

Freelancer

FY23 results

Primed for margin expansion

Freelancer's FY23 results marked a key milestone as the group moved to positive operating EBITDA. Profitability was driven by lower opex than we anticipated as gross marketplace volume (GMV) and revenue declined due to a delayed recovery in the core retail platform and Escrow. Loadshift momentum following its transition to a more value-driven marketplace model, along with Enterprise growth, softened the size of the revenue decline. While Escrow volumes and revenue were down, lead indicators remain positive, with two major e-commerce platforms expected to deploy the Escrow service in H124. Loadshift, Enterprise and the retail platform also provide diverse levers to drive a return to growth, where delivery on a lower cost base will be key to a re-rating.

Year end	Revenue (A\$m)	EBITDA* (A\$m)	PBT** (A\$m)	EPS** (c)	EV/EBITDA (x)	P/E (x)
12/22	55.7	(6.6)	(6.9)	(1.5)	N/A	N/A
12/23	53.3	0.6	0.3	0.1	99.1	348.0
12/24e	57.3	2.5	2.2	0.3	24.2	52.6
12/25e	61.6	3.6	3.3	0.5	16.8	35.3

Note: *Operating EBITDA includes depreciation and interest charges associated with capitalised leases. **PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Several lead indicators point to FY24 momentum

FY23 GMV fell 6% y-o-y to A\$1,021m and revenue declined 4.2% to A\$53.3m. The retail marketplace has seen a prolonged recovery after pandemic highs, partially offset by strong performance elsewhere. Enterprise momentum accelerated in Q4 with 55% y-o-y revenue growth (12% for FY23), with several new contracts expected to contribute in H124. Loadshift saw a 238% increase in GMV, validating the marketplace model strategy. While subdued domain name transaction volumes affected Escrow in FY23, Q4 volumes rebounded. The division recently signed two new e-commerce partners that could help diversify risk from domain names, the largest contributor to revenue.

FY23 profit target achieved

Despite 2.6% lower FY23 revenue than our A\$54.8m forecast, operating EBITDA and net income exceeded expectations at A\$0.6m (forecast A\$0.3m) and A\$0.2m (forecast A\$0.0m). Lower opex, primarily staff costs, drove profitability, while a A\$3.5m working capital outflow led to lower net cash than forecast of A\$21m. Our updated forecasts are aligned to FY23 performance, indicating slower top-line growth at c 7% across FY24 and FY25 but greater margin expansion than previously expected underpinned by greater visibility of the cost base. Management's investments in AI to drive internal and freelancer efficiency will be key to unlocking new growth opportunities and operating leverage.

Valuation: Growth on a lower cost base key to rating

On EV/sales, Freelancer trades at a 1.0x average across FY24e and FY25e, a discount to Fiverr and Upwork's 2.1x and a peer group average of 2.3x. Demonstrating the potential for operationally geared growth is key for a re-rating.

Software and comp services

29 February 2024

Price **A\$0.18**
Market cap **A\$81m**

Net cash (A\$m) at 31 December 2023 (excluding A\$17m of lease liabilities) 21.0

Shares in issue 451.7m

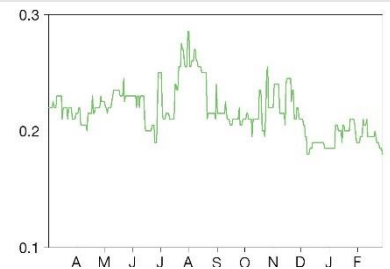
Free float 16.9%

Code FLN

Primary exchange ASX

Secondary exchange OTC FLNCF

Share price performance



%	1m	3m	12m
Abs	(14.3)	(18.2)	(21.7)
Rel (local)	(15.7)	(25.4)	(26.7)

52-week high/low A\$0.29 A\$0.18

Business description

Freelancer is an Australian company, operating one of the world's largest online marketplaces for freelancers. Its marketplace division has two business units: 1) its core platform, which provides services targeted at small and medium-sized companies and includes an enterprise service for large multinationals; and 2) Loadshift, which is Australia's largest marketplace for heavy haulage freight. Separately, the company owns Escrow.com, which is a large transactions processor.

