

Australian Equity Research

17 April 2016

BUY

unchanged

PRICE TARGET A\$2.21

unchanged

Price (17-Mar) A\$1.62

Ticker FLN-ASX

52-Week Range (A\$):	0.96 - 1.93
Market Cap (A\$M):	743
Enterprise Value (A\$M):	681
Cash (A\$M):	32.25
Long-Term Debt (A\$):	0.0

FYE Dec	2014A	2015A	2016E	2017E
Sales (A\$M)	25.9	38.4	60.0	79.7
Gross Profit (A\$M)	22.5	33.3	51.7	68.8
EBITDA (A\$M)	(2.0)	(2.0)	(1.3)	0.1
Net Income Adj (A\$M)	(1.2)	(1.5)	(0.6)	0.6
EPS Adj&Dil (AUC)	(0.28)	(0.33)	(0.12)	0.14



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

Inflection point in platform liquidity

FLN released a positive 1Q16 quarterly report which slightly exceeded our expectations and illustrates the company remains on track to meet our FY16 revenue (A\$60m) and gross profit (A\$51.7m) forecasts. **Cash receipts, a proxy for group revenues, increased +60% to A\$12.8m in 1Q16 (1Q15:A\$8.0m, 4Q15: A\$11.9m).** The strong result was achieved despite the appreciation in the AUD and Easter falling in 1Q16 versus 2Q15 last year. We estimate the net impact on revenue growth during the quarter was circa ~5%.

The release illustrated the strong momentum experienced in FY15 has continued into 1Q16, and we again see upside risks now to our FY16 revenue forecasts. The 1Q16 was positively impacted by a full period contribution from Escrow.com (acquired in Nov-15). **Excluding escrow.com, we estimate cash receipts from FLN's core marketplace grew ~43% vs. 1Q15.**

We estimate liquidity (jobs posted) on FLN's marketplace platform experienced an inflection point during the period (Figure 3), adding ~626k new projects and contest listings during 1Q16 (CGAu est., 1Q15: 383k). This was an increase of +64% versus 1Q15. New projects posted is the primary driver of revenue growth and a critical metric that demonstrates the health of the business.

FLN invested heavily in both divisions during the period, flagging 810 incremental platform improvements, new products releases and enhancements to its marketplace business and 200 for the escrow.com business unit. **Escrow.com** launched a new mobile solution, improved its payment methods and targeted service and support initiatives. The division also added a new senior executive to drive partnerships with marketplaces and ecommerce sites. The **Freelancer.com** marketplace incorporated payment methods onto its mobile app, launched an independent local jobs app and restructured its membership system that will aid further revenue growth in future periods.

FLN's marketing and advertising spend amounted to ~20.6% of cash receipts/revenues (1Q15:13.5%, 4Q15 20.6%). Management retains a prudent approach to marketing (primarily SEO, SEM) and, as its gross profit scales, we expect the marginal dollar to increasingly be allocated to marketing initiatives over product enhancements (software engineers). OCF of \$1.9m was a positive surprise, however we believe this was driven by the negative working capital balance of the business model and we expect FLN to report negligible EBITDA during FY16 (similar to FY15). The company reported a strong balance sheet position with \$33m cash on hand, and also holds \$28.6m cash in trust and off-balance sheet. We expect a proportion of this will be consolidated on balance sheet in future periods.

Revenue growth is the ultimate predictor of long-term success and a key determinant of value creation. The company has reported strong and consistent revenue growth since its inception in 2009. FLN is a well-capitalised, fast growing disruptive stock that is increasingly emerging as a major player in the global outsourced services marketplace (potential TAM >US\$800b). Following the quarterly result, our revenue and earnings forecasts remain unchanged. **BUY rating and price target of \$2.21ps reiterated.**

