

## Freelancer Ltd.

### 4Q16 - some underlying improvement, but yet to see return to full potential

#### Improvement in OCF, but still need to get revenue accelerating to full potential

Whilst jobs posted growth of +40% yoy in 4Q16 is impressive, FLN still needs to improve conversion into revenue. We believe this is achievable in CY17E, which should result in an uplift in Market place revenue growth rates (UBSe 2H16e +18%, CY17E +25%). A solid outcome, if this can be achieved with lower associated marketing costs and positive EBITDA contribution. We remain positive on the medium-long term growth potential, however in our view an acceleration in top line growth is required to achieve significant share price appreciation from current levels.

#### 4Q16 CF statement

FLN reported 4Q16 cash receipts growth of +2% qoq (to \$13.0m), which in our view was a reasonable improvement on 3Q16 given the seasonal impact of Christmas. Yoy growth was +10% and whilst 4Q16 included FX headwinds (AUDUSD -4% yoy), the growth rate remains below what we consider achievable in the short-medium term. 4Q16 OCF was \$0.3m, reflecting FLN's strategy of being CF positive on an operating basis to de-risk future growth. This was partially driven by a reduction in marketing costs as a percentage of cash receipts (16% vs 20-22% in prior quarters), which was due predominantly to efficiency improvements and is expected to continue into CY17E.

#### Revisions: Marginally lower revenue growth, but lower marketing costs

FLN expect CY16 revenue above CY16 cash receipts of \$51.9m (UBSe \$52.8m). 4Q16 cash receipts were slightly softer than we were forecasting and we have marginally reduced our CY16E group revenue growth by -1% to +37%. This implies 2H16 Marketplace revenue growth of +18% yoy, with stronger growth skewed to 4Q16. We have also incorporated lower marketing spend, with the net impact resulting in EBITDA of \$0.7m (prev. \$0.4m) in CY16E and \$5.0m in CY17E (prev. \$3.7m).

#### Valuation: Reducing PT to \$1.50 (prev. \$1.55) – maintain BUY

Our \$1.50 PT (prev. \$1.55) is based off our blended 2yr fwd EV/Sales of 5.5x (60% weighting) and 2yr fwd EV/FCF of 50x (40% weighting). Our valuation multiples are derived by applying 2yr fwd growth rates compared to the historical multiples relative to growth for the US peers.

### Equities

 Australia  
Software

**12-month rating** **Buy**
**12m price target** **A\$1.50**  
*Prior: A\$1.55*
**Price** **A\$1.04**
**RIC:** FLN.AX **BGG:** FLN AU

#### Trading data and key metrics

<b>52-wk range</b>	A\$1.78-0.99
<b>Market cap.</b>	A\$0.47bn/US\$0.36bn
<b>Shares o/s</b>	457m (ORD)
<b>Free float</b>	21%
<b>Avg. daily volume ('000)</b>	103
<b>Avg. daily value (m)</b>	A\$0.1
<b>Common s/h equity (12/16E)</b>	A\$0.04bn
<b>P/BV (12/16E)</b>	11.6x
<b>Net debt / EBITDA (12/16E)</b>	NM

#### EPS (UBS, diluted) (A\$)

	From	To	% ch	Cons.
<b>12/16E</b>	(.00)	0.00	NM	0.00
<b>12/17E</b>	0.00	0.01	42	0.01
<b>12/18E</b>	0.01	0.02	13	0.02

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Analyst

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Highlights (A\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
<b>Revenues</b>	18.7	25.9	38.4	52.6	64.8	83.9	107.7	137.9
<b>EBIT (UBS)</b>	0.9	(2.6)	(2.7)	0.0	4.1	10.8	19.7	33.0
<b>Net earnings (UBS)</b>	1.2	(1.5)	(1.6)	0.1	3.0	7.8	14.1	23.5
<b>EPS (UBS, diluted) (A\$)</b>	0.00	(.00)	(.00)	0.00	0.01	0.02	0.03	0.05
<b>DPS (A\$)</b>	0.02	0.02	0.00	0.00	0.00	0.00	0.00	0.00
<b>Net (debt) / cash</b>	24.4	20.2	32.2	36.8	46.3	64.2	91.0	130.7
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
<b>EBIT margin %</b>	4.9	-10.1	-7.0	0.0	6.4	12.9	18.3	24.0
<b>ROIC (EBIT) %</b>	-	55.7	>500	0.2	374.5	(150.3)	(105.8)	(99.8)
<b>EV/EBITDA (core) x</b>	>100	<-100	<-100	>100	86.7	35.3	18.9	10.5
<b>P/E (UBS, diluted) x</b>	NM	NM	NM	NM	NM	62.8	34.7	20.9
<b>Equity FCF (UBS) yield %</b>	(.0)	(0.2)	0.1	1.1	2.0	3.8	5.7	8.4
<b>Net dividend yield %</b>	1.2	1.6	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of A\$1.04 on 30 Jan 2017 22:39 EST

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PIVOTAL QUESTIONS

**Q: How large is the online freelancer market opportunity?**

Huge. As awareness amongst global micro and small sized business increases, we expect an acceleration of the shift away from traditional white collar services and into an online environment. We think the immediate addressable market could be \$9.6b of GPV, before assessing upside from multiple job listings.

**Q: Can Market-place EBITDA margins reach 25% within 5yrs and what is the LT potential?**

We believe it can. We expect ongoing reinvestment back into the business over the next few years, albeit at a moderating rate. We forecast market-place B/E EBITDA in 1H17E, \$29m / 25% margins by FY20 and ~45% LT margin potential by FY25.

