



Freelancer Ltd (FLN.ASX)

Rebasing growth expectations

Event:

- Review of Freelancer (FLN) 4Q release; Recommendation change.

Investment Highlights:

- FLN reported 4Q receipts that were below our - and that of the market's - expectations.** 4Q receipts grew 10% YoY to \$13.0M, while we had forecast 15% growth. Growth was also significantly down on prior quarters throughout the year - 60%, 51%, and 31% in the 1Q, 2Q, and 3Q.
- We believe Escrow.com was the prime culprit.** While FLN did not break down receipts for the separate Marketplace and Escrow.com segments, we believe the latter was the major contributor to the less than expected growth. Jobs posted in the 4Q grew 40% YoY, which we expect supports the thesis that Marketplace grew at a double-digit growth rate.
- We have attempted to quantify the underlying growth for the Group and the separate businesses by adjusting for constant currency and Escrow proforma.** On this basis we estimate that Group receipts grew only 5% YoY in the 4Q, and we assume that Marketplace receipts were up 15% YoY and Escrow.com -35%. We believe the poor performance of Escrow.com may have been attributable to some further cycling of higher comps (China inflated sales pc) as well as interruptions from FLN implementing business changes.
- A positive of the quarterly was FLN reiterating its strategy to be operating cashflow positive going forward.** Economies of scale have enabled FLN has to reduce marketing costs as a percentage of sales. Operating cashflow was \$0.3M for the 4Q and net cash at end of the period was \$34.8M.

Earnings and valuation:

- We have revised down our sales growth forecasts for the Group to 15%-16% p.a. over FY17e to FY18e, vs prior assumptions of 19% to 22%.** We believe that while the outlook for FLN is still positive, our previous growth forecasts were too bullish. We expect Escrow.com to achieve double-digit revenue growth in FY17e from cycling lower comps and benefiting from FLN's changes to its business.
- We have slightly raised our NPAT forecasts in the short term, with the reduction costs in offsetting the decline in sales.** However the rebasing of our sales projections have negatively impacted our long-term NPAT estimates, as we had already assumed lower costs over this period.
- Our NPV₁₀ valuation of FLN reduces to \$0.88/share now and \$0.96/share in one year's time (previously \$1.57 and \$1.71), as a result of our longer term NPAT downgrades.**

Recommendation:

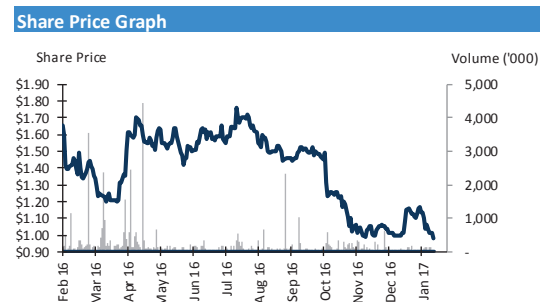
- We downgrade our recommendation to Hold from Buy, reducing our 12-month price target to \$0.96 (previously \$1.71) in-line with our 12-month forward valuation.**
- We believe that FLN will need to demonstrate either a pickup in revenue growth or a further increase in profitability for the shareprice to re-rate.

Recommendation	Hold
Previous	Buy
12 mth Price Target	\$ 0.96
Previous	\$ 1.71
Share Price (A\$)	0.98
ASX Code	FLN
52 week low - high (A\$)	0.925-1.80
Valuation \$/sh	\$0.88 now, \$0.96 in one year
Methodology	DCF
Risk	Med
Capital structure	
Shares on Issue (M)	460.4
Market Cap (A\$M)	451.2
Net Cash/(Debt) (A\$M)	34.8
EV (A\$M)	416.4
12mth Av Daily Volume ('000)	225.0

Y/e Dec Forecasts	2015a	2016e	2017e	2018e
Revenue A\$M	38.2	52.7	61.7	70.9
Revenue growth	48%	38%	17%	15%
NPAT A\$M	-2.8	-0.6	0.2	0.2
EPS c	-0.6	-0.1	0.0	0.0
PER x	nm	nm	nm	nm
EV/sales	11.0	8.1	6.8	5.9

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

Substantial shareholders	
Matt Barrie	42%
Simon Clausen	34%



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 The analyst holds 12,000 FLN shares.