Next events

FY23 annual report April 2024

Q124 update April 2024

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Key profitability target met in FY23

Total GMV decline slowed to 6% y-o-y after reaching FY20 and FY21 highs in Online Marketplace and Online Payments (Escrow), respectively. Looking at the revenue breakdown, Freelancer discloses Enterprise operations separately, but includes Loadshift in marketplace and payment services, which we also expect to be disclosed separately given its current growth rate.

Online Marketplace GMV was up 2.9% to A\$132.1m, while revenue was down 2.8% y-o-y to A\$44m, relating to Loadshift's greater contribution to GMV, which we discuss below. With Loadshift and Enterprise strength (see Exhibit 1), we assume the retail platform's performance was due to a prolonged recovery post-FY20 highs relating to pandemic demand for freelancers.

In Escrow, GMV fell by 7% y-o-y to A\$889m and revenue by 10% y-o-y to A\$9.1m, primarily from subdued domain name transactions in FY23. However, as detailed below, Q4 volumes rebounded and there are several positive lead indicators for FY24, including two new e-commerce partners.

Exhibit 1: Summary of results, FY20–23

A\$000s	FY20	FY21	FY22	FY23
GMV				
Total	841,274	1,212,901	1,081,900	1,029,800
y-o-y change (%)	14%	44%	-11%	-6%
Online Marketplace	141,574	133,901	128,400	132,100
y-o-y change (%)	8%	-5%	-4%	3%
Online Payments	699,700	1,079,000	953,500	888,600
y-o-y change (%)	15%	54%	-12%	-7%
Revenue				
Marketplace and payment services	47,742	43,374	42,305	40,592
y-o-y change (%)	6%	-9%	-2%	-4%
Enterprise services	2,785	2,725	3,286	3,672
y-o-y change (%)	-46%	-2%	21%	12%
Payment services	8,244	11,320	10,069	9,070
y-o-y change (%)	9%	37%	-11%	-10%

Source: Freelancer

Notably, Freelancer achieved a key profitability target in FY23, reaching EBITDA positivity in both divisions. As shown in Exhibit 2, profitability was achieved via cost optimisation, primarily by reducing staff who were originally hired to support rapid growth seen in FY20 and FY21.

Delivering this profitability milestone supported the group's net cash position of A\$21m by year-end, below our forecast of A\$24.1m, due to working capital movements.

Exhibit 2: Reaching EBITDA positivity across the business

A\$000s	FY20	FY21	FY22	FY23
Profit/loss				
Online Marketplace				
Costs (pre-D&A, SBP)	(44,658)	(44,040)	(47,050)	(38,063)
y-o-y change (%)	-8%	-1%	7%	-19%
EBITDA	5,868	2,059	(1,459)	6,201
y-o-y change (%)	205%	-65%	-171%	N/A
Profit/(loss) before tax	(496)	(4,780)	(7,449)	(62)
y-o-y change (%)	-64%	864%	56%	-99%
Online Payments				
Costs (pre-D&A, SBP)	(8,319)	(9,407)	(9,356)	(8,487)
y-o-y change (%)	11%	13%	-1%	-9%
EBITDA	(75)	1,913	713	583
y-o-y change (%)	-178%	N/A	-63%	-18%
Profit/(loss) before tax	(396)	1,667	419	281
y-o-y change (%)	21%	N/A	-75%	-33%

Source: Freelancer

Loadshift drives FY23 and short-term growth forecasts

In our [initiation note](#), we discussed the FY23 transition from a classified membership model to a marketplace model. The classified membership model relies on recurring monthly fees, while the marketplace model allows for a take rate per posted job and potential premium monthly income, underpinning the greater growth opportunity. We note that Loadshift revenue most likely lags GMV expansion given the lower take rate (5–10%) versus the core marketplace (10–15%), therefore growing Loadshift's take rate offers substantial revenue potential.

Management believes the updated model encourages increased freight job postings by streamlining the process to find qualified specialists and establishing a more certain pay structure for contractors. The benefits are evident from the 220% y-o-y quotes rise in Q4 to 73,017 and 272.7% uplift in awarded jobs.

The group's marketplace strategy was key to Loadshift's performance in FY23. We believe replicating this strategy could be used to enter and drive strong growth in new verticals.

