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Thesis Overview

Investment Thesis

Upwork presents a compelling long-term growth investment opportunity that is in-line with a changing workforce and is undervalued compared to the industry

Recommendation: **BUY** | Price Target: \$81.7 (~ 97% upside) | **5-Year IRR: 15%**

- 1. Gig Economy Growth:** Increase in freelancers and platform growth due to numerous benefits such as flexibility, freedom, and additional income
- 2. Temporary Staffing Agencies versus Freelance Platforms:** Freelance platforms are more favorable to staffing agencies due to greater expertise, competitive pricing, and more variety
- 3. Global and Category Expansion:** A dedicated effort to increase freelance categories and establish a global platform offers an attractive acquisition for strategic buyers looking to enter the market
- 4. Trading at Deep Discount to Main Competitor (Fiverr):** Upwork offers a superior product and trades at a discount to Fiverr and has the potential to trade at higher P/S and EV/Revenue multiples
- 5. Client and GSV Growth:** Projections and Upwork metrics show considerable growth in core clients and per client revenue

Current Snapshot (\$M)

Capitalization

Share Price: \$41.45
Market Cap: 5,006
Net Debt: (118.2)
Enterprise Value: 4,887.8

Financials

2019 Revenue: 300.6
2019 Sales Growth: 19%
2019 EBITDA: (13.3)
2019 Net Income: (16,659)

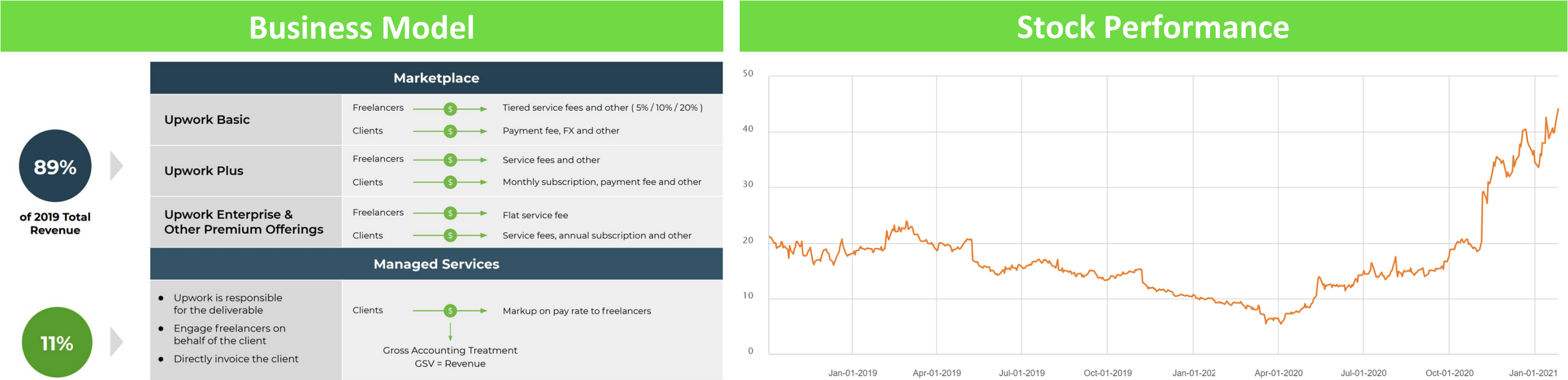
Valuation

2018 EPS: (0.38)
2019 EPS: (0.15)
EV/2018 Revenue: 8.8x
EV/2019 Revenue: 3.7x



Business Overview

- Upwork is a freelancing platform that offers direct-to-talent approach in over 180 countries across 8,000 skills and 70 different categories; the platform’s clients range in size from independent contractors to small businesses to Fortune 500 companies¹
- 5 Marketplace Offerings: Upwork Basic, Upwork Plus, Upwork Business, Upwork Enterprise, and Upwork Payroll¹
 - Managed Services: Upwork engages freelancers to complete projects, assumes responsibility for work performed, and directly invoices the client
- Revenue Breakdown¹:
 - **Marketplace Revenue:** fees charged to freelancers as a percentage of transactions and fees charged to client as a monthly or annual subscription fee plus a % of client spread → majority of total revenues
 - **Managed Services:** entire gross services volume (GSV) on projects completed under managed services offering
 - **Operational Fees:** transaction fees, foreign currency exchange fees, Upwork’s payroll service fees, and fees for premium offerings

