

Freelancer

Q124 results

AI to drive return to growth

Freelancer's Q124 results were mixed. Operationally, the company is seeing rising demand for AI specialists as customers seek affordable ways to develop proprietary AI. Notably, in Enterprise, the company delivered a large-scale AI pilot for a tech giant, sourcing 20,000 freelancers in 24 hours across 52 languages. This impressive achievement could lead to a substantial multi-year contract. Major initiatives across Loadshift and Escrow with leading organisations are set to be deployed over the coming months, potentially catalysing performance and diversifying revenue streams. We revise our forecasts to account for a weaker Q1 than anticipated, though positive lead indicators, especially relating to AI, underscore long-term optimism.

Year end	Revenue (A\$m)	Operating 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	117.7	396.3
12/24e	56.6	2.1	1.8	0.3	34.0	72.7
12/25e	61.0	3.3	3.0	0.5	22.0	44.7

Note: *Includes depreciation and interest charges associated with capitalised leases. **Excl. amortisation of acquired intangibles, exceptional items and share-based payments.

A mixed Q1 reflected in revised estimates

Q124 gross marketplace volume (GMV) was down 23.8% y-o-y to A\$227.1m, driven by a 26.5% y-o-y decline in Escrow GMV to A\$195.7m after a particularly strong Q123, with Freelancer GMV down 2.2% to A\$31.5m. The impact on cash receipts was substantially smaller, down 3.6% y-o-y to A\$13.2m across the group given Escrow's substantially lower take rate versus Freelancer. Management expects to integrate Escrow with two world-leading e-commerce platforms in Q2, supporting revenue diversification. Cost reductions in FY23 supported a year-on-year swing to positive operating cash flow of A\$1.0m in Q124 (Q123: -A\$0.1m).

Upcoming initiatives to support long-term success

AI has been pivotal in the group's latest initiatives. AI is being used to optimise job postings, automate outreach and reduce malicious activity, while also expanding job types, potentially driving operationally geared growth. In Q1, the Enterprise business rapidly deployed an AI pilot for a tech giant, showcasing scalable AI services that could lead to a major long-term contract in FY24. Loadshift, which is continuing to transition to the Freelancer marketplace model, reported 70.9% y-o-y GMV growth as more freight was monetised, remaining a primary performance driver. Despite operational progress, we revise down our revenue forecasts slightly while maintaining similar margin expectations as we anticipate a more material benefit from current initiatives in the medium term.

Valuation: Several potential levers for value creation

On EV/sales, Freelancer trades at a 1.2x average across FY24e and FY25e versus peers on an average of 2.0x. Demonstrating the group's ability to scale profitably, leveraging any of its businesses to support growth, could close this discount.

Software and comp services

25 April 2024

Price **A\$0.205**

Market cap **A\$93m**

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

Shares in issue 451.7m

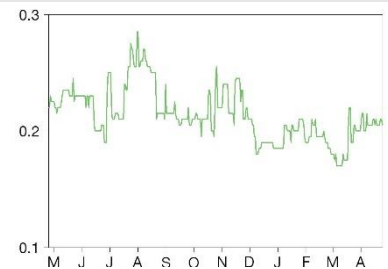
Free float 16.9%

Code FLN

Primary exchange ASX

Secondary exchange OTC FLNCF

Share price performance



% 1m 3m 12m

Abs 0.0 (2.4) (6.8)

Rel (local) 1.1 (4.7) (11.8)

52-week high/low A\$0.29 A\$0.17

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.

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Q124 results show several positive lead indicators

Freelancer's Q124 GMV of A\$227.1m (-23.8% y-o-y) was primarily affected by Escrow, which saw GMV fall 26.5% y-o-y to A\$195.7m after an exceptionally strong performance from domain names in Q123. Freelancer, which includes the retail marketplace, Enterprise, and Loadshift, reported a smaller year-on-year decline of 2.2% to A\$31.5m. We note that there were fewer business days in Q124 compared to Q123 due to the timing of Easter. We believe smaller project size across its retail marketplace was the primary driver of the decline in the Freelancer business, given volumes were up and the other two divisions reported positive progress. The group is continuing to see growing interest for AI specialists, which has the potential to catalyse both volumes and project size. We believe this will be supported by investments in the user interface and collaborative features, which are designed to optimise user engagements, retention and expand the potential scope of certain projects.

The decline in cash receipts from customers, a proxy for revenue, was less pronounced at 3.6% y-o-y for the group to A\$13.2m. This reflects the smaller take rate (the share of revenue generated from GMV) of Escrow at c 1% versus Freelancer at c 13%.

Exhibit 1: Q124 results overview			
(A\$m)	Q124	Q123	y-o-y
GMV			
Freelancer	31.5	32.2	-2.2%
Escrow	195.7	266.1	-26.5%
Total	227.1	298.3	-23.8%
Cash receipts from customers			
Freelancer	10.8	11.0	-2.0%
Escrow	2.3	2.6	-10.2%
Total	13.2	13.7	-3.6%
Group cash flow			
Operating cash flow	1.0	(0.1)	N/A
Cash and cash equivalents	21.7	22.7	-4.2%

Source: Freelancer

Freelancer stated that it made a small operating loss in the period but generated operating cash flow of A\$1.0m. We believe this swing to positive operating cash flow year-on-year partially reflects cost reductions made in FY23, discussed in our [last note](#).

