Freelancer Ltd (FLN.ASX)

High organic growth, topped with Escrow & A$ tailwind

Event:
- Release of December 2015 quarterly.

Investment Highlights:
- 62% YoY top-line growth underpinned by organic growth. FLN released its December (4QFY15) quarterly with 62% YoY growth in cash receipts to $11.9M, equating to $21.6M for the 2HFY15. This was in line with our forecast of $21.4M in sales for the 2HFY15.
- Our approximate breakdown of FLN's 4Q growth is: 34% from the core marketplace business (constant currency); 16% from currency movements (principally the weaker A$); and 12% from Escrow.com
- The key positive is that the core marketplace business is still powering ahead. We believe that FLN's efforts in making freelancer.com more mobile friendly is enhancing customer usage and growth in projects posted. 23% of FLN now using mobile to access a project. Our estimate of 34% organic growth of 33% compares favourably with 25% we determined in the 3Q.
- Escrow.com generates 34% YoY growth for FY15. Escrow.com generated gross payment volume of US$430M in FY15, up 34% YoY. This was markedly greater than the 18% CAGR generated over 2009-2014. We believe this was attributable to greater awareness of the business and its offering. We expect FLN will extract both improvements in Escrow’s GPV as well as net revenues. FLN is moving Escrow.com to 24/7/365 support and adding more language support including Chinese.
- FLN generated operating cashflow of $0.4M in the 4Q and $1.4M for FY15. We expect the company to continue re-investing most revenues into development expenditure in FY16, especially in hiring of computer scientists and engineers to continue to improve the products. However we expect within 18 months to two years the economies of scale will become noticeable evident in profitability. Cash end quarter was $32.4M, post settlement of the Escrow.com acquisition.
- Number of projects posted and registered users on freelancer.com increasing. FLN measure of projects posted (now filtered to remove projects deemed bad or unable to be fulfilled) grew 25% in FY15 to 1.69M. Number of projects posted is a key driver of FLN’s topline growth. Registered users were >16M end FY15.

Earnings and Valuation:
- Only slight changes to NPAT and valuation. We have only made minor changes to our forecasts, factoring in the cash and operating cashflows for end FY15. We have updated our currency forecast (US$0.70 and US$0.68 for FY16 and FY17 vs $0.75 and $0.73 previously). We forecast NPAT of -$3.1M in FY15 previously - $2.5M) while our FY16 forecast $0.1M remains unchanged. Our valuation increases slightly to $1.95/share now (previously $1.93), while our 1-year forward NPV is $2.15/share.

Recommendation:
- We maintain our Buy recommendation and increase our price target to $2.15/share (previous $1.93) in line with our valuation in 12 months’ time. Catalysts include further strong top-line growth. We will revisit the company post its full year profit result expected on 23 February.

Disclaimer: Foster Stockbroking Pty Ltd does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Refer full disclosures at the end of this report.
Freelancer Ltd (FLN)
Full Year Ended 31 December

Profit and Loss A$M 2014a 2015e 2016e 2017e
Sales revenue 25.7 38.0 59.7 77.8
Other revenue 0.2 0.1 0.2 0.2
Operating Costs 28.2 41.4 59.9 78.0
EBITDA -2.1 -3.2 0.0 0.0
D&A 0.3 0.5 0.7 0.9
EBIT -2.4 -3.7 -0.7 -0.9
Net Interest exp / (income) 0.0 -0.2 -0.8 -1.1
Profit before tax -2.8 -3.5 0.1 0.1
Tax exp / (benefit) -1.0 -0.4 0.0 0.0
NPAT before minorities -1.8 -3.1 0.1 0.1
Minority interest 0.0 0.0 0.0 0.0
Rep. NPAT -1.8 -3.1 0.1 0.1
Significant items 0.0 0.0 0.0 0.0
NPAT attributable reported -1.8 -3.1 0.1 0.1
EPS diluted (c) 4.8 0.2 -0.4 -0.7

Cashflow A$M 2014a 2015e 2016e 2017e
EBITDA -2.1 -3.2 0.0 0.0
Change in WC 1.8 0.7 8.0 12.7
Tax paid -0.2 0.0 0.0 0.0
Net interest 0.2 0.1 0.8 1.1
Other 0.2 1.0 1.0 1.0
Operating Cashflow -0.1 -1.4 9.8 14.7
Acquisitions -4.1 -10.4 0.0 0.0
Capex -0.9 -4.0 -0.9 -1.2
Investing Cashflow -5.0 -14.4 -0.9 -1.2
Equity raising 0.0 20.1 0.0 0.0
Other -0.1 -0.2 0.0 0.0
Financing Cashflow -0.1 19.9 0.0 0.0
Net Cashflow -5.2 4.0 8.9 13.6

Balance Sheet A$M 2014a 2015e 2016e 2017e
Cash 20.2 32.2 41.1 54.6
Receivables 3.0 4.9 7.7 9.0
PPE 1.1 4.2 4.5 4.7
Intangibles 13.0 23.1 23.1 23.1
Deferred tax 1.8 2.4 2.4 2.5
Other 1.2 2.5 4.6 6.0
Total Assets 40.2 69.4 83.4 100.0
Accounts payable 21.8 35.6 46.4 60.4
Provisions 1.2 1.9 1.4 1.8
Deferred revenue 0.4 0.5 0.7 0.9
Other 0.0 0.5 0.7 2.5
Total Liabilities 23.4 35.2 49.2 65.7
Reserves and capital 17.6 38.0 38.0 38.0
Retained earnings -0.8 -3.9 -3.8 -3.7
Total Equity 16.8 34.1 34.2 34.3

Financial Metrics 2014a 2015e 2016e 2017e
Sales growth % 39% 47% 57% 30%
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% -12% 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 27.9 18.9 12.2 9.2
Dividend yield % 0 0 0 0

Net debt (cash) 32 0.07 0.0 0.0
Enterprise value 856 1.88
Net debt (cash) 32 0.07
Equity (NPV) 888 1.95
Acquisitions -4.1 -10.4 0.0 0.0
Capex -0.9 -4.0 -0.9 -1.2
Investing Cashflow -5.0 -14.4 -0.9 -1.2
Equity raising 0.0 20.1 0.0 0.0
Other -0.1 -0.2 0.0 0.0
Financing Cashflow -0.1 19.9 0.0 0.0
Net Cashflow -5.2 4.0 8.9 13.6

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
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.

### FOSTER STOCKBROKING DIRECTORY

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