series C preferred stock have the right to appoint one member to the Company's board of directors. Prior to the IPO, entities affiliated with Goldman Sachs & Co. LLC owned a majority of the Company's Series C preferred stock. Through February 2021, these entities continued to hold a majority of the common stock issued upon conversion of the Company's Series C preferred stock at the closing of the IPO. Upon closing of the IPO on December 17, 2019, the Company paid \$4.2 million to Goldman Sachs & Co. LLC for underwriting discounts and commissions.

16. Subsequent Event

On January 19, 2023, the Company completed the acquisition of Repustate Inc. The acquisition is expected to advance the Company's social listening, messaging and customer care capabilities. The Company used cash on hand to complete the acquisition.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of December 31, 2022. Based on such evaluation, our CEO and CFO have concluded that as of December 31, 2022, our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework* (2013).

Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2022.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2022 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report, which is included under Item 8 of this annual report on Form 10-K.

Changes in internal control over financial reporting

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item will be incorporated by reference to our Proxy Statement for the 2023 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days of the year ended December 31, 2022.

Item 11. Executive Compensation

The information required by this item will be incorporated by reference to our Proxy Statement for the 2023 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days of the year ended December 31, 2022.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be incorporated by reference to the sections entitled “Non-Employee Director Compensation,” “Board of Directors and Corporate Governance – Compensation Committee Interlocks and Inside Participation,” “Compensation Discussion and Analysis,” “Executive Compensation” and “CEO Pay Ratio” in our Proxy Statement for the 2023 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days of the year ended December 31, 2022.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be incorporated by reference to our Proxy Statement for the 2023 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days of the year ended December 31, 2022.

Item 14. Principal Accounting Fees and Services

The information required by this item will be incorporated by reference to our Proxy Statement for the 2023 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days of the year ended December 31, 2022.

PART IV

Item 15. Exhibit, Financial Statement Schedules

INDEX TO EXHIBITS

<u>Exhibit No.</u>	
3.1	<u>Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to Sprout Social's Current Report on form 8-K (File No. 001-39156) filed on December 17, 2019).</u>
3.2	<u>Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.1 to Sprout Social's Current Report on form 8-K (File No. 001-39156) filed on October 31, 2022).</u>
4.1	<u>Specimen Stock Certificate evidencing the shares of Class A common stock (Incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (File No. 333-23416) filed on December 2, 2019).</u>
4.2	<u>Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (Incorporated by reference to Exhibit 4.4 to Sprout Social's Annual Report on Form 10-K for the year ended December 31, 2019).</u>
10.1†	<u>Sprout Social, Inc. 2010 Amended and Restated Stock Incentive Plan, as amended (Incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 (File No. 333-23416) filed on October 25, 2019).</u>
10.2†	<u>Form of Incentive Stock Option Notice and Incentive Stock Option Agreement pursuant to Sprout Social, Inc. 2010 Amended and Restated Stock Incentive Plan (Incorporated by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form S-1 (File No. 333-23416) filed on October 25, 2019).</u>
10.3†	<u>Sprout Social, Inc. 2016 Stock Plan (Incorporated by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form S-1 (File No. 333-23416) filed on October 25, 2019).</u>
10.4†	<u>Amendment to Sprout Social, Inc. 2016 Stock Plan (Incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form S-1 (File No. 333-23416) filed on October 25, 2019).</u>
10.5†	<u>Form of Notice of Grant of Stock Option and Stock Option Agreement pursuant to Sprout Social, Inc. 2016 Stock Plan (Incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (File No. 333-23416) filed on October 25, 2019).</u>
10.6†	<u>Form of Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement pursuant to 2016 Stock Plan (Incorporated by reference to Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 (File No. 333-23416) filed on October 25, 2019).</u>
10.7†	<u>Sprout Social, Inc. Notice of Grant of Restricted Stock Award and Restricted Stock Award Agreement, between the Registrant and Justyn Howard (Incorporated by reference to Exhibit 10.11 to the Registrant's Registration Statement on Form S-1 (File No. 333-23416) filed on October 25, 2019).</u>
10.8†	<u>Sprout Social, Inc. 2019 Incentive Award Plan (Incorporated by reference to Exhibit 10.12 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (File No. 333-23416) filed on December 2, 2019).</u>
10.9†	<u>Sprout Social, Inc. 2019 Class B Incentive Award Plan (Incorporated by reference to Exhibit 10.13 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (File No. 333-23416) filed on December 2, 2019).</u>
10.10†	<u>Sprout Social Inc. 2019 Employee Stock Purchase Plan (Incorporated by reference to Exhibit 10.14 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (File No. 333-23416) filed on December 2, 2019).</u>

