CANACCORD Genuity

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# Freelancer Limited

Software and Services

**Australian Equity Research**
30 July 2015

**BUY**
*unchanged*

| | |
|---|---|
| **PRICE TARGET** | A$1.75↑ |
| *from A$1.46* | |
| Price (27-Jul) | A$1.35 |
| Ticker | FLN-ASX |

| | |
|---|---|
| 52-Week Range (A$): | 0.52 - 1.74 |
| Market Cap (A$M): | 603 |
| Dividend /Shr (AUc): | 0.0 |
| Dividend Yield (%) : | 0.0 |
| Enterprise Value (A$M): | 583 |
| Cash (A$M): | 20.21 |
| Long-Term Debt (A$): | 0.0 |

| FYE Dec | 2014A | 2015E | 2016E | 2017E |
|---|---|---|---|---|
| Sales (A$M) | 25.9 | 38.0↓ | 54.7↑ | 69.9 |
| *Previous* | *25.9* | *38.8* | *52.1* | - |
| Gross Profit (A$M) | 22.5 | 31.7 | 43.2 | 56.0 |
| EBITDA (A$M) | (2.0) | (1.3)↓ | (0.1)↑ | 0.0 |
| *Previous* | *(2.0)* | *(1.0)* | *(0.5)* | - |
| EBIT (A$M) | (2.4) | (1.5)↓ | (0.3)↑ | (0.2) |
| *Previous* | *(2.4)* | *(1.2)* | *(0.7)* | - |
| Net Income Adj (A$M) | (1.2) | (0.7)↓ | 0.2↑ | 0.4 |
| *Previous* | *(1.2)* | *(0.6)* | *(0.2)* | - |
| EPS Adj&Dil (AUc) | (0.28) | (0.16)↓ | 0.04↑ | 0.09 |
| *Previous* | *(0.28)* | *(0.14)* | *(0.04)* | - |
| EV/Sales (x) | 22.8 | 15.5 | 10.8 | 8.4 |



Source: FactSet

Freelancer is the world's largest freelancing, outsourced services and crowdsourcing marketplace. Founded in 2009 it now has over >16m users.

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## Raising Target Price

# Another result, another upgrade...

Freelancer (FLN) has reported its 1H15 results that again beat our revenue (A$16.7m vs. CGAu est. A$15.9m) and gross profit (A$14.6m vs. CGAu est. A$13.8m) estimates for FLN marketplace business. This represents the third upgrade to our FY15 estimates in six months for the core marketplace business. Importantly, the +41% increase in gross profit was impressive as this line item dictates the future growth profile of the business. EBITDA of -A$0.8m is in our view effectively meaningless and reflects the company's growth strategy of reinvesting earnings into the platform.

**Earnings revisions: Our FY16 revenue and gross profit forecasts have increased by 5% and 6%, respectively.** Our expectations for the commencement of revenues from Escrow.com are delayed to Sept-15 (prev. Mar-15), impacting our FY15 revenue figure.

**Key metrics reported at the 1H15 result:**

- +43% increase in new project and contest listings in 1H15 (1.1m in 1H15, 0.8m in 1H14 650k in 1H13);
- +28% increase in freelancers and employers registered on its platform to 16m in 1H15 (~1.1m organic, ~0.5m acquired);
- +10% increase in its effective take rate to 26.2% (23.8% at 1H14, 22.3% in FY13);
- >35% increase in number of monthly bids on projects;
- >40% increase in the number of contests entries;
- Gross margins incrementally increased to ~88%

**Outlook**: Management *"expect that exceptional growth will continue in 2015"* and 2H15 will be a "***strategic and operational inflection point for Freelancer***". This inflection point will be driven by the integration of FLN payments platform (escrow.com) into its core marketplace, further product enhancements and the general network effect from having >16m freelancers using the platform as their virtual workplace.

**We estimate FLN will invest >A$100m into growth initiatives (product development, marketing, acquisitions etc.) over the next three years.** Key priorities include a) scaling its recently launched Local Jobs product offering (<5% of projects posted, TAM A$800b); b) enhancing its mobility solution (payments, job posting, interactive chat); c) expansion into large geographies (Asia, South America, Africa etc.); and d) new value-add products (Freelancer Recruit, Showcase, Depth Products etc.).

A sleek and incrementally improving platform has enabled FLN to emerge as one of the fastest growing technology companies listed on the ASX. Unlike its early stage peers, FLN continues to experience consistent upgrades to both revenue and gross profit forecasts (+11% since Jul-14). Further investments in marketing and product initiatives and expanding into new regions/territories should see its "exceptional growth" rate continue in the medium term.

