

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2024

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 (I.R.S. Employer
incorporation or organization) 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:

Title of each class
Class A Common Stock, \$0.0001 par value per share

Trading Symbol
SPT

Name of each exchange on which registered
The Nasdaq Stock Market LLC

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

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, 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 13 of the Exchange Act.

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 April 26, 2024, there were 49,817,372 shares and 6,720,638 shares of the registrant's Class A and Class B common stock, respectively, \$0.0001 par value per share, outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q ("Quarterly 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 Quarterly Report. Such risks, uncertainties and other important factors include, among others, the risks, uncertainties and factors set forth under "Part I—Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and in our most recent Annual Report on Form 10-K under Part I—Item 1A, "Risk Factors" and the risks and uncertainties related to the following:

- our ability to attract, retain, and grow customers;
- 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 access third-party APIs and data on favorable terms;
- our ability to increase spending of existing customers;
- the evolution of the social media industry, including technological advances and adapting to new regulations and use cases;
- the introduction of artificial intelligence technologies into our products, which may lead to increased governmental or regulatory scrutiny;
- our ability to innovate and provide a superior customer experience;
- our ability to successfully enter new markets, manage our international expansion and comply with any applicable laws and regulations;
- our ability to successfully adapt our sales, success, and compliance efforts to the demands of sophisticated enterprise customers;
- our ability to maintain and enhance our brand;
- our estimates of the size of our market opportunities;
- the effects of increased competition from our market competitors or new entrants to the market;
- our ability to securely maintain customer and other third-party data;

- our ability to comply with existing, modified or new laws and regulations applying to our business, including data privacy and security regulations;
- our ability to maintain, protect and enhance our intellectual property;
- worldwide economic conditions, including the macroeconomic impacts of high levels of inflation, high interest rates and ongoing overseas conflict, and their impact on demand for our platform and products;
- our ability to acquire, invest in, and integrate other businesses or technologies into our business or achieve the expected benefits of such acquisitions and technologies;
- our ability to attract and retain qualified employees and key personnel;
- our ability to manage our substantial debt in a way that does not adversely affect our business; and
- the other factors set forth in our Annual Report filed with the United States Securities and Exchange Commission ("SEC") on Form 10-K under Part I—Item 1A, "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.

In addition, statements such as "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this report. While we believe such information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	\$ 69,162	\$ 49,760
Marketable securities	25,048	44,645
Accounts receivable, net of allowances of \$1,820 and \$2,177 at March 31, 2024 and December 31, 2023, respectively	50,417	63,489
Deferred commissions	14,783	27,725
Prepaid expenses and other assets	18,337	10,324
Total current assets	177,747	195,943
Marketable securities, noncurrent	994	3,699
Property and equipment, net	11,609	11,407
Deferred commissions, net of current portion	42,442	26,240
Operating lease, right-of-use assets	8,293	8,729
Goodwill	121,315	121,404
Intangible assets, net	26,495	28,065
Other assets, net	1,045	1,098
Total assets	\$ 389,940	\$ 396,585
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 5,735	\$ 6,933
Deferred revenue	146,358	140,536
Operating lease liabilities	3,971	3,948
Accrued wages and payroll related benefits	16,891	18,362
Accrued expenses and other	9,452	11,260
Total current liabilities	182,407	181,039
Revolving credit facility	45,000	55,000
Deferred revenue, net of current portion	747	920
Operating lease liabilities, net of current portion	14,085	15,083
Other noncurrent liabilities	351	351
Total liabilities	242,590	252,393

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

	March 31, 2024	December 31, 2023
Commitments and contingencies (Note 7)		
Stockholders' equity		
Class A common stock, par value \$0.0001 per share; 1,000,000,000 shares authorized; 52,689,738 and 49,774,624 shares issued and outstanding, respectively, at March 31, 2024; 52,133,594 and 49,241,563 shares issued and outstanding, respectively, at December 31, 2023	4	4
Class B common stock, par value \$0.0001 per share; 25,000,000 shares authorized; 6,969,582 and 6,762,638 shares issued and outstanding, respectively, at March 31, 2024; 7,201,140 and 6,994,196 shares issued and outstanding, respectively, at December 31, 2023	1	1
Additional paid-in capital	489,969	471,789
Treasury stock, at cost	(36,589)	(35,113)
Accumulated other comprehensive loss	(48)	(77)
Accumulated deficit	(305,987)	(292,412)
Total stockholders' equity	147,350	144,192
Total liabilities and stockholders' equity	\$ 389,940	\$ 396,585

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2024	2023
Revenue		
Subscription	\$ 95,789	\$ 74,742
Professional services and other	995	470
Total revenue	<u>96,784</u>	<u>75,212</u>
Cost of revenue		
Subscription	22,205	16,633
Professional services and other	223	242
Total cost of revenue	<u>22,428</u>	<u>16,875</u>
Gross profit	<u>74,356</u>	<u>58,337</u>
Operating expenses		
Research and development	23,769	17,876
Sales and marketing	44,540	36,905
General and administrative	19,334	15,489
Total operating expenses	<u>87,643</u>	<u>70,270</u>
Loss from operations	<u>(13,287)</u>	<u>(11,933)</u>
Interest expense	(1,046)	(28)
Interest income	1,035	2,020
Other expense, net	(406)	(209)
Loss before income taxes	<u>(13,704)</u>	<u>(10,150)</u>
Income tax (benefit) expense	(129)	102
Net loss	<u>\$ (13,575)</u>	<u>\$ (10,252)</u>
Net loss per share attributable to common shareholders, basic and diluted	<u>\$ (0.24)</u>	<u>\$ (0.19)</u>
Weighted-average shares outstanding used to compute net loss per share, basic and diluted	<u>56,344,242</u>	<u>55,176,425</u>

See Notes to Condensed Consolidated Financial Statements.

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

	<u>Three Months Ended March 31,</u>	
	<u>2024</u>	<u>2023</u>
Net loss	\$ (13,575)	\$ (10,252)
Other comprehensive loss:		
Net unrealized gain (loss) on available-for-sale securities, net of tax	29	78
Comprehensive loss	<u>\$ (13,546)</u>	<u>\$ (10,174)</u>

See Notes to Condensed Consolidated Financial Statements.

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

	Voting Common Stock (Class A and B)		Additional Paid-in Capital	Treasury Stock		Accumulated other comprehensive loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balances at December 31, 2023	56,235,759	\$ 5	\$ 471,789	3,098,975	\$ (35,113)	\$ (77)	\$ (292,412)	\$ 144,192
Stock-based compensation			18,180					18,180
Issuance of common stock from equity award settlement	301,503	—						—
Taxes paid related to net share settlement of equity awards				23,083	(1,476)			(1,476)
Other comprehensive gain (loss), net of tax						29		29
Net loss							(13,575)	(13,575)
Balances at March 31, 2024	<u>56,537,262</u>	<u>\$ 5</u>	<u>\$ 489,969</u>	<u>3,122,058</u>	<u>\$ (36,589)</u>	<u>\$ (48)</u>	<u>\$ (305,987)</u>	<u>\$ 147,350</u>

	Voting Common Stock (Class A and B)		Additional Paid-in Capital	Treasury Stock		Accumulated other comprehensive loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balances at December 31, 2022	55,023,343	\$ 5	\$ 401,419	3,057,448	\$ (32,733)	\$ (369)	\$ (225,985)	\$ 142,337
Stock-based compensation			13,704					13,704
Issuance of common stock from equity award settlement	353,205	—						—
Taxes paid related to net share settlement of equity awards				17,301	(1,099)			(1,099)
Other comprehensive gain (loss), net of tax						78		78
Net loss							(10,252)	(10,252)
Balances at March 31, 2023	<u>55,376,548</u>	<u>\$ 5</u>	<u>\$ 415,123</u>	<u>3,074,749</u>	<u>\$ (33,832)</u>	<u>\$ (291)</u>	<u>\$ (236,237)</u>	<u>\$ 144,768</u>

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

	Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities		
Net loss	\$ (13,575)	\$ (10,252)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization of property, equipment and software	887	708
Amortization of line of credit issuance costs	52	—
Amortization of premium (accretion of discount) on marketable securities	(223)	(882)
Amortization of acquired intangible assets	1,570	366
Amortization of deferred commissions	3,523	5,855
Amortization of right-of-use operating lease asset	436	355
Stock-based compensation expense	18,066	13,656
Provision for accounts receivable allowances	56	353
Changes in operating assets and liabilities, excluding impact from business acquisition		
Accounts receivable	13,017	(1,148)
Prepaid expenses and other current assets	(7,670)	(4,098)
Deferred commissions	(6,783)	(7,757)
Accounts payable and accrued expenses	(2,865)	(1,589)
Deferred revenue	5,648	13,554
Lease liabilities	(975)	(837)
Net cash provided by operating activities	11,164	8,284
Cash flows from investing activities		
Expenditures for property and equipment	(1,092)	(383)
Payments for business acquisition, net of cash acquired	(1,409)	(6,432)
Purchases of marketable securities	—	(30,078)
Proceeds from maturity of marketable securities	22,555	22,631
Proceeds from sale of marketable securities	—	5,571
Net cash provided by (used in) investing activities	20,054	(8,691)
Cash flows from financing activities		
Repayments of line of credit	(10,000)	—
Employee taxes paid related to the net share settlement of stock-based awards	(1,476)	(1,099)
Net cash used in financing activities	(11,476)	(1,099)
Net increase (decrease) in cash, cash equivalents and restricted cash	19,742	(1,506)
Cash, cash equivalents and restricted cash		
Beginning of period	53,695	79,917
End of period	\$ 73,437	\$ 78,411
Reconciliation of cash, cash equivalents, and restricted cash		
Cash and cash equivalents	\$ 69,162	\$ 78,411
Restricted cash, included in prepaid expenses and other assets	4,275	—
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	\$ 73,437	\$ 78,411

See Notes to Condensed Consolidated Financial Statements.

Sprout Social, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

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.

Principles of Consolidation and Basis of Presentation

The unaudited condensed consolidated financial statements and accompanying notes were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the applicable regulations of the United States Securities and Exchange Commission ("SEC") regarding interim financial reporting. The Company has prepared the unaudited condensed consolidated financial statements on a basis substantially consistent with the audited consolidated financial statements of the Company as of and for the year ended December 31, 2023, and these unaudited condensed consolidated financial statements include all normal recurring adjustments necessary for a fair statement of the results of the interim periods presented but are not necessarily indicative of the results of operations to be anticipated for the full year or any future period. The consolidated balance sheet as of December 31, 2023 included herein was derived from the audited consolidated financial statements as of that date but does not include all disclosures including certain disclosures required by GAAP on an annual basis. The unaudited condensed 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 unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 23, 2024.

