

Australian Equity Research

31 January 2017

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BUY

unchanged

PRICE TARGET A\$1.40↓

from A\$1.85

Price (1-Feb) A\$1.06

Ticker FLN-ASX

52-Week Range (A\$):	0.99 - 1.83
Market Cap (A\$M):	482
Dividend /Shr (AUC):	0.0
Dividend Yield (%) :	0.0
Enterprise Value (A\$M):	447
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	52.7↓	65.6↓
Previous	-	-	54.0	70.9
Gross Profit (A\$M)	22.5	33.3	45.5	56.8
EBITDA (A\$M)	(2.0)	(2.0)	0.7↑	1.1↓
Previous	-	-	(0.2)	2.4
Net Income Adj (A\$M)	(1.2)	(1.5)	0.2↑	0.6↓
Previous	-	-	0.0	2.2
EPS Adj&Dil (AUC)	(0.28)	(0.33)	0.05↑	0.1↓
Previous	-	-	0.01	0.5
Net Debt (Cash) (A\$M)	(20.2)	(32.2)	(34.8)↑	(42.7)↑
Previous	-	-	(37.0)	(45.8)



Source: FactSet

Priced intraday 1 February 2017

Lowering Target Price

Positive revenue revisions required for a re-rate

- FLN released its 4Q16 quarterly statement with FY16 cash receipts increasing +35% during the period to A\$51.8m (FY15: \$38.4m FY14 \$26.1m, FY13 \$18.8m). We suspect FLN FY16 revenues will closely marry its cash receipts figure (CGAu est. \$52.7m, prev fcst. \$54m) which is broadly in line with our estimates. The group reported FY16 OCF of \$4.5m due mainly to the negative working capital nature of the business and not reflective of EBITDA (CGAu est. \$0.7m).
- While not disclosed, we estimate the core **Freelancer.com** marketplace grew +25% organically during the period. While below historical trend growth, FY16 was impacted by a weak 3Q16 (SEO/infrastructure issues) with the 4Q16 appearing revert to more normal levels (figure 4).
- The company continues to invest in various funnel optimisation initiatives, new collaboration workflow tools, streamlined membership plans and improvements to its mobile offering (payments, video and group chat etc). When coupled with various other value added initiatives (Robin, etc.), we expect an improvement project conversion rates, average project size and repeat customers to the website. However, as >90% of FLN revenues are sourced offshore (largely USD) a stronger AUD continues to hamper its revenue performance.
- We estimate the recently acquired non-core **Escrow.com** business (acq. A\$10m) contributed ~A\$7m to the FY16 result and just A\$2.7m in 2H16. The implementation issues with escrow.com were well flagged last year following various change management issues, restructure of core technology stack and a material reduction in transactions of premium domain names by Chinese buyers. Investment is still required, in our view, with a relaunch of its API and new partnership agreements to swing the division to growth in 2H17.
- The company reports ~500 FTE's (Jun-16 469, Dec-15 440) with a increasing proportion allocated to product development/growth initiatives. We estimate ~50% of FLN's opex is allocated to growth initiatives (\$23m) driving a marginal ROI of >40% ($\Delta \text{gross profit} / \text{growth opex}_{t,t-1}$). Notably, a more efficient operating performance was evident in 4Q16 with the group modifying its marketing spend to just ~16% of group revenues (lowest since 2Q15). We expected this to maintain at current levels which aid profitability. However, as the major driver of FLN's revenue growth is projects posted (partially acquired through marketing initiatives) and the subsequent long tail of repeat purchases (>5x), we believe this marketing budget remains low by global standards.
- **We have slightly revised down our FY17E revenue estimates (-7%)** following a) deferral of growth for FLN's Escrow.com business into 2H17E (-\$1.5m, -2.1%), and b) a number of lower projects posted and higher AUD in FLN's core marketplace (-\$2.5m, -5%). We expect the core marketplace to grow at ~28% in FY17E with the primary driver being projects posted and improving conversion rates.
- Following various modelling adjustments and reduction to our growth forecasts in the medium term, we reduce our price target to A\$1.40ps (previously A\$1.85ps). Our price target is derived using a DCF methodology (12% disc. rate, 5% TGR). For a stock with negligible earnings in a market where investors are increasingly seeking value stocks, we believe a return to positive revenue revisions is required for the stock to re-rate.

