



Freelancer Ltd (FLN.ASX)

Growth still strong as foundations for scale continue building

Event:

- Release of Freelancer (FLN) Interim 2016 Result and June Quarterly.

Investment Highlights:

- FLN released another emphatic interim result, with key indicators displaying still-remarkable double-digit growth.**
- For the Freelancer.com marketplace segment** registered users were up >17% YoY to >20M, projects posted up 40% to 1.4M, GPV rose 26% to \$80.9M, and sales revenue increased 31% to \$21.8M. We estimate currency tailwind (weaker A\$ YoY) was only minor (ca. 5%), resulting in our estimate of 26% constant currency growth for marketplace revenues.
- For the Escrow.com payment segment, it was the first full six months for contributing group earnings, following the acquisition in November 2015.** FLN stated that revenue growth was up 18% constant currency. Assuming mostly US\$ transactions, we estimate this to be 26% YoY in A\$ terms.
- NPAT was -\$0.8M for the half in-line with consensus.** Group sales growth was 57% YoY which comprised 31% from marketplace and 26% from Escrow.com. Cash was \$35.2M end June. Quarterly cashflow was a record \$2.6M for the 2QFY16, with receipts up 51% YoY.
- Business outlook to underpin continuing double-digit growth.** FLN is undertaking a number of initiatives across both segments which should continue propelling growth for the next few years. These include increases in project liquidity and bids per hour, mobile penetration, and messaging for its freelancer marketplace; and adding payment gateways, support, currencies, languages, engineers, and scientists to Escrow.com.
- The next 18 months should see FLN's earnings pass through an inflection point** as it leverages economies of scale in delivering earnings. Given the performance in the interim we believe this a reasonable assumption and it is reflected in our earnings forecasts. We estimate that double-digit growth in sales will outperform growth in employees and marketing longer term.

Earnings and valuation:

- We have made only slight revisions to our earnings projections.** We forecast NPAT of \$0.0M, \$0.5M, and \$2.4M in FY16e, FY17e, and FY18e (previously \$0.1M, \$0.1M, and \$2.5M).
- Our valuation has decreased to \$1.98 now and \$2.19 in 12 months (previously \$2.05 and \$2.29),** mostly due to increase in our long-term A\$ forecast.

Recommendation:

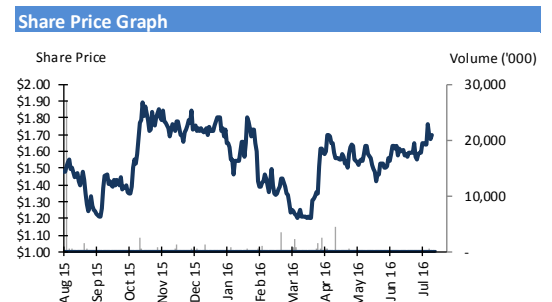
- We maintain our Buy recommendation on FLN, and reduce our 12-month price target to \$2.19 (previously \$2.29)** in-line with our 12-month forward valuation.
- Catalysts for the stock include continuing strong double-digit growth in revenues;** improvements to the Escrow.com and freelancer marketplace businesses; and improving profitability.

Recommendation	Buy
Previous	Buy
12 mth Price Target	\$ 2.19
Previous	\$ 2.29
Share Price (A\$)	1.705
ASX Code	FLN
52 week low - high (A\$)	1.15-1.93
Valuation \$/sh	\$1.98 now, \$2.19 in 12mths
Methodology	DCF
Risk	Med
Capital structure	
Shares on Issue (M)	458.7
Market Cap (A\$m)	782.1
Net Debt/(Cash) (A\$m)	-35.2
EV (A\$m)	746.9
12mth Av Daily Volume ('000)	316.0

Y/e Dec Forecasts	2015a	2016e	2017e	2018e
Revenue A\$m	38.2	57.2	72.9	90.9
Revenue growth	48%	50%	28%	25%
NPAT A\$m	-2.8	0.0	0.5	2.4
EPS c	-0.6	0.0	0.1	0.5
PER x	nm	nm	nm	nm
EV/sales	19.2	13.0	10.0	7.9

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

Substantial shareholders	
Matt Barrie	43.8%
Simon Clausen	36.0%



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Freelancer Ltd (FLN)

