

## Steadfastly moving ahead

Freelancer Limited (ASX:FLN) offers a plethora of unique marketplace service platforms, encompassing the entire spectrum of business operations, labour, payment, and freight movement. As indicated in the July 2023 initiation report, it operates the world's largest freelancing and crowdsourcing marketplace, measured by the total number of users and jobs posted. It serves as a game-changer for the needs of entrepreneurs, small businesses, and large organisations.

### Freelancer's labour business achieves some key milestones

Freelancer's labour market solutions encompass the Freelancer platform and the Enterprise Solutions division. A significant shift in the Freelancer marketplace was recently observed, with users globally adopting AI tools. It serves as a platform where businesses can seek AI consultants to achieve transformative results through AI. The Enterprise Solutions division has achieved significant milestones, including revamping its sales leadership, establishing a partnership with Alibaba, securing five task orders from NASA, and expanding its Global Fleet services to 32 cities.

### Escrow.com - a unique payment system for high value transactions

Escrow.com has demonstrated a consistent growth trajectory, although it experienced a decline from its peak levels in 2021. Additionally, Escrow.com is currently working on completing an integration with a major player in the shopping cart industry. This initiative underscores the company's commitment to developing a product that enhances the user experience, and it emphasises a customer-centred approach to the design and flow of transactions.

### Robust momentum registered by Loadshift

The Loadshift business experienced a robust 39% increase in GMV on a quarter-on-quarter basis. During Q3 2023, Loadshift introduced new features aimed at enhancing the adoption of secure payments, which could benefit both shippers and carriers. These enhancements included an updated quoting form that allows carriers to specify dates and types of trucks, facilitating a quicker exchange of information and increasing award rates.

### Valuation range of A\$0.71–0.93 per share

We reiterate our valuation of Freelancer as first outlined in our 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 p.10 for more details on our valuation and key risks.

Share Price: A\$0.21

ASX: FLN

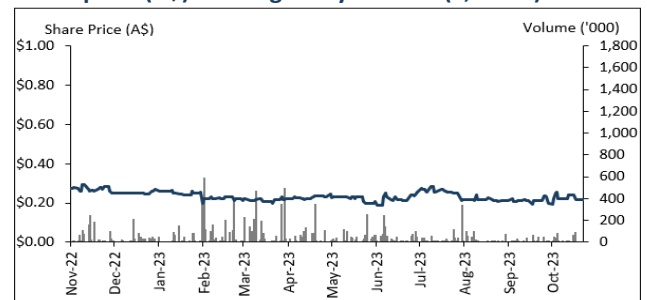
Sector: Technology

15 November 2023

Market Cap. (A\$ m)	92.4
# Shares outstanding (m)	450.9
# Share fully diluted (m)	452.1
Market Cap Full. Dil. (A\$m)	92.7
Free Float	16.8%
12-months high/low (A\$)	0.30 / 0.185
Avg. daily volume ('1000)	47.4
Website	<a href="https://www.freelancer.com/">https://www.freelancer.com/</a>

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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Analysts: Stuart Roberts, Nick Sundich

Tel: +61 (0)4 4724 7909

[Stuart.Roberts@pittstreetresearch.com](mailto:Stuart.Roberts@pittstreetresearch.com)

[Nick.Sundich@pittstreetresearch.com](mailto:Nick.Sundich@pittstreetresearch.com)



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## Re-Introduction to Freelancer

Founded in 2009, Freelancer (ASX: FLN) operates the world's largest freelancing and crowdsourcing marketplace in terms of users and jobs posted. As outlined in our initiation report, Freelancer is positioning itself as the 'Amazon of services,' with the aim of providing a diverse and interconnected range of solutions. The company offers a comprehensive bouquet of holistic solutions that address various aspects of business operations. Freelancer operates through three primary business segments: labour, payments, and logistics. These segments encompass a broad and horizontal range of service offerings in high demand by both consumers and enterprises.

## Paradigm shift witnessed in FLN's labour Business

The company's labour business is conducted through Freelancer and Enterprise division.