Figure 1: Forecasts for Freelancer.com

Profit & Loss (\$m) - Dec YE	2014A	2015A	2016F	2017F	2018F
Payments	0.0	91.1	440.4	440.4	506.5
Marketplace	103.7	138.2	169.3	217.0	279.8
Gross Payment Volume	103.7	229.3	609.7	657.5	786.3
Sales Revenue	25.9	38.4	52.7	65.6	83.7
Gross Profit	22.5	33.3	45.5	56.8	72.6
EBITDA - Sustainable	10.3	14.9	20.1	27.5	38.3
Growth opex	12.3	16.9	19.4	26.4	34.0
EBITDA - Statutory	-2.0	-2.0	0.7	1.1	4.3
D & A	-0.3	-0.5	-0.8	-0.5	-0.5
EBIT	-2.4	-2.6	-0.1	0.6	3.8
Net Interest Expense	0.2	0.2	0.2	0.2	0.2
NPBT	-2.2	-2.4	0.1	0.8	4.1
Tax expense	1.0	0.9	0.2	-0.2	-1.0
NPAT (Normalised)	-1.2	-1.5	0.2	0.6	3.1
Non-recurring	-0.6	-1.3	-1.0	-1.0	-1.0
NPAT (Reported)	-1.8	-2.8	-0.8	-0.4	2.1
<i>Gross Profit Margin (%)</i>	<i>87.0%</i>	<i>86.7%</i>	<i>86.3%</i>	<i>86.6%</i>	<i>86.8%</i>
<i>Underlying Margin (%)</i>	<i>39.6%</i>	<i>38.7%</i>	<i>38.1%</i>	<i>41.9%</i>	<i>45.8%</i>
<i>EBIT Margin (%)</i>	<i>-9.1%</i>	<i>-6.6%</i>	<i>-0.2%</i>	<i>1.0%</i>	<i>4.6%</i>
<i>NPAT Margin (%)</i>	<i>-4.7%</i>	<i>-3.9%</i>	<i>0.5%</i>	<i>1.0%</i>	<i>3.7%</i>
**December year end					
Cash Flow (\$m) - Dec YE	2014A	2015A	2016F	2017F	2018F
Operating EBITDA	-2.0	-2.0	0.7	1.1	4.3
- Interest & Tax Paid	-0.9	-2.6	1.1	-1.0	-1.8
+/- change in Work. Cap.	2.9	6.1	2.7	8.3	8.0
- other	0.0	0.0	0.0	0.0	0.0
Operating Cashflow	-0.1	1.5	4.5	8.4	10.5
- Capex (PPE)	-0.9	-1.0	-2.3	-0.5	-0.5
- Capex (Intangibles)	-0.4	0.0	0.0	0.0	0.0
- Acquisitions/divestments	-3.7	-10.3	0.0	0.0	0.0
Free Cashflow	-5.1	-9.8	2.2	7.9	10.0
- Ord Dividends	0.0	0.0	0.0	0.0	0.0
- Equity/other	0.0	19.5	0.4	0.0	0.0
Net Cashflow	-5.1	9.8	2.6	7.9	10.0
Cash at beginning of period	24.4	20.2	32.2	34.8	42.7
+/- borrowings / other	0.9	2.3	-0.1	0.0	0.0
Cash at end of period	20.2	32.2	34.8	42.7	52.7
Balance Sheet - Dec YE	2014A	2015A	2016F	2017F	2018F
Cash	20.2	32.2	34.8	42.7	52.7
Debtors	2.8	3.4	3.7	4.9	6.2
PPE	1.1	1.7	2.1	2.1	2.1
Intangibles	13.0	23.9	24.9	24.9	24.9
Other assets	3.2	4.5	4.6	4.6	4.6