Operational highlights to drive value across Freelancer

Below we highlight several operational updates that we believe could drive long-term value across the group:

- **Freelancer retail marketplace**
 - Launching a new feature for newly registered freelancers to reach out and engage with clients they have previously worked for outside of the platform. This could become a significant new channel for client acquisition given the substantial number of freelancers joining the platform daily.
 - AI tools including guides, assistants and more to help scope out and expand a project.
- **Enterprise**
 - Delivered a large-scale pilot for a tech giant, crowdsourcing generative AI tasks to train its foundational model. The pilot sourced and qualified over 20,000 freelancers across 52 languages within 24 hours, showcasing Freelancer's ability to rapidly mobilise a global workforce for AI projects.
 - Further proposals with three companies to white label Freelancer's marketplace.

- A 235% y-o-y increase in repair volume in Q124 in global field services.
- Launched a competition for the Australian Space Agency, in collaboration with NASA's Artemis programme, to design Australia's first lunar rover.

■ **Escrow**

- Integrating into two of the world's leading e-commerce platforms, which management expects to complete in Q224. One of the partners has more than 70,000 active stores and processes over US\$1bn in monthly transaction volume, although we maintain the view it will take time for users to become aware of and comfortable with the service.

Changes to forecasts

We revise our revenue forecasts down marginally, reflecting the decline in Q1 GMV and cash receipts. However, we note this may be conservative, particularly if one of the aforementioned initiatives, particularly in Enterprise, gains traction more rapidly than expected.

Exhibit 2: Summary of forecast changes

	FY24e			FY25e		
	New	Old	% change	New	Old	% change
Revenue	56.6	57.3	-1.3%	61.0	61.6	-1.0%
Growth	6.1%	7.5%	-1.4%	7.8%	7.5%	0.3%
Gross profit	47.7	48.3	-1.3%	51.4	52.0	-1.0%
Gross margin	84.3%	84.3%	0.0%	84.3%	84.3%	0.0%
Operating EBITDA	2.1	2.5	-15.6%	3.3	3.6	-9.2%
Operating EBITDA margin	4%	4%	-0.6%	5%	6%	-0.5%
Normalised net income	1.3	1.6	-17.6%	2.1	2.3	-10.0%
Normalised diluted EPS (c)	0.28	0.34	-17.6%	0.46	0.51	-10.0%
Net debt/(cash)	(25.7)	(26.1)	-1.8%	(30.1)	(30.8)	-2.2%

Source: Edison Investment Research

We maintain our cost assumptions, with profits and margins marginally affected from our lower revenue expectation. Our forecast net cash still shows that Freelancer will maintain a robust balance sheet, supported by our net income assumption and the company's low capital intensity.

Exhibit 3: 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	56,594	61,012
Cost of Sales		(7,651)	(9,455)	(9,786)	(9,689)	(8,740)	(9,093)	(8,887)	(9,580)
Gross Profit		44,024	48,456	48,985	47,730	46,920	44,241	47,707	51,432
EBITDA		(672)	2,044	5,793	3,972	(746)	6,784	8,267	9,416
Operating EBITDA		(705)	(1,084)	(447)	(2,690)	(6,579)	608	2,105	3,254
Normalised operating profit		(1,202)	(1,170)	1,081	(922)	(5,216)	2,051	3,530	4,676
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	3,415	4,561
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	1,827	2,973
Profit Before Tax (reported)		(1,793)	(1,718)	(862)	(3,113)	(7,030)	219	1,712	2,858
Reported tax		309	127	216	856	1,617	(30)	(514)	(857)
Profit After Tax (norm)		(1,235)	(1,389)	(670)	(2,957)	(6,871)	234	1,279	2,081
Profit After Tax (reported)		(1,484)	(1,591)	(646)	(2,257)	(5,413)	189	1,199	2,001
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	1,279	2,081
Net income (reported)		(1,484)	(1,591)	(646)	(2,257)	(5,413)	189	1,199	2,001
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	0.28	0.46
EPS - diluted normalised (c)		(0.27)	(0.31)	(0.15)	(0.66)	(1.52)	0.05	0.28	0.46
EPS - basic reported (c)		(0.33)	(0.35)	(0.14)	(0.50)	(1.20)	0.04	0.26	0.44
Dividend (c)		0	0	0	0	0	0	0	0
Revenue growth (%)		0.0	12.1	1.5	(2.3)	(3.1)	(4.2)	6.1	7.8
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	14.6	15.4
Normalised Operating Margin		(2.3)	(2.0)	1.8	(1.6)	(9.4)	3.8	6.2	7.7
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	33,789	38,638
Stocks		0	0	0	0	0	0	0	0
Debtors		3,474	4,003	5,593	6,448	4,825	3,927	4,906	5,289
Cash & cash equivalents		33,211	32,014	34,341	30,316	23,358	21,153	25,782	30,247
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	48,887	51,201
Creditors		35,898	36,607	39,166	41,259	39,647	36,529	40,407	42,721
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	28,139	30,254
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	24,465	26,580
CASH FLOW									
Op Cash Flow before WC and tax		(717)	1,623	4,066	2,637	(943)	4,922	5,935	6,741
Working capital		(660)	300	5,094	(1,463)	(3,930)	(3,505)	2,899	1,931
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	8,950	8,787
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)	4,629	4,466
Opening net debt/(cash)		(31,908)	(33,090)	(31,893)	(34,055)	(30,195)	(23,237)	(21,032)	(25,661)
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)	(25,661)	(30,126)

Source: Edison Investment Research, company accounts

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