

Australian Equity Research

2 August 2016

BUY

unchanged

PRICE TARGET A\$2.13↓

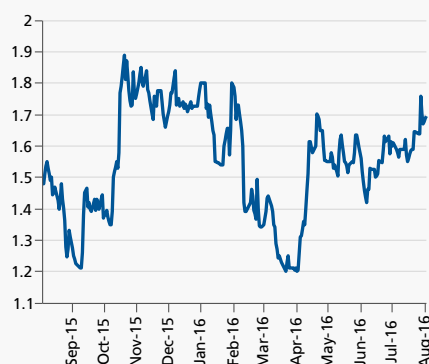
from A\$2.21

Price (3-Aug) A\$1.70

Ticker FLN-ASX

52-Week Range (A\$):	1.20 - 1.89
Market Cap (A\$M):	774
Dividend /Shr (AUC):	0.0
Dividend Yield (%) :	0.0
Enterprise Value (A\$M):	739
Cash (A\$M):	35.1
Long-Term Debt (A\$M):	0.0

FYE Dec	2014A	2015A	2016E	2017E
Sales (A\$M)	25.9	38.4	58.1↓	77.4↓
Previous	25.9	38.4	60.0	79.7
Gross Profit (A\$M)	22.5	33.3	50.0	66.9
EBITDA (A\$M)	(2.0)	(2.0)	2.6↑	6.2↑
Previous	(2.0)	(2.0)	(1.3)	0.1
Net Income Adj (A\$M)	(1.2)	(1.5)	2.2↑	5.2↑
Previous	(1.2)	(1.5)	(0.6)	0.6
EPS Adj&Dil (AUC)	(0.28)	(0.33)	0.47↑	1.14↑
Previous	(0.28)	(0.33)	(0.12)	0.14



Source: FactSet

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Lowering Target Price

Sustainable and profitable growth

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.

Freelancer (FLN) reported in 1H16 that was marginally below our revenue (A\$26.2m vs. CGAu est. A\$28.1m) and gross profit (A\$22.7m vs. A\$24.2m) estimates. However, given a more modest increase in expenses, the group reported better than expected EBITDA of A\$0.5m (CGAu est. -\$0.7m). FLN continues to cycle strong revenue growth (56% vs. 1H16, 30% organically), and is now experiencing positive operating jaws guiding investors to an "inflection point in profitability" and thus future cash flows.

Earnings revisions: FY16 and FY17 revenue each revised down 3%, but earnings revised upwards.

FLN continues to invest heavily in both divisions during the period, flagging 1,460 (1Q16: 810) incremental platform improvements, new product releases and enhancements to its marketplace business and 380 (1Q16: 200) for the Escrow.com business unit.

The **Freelancer.com** marketplace reported revenue of A\$21.8m (CGAu A\$23.2m) which was an increase of +30% on 1H15. Adjusting for deflation in average project size (-4.1%) and slight appreciation of the AUD, we estimate the result was just below FLN historical growth rate. Similar to 1Q16, the result illustrated liquidity on the platform – which continues to accelerate, reaching historic levels for the number of bids on projects (~3.1m in June) and average number of bids on the project in the first hour (15).

The company continues to incorporate various currency and payment methods onto the marketplace, with mobile interaction reaching record levels (82% of projects touch mobile). Membership refinements and continued investment in its local job product offering (avg. 9 bids per project and 65% of projects receive a bid within one hour) should aid continued growth in 2H16.

The 1H16 period saw the first full half year contribution of **Escrow.com**, with the company realising financial gains on the various initiatives deployed over the previous 9mths. The business reported revenue of A\$4.3m (CGAu est. A\$5.0m) which was an increase of +18% on the pcp (constant currency), and well ahead of the 5yr CAGR of +13%. FLN has redesigned and deployed a new scalable technology platform, which is to be followed by funnel optimisation and a brand awareness marketing campaign. We expect escrow.com to see an inflection in GTV as it engages with new partners and opens its API to other global marketplaces.