Figure 1: Financial summary

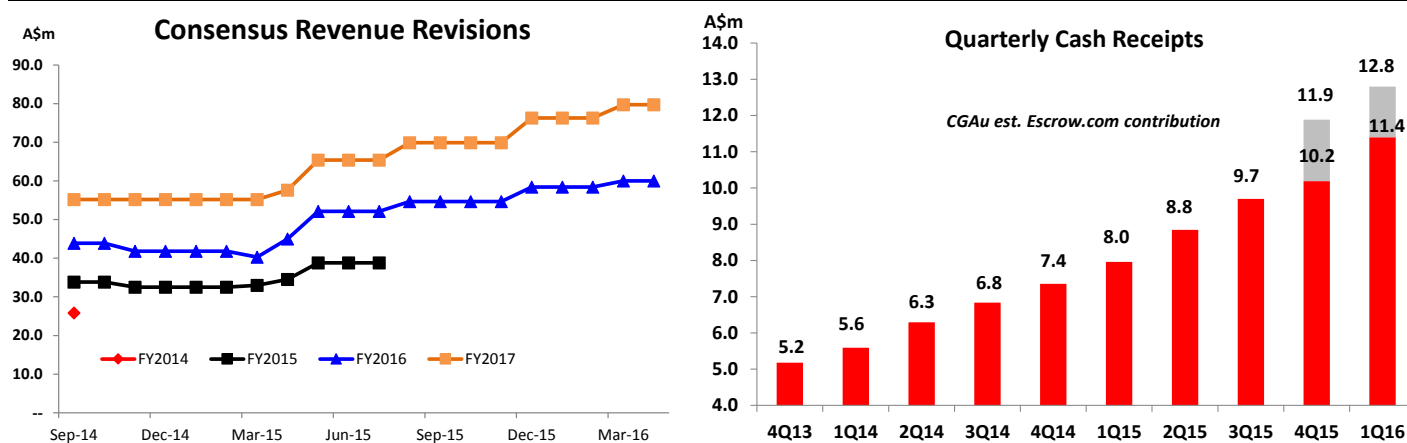
Freelancer (FLN)						Share Price \$ 1.58					
Profit & Loss (\$m) - Dec YE	2014A	2015A	2016F	2017F	2018F	Valuation ratios	2014A	2015A	2016F	2017F	2018F
Payments	0.0	91.1	632.8	759.4	911.3	EPS (cps)	-0.3	-0.3	-0.1	0.1	1.6
Marketplace	103.7	138.2	185.3	251.1	340.3	EPS Growth (%)	nmf	nmf	nmf	nmf	nmf
Gross Payment Volume	103.7	229.3	818.2	1010.5	1251.5	EV/Gross Profit	31.6	21.4	13.8	10.4	7.8
Sales Revenue	25.9	38.4	60.0	79.7	106.1	P/E (x)	-566.8	-472.4	-1267.1	1169.7	97.4
Gross Profit	22.5	33.3	51.7	68.8	92.0	P/E (x) - Sustainable	58.6	40.0	27.1	19.3	13.6
EBITDA - Sustainable	16.4	23.3	33.6	47.4	66.8	EV / Sustainable EBITDA (x)	42.3	29.2	20.0	14.0	10.7
Growth opex	18.4	25.3	34.9	47.3	45.7	Enterprise Value (\$m)	693.1	681.0	672.9	663.4	713.3
EBITDA - Statutory	-2.0	-2.0	-1.3	0.1	21.1	EV/GPV	6.7	3.0	0.8	0.7	0.6
D & A	-0.3	-0.5	-0.2	-0.2	-0.2	EV/Revenue	27.5	18.6	11.9	9.0	6.7
EBIT	-2.4	-2.6	-1.5	-0.1	20.9	EV / Statutory EBITDA (x)	-341.6	-333.7	-523.1	5881.9	33.8
Net Interest Expense	0.2	0.2	0.7	0.9	1.1	EV / EBIT (x)	-292.8	-266.9	-452.7	-7606.5	34.2
NPBT	-2.2	-2.4	-0.8	0.8	22.0	DPS (cps)	0.0	0.0	0.0	0.0	0.0
Tax expense	1.0	0.9	0.2	-0.2	-5.5	Balance Sheet ratios	2014A	2015A	2016F	2017F	2018F
NPAT (Normalised)	-1.2	-1.5	-0.6	0.6	16.5	Net Debt (cash)	-20.2	-32.2	-40.3	-49.9	-64.5
Non-recurring	-0.6	-1.3	-1.0	-1.0	-1.0	NTA per share (\$)	0.01	0.02	0.02	0.02	0.05
NPAT (Reported)	-1.8	-2.8	-1.6	-0.4	15.5	Price / NTA (x)	178.9	64.5	75.1	78.3	29.0
Sustainable EBITDA Margin (%)	63.3%	60.7%	56.0%	59.5%	63.0%	EFPOWA (m)	436.9	451.4	451.4	451.4	451.4
Statutory EBITDA Margin (%)	-7.8%	-5.3%	-2.1%	0.1%	19.9%	Interim Analysis	2H14A	1H15A	2H15A	1H16E	2H16E
EBIT Margin (%)	-9.1%	-6.6%	-2.5%	-0.1%	19.7%	Revenues	14.1	16.7	21.7	28.1	31.8
NPAT Margin (%)	-4.7%	-3.9%	-0.9%	0.8%	15.5%	Gross Profit	12.2	14.6	18.7	24.2	27.4
