

The world's largest online workforce – powered by AI

Freelancer Limited (ASX:FLN) is the company behind Freelancer.com, Loadshift and Escrow.com. FLN has recently released its financial results for FY23 (the 12 months to 31 December 2023), and there were many promising signs that the company is set for growth in the coming months.

Freelancer is profitable on a pre-tax basis

Investors should be most pleased that the company reached profitability on a pre-tax basis of \$0.2m, a turnaround from a \$7m loss in the year before. There were other pleasing metrics too, particularly during the final quarter of FY23 (Q4Y23). These included that the Freelancer marketplace added 1.4m new users and 201k new projects to the marketplace during Q4 alone, Freelancer enterprise delivered 55% revenue growth in Q4 and 12% growth in the entire year compared to the prior corresponding period, that escrow.com grew Gross Payment Volume (GPV) by 15% from the prior corresponding period and Loadshift grew awarded jobs and quotes on the platform by over 200%.

As will be covered in the rest of the report, FLN also deepened its relationships with clients including Deloitte and NASA. Freelancer Enterprise won 8 new task orders and managed 12 projects for NASA, and has over 50,000 Deloitte staff onboarded to the MyGigs platform already.

Growth to come in the months ahead

Freelancer has set itself up well for growth in FY24 and beyond. It has reduced its cost base by 18% compared to FY22 and was able to record positive EBITDA, along with positive operating cash flow of \$1.9m. The company's product team has updated its Marketplace platform to take advantage of AI by enhancing personalisation and features available to users - which make up the world's largest and lowest cost elastic cloud workforce. These efforts have already begun to bear fruit in recent months, and we expect them to continue to.

Valuation range of A\$0.71–0.93 per share

We reiterate our valuation of Freelancer as first outlined last July's initiation report – at A\$0.71 per share in a base-case scenario and A\$0.93 per share in an optimistic case scenario. Please refer to page 7 for more details on our valuation. The key risks, also outlined on page 7, include (but are not limited to): execution, economic and competition.

Share Price: A\$0.17

ASX: FLN

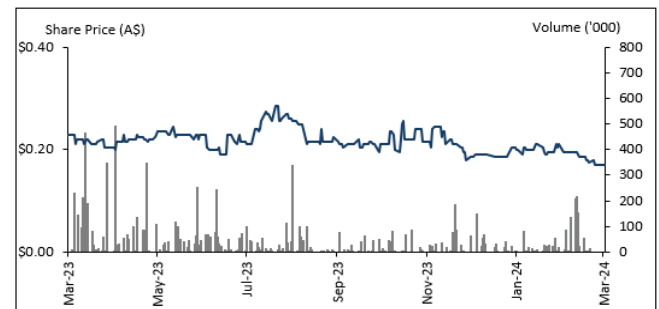
Sector: Technology

12 March 2024

Market Cap. (A\$ m)	76.7
# Shares outstanding (m)	450.9
# Share fully diluted (m)	452.1
Market Cap Full. Dil. (A\$m)	76.8
Free Float	16.8%
12-months high/low (A\$)	0.30 / 0.185
Avg. daily volume ('1000)	47.4
Website	https://www.freelancer.com/

Source: Company, Refinitiv, Pitt Street Research

Share price (A\$) and avg. daily volume (k, r.h.s.)



Source: Refinitiv, Pitt Street Research

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Re-Introduction to Freelancer (ASX:FLN)

Founded in 2009, Freelancer (ASX: FLN) operates three platforms.

- **Freelancer.com:** An online services marketplace that the largest on-demand and lowest cost elastic cloud workforce in the world with over 71m users, spanning 247 countries, 2700+ skills and 33 languages. Freelancer has both a general marketplace as well as an Enterprise division that high-paying larger organisations (such as NASA and Deloitte) can use. Deloitte has its own specific platform called MyGigs.
- **Escrow.com:** a platform that facilitates safe digital transactions of high-value goods and services (such as private jets, luxury cars and intellectual property) by holding funds in custody and only transferring them to the seller once the buyer has received the goods or services, inspected them, and found them to be satisfactory.
- **Loadshift.com:** Australia's largest freight marketplace, connecting freight owners with transport operators.