Following positive revisions to our growth estimates, our DCF valuation increases to A$1.75ps (previously A$1.46ps). FLN reports a 88% gross profit margin, an implied sustainable EBITDA margin of 65%, an incremental ROIC of >30% that by our estimates is likely to drive +35% revenue CAGR for the foreseeable future. **BUY recommendation reiterated.**

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The recommendations and opinions expressed in this research report accurately reflect the research analyst's personal, independent and objective views about any and all the companies and securities that are the subject of this report discussed herein.
**For important information, please see the Important Disclosures beginning on page 8 of this document.**

## Freelancer (FLN)

**Share Price $ 1.35**

| Profit & Loss ($m) - Dec YE | 2013A | 2014A | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|
| Payments | 0.0 | 0.0 | 120.8 | 375.2 | 412.7 |
| Marketplace | 84.4 | 103.7 | 136.5 | 181.5 | 236.9 |
| **Gross Payment Volume** | **84.4** | **103.7** | **257.2** | **556.7** | **649.5** |
| | | | | | |
| **Sales Revenue** | **18.8** | **25.9** | **38.0** | **54.7** | **69.9** |
| Gross Profit | 16.4 | 22.5 | 31.7 | 43.2 | 56.0 |
| **EBITDA - Sustainable** | **12.0** | **16.4** | **23.1** | **31.4** | **41.5** |
| Growth opex | 10.5 | 18.4 | 24.5 | 31.5 | 41.5 |
| **EBITDA - Statutory** | **1.5** | **-2.0** | **-1.3** | **-0.1** | **0.0** |
| D & A | -0.2 | -0.3 | -0.2 | -0.2 | -0.2 |
| **EBIT** | **1.3** | **-2.4** | **-1.5** | **-0.3** | **-0.2** |
| Net Interest Expense | 0.1 | 0.2 | 0.3 | 0.5 | 0.7 |
| **NPBT** | **1.4** | **-2.2** | **-1.2** | **0.2** | **0.5** |
| Tax expense | 0.0 | 1.0 | 0.5 | -0.1 | -0.1 |
| **NPAT (Normalised)** | **1.4** | **-1.2** | **-0.7** | **0.2** | **0.4** |
| Non-recurring | -0.9 | -0.6 | -1.0 | -1.0 | -1.0 |
| **NPAT (Reported)** | **0.5** | **-1.8** | **-1.7** | **-0.8** | **-0.6** |
| | | | | | |
| *Sustainable EBITDA Margin (%)* | *64.0%* | *63.3%* | *64.7%* | *66.0%* | *66.9%* |
| *Statutory EBITDA Margin (%)* | *8.0%* | *-7.8%* | *-3.5%* | *-0.2%* | *0.1%* |
| *EBIT Margin (%)* | *7.0%* | *-9.1%* | *-4.0%* | *-0.6%* | *-0.2%* |
| *NPAT Margin (%)* | *7.4%* | *-4.7%* | *-1.8%* | *0.3%* | *0.5%* |
| ***December year end* | | | | | |

| Cash Flow ($m) - Dec YE | 2013A | 2014A | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|
| **Operating EBITDA** | **1.5** | **-2.0** | **-1.3** | **-0.1** | **0.0** |
| - Interest & Tax Paid | -1.3 | -0.9 | 0.0 | -0.5 | -0.5 |
| +/- change in Work. Cap. | 0.0 | 2.9 | 4.5 | 6.8 | 8.9 |
| - other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Operating Cashflow** | **0.2** | **-0.1** | **3.1** | **6.1** | **8.4** |
| - Capex (PPE) | -0.3 | -0.9 | -0.5 | -0.5 | -0.5 |
| - Capex (Intangibles) | -1.4 | -0.4 | 0.0 | 0.0 | 0.0 |
| - Aquisitions/divestments | 0.0 | -3.7 | -10.0 | 0.0 | 0.0 |
| **Free Cashflow** | **-1.5** | **-5.1** | **-7.4** | **5.6** | **7.9** |
| - Ord Dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Equity /other | 14.5 | 0.0 | 9.8 | 0.0 | 0.0 |
| **Net Cashflow** | **13.0** | **-5.1** | **2.4** | **5.6** | **7.9** |
| Cash at beginning of period | 9.7 | 24.4 | 20.2 | 23.6 | 29.3 |
| +/- borrowings / other | 1.7 | 0.9 | 1.0 | 0.0 | 0.0 |
| **Cash at end of period** | **24.4** | **20.2** | **23.6** | **29.3** | **37.2** |

| Balance Sheet - Dec YE | 2013A | 2014A | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|
| Cash | 24.4 | 20.2 | 23.6 | 29.3 | 37.2 |
| Debtors | 2.2 | 2.8 | 4.7 | 6.5 | 8.3 |
| PPE | 0.6 | 1.1 | 0.8 | 1.1 | 1.4 |
| Intangibles | 8.9 | 13.0 | 21.7 | 21.7 | 21.7 |
| Other assets | 1.4 | 3.2 | 4.4 | 4.4 | 4.4 |
| **Total Assets** | **37.4** | **40.2** | **55.2** | **62.9** | **73.0** |
| Borrowings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade Creditors | 18.3 | 21.8 | 28.2 | 36.7 | 47.4 |
| Other Liabilities | 0.7 | 1.6 | 1.8 | 1.8 | 1.8 |
| **Total Liabilities** | **19.0** | **23.4** | **30.0** | **38.5** | **49.3** |
| **NET ASSETS** | **18.4** | **16.8** | **25.2** | **24.4** | **23.7** |