Full Year Ended 31 December

Profit and Loss A\$M	2015a	2016e	2017e	2018e
Sales revenue	38.2	57.2	72.9	90.9
Other revenue	0.2	0.1	0.1	0.1
Operating Costs	41.8	56.8	72.2	88.4
EBITDA	-3.4	0.4	0.7	2.6
D&A	0.5	0.8	1.0	1.2
EBIT	-3.9	-0.4	-0.3	1.3
Net Interest exp / (income)	-0.2	-0.4	-0.8	-1.0
Profit before tax	-3.7	0.0	0.5	2.4
Tax exp / (benefit)	-0.9	0.0	0.0	0.0
NPAT before minorities	-2.8	0.0	0.5	2.4
Minority interest	0.0	0.0	0.0	0.0
Rep. NPAT	-2.8	0.0	0.5	2.4
Significant items	0.0	0.0	0.0	0.0
NPAT attributable reported	-2.8	0.0	0.5	2.4
EPS diluted (c)	-0.6	0.0	0.1	0.5
Cashflow A\$M	2015a	2016e	2017e	2018e
EBITDA	-3.4	0.4	0.7	2.6
Change in WC	4.9	7.7	8.6	8.8
Tax paid	0.0	-0.3	0.0	0.0
Net interest	0.2	0.4	0.8	1.0
Other	-0.2	1.6	2.0	2.5
Operating Cashflow	1.5	9.9	12.1	14.9
Acquisitions	-10.3	-1.0	0.0	0.0
Capex	-1.0	-0.7	-1.2	-1.5
Investing Cashflow	-11.2	-1.7	-1.2	-1.5
Equity raising	20.1	0.3	0.0	0.0
Other	-0.5	0.0	0.0	0.0
Financing Cashflow	19.7	0.3	0.0	0.0
Net Cashflow	9.9	8.5	10.9	13.4
Balance Sheet A\$M	2015a	2016e	2017e	2018e
Cash	32.2	40.2	51.1	64.5
Receivables	3.6	4.8	6.1	7.6
PPE	1.7	1.6	1.8	2.1
Intangibles	23.9	24.9	24.9	24.9
Deferred tax	2.9	3.4	3.4	4.1
Other	1.4	1.5	1.9	2.3
Total Assets	65.6	76.3	89.1	105.5
Accounts payable	31.3	36.4	46.3	56.6
Provisions	1.4	1.4	1.8	2.2
Deferred revenue	0.8	1.3	1.7	2.1
Other	0.0	1.3	3.2	6.0
Total Liabilities	30.7	40.6	53.0	67.0
Reserves and capital	38.5	39.5	39.5	39.5
Retained earnings	-3.6	-3.8	-3.3	-1.0
Total Equity	34.9	35.6	36.2	38.5

Source: Company; Foster Stockbroking estimates

Financial Metrics	2015a	2016e	2017e	2018e
Sales growth %	48%	50%	28%	25%
EPS growth %	nm	nm	nm	nm
EBITDA margin	-9%	1%	1%	3%
EBIT margin	-10%	-1%	0%	1%
Gearing (ND/ND+E)	nm	nm	nm	nm
Interest Cover (EBIT/net int)	nm	nm	nm	nm
Average ROE %	-11%	0%	1%	6%
Average ROA %	-15%	-1%	-1%	4%
Wtd ave shares (M)	440	452	456	456
Wtd ave share diluted (M)	450	459	460	460

Valuation multiples	2015a	2016e	2017e	2018e
P/E x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	nm
EV/EBIT x	nm	nm	nm	nm
EV/sales x	19.2	13.0	10.0	7.9
Dividend yield %	0	0	0	0

Equity Valuation - DCF	Now		12 months time	
	A\$M	A\$/sh	A\$M	A\$/sh
Enterprise value	876.5	1.91	955.2	2.08
Net debt (cash)	-35.2	-0.08	-51.1	-0.11
Equity (NPV)	911.7	1.98	1,006.3	2.19

Shares on issue	M
Ordinary shares	458.7
Fully Diluted	458.7

Major shareholders	Interest
Matt Barrie	42%
Simon Clausen	34%

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

**FLN 2016 INTERIM RESULT: KEY INDICATORS STRONG ALL ROUND**

- Freelancer (FLN) reported both its 2QFY16 and 1HFY16 profit result last week. Major parameters all displayed an increasing trend, both for the whole group, as well as for the freelancer marketplace. The only exception was average project size, which deliberately has been pushed downwards to entice more freelancers and project volumes, and the dilutive impact of Escrow.com on the take rate given the relatively low fee structure in the payments industry.

Freelancer.com marketplace – performance still attractive

- Notable highlight was that FLN's marketplace still grew at double-digits YoY across a range of key performance indicators: Registered users now >20M (up >17% YoY), projects posted during the half 1.4M (+40%), marketplace GPV of \$80.9M (+26%). Marketplace take rate was up 3% to 27.0%.

Escrow.com payments – also achieving lift

- While Escrow.com was not part of FLN during the pcp, the company did provide some detail on the YoY performance of the segment's key indicators. It was a healthy result, with the number of transactions on the platform increasing 20% YoY to 30.4k, and new users added rising 19% to 40.7k.

