

# Freelancer

Q323 update

## Delivering on cash and profit targets

Freelancer achieved a key profitability target in Q323 by delivering positive operating EBITDA across divisions, leading to positive operating cash flow generation and an uplift in gross cash. Despite lower group gross merchandise value (GMV), revenue likely grew given the higher take rate of the marketplace division, where GMV increased. Near-term pipeline highlights include accelerating Enterprise momentum from US expansion and a Chinese retailer partnership, Loadshift's ongoing marketplace transition and new Escrow.com partnerships to drive diversification.

Year end	Revenue (A\$m)	EBITDA* (A\$m)	PBT** (A\$m)	EPS** (c)	EV/EBITDA (x)	P/E (x)
12/21	57.4	(2.7)	(3.0)	(0.7)	N/A	N/A
12/22	55.7	(6.6)	(6.9)	(1.5)	N/A	N/A
12/23e	54.8	0.3	0.1	0.0	204.3	1911.3
12/24e	59.5	1.8	1.5	0.2	37.2	84.6

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.

## Positive EBITDA and operating cash flow

Freelancer reported a 3.0% y-o-y decrease in Q323 GMV to A\$222.3m, with an 8.4% increase in its marketplace division not enough to offset the 4.8% decline in Escrow.com. Despite lower GMV, revenue likely grew given marketplace's higher average take rate of GMV (>30%) versus Escrow.com (<5%), although no figure was given. A key target was achieved by delivering positive operating EBITDA in each division, driving operating cash flow of A\$1m in the quarter and a A\$0.4m q-o-q increase in gross cash to A\$23.5m. This demonstrates the benefits of the H1 efficiency measures, namely staff reductions, and underpins the operating leverage required to deliver our unchanged profit and cash forecasts for the year. We have updated our year-end cash forecast, reflecting the Q3 gross position and positive EBITDA.

## Key milestones in the pipeline

Marketplace GMV was driven by a 1.6m increase in users and 1.9% y-o-y uplift in average project size, supported by investment in the user interface and collaboration tools. Liquidity continued to improve, aided by generative AI, enabling freelancers to expand skills and complete tasks faster. Enterprise GMV was flat but accelerated in late Q3 following the hire of a head of global sales, the lack of which had caused disruption. Momentum should continue into Q4 from US expansion and the onboarding of a major Chinese retailer. Loadshift momentum continued with 39% q-o-q GMV growth; transitioning to a marketplace model could further increase revenue. In Escrow.com, new partnerships, including a leading shopping cart SaaS platform launching in Q124, should drive diversification beyond domain names, typically the largest contributor to the division's revenue, which lagged this year.

## Valuation: Showing growth potential to drive upside

Our view is that Freelancer's share price does not reflect its long-term potential, with multiple levers driving value. The company trades at an 81% discount to peers on EV/sales across FY1e and FY2e, narrowing to 44% compared to Upwork and Fiverr. Showing further growth potential in either division could be a catalyst.

## Software and comp services

24 October 2023

**Price** **A\$0.20**

**Market cap** **A\$90m**

Net cash (A\$m) at end H123 23.0  
(including A\$19.2m of lease liabilities)

Shares in issue 451.7m

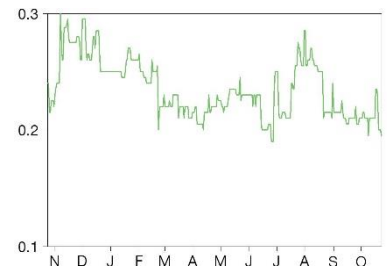
Free float 16.9%

Code FLN

Primary exchange ASX

Secondary exchange OTC FLNCF

## Share price performance



% 1m 3m 12m

Abs (7.1) (23.5) (18.8)

Rel (local) (4.0) (18.1) (20.6)

52-week high/low A\$0.30 A\$0.19

## 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 update February 2024

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## Strong operational progress and positive momentum

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In Q323, Freelancer made strong progress across its marketplace and Escrow.com divisions, achieving key milestones we previously identified as potential long-term value drivers; see below.

### Freelancer marketplace

Freelancer reported 8.4% GMV growth to A\$34.1m, driving 2% cash receipts growth and positive operating EBITDA with operating leverage. We expect the retail marketplace, comprising 94% of FY22 GMV, to grow steadily aided by investments aimed at improving the user experience and communication/collaboration to drive conversion, retention and average project size.

Management has noticed a step-change in project quality and speed from freelancers using generative AI, which could also expand a freelancer's skillset. Further use of AI could further 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.