All of these are market leading, broad horizontal service offerings that consumers through to large enterprises require as part of their everyday lives and businesses. Freelancer began with just the first platform (Freelancer.com), but bought the latter two platforms in 2015 and 2021 respectively. Freelancer operates through three primary business segments: Labour, Payments, and Freight. The Labour segment includes Freelancer.com and the Enterprise division, Payments includes Escrow.com and Freight includes Loadshift.com.

The company is positioning itself as the 'Amazon of services,' where individuals can get literally 'anything done'. It generates revenue from all 3 platforms and these are multiple revenue sources with each platform (Figure 1).

FLN is positioning itself as the 'Amazon of services' where individuals can get literally 'anything done'.

Figure 1: Revenue sources

Platform	Revenue sources
Freelancer.com	Project commissions from employers (0-3%). Project commissions from freelancers (3-10%). Membership payments. Other services including project upgrades, crowdsourcing contest upgrades, bid upgrades, transaction fees, advertising, and certification fees.
Escrow.com	A standard escrow fee. A Concierge fee. A payment processing fee on certain transactions depending on payment method used.
Loadshift.com	Shippers pay a fee of 3% of the load's value. Carriers are charged a fee equivalent to 10% of the load's value.

Source: Company/Pitt Street Research



FLN stands apart from many of its peers, both listed and non-listed.

The competitive advantages of FLN

While some investors may have difficulty in distinguishing FLN from competitors (particularly fellow ASX-listed Airtasker, and other platforms such as Upwork and Fiverr), FLN stands apart because of:

- 1) The consistency of the core Freelancer offering in terms of pricing
- 2) The Enterprise division that services various professional and not for profit organisations
- 3) Escrow.com and Loadshift, which provide unique niches and abilities not possessed by competing companies (whether that competition is marketplaces, or companies like Paypal which facilitate low-volume transactions).

Airtasker (ASX:ART) is Australia-centric and is a labour-hire platform for manual household jobs. FLN is used by 70m+ users in over 200 countries, speaking 33 languages and transacting in 38 currencies. This creates a further competitive advantage in the form of a network effect.

Turning to other competitors, Fiverr is not a marketplace in the sense that Freelancer is, where freelancers have to bid for tasks. Fiverr is essentially a platform enabling the traditional professional services model. It has less flexibility for buyers and sellers compared to Freelancer where the payment is made once the job is completed. And as for Upwork, it is US centric, and tends to be suited for more larger and complex jobs.

FLN has prestigious clientele

FLN boasts a rich list of clients. Since 2015, the Enterprise division has worked with NASA for crowdsourcing solutions to the complex problems faced by astronauts on the cutting-edge space exploration technology. Through Freelancer Enterprise, NASA witnessed huge costs savings of 80%-99% when compared with traditional cost methods. The solutions were also implemented 30% faster than standard agencies and vendors. The relationship is getting stronger by the year - in 2023, the company won 8 new task orders and managed 12 projects.

Another is Professional services firm Deloitte. FLN has a tailored version of its MyGigs platform that Deloitte uses. It is a self-service short term staffing application connecting the company's internal talent pool to open up project opportunities with the objective of creating a number one remote talent experience. Deloitte is likely to rely more heavily on IT freelancers than it did before or during the COVID-19 pandemic. The platform enlists freelancers with specific skills across a diverse range of capabilities including AI and analytics. Deloitte consultants can hire freelancers, manage projects, and process payments at scale with the SAP Fieldglass integration. Over 50,000 consultants from Deloitte have already been onboarded to the platform and more will come in CY24 as the platform is expanded to additional business units.



FLN achieved positive EBITDA in FY23, recorded positive operating cash flow of \$1.9m, and made a Net Profit Before Tax of \$0.2m.

Freelancer’s FY23 results

FLN released its results for FY23 last week (Figure 2) – the 12 months to 31 December 2023. FY23 marked the second straight year that the company recorded Gross Merchandise Value of over \$1bn, with \$1.02bn. \$888.6m of this (or 87%) came from Escrow.com. Although the company’s GMV for the full FY23 is lower than in FY22, there was impressive growth in the December quarter (4Q23). Total GMV increased 13.2% to \$248.6m, driven by 15.2% growth from Escrow.com.

The group was able to record overall costs 18% lower than FY22 and achieved positive EBITDA in FY23. It recorded positive operating cash flow of \$1.9m, up from negative \$4.2m in FY22, and made a Net Profit Before Tax of \$0.2m, from negative \$7m in FY22.

