3 Reasons to Buy Shares in This $1.5 Billion Company

Description

The gig economy has made a resurgence. Independent work was once the way of life before the Industrial Revolution of the 19th century ushered in the era of working for companies. In today's technology-driven world, it's easier than ever for independent workers to find freelance, project-based, or contractual jobs.

Each piece of work, or gig, is now typically found via a software platform. A slew of companies that are part of the gig economy have gone public recently. Among them is **Upwork** (NASDAQ: UPWK), an early player in the tech-fueled gig economy that connects employers and workers. But its early entrance hasn't helped Upwork's bottom line yet. The company lost $2 million in its recently reported second quarter.

Given a net loss of $0.02 per share in Q2, Upwork appears a risky investment on the surface. But three factors explain why now is a good time to invest in this company with a market cap at the time of this writing of $1.5 billion.

1. A sound business model

Upwork operates a marketplace for freelance jobs. Businesses use Upwork's platform to hire, manage, and pay freelancers while freelancers employ Upwork's tools for tasks like applying for jobs, tracking billable hours, and communicating with the clients that hired them.

Upwork charges various fees for these services. In Q2, 14% of Upwork's revenue came from fees charged to businesses to process payments while about 60% came from Upwork taking a cut of the payments made to freelancers. The remainder came from fees charged to businesses to help manage their accounts and other services.

Upwork's Q2 revenue was nearly three times higher than that of **Fiverr**, which also runs a marketplace for freelancers. Moreover, Upwork boasted over 100,000 active employers in 2018, up from 76,500 in 2016. This scale enables the company to take advantage of the network effect.

What's more, the business model is recession-resistant. In fact, it benefits from an economic downturn when more people are looking for work.

After the Great Recession hit the U.S. in the late 2000s and nearly 9 million workers lost their jobs, the portion of U.S. workers participating in the gig economy rose from 10.1% of the workforce in 2005 to 15.8% in 2015. When the next inevitable recession strikes, Upwork is in a position to not only weather the storm, but to benefit due to the potential for more workers and businesses to jump into the gig marketplace.

2. Solid financial performance

Upwork has experienced steady revenue growth in every quarter as a public company.

Fiscal Quarter Ended	Revenue (in thousands)	Revenue Growth Quarter Over Quarter
June 2019	$74,256	7.74%
March 2019	$68,924	2.35%
December 2018	$67,342	5.04%
September 2018	$64,113	Private company before this

Data source: Upwork SEC form 10-Q filings.

In addition, Upwork's latest quarterly results revealed a healthy balance sheet. The company grew year-over-year gross profit by 25% to $52.7 million. Gross margin increased to 71%, up from 67% in the second quarter of 2018.

The company possessed nearly $449 million in total assets at the end of the quarter ended in June. Contrast this to total liabilities of $191.3 million. With cash on hand of over $67 million compared to $32.6 million in current debt, Upwork has plenty of funds to pay its immediate obligations, if needed.

These results show Upwork is managing its debt and overall finances in a way that supports its fiscal health. This is despite its Q2 net loss, which was the result of increased sales and marketing investments. (More on this below.)

3. Room to grow

Upwork is operating in a space with growth potential. Over a third of U.S. workers, 57 million Americans, participated in the gig economy in 2018, according to a Gallup study. Some estimates show that percentage swelling to 52% over the next five years. According to a report by Staffing Industry Analysts, spend by U.S. businesses on gig work totaled $1.3 trillion in 2018.

During Upwork's Q2 earnings call, CEO Stephane Kasriel stated, "the future of this business is … going to be about bigger companies that have bigger projects." These bigger clients, defined by Upwork as those spending $1,000 or more per project, represented about 65% of the company's gross services volume (GSV) in 2018. GSV is described in Upwork's S-1 filing as "the total amount that clients spend" on Upwork as well as "additional fees charged … for other services."

The company has increased sales and marketing costs to acquire these larger, enterprise-level clients, contributing to the company's bottom-line loss. Granted, the loss was significantly higher than the same quarter last year, when net losses totaled $0.4 million or $0.01 per share. However, Upwork was able to close four times more deals in the first half of 2019 than the same period last year, demonstrating that the company's investments are bearing fruit.

It's worth pointing out that Upwork's Q2 losses were within analyst estimates. Despite this, the stock experienced a sell-off, perhaps due to its Q3 and full-year guidance. As a result, Upwork sits near its 52-week low at the time of this writing.

This creates a great opportunity for investors eyeing the long run. Upwork's consistent revenue increases and solid balance sheet show management's dedication to a slow yet steady growth mentality. This approach may not appeal to investors eager to see big gains from a tech company, but for the long-term investor, Upwork offers a solid business at a reduced price.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Syndicated

TICKERS GLOBAL

1. NASDAQ:UPWK (Upwork Inc.)

Category

1. Investing
2. Tech Stocks

Tags

1. Syndicated

Date
2025/07/01
Date Created
2019/10/11
Author
robert-izquierdo