Momentum in Freelancer Enterprise improved, with the division delivering 55% y-o-y revenue growth in Q4 versus 12% for the full year, with highlights including:

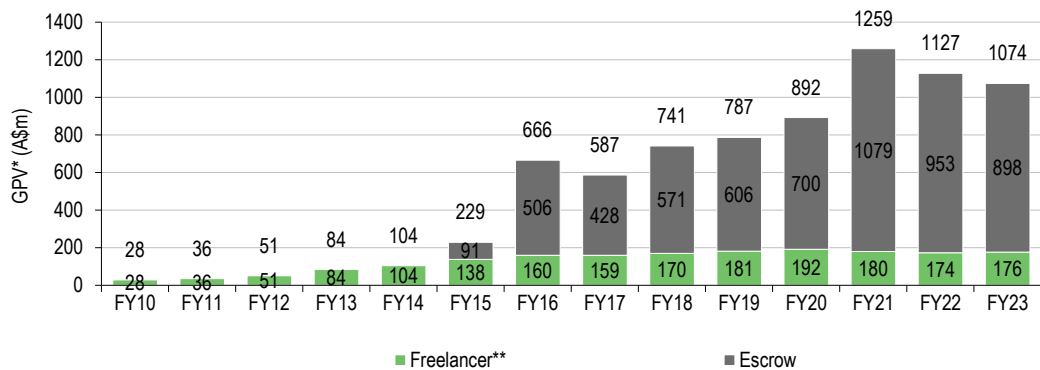
- Deloitte MyGigs expanding beyond the US to Europe, Middle East and Africa and Asia-Pacific, with similar global roll-outs for a oil/gas giant, a beauty leader and governments expected to contribute in H124.
- Volumes in global field services grew by over 150% in India in FY23, but we believe expansion into the much larger US market offers the greatest opportunity. While volume growth was impressive, project sizes in India are substantially smaller than in the US, which requires significantly less volume to see a similar material benefit. In the US, management expects to move into installation work, rather than the more capital-intensive hardware repair, which could also drive margin progression. We expect to see progress from FY24.
- NASA competitions generated a robust US\$1.05m in FY23 revenue and US\$340k in Q4 alone.

AI underpins the mid-term outlook

In the FY23 presentation, management discussed how the emergence of generative AI has bolstered project quality and efficiency, but also expanded the skillset of its freelancers. Further use of AI could boost liquidity and GMV, as CEO Matt Barrie noted small businesses still find it more effective to utilise freelancer specialists on AI platforms versus doing it in-house. The combination of a global pool of freelancers, many from developing countries with lower costs, and the quality boost from AI tools is compelling for smaller businesses, especially those with tightening budgets.

Additionally, Freelancer's investment in AI is creating internal efficiencies, including updated features like an automated AI agent that can build the scope of a client's project end-to-end, facilitating operating leverage.

Exhibit 3: Gross payment volumes in Freelancer and Escrow, FY10–23



Source: Freelancer. Note: *Gross payment value (GPV) is the sum of revenue and GMV. **Including Loadshift and Enterprise.

In Escrow, domain name transactions remain the largest GMV contributor, driven by trends like crypto demand in FY21 when gross payment value (GPV) peaked. Management uses venture capital funding as a barometer for domain name transactions activity. While investment has declined from the FY21 high, it shows signs of stabilising in FY24. Escrow expects a more pronounced AI investment rebound, potentially driving domain transactions across traditional and exotic types, especially ‘.ai’ domains, where transactions reached a record high in Q423.

Notably, Escrow signed partner agreements with a Fortune 500 e-commerce platform and a Nasdaq-listed e-commerce company, which should support revenue diversification outside of domain names. While deployment is expected in H124, the time it will take for consumers to become aware of and comfortable with the service means these deals will likely drive mid-term rather than near-term growth.

Updates to forecasts

As previously discussed, we believe Loadshift currently provides the greatest opportunity in the short term, while new opportunities in AI and several pipeline opportunities could drive a return to growth in the other divisions. That said, we have moderated our revenue forecast assumptions to reflect the FY23 progress.

