



## Freelancer Ltd (FLN.ASX)

### Onwards and upwards

#### Event:

- Release of September quarterly.

#### Investment Highlights:

- 42% YoY top-line growth.** FLN released its September (3QFY15) quarterly which again exhibited strong receipts growth, historically a good proxy for that of revenue. Receipts grew 42% YoY, following the similar strong rates achieved in the 2Q and 1Q (40% and 43%).
- Even after stripping out our estimate of the impact of the weaker A\$** we calculate organic receipts growth was approximately 25% YoY, assuming circa 80% of revenues are transacted in US\$.
- Number of projects posted and registered users increasing.** These are key drivers of FLN's topline growth. Registered users increased by 850k during the 3Q to 16.3M, an annualised increase of appx. 21% on the 2QFY15. We also understand the number of projects posted per user is increasing. Total projects posted were 450k in the 3Q.
- Rollout of mobile offering.** In terms of development, FLN's big focus is to enhance the mobile offering of its platform, providing optimal experience for freelancers and posters whether using iOS or Android. This is critical as the rate of growth in mobile web usage exceeds that of online web.
- The developing world is logging online.** A key underlying theme and driver of growth is increasing internet penetration of the developing world. This currently stands at only 31% vs 78% in the developed world.
- Escrow.com receives final regulatory approval.** We expect financial close in mid November, from when Escrow.com will contribute to earnings. We expect FLN management to enhance profitability by introducing initiatives such as 24/7 support, multi-language and currency capability, and enhanced marketing and product development.

#### Earnings and Valuation:

- Only slight changes to NPAT.** We forecast NPAT of -\$2.5M in FY15 and \$0.1M in FY16 (previously -\$0.2M and -\$0.3M). We now expect FLN to begin to generate material profitability in FY18 (previously FY20). We expect the company to mostly reinvest revenues in hiring engineers and scientists over the next two years.
- Our valuation increases to \$1.93/share from \$1.60/share.** This is due to rolling forward our DCF model by six months and bringing forward our expectation of FLN profitability by two years.

#### Recommendation:

- We maintain our Buy recommendation and increase our price target to \$1.93/share** in line with our valuation. We believe the FLN story remains fundamentally intact and the key drivers positive.
- Catalysts for the stock include:** 1) Further strong top-line growth; 2) Successful integration of Escrow.com and enhancing of its profitability; 3) Astute and synergistic acquisitions; and 4) Further weakening of the currency.

<b>Recommendation</b>	Buy
Previous	Buy
<b>Price Target</b>	\$ 1.93
Previous	\$ 1.60
<b>Share Price (A\$)</b>	1.77
ASX Code	FLN
52 week low - high (A\$)	0.515-1.80
Valuation	\$1.93/share
Methodology	DCF
Risk	Med
<b>Capital structure</b>	
Shares on Issue (M)	455.5
<b>Market Cap (A\$M)</b>	<b>806.2</b>
Pro-forma Net Debt/(Cash) (A\$m)*	-33.0
<b>EV (A\$m)</b>	<b>773.2</b>
12mth Av Daily Volume ('000)	265.0

\* Assumes Escrow.com settlement

Y/e Dec Forecasts	2014a	2015e	2016e	2017e
Revenue A\$M	25.7	38.0	57.6	75.3
Revenue growth	39%	47%	52%	31%
NPAT A\$M	-1.8	-2.5	0.1	0.1
EV/sales	26.1	17.6	11.8	8.8

#### Share Price Graph



Analyst: Mark Fichera

+61 2 9993 8162

[mark.fichera@fostock.com.au](mailto:mark.fichera@fostock.com.au)