### Enterprise

- Revenue was flat year-on-year primarily due to leadership transition, but increased by more than 30% between August and September following David Lane's appointment as global head of sales.
- **Global field services:** extended services to 32 cities globally, doubling work orders in the quarter. Venturing into the much larger US market in Q4, with pilots in New Mexico, Chicago and Atlanta, where the expected move into installation work, rather than the more capital-intensive hardware repair, could lead to margin expansion.
- **Major partnership:** onboarded one of the largest online Chinese retailers (generates US\$28bn in annual revenue) to create a custom platform for gaining access to a global contingent platform, similar to Deloitte MyGigs. The material impact is likely to be in the longer term, given the work required to create the platform.

### Loadshift

- GMV up 39% q-o-q with continuing transition from a classified membership model to a marketplace model driving revenue by increasing the take rate.
- New features, such as an automated proof of delivery generator, to enhance efficiency and drive the transition, where these features are not available on the classifieds model.

### Escrow.com

Escrow.com GMV declined 4.8% y-o-y to A\$188.2m, driven by subdued domain name transactions, which comprise the largest share of payment volumes. Domain names should remain the greatest contributor this year, though revenue can be variable as performance often follows trends like crypto in 2021. An expected rebound in venture activity for AI-related domain names did not occur in Q3 as expected by management, but the company remains hopeful for Q4 improvement. However, new partnerships in other areas should help diversify risk, as highlighted below:

- Integration into a major shopping cart SaaS platform, expected to launch in Q124.
- Signed with Trailers.com and SurplusRecord in automotive and construction, two key verticals where the company sees these partnerships acting as a springboard for new deals. Management expects to sign new partnerships in Q423 and Q124.

- Continued month-on-month growth with existing partner Acquire.com.
- Partnership agreement with a large intellectual property broker expected for Q423.

## Changes to forecasts

We leave our revenue and profit forecasts unchanged but increase our year end cash expectations for FY23 reflecting Freelancer's Q323 gross cash position of A\$23.5m and positive EBITDA. The uplift to our FY23 cash forecast, based on changed working capital assumptions, has led to an increase of an equal amount in our FY24 and FY25 projections.

**Exhibit 1: Changes to forecasts**

	FY23e			FY24e			FY25e		
	New	Old	% change	New	Old	% change	New	Old	% change
Revenues	54.8	54.8	0.0%	59.5	59.5	0.0%	64.7	64.7	0.0%
Gross profit	46.2	46.2	0.0%	50.2	50.2	0.0%	54.6	54.6	0.0%
Gross margin	84.3%	84.3%	0.0%	84.3%	84.3%	0.0%	84.3%	84.3%	0.0%
Operating EBITDA*	0.3	0.3	0.0%	1.8	1.8	0.0%	3.1	3.1	0.0%
Operating EBITDA margin	1%	1%	0.0%	3%	3%	0.0%	5%	5%	0.0%
Reported operating profit	2.0	2.0	0.0%	3.5	3.5	0.0%	4.7	4.7	0.0%
Reported operating margin	4%	4%	0.0%	6%	6%	0.0%	7%	7%	0.0%
Normalised net income	0.0	0.0	0.0%	1.1	1.1	0.0%	1.9	1.9	0.0%
Normalised diluted EPS (c)	0.01	0.01	0.0%	0.24	0.24	0.0%	0.43	0.43	0.0%
Net debt/(cash)	(24.1)	(19.7)	22.6%	(27.1)	(22.7)	19.5%	(31.6)	(27.1)	16.4%

