



## Freelancer Ltd (FLN.ASX)

*Keep on growing...*

### Event:

- Release of March 2016 quarterly.

### Investment Highlights:

- **Freelancer Ltd (FLN) reported another strong quarter of receipts growth: \$12.8M for 1QCY16, up 60% YoY.** Stripping out our estimate of the impact of the A\$ currency tailwind (down 8% YoY vs US\$), we estimate constant currency growth was still an impressive 53% YoY.
- **This was the first quarter to feature a full contribution from Escrow.com** for the whole three months, which boosted top-line growth. FLN did not provide a breakdown of receipts between Escrow.com and the core freelancer marketplace for the quarter, however we have made a guesstimate in order to determine the latter's growth.
- **We estimate that the core freelancer marketplace probably delivered ca. mid-20s% constant currency receipts growth YoY for 1QCY16**, which is in-line both with the average performance for this business over the previous year's quarters, and with our own projections. We arrived at this estimate by assuming Escrow.com achieved around \$2M in receipts (we note it achieved \$8.2M in revenues last year). We assumed negligible seasonality impact and some YoY growth.
- **While FLN did not report revenues for Escrow.com, it did mention constant currency growth for the business was 18% YoY.** We believe that GPV for the business grew at a higher rate. It is still early days for Escrow.com under the stewardship of FLN, and we expect performance of the business both at a revenue and profitability level to improve over the next 12-18 months.
- **The other notable highlight of the quarterly was the \$1.9M in net operating cashflow, which was greater than that achieved for the whole of CY15.** While no doubt a positive and reflecting FLN's leverage to scale effects, we do not expect this to be necessarily replicated over the balance of the year. The following quarters may result in a lower operating cashflow, as the company is still in investment mode, for both Escrow.com and the core marketplace. **Cash at the end of the quarter was \$33.1M.**

### Earnings and valuation:

- **Our earnings projections remain unchanged.** We forecast NPAT of \$0.1M for both FY16e and FY17e.
- **We have increased our valuation of FLN to \$2.05/share now and \$2.29/share in one year's time (previously \$1.95 and \$2.15).** This is due to roll-forward of our DCF by 12 months, employing 10% WACC and terminal growth 3%.

### Recommendation:

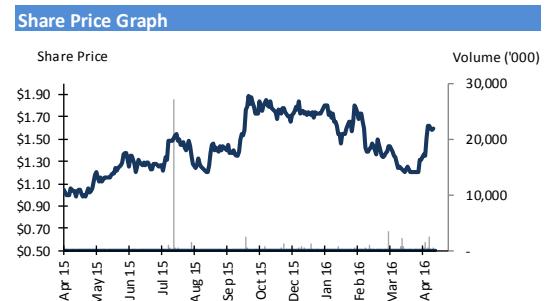
- **We maintain our Buy recommendation on FLN with a 12-month price target of \$2.29/share** (previously \$2.15), based on our one-year forward valuation.
- **Catalysts for the stock include continuing strong double-digit growth in revenues;** improvements to the Escrow.com and core marketplace businesses; and synergistic acquisitions.

Recommendation	Buy
Previous	Buy
12 mth Price Target	\$ 2.29
Previous	\$ 2.15
Share Price (A\$)	1.60
ASX Code	FLN
52 week low - high (A\$)	0.96-1.93
Valuation	\$2.05/share
Methodology	DCF
Risk	Med
Capital structure	
Shares on Issue (M)	458.7
Market Cap (A\$m)	733.9
Net Debt/(Cash) (A\$m)	-33.1
EV (A\$m)	700.8
12mth Av Daily Volume ('000)	316.0

Y/e Dec Forecasts	2015a	2016e	2017e	2018e
Revenue A\$m	38.2	57.1	74.4	93.2
Revenue growth	48%	57%	30%	25%
NPAT A\$m	-2.8	0.1	0.1	2.5
EPS c	-0.6	0.0	0.0	0.6
PER x	nm	nm	nm	nm
EV/sales	18.5	12.4	9.4	7.4