**Q: Can FLN increase the market take rate by 1% within 5yrs & what is the potential upside?**

Yes. We believe increases in FLN's take rate will likely come from the uptake of existing upsell products, together with the implementation of additional upsell products. This creates the potential for up to a 6.3% uplift in FLN's market-place take-rate over 5 years. If upsell penetration could reach 10% of jobs posted by FY21, we estimate 14-26% upside to our FY17-21 EPS forecasts.

UBS VIEW

FLN is trading on a 1yr fwd EV/Sales of 6.8x, but offers underlying 2yr revenue CAGR of 27% whilst maintaining positive FCF (and growing strongly) – a rarity amongst early stage online companies. We think this, together with the long term opportunity, FLN's market leadership and LT margin potential needs to be taken into account. In our view this is an attractive multi-year story, similar to other Australian online companies a decade ago. We remain positive on the medium-long term opportunity, however we recognise the recent implied softness in top-line growth (2H16) needs to be addressed.

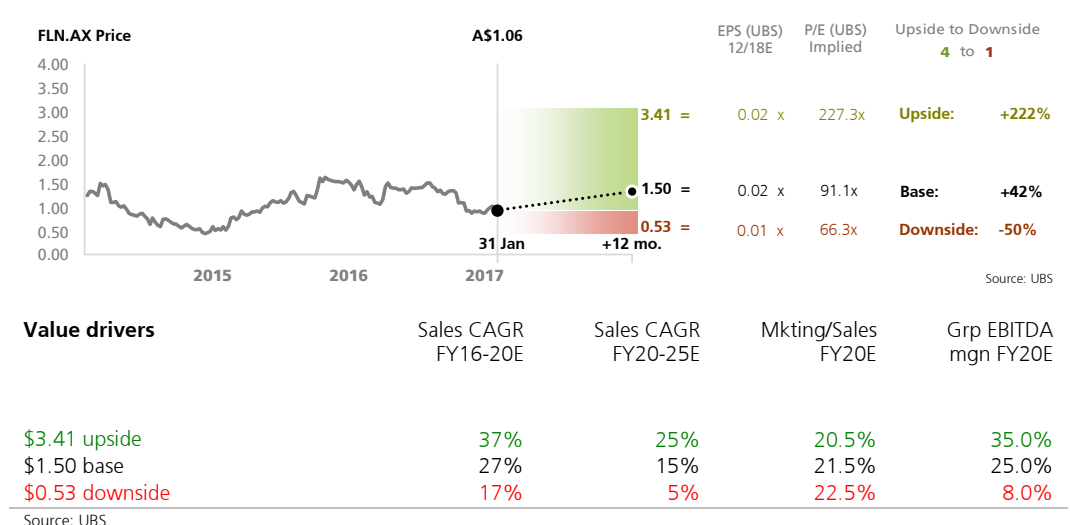
EVIDENCE

We have analysed what we consider to be the immediate addressable market opportunity, considered the reinvestment required to continue to drive top line growth and flow through impact on margins, reviewed the evolution of other online names and analysed the upside potential from increasing uptake of FLN's upsell current and potential new upsell product.

WHAT'S PRICED IN?

Our residual income model suggests that the next three years of earnings only account for 12% of FLN's current share price, whilst the long-term growth opportunity represents the remaining 88%. We believe this is justified given FLN is still in the early stages of its business life cycle.

UPSIDE / DOWNSIDE SPECTRUM



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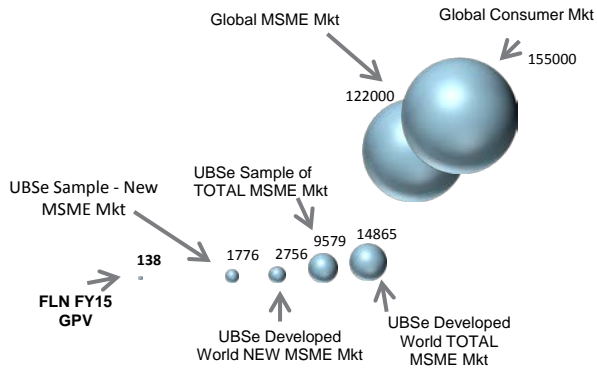
COMPANY DESCRIPTION

Freelancer is the world's largest freelancing, outsourced services and crowdsourcing marketplace by number of users and projects posted. FLN connects developing and developed...

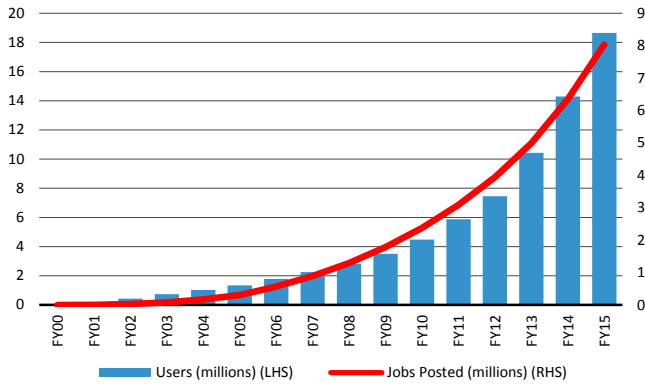
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OUR THESIS IN PICTURES