- [Form of Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement pursuant to the Sprout Social, Inc. 2019 Incentive Award Plan \(Incorporated by reference to Exhibit 10.15 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 \(File No. 333-23416\) filed on December 2, 2019\).](#)
- 10.11†
- [Form of Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement pursuant to the Sprout Social, Inc. 2019 Incentive Award Plan, approved February 19, 2020 \(Incorporated by reference to Exhibit 10.18 to Sprout Social's Annual Report on Form 10-K for the year ended December 31, 2019\).](#)
- 10.12†
- [Form of Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement pursuant to the Sprout Social, Inc. 2019 Incentive Award Plan, approved February 16, 2022 \(Incorporated by reference to Exhibit 10.1 to Sprout Social's Quarterly Report on Form 10-Q for the quarter ended June 30, 2022\).](#)
- 10.13†
- [Form of Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement pursuant to the Sprout Social, Inc. 2019 Incentive Award Plan, approved February 15, 2023.](#)
- 10.14†
- [Form of Non-Employee Director Notice of Grant of Restricted Stock Units and Restricted Stock Unit Agreement pursuant to the Sprout Social, Inc. 2019 Incentive Award Plan \(Incorporated by reference to Exhibit 10.19 to Sprout Social's Annual Report on Form 10-K for the year ended December 31, 2020\).](#)
- 10.15†
- [Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Agreement pursuant to the Sprout Social, Inc. 2019 Class B Incentive Award Plan \(Incorporated by reference to Exhibit 10.19 to Sprout Social's Annual Report on Form 10-K for the year ended December 31, 2019\).](#)
- 10.16†
- [Sprout Social, Inc. Non-Employee Director Compensation Policy \(as amended effective January 1, 2022\) Incorporated by Reference to Exhibit 10.22 to Sprout Social's Annual Report on Form 10-K for the year ended December 31, 2021\).](#)
- 10.17†
- [Amended and Restated Executive Employment Agreement, dated as of November 29, 2019, by and between the Registrant and Justyn Howard \(Incorporated by reference to Exhibit 10.17 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 \(File No. 333-23416\) filed on December 2, 2019\).](#)
- 10.18†
- [Amended and Restated Executive Employment Agreement, dated November 29, 2019, by and between the Registrant and Ryan Barretto \(Incorporated by reference to Exhibit 10.18 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 \(File No. 333-23416\) filed on December 2, 2019\).](#)
- 10.19†
- [Side Letter, dated December 28, 2020, between the Registrant and Ryan Barretto \(Incorporated by reference to Exhibit 10.1 to Sprout Social's Current Report on Form 8-K filed on December 28, 2020\).](#)
- 10.20†
- [Side Letter, dated October 4, 2021, between the Registrant and Ryan Barretto \(Incorporated by reference to Exhibit 10.1 to Sprout Social's Current Report on Form 8-K filed on October 5, 2021\).](#)
- 10.21†
- [Amended and Restated Executive Employment Agreement, dated as of February 20, 2020, by and between the Registrant and Joe Del Preto \(Incorporated by reference to Exhibit 10.1 to Sprout Social's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020\).](#)
- 10.22†
- [Amended and Restated Executive Employment Agreement, dated November 29, 2019, by and between the Registrant and Jamie Gilpin \(Incorporated by reference to Exhibit 10.19 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 \(File No. 333-23416\) filed on December 2, 2019\).](#)
- 10.23†
- [Executive Employment Agreement, dated January 1, 2016, by and between the Registrant and Aaron Rankin Incorporated by Reference to Exhibit 10.29 to Sprout Social's Annual Report on Form 10-K for the year ended December 31, 2021\).](#)
- 10.24†
- [Amendment to Executive Employment Agreement, dated February 20, 2020, by and between the Registrant and Aaron Rankin Incorporated by Reference to Exhibit 10.30 to Sprout Social's Annual Report on Form 10-K for the year ended December 31, 2021\).](#)
- 10.25†
- [Form of Indemnification Agreement between Registrant and each director and executive officer \(Incorporated by reference to Exhibit 10.20 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 \(File No. 333-23416\) filed on December 2, 2019\).](#)
- 10.26
- 21.1 [List of Subsidiaries of the Registrant \(Incorporated by reference to Exhibit 21.1 to the Registrant's Registration Statement on Form S-1 \(File No. 333-23416\) filed on October 25, 2019\).](#)

- 23.1 [Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm.](#)
- 31.1 [Certification Pursuant To Rule 13A-14\(A\) or 15D-14\(A\) Under The Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification Pursuant To Rule 13A-14\(A\) or 15D-14\(A\) Under The Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1* [Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2* [Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.INS XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL Document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document.
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document.
- 104 The cover page from the Annual Report on Form 10-K, formatted as Inline XBRL (included in Exhibits 101).

† Indicates a management contract or compensatory plan or arrangement.
 * Furnished, not filed.

The agreements and other documents filed as exhibits to this Annual Report on Form 10-K are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SPROUT SOCIAL, INC.

By: /s/ Justyn Howard

Name: Justyn Howard

Title: Chairman of the Board of Directors
and Chief Executive Officer

Date: February 22, 2023

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities set forth opposite their names and on the dates indicated.

Signature	Title	Date
<u>/s/ Justyn Howard</u> Justyn Howard	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	February 22, 2023
<u>/s/ Peter Barris</u> Peter Barris	Director	February 22, 2023
<u>/s/ Steven Collins</u> Steven Collins	Director	February 22, 2023
<u>/s/ Joe Del Preto</u> Joe Del Preto	Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	February 22, 2023
<u>/s/ Raina Moskowitz</u> Raina Moskowitz	Director	February 22, 2023
<u>/s/ Aaron Rankin</u> Aaron Rankin	Chief Technology Officer and Director	February 22, 2023
<u>/s/ Thomas Stanley</u> Thomas Stanley	Director	February 22, 2023
<u>/s/ Karen Walker</u> Karen Walker	Director	February 22, 2023