

Australian Equity Research

28 January 2016

BUY

unchanged

PRICE TARGET A\$2.17

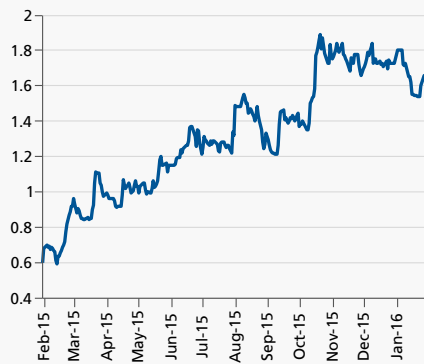
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Price (28-Jan) A\$1.80

Ticker FLN-ASX

52-Week Range (A\$):	0.52 - 1.89
Market Cap (A\$M):	813
Dividend /Shr (AUC):	0.0
Dividend Yield (%):	0.0
Enterprise Value (A\$M):	792
Cash (A\$M):	20.21
Long-Term Debt (A\$):	0.0

FYE Dec	2014A	2015E	2016E	2017E
Sales (A\$M)	25.9	38.1	58.4	76.3
Gross Profit (A\$M)	22.5	32.5	45.9	60.8
EBITDA (A\$M)	(2.0)	(1.4)	0.2	0.8
Net Income Adj (A\$M)	(1.2)	(0.7)	0.5	1.1
EPS Adj&Dil (AUC)	(0.28)	(0.16)	0.12	0.25



Source: FactSet

Canaccord Genuity (Australia) Limited was a Joint Lead Manager to the Placement of ~7.14 million shares at \$1.40 per share to raise A \$10 million and was Joint Lead Manager to the Share Sale of ~25 million shares to raise A\$35 million in August 2015.

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Company Update

Lets go... Escrow...

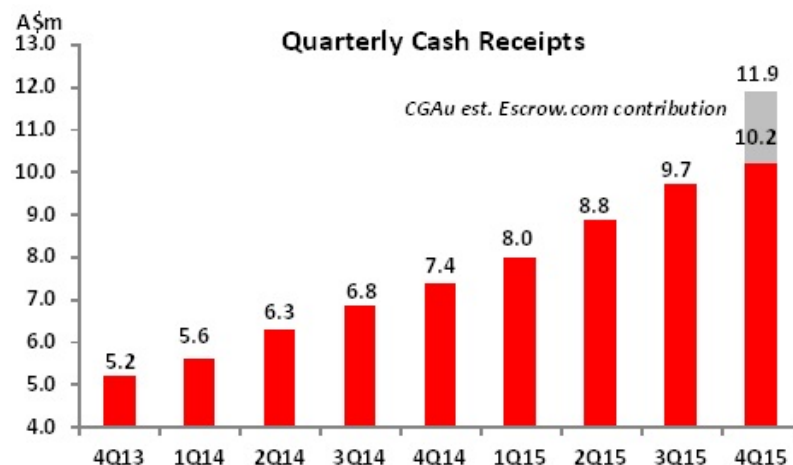
FLN has released its 4Q15 quarterly statement with FY15 cash receipts (a proxy of revenues) increasing +47% to \$38.4m (FY14 \$26.1m, FY13 \$18.8m). FLN cash receipts have historically married reported revenue, thus FLN's FY15 revenue result is likely to slightly exceed our current expectations.

The release illustrated the strong momentum continued throughout FY15, particularly in 4Q15, and we see upside risks now to our FY16 revenue forecasts with escrow.com forecast to be a "significant contributor to FY16 financial results" (CGAu est. just A \$7.2m). Excluding escrow.com, we estimate cash receipts from its core marketplace grew +38% yoy.

We will likely review our FY16 forecasts at FLN results on Feb. 23. We value FLN using a 2-stage DCF (12% WACC, 6% TGR).

Key takeaways from the quarter include:

- New projects and contest listings increased +47% to 2.3m, however following its restatement, filtered jobs posted (excl. spam, test projects unawardable projects etc.) increased +25% to ~1.7m. We expect "clean" jobs posted to exceed >2m project listings in FY16. Registered users also accelerated rapidly during the quarter to now exceed ~18m.
- FLN increased marketing spend to now stand at ~20% of cash receipts/revenues. This has historically trended 10%-13% of revenues and highlights a) marketing initiatives related to the recently acquired escrow.com business unit; and b) management comfort in the marketplace platform, with residual FCF now expected to be funnelled into marketing (could exceed >20% in future periods) over an uplift headcount.
- FLN posted a positive 4Q15 and FY15 operating cash-flow, however we view this as temporary. We expect the company to report negligible EBITDA in FY16.



