



Freelancer Ltd (FLN.ASX)

Turnaround ahead while costs begin to moderate

Event:

- Review of Freelancer (FLN) 1Q FY17; Recommendation change.

Investment Highlights:

- Last month FLN reported 1Q FY17 receipts of \$12.5M, down 2% YoY, or up 1% on constant currency. This was below our expectation of \$15.4M, or 17% YoY growth. It was also another step down in YoY growth from the 4Q FY16's 10% and the 2H FY16's 23%.
- While the company did not split revenues between Marketplace and Escrow.com, we understand there was marked divergence, with the latter being largely responsible for the decline in receipts. We estimate Marketplace grew receipts 8% YoY to \$11.5M, while Escrow.com receipts were only \$1.0M, down -52% YoY.
- We believe a number of changes in FLN's overhaul of Escrow.com, notably changes to AML/KYC, have impeded transactions and caused friction, contributing to the significant interruption in sales. FLN believes it will largely work through these changes by end of the 3Q FY17. We expect Escrow.com performance to begin to modestly improve in the current quarter, and again in the 2H FY17, as the changes are concluded.
- Moderation in operating costs enables positive operating cashflow. Despite disappointing in receipts, the company bettered our cashflow expectations for the quarter. Gross operating cash outflows were only -\$12.6M and FLN estimated outflows of -\$13.2M in the current quarter (2Q). Both were below our previous estimate of -\$15.3M in outflows per quarter. This highlights the economies of scale FLN is realising. We believe the company is on track to achieve positive NPAT for the year.

Earnings and Valuation:

- We have upgraded our FY17e and FY18e NPAT forecasts to \$3.3M and \$5.9M (prior \$0.2M and \$0.2M), based on lower operating costs growth offsetting a reduction in Escrow.com and Marketplace sales projections.
- Our NPV₁₀ valuation of FLN has increased to \$1.00/share now and \$1.11/share in one year's time (previously \$0.88 and \$0.96). This is mostly due to reducing our operating costs estimates, partially offset by pulling back our revenue growth forecasts, especially for Escrow.com.

Recommendation:

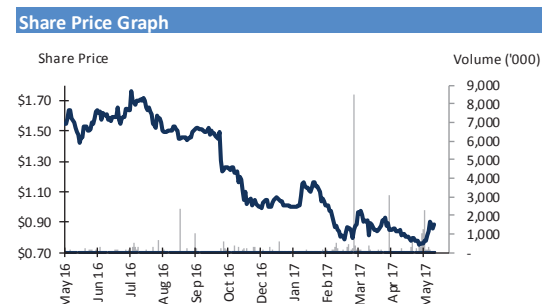
- We upgrade our recommendation to Buy from Hold, increasing our 12-month price target to \$1.11 (prior \$0.96) in-line with our revised one year forward valuation. While the 1Q was disappointing in terms of Escrow.com's performance, we expect some gradual improvement going forward as most of the changes to the business are completed. Also, the moderation in operating costs highlight that FLN is beginning to realise the benefits of economies of scale.
- Catalysts for the share price include evidence of improving Escrow.com revenues; enhanced Marketplace growth; continuing positive operating cashflows; and achieving positive NPAT.

Recommendation	Buy
Previous	Hold
12 mth Price Target	\$1.11
Previous	\$ 0.96
Share Price (A\$)	0.95
ASX Code	FLN
52 week low - high (A\$)	0.725-1.80
Valuation \$/sh	\$1.00 now, \$1.11 in one year
Methodology	DCF
Risk	Med
Capital structure	
Shares on Issue (M)	460.4
Market Cap (A\$M)	437.4
Net Cash/(Debt) (A\$M)	34.8
EV (A\$M)	402.6
12mth Av Daily Volume ('000)	190.0

Y/e Dec Forecasts	2016a	2017e	2018e	2019e
Revenue A\$M	52.5	57.7	66.8	77.1
EBITDA A\$M	0.2	3.6	7.8	12.8
NPAT A\$M	-0.3	3.3	5.9	8.9
EPS c	-0.1	0.7	1.3	1.9
PER x	nm	131x	75x	50x
EV/EBITDA x	nm	110x	49x	29x

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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