| Valuation ratios | 2013A | 2014A | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|
| EPS (cps) | 0.3 | -0.3 | -0.2 | 0.0 | 0.1 |
| *EPS Growth (%)* | *nmf* | *nmf* | *nmf* | *nmf* | *nmf* |
| | | | | | |
| P/E (x) | 423.5 | -484.3 | -869.5 | 3592.3 | 1573.9 |
| **P/E (x) - Sustainable** | **66.3** | **48.4** | **32.9** | **23.5** | **18.0** |
| Enterprise Value ($m) | 565.5 | 569.7 | 566.2 | 560.6 | 589.9 |
| EV/GPV | 6.7 | 5.5 | 2.2 | 1.0 | 0.9 |
| EV/Revenue | 31.4 | 22.8 | 15.5 | 10.8 | 8.4 |
| EV/Gross Profit | 35.9 | 26.2 | 18.6 | 13.7 | 10.5 |
| **EV / Sustainable EBITDA (x)** | **47.0** | **34.7** | **23.0** | **15.5** | **12.6** |
| EV / Statutory EBITDA (x) | 374.7 | -280.8 | -427.4 | -5396.2 | 12223.0 |
| EV / EBIT (x) | 427.4 | -240.7 | -371.4 | -1844.8 | -3887.4 |
| DPS (cps) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| Balance Sheet ratios | 2013A | 2014A | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|
| Net Debt (cash) | -24.4 | -20.2 | -23.6 | -29.3 | -37.2 |
| NTA per share ($) | 0.02 | 0.01 | 0.01 | 0.01 | 0.00 |
| Price / NTA (x) | 61.9 | 152.9 | 170.5 | 222.9 | 288.7 |
| EFPOWA (m) | 436.0 | 436.9 | 446.9 | 446.9 | 446.9 |

| Interim Analysis | 2H13A | 1H14A | 2H14A | 1H15E | 2H15E |
|---|---|---|---|---|---|
| Revenues | 10.3 | 11.8 | 14.1 | 16.7 | 21.3 |
| Gross Profit | 9.0 | 10.4 | 12.2 | 14.6 | 17.1 |
| EBIT | 0.3 | -1.0 | -1.4 | -1.0 | -0.6 |
| EBIT margin (%) | 2.6% | -8.5% | -9.7% | -5.7% | -2.7% |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| Assumptions | 2013A | 2014A | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|
| GPV Growth | 66% | 23% | 148% | 116% | 17% |
| GP Margins | 87% | 87% | 83% | 79% | 80% |
| Operating Expenses growth | 75% | 65% | 34% | 31% | 29% |
| Take-rate | 22.3% | 25.0% | 26.2% | 26.2% | 26.2% |

| Assumptions | 2013A | 2014A | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|
| Payments | - | - | 2.3 | 7.1 | 7.8 |
| FLN Marketplace | 18.8 | 25.9 | 35.8 | 47.6 | 62.1 |
| **Revenue** | **18.8** | **25.9** | **38.0** | **54.7** | **69.9** |
| | | | | | |
| Payments | 0.0 | 0.0 | 0.6 | 1.8 | 2.0 |
| FLN Marketplace | -1.2 | -2.0 | -1.9 | -1.9 | -1.9 |
| **EBITDA** | **-1.2** | **-2.0** | **-1.3** | **-0.1** | **0.0** |

| Board of Directors / Substantial Shareholders | | |
|---|---|---|
| **Board of Directors** | **Shareholding** | **%** |
| Matt Barrie - CEO & Chairman | 200.4 | 46.0% |
| Simon Clausen - Non Executive director | 167.9 | 38.5% |
| Darren Williams - CTO | 12.6 | 2.9% |

**Description**

Freelancer is the world's largest freelancing, outsourced services and crowdsourcing marketplace. Freelancer connects small business, consumers, startups and entrepreneurs who need things done with a global workforce of skilled online freelancers who are looking for jobs. Founded in 2009 it now was over 16m users from over 180 countries.

*Source: Canaccord Genuity, Company reports*

## Other Key Points

- **Currency to act as a tailwind.** We estimate ~95% of FLN revenue is sourced offshore (~80% USD) with ~70% of costs domiciled in AUD. This highlights the potential for further acceleration in FLN's GPV (and thus gross profit) as the AUD continues to depreciate.
- **US becoming a major driver of jobs posted on the platform.** When FLN listed in Dec-13, jobs posted from the US represented 24% of total jobs. This has subsequently increased to 29% in 1H15. We expect this to incrementally improve as the company accelerates its marketing initiatives.
- **Increasing its marketing spend to account for 15% of net revenues (previously 12%).** The company has historically maintained a prudent approach to marketing (largely SEO, SEM) with the majority of expenses allocated to product development/improvement. We expect marketing spend between 20% and 25% of net revenues in future periods, similar to other global market players.
- **Growth trumps all and should be considered the proxy for value (not reported EBITDA).** Management remains reluctant to provide guidance on when it plans to turn off/down the growth tap, highlighting potential risks to our earnings forecasts. However, the faster the company grows the sooner the company will generate statutory earnings, in our view.