Total Assets	40.2	65.6	70.1	79.2	90.5
Borrowings	0.0	0.0	0.0	0.0	0.0
Trade Creditors	21.8	28.4	31.5	41.0	50.3
Other Liabilities	1.6	2.3	2.9	2.9	2.9
Total Liabilities	23.4	30.7	34.3	43.9	53.1
NET ASSETS	16.8	34.9	35.7	35.4	37.4
Valuation ratios	2014A	2015A	2016F	2017F	2018F
EPS (cps)	-0.3	-0.3	0.1	0.1	0.7
EPS Growth (%)	nmf	nmf	nmf	156%	389%
EV/Gross Profit	20.5	13.5	9.8	7.7	5.9
P/E (x)	-380.3	-316.9	1975.9	771.2	157.9
P/E (x) - Sustainable	63.7	44.3	32.4	23.7	17.1
EV / Sustainable EBITDA (x)	20.5	13.5	9.8	7.7	5.9
Enterprise Value (\$m)	462.2	450.2	447.6	439.7	429.7
EV/GPV	4.5	2.0	0.7	0.7	0.5
EV/Revenue	17.8	11.7	8.5	6.7	5.1
EV / Statutory EBITDA (x)	-227.8	-220.6	654.3	385.4	99.0
EV / EBIT (x)	-195.3	-176.4	-3861.2	686.2	111.9
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Balance Sheet ratios	2014A	2015A	2016F	2017F	2018F
Net Debt (cash)	-20.2	-32.2	-34.8	-42.7	-52.7
NTA per share (\$)	0.01	0.02	0.02	0.02	0.03
Price / NTA (x)	120.0	43.3	44.5	46.1	38.5
EFPOWA (m)	436.9	451.4	455.1	455.1	455.1
Interim Analysis	1H15A	2H15A	1H16A	2H16E	1H17E
Revenues	16.7	21.7	26.1	26.6	30.2
Gross Profit	14.6	18.7	22.7	22.8	26.1
EBIT	-1.0	-1.6	0.1	-0.3	-0.3
EBIT margin (%)	-5.7%	-7.3%	0.6%	-1.0%	-0.9%
DPS	0.0	0.0	0.0	0.0	0.0
Assumptions	2014A	2015A	2016F	2017F	2018F
GPV Growth (marketplace)	23%	33%	22%	28%	29%
GPV Growth (payments)	na	na	na	0%	15%
GP Margins	87%	87%	86%	87%	87%
Operating Expenses growth	65%	44%	27%	24%	23%
Take-rate	25.0%	26.5%	27.0%	27.0%	27.0%
Segment forecasts (\$m)	2014A	2015A	2016F	2017F	2018F
Payments	0.0	1.8	7.0	7.0	8.1
FLN Marketplace	25.9	36.6	45.7	58.6	75.6
Revenue	25.9	38.4	52.7	65.6	83.7
Payments	0.0	-0.1	-0.2	-0.2	0.6
FLN Marketplace	-2.0	-1.9	0.9	1.3	3.8
EBITDA	-2.0	-2.0	0.7	1.1	4.3
Board of Directors / Substantial Shareholders					
Board of Directors	Shareholding				%
Matt Barrie - CEO & Chairman	191.4				42.1%
Simon Clausen - Non Executive director	156.1				34.3%
Darren Williams - CTO	11.1				2.4%