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. The Company is not aware of any events or circumstances that would require an update to its estimates and judgments or a revision of the carrying value of its assets or liabilities as of May 3, 2024, the date of issuance of this Quarterly Report on Form 10-Q. Actual results could differ from those estimates.

Sprout Social, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

Summary of Significant Accounting Policies

The Company's significant accounting policies are discussed in Note 1 - "Nature of Operations and Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements as of and for the year ended December 31, 2023 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 23, 2024. There have been no significant changes to these policies during the three months ended March 31, 2024, except as noted below.

Sales Commissions

Sales commissions earned by our sales force 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. The Company has historically estimated such period of benefit to be three years.

On an annual basis, the Company assesses the expected period of benefit by taking into consideration the products sold, mix of customers, expected customer life, expected contract renewals, technology life cycle and other factors. Based on the assessment performed during the first quarter of 2024, the Company updated the period of benefit from three years to five years. This change in accounting estimate was effective January 1, 2024 and is being accounted for prospectively in the condensed consolidated financial statements. The change in amortization period resulted in a \$4.4 million reduction to sales and marketing expense, or an increase of \$0.08 per share basic and diluted, for the three months ended March 31, 2024.

2. Revenue Recognition

Disaggregation of Revenue

The Company provides disaggregation of revenue based on geographic region in Note 8 - "Segment and Geographic Data" of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report) and based on the subscription versus professional services and other classification on the condensed consolidated statements of operations, 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 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. The amount of revenue recognized during the three months ended March 31, 2024 and 2023 that was included in deferred revenue at the beginning of each period was \$62.0 million and \$44.1 million, respectively.

As of March 31, 2024, including amounts already invoiced and amounts contracted but not yet invoiced, \$290.0 million of revenue is expected to be recognized from remaining performance obligations, of which 73% is expected to be recognized in the next 12 months, with the remainder thereafter.

Sprout Social, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

3. Operating Leases

The Company has operating lease agreements for offices in Chicago, Illinois; Seattle, Washington; Santa Monica, California; and Dublin, Ireland. The Chicago lease expires in January 2028, the Seattle lease expires in January 2031, the Santa Monica lease expires in January 2025, and the Dublin lease expires in June 2025. These operating leases require escalating monthly rental payments ranging from approximately \$14,000 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.

The following table provides a summary of operating lease assets and liabilities as of March 31, 2024 (in thousands):

Assets	
Operating lease right-of-use assets	\$ 8,293
Liabilities	
Operating lease liabilities	3,971
Operating lease liabilities, non-current	14,085
Total operating lease liabilities	\$ 18,056

The following table provides information about leases on the condensed consolidated statements of operations (in thousands):

	Three Months Ended March 31,	
	2024	2023
Operating lease expense	\$ 687	\$ 648
Variable lease expense	856	893

Within the condensed consolidated statements of operations, operating and variable lease expense are recorded in General and administrative expenses. Cash payments related to operating leases for the three months ended March 31, 2024 and 2023 were \$2.1 million and \$2.0 million, respectively. As of March 31, 2024, the weighted-average remaining lease term is 4.7 years and the weighted-average discount rate is 5.5%.

Sprout Social, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

Remaining maturities of operating lease liabilities as of March 31, 2024 are as follows (in thousands):

Years ending December 31,		
2024	\$	3,653
2025		4,497
2026		4,298
2027		4,392
2028		1,277
Thereafter		2,326
Total future minimum lease payments	\$	20,443
Less: imputed interest		(2,387)
Total operating lease liabilities	\$	<u>18,056</u>

4. Income Taxes

The provision for income taxes for interim periods is generally determined using an estimate of the Company's annual effective tax rate, excluding jurisdictions for which no tax benefit can be recognized due to valuation allowances. The Company's effective tax rate differs from the U.S. federal statutory rate primarily due to a valuation allowance related to the Company's federal and state deferred tax assets.

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. For the three months ended March 31, 2024, the Company recognized an immaterial tax benefit related to foreign income taxes.

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.

5. Revolving Line of Credit

On August 1, 2023, the Company entered into a Credit Agreement (the "Credit Agreement") by and among the Company, the banks and other financial institutions or entities party thereto as lenders and MUFG Bank, LTD. as administrative agent and collateral agent. The Credit Agreement provides for a \$100 million senior secured revolving credit facility (the "Facility"), maturing on August 1, 2028. Borrowings under the Facility may be used to finance acquisitions and other investments permitted under the terms of the Credit Agreement, to pay related fees and expenses and for general corporate purposes. At March 31, 2024, the Company had an outstanding balance of \$45.0 million under the Facility.

Borrowings under the Facility may be designated as SOFR Loans or ABR Loans (each as defined in the Credit Agreement), subject to certain terms and conditions under the Credit Agreement, and bear interest at a rate of either (i) SOFR (subject to a 1.0% floor), plus 0.10%, plus a margin ranging from 2.75% to 3.25% based on the Company's liquidity or (ii) ABR (subject to a 2.0% floor) plus a margin

Sprout Social, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

ranging from 1.75% to 2.25% based on the Company's liquidity. The Facility also includes a quarterly commitment fee on the unused portion of the Facility of 0.30% or 0.35% based on the Company's liquidity. For the three months ended March 31, 2024, the borrowings under the Facility were designated as SOFR Loans and the interest rate in effect for the outstanding balance was approximately 8.2%.

Debt issuance costs associated with the Facility were recorded to Other assets, net within the condensed consolidated balance sheets and are being amortized as interest expense on a straight-line basis over the term of the Facility.

The Credit Agreement includes customary conditions to credit extensions, affirmative and negative covenants, and customary events of default. The customary conditions also include restrictions on the Company's ability to incur liens, incur indebtedness, make or hold investments, execute certain change of control transactions, business combinations or other fundamental changes to its business, dispose of assets, make certain types of restricted payments or enter into certain related party transactions, subject to customary exceptions. In addition, the Credit Agreement contains financial covenants as to (i) minimum liquidity, requiring the maintenance, at all times and measured at the end of each fiscal quarter, of cash and cash equivalents of not less than the greater of (x) \$30 million and (y) 30% of the total revolving commitments, and (ii) minimum recurring revenue growth, requiring recurring revenue growth for the trailing four fiscal quarter period, measured at the end of each fiscal quarter, of not less than 115% of the actual recurring revenue for the same period in the prior fiscal year. As of March 31, 2024, the Company was in compliance with the covenants in the Credit Agreement.

Sprout Social, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

6. Incentive Stock Plan

Stock-based compensation expense is included in the unaudited condensed consolidated statements of operations as follows:

	Three Months Ended March 31,	
	2024	2023
	<i>(in thousands)</i>	
Cost of revenue	\$ 925	\$ 501
Research and development	5,450	3,602
Sales and marketing	7,376	6,570
General and administrative	4,315	2,983
Total stock-based compensation	\$ 18,066	\$ 13,656

7. Commitments and Contingencies

Contractual Obligations

The Company has non-cancellable minimum guaranteed purchase commitments for primarily data and services. Material contractual commitments as of March 31, 2024 that are not disclosed elsewhere are as follows (in thousands):

Years ending December 31,	
2024	\$ 6,704
2025	6,498
2026	2,366
2027	378
2028	—
Thereafter	—
Total contractual obligations	\$ 15,946

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 such material matters as of and for the period ended March 31, 2024.

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 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.

Sprout Social, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

There were no material obligations under such indemnification agreements as of and for the period ended March 31, 2024.

8. Segment and Geographic Data

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 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 condensed consolidated financial statements.

Long-lived assets by geographical region are based on the location of the legal entity that owns the assets. As of March 31, 2024 and December 31, 2023, 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 27% for each of the three months ended March 31, 2024 and 2023. Revenue by geographical region is as follows (in thousands):

	Three Months Ended March 31,	
	2024	2023
Americas	\$ 76,670	\$ 59,111
EMEA	15,371	12,500
Asia Pacific	4,743	3,601
Total	<u>\$ 96,784</u>	<u>\$ 75,212</u>

9. 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 for 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):

	Three Months Ended March 31,	
	2024	2023
Net loss attributable to common shareholders	\$ (13,575)	\$ (10,252)
Weighted average common shares outstanding	56,344,242	55,176,425
Net loss per share, basic and diluted	<u>\$ (0.24)</u>	<u>\$ (0.19)</u>

Sprout Social, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

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.

	March 31,	
	2024	2023
Stock options outstanding	27,010	57,010
RSUs outstanding	4,046,291	2,779,378
Total potentially dilutive shares	4,073,301	2,836,388

10. 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):

	March 31, 2024			
	Level 1	Level 2	Level 3	Total
Marketable Securities:				
Commercial paper	\$ —	\$ 1,982	\$ —	\$ 1,982
Corporate bonds	—	22,263	—	22,263
U.S. Treasury securities	—	499	—	499
U.S. agency securities	—	1,298	—	1,298
Asset-backed securities	—	—	—	—
Total assets	\$ —	\$ 26,042	\$ —	\$ 26,042

Sprout Social, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Marketable Securities:				
Commercial paper	\$ —	\$ 33,287	\$ —	\$ 33,287
Corporate bonds	—	9,906	—	9,906
U.S. Treasury securities	—	495	—	495
U.S. agency securities	—	4,289	—	4,289
Asset-backed securities	—	367	—	367
Total assets	\$ —	\$ 48,344	\$ —	\$ 48,344

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, restricted cash, 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.

For the periods presented, the Company held investment-grade marketable securities which were accounted for as available-for-sale securities. As of March 31, 2024 and December 31, 2023, 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):

	March 31, 2024	December 31, 2023
Due in one year or less	25,048	44,645
Due after one year and within two years	994	3,699
Total	26,042	48,344

Sprout Social, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

11. Business Combinations

Tagger Media, Inc.

On August 2, 2023, the Company completed its acquisition of all the outstanding equity of Tagger, an influencer marketing and social intelligence platform. The Company acquired Tagger in order to expand into the influencer marketing category. Tagger's platform enables marketers to discover influencers, plan and manage campaigns, analyze competitor strategies, report on trends and measure return on investment.

The Company acquired Tagger for a total preliminary purchase consideration of \$144 million in cash, which incorporates the impact of various customary adjustments such as working capital, cash and indebtedness. The Company funded the purchase consideration with a combination of cash on hand and \$75 million borrowed under the Facility further described in Note 5 - "Revolving Line of Credit" of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report).

The excess of purchase consideration over the fair value of net assets acquired was recorded as goodwill, and is primarily attributable to expanded market opportunities from integrating the acquired developed technologies with the Company's offerings. Goodwill is not deductible for income tax purposes.

The fair values of the tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. These estimates are based on preliminary information and may be subject to further revision as additional information is obtained during the measurement period, which may last up to 12 months from the date of the acquisition. The primary area that remains preliminary as of March 31, 2024 relates to income taxes. The Company expects to finalize the fair value measurements as soon as practicable, but not later than 12 months from the date of acquisition.