FLN is a well-capitalised (cash balance \$35.2m), fast growing (52% 6yr revenue CAGR), disruptive stock (FLN offers income opportunities to workers in developing countries where 5b people survive on less than \$10 per day) that is likely to become a major player in the outsourced services marketplace (US\$5tn potential TAM) in future periods. We reiterate our BUY recommendation; however, following a slight reduction to our gross profit forecasts (impacts latter year growth profile), our target price reduces to \$2.13 per share (from \$2.21), based on our DCF valuation methodology.

Figure 1: Forecasts for Freelancer

Freelancer (FLN)						Share Price \$ 1.70					
Profit & Loss (\$m) - Dec YE	2014A	2015A	2016F	2017F	2018F	Valuation ratios	2014A	2015A	2016F	2017F	2018F
Payments	0.0	91.1	632.8	759.4	911.3	EPS (cps)	-0.3	-0.3	0.5	1.1	3.5
Marketplace	103.7	138.2	177.7	241.7	321.5	EPS Growth (%)	nmf	nmf	nmf	140%	206%
Gross Payment Volume	103.7	229.3	810.5	1001.1	1232.7						
						EV/Gross Profit	33.4	22.3	14.7	10.8	8.0
Sales Revenue	25.9	38.4	58.1	77.4	101.4	P/E (x)	-609.9	-508.2	358.6	149.7	49.0
Gross Profit	22.5	33.3	50.0	66.9	87.9	P/E (x) - Sustainable	63.5	44.9	33.1	22.8	16.3
EBITDA - Sustainable	16.4	23.3	31.4	45.3	63.5	EV / Sustainable EBITDA (x)	45.9	31.8	23.4	15.9	11.1
Growth opex	18.4	25.3	28.8	39.2	43.4						
EBITDA - Statutory	-2.0	-2.0	2.6	6.2	20.1	Enterprise Value (\$m)	753.5	741.4	734.3	722.0	704.1
D & A	-0.3	-0.5	-0.8	-0.2	-0.2	EV/GPV	7.3	3.2	0.9	0.7	0.6
EBIT	-2.4	-2.6	1.8	6.0	19.9	EV/Revenue	29.1	19.3	12.6	9.3	6.9
Net Interest Expense	0.2	0.2	0.7	0.9	1.2	EV / Statutory EBITDA (x)	-371.3	-363.3	280.2	116.7	35.0
NPBT	-2.2	-2.4	2.5	6.9	21.1	EV / EBIT (x)	-318.3	-290.5	403.4	120.6	35.4
Tax expense	1.0	0.9	-0.4	-1.7	-5.3	DPS (cps)	0.0	0.0	0.0	0.0	0.0
NPAT (Normalised)	-1.2	-1.5	2.2	5.2	15.8						
Non-recurring	-0.6	-1.3	-1.0	-1.0	-1.0	Balance Sheet ratios	2014A	2015A	2016F	2017F	2018F
NPAT (Reported)	-1.8	-2.8	1.2	4.2	14.8	Net Debt (cash)	-20.2	-32.2	-39.4	-51.6	-69.5
						NTA per share (\$)	0.01	0.02	0.03	0.04	0.07
Sustainable EBITDA Margin (%)	63.3%	60.7%	54.1%	58.6%	62.6%	Price / NTA (x)	192.5	69.4	64.7	48.0	25.0
Statutory EBITDA Margin (%)	-7.8%	-5.3%	4.5%	8.0%	19.8%	EFPOWA (m)	436.9	451.4	455.1	455.1	455.1