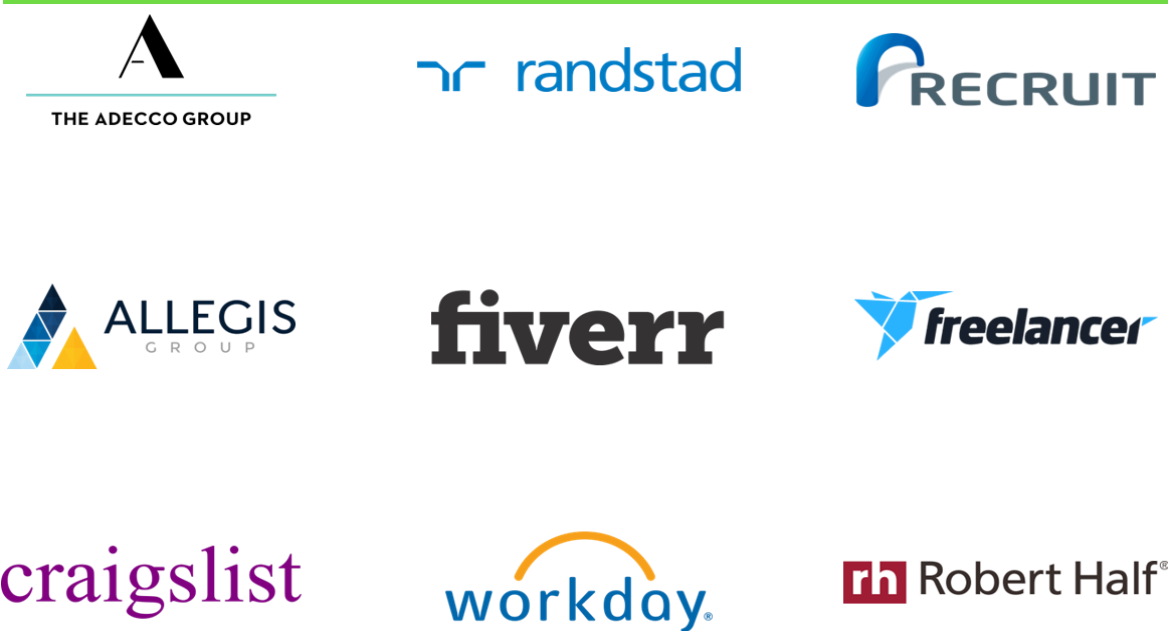


1. SEC Filing – Upwork 10K Filing

Freelancing Industry Overview

- Freelancing involves a self-employed individual – the “freelancer” – offering services to clients on a contractual or project-based timeline; freelancers provide such services via third-party resources and platforms that help connect service providers and freelancers for a cut
- The COVID-19 pandemic has seen a massive shift to remote work which has acted as an industry tailwind with 68% of hiring managers voicing a positive shift and 26.7% of managers believing remote work will continue for at least another year¹
- Key Statistics from December 2020 Future Workforce Pulse Report²
 - 48% of hiring managers are working with independent talent
 - 73% of managers who see the value in remote work are engaging in independent professionals
 - **“A 10% increase in the share of workers who are planned to be fully remote in the long-run is associated with a 1.6% to 2.7% increase in the likelihood of hiring independent professionals”**

Competitive Landscape³



Positive Relationship between Remote Work and Freelance Hires

What percentage of your team/department was, is, or will be working remote at the following points?