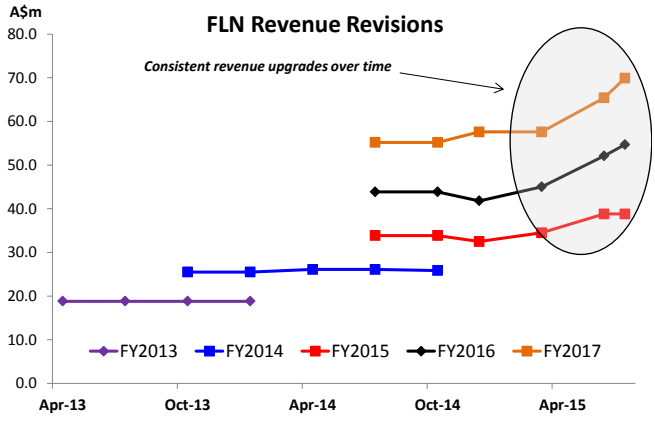
**Figure 1: CGAu earnings assumptions**

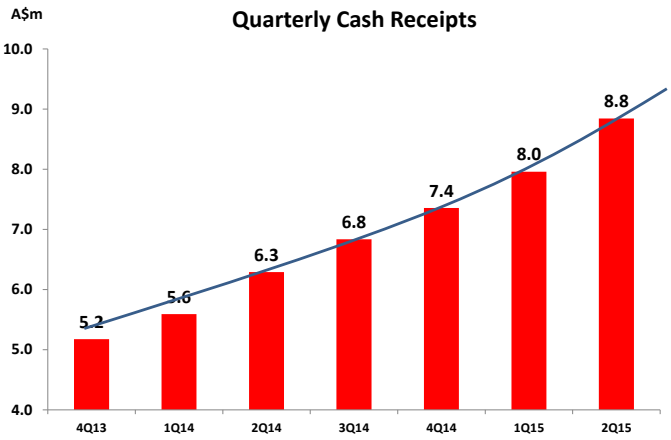
| P&L Breakdown | | 2012 | 2013 | 1H14 | 2H14 | 2014 | 1H15 | 2H15 | 2015 | 1H16 | 2H16 | 2016 | 1H17 | 2H17 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payments GPV (Escrow.com) | | | | | | | 0 | 120.8 | 120.8 | 183.8 | 191.3 | 375.2 | 202.2 | 210.5 | 412.7 |
| Marketplace GPV | | 50.8 | 84.4 | 49.5 | 54.2 | 103.7 | 64.1 | 72.4 | 136.5 | 84.4 | 97.1 | 181.5 | 109.0 | 127.9 | 236.9 |
| **Total GPV** | **$m** | **50.8** | **84.4** | **49.5** | **54.2** | **103.7** | **64.1** | **193.1** | **257.2** | **268.2** | **288.4** | **556.7** | **311.2** | **338.4** | **649.5** |
| *Growth* | *%* | *43%* | *66%* | *6.5%* | *9.5%* | *23%* | *29%* | *256%* | *148%* | | | *116%* | | | *17%* |
| Payments take-rate | % | | | | | | | 1.9% | 1.9% | 1.9% | 1.9% | 1.9% | 1.9% | 1.9% | 1.9% |
| Marketplace take-rate | % | 20.9% | 22.3% | 23.8% | 26.1% | 25.0% | 26.2% | 26.2% | 26.2% | 26.2% | 26.2% | 26.2% | 26.2% | 26.2% | 26.2% |
| Payments Revenue | | | | | | | | 2.3 | 2.3 | 3.5 | 3.6 | 7.1 | 3.8 | 4.0 | 7.8 |
| Marketplace revenue | | 10.6 | 18.8 | 11.8 | 14.1 | 25.9 | 16.7 | 19.0 | 35.8 | 22.1 | 25.4 | 47.6 | 28.5 | 33.5 | 62.1 |
| **Revenues** | **$m** | **10.6** | **18.8** | **11.8** | **14.1** | **25.9** | **16.7** | **21.3** | **38.0** | **25.6** | **29.1** | **54.7** | **32.4** | **37.5** | **69.9** |
| *Growth* | *%* | *64%* | *77%* | *14%* | *20%* | *38%* | | | *47%* | | | *44%* | | | *28%* |
| Payments Gross Profit | $m | | | | | | | 0.6 | 0.6 | 0.9 | 0.9 | 1.8 | 1.0 | 1.0 | 2.0 |
| Marketplace Gross Profit | $m | 9.3 | 16.4 | 10.4 | 12.2 | 22.5 | 14.6 | 16.5 | 31.1 | 19.2 | 22.1 | 41.4 | 24.8 | 29.2 | 54.0 |
| **Gross Profit** | **$m** | **9.3** | **16.4** | **10.4** | **12.2** | **22.5** | **14.6** | **17.1** | **31.7** | **20.1** | **23.0** | **43.2** | **25.8** | **30.2** | **56.0** |
| *GP Margin* | | *87%* | *87%* | *88%* | *86%* | *87%* | *88%* | *83%* | *83%* | *79%* | *79%* | *79%* | *80%* | *80%* | *80%* |
| Operating Expenses | $m | -8.5 | -14.9 | -11.2 | -13.4 | -24.6 | -15.4 | -17.6 | -33.0 | -20.3 | -22.9 | -43.3 | -26.3 | -29.6 | -55.9 |
| EBITDA (normal) | $m | 0.7 | 1.5 | -0.8 | -1.2 | -2.0 | -0.8 | -0.6 | -1.3 | -0.2 | 0.1 | -0.1 | -0.5 | 0.5 | 0.0 |
| D&A | $m | -0.1 | -0.2 | -0.2 | -0.1 | -0.3 | -0.2 | 0.005 | -0.2 | -0.1 | -0.1 | -0.2 | -0.1 | -0.1 | -0.2 |
| EBIT | $m | 0.6 | 1.3 | -1.0 | -1.4 | -2.4 | -1.0 | -0.6 | -1.5 | -0.3 | 0.0 | -0.3 | -0.6 | 0.4 | -0.2 |
| Interest | $m | 0.0 | 0.1 | 0.1 | 0.0 | 0.2 | 0.1 | 0.3 | 0.3 | 0.2 | 0.3 | 0.5 | 0.3 | 0.4 | 0.7 |
| NPBT | $m | 0.6 | 1.4 | -0.9 | -1.3 | -2.2 | -0.9 | -0.3 | -1.2 | -0.1 | 0.3 | 0.2 | -0.3 | 0.8 | 0.5 |
| Tax (@25%) | $m | 0.1 | 0.0 | 0.3 | 0.6 | 1.0 | 0.4 | 0.1 | 0.5 | 0.0 | -0.1 | -0.1 | 0.1 | -0.2 | -0.1 |
| **NPAT (normalised)** | **$m** | **0.7** | **1.4** | **-0.6** | **-0.6** | **-1.2** | **-0.5** | **-0.2** | **-0.7** | **-0.1** | **0.2** | **0.2** | **-0.2** | **0.6** | **0.4** |
| Non-recurring | $m | 0.0 | -0.9 | -0.2 | -0.4 | -0.6 | -0.8 | -0.191 | -1 | -0.5 | -0.5 | -1 | -0.5 | -0.5 | -1 |
| **NPAT (reported)** | **$m** | **0.7** | **0.5** | **-0.8** | **-1.0** | **-1.8** | **-1.3** | **-0.4** | **-1.7** | **-0.6** | **-0.3** | **-0.8** | **-0.7** | **0.1** | **-0.6** |