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: Breakdown of FLN by half years

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	166.4	440.4	202.6	237.8	440.4	248.2	258.3	506.5
Marketplace GPV		103.7	64.1	74.1	138.2	80.9	88.4	169.3	99.8	117.2	217.0	128.7	151.1	279.8
Total GPV	\$m	103.7	64.1	165.2	229.3	354.9	254.8	609.7	302.4	355.0	657.5	376.9	409.4	786.3
Growth	%	23%	29.5%	205%	121%			166%			8%			20%
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	2.7	7.0	3.2	3.8	7.0	4.0	4.1	8.1
Marketplace revenue		25.9	16.7	19.9	36.6	21.8	23.9	45.7	27.0	31.6	58.6	34.8	40.8	75.6
Revenues	\$m	25.9	16.7	21.7	38.4	26.1	26.6	52.7	30.2	35.4	65.6	38.7	44.9	83.7
Growth	%	38%	42%	54%	48%	56%	23%	37%	16%	33%	24%	28%	27%	27%
Payments Gross Profit	\$m			1.5	1.5	3.5	2.3	5.8	2.7	3.2	5.8	3.4	3.5	6.9
Marketplace Gross Profit	\$m	22.5	14.6	17.2	31.9	19.2	20.6	39.8	23.4	27.5	51.0	30.2	35.5	65.7
Gross Profit	\$m	22.5	14.6	18.7	33.3	22.7	22.8	45.5	26.1	30.7	56.8	33.6	39.0	72.6
GP Margin		87%	88%	86%	86.7%	87%	86%	86%	87%	87%	87%	87%	87%	87%
Operating Expenses	\$m	-24.6	-15.4	-20.0	-35.4	-22.2	-22.7	-44.9	-26.2	-29.5	-55.7	-32.1	-36.2	-68.3
Growth	%	65%			44%			27%			24%			23%
EBITDA (normal)	\$m	-2.0	-0.8	-1.3	-2.0	0.5	0.2	0.7	0.0	1.2	1.1	1.5	2.8	4.3
D&A	\$m	-0.3	-0.2	-0.3	-0.5	-0.4	-0.4	-0.8	-0.25	-0.25	-0.5	-0.25	-0.25	-0.5
EBIT	\$m	-2.4	-1.0	-1.6	-2.6	0.1	-0.3	-0.1	-0.3	0.9	0.6	1.3	2.6	3.8
Interest	\$m	0.2	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.1	0.2
NPBT	\$m	-2.2	-0.9	-1.5	-2.4	0.2	-0.2	0.1	-0.2	1.0	0.8	1.4	2.7	4.1
Tax (@25%)	\$m	1.0	0.4	0.4	0.9	0.1	0.0	0.2	0.0	-0.3	-0.2	-0.3	-0.7	-1.0
NPAT (normalised)	\$m	-1.2	-0.5	-1.0	-1.5	0.4	-0.1	0.2	-0.1	0.8	0.6	1.0	2.0	3.1
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	0.0	-0.8	-0.6	0.3	-0.4	0.5	1.5	2.1
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	0.0	0.1	0.0	0.2	0.1	0.2	0.4	0.7
Mkt cap/GPV	x	4.5	3.5	1.4	2.0	0.6	0.9	0.7	0.7	0.6	0.7	0.6	0.5	0.5
EV/Revenue	x	17.8	13.5	10.4	11.7	8.6	8.4	8.5	7.4	6.2	6.7	5.6	4.8	5.1
EV/Gross Profit	x	20.5	15.4	12.0	13.5	9.9	9.8	9.8	8.5	7.2	7.7	6.5	5.5	5.9
EV/EBITDA	x	-227.8	-299.252	-174.9	-220.6	447	1216	654	-6913.2	187.4	385.4	143.4	76.2	99.0