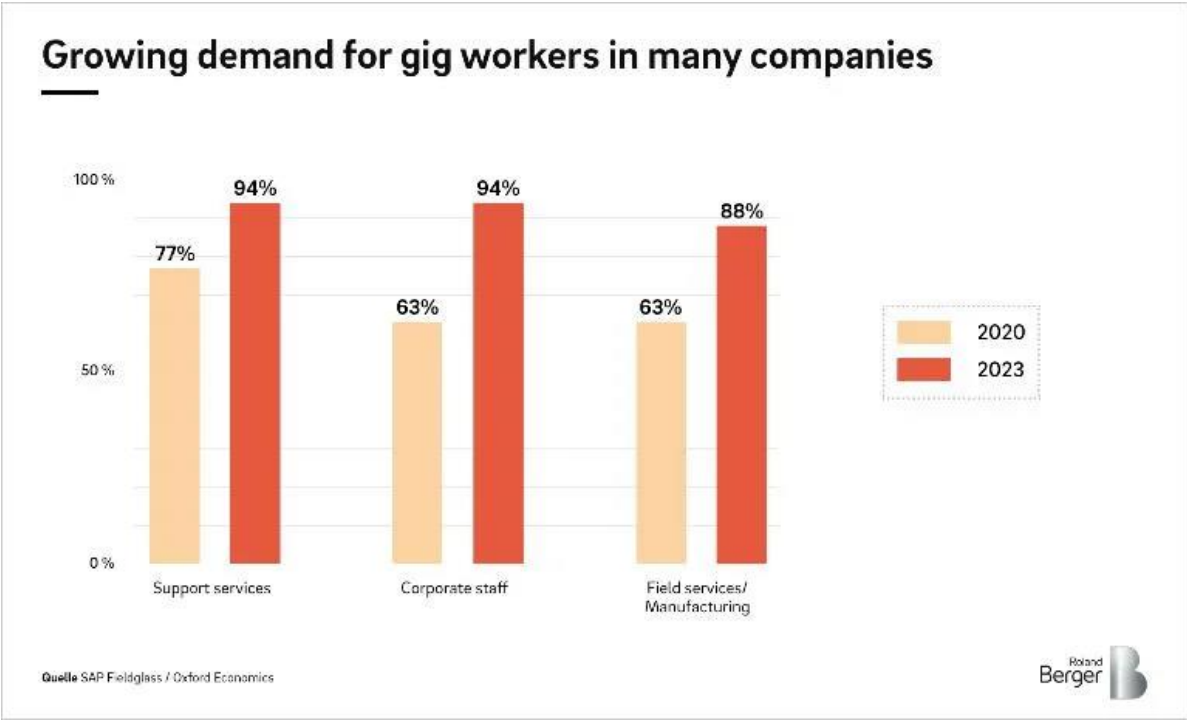
	Total	Have not hired freelancers	Have hired freelancers
Fully remote - Before COVID-19	12.3%	10.7%	16.6%
Fully remote - April 2020	47.7%	42.4%	62.2%
Fully remote - Today	41.8%	38%	52.1%

- Managers’ increasing comfort with remote work has shown to be a sign of greater engagement with independent professionals and thus freelancing platforms such as Upwork.
- The growth of “remote-forever” and hybrid policies (50+ companies) is a compelling trend as it gives reason for companies to hire remote-comfortable freelancers.

1. Economist Report: Future Workforce (UPWK Press Release)
2. December 2020 Future Workforce Pulse Report
3. SEC Filing – Upwork 10K Filing

Growing Gig Economy and an in-line Upwork

- In the past decade, the gig economy has seen exponential growth with a recent study from the ADP Research Institute highlighting how since 2010 the share of gig workers has **increased by 15%**¹
 - This growth is appealing to platforms such as Upwork as gig workers often find their best roles and contracts through them
- The recent growth of the gig economy has helped uncover key economic issues with this model of work - the lack of a minimum wage, insurance coverage, and other benefits²
- To combat and solve the issues related to benefits, **Upwork has partnered with Starship to provide HSA and tax advantages** to its contractors; this action will allow Upwork to retain freelancers and drive more traffic from socially conscious clients³
- Upwork’s commitment to their contractors offers an exciting outlook for investors and protection from liabilities faced by similar gig platforms such as Uber and Lyft



INSIGHT: Gig Economy Workers Deserve Better Protections

Gig workers deserve employment protections

The misclassification of employees as independent contractors predates the emergence of the gig economy and has been a method of skirting the cost of standard worker protections.

By Mark Erlich Updated December 18, 2020, 11:54 a.m.