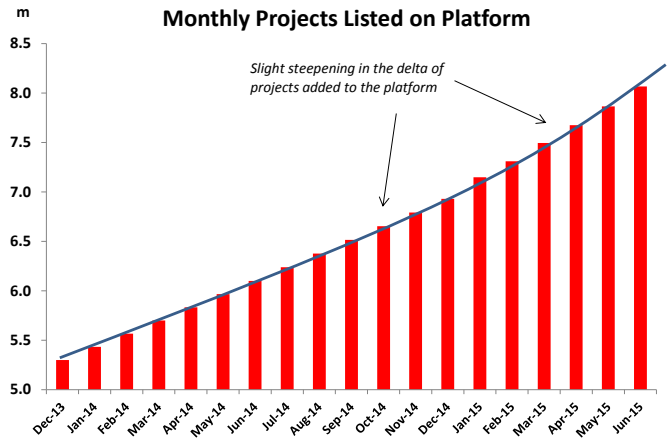
| Valuation | | 2012 | 2013 | 1H14 | 2H14 | 2014 | 1H15 | 2H15 | 2015 | 1H16 | 2H16 | 2016 | 1H17 | 2H17 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EFPOWA | m | 400.9 | 436 | 436 | 436 | 437 | 447 | 447 | 447 | 447 | 447 | 447 | 447 | 447 | 447 |
| EPS | cps | 0.2 | 0.3 | -0.1 | -0.1 | -0.3 | -0.1 | 0.0 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| Mkt cap/GPV | x | | 6.7 | 5.7 | 5.2 | 5.5 | 4.3 | 1.5 | 2.2 | 1.0 | 1.0 | 1.0 | 0.9 | 0.8 | 0.8 |
| **EV/Revenue** | **x** | | **30.0** | **24.2** | **20.1** | **21.9** | **16.7** | **13.3** | **14.8** | **11.0** | **9.6** | **10.2** | **8.6** | **7.4** | **7.9** |
| EV/Gross Profit | x | | 34.3 | 27.4 | 23.4 | 25.2 | 19.0 | 16.6 | 17.8 | 14.0 | 12.1 | 13.0 | 10.8 | 9.1 | 9.9 |

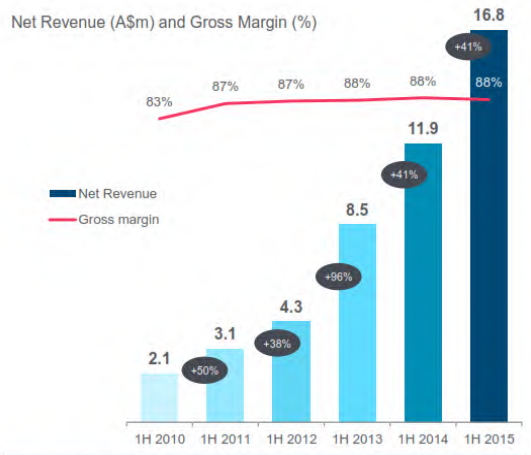
*Source: Company data, Canaccord Genuity estimates*