## Freelancer Ltd (FLN)

Full Year Ended 31 December

Profit and Loss A\$M	2014a	2015e	2016e	2017e
Sales revenue	25.7	38.0	57.6	75.3
Other revenue	0.2	0.1	0.2	0.2
Operating Costs	28.2	41.3	57.7	75.5
<b>EBITDA</b>	<b>-2.1</b>	<b>-3.2</b>	<b>0.0</b>	<b>0.0</b>
D&A	0.3	0.5	0.7	0.9
<b>EBIT</b>	<b>-2.4</b>	<b>-3.7</b>	<b>-0.7</b>	<b>-0.9</b>
Net Interest exp / (income)	0.0	-0.4	-0.8	-1.1
<b>Profit before tax</b>	<b>-2.8</b>	<b>-3.3</b>	<b>0.1</b>	<b>0.2</b>
Tax exp / (benefit)	-1.0	-0.8	0.0	0.0
<b>NPAT before minorities</b>	<b>-1.8</b>	<b>-2.5</b>	<b>0.1</b>	<b>0.1</b>
Minority interest	0.0	0.0	0.0	0.0
<b>Rep. NPAT</b>	<b>-1.8</b>	<b>-2.5</b>	<b>0.1</b>	<b>0.1</b>
Significant items	0.0	0.0	0.0	0.0
<b>NPAT attributable reported</b>	<b>-1.8</b>	<b>-2.5</b>	<b>0.1</b>	<b>0.1</b>
<b>EPS diluted (c)</b>	<b>4.8</b>	<b>0.2</b>	<b>-0.4</b>	<b>-0.6</b>

Cashflow A\$M	2014a	2015e	2016e	2017e
EBITDA	-2.1	-3.2	0.0	0.0
Change in WC	1.8	7.8	6.6	12.4
Tax paid	-0.2	0.4	0.0	0.0
Net interest	0.2	0.3	0.8	1.1
Other	0.2	1.0	1.0	1.0
<b>Operating Cashflow</b>	<b>-0.1</b>	<b>6.2</b>	<b>8.4</b>	<b>14.4</b>
Acquisitions	-4.1	-10.4	0.0	0.0
Capex	-0.9	-1.4	-0.9	-1.1
<b>Investing Cashflow</b>	<b>-5.0</b>	<b>-11.8</b>	<b>-0.9</b>	<b>-1.1</b>
Equity raising	0.0	20.1	0.0	0.0
Other	-0.1	-0.2	0.0	0.0
<b>Financing Cashflow</b>	<b>-0.1</b>	<b>19.9</b>	<b>0.0</b>	<b>0.0</b>
<b>Net Cashflow</b>	<b>-5.2</b>	<b>14.3</b>	<b>7.5</b>	<b>13.3</b>

Balance Sheet A\$M	2014a	2015e	2016e	2017e
Cash	20.2	35.4	42.9	56.2
Receivables	3.0	4.9	7.4	8.7
PPE	1.1	1.6	1.9	2.1
Intangibles	13.0	23.1	23.1	23.1
Deferred tax	1.8	2.1	2.1	2.2
Other	1.2	2.5	4.5	5.8
<b>Total Assets</b>	<b>40.2</b>	<b>69.7</b>	<b>81.9</b>	<b>98.2</b>
Accounts payable	21.8	35.6	44.7	58.5
Provisions	1.2	1.9	1.3	1.7
Deferred revenue	0.4	0.5	0.7	0.9
Other	0.0	0.2	0.3	2.2
<b>Total Liabilities</b>	<b>23.4</b>	<b>34.9</b>	<b>47.1</b>	<b>63.3</b>
Reserves and capital	17.6	38.0	38.0	38.0
Retained earnings	-0.8	-3.3	-3.2	-3.1
<b>Total Equity</b>	<b>16.8</b>	<b>34.7</b>	<b>34.8</b>	<b>34.9</b>