### I. Freelancer

**Freelancer** is an online services marketplace and is the world's largest, offering on-demand, cost-effective, and scalable cloud workforce solutions. It operates the largest freelancing and crowdsourcing platform globally, with over 69 million registered users and a substantial number of job postings. This platform is a game-changer for entrepreneurs, small businesses, and large organisations, enabling them to turn their ideas into reality by facilitating the creation of innovative products and services. Freelancer provides an integrated suite of tools for effective management of the on-demand cloud workforce, ensuring seamless accessibility across desktop, tablet, and mobile devices. Jobs can be posted as projects, categorised under outsourcing, or as contests within the crowdsourcing model.

### II. Enterprise Division

Access to the labour cloud economy is made possible through Freelancer's **Enterprise division**, which offers a significant sustainable competitive advantage to global organisations — unparalleled access to talent. It allows for seamless augmentation and integration of a virtual workforce, i.e. support service providers. By utilising the platform, internal workforce utilisation can be optimised, and approved talent clouds can be accessed effortlessly, ensuring both high quality and scalability. Through this platform, global organisations can serve their end clients in every corner of their service domain area without worrying about recruiting full time employees.

The Enterprise Services segment is primarily conducted through two platforms: MyGigs and Global Fleet Services. FLN's Tournament Lab Challenges with NASA are also a part of this segment.

### A. MyGigs platform

MyGigs is a Deloitte branded version of the Freelancer InSource platform which is tailored to address the needs of Deloitte practitioners and tightly integrated with SAP Fieldglass. 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. The MyGigs platform forms a flagship deployment of Freelancer Enterprise's InSource product solution. The platform connects the internal platform to the external Freelancer cloud workforce.

*Freelancer owns and operates one of the world's largest online marketplaces for outsourcing, freelancing and crowdsourcing services*

*MyGigs is a self-service short term staffing application which connects the company's internal talent pool with the aim of creating a number one remote talent experience*



## B. Global Field Services

Freelancer expanded its major engagement with a global technology leader in computer and printer technology across multiple countries for building of a disruptive and elastic global workforce powered by freelancers. The company also made fast strides in its long-standing collaboration focussed product strategy. This is likely to pave the way for higher volumes across all markets and provide a standardised and single global solution. Additionally, an expansion in order volumes has also been witnessed due to technical integration directly into the work management system.

### **Escrow.com – a highly secure payment platform for high-value transactions**

Despite there existing many payment methods, Escrow.com is a unique payment system for large value transactions. Escrow.com, the world's largest and only multi-jurisdictional licensed online escrow company, is the trusted provider of secure online payment and transaction management services. With over US\$6.5bn in secured transactions, Escrow.com ensures the safety and integrity of online transactions for both consumers and businesses.

Freelancer ensures the safety and security of transactions by securely holding the buyer's payment in a trust account until the entire transaction is completed. *From a counterparty risk perspective, Escrow.com is the most secure payment method for transactions and a win-win for both the buyer and the seller.* Both are safeguarded buyer and seller are safeguarded with the funds kept escrowed until conditions to the deal, including the all important receipt of the goods in question, have been satisfied.

### **Loadshift – a robust online freight marketplace**

As its third business Freelancer operates Loadshift, Australia's largest online heavy haulage freight marketplace within the online freight marketplaces sector. Established in 2007, Loadshift is a pioneer in the digital freight industry, revolutionising connections between freight owners and transport operators. The platform serves as a go-to marketplace, facilitating reliable transportation solutions for a wide range of needs, from palletised freight to oversized loads like cars and dozers. Loadshift handles freight volume requests of >A\$120m annually.

Loadshift follows the same principles as Freelancer's other platforms, streamlining the deal process by carefully vetting operators, providing competitive quotes, ensuring reliability and quality, tracking cargo at every kilometre of the journey and securely holding payments until the job is completed. Loadshift caters to the major markets of mining, infrastructure, construction and international shipping industries.