The following table summarizes the preliminary fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

	August 2, 2023
Cash and cash equivalents	\$ 4,648
Accounts receivable	2,979
Other current and noncurrent assets	932
Intangible assets	27,800
Accounts payable, accrued expenses and other liabilities	(1,758)
Deferred revenue	(3,243)
Net assets acquired, excluding Goodwill	31,358
Goodwill	112,405
Total consideration	\$ 143,763
Cash and cash equivalents acquired	(4,648)
Cash paid for acquisition of business, net of cash acquired	\$ 139,115

Sprout Social, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

The Company engaged a third-party valuation expert to aid its analysis of the acquired identifiable intangible assets. All estimates, key assumptions and forecasts were either provided by or reviewed by the Company. While the Company chose to utilize a third-party valuation expert for assistance, the fair value analysis and related valuations reflect the conclusions of management and not those of any third party.

The fair values of the acquired technology and the trademark identified intangible assets were determined utilizing the relief from royalty method under the income approach. The fair values of the customer relationships were valued using the multi-period excess-earnings method. The Company applied judgment which involved the use of assumptions with respect to revenue growth rates, customer attrition rate, discount rate, royalty rate, obsolescence rate and total operating expenses.

Acquired intangible assets are being amortized over the estimated useful lives on a straight-line basis. The following table summarizes the estimated preliminary fair values (in thousands) and estimated useful lives for the identifiable intangible assets acquired as of the acquisition date:

	Fair Value	Expected Useful Life
Customer Relationships	\$ 12,400	7 years
Acquired Technology	14,100	5 years
Trademark	1,300	5 years
	<u>\$ 27,800</u>	

The Company has included the financial results of Tagger in its condensed consolidated financial statements from the date of acquisition. Separate financial results and pro forma financial information for Tagger have not been presented as the effect of this acquisition was not material to the Company's financial results.

Repustate, Inc.

On January 19, 2023, the Company completed the acquisition of all the outstanding equity of Repustate, Inc. The acquisition has increased the Company's power, breadth and automation of social listening, messaging, and customer care capabilities with added sentiment analysis, natural language processing (NLP) and artificial-intelligence (AI).

The total final purchase consideration for the acquisition was \$8.3 million, consisting of approximately \$6.8 million in cash paid at the closing of the acquisition and a holdback of \$1.5 million in cash to be paid as purchase consideration after the one-year anniversary of the closing of the acquisition, assuming no claims by the Company against the holdback amount for post-closing purchase price adjustments or indemnification matters. The purchase price holdback was paid in full in January 2024.

The excess of purchase consideration over the fair value of net assets acquired was recorded as goodwill, and is primarily attributable to expected post-acquisition synergies from integrating the technology into Sprout's platform. The goodwill is not deductible for income tax purposes.

The fair values of the tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The allocation of fair value of purchase consideration was finalized in the fourth quarter of 2023.

The following table summarizes the fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

Sprout Social, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

	January 19, 2023
Cash and cash equivalents	\$ 366
Intangible assets	1,800
Deferred tax liability	(477)
Other net tangible assets and liabilities assumed	(4)
Net assets acquired, excluding Goodwill	1,685
Goodwill	6,611
Total consideration	\$ 8,296
Deferred consideration related to holdback	(1,498)
Cash and cash equivalents acquired	(366)
Cash paid for acquisition of business, net of cash acquired	\$ 6,432

The following table summarizes the estimated fair values (in thousands) and estimated useful lives for the identifiable intangible assets acquired as of the acquisition date:

	Fair Value	Expected Useful Life
Customer Relationships	\$ 200	1 year
Acquired Technology	1,600	5 years
	\$ 1,800	

The Company has included the financial results of Repustate in its condensed consolidated financial statements from the date of acquisition. Separate financial results and pro forma financial information for Repustate have not been presented as the effect of this acquisition was not material to the Company's financial results.

Goodwill

The changes in the carrying amount of goodwill during the three months ended March 31, 2024 were as follows (in thousands):

Goodwill balance as of December 31, 2023	\$ 121,404
Purchase price allocation adjustment (Tagger)	(89)
Goodwill balance as of March 31, 2024	\$ 121,315

Item 2. 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 unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly 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" in Part I—Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023, and in other parts of this Quarterly Report. See "Cautionary Note Regarding Forward-Looking Statements."

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 30,000 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 X (formerly known as 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.

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 \$96.8 million and \$75.2 million during the three months ended March 31, 2024 and 2023, respectively, representing growth of 29%. In the three months ended March 31, 2024, software subscriptions contributed 99% of our revenue.

We generated net losses of \$13.6 million and \$10.3 million during the three months ended March 31, 2024 and 2023, respectively, which included stock-based compensation expense of \$18.1 million and \$13.7 million, 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, high levels of inflation, high interest rates, ongoing overseas conflict, 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. We are continuing to monitor for potential future direct and indirect impacts on our business and results of operations.

Acquisition of Tagger Media, Inc.

On August 2, 2023, we completed our acquisition of all the outstanding equity of Tagger Media, Inc. ("Tagger"), for a total preliminary purchase consideration of \$144 million. We acquired Tagger in order to expand into the influencer marketing category. Tagger's platform enables marketers to discover influencers, plan and manage campaigns, analyze competitor strategies, report on trends and measure return on investment. We funded the purchase consideration with a combination of cash on hand and \$75 million borrowed under the Facility further described in Note 5 - "Revolving Line of Credit" of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report).

The purchase price allocation as of the date of acquisition was based on a preliminary valuation and is subject to revision as more detailed analyses are completed and additional information about the fair value of assets and liabilities acquired become available. We expect to finalize the allocation of the purchase consideration as soon as practicable, pending any other adjustments to acquired assets or liabilities, but no later than 12 months from the acquisition date.

We have included the financial results of Tagger in our condensed consolidated financial statements from the date of acquisition. Refer to Note 11 - "Business Combinations" of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report) for further discussion regarding the acquisition.

Acquisition of Repustate, Inc.

On January 19, 2023, we completed the acquisition of Repustate, Inc. for a total purchase consideration of \$8.3 million, consisting of approximately \$6.8 million in cash paid at the closing time of the acquisition and a holdback of \$1.5 million in cash to be paid as purchase consideration after the one-year anniversary of the closing of the acquisition, assuming no claims by the Company against the holdback amount for post-closing purchase price adjustments or indemnification matters. The purchase price holdback was paid in full in January 2024.

The fair values of the tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The allocation of fair value of purchase consideration was finalized in the fourth quarter of 2023.

The Repustate acquisition has increased our power, breadth and automation of social listening, messaging, and customer care capabilities with added sentiment analysis, natural language processing (NLP) and artificial intelligence (AI). We have included the financial results of Repustate in our condensed consolidated financial statements from the date of acquisition. The impact of Repustate's financial results following the date of acquisition were not significant to Sprout's condensed consolidated financial

statements. Refer to Note 11 - "Business Combinations" of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report) for further discussion.

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 30,000 customers. In November 2022, we announced a price increase. For the three months ended March 31, 2024, as compared to the three months ended March 31, 2023, this price increase contributed to an increase in our average revenue per customer. While our total number of customers decreased over this same period, our number of customers contributing over \$10,000 in ARR and \$50,000 in ARR increased. We expect this trend to continue as we remain focused on our most sophisticated customers.

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 increased our focus on expanding their use of our platform over time.

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 three months ended March 31, 2024 was approximately 27% of our total revenue. We have teams in Ireland, Canada, the United Kingdom, Singapore, India, Australia, the Philippines and Poland 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. Consistent with our communications in previous quarters, we no longer believe that ARR and total number of customers are key performance indicators of Sprout Social's business due to our evolving customer mix and we will no longer publicly disclose these metrics.

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 March 31,	
	2024	2023
Number of customers contributing more than \$10,000 in ARR	8,823	7,107

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 March 31,	
	2024	2023
Number of customers contributing more than \$50,000 in ARR	1,449	1,008

While we no longer believe that ARR and total number of customers are key performance indicators of Sprout Social's business, these metrics are necessary for an understanding of how we define number of customers contributing over \$10,000 in ARR and number of customers contributing over \$50,000 in ARR. For this purpose, we define ARR as the annualized revenue run-rate of subscription agreements from all customers as of the last date of the specified period and 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 or entity.

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 that directly benefit sales. 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. Sales 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 the expected period of benefit, which we have determined to be five 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, amortization of intangible assets, 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 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 the Facility and is offset by interest income earned on our cash and investment balances.

Other Expense, Net

Other expense, net consists of foreign currency transaction gains and losses.

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.

	Three Months Ended March 31,	
	2024	2023
	<i>(in thousands)</i>	
Revenue		
Subscription	\$ 95,789	\$ 74,742
Professional services and other	995	470
Total revenue	96,784	75,212
Cost of revenue⁽¹⁾		
Subscription	22,205	16,633
Professional services and other	223	242
Total cost of revenue	22,428	16,875
Gross profit	74,356	58,337
Operating expenses		
Research and development ⁽¹⁾	23,769	17,876
Sales and marketing ⁽¹⁾	44,540	36,905
General and administrative ⁽¹⁾	19,334	15,489
Total operating expenses	87,643	70,270
Loss from operations	(13,287)	(11,933)
Interest expense	(1,046)	(28)
Interest income	1,035	2,020
Other expense, net	(406)	(209)
Loss before income taxes	(13,704)	(10,150)
Income tax (benefit) expense	(129)	102
Net loss	\$ (13,575)	\$ (10,252)

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

	Three Months Ended March 31,	
	2024	2023
	<i>(in thousands)</i>	
Cost of revenue	\$ 925	\$ 501
Research and development	5,450	3,602
Sales and marketing	7,376	6,570
General and administrative	4,315	2,983
Total stock-based compensation	\$ 18,066	\$ 13,656

	Three Months Ended March 31,	
	2024	2023
	<i>(as a percentage of total revenue)</i>	
Revenue		
Subscription	99 %	99 %
Professional services and other	1 %	1 %
Total revenue	100 %	100 %
Cost of revenue		
Subscription	23 %	22 %
Professional services and other	— %	— %
Total cost of revenue	23 %	22 %
Gross profit	77 %	78 %
Operating expenses		
Research and development	25 %	24 %
Sales and marketing	46 %	49 %
General and administrative	20 %	21 %
Total operating expenses	91 %	93 %
Loss from operations	(14)%	(16)%
Interest expense	(1)%	— %
Interest income	1 %	3 %
Other expense, net	— %	— %
Loss before income taxes	(14)%	(13)%
Income tax (benefit) expense	— %	— %
Net loss	(14)%	(14)%

Note: Certain amounts may not sum due to rounding

Three Months Ended March 31, 2024 Compared to Three Months Ended March 31, 2023

Revenue

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
<i>(dollars in thousands)</i>				
Revenue				
Subscription	\$ 95,789	\$ 74,742	\$ 21,047	28 %
Professional services and other	995	470	525	112 %
Total revenue	\$ 96,784	\$ 75,212	\$ 21,572	29 %
Percentage of Total Revenue				
Subscription	99 %	99 %		
Professional services and other	1 %	1 %		

The increase in subscription revenue was primarily driven by increased revenue from our highest tier customers. Customers contributing over \$10,000 in ARR grew 24% versus the prior year and customers contributing over \$50,000 in ARR grew 44% versus the prior year. The increase in new customers within the highest tiers was primarily driven by prioritizing our customer success and growth resources towards these customers and continuing to grow our sales force capacity to meet market demand.