EBIT Margin (%)	-9.1%	-6.6%	3.1%	7.7%	19.6%						
NPAT Margin (%)	-4.7%	-3.9%	3.7%	6.7%	15.6%	Interim Analysis	2H14A	1H15A	2H15A	1H16A	2H16E
**December year end						Revenues	14.1	16.7	21.7	26.1	31.9
Cash Flow (\$m) - Dec YE	2014A	2015A	2016F	2017F	2018F	Gross Profit	12.2	14.6	18.7	22.7	27.3
Operating EBITDA	-2.0	-2.0	2.6	6.2	20.1	EBIT	-1.4	-1.0	-1.6	0.1	1.7
- Interest & Tax Paid	-0.9	-2.6	-0.9	-1.8	-5.1	EBIT margin (%)	-9.7%	-5.7%	-7.3%	0.6%	5.3%
+/- change in Work. Cap.	2.9	6.1	5.9	8.4	3.4	DPS	0.0	0.0	0.0	0.0	0.0
- other	0.0	0.0	0.0	0.0	0.0						
Operating Cashflow	-0.1	1.5	7.6	12.8	18.4	Assumptions	2014A	2015A	2016F	2017F	2018F
- Capex (PPE)	-0.9	-1.0	-0.5	-0.5	-0.5	GPV Growth (marketplace)	23%	33%	29%	36%	33%
- Capex (Intangibles)	-0.4	0.0	0.0	0.0	0.0	GPV Growth (payments)	na	na	34%	20%	20%
- Aquisitions/divestments	-3.7	-10.3	0.0	0.0	0.0	GP Margins	87%	87%	86%	86%	87%
Free Cashflow	-5.1	-9.8	7.1	12.3	17.9	Operating Expenses growth	65%	44%	34%	28%	12%
- Ord Dividends	0.0	0.0	0.0	0.0	0.0	Take-rate	25.0%	26.5%	27.0%	27.0%	27.0%
- Equity /other	0.0	19.5	0.0	0.0	0.0						
Net Cashflow	-5.1	9.8	7.1	12.3	17.9	Segment forecasts (\$m)	2014A	2015A	2016F	2017F	2018F
Cash at beginning of period	24.4	20.2	32.2	39.4	51.6	Payments	0.0	1.8	10.1	12.2	14.6
+/- borrowings / other	0.9	2.3	0.0	0.0	0.0	FLN Marketplace	25.9	36.6	48.0	65.3	86.8
Cash at end of period	20.2	32.2	39.4	51.6	69.5	Revenue	25.9	38.4	58.1	77.4	101.4
Balance Sheet - Dec YE	2014A	2015A	2016F	2017F	2018F	Payments	0.0	-0.1	-0.2	0.7	2.6
Cash	20.2	32.2	39.4	51.6	69.5	FLN Marketplace	-2.0	-1.9	2.8	5.5	17.5
Debtors	2.8	3.4	4.9	6.4	8.4	EBITDA	-2.0	-2.0	2.6	6.2	20.1
PPE	1.1	1.7	1.4	1.7	2.0						
Intangibles	13.0	23.9	23.6	23.6	23.6	Board of Directors / Substantial Shareholders					
Other assets	3.2	4.5	4.5	4.5	4.5	Board of Directors		Shareholding		%	
Total Assets	40.2	65.6	73.7	87.7	107.9	Matt Barrie - CEO & Chairman		191.4		42.1%	
Borrowings	0.0	0.0	0.0	0.0	0.0	Simon Clausen - Non Executive director		156.1		34.3%	
Trade Creditors	21.8	28.4	35.9	45.8	51.2	Darren Williams - CTO		11.1		2.4%	
Other Liabilities	1.6	2.3	2.3	2.3	2.3						
Total Liabilities	23.4	30.7	38.2	48.1	53.4						
NET ASSETS	16.8	34.9	35.5	39.7	54.5						