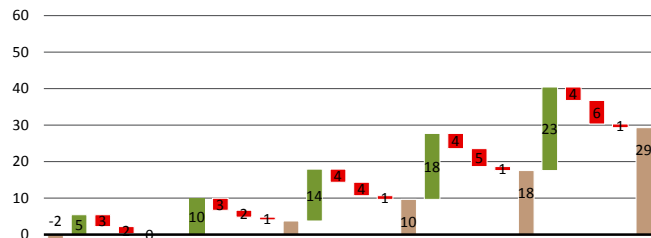
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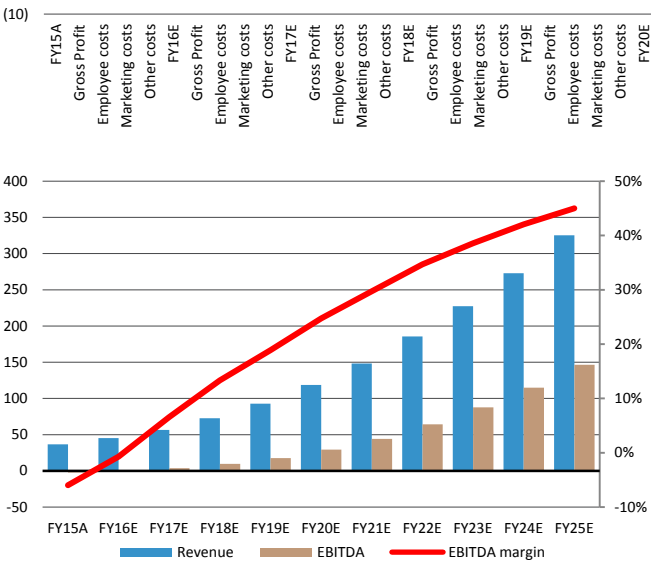
"FLN's current GPV is miniscule relative to the potential size of the opportunity..."



...Members and jobs posted have grown exponentially...



...Early years require significant investment into people and marketing to convert the opportunity...



...Which should flow through to a very strong medium and long term earnings profile".

Sources for exhibits above: Company data, UBS Research

## COMMENTARY

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## Cash receipts

FLN reported 4Q16 receipts from customers of \$13.0m, up +10% yoy and +2% qoq (despite a seasonally softer quarter with Christmas). Whilst the exact split between Market place and Escrow are not provided, we have made an estimate - to try and backsolve the momentum within Market place. We have assumed continued weakness within the Escrow business in 4Q16. On this basis, the back-solve suggests 4Q16 Marketplace cash receipts growth of +13% yoy and +4% qoq. We would highlight that both 3Q16 and 4Q16 were impacted by FX headwinds, with the AUDUSD down -4% yoy in both quarters.

Figure 1: Cash receipts, with UBS estimate of divisional split

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
Market place (UBSe)	8.0	8.8	9.7	10.2	10.6	11.1	11.0	11.4
Escrow (UBSe)				1.7	2.2	2.2	1.7	1.6
<b>Cash receipts</b>	<b>8.0</b>	<b>8.8</b>	<b>9.7</b>	<b>11.9</b>	<b>12.8</b>	<b>13.3</b>	<b>12.7</b>	<b>13.0</b>

## YoY growth

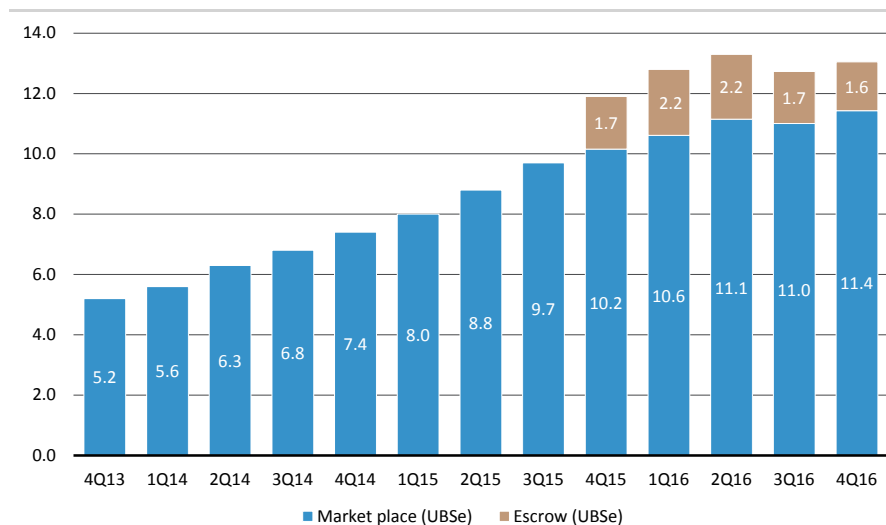
Market place	43%	40%	43%	37%	33%	27%	13%	13%
Escrow								-7%
<b>Total cash</b>	<b>43%</b>	<b>40%</b>	<b>43%</b>	<b>61%</b>	<b>60%</b>	<b>51%</b>	<b>31%</b>	<b>10%</b>

## QoQ growth

Market place	8%	10%	10%	5%	4%	5%	-1%	4%
Escrow					25%	-2%	-20%	-6%
<b>Total cash</b>	<b>8%</b>	<b>10%</b>	<b>10%</b>	<b>23%</b>	<b>8%</b>	<b>4%</b>	<b>-4%</b>	<b>2%</b>