Cost of Revenue and Gross Margin

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
<i>(dollars in thousands)</i>				
Cost of revenue				
Subscription	\$ 22,205	\$ 16,633	\$ 5,572	33 %
Professional services and other	223	242	(19)	(8)%
Total cost of revenue	22,428	16,875	5,553	33 %
Gross profit	\$ 74,356	\$ 58,337	\$ 16,019	27 %
Gross margin				
Total gross margin	77 %	78 %		

The increase in cost of subscription revenue for the three months ended March 31, 2024 compared to the three months ended March 31, 2023 was primarily due to the following:

	<u>Change</u>	
	<i>(in thousands)</i>	
Data provider fees	\$	2,928
Personnel costs		817
Amortization of intangible assets		705
Stock-based compensation expense		424
Other		698
Subscription cost of revenue	<u>\$</u>	<u>5,572</u>

Fees paid to our data providers increased due to revenue growth. Personnel costs increased primarily as a result of a 4% increase in headcount as we continue to grow our customer support and customer success teams to support our customer growth. The increase in the amortization expense of intangible assets was driven by the acquired developed technology recognized as part of the Tagger acquisition. The increase in stock-based compensation expense was primarily due to the increased headcount.

Operating Expenses

Research and Development

	<u>Three Months Ended March 31,</u>		<u>Change</u>	
	<u>2024</u>	<u>2023</u>	<u>Amount</u>	<u>%</u>
	<i>(dollars in thousands)</i>			
Research and development	\$ 23,769	\$ 17,876	\$ 5,893	33 %
Percentage of total revenue	25 %	24 %		

The increase in research and development expense for the three months ended March 31, 2024 compared to the three months ended March 31, 2023 was primarily due to the following:

	<u>Change</u>	
	<i>(in thousands)</i>	
Personnel costs	\$	3,482
Stock-based compensation expense		1,848
Other		563
Research and development	<u>\$</u>	<u>5,893</u>

Personnel costs increased primarily as a result of a 19% increase in headcount to grow our research and development teams to drive our technology innovation through the development and maintenance of our platform. The increase in stock-based compensation expense was primarily due to the increased headcount.

Sales and Marketing

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
	<i>(dollars in thousands)</i>			
Sales and marketing	\$ 44,540	\$ 36,905	\$ 7,635	21 %
Percentage of total revenue	46 %	49 %		

The increase in sales and marketing expense for the three months ended March 31, 2024 compared to the three months ended March 31, 2023 was primarily due to the following:

	Change <i>(in thousands)</i>	
Personnel costs	\$ 5,440	
Stock-based compensation expense	806	
Advertising	658	
Other	731	
Sales and marketing	\$ 7,635	

Personnel costs increased primarily as a result of a 23% increase in headcount as we continue to expand our sales teams to grow our customer base. The increase in stock-based compensation expense was primarily due to the increased headcount. The increase in other expense was driven by other general marketing costs.

General and Administrative

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
	<i>(dollars in thousands)</i>			
General and administrative	\$ 19,334	\$ 15,489	\$ 3,845	25 %
Percentage of total revenue	20 %	21 %		

The increase in general and administrative expense for the three months ended March 31, 2024 compared to the three months ended March 31, 2023 was primarily due to the following:

	Change <i>(in thousands)</i>	
Personnel costs	\$ 2,230	
Stock-based compensation expense	1,332	
Amortization of intangible assets	500	
Other	(217)	
General and administrative	\$ 3,845	

Personnel costs and stock-based compensation expense increased primarily as a result of a 21% increase in headcount as we continue to grow our business. The increase in the amortization expense of intangible assets was primarily driven by the intangible assets recognized as part of the Tagger acquisition.

Interest Income, Net

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
	<i>(dollars in thousands)</i>			
Interest income (expense), net	\$ (11)	\$ 1,992	\$ (2,003)	(101)%
Percentage of total revenue	— %	3 %		

The decrease in interest income, net was primarily driven by higher interest expense from the Facility and lower interest income attributable to a lower balance of marketable securities.

Other Expense, Net

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
	<i>(dollars in thousands)</i>			
Other expense, net	\$ (406)	\$ (209)	\$ (197)	94 %
Percentage of total revenue	— %	— %		

The change in other expense, net was primarily driven by foreign exchange transaction losses.

Income Tax (Benefit) Expense

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
	<i>(dollars in thousands)</i>			
Income tax (benefit) expense	\$ (129)	\$ 102	\$ (231)	n/m ⁽¹⁾
Percentage of total revenue	— %	— %		

(1) Calculated metric is not meaningful.

The change in income tax (benefit) expense was primarily attributable to a foreign income tax benefit in the current year.

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 and amortization expense associated with the acquired developed technology from the Tagger acquisition. We believe non-GAAP gross profit provides our management and investors consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations, as it eliminates the effect of stock-based compensation and amortization expense, which are often unrelated to overall operating performance. In 2023, we revised our definition of non-GAAP gross profit to exclude amortization expense associated with the acquired developed technology from the Tagger acquisition.

	Three Months Ended March 31,	
	2024	2023
Reconciliation of Non-GAAP gross profit	<i>(dollars in thousands)</i>	
Gross profit	\$ 74,356	\$ 58,337
Stock-based compensation expense	925	501
Amortization of acquired developed technology	705	—
Non-GAAP gross profit	<u>\$ 75,986</u>	<u>\$ 58,838</u>

Non-GAAP Operating Income

We define non-GAAP operating income as GAAP loss from operations, excluding stock-based compensation expense, acquisition-related expenses and amortization expense associated with the acquired intangible assets from the Tagger acquisition. We believe non-GAAP operating income provides our management and investors consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations, as it eliminates the effect of stock-based compensation, acquisition-related expenses and amortization expense, which are often unrelated to overall operating performance. In 2023, we revised our definition of non-GAAP operating income to exclude acquisition-related expenses in connection with the Tagger acquisition (which are not applicable).

for the periods presented) and amortization expense associated with the acquired intangible assets from the Tagger acquisition.

	Three Months Ended March 31,	
	2024	2023
Reconciliation of Non-GAAP operating income	<i>(dollars in thousands)</i>	
Loss from operations	\$ (13,287)	\$ (11,933)
Stock-based compensation expense	18,066	13,656
Amortization of acquired intangible assets	1,213	—
Non-GAAP operating income	<u>\$ 5,992</u>	<u>\$ 1,723</u>

Non-GAAP Net Income

We define non-GAAP net income as GAAP net loss, excluding stock-based compensation expense, acquisition-related expenses and amortization expense associated with the acquired intangible assets from the Tagger acquisition. We believe non-GAAP net income 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, acquisition-related expenses and amortization expense, which are often unrelated to overall operating performance. In 2023, we revised our definition of non-GAAP net income to exclude acquisition-related expenses in connection with the Tagger acquisition (which are not applicable for the periods presented) and amortization expense associated with the acquired intangible assets from the Tagger acquisition.

	Three Months Ended March 31,	
	2024	2023
Reconciliation of Non-GAAP net income	<i>(dollars in thousands)</i>	
Net loss	\$ (13,575)	\$ (10,252)
Stock-based compensation expense	18,066	13,656
Amortization of acquired intangible assets	1,213	—
Non-GAAP net income	<u>\$ 5,704</u>	<u>\$ 3,404</u>

Non-GAAP Net Income per Share

We define non-GAAP net income per share as GAAP net loss per share attributable to common shareholders, basic and diluted, excluding stock-based compensation expense, acquisition-related expenses and amortization expense associated with the acquired intangible assets from the Tagger acquisition. We believe non-GAAP net income 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, acquisition-related expenses and amortization expense, which are often unrelated to overall operating performance. In 2023, we revised our definition of non-GAAP net income per share to exclude acquisition-related expenses in connection with the Tagger acquisition (which are not applicable for the periods presented) and amortization expense associated with the acquired intangible assets from the Tagger acquisition.

	Three Months Ended March 31,	
	2024	2023
Reconciliation of Non-GAAP net income per share		
Net loss per share attributable to common shareholders, basic and diluted	\$ (0.24)	\$ (0.19)
Stock-based compensation expense per share	0.32	0.25
Amortization of acquired intangible assets	0.02	—
Non-GAAP net income per share	\$ 0.10	\$ 0.06

Non-GAAP Free Cash Flow

We define non-GAAP free cash flow as net cash provided by (used in) operating activities less expenditures for property and equipment, acquisition-related costs and interest. Non-GAAP free cash flow does not reflect our future contractual obligations or represent the total increase or decrease in our cash balance for a given period. We believe that non-GAAP 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, acquisition-related costs and interest, is available to be used for strategic initiatives. For example, if non-GAAP free cash flow is negative, we may need to access cash reserves or other sources of capital to invest in strategic initiatives. In 2023, we revised our definition of non-GAAP free cash flow to exclude payments related to acquisition-related costs associated with our acquisition of Tagger (which are not applicable for the periods presented) and cash paid for interest on our revolving line of credit.

	Three Months Ended March 31,	
	2024	2023
Reconciliation of Non-GAAP free cash flow		
	<i>(dollars in thousands)</i>	
Net cash provided by operating activities	\$ 11,164	\$ 8,284
Expenditures for property and equipment	(1,092)	(383)
Interest paid on credit facility	1,260	—
Non-GAAP free cash flow	\$ 11,332	\$ 7,901

Liquidity and Capital Resources

As of March 31, 2024, our principal sources of liquidity were cash and cash equivalents of \$69.2 million, marketable securities of \$26.0 million and net accounts receivable of \$50.4 million. Historically, we have generated losses from operations as evidenced by our accumulated deficit and in previous years, we had negative cash flows from operations. However, for the three months ended March 31, 2024 and 2023, 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 as we continue to grow the business. 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. 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. As described below, in August 2023,

we borrowed \$75 million under the Facility in connection with the Tagger acquisition. Our principal uses of cash in recent periods have been to fund operations, pay for acquisitions, invest in marketable securities, pay down our Facility, 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.

