Australian Equity Research
28 January 2016

BUY
unchanged

PRICE TARGET
unchanged
A$2.17

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

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

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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.

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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For important information, please see the Important Disclosures beginning on page 3 of this document.
Freelancer Limited  
Company Update

Freelancer (FLN)

<table>
<thead>
<tr>
<th>Description</th>
<th>2013A</th>
<th>2014A</th>
<th>2015F</th>
<th>2016F</th>
<th>2017F</th>
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<tbody>
<tr>
<td>Operating EBITDA</td>
<td>1.5</td>
<td>1.4</td>
<td>0.2</td>
<td>0.8</td>
<td></td>
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<tr>
<td>- Interest &amp; Tax Paid</td>
<td>1.5</td>
<td>0.9</td>
<td>0.1</td>
<td>-0.4</td>
<td>-0.5</td>
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<tr>
<td>+/ change in Work. Cap.</td>
<td>2.0</td>
<td>2.9</td>
<td>5.9</td>
<td>7.0</td>
<td>9.9</td>
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<tr>
<td>- Other</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Operating Cashflow</td>
<td>0.2</td>
<td>0.1</td>
<td>4.6</td>
<td>6.8</td>
<td>10.2</td>
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<tr>
<td>- Capex (PPE)</td>
<td>-0.3</td>
<td>-0.9</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-0.5</td>
</tr>
<tr>
<td>- Capex (Intangibles)</td>
<td>-1.4</td>
<td>-0.4</td>
<td>0.0</td>
<td>0.0</td>
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</tr>
<tr>
<td>- Acquisitions/divestments</td>
<td>0.0</td>
<td>1.7</td>
<td>-10.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Free Cashflow</td>
<td>1.5</td>
<td>5.1</td>
<td>5.9</td>
<td>6.3</td>
<td>9.7</td>
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<tr>
<td>- Ord Dividends</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>- Equity Other</td>
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<td>0.0</td>
<td>19.6</td>
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<td>0.0</td>
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<td>Net Cashflow</td>
<td>13.0</td>
<td>5.1</td>
<td>5.9</td>
<td>6.3</td>
<td>9.7</td>
</tr>
<tr>
<td>Cash at beginning of period</td>
<td>9.7</td>
<td>24.4</td>
<td>20.2</td>
<td>34.8</td>
<td>41.1</td>
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<tr>
<td>+/- borrowings / other</td>
<td>1.7</td>
<td>0.9</td>
<td>1.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Cash at end of period</td>
<td>24.4</td>
<td>20.2</td>
<td>34.8</td>
<td>41.1</td>
<td>50.8</td>
</tr>
</tbody>
</table>

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 185 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.

**Distribution of Ratings:**

<p>| Global Stock Ratings (as of 01/28/16) |
|-------------------------------|-----------------|-----------------|</p>
<table>
<thead>
<tr>
<th>Rating</th>
<th>Coverage Universe</th>
<th>IB Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>652</td>
<td>69.66%</td>
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<tr>
<td>Hold</td>
<td>255</td>
<td>27.24%</td>
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<tr>
<td>Sell</td>
<td>29</td>
<td>3.10%</td>
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<tr>
<td>Total</td>
<td>936*</td>
<td>100.0%</td>
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*Total includes stocks that are Under Review

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Freelancer Limited Rating History as of 01/26/2016

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