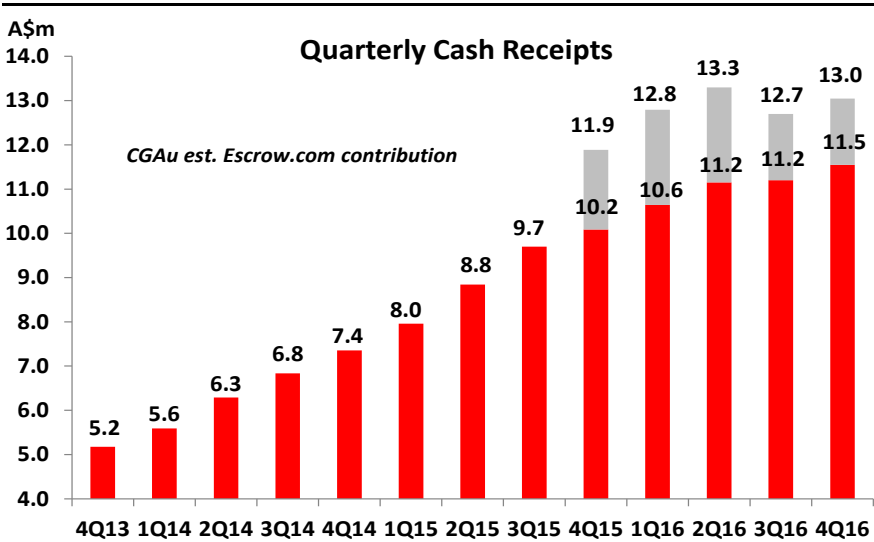
Source: Company Reports, Canaccord Genuity estimates

Figure 3: Key drivers of earnings forecasts (breaking the P&L into growth/fixed opex)

P & L Breakdown		FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Freelancer Payments (escrow.com)											
Gross Payment Volume	A\$m			91.1	440.4	440.4	506.5	607.8	729.4	838.8	922.6
Take rate	%			2.0%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
Payments Revenue	A\$m			1.8	7.0	7.0	8.1	9.7	11.7	13.4	14.8
Revenue growth	%				-13%	0%	15%	20%	20%	15%	10%
Gross Profit Margin				81%	82%	83%	85%	85%	85%	85%	85%
Gross Profit				1.5	5.8	5.8	6.9	8.3	9.9	11.4	12.5
Opex				1.6	6.0	6.0	6.3	6.6	6.9	7.3	7.7
Opex Growth						0%	5%	5%	5%	5%	5%
Payments EBITDA	A\$m			-0.1	-0.2	-0.2	0.6	1.7	3.0	4.1	4.9
EBITDA margin	%			-6%	-3%	-2%	7%	17%	25%	31%	33%
Freelancer Marketplace (Freelancer.com)											
Gross Payment Volume	A\$m	84.4	103.7	138.2	169.3	217.0	279.8	355.2	452.1	548.8	647.3
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	45.7	58.6	75.6	95.9	122.1	148.2	174.8
Gross Profit Margin	%		37.8%	41.3%	24.8%	28.2%	28.9%	27.0%	27.3%	21.4%	18.0%
Gross Profit	A\$m	(1)	16.4	22.5	39.8	51.0	65.7	83.4	106.2	128.9	152.1
Maintenance opex	A\$m	(2)	8.8	12.3	19.4	23.3	28.0	30.8	33.9	37.2	41.0
Growth	%		39%	38%	15%	20%	20%	10%	10%	10%	10%
EBITDA (ex growth opex)	A\$m	(1)-(2)	7.6	10.3	20.3	27.7	37.7	52.7	72.3	91.7	111.1
Sustainable EBITDA margins	%		40.5%	39.6%	44.5%	47.2%	50.0%	54.9%	59.3%	61.9%	63.6%
Growth Opex	A\$m	(3)	8.8	12.3	19.4	26.4	34.0	43.2	61.0	74.1	87.4
Proportion opex - growth	%		50%	50%	50%	53%	55%	58%	64%	67%	68%
Proportion of rev. reinvested	%		47%	47%	43%	45%	45%	45%	50%	50%	50%
Reinvestment ROI	%		53%	59%	40%	45%	45%	42%	40%	30%	25%
Organic Gross Profit growth	%		3%	3%	2%	2%	2%	2%	2%	2%	2%
Reinvestment Gross Profit growth	A\$m		5.6	8.6	7.3	10.3	13.6	16.2	20.8	20.3	20.2
Organic Gross Profit growth	A\$m		0.5	0.7	0.6	0.9	1.2	1.5	1.9	2.4	3.0
Total Gross Profit uplift	A\$m		6.1	9.3	7.9	11.2	14.8	17.7	22.8	22.7	23.1
Marketplace EBITDA	A\$m	(1)-(2)-(3)	-1.2	-2.0	0.9	1.3	3.8	9.5	11.3	17.6	23.7
EBITDA margin	%			-5%	2%	2%	5%	10%	9%	12%	14%
Multiple analysis											
EV (pro-forma)	A\$m			450.2	447.6	439.7	429.7	415.0	391.8	366.3	335.0
EV/EBIT: Sustainable	x			31.4	22.7	16.2	11.4	7.7	5.2	3.8	2.9
EV/EBIT - Statutory	x		-	220.6	654.3	385.4	99.0	37.2	27.4	16.9	11.7
PER: Sustainable	x	(@ 25% tax rate)		44.3	32.4	23.7	17.1	11.9	8.6	6.7	5.6