***Loadshift is Australia's largest online heavy haulage freight marketplace connecting freight owners with transport operators***



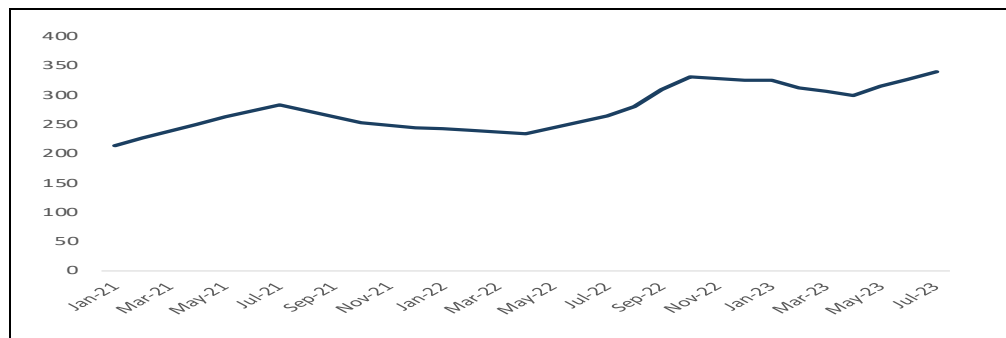
## A Glance at FLN’s latest quarter

In Q3 2023, Freelancer's Gross Merchandise Volume (GMV) declined 3% year-on-year to A\$222.3m; however, the company still achieved a positive operating profit across its three business segments.

## Freelancer achieved a strong increase in GMV

Freelancer showed robust growth in Q3 2023, with an 8.4% year-on-year increase in GMV to A\$34.1m. The platform welcomed 1.6 million new users and 208,000 new projects. The average project size also increased by 1.9% year-on-year. Liquidity on Freelancer remained strong, with an average of 43 bids per project and an average of 335 entries per contest, marking a 20.5% year-on-year increase. Freelancer contests ranges from A\$10 to A\$10m (Figure 1).

Figure 1: Average contest entries showed a robust increase in Q2 2023



Source: Company, Pitt Street Research

In Q3 2023, Freelancer achieved significant milestones. During the COVID-19 pandemic, all platforms saw an increase in fraudulent actors posting projects to deceive freelancers by taking them offsite. To address this issue, the company removed several categories from the marketplace and implemented checks to fulfil its goal of eliminating all spam sources. This represents a remarkable improvement in terms of quality, with spam levels now at their lowest point in at least a decade.

## Adoption of AI tools to drive a shift in the Freelancer marketplace

Recently, a significant shift in the Freelancer marketplace is being witnessed, with users adopting AI tools globally (Figure 2). This can be witnessed in areas ranging from copywriting, design, translation and video production. A step change up in skills through AI along with the majority of talent from low cost geographies is fuelling an enhancement in the company’s workforce. One can also approach software development much quicker; and at higher quality and cost through AI. A case in point can be seen in the fact that illustrations which used to take 20-40 hours for delivery can now be produced by freelancers in a fraction of the time at a higher level of quality than before.

Jobs in copywriting and design also witnessed an increase over the past quarters. One of the key reasons attributable to an increase in jobs is that when a small business owner understands what can be done but doesn’t have the time to do the work himself, he can get someone to do the work for him.

*AI tools are likely to boost value and competitiveness and Freelancer marketplace through an increase in the pool of skilled labor*

We believe that Freelancer is the place where AI consultants can be sought to achieve business transformation by using AI.

Figure 2: Freelancer’s key near term strategy lies in the following

Strategy	Details of the strategies
<b>Personalisation to drive core marketplace conversion through AI</b>	<ul style="list-style-type: none"> <li>Personalisation is a key pillar of the product team’s strategy for 2023, with a focus on the utilisation of recent technological advancements in AI for driving substantial improvements in conversion</li> </ul>
<b>Collaborative features to drive retention, engagement and growth</b>	<ul style="list-style-type: none"> <li>A new feature has been introduced to allow freelancers to create multiple profiles to help them choose a more personalised profile for their bids. This feature was well received by the company’s freelancers mainly in the power-user segment.</li> </ul>
<b>Improving acquisition through organic channels</b>	<ul style="list-style-type: none"> <li>Search Engine Marketing (SEM) profitability has reached all-time highs. Profitability is approaching a 1-year payback time on advertisement spending. This has been driven by enhanced on-page conversion and bidding strategy optimisation. With this, the multi-year effort on improving paid advertising is completed with transition of the team’s efforts to organic channels</li> </ul>
<b>Taking UX and design to the next level</b>	<ul style="list-style-type: none"> <li>Freelancer’s design team has continued to deliver substantial improvements in the UI, UX and visual design of the website and applications. By the end of 2023, Freelancer aims to build consistency from many years of work through overhaul of the website from the front end and getting consistent designs ready with the aim of developing delightful products.</li> </ul>