Figure 1: Change in Key FLN Parameters in 1HFY16a

Parameter	Unit	1H15a	1H16a	Chng
Marketplace users	M	16.2	19.0	17%
Payments users	M	na	1.0	nm
Registered users total	M	16.2	>20.0	23%
Projects:				
Posted	k	1,000	1,400	40%
Average size	US\$	171	164	-4%
Payments:				
Transactions	k	25.3	30.4	20%
Average GPV per transaction	A\$	na	9,043	nm
Marketplace GPV	A\$M	64.1	80.9	26%
Payments GPV	A\$M	0	274	nm
GPV total	A\$M	64.1	354.9	454%
Marketplace take rate	%	26.2%	27.0%	3%
Payments take rate	%	na	1.6%	nm
Take rate blended	%	27.7%	7.4%	-73%

Source: Company; Foster Stockbroking estimates.

**PROFIT IN-LINE: MARKETPLACE EXHIBITS HIGH GROWTH & ESCROW PROFITABLE**

- FLN's reported an interim NPAT of -\$0.8M which was in-line with consensus and a slight improvement over the pcg, with growth in sales the key driver. Sales were \$26M which were slightly below consensus estimates of \$28M, but still nevertheless exhibited remarkable growth both from the marketplace and Escrow.com. Group sales growth was 57% YoY, with marketplace growing at 31% YoY and the balance (26%) of incremental growth attributable to Escrow.com.
- The A\$ in the 1H was 6% weaker YoY. Assuming 85% of FLN's revenues are in US\$, we estimate only 5% of the total 57% revenue growth was driven by currency impact.
- The company split its EBITDA contribution across for its businesses, which showed that Escrow.com yielded \$0.6M EBITDA and the core marketplace generated -\$0.5M.

Figure 2: FLN Profit & loss

Interim 6 mths to June (A\$M)	1H 2015a	1H 2016a	Chng
Marketplace sales	16.6	21.8	31%
Payments sales	na	4.3	na
Sales total	16.6	26.1	57%
Other revenue ex-interest	0.1	0.1	0%
Total revenue	16.7	26.1	56%
Marketplace	-1.0	-0.5	nm
Payments	0.0	0.6	nm
Corporate	-0.6	-0.7	11%
EBITDA	-1.6	-0.6	nm
Margin	-9.6%	-1.9%	nm
D&A	0.2	0.4	77%
EBIT	-1.8	-0.9	nm
Margin	-10.8%	-3.3%	nm
Net interest expense (income)	-0.1	-0.1	nm
PBT	-1.7	-0.8	nm
Tax expense (income)	-0.4	0.0	nm
NPAT	-1.3	-0.8	nm
EPS diluted c	-0.29	-0.17	nm
Wtd ave shares diluted M	433.5	447.9	3%

Source: Company; Foster Stockbroking estimates.

Escrow.com growth should lift further as business is rebooted

- The interim was the first full contribution of Escrow.com for six months. The company stated that constant currency growth of revenue for the business was 18% YoY, which we estimated to be 26% in A\$ terms. This is only slightly below the already exceptional growth rate of FLN’s marketplace, and a marked improvement over the historical performance Escrow.com has displayed.
- We expect that Escrow.com’s growth can approach that of the marketplace as FLN remodels the business to be more proactive and improve its offering e.g. 24/7 support, expansion of currencies and languages on offer.

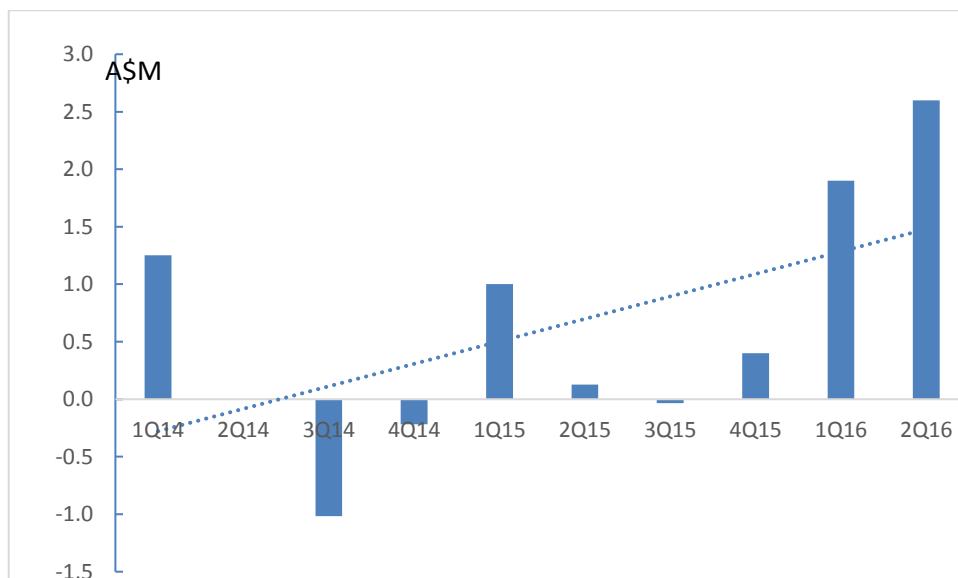
Cash position sound at \$35.2M

- Cash at end June 2016 was \$35.2M and debt nil. We believe this is sufficient funding for FLN to manage both the freelancer and payments business, as well as for any attractive M&A opportunities that may arise.

