



Upwork (UPWK-US): \$9.64

Market Cap: \$1.27B

Enterprise Value: \$1.23B

EV/EBITDA: 18x

P/E: 18x

Rating: 70% upside

Short Interest: 11%

12-month perf (%): -35%

30-Day ADV: 3mm

Date: 9/1/2024

Company Background

Upwork was formed in 2013 through the merger of Elance and oDesk, two of the largest freelance platforms at the time, consolidating a significant portion of the global freelancing market under one brand. Upwork went public in 2018, driven by the vision that the future of work would shift away from traditional full-time employment. The company recognized that the knowledge economy, along with advances in technology such as improved broadband and video conferencing, would allow people to work from anywhere, effectively decoupling talent from geographic location. Today, Upwork's marketplace connects millions of freelancers with 870,000 active buyers across various verticals. While tech-related services like mobile and web development dominate the platform, accounting for approximately 40% of its offerings, other popular categories include creative design, marketing, and customer support. These diverse verticals reflect Upwork's broad reach and adaptability to the changing demands of the global workforce.

Opportunities

Upwork stands to benefit significantly from the growing acceptance of freelancers within large enterprises. Although the current penetration rate of freelancers in these companies is low, it is expected to rise as businesses increasingly recognize the value and flexibility that freelancers offer. Upwork is well-positioned to capture this growth, especially as it tailors solutions to enterprise needs. The company's recent switch to a flat 10% take rate has improved monetization, though its overall take rate remains lower than competitors like Fiverr and Toptal. Despite a temporary growth slowdown attributed to cyclical factors and tighter business budgets, Upwork continues to grow its active user base, even as platforms like Fiverr see declines. Concerns about AI disruption are overstated; the real story lies in Upwork's ability to adapt and thrive in an evolving freelance landscape, with multiple avenues for future revenue growth.

Valuation

We expect Upwork's GSV volumes to consolidate in the next 12-24 months before resuming mid-single-digit growth. With Upwork's scalable cost structure, economies of scale, and monetization opportunities, we foresee revenue growth rates of 10-14% in the intermediate term and substantial growth in free cash flow. We project gross margins to expand to 77% by FY 2028E, with operating efficiencies leading to improved profitability. While management targets a 35% EBITDA margin, even with a more conservative estimate, we project FCF of \$218.7 million by FY 2028E. Adding \$250 million of net cash and accounting for \$260 million of NOLs (and SBC dilution), we estimate 70% upside from the current market price.

INVESTMENT DISCLAIMERS & INVESTMENT RISKS

Past performance is not necessarily indicative of future results. All investments carry significant risk and all investment decisions of an individual remain the specific responsibility of that individual. There is no guarantee that our research, analysis, and forward-looking price targets will result in profits or that they will not result in a full loss or losses. All investors are advised to fully understand all risks associated with any kind of investing they choose to do.