Source: Company, UBSe

Figure 2: Quarterly cash receipts, with UBS estimate of split

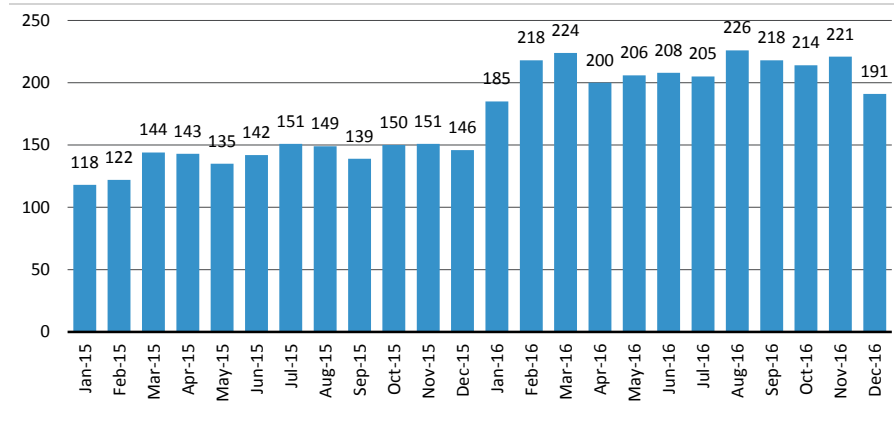


Source: Company, UBSe

## Jobs posted

FLN continued to experience solid jobs posted growth in 4Q16, recording yoy growth of +40%, whilst volumes fell -4% hoh (Christmas seasonality). However conversion rates remain below historical levels, which is impacting the flow through to revenue.

Figure 3: Total jobs posted per month –filtered (thousands)



Source: Company

Figure 4: Quarterly jobs posted –filtered (thousands)

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
Jobs Posted	384	420	439	447	627	614	649	626
QoQ growth		9%	5%	2%	40%	-2%	6%	-4%
YoY growth					63%	46%	48%	40%

Source: Company, UBSe

## Changes to forecasts

Figure 5: UBSe changes to forecasts

PROFIT & LOSS	FY16E			FY17E			FY18E			FY16 YoY	FY17 YoY	FY18 YoY
	New	Prior	Chg	New	Prior	Chg	New	Prior	Chg			
Marketplace	167.4	168.0	0%	207.5	207.9	0%	263.9	266.0	-1%	21%	24%	27%
Payments	469.1	494.5	-5%	513.6	535.3	-4%	673.2	701.5	-4%	415%	9%	31%
<b>Gross Payments Volume</b>	<b>636.5</b>	<b>662.5</b>	<b>-4%</b>	<b>721.2</b>	<b>743.2</b>	<b>-3%</b>	<b>937.1</b>	<b>967.5</b>	<b>-3%</b>	<b>178%</b>	<b>13%</b>	<b>30%</b>
Marketplace	45.2	45.3	0%	56.5	56.6	0%	72.6	73.2	-1%	23%	25%	28%
Payments	7.4	7.8	-5%	8.2	8.6	-4%	11.3	11.8	-4%	305%	11%	37%
<b>Sales</b>	<b>52.6</b>	<b>53.2</b>	<b>-1%</b>	<b>64.8</b>	<b>65.2</b>	<b>-1%</b>	<b>83.9</b>	<b>84.9</b>	<b>-1%</b>	<b>37%</b>	<b>23%</b>	<b>29%</b>
Interest revenue	0.2	0.2	0%	0.2	0.2	0%	0.3	0.3	0%	-5%	26%	36%
<b>Total revenue</b>	<b>52.8</b>	<b>53.4</b>	<b>-1%</b>	<b>65.0</b>	<b>65.4</b>	<b>-1%</b>	<b>84.2</b>	<b>85.2</b>	<b>-1%</b>	<b>37%</b>	<b>23%</b>	<b>29%</b>
Operating costs	51.9	52.8	-2%	59.8	61.5	-3%	72.0	74.4	-3%	28%	15%	20%
Marketplace	-0.3	-0.6	nm	3.7	2.4	53%	9.7	8.3	16%	-85%	nm	160%
Payments	1.0	1.0	nm	1.3	1.3	0%	2.2	2.2	-2%	nm	nm	72%
<b>EBITDA (ex share pymt)</b>	<b>0.7</b>	<b>0.4</b>	<b>nm</b>	<b>5.0</b>	<b>3.7</b>	<b>35%</b>	<b>11.8</b>	<b>10.5</b>	<b>12%</b>	<b>-133%</b>	<b>nm</b>	<b>138%</b>
D&A	0.7	0.7	0%	0.8	0.8	0%	1.0	1.0	0%	40%	19%	22%
<b>EBIT</b>	<b>0.0</b>	<b>-0.3</b>	<b>-102%</b>	<b>4.1</b>	<b>2.8</b>	<b>45%</b>	<b>10.8</b>	<b>9.5</b>	<b>14%</b>	<b>-100%</b>	<b>nm</b>	<b>161%</b>
Net interest	-0.2	-0.2	0%	-0.2	-0.2	0%	-0.3	-0.3	0%	-5%	26%	36%
<b>PBT</b>	<b>0.2</b>	<b>-0.1</b>	<b>-222%</b>	<b>4.3</b>	<b>3.1</b>	<b>42%</b>	<b>11.1</b>	<b>9.8</b>	<b>13%</b>	<b>-107%</b>	<b>nm</b>	<b>155%</b>
Tax	0.1	0.0	-222%	1.3	0.9	42%	3.3	2.9	13%	-106%	nm	155%
<b>NPAT (normalised)</b>	<b>0.1</b>	<b>-0.1</b>	<b>-222%</b>	<b>3.0</b>	<b>2.1</b>	<b>42%</b>	<b>7.8</b>	<b>6.9</b>	<b>13%</b>	<b>-108%</b>	<b>nm</b>	<b>155%</b>
Abnormal (net)	-1.5	-1.5	-1%	-1.7	-1.7	-1%	-2.0	-2.0	-1%	21%	20%	14%
<b>NPAT (reported)</b>	<b>-1.3</b>	<b>-1.6</b>	<b>-15%</b>	<b>1.3</b>	<b>0.4</b>	<b>230%</b>	<b>5.8</b>	<b>4.9</b>	<b>19%</b>	<b>-53%</b>	<b>-198%</b>	<b>nm</b>
<b>EPS - normalised - diluted</b>	<b>0.0</b>	<b>0.0</b>	<b>-222%</b>	<b>0.7</b>	<b>0.5</b>	<b>42%</b>	<b>1.7</b>	<b>1.5</b>	<b>13%</b>	<b>-107%</b>	<b>2345%</b>	<b>154%</b>

Source: UBSe

## Valuation

Whilst we believe that the medium-long term growth opportunity remains intact, we recognize that the growth profile has slowed in 3Q16 and 4Q16. The trajectory for Marketplace looks to be improving, however we want to see further signs of this in 1Q17E. Furthermore the issues impacting Escrow in 2H16 are likely to continue to have an impact into 1H17E.

