

FY15 RESULTS INLINE, FURTHER GROWTH SET FOR FY16 AND BEYOND

Investment Highlights

- Freelancer Limited (FLN) reported its FY15 Full Year Financial Report which was broadly in line with expectations, and with most metrics setting new records for the Company, which highlights the underlying strength of the business. Management continues to aggressively grow the business, focussing on key revenue drivers such as increased user and jobs posted growth, as well as increased take up of value add services and memberships. We firmly believe in the future potential of FLN, and upgrade to a BUY recommendation, on the recent retracement of the share price, and have a \$1.71 price target.**
- FY15 Result:** FLN reported revenue of \$38.6m (PSL \$38.3m), which was up 48% from FY14, an increase in the take-up rate to 26.6% and steady Gross Profit margins at 87%. FLN reported an EBITDA loss of \$2.0m (PSL -\$0.5m) and Net Loss of \$1.6m (PSL -\$1.1m). Operating Cash Flow in the year was \$1.5m. FLN acquired Escrow.com in FY15 for \$10.0m net of cash, which contributed \$1.8m in revenue to the combined entity for the months of November and December. Costs increased above our expectations, with employee expenses increasing to \$17.9m from \$14.3m and marketing costs increasing by c150% to \$6.9m from \$2.8m. FLN's registered users increased by 4.4m to a total of 18.7m users in FY15 and a key metric, Total Jobs Posted (Filtered), increased to 8.0m with 1.7m new jobs being added in FY15.
- Revenue growth potential:** Going forward, we believe that FLN can continue to grow revenue quickly, both organically and via further acquisitions. We have forecast revenues to grow at 32.5% in CY16, 20% in CY17, and 15% in CY18 before slowing to low double digit growth beyond CY18. We also expect the Company to continue to generate high gross margins (above 85%). Profitability in the next few years will rest solely with management and how hard they push growth opex. We anticipate FLN to be NPAT positive in the first half of FY16 and continue to be operating cash flow positive. FLN is debt free and had cash on hand of approximately \$32.2 million at 31 December 2015.
- Valuation:** We expect increased revenue going forward, due to growth in the Freelancer platform and the contributions from the acquisition of Escrow.com (c\$10.0m p.a forecast), in addition to an increased take-up rate and high steady gross margins. This has increased our valuation to \$1.71/sh (from \$1.60/sh), and given the recent retracement of the share price, we move to a BUY recommendation.

Year End December 31	2014A	2015A	2016F	2017F	2018F
Reported NPAT (\$m)	0.2	(1.8)	(5.0)	(1.1)	6.5
Recurrent NPAT (\$m)	0.2	(1.8)	(5.0)	(1.1)	6.5
Recurrent EPS (cents)	0.1	(0.4)	(1.1)	(0.2)	1.4
EPS Growth (%)	(85.5)	na	na	na	na
PER (x)	2,811.7	(374.4)	(135.0)	(633.9)	104.1
PEG	na	na	na	na	na
EBITDA (\$m)	(0.6)	(2.2)	(4.5)	0.8	10.9
EV/EBITDA (x)	(1,073.2)	(299.1)	(144.4)	766.2	56.2
Capex (\$m)	1.3	1.0	1.0	1.2	1.4
Free Cashflow	0.7	1.3	(1.9)	4.7	11.8
FCFPS (cents)	0.2	0.3	(0.4)	1.0	2.6
FCFV (x)	960.7	507.0	(357.6)	145.9	57.8
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

24 February 2016

12mth Rating		BUY
Price	A\$	1.50
Target Price	A\$	1.71
12mth Total Return	%	14.6
RIC: FLN.AX		BBG: FLN AU
Shares o/s	m	455.5
Free Float	%	66.0
Market Cap.	A\$m	681.0
Net Debt (Cash)	A\$m	-32.2
Net Debt/Equity	%	na
3mth Av. D. T'over	A\$m	0.35
52wk High/Low	A\$	1.89/0.84
2yr adj. beta		1.22
Valuation:		
Methodology		DCF
Value per share	A\$	1.71

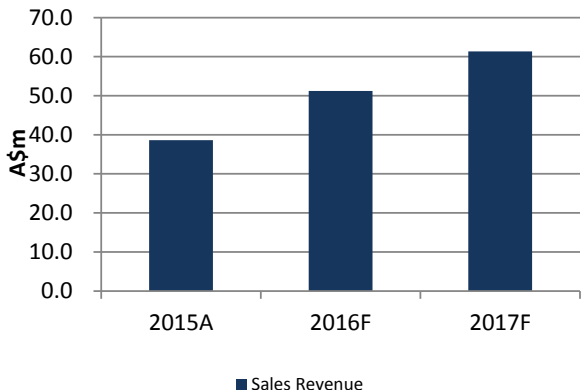
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12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	-15.0	-23.4	56.3
Rel. S&P/ASX 300	-9.9	-16.7	67.4