**December year end						EBIT	-1.4	-1.0	-1.6	-0.8	-0.7
Cash Flow (\$m) - Dec YE	2014A	2015A	2016F	2017F	2018F	EBIT margin (%)	-9.7%	-5.7%	-7.3%	-2.7%	-2.3%
Operating EBITDA	-2.0	-2.0	-1.3	0.1	21.1	DPS	0.0	0.0	0.0	0.0	0.0
- Interest & Tax Paid	-0.9	-2.6	-0.1	-0.3	-5.4	Assumptions	2014A	2015A	2016F	2017F	2018F
+/- change in Work. Cap.	2.9	6.1	10.0	10.2	-0.5	GPV Growth (marketplace)	23%	33%	34%	36%	36%
- other	0.0	0.0	0.0	0.0	0.0	GPV Growth (payments)	na	na	34%	20%	20%
Operating Cashflow	-0.1	1.5	8.6	10.0	15.1	GP Margins	87%	87%	86%	86%	87%
- Capex (PPE)	-0.9	-1.0	-0.5	-0.5	-0.5	Operating Expenses growth	65%	44%	50%	30%	3%
- Capex (Intangibles)	-0.4	0.0	0.0	0.0	0.0	Take-rate	25.0%	26.5%	26.9%	26.9%	26.9%
- Aquisitions/divestments	-3.7	-10.3	0.0	0.0	0.0	Assumptions	2014A	2015A	2016F	2017F	2018F
Free Cashflow	-5.1	-9.8	8.1	9.5	14.6	Payments	-	-	1.8	10.1	12.2
- Ord Dividends	0.0	0.0	0.0	0.0	0.0	FLN Marketplace	18.8	25.9	36.6	49.8	67.5
- Equity /other	0.0	19.5	0.0	0.0	0.0	Revenue	18.8	25.9	38.4	60.0	79.7
Net Cashflow	-5.1	9.8	8.1	9.5	14.6	Payments	0.0	0.0	-0.1	0.8	1.8
Cash at beginning of period	24.4	20.2	32.2	40.3	49.9	FLN Marketplace	-1.2	-2.0	-1.9	-2.1	-1.7
+/- borrowings / other	0.9	2.3	0.0	0.0	0.0	EBITDA	-1.2	-2.0	-2.0	-1.3	0.1
Cash at end of period	20.2	32.2	40.3	49.9	64.5	Board of Directors / Substantial Shareholders					
Balance Sheet - Dec YE	2014A	2015A	2016F	2017F	2018F	Board of Directors		Shareholding		%	
Cash	20.2	32.2	40.3	49.9	64.5	Matt Barrie - CEO & Chairman		191.4		42.4%	
Debtors	2.8	3.4	4.9	6.6	8.8	Simon Clausen - Non Executive director		156.1		34.6%	
PPE	1.1	1.7	2.0	2.3	2.6	Darren Williams - CTO		11.1		2.5%	
Intangibles	13.0	23.9	23.6	23.6	23.6						
Other assets	3.2	4.5	4.5	4.5	4.5						
Total Assets	40.2	65.6	75.3	86.8	103.9						
Borrowings	0.0	0.0	0.0	0.0	0.0						
Trade Creditors	21.8	28.4	39.9	51.8	53.5						
Other Liabilities	1.6	2.3	2.3	2.3	2.3						
Total Liabilities	23.4	30.7	42.2	54.1	55.8						
NET ASSETS	16.8	34.9	33.0	32.7	48.1						