- Legislation in local and state governments (ex. California) have progressively focused on targeting the demerits of the gig economy and its impact on worker benefits
- Upwork’s move to provide employee benefits in the form of HSAs can be a point of growth and strength for the platform as it markets to freelancers and employers

1. CNBC: The gig economy has ballooned by 6 million people since 2010. Financial worries may follow | February 04, 2020
2. SOGAB Global: The Rise and Challenges of the Gig Economy
3. PR Newswire: Starship Teams with Upwork to Bring HSAs to Freelancers Nationwide
Boston Globe: Gig workers deserve employment protections
Bloomberg Law: INSIGHT: Gig Economy Workers Deserve Better Protections

Freelance Platforms > Staffing Agencies and Upwork > Fiverr

Freelance Platform vs. Staffing Agency

- **Competitive Pricing:** The freelancing model provides talent at a fraction of the cost of temp agencies due to reduced overhead
- **Reach & Accessibility:** Freelance platforms tap into global talent pools, covering hundreds of categories; temp agencies are limited to local expertise
- **Flexibility:** As opposed to staffing, freelancing offers clients the highest level of choice in hiring decisions and freelancers the ability to be remain selective (down to the project level)
- **Shifting Preferences:** Staffing agency revenue projected to see a 21% decline in 2020¹; meanwhile Freelance revenue has seen a 22% increase in 2020 and expected to increase in 2021²

The versatility of the freelance industry is a more attractive avenue for employers and workers than traditional staffing and thus is poised to surpass staffing agencies.

Freelance > Staffing Agencies

Upwork vs. Fiverr

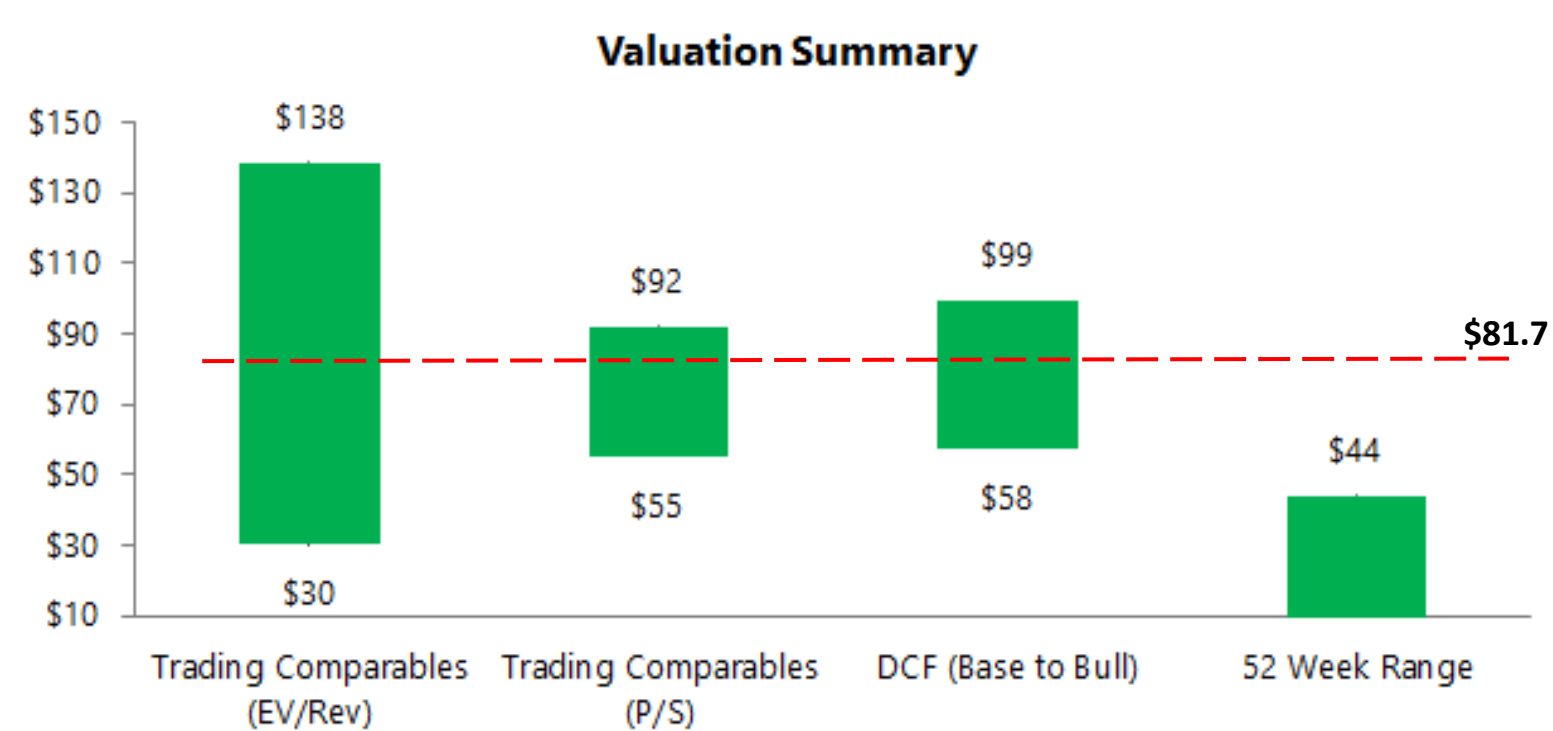
- **Business Focus:** Customers utilize Upwork’s platform for small contracts over a specific time horizon, while Fiverr is often used by clients for one-time gigs
- **Audience:** Upwork possesses a significantly larger revenue base since it leverages enterprise customers; Fiverr, instead targets a large customer base of small-medium sized businesses
- **Financial Picture:** Both companies are in their growth stages; however, Fiverr has approached its upper bound
 - Market Cap: **Upwork** - \$5.06B vs. Fiverr - \$7.25B
 - YoY Revenue Growth: **Upwork** - 21% vs. Fiverr - 44%³
 - Take Rate: **Upwork** - 13.6%⁴ vs. Fiverr - 26.7%⁵