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 has over 16m users from over 180 countries.

Source: Company Reports, Canaccord Genuity estimates

Figure 2: CGAu segmental P&L drivers for Freelancer

P&L Breakdown		FY14	1H15	2H15	FY15	1H16	2H16	FY16	1H17	2H17	FY17	1H18	2H18	FY18
Payments GPV (Escrow.com)				91.1	91.1	274.0	358.8	632.8	372.1	387.3	759.4	446.5	464.7	911.3
Marketplace GPV		103.7	64.1	74.1	138.2	80.9	96.8	177.7	111.2	130.5	241.7	147.9	173.6	321.5
Total GPV	\$m	103.7	64.1	165.2	229.3	354.9	455.6	810.5	483.3	517.8	1001.1	594.4	638.3	1232.7
Growth	%	23%	29.5%	205%	121%			253%			24%			23%
Payments take-rate	%			2.0%	2.0%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
Marketplace take-rate	%	25.0%	26.2%	26.9%	26.5%	26.9%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
Payments Revenue				1.8	1.8	4.3	5.7	10.1	6.0	6.2	12.2	7.1	7.4	14.6
Marketplace revenue		25.9	16.7	19.9	36.6	21.8	26.1	48.0	30.0	35.2	65.3	39.9	46.9	86.8
Revenues	\$m	25.9	16.7	21.7	38.4	26.1	31.9	58.1	36.0	41.4	77.4	47.1	54.3	101.4
Growth	%	38%	42%	54%	48%	56%		51%			33%			31%
Payments Gross Profit	\$m			1.5	1.5	3.5	4.8	8.3	4.9	5.1	10.1	6.1	6.3	12.4
Marketplace Gross Profit	\$m	22.5	14.6	17.2	31.9	19.2	22.6	41.7	26.1	30.7	56.8	34.7	40.8	75.5
Gross Profit	\$m	22.5	14.6	18.7	33.3	22.7	27.3	50.0	31.1	35.8	66.9	40.8	47.1	87.9
GP Margin		87%	88%	86%	86.7%	87%	86%	86%	86%	86%	86%	87%	87%	87%
Operating Expenses	\$m	-24.6	-15.4	-20.0	-35.4	-22.2	-25.2	-47.4	-28.5	-32.2	-60.7	-31.9	-35.9	-67.8
Growth	%	65%			44%			34%			28%			12%
EBITDA (normal)	\$m	-2.0	-0.8	-1.3	-2.0	0.5	2.1	2.6	2.5	3.6	6.2	8.9	11.2	20.1
D&A	\$m	-0.3	-0.2	-0.3	-0.5	-0.4	-0.4	-0.8	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2
EBIT	\$m	-2.4	-1.0	-1.6	-2.6	0.1	1.7	1.8	2.4	3.5	6.0	8.8	11.1	19.9
Interest	\$m	0.2	0.1	0.1	0.2	0.1	0.4	0.7	0.4	0.5	0.9	0.5	0.6	1.2
NPBT	\$m	-2.2	-0.9	-1.5	-2.4	0.2	2.0	2.5	2.9	4.0	6.9	9.4	11.7	21.1
Tax (@25%)	\$m	1.0	0.4	0.4	0.9	0.1	-0.5	-0.4	-0.7	-1.0	-1.7	-2.3	-2.9	-5.3
NPAT (normalised)	\$m	-1.2	-0.5	-1.0	-1.5	0.4	1.5	2.2	2.1	3.0	5.2	7.0	8.8	15.8
Non-recurring	\$m	-0.6	-0.8	-0.5	-1.3	-1.2	0.153	-1	-0.5	-0.5	-1	-0.5	-0.5	-1
NPAT (reported)	\$m	-1.8	-1.3	-1.5	-2.8	-0.8	1.7	1.2	1.6	2.5	4.2	6.5	8.3	14.8
Valuation		2014	1H15	2H15	2015	1H16	2H16	2016	1H17	2H17	2017	1H18	2H18	2018
EFPOWA	m	437	447	451	451	455	455	455	455	455	455	455	455	455
EPS	cps	-0.3	-0.1	-0.2	-0.3	0.1	0.3	0.5	0.5	0.7	1.1	1.5	1.9	3.5
Mkt cap/GPV	x	7.3	5.8	2.2	3.2	1.0	0.8	0.9	0.8	0.7	0.7	0.6	0.6	0.6
EV/Revenue	x	29.1	22.2	17.1	19.3	14.1	11.5	12.6	10.1	8.7	9.3	7.6	6.5	6.9
EV/Gross Profit	x	33.4	25.4	19.8	22.3	16.3	13.4	14.7	11.7	10.1	10.8	8.8	7.5	8.0
EV/EBITDA	x	-371.3	-492.398	-288.0	-363.3	738.6	173.2	280.2	143.3	99.0	116.7	40.1	31.6	35.0
Net Debt/(cash)	\$m	-20	-31	-32	-32	-35	-39	-39	-45	-52	-52	-57	-70	-70
Mkt Cap	\$m	774	774	774	774	774	774	774	774	774	774	774	774	774
Enterprise Value	\$m	753	743	741	741	739	734	734	729	722	722	717	704	704

