

## Dropbox Financial Snapshot

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I previously had to do some homework to understand Dropbox business model, and searched around the web to find information about their financials. And BTW, for these types of imperfect information searches, [Quora](#) is an excellent resource. The resulting picture is a financial snapshot of where I believe they are at present day (Q3 2013).

So we know [Dropbox gets its storage space using AWS S3 servers](#), and the pricing is [publicly available](#). At the lowest tier, the price tier for 5,000TB aggregate storage works out to \$0.037 per GB per month at the time of this post. Dropbox far surpasses this capacity tier (which BTW I believe they may now account for upwards of 15-20% of AWS S3 business) and should have cut a better deal with AWS, I'm placing it at \$0.03 per GB per month. The math works out to \$32.40 cost to store a 100GB maxed out premium account. **For a \$100 annual service, this is a pretty nice margin, if they didn't have to account for all the free space they give away.**

| 2013 AWS Storage Costs      |          |  |
|-----------------------------|----------|--|
| Cost per GB / mo            | \$0.03   | Reduced Redundancy Storage (\$0.037) at 5,000TB price tier |
| Cost per 1GB / year         | \$0.32   |  |
| Cost per 50GB / year        | \$16.20  |  |
| Cost per 100GB / year       | \$32.40  |  |
| OTS Cost per 3TB Hard Drive | \$120.00 | =0.04 per GB - just for reference                          |

About the free users – Dropbox most recently announced at it's [DBX conference](#) it had reached 175 million users, up from 100 million from 9 months prior. So today, two months after that announcement I'm estimating 200 million users. And assuming that Dropbox premium users continues to sit at [approximately 4%](#), this results in 8 million paid users. Now comes the biggest guess, how much space does the average Dropbox user take up. The free accounts start with 2GB that can be increased with referrals and other quests, and the most ardent users can get [as much as 25GB](#). Houston even announced 100GB lifetime upgrades for attendees to DBX, so there are certainly more free space to had than. So hazarding a guess, I'm going with a conservative average 4GB of space per user (higher = more conservative in this formula). Result is that the premium accounts and free accounts can add up to as much as 1,568,000 Terabytes, or 1.5 Exabytes, if users max out the space (100% usage on premium accounts).

| 2013 Dropbox Storage Usage    |               |   |
|-------------------------------|---------------|---|
| Total Users                   | 200,000,000   |   |
| Premium Users                 | 8,000,000     | 4% premium user rate                    |
| Free Users                    | 192,000,000   |   |
| Premium User Space (GB)       | 50            | 100GB space at 50% usage                |
| Free User Space (GB)          | 4             | I am an outlier with 14GB of free space |
| Total Premium User Space (GB) | 400,000,000   |   |
| Total Free User Space (GB)    | 768,000,000   |   |
| Total Space Needed (GB)       | 1,168,000,000 |   |
| Total Space Needed (TB)       | 1,168,000     | Highest AWS price tier is 5,000 TB      |

Combining estimated cost of storage and estimated storage needs to factor their estimated revenue, we can come up with a snapshot of their estimated gross margin of 53%. Considering their capex is low since it's all rented space, the financial risk is very manageable. However, as % of storage climbs then the margin actually goes down, since rented space costs increase against fixed revenue. So on the low end as premium users climb towards 100% usage and free users stay constant then their GM drops to 36%. If free space usage goes higher then the GM drops further. Dropbox should offset this by continuing to convert users.

| 2013 Dropbox Financial Snapshot |               |
|---------------------------------|---------------|
| Revenue / Premium User / year   | \$100         |
| Total Premium Users             | 8,000,000     |
| Total Revenue / year            | \$800,000,000 |
| Total Storage Needed (GB)       | 1,168,000,000 |
| Total Storage Costs / year      | \$378,432,000 |
| Gross Profit                    | \$421,568,000 |
| Gross Margin                    | 53%           |
| Avg Revenue per all users       | \$4           |

The \$4 per user revenue is nice considering their user acquisition has been organic (word-of-mouth) without much marketing spend. Except for the recent [partnership deals](#) they've been getting into with Samsung and HTC. Below is the dirty math on how they can give away 50GB of space and expect to be profitable. Note: absolute number of S3s sold and redemption rate don't matter here, however space usage per user does.

| Current Samsung Partnership         |               |  |
|-------------------------------------|---------------|--|
| Galaxy S3s Sold                     | 20,000,000    | Upwards of 40million sold, this represents a 50% redemption rate |
| Dropbox space per S3 (GB)           | 50            | 50GB promotion at 50% usage rate for 2year promotion             |
| Max Dropbox space increase (GB)     | 1,000,000,000 |  |
| Max Dropbox program cost            | \$324,000,000 |  |
| 1 yr breakeven conversion customers | 3,240,000     | Equivalent premium customers                                     |
| 1 yr breakeven conversion rate      | 16.2%         | This breaks even first year AFTER the 2 year program ends        |
| 2 yr breakeven conversion rate      | 8.1%          |  |
| 3 yr breakeven conversion rate      | 5.4%          |  |
| 4 yr breakeven conversion rate      | 4.1%          | 810,000 users converted  |

Key to the deal is they can manage to maintain a 4% conversion rate, which is actually a big IF considering all the competitors coming online and offering better rates and more space now. But at present they have the partnerships and they have momentum, they just have to keep innovating on features (APIs, enterprise, etc) and performance (differential syncing, regional hosting, etc) to outrun competitors and keep their users hooked. Also, none of these calculations takes into account Dropbox for Teams, which should reasonably be expected to provide much better margin than their premium individual accounts.

In conclusion, Dropbox business seems sound. But you didn't need to hear it from me to know that. They've been recently valuated at \$4B, and at a more reliable estimate of \$800M in revenue, the 5x revenue puts it in line with Google at 5.3x and well under Facebook at 17.5x.

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