Upwork’s commitment to its marketing and expansion plans will enable it to outperform Fiverr’s financial metrics; thus, Upwork offers a far more valuable growth story, calling for similar, if not greater, valuation in the mid-to-long term.

Upwork > **fiverr**[®]

1. Staffing Hub - Staffing Industry Revenue Expected to Fall by 21% in 2020
2. Success by LiveChat: Pandemic Pushes Surge in Freelance Economy
3. Seeking Alpha Article: Thinking About Fiverr and Upwork Pair Trade, Thinking Kahneman
4. SEC Filing - Upwork 10Q
5. SEC Filing - Fiverr 20F

Valuation



Free Cash Flow (Historical & Base Case)								
	2017A	2018A	2019A	2020P	2021P	2022P	2023P	2024P
EBIT	(3,123.0)	(11,712.0)	(18,732.0)	(19,623.4)	(15,075.8)	(7,334.7)	4,899.9	23,378.0
Tax Rate	-0.53%	0.08%	0.17%	28.00%	28.00%	28.00%	28.00%	28.00%
NOPAT	(3,139.6)	(11,703.2)	(18,700.5)	(14,128.9)	(10,854.6)	(5,281.0)	3,529.9	16,832.1
Plus: Depreciation & Amortization	4,186.0	4,949.0	6,661.0	10,538.0	13,004.4	16,070.0	19,882.5	24,626.4
Less: Capital Expenditures	1,830.0	3,002.0	10,752.0	5,722.0	7,061.0	8,726.0	10,796.0	13,372.0
Less: Change in Operating Working Capital	(1,722.0)	98,799.0	3,255.0	4,011.0	4,949.0	6,116.0	7,567.0	93,737.0
FCFF	938.4	(108,555.2)	(26,046.5)	(13,323.4)	(9,860.6)	(4,052.7)	5,047.6	18,714.0
Discount Factor	1.00	1.00	1.00	0.94	0.88	0.83	0.78	0.73
PV of FCFF	938.4	(108,555.2)	(26,109.8)	(12,509.0)	(8,691.0)	(3,354.0)	3,922.0	136,512.0