Source: Company Reports, Canaccord Genuity estimates

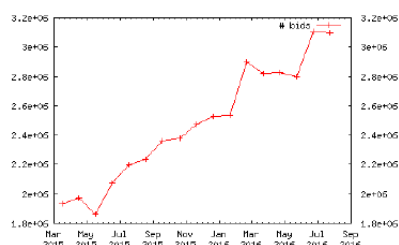
Figure 3: Breakdown of CGAu model

P & L Breakdown		FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Freelancer Payments (escrow.com)											
Gross Payment Volume	A\$m			91.1	632.8	759.4	911.3	1002.4	1102.6	1212.9	1273.5
Take rate	%			2.0%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
Payments Revenue	A\$m			1.8	10.1	12.2	14.6	16.0	17.6	19.4	20.4
Revenue growth	%				25%	20%	20%	10%	10%	10%	5%
Gross Profit Margin				81%	82%	83%	85%	85%	85%	85%	85%
Gross Profit				1.5	8.3	10.1	12.4	13.6	15.0	16.5	17.3
Opex				1.6	8.5	9.4	9.8	10.3	10.8	11.4	11.9
Opex Growth						10%	5%	5%	5%	5%	5%
Payments EBITDA	A\$m			-0.1	-0.2	0.7	2.6	3.3	4.2	5.1	5.4
EBITDA margin	%			-6%	-2%	6%	18%	21%	24%	26%	26%
Freelancer Marketplace											
Gross Payment Volume	A\$m	84.4	103.7	138.2	177.7	241.7	321.5	405.0	498.2	612.8	753.7
Effective Take rate	%	22.3%	25.0%	26.5%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
Marketplace Revenue	A\$m	18.8	25.9	36.6	48.0	65.3	86.8	109.4	134.5	165.5	203.5
Gross Profit Margin	%	87%	87%	87%	87%	87%	87%	87%	87%	87%	87%
Gross Profit	A\$m	(1) 16.4	22.5	31.9	41.7	56.8	75.5	95.1	117.0	143.9	177.1
Maintenance opex	A\$m	(2) 4.4	6.1	8.4	10.1	12.2	14.6	16.1	17.7	19.4	21.4
Growth	%		39%	38%	20%	20%	20%	10%	10%	10%	10%
EBITDA (ex growth opex)	A\$m	(1)-(2) 12.0	16.4	23.4	31.6	44.6	60.9	79.1	99.4	124.5	155.7
Sustainable EBITDA margins	%	64.0%	63.3%	63.9%	65.9%	68.4%	70.2%	72.3%	73.9%	75.3%	76.5%
Growth Opex	A\$m	(3) 13.3	18.4	25.3	28.8	39.2	43.4	54.7	67.3	82.7	101.8
Proportion opex - growth	%	75%	75%	75%	74%	76%	75%	77%	79%	81%	83%
Proportion of rev. reinvested	%	70%	71%	69%	60%	60%	50%	50%	50%	50%	50%
Reinvestment ROI	%		35%	39%	33%	33%	30%	23%	20%	20%	20%
Organic Gross Profit growth	%		3%	3%	3%	3%	3%	3%	3%	3%	3%
Reinvestment Gross Profit growth	A\$m		5.6	8.6	8.9	15.8	19.6	20.0	21.9	26.9	33.1
Organic Gross Profit growth	A\$m		0.5	0.7	1.0	1.4	2.0	2.6	3.3	4.0	5.0
Total Gross Profit uplift	A\$m		6.1	9.3	9.9	17.3	21.5	22.6	25.2	30.9	38.1
Marketplace EBITDA	A\$m	(1)-(2)-(3) -1.2	-2.0	-1.9	2.8	5.5	17.5	24.4	32.1	41.8	53.9
EBITDA margin	%			-5%	6%	8%	20%	22%	24%	25%	26%
Multiple analysis											
EV (pro-forma)	A\$m			741.4	734.3	722.0	704.1	675.6	639.2	592.5	533.3
EV/EBIT: Sustainable	x			32.5	23.6	16.1	11.2	8.2	6.2	4.6	3.3
EV/EBIT - Statutory	x		-	363.3	280.2	116.7	35.0	24.4	17.6	12.6	9.0
PER: Sustainable	x	(@ 25% tax rate)		44.9	33.1	22.8	16.3	12.5	9.9	7.9	6.4