## Strong revenue growth registered in the Enterprise division in September

*Freelancer’s Enterprise division recorded strong revenue growth in September owing to progress made with Deloitte, NASA and a globally significant computer company*

Revenue growth in the Enterprise division remained flat on a year-on-year basis in Q3 2023 owing to a leadership transition and a minor slowdown in corporate business during Northern Hemisphere summer holidays. Nonetheless, the company registered robust growth in September with revenue increasing more than 30% between August and September. The growth was mainly attributable to Deloitte, NASA and a globally significant computer company. The Enterprise division made strong progress in refining operational strategies, fostering meaningful collaborations, and enhancements in platform functionalities to achieve wider market reach and improved user engagement (Figure 3).



Figure 3: Key milestones achieved by the Enterprise division

Milestones achieved	Details of the milestones achieved
<b>Revamping sales leadership</b>	Under the new leadership of David Lane, sales leadership is streamlining and embedding best practices across reorganisation of the sales force, activation processes and account management. These refinements are likely to drive transformative improvements.
<b>Major Chinese Retailer Partnership</b>	Freelancer onboarded one of the largest online Chinese retailers boasting of A\$28bn worth of revenue. The retailer selected Freelancer to establish a global contingent workforce through recognition of the company’s prowess in Open Talent
<b>Enterprise Contest Platform</b>	The Enterprise platform was enhanced through the addition of detailed project guidelines for clients, management of timelines for long-running contests, distribution of tiered and bonus prizes to encourage more greater participation by freelancers and enhanced contest notifications. The upgrades not only cater to NASA but also encourage other enterprises to host contests on the Freelancer platform. The company’s collaboration with Deloitte further aids these enhancements.
<b>Government engagements</b>	The company’s team delivered a productive quarter with NASA engagements through the launch of the NASA Microgravity Tank Venting Innovation Challenge, securing of five NASA task orders (targeted at detection of small space debris, microgravity operations, urban air taxis, space exploration and open-source code notifications) and concluding Phase I of the \$6m challenge the National Institute of Health.
<b>Global Fleet</b>	Significant developments have been witnessed in Freelancer’s partnership with a global computer company. These include extension of the company’s services to 32 cities globally by doubling work orders during the quarter.
<b>Robust Lead Generation</b>	Acquisition of clients is a key forte attributable to a solid framework for lead generation. The emphasis has also shifted towards activation and optimisation of utilisation
<b>Deloitte MyGigs</b>	The Deloitte MyGigs project has a dedicated newly hired activation team for the streamlining of processes as the company transitions to the activation phase

**Escrow.com’s growth remained fairly consistent with pre-pandemic levels**

In Q3 2023, Escrow.com experienced a 4.8% YoY decline in GMV reaching A\$188.2m. Despite the dip registered after reaching peak levels in FY 2021, Escrow’s growth trajectory remains consistent with pre-COVID trends.

**Escrow.com is focusing on a key product offering**

A key product that the company is currently working on is completion of an integration into a major shopping cart Software as a Service (SaaS) platform. The launch is slated for Q1 2024 marking a significant step towards diversification and providing enhanced services. Key priorities for the product include prioritisation of customer feedback, reducing the friction of end-to-end transaction flow, supporting more verticals and types of transactions, providing an enhanced partnership experience and automation of internal transaction processes.

We believe that this initiative underscores the company’s dedication to developing a product which takes the user experience to a higher level and embodies a customer-centric approach in its design and transaction flow. Along with augmenting transaction counts, this initiative also helps in the optimisation of the company’s conversion funnel in turn making the user journey more streamlined and effective.

*A key product that Escrow.com is working on is integration with a major player in the shopping cart industry*



### Escrow.com has entered into some key partnership agreements

Escrow.com actively pursued and supported a variety of marketplaces and brokers, including both existing and new partners. The company further strengthened its partnership with Acquire.com, the largest startup acquisition marketplace focused on profitable software companies. New partnerships were also established with Snagged.com, Etoxic Companies, and DomainAgents Platform in the domain name sector. Freelancer also made significant progress in partnerships with Trailers.com and SurplusRecord in the automotive and construction sectors. These online marketplaces specialising in automotive and construction equipment sales are two key verticals targeted by Escrow.com.