**Figure 2: Growth in FLN platform driving consensus revenue revisions**

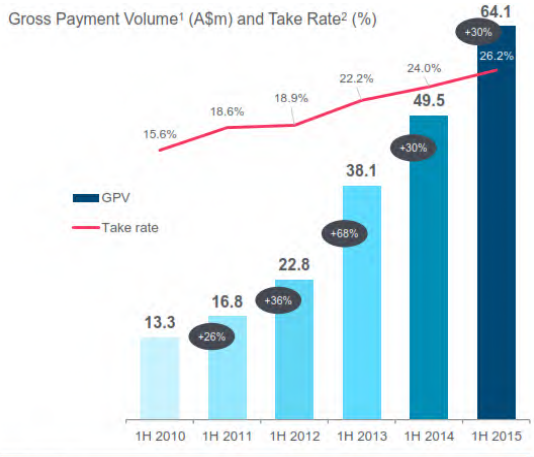


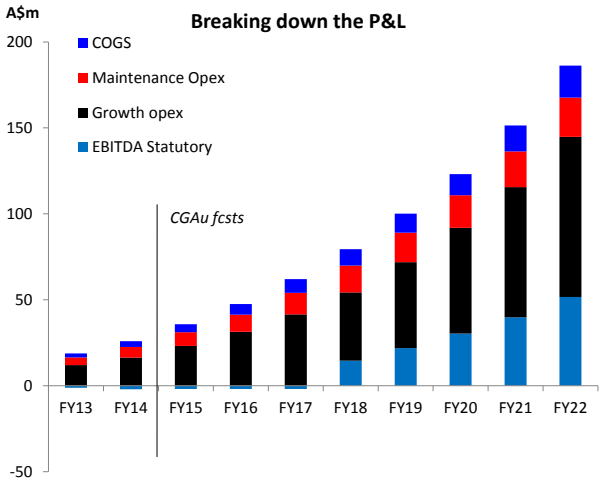

| Revenue (A$m) | 2.1 | 3.1 | 4.3 | 8.5 | 11.9 | 16.8 |
|---|---|---|---|---|---|---|
| Growth on pcp | - | 50.4% | 37.7% | 96.3% | 40.8% | 40.8% |
| Gross margin | 82.6% | 86.7% | 87.4% | 87.6% | 88.3% | 87.8% |

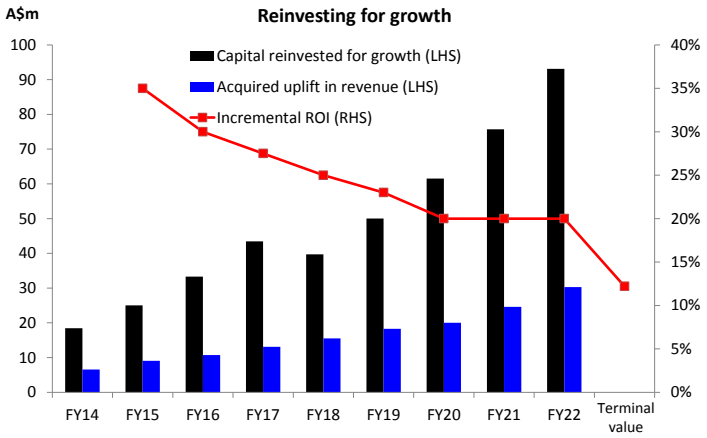


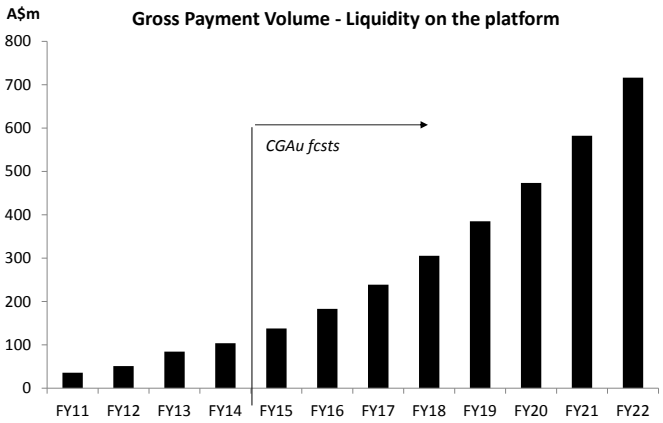

| GPV (A$m) | 13.3 | 16.8 | 22.8 | 38.1 | 49.5 | 64.1 |
|---|---|---|---|---|---|---|
| Growth on pcp | - | 26.0% | 35.5% | 67.5% | 29.9% | 29.7% |
| Take rate² | 15.6% | 18.6% | 18.9% | 22.2% | 24.0% | 26.2% |