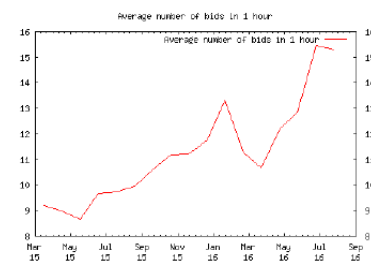
Source: Company Reports, Canaccord Genuity estimates

Figure 4: Improvement in marketplace liquidity

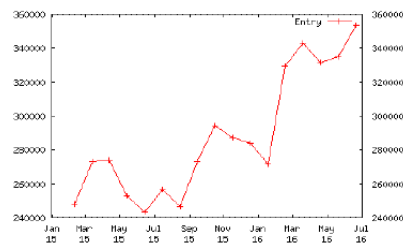
Number of bids on projects



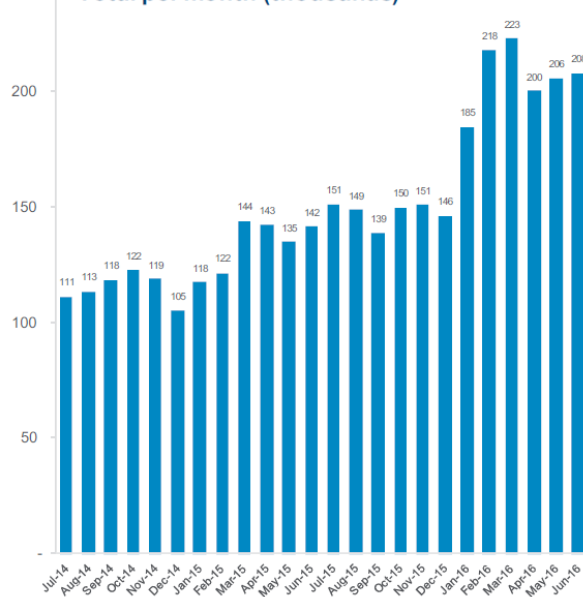
Average number of bids in 1 hour



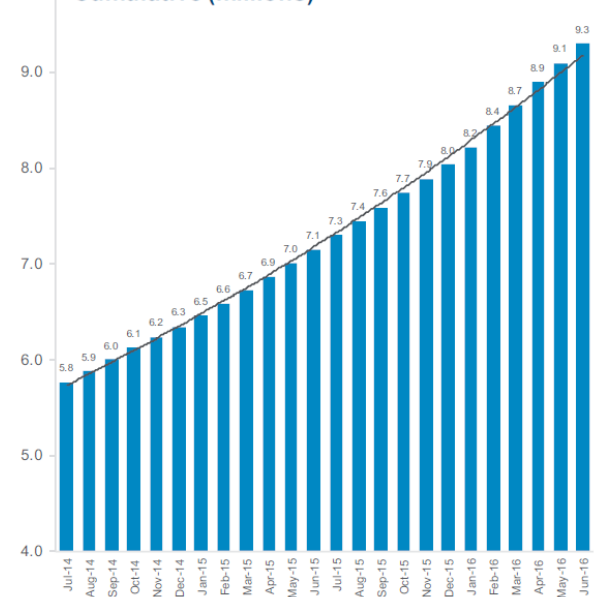
Number of entries in contests



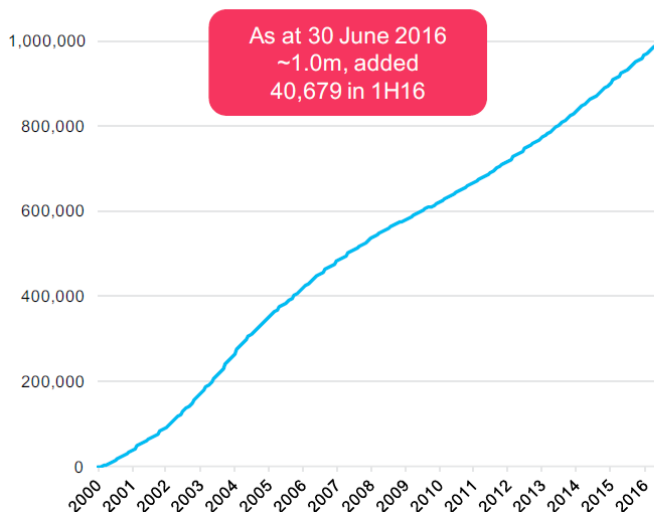
Total per month (thousands)