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Freelancer (FLN)

Profit & Loss (\$m) - Dec YE	2013A	2014A	2015F	2016F	2017F
Payments	0.0	0.0	68.3	453.8	521.8
Marketplace	84.4	103.7	141.4	195.1	259.5
Gross Payment Volume	84.4	103.7	209.7	648.9	781.3
Sales Revenue	18.8	25.9	38.1	58.4	76.3
Gross Profit	16.4	22.5	32.5	45.9	60.8
EBITDA - Sustainable	12.0	16.4	24.3	34.5	46.7
Growth opex	10.5	18.4	25.7	34.3	45.9
EBITDA - Statutory	1.5	-2.0	-1.4	0.2	0.8
D & A	-0.2	-0.3	-0.2	-0.2	-0.2
EBIT	1.3	-2.4	-1.6	0.0	0.6
Net Interest Expense	0.1	0.2	0.4	0.8	0.9
NPBT	1.4	-2.2	-1.2	0.7	1.5
Tax expense	0.0	1.0	0.5	-0.2	-0.4
NPAT (Normalised)	1.4	-1.2	-0.7	0.5	1.1
Non-recurring	-0.9	-0.6	-1.0	-1.0	-1.0
NPAT (Reported)	0.5	-1.8	-1.7	-0.5	0.1
<i>Sustainable EBITDA Margin (%)</i>	<i>64.0%</i>	<i>63.3%</i>	<i>65.5%</i>	<i>67.5%</i>	<i>68.7%</i>
<i>Statutory EBITDA Margin (%)</i>	<i>8.0%</i>	<i>-7.8%</i>	<i>-3.7%</i>	<i>0.3%</i>	<i>1.0%</i>
<i>EBIT Margin (%)</i>	<i>7.0%</i>	<i>-9.1%</i>	<i>-4.2%</i>	<i>0.0%</i>	<i>0.7%</i>
<i>NPAT Margin (%)</i>	<i>7.4%</i>	<i>-4.7%</i>	<i>-1.9%</i>	<i>0.9%</i>	<i>1.5%</i>
<i>**December year end</i>					
Cash Flow (\$m) - Dec YE	2013A	2014A	2015F	2016F	2017F
Operating EBITDA	1.5	-2.0	-1.4	0.2	0.8
- Interest & Tax Paid	-1.3	-0.9	0.1	-0.4	-0.5
+/- change in Work. Cap.	0.0	2.9	5.9	7.0	9.9
- other	0.0	0.0	0.0	0.0	0.0
Operating Cashflow	0.2	-0.1	4.6	6.8	10.2
- Capex (PPE)	-0.3	-0.9	-0.5	-0.5	-0.5
- Capex (Intangibles)	-1.4	-0.4	0.0	0.0	0.0
- Aquisitions/divestments	0.0	-3.7	-10.0	0.0	0.0
Free Cashflow	-1.5	-5.1	-5.9	6.3	9.7
- Ord Dividends	0.0	0.0	0.0	0.0	0.0
- Equity/other	14.5	0.0	19.6	0.0	0.0
Net Cashflow	13.0	-5.1	13.6	6.3	9.7
Cash at beginning of period	9.7	24.4	20.2	34.8	41.1
+/- borrowings / other	1.7	0.9	1.0	0.0	0.0
Cash at end of period	24.4	20.2	34.8	41.1	50.8
Balance Sheet - Dec YE	2013A	2014A	2015F	2016F	2017F
Cash	24.4	20.2	34.8	41.1	50.8
Debtors	2.2	2.8	4.7	6.9	9.1
PPE	0.6	1.1	0.8	1.1	1.4
Intangibles	8.9	13.0	21.7	21.7	21.7
Other assets	1.4	3.2	4.4	4.4	4.4
Total Assets	37.4	40.2	66.4	75.2	87.4
Borrowings	0.0	0.0	0.0	0.0	0.0
Trade Creditors	18.3	21.8	29.6	38.8	50.9
Other Liabilities	0.7	1.6	1.8	1.8	1.8
Total Liabilities	19.0	23.4	31.5	40.7	52.8
NET ASSETS	18.4	16.8	35.0	34.5	34.6