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.

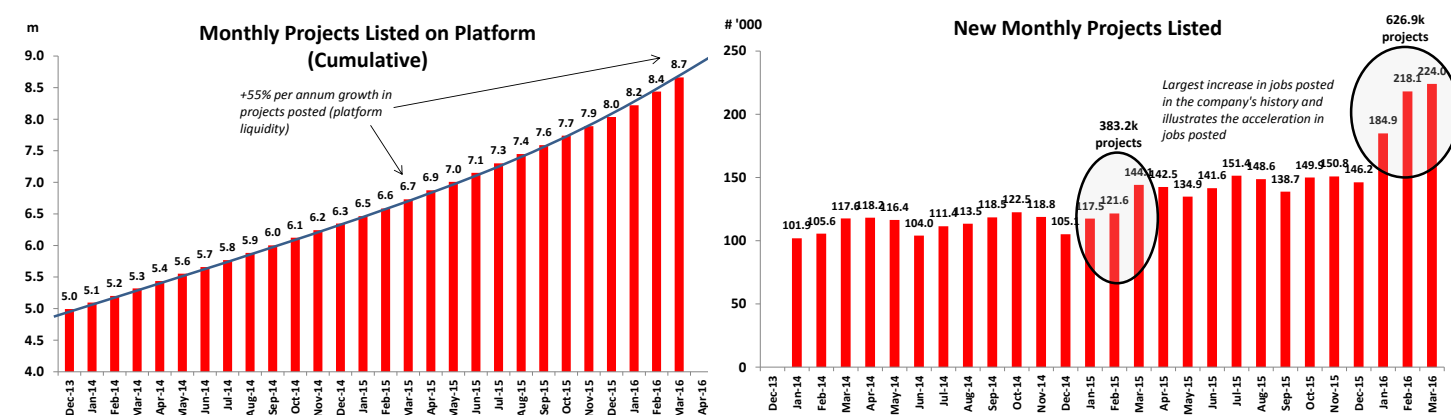
Source: Company Reports, Canaccord Genuity estimates

Figure 2: Consensus revenue revisions and CGAu breakdown of FLN cash receipts by quarter



Source: Company Reports, Canaccord Genuity estimates

Figure 3: Inflection point?!