Figure 2: FLN’s FY23 results

All figures in \$Am	Fourth quarter				Year to date			
	4Q23	4Q22	% pcp	% in USD	FY23	FY22	% pcp	% in USD
GMV*								
- Freelancer	32.8	32.3	1.6%	0.6%	132.1	128.4	2.9%	(1.8)%
- Escrow.com	215.8	187.3	15.2%	14.4%	888.6	943.3	(5.8)%	(10.7)%
Total	248.6	219.6	13.2%	12.3%	1020.7	1071.8	(4.8)%	(9.6)%
Net revenue								
- Freelancer	10.6	11.1	(4.4)%	(5.4)%	44.2	45.5	(2.8)%	(7.2)%
- Escrow.com	2.1	2.1	1.5%	0.8%	9.1	10.1	(9.9)%	(14.1)%
Total	12.7	13.2	(3.5)%	(4.4)%	53.3	55.6	(4.1)%	(8.5)%
Operating cash flow	(0.4)	(3.3)	87.5%	n.a.	1.9	(4.2)	144.9%	n.a.
Cash and cash equivalents	21.2	23.4	(9.4)%	n.a.	21.2	23.4	(9.4)%	n.a.

* Represents the underlying transaction value between third parties which is the basis for Freelancer’s revenue, i.e. the value of services performed (Freelancer); goods shipped (Loadshift) or goods / services exchanged (Escrow).

Source: Company, Pitt Street Research

FLN added 1.4m users and 201k new projects to the Marketplace segment (including all enterprise customers and Loadshift). The average project has 42 bids (a figure that has remained stable in the last 12 months), and the average entries per contest is 341 (up 11%).

The Loadshift division saw a 272% increase in awarded jobs (to 2,967) and 220% increase in quotes (to 73,017) during Q4. Loadshift’s GMV grew by 238%. Total kilometres posted were 17,510,304km, representing ~\$70m Notional Gross Load Value (NGLV) or \$280m on an annualised basis.

As noted above, Escrow.com recorded 15.2% GPV growth in Q4 of A\$217.9m, although it was down 6% on a full year-basis, at A\$897.7m. This can be attributed to the decline in venture capital investment in the tech sector that flowed through to the aftermarket domain market. FLN expects the market to rebound in 2024 as public interest in generational AI that was magnified in 2023 through the release of products such as ChatGPT and Gemini, increases.

Highlights for the Enterprise Program

The Innovation Challenges team ran several competitions during the year, capped off with Phase 1 of the US\$6m TARGETED Genome Editor Delivery Challenge, which came with US\$1.375m in total prize money awarded by the US National Institutes of Health.



Other highlights with the enterprise division included:

- Scaling its Global Fleet platform rapidly (especially in India), growing volumes 156% between over FY23 and by 25% in Q4 alone. To date it has completed over 44,000 jobs globally and is currently live and operational in 46 cities across 5 countries.
- Finalising negotiations with one of the world's largest publicly traded oil and gas companies with their preferred managed service provider in the United States.
- Onboarding one of the leading beauty companies in the world, composing of several iconic brands. A pilot campaign is planned to be activated during the current quarter.
- Redesigning the Client Activation Program to ensure partners at all stages of growth are appropriately serviced.
- Progressing potential deals with several government Labor/Economic/Human Resource Ministries that are looking to grow freelancing in their jurisdictions as a key economic driver over the next 5-10 years. Two of these have reached the final stages of negotiation.

AI will drive growth in the Enterprise division

After several years of hype, 2023 was the year that generative AI started to become mainstream. During the year, FLN worked on the integration of AI into the Freelancer.com product. Among the innovations were:

- An overhaul of the job posting process to take advantage of enhanced personalisation via AI,
- Integration of AI tooling for use by freelancers,
- A new design for the job posting flow (resulting in new client conversion uplifts exceeding 5% during Q4).

Other UI/UX improvements were made to the platform too. Freelancer.com is already appealing enough as the world's largest online workforce. Granted, it may not have as many users as ChatGPT, but it is the largest AI-powered labour platform. It is the ideal platform for businesses of all sizes to take themselves to the next level and achieve their levels of success.