Exhibit 4: Updates to forecasts

A\$m	FY23			FY24e			FY25e		
	Reported	Forecast	% difference	New	Old	% change	New	Old	% change
Revenues	53.3	54.8	-2.6%	57.3	59.5	-3.7%	61.6	64.7	-4.8%
y-o-y change	-4.2%	-1.6%	-2.6%	7.5%	8.6%	-1.1%	7.5%	8.8%	-1.3%
Gross profit	44.2	46.2	-4.2%	48.3	50.2	-3.7%	52.0	54.6	-4.8%
Gross margin	83.0%	84.3%	-1.6%	84.3%	84.3%	0.0%	84.3%	84.3%	0.0%
Operating EBITDA	0.6	0.3	85.1%	2.5	1.8	38.2%	3.6	3.1	17.3%
Operating EBITDA margin	1%	1%	0.5%	4%	3%	1.3%	6%	5%	1.1%
Normalised net income	0.2	0.0	392.2%	1.6	1.1	44.7%	2.3	1.9	18.7%
Normalised diluted EPS (c)	0.05	0.01	394.3%	0.34	0.24	44.8%	0.51	0.43	18.8%
Net debt/(cash)	(21.0)	(24.1)	-12.7%	(26.1)	(27.1)	-3.7%	(30.8)	(31.6)	-2.4%

Source: Freelancer, Edison Investment Research

The group believes that costs were at a more stable position at end-FY23, after a 19% y-o-y reduction in opex. We expect that the use of AI technologies will allow costs to grow at a slower rate than revenue; in FY24 and FY25 we forecast a 5% y-o-y increase in staff costs, the largest contributor to opex. We expect lower forecast costs to more than offset our lower revenue expectations, leading to greater operating EBITDA and normalised net income margin expansion than previously forecast.

