



Freelancer Ltd (FLN.ASX)

Escrow continues recovery but Marketplace still moribund

Event:

- Review of Freelancer Ltd (FLN) 3Q FY17. Price target change.

Investment Highlights:

- FLN reported its 3Q FY17 quarterly, with receipts of \$12.5M down -2% YoY and -5% QoQ, and below our forecast of \$14.2M.** Currency proved a major headwind with the A\$ up 4% YoY and 5% QoQ vs the US\$. Stripping out this impact, we estimate receipts growth in constant currency was up 2% YoY and -1% QoQ – better but still anaemic.
- We have deduced that Marketplace (freelancer.com) was the culprit behind the lacklustre sales growth, estimating its receipts were \$10.9M, down -1% YoY and -6% QoQ.** In an effort to address subdued sales growth, FLN has implemented changes to Marketplace with the aim of lifting customer retention. These include lowering membership fees and a more favourable refund policy for customers. While this may enhance projects posted in the long term, FLN noted it resulted in a cumulative negative drag of -3% on Marketplace during the quarter.
- Escrow.com continued its strong QoQ recovery.** We estimate net revenues were \$1.5M, down 4% YoY but up 12% QoQ. We believe that many of the changes that FLN had implemented earlier in the year and caused disruption to customers – such as changes to the platform and revamping KYC - have now largely passed. The company also released API public for beta testing which provided an opportunity for developers to test integration with their own websites.
- Operating cash flow payments of \$12.6M were lower than we had forecast (\$13.6M), mitigating to some extent the impact of lower receipts.** It highlighted FLN's determination to keep cost under control to break even. Net operating cash flow was -\$0.1M and cash end quarter \$34.3M.

Earnings and Valuation:

- We have upgraded our A\$ forecasts in the short term to US\$0.77 in FY17e and US\$0.76 in FY18e** (vs US\$0.74 for both years previously). Our long-term A\$ remains unchanged at US\$0.75.
- We have downgraded our FY17e and FY18e NPAT forecasts to -\$2.2M and \$0.5M (previously \$0.4M and \$4.7M) mostly on lower Marketplace revenue growth and higher A\$ forecasts, partially offset by lower operating expenses.** Our earnings from FY19e onwards have not materially changed.
- Our NPV₁₀ valuation of FLN has slightly increased to \$0.55/share now and \$0.61/share in one year (previously \$0.53 and \$0.58)** based on roll forward of our DCF by six months which has offset our reduced earnings in FY17e and FY18e.

Recommendation:

- We maintain our Hold Recommendation and increase our 12-month price target to \$0.61 from \$0.53, in-line with our revised 1-year forward valuation.**
- Overall the September quarterly highlights that Escrow.com continues its recovery, but that Marketplace is still struggling.**
- Catalysts for the share price to re-rate include continuing improvement in Escrow.com revenues; better Marketplace revenue growth; and rising profitability.**

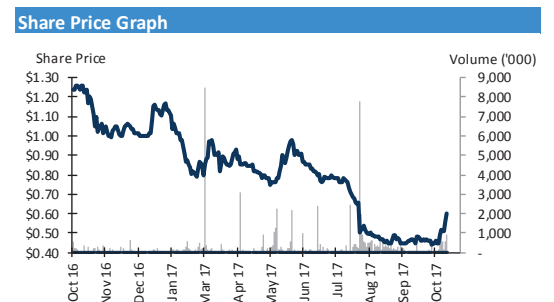
Recommendation	Hold
Previous	Hold
12 mth Price Target	\$0.610
Previous	\$ 0.53
Share Price (A\$)	\$0.595
ASX Code	FLN
52 week low - high (A\$)	0.44-1.30
Valuation \$/sh	\$0.55 now, \$0.61 in one year
Methodology	DCF
Risk	Medium
Capital structure	
Shares on Issue (M)	458.7
Market Cap (A\$m)	272.9
Net Cash/(Debt) (A\$m)	34.3
EV (A\$m)	238.6
12mth Av Daily Volume ('000)	292

Y/e Dec Forecasts	2016a	2017e	2018e	2019e
Revenue A\$m	52.5	51.9	56.1	62.5
EBITDA A\$m	-1.0	-1.7	0.6	4.6
Adj. NPAT A\$m	-1.1	-2.2	0.5	4.5
Adj. EPS c	-0.2	-0.5	0.1	1.0

PER x	nm	nm	nm	60.4
EV/EBITDA x	nm	nm	nm	49.5

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

Substantial shareholders	
Matt Barrie	44%
Simon Clausen	37%



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 The analyst holds 12,000 FLN shares.