Credit Agreement

On August 1, 2023, we entered into a Credit Agreement (the "Credit Agreement") by and among the Company, the banks and other financial institutions or entities party thereto as lenders and MUFG Bank, LTD. as administrative agent and collateral agent. The Credit Agreement provides for a \$100 million senior secured revolving credit facility, maturing on August 1, 2028. Borrowings under the Facility may be used to finance acquisitions and other investments permitted under the terms of the Credit Agreement, to pay related fees and expenses and for general corporate purposes.

Borrowings under the Facility may be designated as SOFR Loans or ABR Loans (each as defined in the Credit Agreement), subject to certain terms and conditions under the Credit Agreement, and bear interest at a rate of either (i) SOFR (subject to a 1.0% floor), plus 0.10%, plus a margin ranging from 2.75% to 3.25% based on the Company's liquidity or (ii) ABR (subject to a 2.0% floor) plus a margin ranging from 1.75% to 2.25% based on the Company's liquidity. The Facility also includes a quarterly commitment fee on the unused portion of the Facility of 0.30% or 0.35% based on the Company's liquidity.

The Credit Agreement includes customary conditions to credit extensions, affirmative and negative covenants, and customary events of default. In addition, the Credit Agreement contains financial covenants as to (i) minimum liquidity, requiring the maintenance, at all times and measured at the end of each fiscal quarter, of cash and cash equivalents of not less than the greater of (x) \$30 million and (y) 30% of the total revolving commitments, and (ii) minimum recurring revenue growth, requiring recurring revenue growth for the trailing four fiscal quarter period, measured at the end of each fiscal quarter, of not less than 115% of the actual recurring revenue for the same period in the prior fiscal year.

On August 1, 2023, we borrowed \$75 million under the Credit Agreement in connection with the Tagger acquisition. As of March 31, 2024, \$45 million remains outstanding under the Credit Agreement. Refer to Note 11 - "Business Combinations" of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report) for further discussion.

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

	Three Months Ended March 31,	
	2024	2023
	(in thousands)	
Net cash provided by operating activities	\$ 11,164	\$ 8,284
Net cash provided by (used in) investing activities	20,054	(8,691)
Net cash used in financing activities	(11,476)	(1,099)
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 19,742	\$ (1,506)

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 three months ended March 31, 2024 and 2023, we generated positive cash flows from operating activities.

Net cash provided by operating activities during the three months ended March 31, 2024 was \$11.2 million, which resulted from a net loss of \$13.6 million adjusted for non-cash charges of \$24.4 million and net cash inflow of \$0.4 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of \$18.1 million of stock-based compensation expense, \$3.5 million for amortization of deferred contract acquisition costs, which were primarily commissions, \$0.4 million of amortization of right-of-use, or ROU, operating lease assets, and \$2.5 million of depreciation and intangible asset amortization expense. The net cash inflow from changes in operating assets and liabilities was primarily the result of a \$13.0 million decrease in accounts receivable and a \$5.6 million increase in deferred revenue. These inflows were primarily offset by a \$7.7 million increase in prepaid expenses and other assets, a \$6.8 million increase in deferred commissions due to the addition of new customers and expansion of the business, a \$1.0 million decrease in operating lease liabilities and a \$2.9 million decrease in accounts payable and accrued expenses.

Net cash provided by operating activities during the three months ended March 31, 2023 was \$8.3 million, which resulted from a net loss of \$10.3 million adjusted for non-cash charges of \$20.4 million and net cash outflow of \$1.9 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of \$13.7 million of stock-based compensation expense, \$5.9 million for amortization of deferred contract acquisition costs, which were primarily commissions, \$0.4 million of amortization of right-of-use, or ROU, operating lease assets, and \$1.1 million of depreciation and intangible asset amortization expense. The net cash outflow from changes in operating assets and liabilities was primarily the result of a \$7.8 million increase in deferred commissions due to the addition of new customers and expansion of the business, a \$4.1 million increase in prepaid expenses and other assets, a \$0.8 million decrease in operating lease liabilities, a \$1.1 million increase in accounts receivable and a \$1.6 million decrease in accounts payable and accrued expenses. These outflows were primarily offset by a \$13.6 million increase in deferred revenue.

Investing Activities

Net cash provided by investing activities for the three months ended March 31, 2024 was \$20.1 million, which was primarily due to \$22.6 million in proceeds from the maturities of marketable securities and \$0.1 million consideration received related to a purchase price adjustment from the Tagger acquisition, partially offset by the \$1.5 million payout of the Repustate acquisition purchase price holdback and \$1.1 million in purchases of computer equipment and hardware.

Net cash used in investing activities for the three months ended March 31, 2023 was \$8.7 million, which was primarily due to \$30.1 million in purchases of marketable securities and \$6.4 million for the acquisition of Repustate, partially offset by \$28.2 million in proceeds from the maturities and sale of marketable securities.

Financing Activities

Net cash used in financing activities for the three months ended March 31, 2024 was \$11.5 million, primarily driven by \$10.0 million in repayments of the Facility and \$1.5 million in payments related to employee withholding taxes as a result of the net settlement of stock-based awards.

Net cash used in financing activities for the three months ended March 31, 2023 was \$1.1 million, primarily driven by \$1.1 million in payments related to employee withholding taxes as a result of the net settlement of stock-based awards.

Contractual Obligations

As of March 31, 2024, we have non-cancellable contractual obligations related primarily to operating leases and minimum guaranteed purchase commitments for data and services. As of March 31, 2024, the total obligation for operating leases was \$20.4 million, of which \$4.8 million is expected to be paid in the next twelve months. As of March 31, 2024, our purchase commitment for primarily data and services was \$15.9 million, of which \$9.0 million is expected to be paid in the next twelve months. See Note 3 - "Operating Leases" and Note 7 - "Commitments and Contingencies" of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report) for more information regarding these obligations.

Recent Accounting Pronouncements

Refer to section titled "Summary of Significant Accounting Policies" in Note 1 of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report) for more information.

Critical Accounting Policies and Estimates

Our unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these unaudited condensed 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.

Our significant accounting policies are discussed in Note 1 - "Nature of Operations and Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements as of and for the year ended December 31, 2023 included in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 23, 2024. There have been no significant changes to these policies during the three months ended March 31, 2024, except as noted in Note 1 of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report).

Item 3. Quantitative and Qualitative Disclosures of Market Risk

Interest Rate Risk

We had cash and cash equivalents totaling \$69.2 million as of March 31, 2024, the majority of which was invested in money market accounts and money market funds. We also had marketable securities of \$26.0 million which were invested in investment-grade corporate bonds, commercial paper, U.S. treasury securities and U.S. 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.

As of March 31, 2024, we had \$45 million in secured indebtedness outstanding under the Credit Agreement. The revolving line of credit bears interest at a rate of either (i) SOFR (subject to a 1.0% floor), plus 0.10%, plus a margin ranging from 2.75% to 3.25% based on the Company's liquidity or (ii) ABR (subject to a 2.0% floor) plus a margin ranging from 1.75% to 2.25% based on the Company's liquidity. Refer to Note 5 - "Revolving Line of Credit" of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report).

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 4. 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 March 31, 2024. Based on such evaluation, our CEO and CFO have concluded that as of March 31, 2024, 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 rules and forms of the SEC, 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.

Changes in internal controls

There have been no changes in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management does not expect that our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company will have been detected.

PART II - OTHER INFORMATION

Item 1. 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 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 5. Other Information.

Securities Trading Plans of Directors and Executive Officers

During the fiscal quarter ended March 31, 2024, none of our directors and officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted, modified or terminated any "Rule 10b5-1 trading arrangements" (as defined in Item 408 of Regulation S-K of the Exchange Act), that was intended to satisfy the affirmative defense conditions under 10b5-1(c) under the Exchange Act.

Our officers (as defined in Rule 16a-1(f) under the Exchange Act), other than Mr. Howard, have entered into sell-to-cover arrangements, which constitute "non-Rule 10b5-1 trading arrangements," authorizing the pre-arranged sale of shares to satisfy tax withholding obligations of the Company arising exclusively from the vesting of restricted stock units and the related issuance of shares. The amount of shares to be sold to satisfy the Company's tax withholding obligations under these arrangements is dependent on future events which cannot be known at this time, including the future trading price of the Company's Class A common stock. The expiration date relating to these arrangements is dependent on future events which cannot be known at this time, including the final vest date of the applicable restricted stock units and the officer's termination of service.

Item 6. Exhibits

INDEX TO EXHIBITS

3.1	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).
3.2	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).
10.1†	Sprout Social, Inc. 2023 Executive Severance Plan, approved November 1, 2023.
31.1	Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following information from our Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Loss, (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements
104	The cover page from the Quarterly Report on Form 10-Q, formatted as Inline XBRL.

† Indicates a management contract or compensatory plan or arrangement.

* Furnished, not filed.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized.

May 3, 2024

Sprout Social, Inc.
By: /s/ Joe Del Preto
Joe Del Preto
Chief Financial Officer and Treasurer (Principal Financial and Principal Accounting Officer)

**SPROUT SOCIAL, INC.
SEVERANCE PLAN
AND SUMMARY PLAN DESCRIPTION**

(Adopted by the Compensation Committee on November 1, 2023)

1. Introduction. The purpose of this Sprout Social, Inc. Severance Plan (the “Plan”) is to provide assurances of specified severance benefits to eligible executives of the Company who experience an Involuntary Termination under the circumstances described in the Plan. The Plan is an “employee welfare benefit plan,” as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended. This document constitutes both the written instrument under which the Plan is maintained and the required summary plan description for the Plan.

2. Important Terms. To help you understand how the Plan works, it is important to know the following terms:

2.1 “Administrator” means (a) prior to the consummation of a Change in Control, the Committee or another duly constituted committee of members of the Board, or officers of the Company as delegated by the Board, or any person to whom the Administrator has delegated any authority or responsibility pursuant to the terms of the Plan, but only to the extent of such delegation, and (b) from and after the consummation of a Change in Control, one or more members of the Board or Committee (as constituted prior to the Change in Control) or other persons designated by the Board or Committee prior to or in connection with the Change in Control (provided that any such persons acting as Administrator may not be Covered Executives).

2.2 “Affiliate” means, at the time of determination, any “parent” or “subsidiary” of the Company as such terms are defined in Rule 405 promulgated under the Securities Act.

2.3 “Base Salary” means, as applicable, a Covered Executive’s annual base salary in effect as of the date of the Involuntary Termination, including any salary reductions under Sections 132(f), 125, or 401(k) of the Code, and excluding overtime, bonuses, benefits-in-kind, allowances or other incentives, and any other forms of extra compensation (for example, commissions); provided, that in the case of termination by a Covered Executive with Good Reason pursuant to Section 2.18(d), “Base Salary” means the Covered Executive’s Base Salary immediately prior to such reduction. No foreign service or expatriate allowances shall be included in determining Base Salary or the amount of Severance Benefits payable under the Plan.