Our revised PT is based on our blended 2yr fwd EV/Sales of 5.5x (60%) and 2yr fwd EV/FCF of 48x (40%). Until we see a reacceleration of revenue growth, we no longer include our DCF valuation into our blended valuation. This generates a blended valuation of \$1.51, from which we derive our \$1.50 price target.

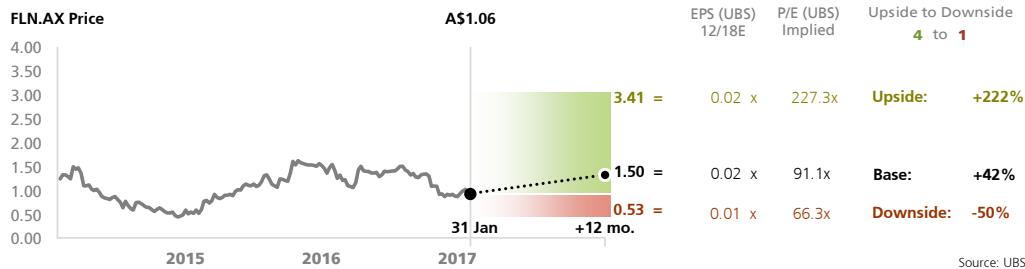
**Figure 6: UBS blended valuation**

	Blend (%)	Valuation (\$ps)	Upside (%)
EV/Sales over 2yr fwd growth	60%	1.11	4%
EV/FCF over 2yr fwd growth	40%	2.11	99%
DCF valuation	0%	3.41	222%
<b>Blended valuation</b>		<b>1.51</b>	<b>42%</b>
<b>UBS price target</b>		<b>1.50</b>	<b>42%</b>

Source: UBSe

UPSIDE / DOWNSIDE SPECTRUM

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**FLN is trading at \$1.06 (as of 31<sup>st</sup> January)**

Source: UBS

Value drivers	Sales CAGR FY16-20E	Sales CAGR FY20-25E	Mkting/Sales FY20E	Grp EBITDA mgn FY20E
\$3.41 upside	37%	25%	20.5%	35.0%
\$1.50 base	27%	15%	21.5%	25.0%
\$0.53 downside	17%	5%	22.5%	8.0%

Source: UBS

**Risk to the current share price is heavily skewed (4:1) to the upside**

FLN is trading at **\$1.06** (as of 31<sup>st</sup> January).

**Upside (\$3.41):** Over the medium term we assume FY16-20E group sales CAGR of 37% and marketing/sales of 20.5% by FY20E. This results in group EBITDA margin of 35.0% in FY20E. Our longer term assumptions incorporate FY20-25E sales CAGR of 25%.

**Base (\$1.50):** Over the medium term we assume FY16-20E group sales CAGR of 27% and marketing/sales of 21.5% by FY20E. This results in group EBITDA margin of 25.0% in FY20E. Our longer term assumptions incorporate FY20-25E sales CAGR of 15%.

**Downside (\$0.53):** Over the medium term we assume FY16-20E group sales CAGR of 17% and marketing/sales of 22.5% by FY20E. This results in group EBITDA margin of 8.0% in FY20E. Our longer term assumptions incorporate FY20-25E sales CAGR of 5%.

COMPANY DESCRIPTION

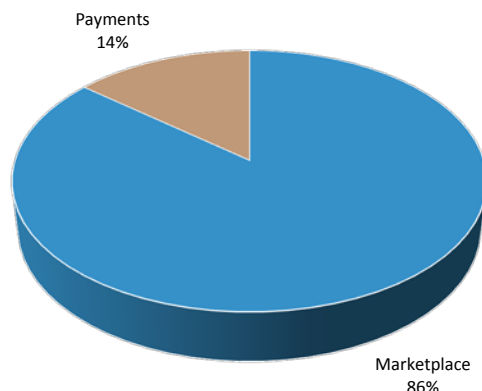
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Freelancer is the world's largest freelancing, outsourced services and crowdsourcing marketplace by number of users and projects posted. FLN connects developing and developed labour markets by providing an online platform whereby entrepreneurs are connected with a global pool of skilled freelancers. The geographical spread provides mutually beneficial outcomes, by allowing entrepreneurs to source labour from low-wage freelancers who would otherwise be earning significantly less. FLN also recently acquired Escrow.com, the leading global secure payment platform for high value payments.