Financial Metrics	2014a	2015e	2016e	2017e
Sales growth %	39%	47%	52%	31%
EPS growth %	nm	nm	nm	nm
EBITDA margin	-8%	-8%	0%	0%
EBIT margin	-9%	-10%	-1%	-1%
Gearing (ND/ND+E)	nm	nm	nm	nm
Interest Cover (EBIT/net int)	nm	nm	nm	nm
Average ROE %	-10%	-10%	0%	0%
Average ROA %	-14%	-14%	-2%	-3%
Wtd ave shares (M)	404	445	456	456
Wtd ave share diluted (M)	437	445	456	456

Valuation multiples	2014a	2015e	2016e	2017e
P/E x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	nm
EV/EBIT x	nm	nm	nm	nm
EV/sales x	26.1	17.6	11.8	8.8
Dividend yield %	0	0	0	0

Equity Valuation - DCF	A\$M	A\$/share
Enterprise value	847	1.86
Net debt (cash)*	33	0.07
<b>Equity (NPV)</b>	<b>880</b>	<b>1.93</b>

\*Assumes payment for Escrow.com

Shares on issue	M
Ordinary shares	455.5
Fully Diluted	455.5

Major shareholders	Interest
Matt Barrie	42%
Simon Clausen	34%

Board	
Matt Barrie	CEO & Chairman
Simon Clausen	Non Executive Director
Darren Williams	Non-Executive Director

Source: Company; Foster Stockbroking estimates

\*All figures assume acquisition of Escrow.com in November 2015.



## SEPTEMBER QUARTERLY – 42% P.A. TOP LINE GROWTH

- Freelancer (FLN) reported its September (3QFY15) quarterly, which essentially featured break-even operating cashflow. The key was receipts – historically a good proxy for revenue - which were up 42% YoY for the quarter, continuing the ca. 40% YoY receipts growth the company has experienced in the preceding quarters (43% in 1QFY15, 40% in 2QFY15). The growth was in-line with our expectation.
- Key driver of receipts growth was the number of projects posted, which was 450k for the quarter. This brings the total number of projects posted for the first nine months of FY15 to 1.45M. The 1M projects posted in the 1HFY15 represented growth of 33% YoY.

## MOBILE OFFERING, PROJECTS AND USERS, AND DEVELOPING WORLD ALL DRIVERS

- A confluence of various inputs are contributing to the high double digit growth. These include:
  - **Increase in registered users.** FLN added 850k users, increasing the total number registered to 16.3M, an annualised increase of 21% on the 2QFY15.
  - **Increasing projects posted per user p.a.** We understand that this rising as users become more acquainted and satisfied with the benefits of FLN's platform.
  - **The rollout of FLN platform on mobile.** FLN is gradually enhancing the capability of its platform on mobile, with probably the most significant effort during the recent quarter being the company testing and improving the product offering on mobile including across iOS and Android, for both mobile web and app versions. This is critical as the growth rate of mobile web users outstrips that of online.
  - **Increasing internet penetration of the developing world.** We expect this underlying trend to continue for quite some time, as developing world economies continue infrastructure spend to support the internet. Internet penetration of the developing world is only 31% vs 78% in the developed world, but continuing to rise.

## STRIPPING OUT CURRENCY IMPACT STILL SHOWS HIGH DOUBLE-DIGIT GROWTH

- FLN obviously benefited from the weakening of the A\$ currency over the 3Q, which was down 22% vs the US\$. We estimate that ca. 80% of FLN's revenues are in US\$. Accounting for this, we approximately estimate that receipts growth was a healthy 25% YoY.

## NASA PROJECTS HIGHLIGHTS CREDENCE IN QUALITY AND BREADTH OF POOL

- During the 3QFY15 NASA partnered with FLN to crowdsource software and design solutions. This resulted in 23 contests including for a smartwatch, 3D tools for robots, and graphic designs. We believe this highlights the increasing confidence in the quality of work the FLN's users can perform, as well as the breadth of skills available by allowing a global workforce to compete, instead of being limited by regional or geographic constraints.

