



Freelancer Ltd (FLN.ASX)

Buddy can you spare some growth?

Event:

- Review of Freelancer (FLN) 2Q FY17; Recommendation and earnings changes.

Investment Highlights:

- FLN reported 2Q FY17 Group receipts of \$13.1M, down 1% YoY which disappointed vs our expectation of 6% growth to \$14.1M.**
- Marketplace.** We had forecast Marketplace GPV QoQ growth of 11% for the 2Q but estimate the actual was only 5%. We believe the company needs to at least demonstrate another QoQ of GPV to show evidence of trend back to growth and regain some of the market's confidence. Marketplace GPV now has essentially been flat over the past six quarters.
- The company cited desktop funnel issues as being chief factor for Marketplace's lacklustre performance.** We had optimistically believed that most of the issues would have been resolved during 1Q but it seems that these were still being addressed during the 2Q.
- Escrow.com GPV performed better than we had expected in the 2Q, it being up 16% QoQ to \$113M.** We believe the deflation of the China domain names bubble has run its course, while most of the company changes to Escrow.com – notably those concerning tightening AML/KYC - should complete by 3Q, with transaction friction gradually reducing.
- Operating cash flow payments for the 2Q were \$13.6M, in-line with our estimate of \$13.3M.** This was up only 2% YoY and shows the company keeping a firm grip on costs control as it strives for break-even. 1HFY17a NPAT was -\$0.7M and cash at end 30 June \$34.7M.

Earnings and Valuation:

- We have downgraded our FY17e and FY18e NPAT forecasts to \$0.4M and \$4.7M (previously \$3.3M and \$5.9M), mostly based on lowering our Marketplace revenue growth forecasts.** We now expect Marketplace net sales revenue to grow 7% in FY17e and 10% in FY18e, which is significantly lower than our prior expectations of 14%-15%.
- As a result of the earnings downgrade, our NPV₁₀ valuation of FLN has fallen to \$0.53/share now and \$0.58/share in one year.**

Recommendation:

- We downgrade our Recommendation to Hold from Buy, reducing our 12-month price target to \$0.53 from \$1.11, in-line with our revised valuation.**
- FLN is currently in no man's land where it is neither achieving attractive revenue growth nor high margin profits to attract investors.** While Escrow.com showed signs of turnaround in the 2Q, we believe the company now needs to demonstrate Marketplace growth can significantly improve in the 3Q as a first step to regaining some market confidence.
- Catalysts for the share price to re-rate include further evidence of improving Escrow.com revenues; enhanced Marketplace revenue growth; and improved profitability.**

Recommendation	Hold
Previous	Buy
12 mth Price Target	\$0.530
Previous	\$ 1.11
Share Price (A\$)	\$0.495
ASX Code	FLN
52 week low - high (A\$)	0.47-1.72
Valuation \$/sh	\$0.53 now, \$0.58 in one year
Methodology	DCF
Risk	Med
Capital structure	
Shares on Issue (M)	460.4
Market Cap (A\$m)	227.9
Net Cash/(Debt) (A\$m)	34.7
EV (A\$m)	193.2
12mth Av Daily Volume ('000)	268

Y/e Dec Forecasts	2016a	2017e	2018e	2019e
Revenue A\$m	52.5	55.2	61.5	67.4
EBITDA A\$m	-1.0	0.7	4.8	8.4
NPAT A\$m	-1.1	0.4	4.7	6.0
EPS c	-0.2	0.1	1.0	1.3
PER x	nm	nm	48.4x	38.2x
EV/EBITDA x	nm	nm	38.5x	21.4x

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.