2.4 “Board” means the Board of Directors of the Company.

2.5 “Cause” means any of the following with respect to a Covered Executive: (a) conviction of, or plea of nolo contendere to, a felony or crime involving moral turpitude; (b) fraud on or misappropriation of any funds or property of the Company or an affiliate, customer or vendor of the Company; (c) intentional dishonesty, intentional misconduct, willful violation of any law, rule or regulation (other than minor traffic violations or similar offenses) or material breach of fiduciary duty while acting within the scope of the Covered Executive’s employment with the Company; (d) failure to perform duties set forth in the Employment Agreement, or repeated refusal to perform the reasonable directives of the Company, in either case, which is not cured within 10 days following written notification of such failure from the Company; or (e) material noncompliance with any Company rule, regulation, procedure or policy, which is not cured, to the extent curable, within 10 days following written notification of such violation from the Company, and which violation causes material harm to the Company.

- 2.6 “Change in Control” has the meaning set forth in the Equity Plan.
- 2.7 “Change in Control Period” means the time period beginning three (3) months prior to the consummation of a Change in Control and ending twelve (12) months following the consummation of such Change in Control.
- 2.8 “CIC Involuntary Termination” means an Involuntary Termination that occurs within the Change in Control Period.
- 2.9 “Code” means the Internal Revenue Code of 1986, as amended.
- 2.10 “Committee” means the Compensation Committee of the Board.
- 2.11 “Company” means Sprout Social, Inc., a Delaware corporation.
- 2.12 “Covered Executive” means each Tier 1 Covered Executive, Tier 2 Covered Executive, and Tier 3 Covered Executive. The Administrator may, in its discretion and from time to time, designate additional employees of the Company to be Covered Executives under the Plan.
- 2.13 “Disability” means any circumstances resulting in a Covered Executive being incapable of performing such Covered Executive’s duties and responsibilities on behalf of the Company for (a) a continuous period of ninety (90) consecutive days, or (b) periods amounting in the aggregate to one-hundred twenty (120) days within any one period of three-hundred sixty-five (365) days. A determination of Disability shall be made and confirmed in writing by a physician or physicians satisfactory to the Company, and the Covered Executive shall cooperate with any efforts to make such determination. Any such determination shall be conclusive and binding on the parties. Any determination of Disability is not intended to alter any benefits that any party may be entitled to receive under any long-term disability insurance plan carried by either the Company or the Covered Executive with respect to the Covered Executive, which benefits shall be governed solely by the terms of any such insurance plan.
- 2.14 “Effective Date” means the date of the Committee’s adoption of the Plan.
- 2.15 “Employment Agreement” means the applicable employment agreement between a Covered Executive and the Company, if any, as may be amended from time to time.
- 2.16 “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.
- 2.17 “Equity Plan” means the Sprout Social, Inc. 2019 Incentive Award Plan, as amended from time to time, or any successor plan thereto.
- 2.18 “Good Reason” means the occurrence, without the Covered Executive’s voluntary written consent, of any of the following circumstances: (a) a material breach by the Company of any material provision of the Employment Agreement; (b) the Company’s relocation of the Company office to which the Covered Executive primarily reports (the “Office”) to a location that increases the distance from the Covered Executive’s principal residence to the Office by more than fifty (50) miles (or, to the extent the Covered Executive works remotely, the Company’s requirement that such Covered Executive report to a Company office that is more than fifty (50) miles from such Covered Executive’s principal residence); (c) a material diminution in the Covered Executive’s authority, duties or responsibilities, provided that any changes in the Covered Executive’s title or to the Covered Executive’s reporting relationship shall not constitute Good Reason hereunder; or (d) any material reduction in the Base Salary (other than in

connection with across-the-board base salary reductions for all or substantially all similarly situated executives of the Company); provided, in each case, that the Covered Executive first provides notice to the Company of the existence of the condition described above within thirty (30) days following the initial existence of the condition, upon the notice of which the Company shall have thirty (30) days during which it may remedy the condition, and provided further that the separation of service must occur within thirty (30) days following the end of such 30-day cure period.

2.19 “Involuntary Termination” means the termination by the Company or any Affiliate of a Covered Executive’s employment other than for Cause (and other than due to death or Disability), or such Covered Executive’s resignation for Good Reason.

2.20 “Non-CIC Involuntary Termination” means an Involuntary Termination that occurs outside of the Change in Control Period.

2.21 “Section 409A” means Section 409A of the Code and the final regulations and any guidance promulgated thereunder.

2.22 “Severance Benefits” means the compensation and other benefits a Covered Executive is eligible to receive pursuant to Section 4, subject to the terms and conditions of the Plan.

2.23 “Tier 1 Covered Executive” means an employee of the Company serving in the role of Chief Executive Officer and who is designated as a “Tier 1 Covered Executive” by the Administrator.

2.24 “Tier 2 Covered Executive” means an employee of the Company who is designated as a “Tier 2 Covered Executive” by the Administrator. Such designation may be by name or corporate level.

2.25 “Tier 3 Covered Executive” means an employee of the Company who is designated as a “Tier 3 Covered Executive” by the Administrator. Such designation may be by name or corporate level.

3. Eligibility for Severance Benefits. An individual is eligible for Severance Benefits under the Plan, in the amount set forth in Section 4, only if he or she is a Covered Executive on the date he or she experiences an Involuntary Termination. Notwithstanding the foregoing, in connection with an individual’s designation and participation as a Covered Executive in the Plan, the Administrator may, in its sole discretion, require as a condition to such designation and participation that such individual execute a participation agreement under the Plan.

4. Severance Benefits. Upon the termination of a Covered Executive’s employment for any reason, the Covered Executive shall be entitled to receive (a) any earned but unpaid base salary, and (b) any vested employee benefits in accordance with the terms of the applicable employee benefit plan or program. In addition, the Covered Executive may be eligible to receive additional payments and benefits, as set forth in more detail below.

4.1 CIC Involuntary Termination. If a Covered Executive experiences a CIC Involuntary Termination, then, subject to the Covered Executive’s compliance with Section 5, the Covered Executive shall receive the following Severance Benefits from the Company at the time set forth in Section 6 below:

4.1.1 Cash Severance Benefits. The Covered Executive will receive the cash Severance Benefits set forth on **Exhibit A** hereto for a CIC Involuntary Termination, payable, less applicable withholdings and deductions, in the form of continuation payments in regular installments over

the applicable number of months set forth on **Exhibit A** (such number of months, the “Severance Period”) following the date of the Covered Executive’s CIC Involuntary Termination in accordance with the Company’s normal payroll practices.

4.1.2 Healthcare Continuation Coverage. During the period commencing on the date of the Covered Executive’s CIC Involuntary Termination and concluding at the end of the timeframe specified on **Exhibit A**, or, if earlier, the date on which the Covered Executive becomes eligible for coverage under any group health plan of a subsequent employer or otherwise (in any case, the “COBRA Period”), subject to the Covered Executive’s valid election to continue healthcare coverage under Section 4980B of the Code and the regulations thereunder, the Company shall, in its sole discretion, either continue to provide coverage to the Covered Executive and the Covered Executive’s dependents, or reimburse the Covered Executive for coverage for the Covered Executive and the Covered Executive’s dependents, under its group health plan (if any), at the same levels and costs in effect on the date of the Covered Executive’s termination (excluding, for purposes of calculating cost, an employee’s ability to pay premiums with pre-tax dollars); provided, however, that if (1) any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the continuation coverage period to be, exempt from the application of Section 409A under Treasury Regulation Section 1.409A-1(a)(5), (2) the Company is otherwise unable to continue to cover the Covered Executive or the Covered Executive’s dependents under its group health plans or (3) the Company cannot provide the benefit without violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), then, in any such case, an amount equal to each remaining Company subsidy shall thereafter be paid to the Covered Executive in substantially equal monthly installments over the COBRA Period (or remaining portion thereof) on the Company’s first regular payroll date of each calendar month, less applicable withholdings and deductions. For the avoidance of doubt, the COBRA continuation period under Section 4980B of the Code shall run concurrently with the period of continued group health plan coverage pursuant to this Section 4.1.2, and to the extent the Company makes cash payments pursuant to this Section 4.1.2, any such cash payments are not required to be used for health coverage. The continued benefits, reimbursement or cash payments provided for in this Section 4.1.2 are referred to herein as the “Continued Benefits.”

4.1.3 Equity Vesting. Each of the Covered Executive’s then outstanding equity awards shall be treated as set forth on **Exhibit A**. Subject to Section 5, accelerated vesting of equity awards (if any) shall be effective as of the date of the CIC Involuntary Termination.

4.2 Non-CIC Involuntary Termination. If a Covered Executive experiences a Non-CIC Involuntary Termination, then, subject to the Covered Executive’s compliance with Section 5, the Covered Executive shall receive the following Severance Benefits from the Company at the time set forth in Section 6 below:

4.2.1 Cash Severance Benefits. The Covered Executive will receive the cash Severance Benefits set forth on **Exhibit A** hereto for a Non-CIC Involuntary Termination, payable, less applicable withholdings and deductions, in the form of continuation payments in regular installments over the applicable Severance Period following the date of the Covered Executive’s Non-CIC Involuntary Termination in accordance with the Company’s normal payroll practices.

4.2.2 Healthcare Continuation Coverage. During the applicable COBRA Period, subject to the Covered Executive’s valid election to continue healthcare coverage under Section 4980B of the Code and the regulations thereunder, the Company shall provide the Continued Benefits.

4.2.3 Equity Vesting. Any then-outstanding equity awards held by the Covered Executive will be treated in accordance with the terms of the applicable equity plan and/or award agreement thereunder.

5. Conditions to Receipt of Severance.

5.1 Release Agreement.

5.1.1 As a condition to receiving Severance Benefits under the Plan, each Covered Executive will be required to timely execute and not revoke a general waiver and release of claims agreement in the Company's customary form (the "Release Agreement"), subject to the terms set forth herein. The Covered Executive will have twenty-one (21) days (or in the event that the Covered Executive's termination of employment is "in connection with an exit incentive or other employment termination program" (as such phrase is defined in the Age Discrimination in Employment Act of 1967, as amended), forty-five (45) days) following the Covered Executive's receipt of the Release Agreement to consider whether or not to accept it. If the Release Agreement is signed and delivered by the Covered Executive to the Company, Executive will have seven (7) days from the date of delivery to revoke the Covered Executive's acceptance of such agreement (the "Revocation Period"). To the extent that any payments of Deferred Compensation Severance Benefits (as defined in Section 7) are delayed pursuant to this Section 5.1, such amounts shall be paid in a lump sum on the first payroll date to occur on or following the sixtieth (60th) day following the date of the Covered Executive's Involuntary Termination.