## ESCROW.COM ACQUISITION COMPLETES – FLN SET TO ENHANCE BUSINESS

- FLN announced yesterday that it secured the final regulatory approval for its purchase of Escrow.com, effecting completion of the acquisition. We expect earnings to contribute upon



financial close, which we expect to mid-November, with FLN paying US\$7.5M (ca. A\$10.1M) for the acquisition.

- We expect Escrow.com to benefit from the overlay of FLN management and practices, including running the business more optimally. Some examples include introduction of 24/7 support and increasing the number languages and currencies offered.

## REVIEW OF 1ST HALF RESULT

- FLN reported NPAT of -\$1.3M for the 1HFY15. Key highlight of the result was the revenue of \$16.8M was up 41% YoY. Excluding currency impact of the weak A\$ (down 15% in the half vs US\$), we estimate constant was approximately 30% YoY.
- Gross Payment Volume was \$64.1M up 30% YoY, while the take rate was 26.2% - flat on the 2HFY14 and up from 24.0% in the pcp.
- Number of registered users grew 15% YoY to 16.2M end 1HFY15.
- Average completed project value was US\$159 in the half, down 135 from 1H14, which contributed to driving greater project volumes. The top completed project categories being Websites, IT, & Software (36%); Design, Media, & Architecture (31%); and Writing & Content (15%). Top country sources for completed projects were USA (29%); UK (10%), Australia (10%), and India (6%).

## CORPORATE – CASH OF \$33.0M POST ESCROW ACQUISITION

- FLN had cash of \$42.6M end September 2015. This should reduce to appx. \$33.0M following the balance of the US\$7.0M (A\$9.6M) payment for Escrow.com acquisition (US\$0.5M had already been submitted as a deposit in April).
- The healthy cash position allows FLN to opportunistically take advantage of any potential acquisition opportunities arising that present attractive synergies, such as complementary businesses.

## EARNINGS FORECASTS

### No Material Change In The Short Term...

- We make only a slight adjustmentS to our near-term NPAT forecasts: FY15 NPAT of -\$2.5M (previously -\$0.2M) and FY16 forecast NPAT of \$0.1M (previous -\$0.3M).

### ...But We Expect Material Profitability Sooner In the Mid-Term

- We now expect the company to begin yielding material profitability at the NPAT level in FY18 (previously FY20). This means just over another two years of FLN reinvesting revenues, mostly in product development, while the company's support and administration costs remain relatively flat vs top-line growth.
- We have updated for the company's equity raising of \$10M at \$1.40/share in August. Stock liquidity has also improved, with the contemporaneous sell-down by CEO Matt Barrie and Simon Clausen of 25M shares in total.



## VALUATION \$1.93/SHARE

- Our valuation of FLN has increased to \$1.93/share from \$1.60/share. The main contributors are roll forward of our DCF by six months and bringing forward by two years FLN's NPAT profitability.

**Figure 1: FLN Valuation**

Valuation	A\$M	A\$/share
Enterprise value	847	\$1.86
Net debt (cash)	33	\$0.07
<b>Equity (NPV)</b>	<b>880</b>	<b>\$1.93</b>
WACC	10%	
Terminal growth	3%	
Shares M	456	

Source: Foster Stockbroking estimates.

## RECOMMENDATION – MAINTAIN BUY PT\$1.93/SHARE

- We maintain our Buy recommendation and update our price target to \$1.93/share, based on our valuation. We expect catalysts for the shareprice to include: 1) Continuing strong revenue growth; 2) Successful integration of Esrow.com including enhancing its profitability; 3) Any astute or opportunistic acquisitions providing synergies; and 4) further weakening of the A\$.