Source: Edison Investment Research

**Exhibit 2: Financial summary**

	A\$'000s	2018	2019	2020	2021	2022	2023e	2024e	2025e
Year end 31 -December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>									
Revenue		51,675	57,911	58,771	57,419	55,660	54,778	59,500	64,717
Cost of Sales		(7,651)	(9,455)	(9,786)	(9,689)	(8,740)	(8,601)	(9,343)	(10,162)
Gross Profit		44,024	48,456	48,985	47,730	46,920	46,176	50,157	54,555
EBITDA		(672)	2,044	5,793	3,972	(746)	6,615	8,091	9,344
Operating EBITDA		(705)	(1,084)	(447)	(2,690)	(6,579)	329	1,805	3,057
Normalised operating profit		(1,202)	(1,170)	1,081	(922)	(5,216)	2,176	3,640	4,890
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)	(159)	(159)	(159)
Reported operating profit		(1,760)	(1,499)	889	(1,078)	(5,375)	2,017	3,481	4,731
Net Interest		(33)	(219)	(1,751)	(2,035)	(1,655)	(2,108)	(2,108)	(2,108)
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)	68	1,532	2,782
Profit Before Tax (reported)		(1,793)	(1,718)	(862)	(3,113)	(7,030)	(91)	1,373	2,623
Reported tax		309	127	216	856	1,617	0	(412)	(787)
Profit After Tax (norm)		(1,235)	(1,389)	(670)	(2,957)	(6,871)	47	1,073	1,948
Profit After Tax (reported)		(1,484)	(1,591)	(646)	(2,257)	(5,413)	(91)	961	1,836
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)	47	1,073	1,948
Net income (reported)		(1,484)	(1,591)	(646)	(2,257)	(5,413)	(91)	961	1,836
Basic average number of shares outstanding (m)		449	450	450	450	451	452	452	452
EPS - basic normalised (c)		(0.27)	(0.31)	(0.15)	(0.66)	(1.52)	0.01	0.24	0.43
EPS - diluted normalised (c)		(0.27)	(0.31)	(0.15)	(0.66)	(1.52)	0.01	0.24	0.43
EPS - basic reported (c)		(0.33)	(0.35)	(0.14)	(0.50)	(1.20)	(0.02)	0.21	0.41
Dividend (c)		0	0	0	0	0	0	0	0
Revenue growth (%)		0.0	12.1	1.5	(2.3)	(3.1)	(1.6)	8.6	8.8
Gross Margin (%)		85.2	83.7	83.3	83.1	84.3	84.3	84.3	84.3
EBITDA Margin (%)		-1.3	3.5	9.9	6.9	-1.3	12.1	13.6	14.4
Normalised Operating Margin		(2.3)	(2.0)	1.8	(1.6)	(9.4)	4.0	6.1	7.6
<b>BALANCE SHEET</b>									
Fixed Assets		33,459	60,699	61,727	66,372	66,248	66,251	66,241	66,230
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	18,326	18,316	18,305
Deferred tax & other		6,473	6,824	12,485	12,861	13,805	13,805	13,805	13,805
Current Assets		37,657	37,326	41,964	38,955	30,797	31,574	35,039	39,898
Stocks		0	0	0	0	0	0	0	0
Debtors		3,474	4,003	5,593	6,448	4,825	4,749	5,158	5,610
Cash & cash equivalents		33,211	32,014	34,341	30,316	23,358	24,211	27,267	31,674
Other		972	1,309	2,030	2,191	2,614	2,614	2,614	2,614
Current Liabilities		38,628	42,984	48,170	50,849	48,831	49,543	51,878	54,730
Creditors		35,898	36,607	39,166	41,259	39,647	40,359	42,694	45,546
Tax and social security		71	57	87	43	18	18	18	18
Short term borrowings		121	121	286	121	121	121	121	121
Lease liabilities		0	3,248	5,628	5,709	5,562	5,562	5,562	5,562
Other		2,538	2,951	3,003	3,717	3,483	3,483	3,483	3,483
Long Term Liabilities		1,413	25,102	26,356	23,148	21,749	21,749	21,749	21,749
Long term borrowings		0	0	0	0	0	0	0	0
Lease liabilities		0	23,134	19,094	16,082	15,519	15,519	15,519	15,519
Other long term liabilities		1,413	1,968	7,262	7,066	6,230	6,230	6,230	6,230
Net Assets		31,075	29,939	29,165	31,330	26,465	26,533	27,653	29,648
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	22,859	23,979	25,974
<b>CASH FLOW</b>									
Op Cash Flow before WC and tax		(717)	1,623	4,066	2,637	(943)	4,348	5,412	6,290
Working capital		(660)	300	5,094	(1,463)	(3,930)	789	1,925	2,400
Exceptional & other		(160)	(196)	(1,439)	1,313	535	0	0	0
Share-based payments		558	329	192	156	159	159	159	159
Net operating cash flow		(979)	2,056	7,913	2,643	(4,179)	5,295	7,497	8,849
Capex		(135)	(227)	(221)	(429)	(149)	(264)	(264)	(264)
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)	(4,178)	(4,178)	(4,178)
Net Cash Flow		(827)	(922)	5,119	(4,940)	(8,173)	853	3,055	4,407
Opening net debt/(cash)		(31,908)	(33,090)	(31,893)	(34,055)	(30,195)	(23,237)	(24,090)	(27,146)
FX		2,130	(275)	(2,792)	915	1,215	0	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)	(24,090)	(27,146)	(31,553)

Source: Edison Investment Research, company accounts

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