Source: Company Reports, Canaccord Genuity estimates

Figure 4: CGAu P&L

P&L Breakdown		FY14	1H15	2H15	FY15	1H16	2H16	FY16	1H17	2H17	FY17	1H18	2H18	FY18
Payments GPV (Escrow.com)				91.1	91.1	310.1	322.7	632.8	372.1	387.3	759.4	446.5	464.7	911.3
Marketplace GPV		103.7	64.1	74.1	138.2	86.2	99.2	185.3	115.5	135.6	251.1	156.5	183.8	340.3
Total GPV	\$m	103.7	64.1	165.2	229.3	396.3	421.9	818.2	487.6	522.9	1010.5	603.0	648.5	1251.5
Growth	%	23%	29.5%	205%	121%			257%			24%			24%
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%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%
Payments Revenue	\$m			1.8	1.8	5.0	5.2	10.1	6.0	6.2	12.2	7.1	7.4	14.6
Marketplace revenue	\$m	25.9	16.7	19.9	36.6	23.2	26.7	49.8	31.1	36.5	67.5	42.1	49.4	91.5
Revenues	\$m	25.9	16.7	21.7	38.4	28.1	31.8	60.0	37.0	42.7	79.7	49.2	56.8	106.1
Growth	%	38%	42%	54%	48%			56%			33%			33%
Payments Gross Profit	\$m			1.5	1.5	4.1	4.2	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	20.2	23.2	43.4	27.0	31.7	58.7	36.6	43.0	79.6
Gross Profit	\$m	22.5	14.6	18.7	33.3	24.2	27.4	51.7	32.0	36.9	68.8	42.7	49.3	92.0
GP Margin		87%	88%	86%	86.7%	86%	86%	86%	86%	86%	86%	87%	87%	87%
Operating Expenses	\$m	-24.6	-15.4	-20.0	-35.4	-24.9	-28.1	-52.9	-32.3	-36.4	-68.7	-33.3	-37.6	-70.9
Growth	%	65%			44%			50%			30%			3%
EBITDA (normal)	\$m	-2.0	-0.8	-1.3	-2.0	-0.7	-0.6	-1.3	-0.3	0.4	0.1	9.4	11.7	21.1
D&A	\$m	-0.3	-0.2	-0.3	-0.5	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2
EBIT	\$m	-2.4	-1.0	-1.6	-2.6	-0.8	-0.7	-1.5	-0.4	0.3	-0.1	9.3	11.6	20.9
Interest	\$m	0.2	0.1	0.1	0.2	0.3	0.4	0.7	0.4	0.5	0.9	0.5	0.6	1.1
NPBT	\$m	-2.2	-0.9	-1.5	-2.4	-0.4	-0.3	-0.8	0.0	0.8	0.8	9.8	12.2	22.0
Tax (@25%)	\$m	1.0	0.4	0.4	0.9	0.1	0.1	0.2	0.0	-0.2	-0.2	-2.4	-3.0	-5.5
NPAT (normalised)	\$m	-1.2	-0.5	-1.0	-1.5	-0.3	-0.3	-0.6	0.0	0.6	0.6	7.3	9.1	16.5
Non-recurring	\$m	-0.6	-0.8	-0.5	-1.3	-0.5	-0.5	-1	-0.5	-0.5	-1	-0.5	-0.5	-1
NPAT (reported)	\$m	-1.8	-1.3	-1.5	-2.8	-0.8	-0.8	-1.6	-0.5	0.1	-0.4	6.8	8.6	15.5
Valuation		2014	1H15	2H15	2015	1H16	2H16	2016	1H17	2H17	2017	1H18	2H18	2018
EFPOWA	m	437	446.9	451	451	451	451	451	451	451	451	451	451	451
EPS	cps	-0.3	-0.1	-0.2	-0.3	-0.1	-0.1	-0.1	0.0	0.1	0.1	1.6	2.0	3.6
Mkt cap/GPV	x	6.4	5.1	2.0	2.9	0.8	0.8	0.8	0.7	0.6	0.6	0.5	0.5	0.5
EV/Revenue	x	25.8	19.7	15.1	17.1	11.6	10.2	10.8	8.7	7.5	8.0	6.5	5.5	5.9
EV/Gross Profit	x	29.7	22.5	17.6	19.7	13.4	11.8	12.6	10.1	8.7	9.3	7.5	6.3	6.8
EV/EBITDA	x	-329.6	-436.171	-255.1	-321.7	-497.1	-513.8	-504.1	-967.6	717.1	5665.6	34.1	26.6	29.6
Net Debt/(cash)	\$m	-20	-31.134	-32	-32	-37	-40	-40	-45	-50	-50	-51	-65	-65
Mkt Cap	\$m	689	689	689	689	689	689	689	689	689	689	689	689	689
Enterprise Value	\$m	669	657.7	657	657	652	649	649	644	639	639	638	624	624