*Source: Company reports, Canaccord Genuity estimates*

**Figure 3: Key P&L line items (statutory vs. sustainable EBITDA)**




*Source: Company reports, Canaccord Genuity estimates*

**Figure 4: Valuation drivers**

| P & L Breakdown | | | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | Terminal Value |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Freelancer Payments (escrow.com)** | | | | | | | | | | | | | |
| Gross Payment Volume | A$m | | | | 120.8 | 375.2 | 412.7 | 453.9 | 499.3 | 534.3 | 566.3 | 594.7 | |
| Take rate | % | | | | 1.9% | 1.9% | 1.9% | 1.9% | 1.9% | 1.9% | 1.9% | 1.9% | 1.9% |
| Revenue | A$m | | | | 2.3 | 7.1 | 7.8 | 8.6 | 9.5 | 10.2 | 10.8 | 11.3 | 11.9 |
| **Payments EBITDA** | **A$m** | | | | **0.6** | **1.8** | **2.0** | **2.2** | **2.4** | **2.5** | **2.7** | **2.8** | **3.0** |
| Revenue growth | % | | | | 7% | 8% | 10% | 10% | 10% | 7% | 6% | 5% | 5% |
| EBITDA margin | % | | | | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |
| **Freelancer Marketplace** | | | | | | | | | | | | | |
| Gross Payment Volume | A$m | | 84.4 | 103.7 | 136.5 | 181.5 | 236.9 | 303.2 | 382.0 | 469.9 | 577.9 | 710.8 | 754.2 |
| Effective Take rate | % | | 22.3% | 25.0% | 26.2% | 26.2% | 26.2% | 26.2% | 26.2% | 26.2% | 26.2% | 26.2% | 26.2% |
| **Revenue** | **A$m** | | **18.8** | **25.9** | **35.8** | **47.6** | **62.1** | **79.4** | **100.1** | **123.1** | **151.4** | **186.2** | **197.6** |
| Gross Profit Margin | % | | 87% | 87% | 87% | 87% | 87% | 88% | 89% | 90% | 90% | 90% | 90% |
| **Gross Profit** | **A$m** | **(1)** | **16.4** | **22.5** | **31.1** | **41.4** | **54.0** | **69.9** | **89.1** | **110.8** | **136.3** | **167.6** | **177.8** |
| Maintenance opex | A$m | **(2)** | 4.4 | 6.1 | 8.0 | 10.0 | 12.5 | 15.6 | 17.2 | 18.9 | 20.8 | 22.8 | 25.1 |
| Growth | % | | | 39% | *30%* | *25%* | *25%* | *25%* | *10%* | *10%* | *10%* | *10%* | *10%* |
| **EBITDA (ex growth opex)** | **A$m** | **(1)-(2)** | **12.0** | **16.4** | **23.1** | **31.4** | **41.5** | **54.3** | **71.9** | **91.9** | **115.5** | **144.8** | **152.7** |
| *Sustainable EBITDA margins* | *%* | | *64.0%* | *63.3%* | *64.7%* | *66.0%* | *66.9%* | *68.4%* | *71.9%* | *74.7%* | *76.3%* | *77.7%* | *77.3%* |
| Growth Opex | A$m | (3) | 13.3 | 18.4 | 25.0 | 33.3 | 43.4 | 39.7 | 50.0 | 61.6 | 75.7 | 93.1 | 39.5 |
| Proportion opex - growth | % | | *75%* | *75%* | *76%* | *77%* | *78%* | *72%* | *74%* | *77%* | *78%* | *80%* | |
| Proportion of rev. reinvested | % | | 70% | 71% | 70% | 70% | 70% | 50% | 50% | 50% | 50% | 50% | 20% |
| Reinvestment ROI | % | | | 35% | 35% | 30% | 28% | 25% | 23% | 20% | 20% | 20% | 12% |
| Organic revenue growth | % | | | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | |
| *Reinvestment revenue growth* | *A$m* | | | *6.5* | *9.1* | *10.7* | *13.1* | *15.5* | *18.3* | *20.0* | *24.6* | *30.3* | |
| *Organic revenue growth* | *A$m* | | | *0.6* | *0.8* | *1.1* | *1.4* | *1.9* | *2.4* | *3.0* | *3.7* | *4.5* | |
| Total revenue uplift | A$m | | | 7.1 | 9.8 | 11.8 | 14.5 | 17.4 | 20.7 | 23.0 | 28.3 | 34.8 | |
| Marketplace EBITDA | A$m | (1)-(2)-(3) | -1.2 | -2.0 | -1.9 | -1.9 | -1.9 | 14.6 | 21.9 | 30.4 | 39.8 | 51.7 | 113.2 |
| **Group** | | | | | | | | | | | | | |
| Freelancer Payments (escrow.com) | | | | | 2.3 | 7.1 | 7.8 | 8.6 | 9.5 | 10.2 | 10.8 | 11.3 | 11.9 |
| Freelancer Marketplace | | | | | 35.8 | 47.6 | 62.1 | 79.4 | 100.1 | 123.1 | 151.4 | 186.2 | 197.6 |
| Total Revenue | | | | | 38.0 | 54.7 | 69.9 | 88.1 | 109.6 | 133.3 | 162.2 | 197.5 | 209.5 |
| Freelancer Payments (escrow.com) | | | | | 0.6 | 1.8 | 2.0 | 2.2 | 2.4 | 2.5 | 2.7 | 2.8 | 3.0 |
| Freelancer Marketplace | | | | | -1.9 | -1.9 | -1.9 | 14.6 | 21.9 | 30.4 | 39.8 | 51.7 | 113.2 |
| Total EBITDA | | | | | -1.3 | -0.1 | 0.0 | 16.7 | 24.2 | 32.9 | 42.5 | 54.5 | 116.2 |
| *EBITDA Sustainable* | | | | | *23.7* | *33.2* | *43.5* | *56.5* | *74.3* | *94.5* | *118.2* | *147.6* | *155.7* |

| Multiple analysis | | | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EV (pro-forma)** | **A$m** | | | | **565.0** | **559.3** | **551.4** | **542.4** | **517.3** | **484.4** | **442.0** | **387.7** |
| **EV/EBIT: Sustainable** | **x** | | | | **24.0** | **16.9** | **12.7** | **9.6** | **7.0** | **5.1** | **3.7** | **2.6** |
| *EV/EBIT - Statutory* | x | | | | *426.5* | *5,384.0* | ######## | *32.4* | 21.3 | 14.7 | 10.4 | 7.1 |
| **PER: Sustainable** | **x** | **(@ 25% tax rate)** | | | **32.9** | **23.5** | **18.0** | **13.8** | **10.5** | **8.3** | **6.6** | **5.3** |