5.1.2 If the Covered Executive does not timely execute the Release Agreement or such Release Agreement is revoked by the Covered Executive during the Revocation Period, (i) the Company shall immediately cease paying or providing the Continued Benefits and the Covered Executive shall reimburse the Company for the value of any Continued Benefits already paid or provided, and (ii) any equity awards that vested pursuant to Section 4.1.3 and any shares of Company stock that the Covered Executive received with respect thereto shall immediately be forfeited, without payment therefor, and the Covered Executive shall be required to pay to the Company, immediately upon demand therefor, the amount of any proceeds realized by the Covered Executive from the sale of any such shares.

5.2 No Duplication of Benefits. Nothing in this Plan, a participation agreement, an Employment Agreement or an offer letter from the Company shall entitle a Covered Executive to receive duplicate benefits in connection with a termination of employment. For example, in no event will a Covered Executive be eligible for benefits both under this Plan and an Employment Agreement. In addition, in no event shall a Covered Executive receive benefits under both Sections 4.1 and 4.2 hereof. The obligation of the Company to make payments or provide benefits hereunder is expressly conditioned upon the Covered Executive not receiving duplicate payments. Notwithstanding the foregoing, the Covered Executive's outstanding equity awards covering Company common stock shall remain subject to the terms of the applicable equity plan under which such awards were granted that may apply upon a Change in Control and/or termination of such executive's service and no provision of the Plan shall be construed as to limit the actions that may be taken, or to violate the terms, thereunder.

5.3 Certain Reductions. The Administrator will reduce a Covered Executive's benefits under the Plan by any other statutory severance obligations or contractual severance benefits, obligations for pay in lieu of notice, and any other similar benefits payable to the Covered Executive by the Company (or any successor thereto) that are due in connection with the Covered Executive's termination and that are in the same form as the benefits provided under the Plan (e.g., equity award vesting credit). Without limitation, this reduction includes a reduction for any benefits required pursuant to (i) any applicable legal requirement, including, without limitation, the Worker Adjustment and Retraining Notification Act of 1988 and any similar state or local laws (collectively, the "WARN Act"), (ii) a written employment, severance or equity award agreement with the Company, (iii) any Company policy or practice providing for the Covered Executive to remain on the payroll for a limited period of time after being given notice of the termination of the Covered Executive's employment, and (iv) any required salary continuation, notice pay, statutory severance payment, or other payments either required by local law, or owed pursuant to a

collective labor agreement, as a result of the termination of the Covered Executive's employment. The benefits provided under the Plan are intended to satisfy, to the greatest extent possible, and not to provide benefits duplicative of, any and all statutory, contractual and collective agreement obligations of the Company in respect of the form of benefits provided under the Plan that may arise out of a termination, and the Administrator will so construe and implement the terms of the Plan. Reductions may be applied on a retroactive basis, with benefits previously provided being recharacterized as benefits pursuant to the Company's statutory or other contractual obligations. The payments pursuant to the Plan are in addition to, and not in lieu of, any unpaid salary, bonuses or employee welfare benefits to which a Covered Executive may be entitled for the period ending with the Covered Executive's termination.

5.4 Other Requirements. A Covered Executive's receipt of Severance Benefits pursuant to Sections 4.1 or 4.2 will be subject to the Covered Executive continuing to comply with the provisions of this Section 5 and the terms of any confidential information agreement, proprietary information and inventions agreement, any covenants agreement, any other similar agreement to the foregoing and such other appropriate agreement between the Covered Executive and the Company. Benefits under the Plan shall terminate immediately for a Covered Executive if such Covered Executive, at any time, breaches any such agreement or the provisions of this Section 5.

5.5 Section 280G. Notwithstanding any other provision of this Agreement or any other plan, arrangement, or agreement to the contrary, if any of the payments or benefits provided or to be provided by the Company or its Affiliates to the Covered Executive or for the Covered Executive's benefit pursuant to the terms of this Plan ("Covered Payments") constitute parachute payments within the meaning of Section 280G of the Code (such payments, the "Parachute Payments") and would, but for this Section 5.5, be subject to the excise tax imposed under Section 4999 of the Code (or any successor provision thereto) or any similar tax imposed by state or local law or any interest or penalties with respect to such taxes (collectively, the "Excise Tax"), or not be deductible under Section 280G of the Code, then such Covered Payments shall be reduced to the minimum extent necessary to ensure that no portion of the Covered Payments is subject to the Excise Tax, but only if (i) the net amount of such Covered Payments, as so reduced (and after subtracting the net amount of federal, state and local income and employment taxes on such reduced Covered Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced Covered Payments Payments), is greater than or equal to (ii) the net amount of such Covered Payments without such reduction (but after subtracting the net amount of federal, state and local income and employment taxes on such Covered Payments and the amount of the Excise Tax to which the Covered Executive would be subject in respect of such unreduced Covered Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Covered Payments). The Covered Payments shall be reduced in a manner that maximizes the Covered Executive's economic position. In applying this principle, the reduction shall be made in a manner consistent with the requirements of Section 409A, to the extent applicable, and where two or more economically equivalent amounts are subject to reduction but payable at different times, such amounts payable at the later time shall be reduced first but not below zero.

6. Timing of Benefits. Subject to any delay required by Section 7 below, cash Severance Benefits will be paid or will begin being paid within thirty (30) days of the Release becoming effective and irrevocable (such effective date, the "Release Effective Date") (but no earlier than allowed under Section 409A); provided, however, that if the Revocation Period crosses two calendar years, the Severance Benefits will be paid or will begin being paid in the second of the two years if necessary to avoid taxation under Section 409A.

7. Section 409A. Notwithstanding anything to the contrary in the Plan, no severance payments or benefits will become payable until the Covered Executive has a "separation from service" within the meaning of Section 409A if such payments or benefits would constitute deferred compensation

for purposes of Section 409A (“Deferred Compensation Severance Benefits”). Further, if the Covered Executive is subject to Section 409A and is a “specified employee” within the meaning of Section 409A at the time of the Covered Executive’s separation from service (other than due to death), then any Deferred Compensation Separation Benefits otherwise due to the Covered Executive on or within the six-month period following his or her separation from service will accrue during such six-month period, without interest, and will become payable in a lump sum payment (less applicable withholding taxes) on the date six months and one day following the date of the Covered Executive’s separation from service if necessary to avoid adverse taxation under Section 409A. All subsequent payments of Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if the Covered Executive dies following his or her separation from service but prior to the six-month anniversary of his or her date of separation, then any payments delayed in accordance with this paragraph will be payable in a lump sum (less applicable withholding taxes) to the Covered Executive’s estate as soon as administratively practicable after the date of his or her death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under the Plan is intended to constitute a separate payment for purposes of Section 409A. It is the intent of the Plan to be exempt from (or if not exempt from, to comply with) the requirements of Section 409A, so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply.

8. Withholding. The Company will withhold from any Severance Benefits all federal, state, local and other taxes required to be withheld therefrom and any other required payroll deductions.

9. Administration. The Plan will be administered and interpreted by the Administrator (in their, his or her sole discretion). The Administrator is the “named fiduciary” of the Plan for purposes of ERISA and will be subject to the fiduciary standards of ERISA when acting in such capacity. Any decision made or other action taken by the Administrator prior to a Change in Control with respect to the Plan, and any interpretation by the Administrator prior to a Change in Control of any term or condition of the Plan, or any related document, will be conclusive and binding on all persons and be given the maximum possible deference allowed by law. Following a Change in Control, any decision made or other action taken by the Administrator with respect to the Plan, and any interpretation by the Administrator of any term or condition of the Plan, or any related document that (i) does not affect the benefits payable under the Plan shall not be subject to review unless found to be arbitrary and capricious, or (ii) does affect the benefits payable under the Plan shall not be subject to review unless found to be unreasonable or not to have been made in good faith. In accordance with Section 2.1, the Administrator may, in its sole discretion and on such terms and conditions as it may provide, delegate in writing to one or more officers of the Company all or any portion of its authority or responsibility with respect to the Plan; provided, however, that any Plan amendment or termination or any other action that could reasonably be expected to increase significantly the cost of the Plan must be approved by the Board or the Committee.

10. Eligibility to Participate. To the extent that the Administrator has delegated administrative authority or responsibility to one or more officers of the Company in accordance with Section 2.1 and Section 9, each such officer will not be excluded from participating in the Plan if otherwise eligible, but he or she is not entitled to act or pass upon any matters pertaining specifically to his or her own benefit or eligibility under the Plan. The Administrator will act upon any matters pertaining specifically to the benefit or eligibility of each such officer under the Plan.

11. Amendment or Termination. The Company, by action of the Administrator, reserves the right to amend or terminate the Plan at any time, without advance notice to any Covered Executive and without regard to the effect of the amendment or termination on any Covered Executive or on any other

individual. Any amendment or termination of the Plan will be in writing. Notwithstanding the preceding, the Company may not, without a Covered Executive's written consent, amend or terminate the Plan in any way, nor take any other action, that (a) prevents that Covered Executive from becoming eligible for Severance Benefits under the Plan or (b) reduces or alters to the detriment of the Covered Executive the Severance Benefits payable, or potentially payable, to the Covered Executive under the Plan (including, without limitation, imposing additional conditions or modifying the timing of payment); provided, that, notwithstanding the foregoing the Company may amend the Plan with such changes as are necessary for compliance with changes in applicable law or regulation. Any action of the Company in amending or terminating the Plan will be taken in a non-fiduciary capacity. For the avoidance of doubt, in the event a Change in Control occurs during the term of the Plan, the Plan shall not terminate until the Change in Control Period has expired and any benefits payable have been paid.