2Q ANALYSIS - RECORD OPERATING CASHFLOW

- FLN’s produced \$2.6M operating cashflow for the 2nd quarter, a record for its quarterlies, and also generated a record \$4.5M operating cashflow for the interim period.
- Receipts were up 51% YoY for the 2Q to \$13.3M. While FLN did not provide a quarterly split for Escrow.com, we estimate the latter generated ca. \$2.3M, implying core marketplace receipts growth was 38% YoY.
- The company only slightly benefited from A\$ currency impacts. The A\$ declined 4% in 2Q16 vs the pcp. We estimate FLN’s receipts growth would have benefited only by 3% from the weaker currency.

Figure 3: FLN Quarterly Operating Cashflow



Source: Company; Foster Stockbroking estimates.



BUSINESS OUTLOOK – CONTINUED IMPROVEMENTS

- Unsurprisingly, the company stated that 2016 will be an exceptional year. We believe this is based on the stellar revenue FLN is experiencing, as well as the significant initiatives the company is undertaking to maintain and drive this growth. All this is against a positive macro backdrop of increasing internet penetration across the developing world; the drive for developing world inhabitants to improve economic status; and the developed world outsourcing and migrating traditional offline tasks to online.

Marketplace - increasing liquidity

- As part of seeking to increase marketplace efficiency and optimise conversion, FLN has, and is, introducing a number of initiatives to increase project liquidity. This has eventuated in the average number of bids per hour gradually increasing over the past year to ca. between 15 and 16 vs 8 to 9 a year ago.
- **Mobile penetration.** FLN stated that 82% of projects now touch mobile. Further development is geared to enhance user experience on mobile. This should speed up project completions as freelancers and posters can communicate, post, and work on projects “on the go” using the portability benefits of mobile.
- **Messaging increases.** The company reported a 48% YoY increase in active threads. Messaging facilitates the communications between posters and freelancers, and should reduce the likelihood of off-site interactions.

Payments – Enhancing the Escrow.com offering

- For Escrow.com, the addition of new currencies, payment gateways, and languages is key to propelling wider user acceptance. Support hours have, and are, being extended. The company is also hiring scientists and engineers for Escrow.com to improve and expand offerings including the user experience.
- On reducing costs, the company has relocated Escrow.com’s office and migrated technical stack to Amazon Web Services from legacy infrastructure.

EARNINGS FORECASTS – SLIGHT REVISIONS

- We have only made slight revisions to our NPAT forecasts, revising them to \$0.0M, \$0.5M, and \$2.4M in FY16e, FY17e, and FY18e (previous: \$0.1M, \$0.1M, and \$2.5M).
- We believe the next 18 months is a critical period for FLN, envisaging that it will progress through an inflection point in its earnings growth, viz. that its economies of scale will begin to impact as its revenue growth outperforms that of its cost base. We forecast that earnings lift will be most markedly reflected in FY18e and beyond.
- In the short term we still anticipate most of the gross profit generated to be reinvested into marketing and employees, especially as the company restructures Escrow.com to better perform in terms of support and services (e.g. moving to 24/7 support, offering more languages and currencies, product development).

**VALUATION – REDUCED TO \$1.98 NOW AND \$2.19 IN 12 MONTHS.**

- Our valuation of FLN has reduced to \$1.98 now (previously \$2.05) and to \$2.19/share in 12 months' time (previous \$2.29/share). Most of the decline is due to an increase in our A\$ forecasts, with our long-term increasing to US\$0.75 from US\$0.72.

Figure 4: FLN Equity Valuation

	Now		12 months	
	A\$M	A\$/sh	A\$M	A\$/sh
Enterprise value	876.5	1.91	955.2	2.08
Net debt (cash)	-35.2	-0.08	-51.1	-0.11
Equity (NPV)	911.7	1.98	1,006.3	2.19

Source: Company; Foster Stockbroking estimates.

RECOMMEDNATION – MAINTAIN BUY, PRICE TARGET REDUCED TO \$2.19

- We maintain our Buy recommendation of FLN with a 12-month price target of \$2.19, in-line with our 12-month forward valuation (previously \$2.29).
- Catalysts include continued strong revenue growth; improvement in performance of Escrow.com; and increasing profitability.



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