**Industry outlook**

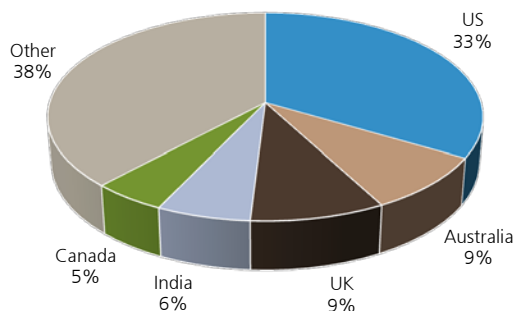
The online crowdsourcing market is still in its infancy and its exponential growth is a major disruptor of the traditional local labour sourcing market. Industry consolidation has resulted in two major global players, however the long tail of smaller operators still makes up the majority of the market. According to industry surveys, the workload outsourced by Australian SMEs has increased from 25% in CY11 to 31% currently, and is forecast to reach ~40% by the end of CY18. Similar trends are also emerging in other major economies. We believe the online freelancer industry growth is likely to be driven by a structural shift of employers seeking cheap labour, global technological enhancements allowing developing nations to fluidly access developed labour markets and the continued increase in the number of SMEs as workers opt out of working for large corporations

**Revenues by product – CY16e (%)**



Sources: Company data, UBSe

**Revenues by geography CY16e (%)**



Sources: Company data, UBSe



## Freelancer Ltd. (FLN.AX)

	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
<b>Income statement (A\$m)</b>										
<b>Revenues</b>	<b>18.7</b>	<b>25.9</b>	<b>38.4</b>	<b>52.6</b>	<b>36.9</b>	<b>64.8</b>	<b>23.1</b>	<b>83.9</b>	<b>107.7</b>	<b>137.9</b>
Gross profit	-	-	-	-	-	-	-	-	-	-
<b>EBITDA (UBS)</b>	<b>1.1</b>	<b>(2.3)</b>	<b>(2.2)</b>	<b>0.7</b>	-	<b>5.0</b>	<i>NM</i>	<b>11.8</b>	<b>21.0</b>	<b>34.5</b>
Depreciation & amortisation	(0.2)	(0.3)	(0.5)	(0.7)	39.6	(0.8)	18.5	(1.0)	(1.2)	(1.5)
<b>EBIT (UBS)</b>	<b>0.9</b>	<b>(2.6)</b>	<b>(2.7)</b>	<b>0.0</b>	-	<b>4.1</b>	<i>NM</i>	<b>10.8</b>	<b>19.7</b>	<b>33.0</b>
Associates & investment income	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
Other non-operating income	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
Net interest	0.1	0.2	0.2	0.2	-5.4	0.2	25.9	0.3	0.4	0.6
Exceptionals (incl goodwill)	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
<b>Profit before tax</b>	<b>1.0</b>	<b>(2.4)</b>	<b>(2.5)</b>	<b>0.2</b>	-	<b>4.3</b>	<i>NM</i>	<b>11.1</b>	<b>20.1</b>	<b>33.6</b>
Tax	0.1	1.0	0.9	(0.1)	-	(1.3)	<i>NM</i>	(3.3)	(6.0)	(10.1)
<b>Profit after tax</b>	<b>1.1</b>	<b>(1.5)</b>	<b>(1.6)</b>	<b>0.1</b>	-	<b>3.0</b>	<i>NM</i>	<b>7.8</b>	<b>14.1</b>	<b>23.5</b>
Preference dividends	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
Extraordinary items	(0.3)	(0.4)	(1.2)	(1.5)	-20.9	(1.7)	-19.7	(2.0)	(2.3)	(2.5)
<b>Net earnings (local GAAP)</b>	<b>0.8</b>	<b>(1.8)</b>	<b>(2.8)</b>	<b>(1.3)</b>	<b>53.4</b>	<b>1.3</b>	-	<b>5.8</b>	<b>11.8</b>	<b>21.0</b>
<b>Net earnings (UBS)</b>	<b>1.2</b>	<b>(1.5)</b>	<b>(1.6)</b>	<b>0.1</b>	-	<b>3.0</b>	<i>NM</i>	<b>7.8</b>	<b>14.1</b>	<b>23.5</b>
Tax rate (%)	0.0	0.0	0.0	30.0	-	30.0	0.0	30.0	30.0	30.0
<b>Per share (A\$)</b>										
EPS (UBS, diluted)	0.00	(.00)	(.00)	0.00	-	0.01	<i>NM</i>	0.02	0.03	0.05
EPS (local GAAP, diluted)	0.00	(.00)	(0.01)	(.00)	55.3	0.00	-	0.01	0.03	0.04
EPS (UBS, basic)	0.00	(.00)	(.00)	0.00	-	0.01	<i>NM</i>	0.02	0.03	0.05
Net DPS (A\$)	0.02	0.02	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Cash EPS (UBS, diluted) <sup>1</sup>	0.00	(.00)	(.00)	0.00	-	0.01	362.7	0.02	0.03	0.05
Book value per share	0.04	0.04	0.08	0.09	17.1	0.10	7.1	0.11	0.14	0.19
Average shares (diluted)	403.54	436.94	449.69	468.50	4.2	470.28	0.4	471.44	472.77	474.26
<b>Balance sheet (A\$m)</b>										
Tangible fixed assets	0.6	1.1	1.7	2.1	28.5	2.5	19.9	3.1	3.7	4.4
Intangible fixed assets	8.9	13.0	23.9	23.9	0.0	23.9	0.0	23.9	23.9	23.9