Escrow.com is also comarketing with major Chinese retailer Alibaba. Though these are currently early days, this collaboration is likely to pave the way to buy products from China (Figure 4 and Figure 5).

Figure 4: GMV of Freelancer showed a robust increase

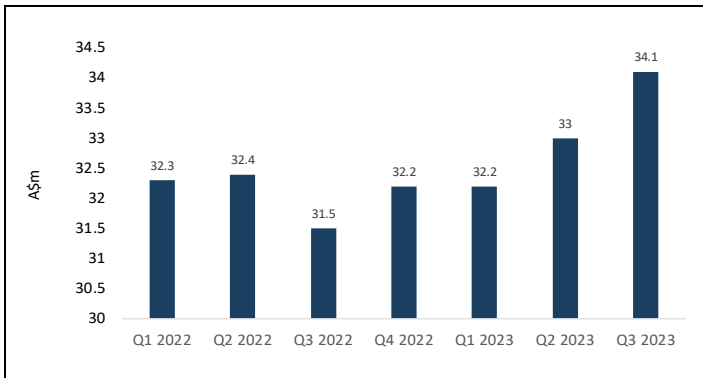
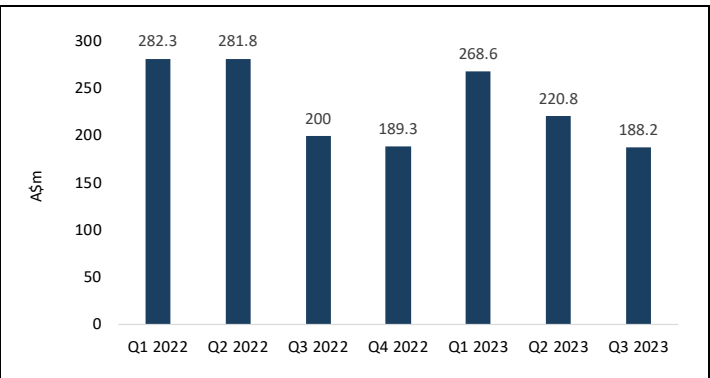


Figure 5: GMV of Escrow.com has maintained a fairly consistent trend



Source: Company, Pitt Street Research

### Robust growth momentum witnessed in the Loadshift business

The Loadshift business witnessed strong uplift in the GMV of 39% on a quarter-on-quarter basis. The average completed project size increased by 0.4% QoQ to A\$3662 while the average freight charge increased by 28% on a quarter-on-quarter basis to A\$5.56/km. Total loads posted increased by 4.6% on a quarter-on-quarter basis to 13,439. Total kilometres posted rose by 6.2% quarter-on-quarter to 18,828,260 representing ~75m of Notional Gross Load Value (NGLV) and an annual NGLV of ~A\$300m In Q3 2023, Loadshift introduced new features on its site to boost the adoption of secure payments which could benefit both shippers and carriers. Enhancements included an updated quoting form paving the way for carriers to specify dates and types of trucks, thereby facilitating speedier exchange of information and higher award rates. Carriers can also report load issues easily improving resolution times and the overall user experience (**Error! Reference source not found.**).





## Our valuation of Freelancer

In our July 2023 report, we had 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 6). Our bull case calculation results in a valuation of A\$0.93 per share. We reiterate our previous valuation.

Figure 6: Blended Valuation of Freelancer

FLN Valuation (A\$ m)	Base Case	Bull Case
<b>Enterprise Value (A\$ m)</b>	306.4	391.0
Net cash (debt)	18.2	31.7
Minority Interest	(3.7)	(3.7)
Other Investments	-	-
<b>Equity value (A\$ m)</b>	320.9	419.0
Diluted Shares (m)	451.7	451.7
<b>Implied price (A\$)</b>	<b>0.71</b>	<b>0.93</b>
Current price (A\$)	0.205	0.205
Upside (%)	246.3%	352.2%

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 while investing in Freelancer:

- **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 is mostly in USD. Currency fluctuations can impact the company's earnings in AUD. Fluctuations in the exchange rate will impact 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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