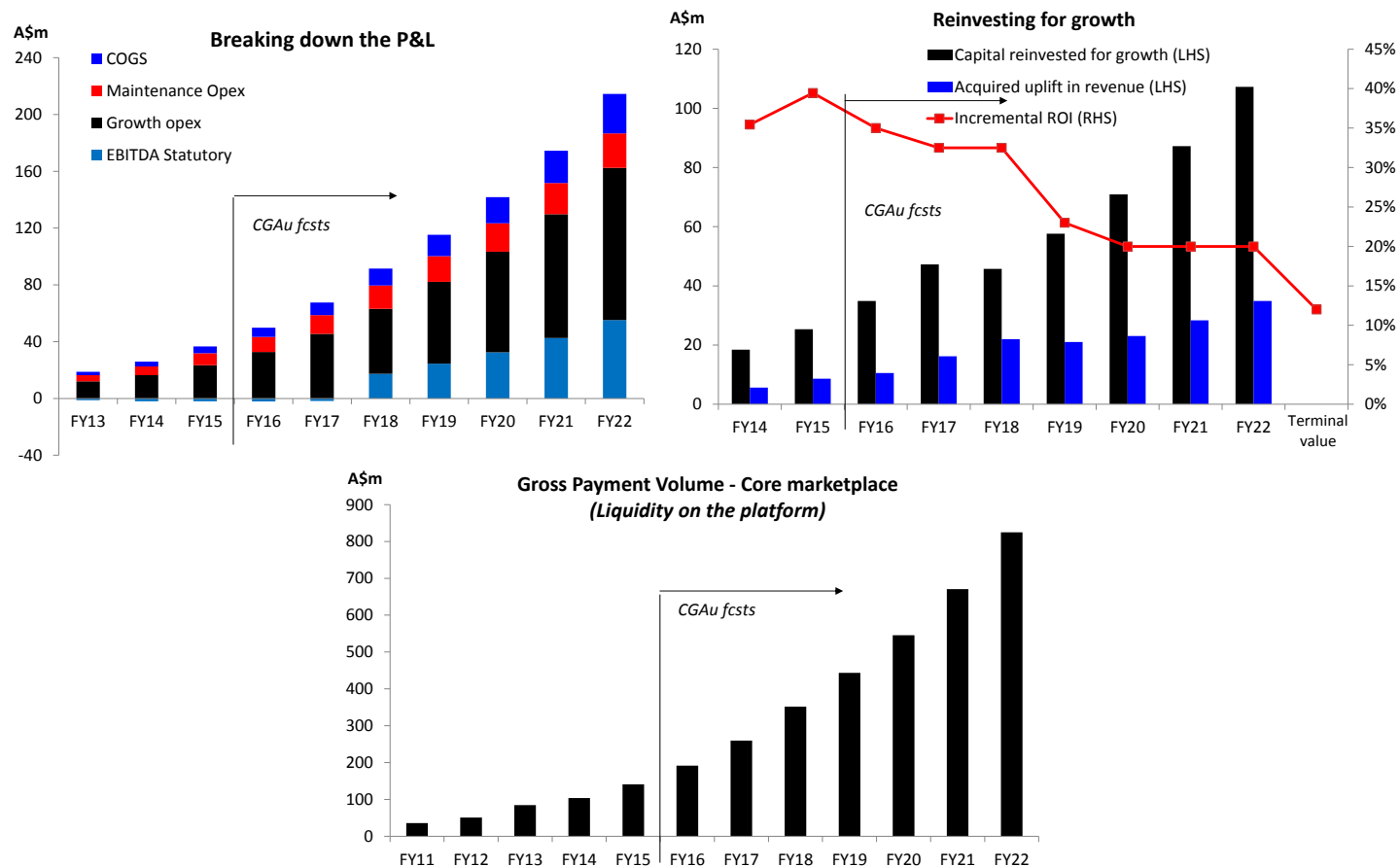
Source: Company Reports, Canaccord Genuity estimates

Figure 5: CGAu P&L breakdown (and key divisional drivers)

P & L Breakdown		FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Terminal Value
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%	1.6%
Revenue	A\$m			1.8	10.1	12.2	14.6	16.0	17.6	19.4	20.4	21.4
Revenue growth	%				25%	20%	20%	10%	10%	10%	5%	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	7.5	8.3	8.7	9.1	9.6	10.0	10.5	
Opex Growth						10%	5%	5%	5%	5%	5%	
Payments EBITDA	A\$m			-0.1	0.8	1.8	3.7	4.5	5.4	6.5	6.8	7.1
EBITDA margin	%			-6%	8%	15%	26%	28%	31%	33%	33%	33%
Freelancer Marketplace												
Gross Payment Volume	A\$m	84.4	103.7	138.2	185.3	251.1	340.3	428.8	527.4	648.7	797.9	845.8
Effective Take rate	%	22.3%	25.0%	26.5%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%
Revenue	A\$m	18.8	25.9	36.6	49.8	67.5	91.5	115.3	141.8	174.4	214.5	227.4
Gross Profit Margin	%	87%	87%	87%	87%	87%	87%	87%	87%	87%	87%	87%
Gross Profit	A\$m	(1)	16.4	22.5	43.4	58.7	79.6	100.3	123.4	151.7	186.6	197.8
Maintenance opex	A\$m	(2)	4.4	6.1	10.6	13.2	16.5	18.2	20.0	22.0	24.2	26.6
Growth	%		39%	38%	25%	25%	25%	10%	10%	10%	10%	10%
EBITDA (ex growth opex)	A\$m	(1)-(2)	12.0	16.4	32.8	45.5	63.1	82.1	103.4	129.8	162.5	171.3
Sustainable EBITDA margins	%		64.0%	63.3%	65.8%	67.5%	69.0%	71.3%	72.9%	74.4%	75.7%	75.3%
Growth Opex	A\$m	(3)	13.3	18.4	34.9	47.3	45.7	57.6	70.9	87.2	107.3	45.5
Proportion opex - growth	%		75%	75%	77%	78%	73%	76%	78%	80%	82%	
Proportion of rev. reinvested	%		70%	71%	70%	70%	50%	50%	50%	50%	50%	20%
Reinvestment ROI	%		35%	39%	35%	33%	33%	23%	20%	20%	20%	12%
Organic Gross Profit growth	%		3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Reinvestment Gross Profit growth	A\$m		5.6	8.6	10.5	16.2	21.9	21.0	23.1	28.4	34.9	
Organic Gross Profit growth	A\$m		0.5	0.7	1.0	1.5	2.0	2.7	3.5	4.3	5.2	
Total Gross Profit uplift	A\$m		6.1	9.3	11.5	17.7	24.0	23.8	26.5	32.6	40.1	
Marketplace EBITDA	A\$m	[1]-(2)-(3)	-1.2	-2.0	-2.1	-1.7	17.4	24.5	32.5	42.6	55.2	125.8
Multiple analysis												
EV (pro-forma)	A\$m			656.6	648.5	639.0	624.4	594.4	556.4	507.4	445.5	
EV/EBIT: Sustainable	x			28.8	19.4	13.5	9.4	6.9	5.1	3.7	2.6	
EV/EBIT - Statutory	x		-	321.7	504.1	5,665.6	29.6	20.5	14.7	10.3	7.2	
PER: Sustainable	x	(@ 25% tax rate)		40.0	27.1	19.3	13.6	10.6	8.4	6.7	5.4	