Investments	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
Other assets	1.0	2.5	3.7	9.3	151.5	9.3	0.0	9.3	9.3	9.3
<b>Total fixed assets</b>	<b>10.4</b>	<b>16.6</b>	<b>29.2</b>	<b>35.2</b>	<b>20.7</b>	<b>35.7</b>	<b>1.2</b>	<b>36.2</b>	<b>36.8</b>	<b>37.5</b>
<b>Net working capital</b>	<b>(16.4)</b>	<b>(19.9)</b>	<b>(26.3)</b>	<b>(30.7)</b>	<b>-16.8</b>	<b>(37.5)</b>	<b>-22.2</b>	<b>(48.2)</b>	<b>(61.5)</b>	<b>(78.4)</b>
Cash	24.4	20.2	32.2	36.8	14.2	46.3	25.6	64.2	91.0	130.7
Short term debt	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
Long term debt	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
Preferred shares	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
<b>Net (debt) / cash</b>	<b>24.4</b>	<b>20.2</b>	<b>32.2</b>	<b>36.8</b>	<b>14.2</b>	<b>46.3</b>	<b>25.6</b>	<b>64.2</b>	<b>91.0</b>	<b>130.7</b>
Other debt-deemed liabilities	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
Provisions & non-debt deemed liabs	(.0)	(0.1)	(0.3)	(0.3)	0.0	(0.3)	0.0	(0.3)	(0.3)	(0.3)
<b>Total equity</b>	<b>18.4</b>	<b>16.8</b>	<b>34.9</b>	<b>41.1</b>	<b>17.8</b>	<b>44.2</b>	<b>7.4</b>	<b>51.9</b>	<b>66.0</b>	<b>89.6</b>
Minority interests	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
<b>Common s/h equity</b>	<b>18.4</b>	<b>16.8</b>	<b>34.9</b>	<b>41.1</b>	<b>17.8</b>	<b>44.2</b>	<b>7.4</b>	<b>51.9</b>	<b>66.0</b>	<b>89.6</b>
<b>Operating invested capital</b>	<b>(6.0)</b>	<b>(3.4)</b>	<b>2.7</b>	<b>4.3</b>	<b>61.6</b>	<b>(2.1)</b>	-	<b>(12.3)</b>	<b>(25.0)</b>	<b>(41.2)</b>
<b>Total capital employed</b>	<b>(6.0)</b>	<b>(3.4)</b>	<b>2.7</b>	<b>4.3</b>	<b>61.6</b>	<b>(2.1)</b>	-	<b>(12.3)</b>	<b>(25.0)</b>	<b>(41.2)</b>
<b>Cash flow (A\$m)</b>										
Net income (before pref divs)	0.8	(1.8)	(2.8)	(1.3)	53.4	1.3	-	5.8	11.8	21.0
Depreciation & amortisation	0.2	0.3	0.5	0.7	39.6	0.8	18.5	1.0	1.2	1.5
Net change in working capital	1.5	2.9	6.1	4.4	-27.2	6.8	54.7	10.7	13.4	16.9
Other operating	(2.2)	(1.4)	(2.3)	2.6	-	1.7	-33.1	2.0	2.3	2.5
<b>Operating cash flow</b>	<b>0.2</b>	<b>(0.1)</b>	<b>1.5</b>	<b>6.4</b>	<b>338.3</b>	<b>10.7</b>	<b>67.5</b>	<b>19.5</b>	<b>28.7</b>	<b>41.9</b>
Tangible capital expenditure	(0.3)	(0.9)	(1.0)	(1.1)	-10.7	(1.3)	-18.5	(1.5)	(1.9)	(2.2)
Intangible capital expenditure	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
Net (acquisitions) / disposals	0.0	(3.7)	(10.3)	0.0	-	0.0	-	0.0	0.0	0.0
Other investing	(1.4)	(0.4)	(.0)	(1.0)	-	0.0	-	0.0	0.0	0.0
<b>Investing cash flow</b>	<b>(1.7)</b>	<b>(5.0)</b>	<b>(11.2)</b>	<b>(2.1)</b>	<b>81.3</b>	<b>(1.3)</b>	<b>39.7</b>	<b>(1.5)</b>	<b>(1.9)</b>	<b>(2.2)</b>
Equity dividends paid	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
Share issues / (buybacks)	15.0	0.0	19.7	0.3	-98.5	0.0	-	0.0	0.0	0.0
Other financing	(0.5)	(0.1)	0.0	0.0	-	0.0	-	0.0	0.0	0.0
Change in debt & pref shares	0.0	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
<b>Financing cash flow</b>	<b>14.5</b>	<b>(0.1)</b>	<b>19.7</b>	<b>0.3</b>	<b>-98.5</b>	<b>0.0</b>	-	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Cash flow inc/(dec) in cash</b>	<b>13.0</b>	<b>(5.1)</b>	<b>9.9</b>	<b>4.6</b>	<b>-53.7</b>	<b>9.4</b>	<b>106.4</b>	<b>17.9</b>	<b>26.8</b>	<b>39.7</b>
FX / non cash items	-	1.0	2.2	0.0	-	0.0	-	0.0	0.0	0.0
<b>Balance sheet inc/(dec) in cash</b>	<b>-</b>	<b>(4.2)</b>	<b>12.0</b>	<b>4.6</b>	<b>-62.0</b>	<b>9.4</b>	<b>106.4</b>	<b>17.9</b>	<b>26.8</b>	<b>39.7</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.<sup>1</sup>Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