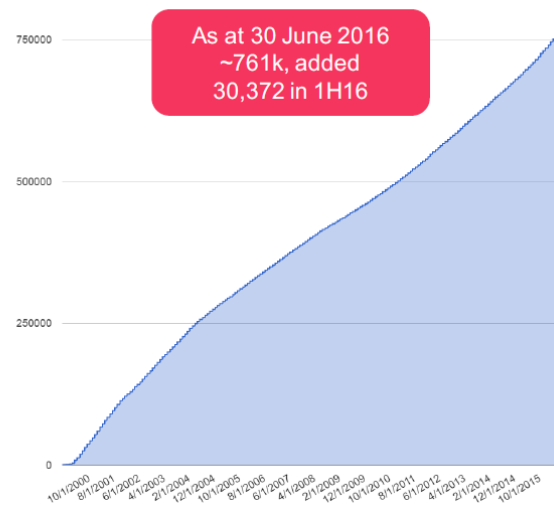
Cumulative (millions)



Total number of users



Total number of transactions



Source: Company Reports, Canaccord Genuity estimates

Appendix: Important Disclosures

Analyst Certification

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Investment Recommendation

Date and time of first dissemination: August 02, 2016, 20:51 ET

Date and time of production: August 02, 2016, 20:51 ET

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.

Distribution of Ratings:

Global Stock Ratings (as of 08/02/16)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	538	58.86%	34.76%
Hold	292	31.95%	19.52%
Sell	30	3.28%	13.33%
Speculative Buy	54	5.91%	72.22%
	914*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

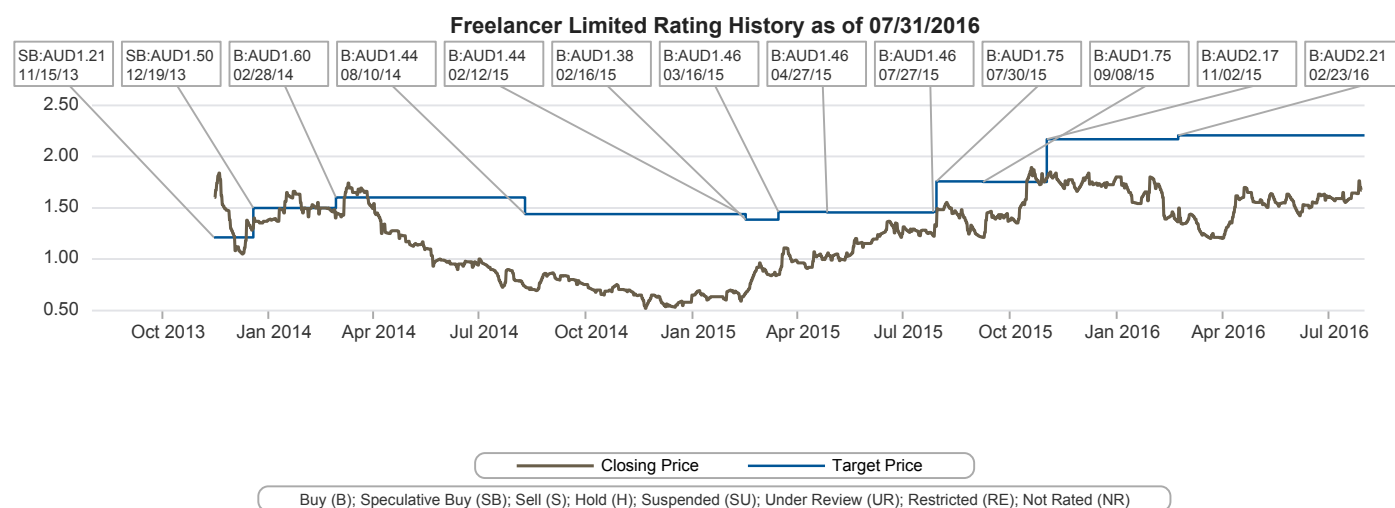
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