Share Price \$ 1.80

Valuation ratios	2013A	2014A	2015F	2016F	2017F
EPS (cps)	0.3	-0.3	-0.2	0.1	0.2
EPS Growth (%)	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>
P/E (x)	564.6	-645.7	-1141.5	1480.0	727.5
P/E (x) - Sustainable	88.5	64.6	42.3	28.9	21.5
Enterprise Value (\$m)	762.1	766.3	751.7	745.4	735.7
EV/GPV	9.0	7.4	3.6	1.1	0.9
EV/Revenue	41.8	30.4	20.6	13.5	10.3
EV/Gross Profit	47.8	34.9	24.2	17.1	12.9
EV / Sustainable EBITDA (x)	63.4	46.7	30.1	18.9	14.0
EV / Statutory EBITDA (x)	505.0	-377.7	-535.1	4258.9	955.2
EV / EBIT (x)	576.0	-323.7	-468.4	-29844.7	1290.2
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Balance Sheet ratios	2013A	2014A	2015F	2016F	2017F
Net Debt (cash)	-24.4	-20.2	-34.8	-41.1	-50.8
NTA per share (\$)	0.02	0.01	0.03	0.03	0.03
Price / NTA (x)	82.6	203.8	61.1	63.3	62.7
EFPOWA (m)	436.0	436.9	451.4	451.4	451.4
Interim Analysis	2H13A	1H14A	2H14A	1H15A	2H15E
Revenues	10.3	11.8	14.1	16.7	21.3
Gross Profit	9.0	10.4	12.2	14.6	17.9
EBIT	0.3	-1.0	-1.4	-1.0	-0.6
EBIT margin (%)	2.6%	-8.5%	-9.7%	-5.7%	-3.0%
DPS	0.0	0.0	0.0	0.0	0.0
Assumptions	2013A	2014A	2015F	2016F	2017F
GPV Growth	66%	23%	102%	209%	20%
GP Margins	87%	87%	85%	79%	80%
Operating Expenses growth	75%	65%	38%	35%	31%
Take-rate	22.3%	25.0%	26.2%	26.2%	26.2%
Assumptions	2013A	2014A	2015F	2016F	2017F
Payments	-	-	1.1	7.3	8.3
FLN Marketplace	18.8	25.9	37.0	51.1	68.0
Revenue	18.8	25.9	38.1	58.4	76.3
Payments	0.0	0.0	0.3	1.5	1.7
FLN Marketplace	-1.2	-2.0	-1.7	-1.3	-0.9
EBITDA	-1.2	-2.0	-1.4	0.2	0.8
Board of Directors / Substantial Shareholders					
Board of Directors	Shareholding			%	
Matt Barrie - CEO & Chairman	191.4			42.4%	
Simon Clausen - Non Executive director	156.1			34.6%	
Darren Williams - CTO	11.1			2.5%	
Description					
Freelancer is the world's largest freelancing, outsourced services and crowdsourcing marketplace. Freelancer connects small business, consumers, startups and entrepreneurs who need things done with a global workforce of skilled online freelancers who are looking for jobs. Founded in 2009 it now was over 16m users from over 180 countries.					

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Target Price / Valuation Methodology:

Freelancer Limited - FLN

We value FLN using a 2-stage DCF methodology using a 12% discount rate and 6% terminal growth rate.

Risks to achieving Target Price / Valuation:

Freelancer Limited - FLN

The key investment risks for Freelancer include: User base risk – Scale and market domination is the key. We expect management will continue to invest heavily in maintaining its market leadership position, however how much cash it plans to burn is unknown. Acquisition and integration risk – Freelancer is a serial acquirer and integrator of internet websites, therefore the risk is that management buys websites that provide no synergistic benefits to its shareholders or its current operations. Board of Directors – The company currently has no independent directors on the board. Technology risk – As with all internet based companies, there is a risk the company's technology could become redundant and replaced by new market entrants.

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Global Stock Ratings (as of 01/28/16)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	652	69.66%	35.12%
Hold	255	27.24%	12.55%
Sell	29	3.10%	3.45%
	936*	100.0%	

*Total includes stocks that are Under Review

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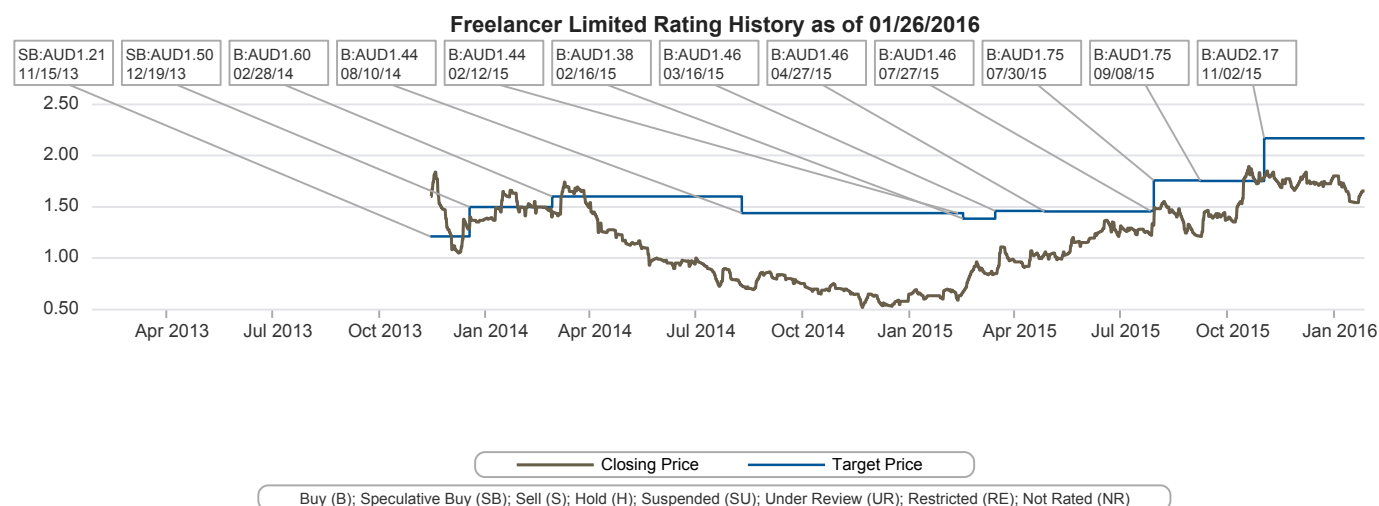
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