Escrow.com set for growth too

Considering Escrow.com, the aim is to widen its customer base by incorporating its checkout solution into a leading SaaS shopping cart platform, scheduled for launch in the second quarter of 2024. There have been product improvements as well as new and enhanced partnerships too – 3 new M&A marketplaces and brokers came onboard in Q4 alone, as well as one new global automotive marketplace.

Freelancer.com is the largest AI-powered labour platform.



We reiterate our valuation of A\$0.71 per share in a base case scenario and A\$0.93 per share in a bull case scenario.

Our valuation of Freelancer

In our July 2023 report, we valued Freelancer using a weighted average valuation methodology. Our base case value of A\$0.71 per share has been derived using a weighted average valuation methodology, which assigns equal weight to our relative valuation and our DCF calculation (Figure 3). Our bull case calculation results in a valuation of A\$0.93 per share. We reiterate our previous valuation.

Figure 3: Blended Valuation of Freelancer

FLN Valuation (A\$ m)	Base Case	Bull Case
Enterprise Value (A\$ m)	306.4	391.0
Net cash (debt)	18.2	31.7
Minority Interest	(3.7)	(3.7)
Other Investments	-	-
Equity value (A\$ m)	320.9	419.0
Diluted Shares (m)	451.7	451.7
Implied price (A\$)	0.710	0.927
Current price (A\$)	0.170	0.17
Upside (%)	317.6%	445.3%

Estimates: Pitt Street Research

Catalysts for re-rating of Freelancer

- Addition of new collaborative features
- Synergies from collaborations and partnerships
- Successful commercialisation of new features
- Increased revenue growth prospects from an expansion in the global online freelance marketplace and high-value online transaction segments.

Key risks

The main risks that we see facing FLN as a company and listed stock include:

- **Execution risk:** Majority of the future growth for Freelancer is expected to come from the addition of new features and partnerships across its three platforms. Any interruption in expansion of service portfolio and difficulty in commercialising the newer features will jeopardise investor sentiment. This remains the key risk to the investment rationale.
- **Economic downturn in focused industries:** Freelancer is expected to generate a significant portion of revenue from high-value payment transactions and freight movement. Considering that volume in these businesses is directly dependent on economic activity, any related fundamental downturns here will hamper FLN's growth potential.
- **Competition:** As the global online freelance marketplace and high-value online transaction segment expands, the larger (regional and foreign) players will also increase presence in the region. Freelancer will have to counter their financial and technological power to attract/retain customers.
- **Forex risk:** Freelancer's earnings are mostly in USD. Currency fluctuations can impact the company's earnings in AUD. Fluctuations in the exchange rate will impact the company's revenue, margins and consequently, our valuation.



Appendix I – Analyst certification

Stuart Roberts, lead analyst on this report, has been an equities analyst since 2002.

- Stuart obtained a Master of Applied Finance and Investment from the Securities Institute of Australia in 2002. Previously, from the Securities Institute of Australia, he obtained a Certificate of Financial Markets (1994) and a Graduate Diploma in Finance and Investment (1999).
- Stuart joined Southern Cross Equities as an equities analyst in April 2001. From February 2002 to July 2013, his research speciality at Southern Cross Equities and its acquirer, Bell Potter Securities, was Healthcare and Biotechnology. During this time, he covered a variety of established healthcare companies, such as CSL, Cochlear and Resmed, as well as numerous emerging companies. Stuart was a Healthcare and Biotechnology analyst at Baillieu Holst from October 2013 to January 2015.
- After 15 months over 2015–2016 doing Investor Relations for two ASX-listed cancer drug developers, Stuart founded NDF Research in May 2016 to provide issuer-sponsored equity research on ASX-listed Life Sciences companies.
- In July 2016, with Marc Kennis, Stuart co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including Life Sciences companies.
- Since 2018, Stuart has led Pitt Street Research's Resources Sector franchise, spearheading research on both mining and energy companies.

Nick Sundich, lead analyst on this report, is an equities research analyst at Pitt Street Research.

- Nick obtained a Bachelor of Commerce/Bachelor of Arts from the University of Sydney in 2018. He has also completed the CFA Investment Foundations program.
- He joined Pitt Street Research in January 2022. Previously he worked for over three years as a financial journalist at Stockhead.
- While at university, he worked for a handful of corporate advisory firms.

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