Source: Company Reports, Canaccord Genuity estimates

Figure 6: Reinvesting for growth



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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Sector Coverage

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

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 04/17/16)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	554	61.08%	31.41%
Hold	266	29.33%	16.54%
Sell	27	2.98%	3.70%
Speculative Buy	60	6.62%	63.33%
	907*	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

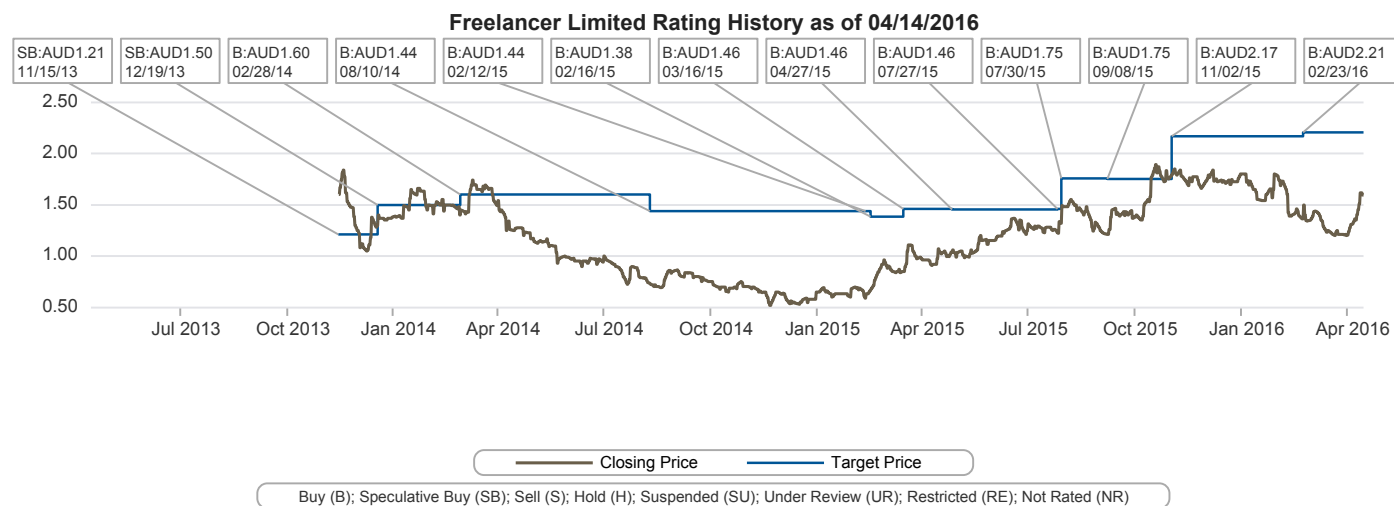
SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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