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	57.1	74.4	93.2
Other revenue	0.2	0.3	0.4	0.5
Operating Costs	41.8	57.4	74.8	90.0
<b>EBITDA</b>	<b>-3.4</b>	<b>0.0</b>	<b>0.0</b>	<b>3.7</b>
D&A	0.5	0.7	1.0	1.2
<b>EBIT</b>	<b>-3.9</b>	<b>-0.7</b>	<b>-1.0</b>	<b>2.5</b>
Net Interest exp / (income)	-0.2	-0.8	-1.1	0.0
<b>Profit before tax</b>	<b>-3.7</b>	<b>0.1</b>	<b>0.1</b>	<b>2.5</b>
Tax exp / (benefit)	-0.9	0.0	0.0	0.0
<b>NPAT before minorities</b>	<b>-2.8</b>	<b>0.1</b>	<b>0.1</b>	<b>2.5</b>
Minority interest	0.0	0.0	0.0	0.0
<b>Rep. NPAT</b>	<b>-2.8</b>	<b>0.1</b>	<b>0.1</b>	<b>2.5</b>
Significant items	0.0	0.0	0.0	0.0
<b>NPAT attributable reported</b>	<b>-2.8</b>	<b>0.1</b>	<b>0.1</b>	<b>2.5</b>
<b>EPS diluted (c)</b>	<b>-0.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.6</b>

Cashflow A\$M	2015a	2016e	2017e	2018e
EBITDA	-3.4	0.0	0.0	3.7
Change in WC	4.9	9.9	11.4	9.6
Tax paid	0.0	0.0	0.0	0.0
Net interest	0.2	0.8	1.1	0.0
Other	-0.2	-0.2	-0.2	-0.2
<b>Operating Cashflow</b>	<b>1.5</b>	<b>10.5</b>	<b>12.2</b>	<b>13.1</b>
Acquisitions	-10.3	0.0	0.0	0.0
Capex	-1.0	-1.0	-1.2	-1.5
<b>Investing Cashflow</b>	<b>-11.2</b>	<b>-1.0</b>	<b>-1.2</b>	<b>-1.5</b>
Equity raising	20.1	0.0	0.0	0.0
Other	-0.5	0.0	0.0	0.0
<b>Financing Cashflow</b>	<b>19.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net Cashflow</b>	<b>9.9</b>	<b>9.5</b>	<b>11.0</b>	<b>11.6</b>

Balance Sheet A\$M	2015a	2016e	2017e	2018e
Cash	32.2	41.7	52.7	64.3
Receivables	3.6	5.3	7.0	8.7
PPE	1.7	1.9	2.1	2.4
Intangibles	23.9	23.9	23.9	23.9
Deferred tax	2.9	2.9	2.7	3.5
Other	1.4	4.3	5.6	7.0
<b>Total Assets</b>	<b>65.6</b>	<b>79.9</b>	<b>93.9</b>	<b>109.7</b>
Accounts payable	31.3	43.0	56.0	67.3
Provisions	1.4	1.0	1.3	1.5
Deferred revenue	0.8	1.1	1.4	1.8
Other	0.0	0.0	0.3	1.6
<b>Total Liabilities</b>	<b>30.7</b>	<b>45.0</b>	<b>58.9</b>	<b>72.2</b>
Reserves and capital	38.5	38.5	38.5	38.5
Retained earnings	-3.6	-3.5	-3.5	-0.9
<b>Total Equity</b>	<b>34.9</b>	<b>35.0</b>	<b>35.0</b>	<b>37.6</b>

Source: Company; Foster Stockbroking estimates

Financial Metrics	2015a	2016e	2017e	2018e
Sales growth %	48%	57%	30%	25%
EPS growth %	nm	nm	nm	nm
EBITDA margin	-9%	0%	0%	4%
EBIT margin	-10%	-1%	-1%	3%
Gearing (ND/ND+E)	nm	nm	nm	nm
Interest Cover (EBIT/net int)	nm	nm	nm	nm
Average ROE %	-11%	0%	0%	7%
Average ROA %	-15%	-2%	-3%	7%
Wtd ave shares (M)	440	457	459	459
Wtd ave share diluted (M)	450	457	459	459

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	19.1	12.8	9.7	7.6
Dividend yield %	0	0	0	0

Equity Valuation - DCF	Now	12 months time		
	A\$M	A\$/sh	A\$M	A\$/sh
Enterprise value	907.5	1.98	996.7	2.17
Net debt (cash)	-33.0	-0.07	-52.7	-0.11
<b>Equity (NPV)</b>	<b>940.5</b>	<b>2.05</b>	<b>1,049.4</b>	<b>2.29</b>

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



## FOSTER STOCKBROKING DIRECTORY

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