Trading Comparables

THE ADECCO GROUP

randstad

fiverr

Robert Half®

RECRUIT

Transaction Comparables

Buyer

DCP 德弘資本

ADP®

On Assignment

IZEA

Target

前程无忧

workmarket

creativecircle
DIGITAL • CREATIVE STAFFING

byline
AN IZEA INNOVATION

Financial Summary (Historical & Base Case)								
	2017A	2018A	2019A	2020P	2021P	2022P	2023P	2024P
Revenue	\$202,552	\$253,354	\$300,562	\$370,341	\$457,016	\$564,750	\$698,734	\$865,451
y/y		25.08%	18.63%	23.22%	23.40%	23.57%	23.72%	23.86%
Gross Profit	137,109.0	171,896.0	212,418.0	261,733.0	327,559.9	410,424.0	514,782.9	646,263.5
% Margin	67.69%	67.85%	70.67%	70.67%	71.67%	72.67%	73.67%	74.67%
EBITDA	1,063.0	(6,763.0)	(12,071.0)	(9,085.4)	(2,071.4)	8,735.2	24,782.3	48,004.4
y/y		-736.22%	-78.49%	24.73%	77.20%	521.70%	183.71%	93.70%
% Margin		-2.67%	-4.02%	-2.45%	-0.45%	1.55%	3.55%	5.55%
Net Income	(4,123.0)	(19,907.0)	(16,659.0)	(23,430.4)	(19,773.8)	(13,140.2)	(2,283.0)	5,826.8
y/y		-382.83%	16.32%	-40.65%	15.61%	33.55%	82.63%	355.23%
% Margin		-7.86%	-5.54%	-6.33%	-4.33%	-2.33%	-0.33%	0.67%
EPS	-0.13	-0.38	-0.15	-0.21	-0.18	-0.12	-0.02	0.05
y/y		-203.98%	60.12%	-40.65%	15.61%	33.55%	82.63%	355.23%
Core Clients	86.4	105.5	124.4	146.4	172.2	202.6	238.4	280.5
Marketplace Revenue/Core Client	2060.7	2121.6	2156.6	2289.2	2429.9	2579.3	2737.8	2906.1



Risks and Catalysts

RISKS + THREATS

- Risk: the company’s new investment in an enterprise-focused sales team may not provide optimal return on investment due to a lack of full productivity stemming from the COVID-19 outbreak
- Risk: Little certainty that enhancing the Upwork Enterprise and other premium offerings and broadening the categories on their platform will increase overall revenue¹
- Threat: there may be more freelancers than jobs available, ultimately creating a demand-constrained platform
- Threat: market for information technology services may remain repressed due to COVID-19, resulting in declined revenue¹

	PLUS	ENTERPRISE
Each option includes access to Upwork's large pool of top-quality freelancers. Choose the level of service you need.	\$49.99/month* SELECT PLUS	Price varies - contact us for a demo Contact Us
Verified freelancer work history and reviews on Upwork	✓	✓
Built-in collaboration features	✓	✓
Premium customer support	✓	✓
Dedicated account management	✓	✓
Job post and talent sourcing assistance	✓	Custom
Reporting & Tracking	Team reporting	Custom
Consolidated invoicing and billing		✓
Worker classification compliance services		✓
Custom configurable contracting and onboarding process		✓
Project-based or managed solutions, and dedicated account executive		✓

CATALYSTS + OPPORTUNITIES

- Opportunity: Partnership with Microsoft will continue to provide access to a verified talent pool of Microsoft Azure experts
 - Prospective employers can have confidence that the freelancers have proven experience
- Catalyst: The boom in e-commerce and internet entrepreneurship will feed into the demand for freelancers
 - Web design, graphic design, coding, packaging and product inserts, video development, and photo editing
- Catalyst: Cultural shift towards embracing a flexible work-life balance which will continue to grow the freelancing industry
 - Opportunities on Upwork are partially or 100% remote

Freelancers (Supply Side)	Clients (Demand Side)
<div><div><div>161M</div><div>Service jobs globally can be performed remotely⁽¹⁾</div></div></div>	<div><div><div>62%</div><div>Will be more remote than before COVID-19⁽³⁾</div></div></div>
<div><div><div>50%</div><div>Of GenZ are freelancers⁽²⁾</div></div></div>	<div><div><div>47%</div><div>More likely to engage independent talent due to COVID-19⁽³⁾</div></div></div>

1. SEC Filing – Upwork 10Q Filing
Upwork Website