## Freelancer Ltd. (FLN.AX)

	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
<b>Valuation (x)</b>								
P/E (local GAAP, diluted)	NM	NM	NM	NM	NM	NM	41.4	23.3
P/E (UBS, diluted)	NM	NM	NM	NM	NM	62.8	34.7	20.9
P/CEPS	NM	NM	NM	NM	NM	54.3	31.3	19.2
Equity FCF (UBS) yield %	(.0)	(0.2)	0.1	1.1	2.0	3.8	5.7	8.4
Net dividend yield (%)	1.2	1.6	0.0	0.0	0.0	0.0	0.0	0.0
P/BV x	32.2	26.4	16.3	11.6	10.8	9.2	7.3	5.4
EV/revenues (core)	NM	NM	NM	8.3	6.7	5.0	3.7	2.6
EV/EBITDA (core)	>100	<-100	<-100	>100	86.7	35.3	18.9	10.5
EV/EBIT (core)	NM	NM	NM	NM	NM	NM	20.1	11.0
EV/OpFCF (core)	NM	NM	NM	NM	NM	20.4	12.4	7.5
EV/op. invested capital	-	NM	NM	NM	NM	NM	NM	NM
<b>Enterprise value (A\$m)</b>								
Market cap.	592.1	444.2	543.2	473.0	473.0	473.0	473.0	473.0
Net debt (cash)	(17.0)	(22.3)	(26.2)	(34.5)	(41.5)	(55.2)	(77.6)	(110.9)
Buy out of minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension provisions/other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total enterprise value</b>	<b>575.1</b>	<b>421.9</b>	<b>517.0</b>	<b>438.5</b>	<b>431.5</b>	<b>417.8</b>	<b>395.4</b>	<b>362.1</b>
Non core assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Core enterprise value</b>	<b>575.1</b>	<b>421.9</b>	<b>517.0</b>	<b>438.5</b>	<b>431.5</b>	<b>417.8</b>	<b>395.4</b>	<b>362.1</b>
<b>Growth (%)</b>								
Revenue	-	38.6	48.3	36.9	23.1	29.5	28.4	28.0
EBITDA (UBS)	-	-	4.3	-	NM	137.7	77.1	64.7
EBIT (UBS)	-	-	-2.9	-	NM	161.4	82.5	67.6
EPS (UBS, diluted)	-	-	-10.0	-	NM	154.5	80.9	66.6
Net DPS	-	0.0	-	-	-	-	-	-
<b>Margins &amp; Profitability (%)</b>								
Gross profit margin	-	-	-	-	-	-	-	-
EBITDA margin	5.9	NM	NM	1.4	7.7	14.1	19.5	25.0
EBIT margin	4.9	-10.1	-7.0	0.0	6.4	12.9	18.3	24.0
Net earnings (UBS) margin	6.3	NM	NM	0.2	4.7	9.3	13.1	17.1
ROIC (EBIT)	-	55.7	>500	0.2	374.5	(150.3)	(105.8)	(99.8)
ROIC post tax	-	55.7	NM	0.1	NM	NM	NM	NM
ROE (UBS)	-	(8.3)	(6.4)	0.3	7.1	16.2	23.9	30.3
<b>Capital structure &amp; Coverage (x)</b>								
Net debt / EBITDA	(22.1)	8.9	14.8	(51.2)	(9.3)	(5.4)	(4.3)	(3.8)
Net debt / total equity %	(132.6)	(120.2)	(92.4)	(89.5)	(104.7)	(123.6)	(137.9)	(146.0)
Net debt / (net debt + total equity) %	NM	NM	NM	NM	NM	NM	NM	NM
Net debt/EV %	(4.2)	(4.8)	(6.2)	(8.4)	(10.7)	(15.4)	(23.0)	(36.1)
Capex / depreciation %	171.5	NM	189.2	150.0	150.0	150.0	150.0	150.0
Capex / revenue %	1.7	3.4	2.5	2.0	2.0	1.8	1.7	1.6
EBIT / net interest	NM	14.7	14.9	NM	NM	NM	NM	NM
Dividend cover (UBS)	0.2	-	-	-	-	-	-	-
Div. payout ratio (UBS) %	NM	-	-	-	-	-	-	-
<b>Revenues by division (A\$m)</b>								
Others	18.7	25.9	38.4	52.6	64.8	83.9	107.7	137.9
<b>Total</b>	<b>18.7</b>	<b>25.9</b>	<b>38.4</b>	<b>52.6</b>	<b>64.8</b>	<b>83.9</b>	<b>107.7</b>	<b>137.9</b>
<b>EBIT (UBS) by division (A\$m)</b>								
Others	0.9	(2.6)	(2.7)	0.0	4.1	10.8	19.7	33.0
<b>Total</b>	<b>0.9</b>	<b>(2.6)</b>	<b>(2.7)</b>	<b>0.0</b>	<b>4.1</b>	<b>10.8</b>	<b>19.7</b>	<b>33.0</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.



## Forecast returns

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Forecast price appreciation	+44.9%
Forecast dividend yield	0.0%
Forecast stock return	+44.9%
Market return assumption	6.7%
Forecast excess return	+38.2%

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## Valuation Method and Risk Statement

Our PT is based off our blended 2yr fwd EV/Sales of 5.5x (60% weighting) and 2yr fwd EV/FCF of 50x (40% weighting). We adopt a similar methodology to the UBS US internet team, based on analysis of 10 years of valuation/growth data. We will not include our DCF valuation, until we see a reacceleration of revenue growth.

Key downside risks include: (1) the potential creation of off-market jobs risks; (2) exchange rate exposure; (3) maintenance of website traffic, (4) retaining key personnel and (5) threat of new entrants.

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
<b>Buy</b>	FSR is > 6% above the MRA.	45%	29%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	39%	27%
<b>Sell</b>	FSR is > 6% below the MRA.	15%	16%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2016.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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**UBS Securities Australia Ltd:** Tim Plumbe.

### Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Freelancer Ltd.	FLN.AX	Buy	N/A	A\$1.04	30 Jan 2017

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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### Freelancer Ltd. (A\$)



Date	Stock Price (A\$)	Price Target (A\$)	Rating
2013-10-30	NaN	-	No Rating
2016-04-11	1.51	1.85	Buy
2016-07-28	1.7	1.95	Buy
2016-10-25	1.24	1.55	Buy

Source: UBS, as of 30 Jan 2017

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