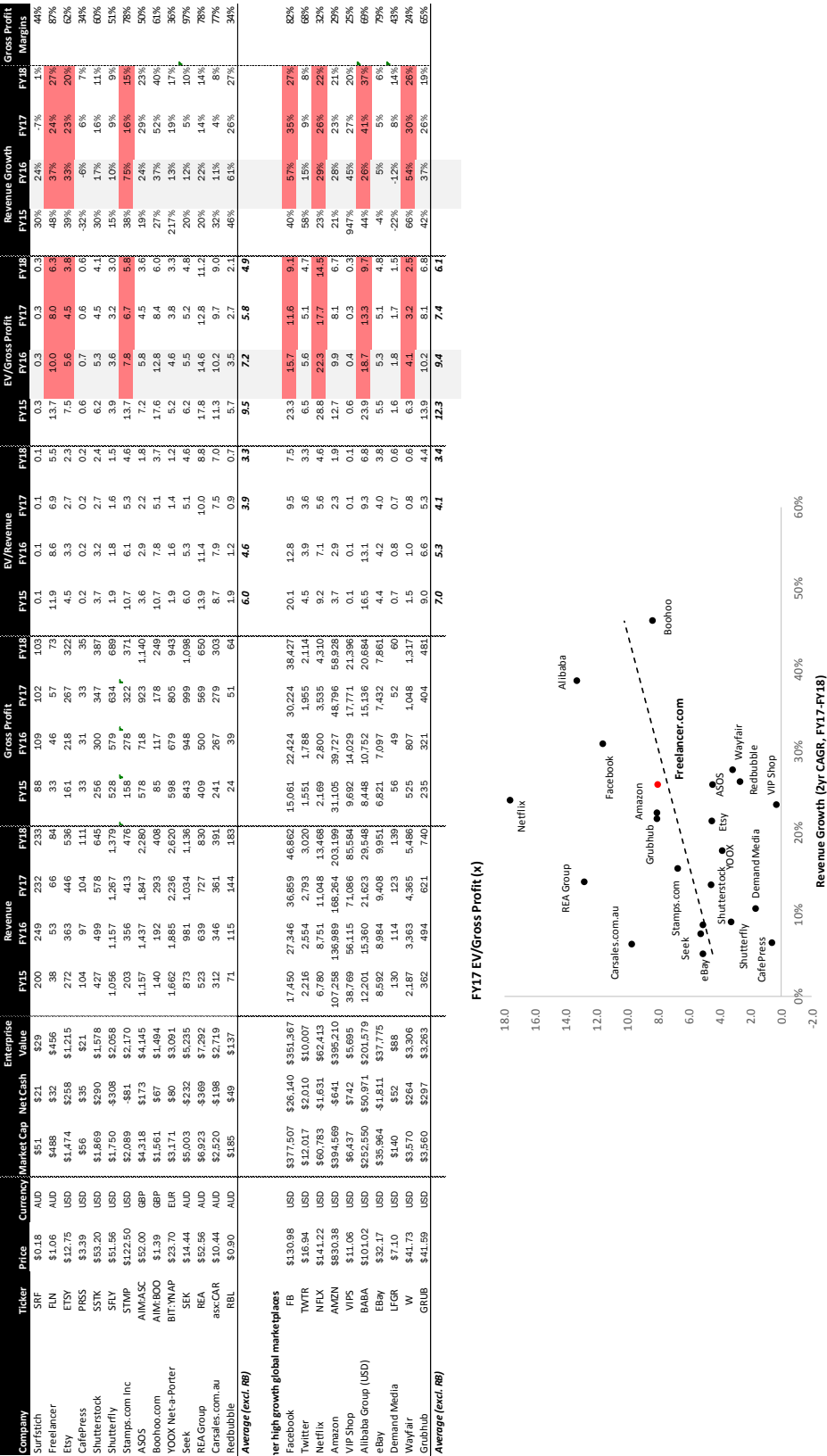
Source: Company Reports, Canaccord Genuity estimates

