



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 2HFY15e.
- 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 \$32.2M, 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.

Recommendation	Buy
Previous	Buy
Price Target	\$ 2.15
Previous	\$ 1.93
Share Price (A\$)	1.685
ASX Code	FLN
52 week low - high (A\$)	0.59-1.93
Valuation	\$1.95/share
Methodology	DCF
Risk	Med
Capital structure	
Shares on Issue (M)	456.3
Market Cap (A\$m)	768.9
Net Debt/(Cash) (A\$m)	-32.0
EV (A\$m)	736.9
12mth Av Daily Volume ('000)	265.0

Y/e Dec Forecasts	2014a	2015e	2016e	2017e
Revenue A\$m	25.7	38.0	59.7	77.8
Revenue growth	39%	47%	57%	30%
NPAT A\$m	-1.8	-3.1	0.1	0.1
EV/sales	27.9	18.9	12.2	9.2

Share Price Graph



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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

Source: Company; Foster Stockbroking estimates

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

Equity Valuation - DCF	A\$M	A\$/share
Enterprise value	856	1.88
Net debt (cash)	32	0.07
Equity (NPV)	888	1.95

Shares on issue	M
Ordinary shares	456.3
Fully Diluted	456.3

Major shareholders	Interest
Matt Barrie	42%
Simon Clausen	34%

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



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