## FOSTER STOCKBROKING DIRECTORY

Name	Role	Phone	Email
<b>Stuart Foster</b>	Chief Executive Officer	+61 2 9993 8131	stuart.foster@fostock.com.au
<b>Chris Francis</b>	Executive Director	+61 2 9998 8167	chris.francis@fostock.com.au
<b>Haris Khaliqi</b>	Executive Director	+61 2 9993 8152	haris.khaliqi@fostock.com.au
<b>Martin Carolan</b>	Executive Director	+61 2 9993 8168	martin.carolan@fostock.com.au
<b>Mark Fichera</b>	Executive Director	+61 2 9993 8162	mark.fichera@fostock.com.au
<b>Mark Hinsley</b>	Executive Director	+61 2 9993 8166	mark.hinsley@fostock.com.au
<b>Marc Kennis</b>	Research Analyst	+61 2 9993 8121	marc.kennis@fostock.com.au
<b>Tolga Dokumcu</b>	Execution & Dealing	+61 2 9993 8144	tolga.dokumcu@fostock.com.au
<b>George Mourtzouhos</b>	Execution & Dealing	+61 2 9993 8136	george.mourtzouhos@fostock.com.au

Foster Stockbroking Pty Ltd  
A.B.N. 15 088 747 148 AFSL No. 223687  
Level 25, 52 Martin Place, Sydney, NSW 2000 Australia  
General: +612 9993 8111 Equities: +612 9993 8100 Fax: +612 9993 8181  
Email: [contact@fostock.com.au](mailto:contact@fostock.com.au)  
PARTICIPANT OF ASX GROUP

Foster Stockbroking Pty Limited (**Foster Stockbroking**) has prepared this report by way of general information. This document contains only general securities information. The information contained in this report has been obtained from sources that were accurate at the time of issue. The information has not been independently verified. Foster Stockbroking does not warrant the accuracy or reliability of the information in this report. The report is current as of the date it has been published.

In preparing the report, Foster Stockbroking did not take into account the specific investment objectives, financial situation or particular needs of any specific recipient. The report is published only for informational purposes and is not intended to be advice. This report is not a solicitation or an offer to buy or sell any financial product. Foster Stockbroking is not aware whether a recipient intends to rely on this report and is not aware of how it will be used by the recipient. Investors must obtain personal financial advice from their own investment adviser to determine whether the information contained in this report is appropriate to the investor's financial circumstances. Recipients should not regard the report as a substitute for the exercise of their own judgment.

The views expressed in this report are those of the analyst/s named on the cover page. No part of the compensation of the analyst is directly related to inclusion of specific recommendations or views in this report. The analyst/s receives compensation partly based on Foster Stockbroking revenues, including any investment banking and proprietary trading revenues, as well as performance measures such as accuracy and efficacy of both recommendations and research reports.

Foster Stockbroking believes that the information contained in this document is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made at the time of its compilation in an honest and fair manner that is not compromised. However, no representation is made as to the accuracy, completeness or reliability of any estimates, opinions, conclusions or recommendations (which may change without notice) or other information contained in this report. To the maximum extent permitted by law, Foster Stockbroking disclaims all liability and responsibility for any direct or indirect loss that may be suffered by any recipient through relying on anything contained in or omitted from this report. Foster Stockbroking is under no obligation to update or keep current the information contained in this report and has no obligation to tell you when opinions or information in this report change.

Foster Stockbroking and its directors, officers and employees or clients may have or had interests in the financial products referred to in this report and may make purchases or sales in those the financial products as principal or agent at any time and may affect transactions which may not be consistent with the opinions, conclusions or recommendations set out in this report. Foster Stockbroking and its Associates may earn brokerage, fees or other benefits from financial products referred to in this report. Furthermore, Foster Stockbroking may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant issuer or holder of those financial products.

For an overview of the research criteria and methodology adopted by Foster Stockbroking; the spread of research ratings; and disclosure of the cessation of particular stock coverage, refer to our website <http://www.fostock.com.au>.

**Specific disclosure:** The analyst, Foster Stockbroking and/or associated parties have beneficial ownership or other interests in securities issued by FLN at the time of this report. Diligent care has been taken by the analyst to maintain an honest and fair objectivity in writing the report and making the recommendation.