12. Claims Procedure. Claims for benefits under the Plan shall be administered in accordance with Section 503 of ERISA and the Department of Labor Regulations thereunder. Any employee or other person who believes he or she is entitled to any payment under the Plan (a "claimant") may submit a claim in writing to the Administrator within 90 days of the earlier of (i) the date the claimant learned the amount of their Severance Benefits under the Plan, or (ii) the date the claimant learned that he or she will not be entitled to any benefits under the Plan. In determining claims for benefits, the Administrator or its delegate has the authority to interpret the Plan, to resolve ambiguities, to make factual determinations, and to resolve questions relating to eligibility for and amount of benefits. If the claim is denied (in full or in part), the claimant will be provided a written notice explaining the specific reasons for the denial and referring to the provisions of the Plan on which the denial is based. The notice will also describe any additional information or material that the Administrator needs to complete the review and an explanation of why such information or material is necessary and the Plan's procedures for appealing the denial (including a statement of the applicant's right to bring a civil action under Section 502(a) of ERISA following a denial on review of the claim, as described below). The denial notice will be provided within 90 days after the claim is received. If special circumstances require an extension of time (up to 90 days), written notice of the extension will be given to the claimant (or representative) within the initial 90-day period. This notice of extension will indicate the special circumstances requiring the extension of time and the date by which the Administrator expects to render its decision on the claim. If the extension is provided due to a claimant's failure to provide sufficient information, the time frame for rendering the decision is tolled from the date the notification is sent to the claimant about the failure to the date on which the claimant responds to the request for additional information. The Administrator has delegated the claims review responsibility to the Company's General Counsel or such other individual designated by the Administrator, except in the case of a claim filed by or on behalf of the Company's General Counsel or such other individual designated by the Administrator, in which case, the claim will be reviewed by the Company's Chief Financial Officer.

13. Appeal Procedure. If the claimant's claim is denied, the claimant (or his or her authorized representative) may apply in writing to an appeals official appointed by the Administrator (which may be a person, committee or other entity) for a review of the decision denying the claim. Review must be requested within 60 days following the date the claimant received the written notice of their claim denial or else the claimant loses the right to review. A request for review must set forth all of the grounds on which it is based, all facts in support of the request, and any other matters that the claimant feels are pertinent. In connection with the request for review, the claimant (or representative) has the right to review and obtain copies of all documents and other information relevant to the claim, upon request and at no charge, and to submit written comments, documents, records and other information relating to his or her claim. The review shall take into account all comments, documents, records and other information submitted by the claimant (or representative) relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The appeals official will provide written notice of its decision on review within 60 days after it receives a review request. If special circumstances require an extension of time (up to 60 days), written notice of the extension will be given to the claimant (or

representative) within the initial 60-day period. This notice of extension will indicate the special circumstances requiring the extension of time and the date by which the appeals official expects to render its decision. If the extension is provided due to a claimant's failure to provide sufficient information, the time frame for rendering the decision on review is tolled from the date the notification is sent to the claimant about the failure to the date on which the claimant responds to the request for additional information. If the claim is denied (in full or in part) upon review, the claimant will be provided a written notice explaining the specific reasons for the denial and referring to the provisions of the Plan on which the denial is based. The notice shall also include a statement that the claimant will be provided, upon request and free of charge, reasonable access to, and copies of, all documents and other information relevant to the claim and a statement regarding the claimant's right to bring an action under Section 502(a) of ERISA. The Administrator has delegated the appeals review responsibility to the Company's General Counsel, except in the case of an appeal filed by or on behalf of the Company's General Counsel, in which case, the appeal will be reviewed by the Company's Chief Financial Officer.

14. Judicial Proceedings. No judicial proceeding shall be brought to recover benefits under the Plan until the claims procedures described in Sections 12 and 13 have been exhausted and the Plan benefits requested have been denied in whole or in part. If any judicial proceeding is undertaken to further appeal the denial of a claim or bring any other action under ERISA (other than a breach of fiduciary duty claim), the evidence presented shall be strictly limited to the evidence timely presented to the Administrator or its delegate, unless any new evidence has since been uncovered following completion of the claims procedures described in Sections 12 and 13. In addition, any such judicial proceeding must be filed within one year after the claimant's receipt of notification that his or her appeal was denied.

15. Source of Payments. All Severance Benefits will be paid in cash from the general funds of the Company; no separate fund will be established under the Plan, and the Plan will have no assets. No right of any person to receive any payment under the Plan will be any greater than the right of any other general unsecured creditor of the Company.

16. Inalienability. In no event may any current or former employee of the Company or any of its Affiliates sell, transfer, anticipate, assign or otherwise dispose of any right or interest under the Plan. At no time will any such right or interest be subject to the claims of creditors nor liable to attachment, execution or other legal process.

17. No Enlargement of Employment Rights. Neither the establishment nor maintenance of the Plan, any amendment of the Plan, nor the making of any benefit payment hereunder, will be construed to confer upon any individual any right to be continued as an employee of the Company. The Company expressly reserves the right to discharge any of its employees at any time, with or without cause. However, as described in the Plan, a Covered Executive may be entitled to benefits under the Plan depending upon the circumstances of his or her termination of employment.

18. Successors. Any successor to the Company of all or substantially all of the Company's business and/or assets (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) will assume the obligations under the Plan and agree expressly to perform the obligations under the Plan in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under the Plan, the term "Company" will include any successor to the Company's business and/or assets which become bound by the terms of the Plan by operation of law, or otherwise.

19. Applicable Law. The provisions of the Plan will be construed, administered and enforced in accordance with ERISA. To the extent ERISA is not applicable, the provisions of the Plan will be

governed by the internal substantive laws of the State of Delaware, and construed accordingly, without giving effect to principles of conflicts of laws.

20. Severability. If any provision of the Plan is held invalid or unenforceable, its invalidity or unenforceability will not affect any other provision of the Plan, and the Plan will be construed and enforced as if such provision had not been included.

21. Headings. Headings in the Plan document are for purposes of reference only and will not limit or otherwise affect the meaning hereof.

22. Indemnification. The Company hereby agrees to indemnify and hold harmless the officers and employees of the Company, and the members of its boards of directors, from all losses, claims, costs or other liabilities arising from their acts or omissions in connection with the administration, amendment or termination of the Plan, to the maximum extent permitted by applicable law. This indemnity will cover all such liabilities, including judgments, settlements and costs of defense. The Company will provide this indemnity from its own funds to the extent that insurance does not cover such liabilities. This indemnity is in addition to and not in lieu of any other indemnity provided to such person by the Company.

23. Additional Information.

Plan Name:	Sprout Social, Inc. Severance Plan
Plan Sponsor:	Sprout Social, Inc. 131 South Dearborn Street, Suite 700 Chicago, Illinois 60603 (866) 878-3231
Identification Numbers:	EIN: 272404165 PLAN NUMBER: 19
Plan Year:	Company's Fiscal Year ending December 31
Plan Administrator:	Sprout Social, Inc. 131 South Dearborn Street, Suite 700 Chicago, Illinois 60603 (866) 878-3231
Agent for Service of Legal Process:	Sprout Social, Inc. General Counsel 131 South Dearborn Street, Suite 700 Chicago, Illinois 60603 (866) 878-3231 Service of process may also be made upon the Administrator.
Type of Plan:	Severance Plan/Employee Welfare Benefit Plan
Plan Costs:	The cost of the Plan is paid by the Employer.

24. Statement of Covered Executive ERISA Rights.

As a Covered Executive under the Plan, you have certain rights and protections under ERISA:

(a) You may examine (without charge) all Plan documents, including any amendments and copies of all documents filed with the U.S. Department of Labor. These documents are available for your review at 131 S. Dearborn, Suite 700, Chicago, Illinois 60603.

(b) You may obtain copies of all Plan documents and other Plan information upon written request to the Administrator at no charge.

In addition to creating rights for Covered Executives, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate the Plan (called “fiduciaries”) have a duty to do so prudently and in the interests of you and the other Covered Executives. No one, including the Company or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a benefit under the Plan or exercising your rights under ERISA. If your claim for a severance benefit is denied, in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules. (The claim review procedure is explained in Section 13 and Section 14 above.)

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of Plan documents and do not receive them within thirty days, you may file suit in a federal court. In such a case, the court may require the Administrator to provide the materials and to pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Administrator. If you have a claim which is denied or ignored, in whole or in part, you may file suit in a federal court. If it should happen that you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions regarding the Plan, please contact the Administrator or the Company’s General Counsel. If you have any questions about this statement or about your rights under ERISA, you may contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory, or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue, N.W. Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration at 1-866-444-3272.

Exhibit A

Severance Benefits

CIC Involuntary Termination

<u>Benefits</u>	<u>Tiers</u>		
	<u>Tier 1 Covered Executive</u>	<u>Tier 2 Covered Executive</u>	<u>Tier 3 Covered Executive</u>
Severance Period	18 months	12 months	6 months
Cash Severance Benefits	18 months of Base Salary and 1x target annual bonus for calendar year in which date of CIC Involuntary Termination occurs (less any portion of the annual bonus which has previously been paid for such year)	12 months of Base Salary and 1x target annual bonus for calendar year in which date of CIC Involuntary Termination occurs (less any portion of the annual bonus which has previously been paid for such year)	6 months of Base Salary and 0.5x target annual bonus for calendar year in which date of CIC Involuntary Termination occurs (less any portion of the annual bonus which has previously been paid for such year)
COBRA Period	Same as Severance Period	Same as Severance Period	Same as Severance Period
Equity Benefits	Any unvested equity and equity-based awards under the Equity Plan or any other equity plan or arrangement maintained by the Company that is outstanding immediately prior to the date of the Covered Executive's CIC Involuntary Termination shall automatically become fully vested and exercisable (as applicable) as of such date; provided that any such equity awards subject to performance-based vesting shall vest assuming a target level of performance for each applicable performance objective	Any unvested equity and equity-based awards under the Equity Plan or any other equity plan or arrangement maintained by the Company that is outstanding immediately prior to the date of the Covered Executive's CIC Involuntary Termination shall automatically become fully vested and exercisable (as applicable) as of such date; provided that any such equity awards subject to performance-based vesting shall vest assuming a target level of performance for each applicable performance objective	Any unvested equity and equity-based awards under the Equity Plan or any other equity plan or arrangement maintained by the Company that is outstanding immediately prior to the date of the Covered Executive's CIC Involuntary Termination shall automatically become fully vested and exercisable (as applicable) as of such date; provided that any such equity awards subject to performance-based vesting shall vest assuming a target level of performance for each applicable performance objective

Non-CIC Involuntary Termination

<u>Benefits</u>	<u>Tiers</u>		
	<u>Tier 1 Covered Executive</u>	<u>Tier 2 Covered Executive</u>	<u>Tier 3 Covered Executive</u>
Severance Period	12 months	6 months	3 months
Cash Severance Benefits	12 months of Base Salary	6 months of Base Salary	3 months of Base Salary
COBRA Period	Same as Severance Period	Same as Severance Period	Same as Severance Period
Equity Benefits	N/A	N/A	N/A

CERTIFICATION

I, Justyn Howard, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sprout Social, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

SPROUT SOCIAL, INC.

By: /s/ Justyn Howard

Name: Justyn Howard

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

Date: May 3, 2024

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sprout Social, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Justyn Howard, Chairman of the Board of Directors and Chief Executive Officer, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

SPROUT SOCIAL, INC.

By: /s/ Justyn Howard
Name: Justyn Howard
Title: Chairman of the Board of Directors and Chief Executive Officer

Date: May 3, 2024

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Sprout Social, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