Freelancer Limited		Price \$1.50		Year End December 31				
Valuation		\$m	\$/sh	Profit & Loss (\$m)				
Present value of free cash flows		748.4	1.64	Sales Revenue	2015A	2016F	2017F	2018F
Net cash/(debt)		32.2	0.07	EBITDA	(3.0)	2.9	8.5	19.0
DCF valuation		780.7	1.71	D&A	(0.5)	(0.7)	(0.8)	(0.9)
WACC	11.8%			EBIT	(3.5)	2.2	7.7	18.1
Terminal growth	3.0%			Net Interest	0.0	0.6	0.8	1.1
				Pre-tax Profit	(3.5)	2.8	8.6	19.2
		2016F	2017F	Tax expense	0.9	(0.5)	(1.9)	(4.5)
Sales (\$m)		51.2	61.3	Reported NPAT	(2.7)	2.3	6.6	14.7
Sales multiple		10.5x	10.5x	Significant items net	0.2	0.0	0.0	0.0
Net Debt (Cash) (\$m)		(37.6)	(50.0)	Normalised NPAT	(2.5)	2.3	6.6	14.7
Implied Valuation (\$m)		575.2	694.2	Normalised EPS (cps)	-0.01	0.00	0.01	0.03
Capitalised earnings per share		\$1.26	\$1.52	DPS (cps)	0.00	0.00	0.00	0.00

Forecast revenues		Cash Flow (\$m)				
 <p>■ Sales Revenue</p>		EBITDA	2015A	2016F	2017F	2018F
		Net interest	(3.0)	2.9	8.5	19.0
		Income tax paid	0.0	0.6	0.8	1.1
		Other capital	0.0	(0.5)	(1.9)	(4.5)
		Operating Cashflow	4.3	3.5	6.2	5.7
		Capital expenditure	1.3	6.4	13.6	21.4
		Free Cashflow	(1.0)	(1.0)	(1.2)	(1.4)
		Acquisitions & Investments	0.3	5.4	12.4	19.9
		Disposals	(10.3)	0.0	0.0	0.0
		Increase (Repay) Debt	0.0	0.0	0.0	0.0
		Equity Raised	0.0	0.0	0.0	0.0
		Dividends paid	19.5	0.0	0.0	0.0
		Other	0.0	0.0	0.0	0.0
		Net Change in Cash	0.3	0.0	0.0	0.0
		Closing Cash Balance	9.9	5.4	12.4	19.9
	32.2	37.6	50.0	70.0		

Directors & Substantial Shareholders			Balance Sheet (\$m)				
Name	Position		Cash	2015A	2016F	2017F	2018F
Matt Barrie	Executive Chairman & CEO		Receivables	32.2	37.6	50.0	70.0
Simon Clausen	Non-Executive Director		Inventories	3.4	4.8	5.4	6.3
Darren Williams	Executive Director & CTO		Investments	0.0	0.0	0.0	0.0
			Fixed Assets	0.0	0.0	0.0	0.0
			Goodwill	1.7	2.0	2.4	2.9
			Other Assets	23.9	23.9	23.9	23.9
			Total Assets	4.5	4.5	4.5	4.5
			Creditors	65.6	72.9	86.2	107.5
Substantial Shareholders	No. Shares (m)	%	Current Borrowings	28.4	33.4	40.1	46.7
Matt Barrie	200.4	44.0	Non-current Borrowings	0.0	0.0	0.0	0.0
Simon Clausen	177.2	38.9	Other Liabilities	0.0	0.0	0.0	0.0
Top 20 Shareholders	410.4	90.1	Total Liabilities	2.3	2.3	2.3	2.3
			Shareholders Funds	30.7	35.7	42.4	49.0
				34.9	37.2	43.8	58.5

Company Background		Ratios				
<p>Freelancer Limited is the world's largest online marketplace for freelancing and outsourced services. FLN connects small business, consumers and entrepreneurs who need things done, with a global workforce of skilled online freelancers who are looking for jobs. FLN currently boasts over 850 different job categories from website/IT design, mobile applications, sales/marketing, and data entry to aerospace engineering and biotechnology. Jobs can be posted on FLN either as a project or contest</p>		Valuation	2015A	2016F	2017F	2018F
		EV/EBITDA (x)	(214.2)	225.7	73.9	32.1
		PE (x)	(254.2)	301.0	102.6	46.4
		Profitability				
		Revenue Growth (%)	49.0	32.6	19.8	16.3
		EBITDA growth (%)	13.6	(194.1)	199.5	122.7
		EBITDA margin (%)	(7.8)	5.6	13.9	26.6
		ROE (%)	(7.2)	6.1	15.2	25.1
		ROIC (%)	(6.7)	5.7	14.4	24.2
		Balance Sheet				
		Net Debt (Cash) (\$m)	(32.2)	(37.6)	(50.0)	(70.0)
		Net Debt/Equity (%)	na	na	na	na
		Interest Cover (x)	#DIV/0!	(3.4)	(9.1)	(16.0)
		NTA (\$/sh)	0.02	0.03	0.04	0.08
		Price/NTA (x)	61.6	51.1	34.1	19.7
Shares outstanding (m)	455.5	455.5	455.5	455.5		

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
26 Jun 15	Research Note	1.43	1.34	H	
30 Jul 15	Hot off the Press	1.43	1.32	H	
05 Aug 15	Hot off the Press	1.43	1.48	H	
29 Jan 16	Hot off the Press	1.62	1.65	H	
23 Feb 16	Hot off the Press	1.70	1.36	B	
	Current Share Price		1.50		9.9%

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