Figure 4: Quarterly cash receipts chart



Source: Company Reports, Canaccord Genuity estimates

Figure 5: Peer analysis



Source: Company Reports, Canaccord Genuity estimates

Appendix: Important Disclosures

Analyst Certification

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research.

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Investment Recommendation

Date and time of first dissemination: January 31, 2017, 17:38 ET

Date and time of production: January 31, 2017, 17:38 ET

Target Price / Valuation Methodology:

Freelancer Limited - FLN

We value FLN using a 2-stage DCF methodology using a 12% discount rate and 5% 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 01/31/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	590	61.72%	36.10%
Hold	272	28.45%	15.81%
Sell	31	3.24%	19.35%
Speculative Buy	63	6.59%	71.43%
	956*	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.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"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

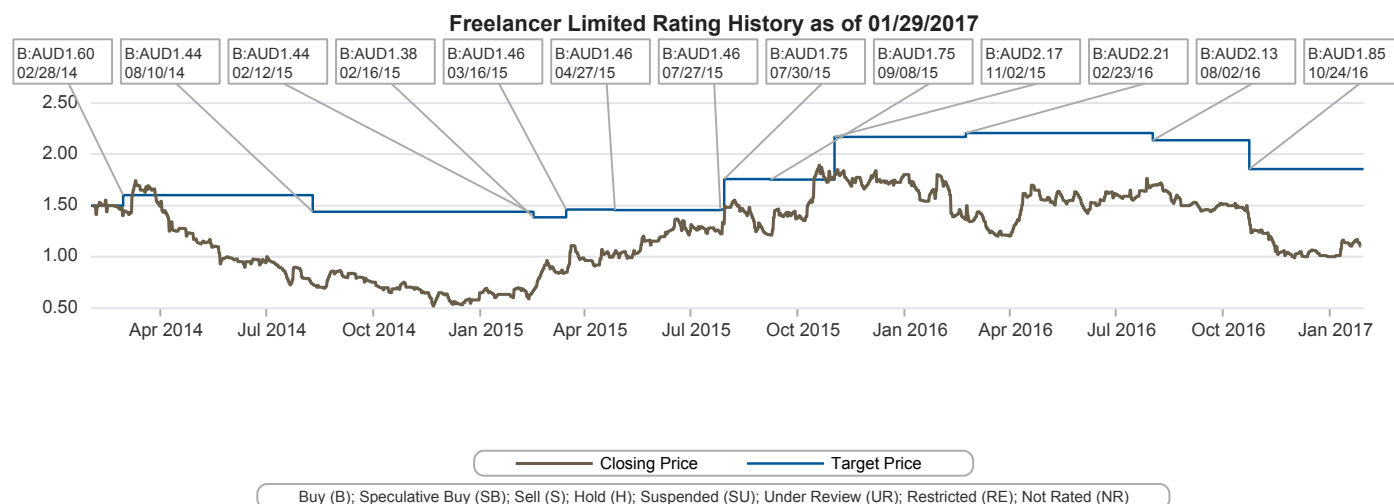
SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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

A list of all the recommendations on any issuer under coverage that was disseminated during the preceding 12-month period may be obtained at the following website (provided as a hyperlink if this report is being read electronically) <http://disclosures-mar.canaccordgenuity.com/EN/Pages/default.aspx>

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