Exhibit 5: Financial summary

	A\$'k	2018	2019	2020	2021	2022	2023	2024e	2025e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue	51,675	57,911	58,771	57,419	55,660	53,334	57,323	61,630	
Cost of Sales	(7,651)	(9,455)	(9,786)	(9,689)	(8,740)	(9,093)	(9,001)	(9,677)	
Gross Profit	44,024	48,456	48,985	47,730	46,920	44,241	48,322	51,952	
EBITDA	(672)	2,044	5,793	3,972	(746)	6,784	8,657	9,747	
Operating EBITDA	(705)	(1,084)	(447)	(2,690)	(6,579)	608	2,495	3,585	
Normalised operating profit	(1,202)	(1,170)	1,081	(922)	(5,216)	2,051	3,921	5,007	
Amortisation of acquired intangibles	0	0	0	0	0	0	0	0	
Exceptionals	0	0	0	0	0	0	0	0	
Share-based payments	(558)	(329)	(192)	(156)	(159)	(115)	(115)	(115)	
Reported operating profit	(1,760)	(1,499)	889	(1,078)	(5,375)	1,936	3,806	4,892	
Net Interest	(33)	(219)	(1,751)	(2,035)	(1,655)	(1,717)	(1,703)	(1,703)	
Joint ventures & associates (post tax)	0	0	0	0	0	0	0	0	
Exceptionals	0	0	0	0	0	0	0	0	
Profit Before Tax (norm)	(1,235)	(1,389)	(670)	(2,957)	(6,871)	334	2,218	3,304	
Profit Before Tax (reported)	(1,793)	(1,718)	(862)	(3,113)	(7,030)	219	2,103	3,189	
Reported tax	309	127	216	856	1,617	(30)	(631)	(957)	
Profit After Tax (norm)	(1,235)	(1,389)	(670)	(2,957)	(6,871)	234	1,552	2,313	
Profit After Tax (reported)	(1,484)	(1,591)	(646)	(2,257)	(5,413)	189	1,472	2,232	
Minority interests	0	0	0	0	0	0	0	0	
Discontinued operations	0	0	0	0	0	0	0	0	
Net income (normalised)	(1,235)	(1,389)	(670)	(2,957)	(6,871)	234	1,552	2,313	
Net income (reported)	(1,484)	(1,591)	(646)	(2,257)	(5,413)	189	1,472	2,232	
Basic average number of shares outstanding (m)	449	450	450	450	451	451	452	452	
EPS - basic normalised (c)	(0.27)	(0.31)	(0.15)	(0.66)	(1.52)	0.05	0.34	0.51	
EPS - diluted normalised (c)	(0.27)	(0.31)	(0.15)	(0.66)	(1.52)	0.05	0.34	0.51	
EPS - basic reported (c)	(0.33)	(0.35)	(0.14)	(0.50)	(1.20)	0.04	0.33	0.49	
Dividend (c)	0	0	0	0	0	0	0	0	
Revenue growth (%)	0.0	12.1	1.5	(2.3)	(3.1)	(4.2)	7.5	7.5	
Gross Margin (%)	85.2	83.7	83.3	83.1	84.3	83.0	84.3	84.3	
EBITDA Margin (%)	-1.3	3.5	9.9	6.9	-1.3	12.7	15.1	15.8	
Normalised Operating Margin	(2.3)	(2.0)	1.8	(1.6)	(9.4)	3.8	6.8	8.1	
BALANCE SHEET									
Fixed Assets	33,459	60,699	61,727	66,372	66,248	60,502	60,086	59,667	
Intangible Assets	26,429	26,429	26,457	34,119	34,120	34,120	34,120	34,120	
Tangible Assets	557	27,446	22,785	19,392	18,323	13,751	13,335	12,916	
Deferred tax & other	6,473	6,824	12,485	12,861	13,805	12,631	12,631	12,631	
Current Assets	37,657	37,326	41,964	38,955	30,797	28,182	34,335	39,372	
Stocks	0	0	0	0	0	0	0	0	
Debtors	3,474	4,003	5,593	6,448	4,825	3,927	4,969	5,342	
Cash & cash equivalents	33,211	32,014	34,341	30,316	23,358	21,153	26,263	30,927	
Other	972	1,309	2,030	2,191	2,614	3,102	3,102	3,102	
Current Liabilities	38,628	42,984	48,170	50,849	48,831	45,009	49,159	51,430	
Creditors	35,898	36,607	39,166	41,259	39,647	36,529	40,679	42,950	
Tax and social security	71	57	87	43	18	4	4	4	
Short term borrowings	121	121	286	121	121	121	121	121	
Lease liabilities	0	3,248	5,628	5,709	5,562	4,842	4,842	4,842	
Other	2,538	2,951	3,003	3,717	3,483	3,513	3,513	3,513	
Long Term Liabilities	1,413	25,102	26,356	23,148	21,749	16,850	16,850	16,850	
Long term borrowings	0	0	0	0	0	0	0	0	
Lease liabilities	0	23,134	19,094	16,082	15,519	12,187	12,187	12,187	
Other long term liabilities	1,413	1,968	7,262	7,066	6,230	4,663	4,663	4,663	
Net Assets	31,075	29,939	29,165	31,330	26,465	26,825	28,412	30,759	
Minority interests	(20)	(20)	(20)	(3,674)	(3,674)	(3,674)	(3,674)	(3,674)	
Shareholders' equity	31,055	29,919	29,145	27,656	22,791	23,151	24,738	27,085	
CASH FLOW									
Op Cash Flow before WC and tax	(717)	1,623	4,066	2,637	(943)	4,922	6,209	6,972	
Working capital	(660)	300	5,094	(1,463)	(3,930)	(3,505)	3,108	1,897	
Exceptional & other	(160)	(196)	(1,439)	1,313	535	339	0	0	
Share-based payments	558	329	192	156	159	115	115	115	
Net operating cash flow	(979)	2,056	7,913	2,643	(4,179)	1,871	9,431	8,985	
Capex	(135)	(227)	(221)	(429)	(149)	(53)	(120)	(120)	
Acquisitions/disposals	23	0	(28)	(7,662)	0	0	0	0	
Borrowings	121	0	176	0	0	0	0	0	
Equity financing	57	340	0	3,987	0	0	0	0	
Dividends	0	0	0	0	0	0	0	0	
Other	86	(3,091)	(2,721)	(3,479)	(3,845)	(4,201)	(4,201)	(4,201)	
Net Cash Flow	(827)	(922)	5,119	(4,940)	(8,173)	(2,383)	5,110	4,664	
Opening net debt/(cash)	(31,908)	(33,090)	(31,893)	(34,055)	(30,195)	(23,237)	(21,032)	(26,142)	
FX	2,130	(275)	(2,792)	915	1,215	178	0	0	
Other non-cash movements	(121)	0	(165)	165	0	0	0	0	
Closing net debt/(cash)	(33,090)	(31,893)	(34,055)	(30,195)	(23,237)	(21,032)	(26,142)	(30,806)	

Source: Edison Investment Research, company accounts

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