*Source: Canaccord Genuity estimates*

**Figure 5: DCF valuation methodology**

| Valuation | | | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | Terminal Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Look-through valuation*** | | | | | | | | | | | |
| **Sustainable EBITDA** | **A$m** | | **23.1** | **31.4** | **41.5** | **54.3** | **71.9** | **91.9** | **115.5** | **144.8** | **152.5** |
| Capex | A$m | | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 |
| Look-through EBITDA | A$m | | 22.1 | 30.4 | 40.5 | 53.3 | 70.9 | 90.9 | 114.5 | 143.8 | 2525.8 |
| *Discount factor* | *x* | | *0.89* | *0.80* | *0.71* | *0.64* | *0.57* | *0.51* | *0.45* | *0.40* | 0.40 |
| Valuation | A$m | **1323.0** | 19.8 | 24.2 | 28.8 | 33.9 | 40.2 | 46.1 | 51.8 | 58.1 | 1,020.1 |
| ***Growth opex valuation*** | | | | | | | | | | | |
| Growth cost | A$m | | -25.0 | -33.3 | -43.4 | -39.7 | -50.0 | -61.6 | -75.7 | -93.1 | -658.0 |
| *Discount factor* | *x* | | *0.89* | *0.80* | *0.71* | *0.64* | *0.57* | *0.51* | *0.45* | *0.40* | *0.40* |
| Valuation | A$m | **-502.2** | -22.3 | -26.5 | -30.9 | -25.2 | -28.4 | -31.2 | -34.2 | -37.6 | -265.8 |
| Tax, Interest Exp. & ΔW.C. | | | 5.3 | 7.2 | 9.4 | -6.2 | 2.4 | 1.5 | 1.4 | 1.3 | -413.9 |
| *Discount factor* | *x* | | *0.89* | *0.80* | *0.71* | *0.64* | *0.57* | *0.51* | *0.45* | *0.40* | *0.40* |
| Valuation | A$m | **-150.7** | 4.7 | 5.8 | 6.7 | -4.0 | 1.3 | 0.8 | 0.6 | 0.5 | -167.2 |
| Total Value | A$m | 670.1 | | | | | | | | | |
| Escrow.com | A$m | 10.0 | | | | | | | | | |
| Net debt | A$m | 20.2 | | | | | | | | | |
| **Enterprise Value** | **A$m** | **700.3** | 700 | 784 | 878 | 984 | 1,102 | 1,234 | 1,382 | 1,548 | |
| EFPOWA | # | 446.9 | | | | | | | | | |
| Valuation (per share) | $ps | 1.57 | 1.57 | 1.75 | 1.97 | 2.20 | 2.47 | 2.76 | 3.09 | 3.46 | |
| Target price (12mths forward) | $ps | 1.75 | | | | | | | | | |
| Discount rate | % | 12% | | | | | | | | | |
| Terminal growth rate | % | 6% | | | | | | | | | |

| Multiple analysis | | | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|---|---|---|---|---|
| **EV (pro-forma)** | **A$m** | | **565.0** | **559.3** | **551.4** | **542.4** | **517.3** | **484.4** | **442.0** | **387.7** |
| **EV/EBIT: Sustainable** | **x** | | **24.0** | **16.9** | **12.7** | **9.6** | **7.0** | **5.1** | **3.7** | **2.6** |
| *EV/EBIT - Statutory* | x | | *426.5* | *- 5,384.0* | ######## | *32.4* | 21.3 | 14.7 | 10.4 | 7.1 |
| **PER: Sustainable** | **x** | **(@ 25% tax rate)** | **32.9** | **23.5** | **18.0** | **13.8** | **10.5** | **8.3** | **6.6** | **5.3** |

*Source: Canaccord Genuity estimates*

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Freelancer Limited - FLN

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Freelancer Limited - FLN

The key investment risks for Freelancer include: User base risk -- Scale and market domination is the key. We expect management will continue to invest heavily in maintaining its market leadership position, however how much cash they plan to burn is unknown. Acquisition and integration risk -- Freelancer is a serial acquirer and integrator of internet websites, therefore the risk is that management buys websites that provides no synergistic benefits to its shareholders or its current operations. Board of Directors -- The Company currently has no independent directors on the board. Technology risk -- As with all internet based companies, there is a risk their technology could become redundant and replaced by new market entrants.

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|---|---|---|---|
| | # | % | % |
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| Hold | 317 | 31.26% | 14.20% |
| Sell | 39 | 3.85% | 5.13% |
| Speculative Buy | 53 | 5.23% | 52.83% |
| | 1014* | 100.0% | |

*Total includes stocks that are Under Review

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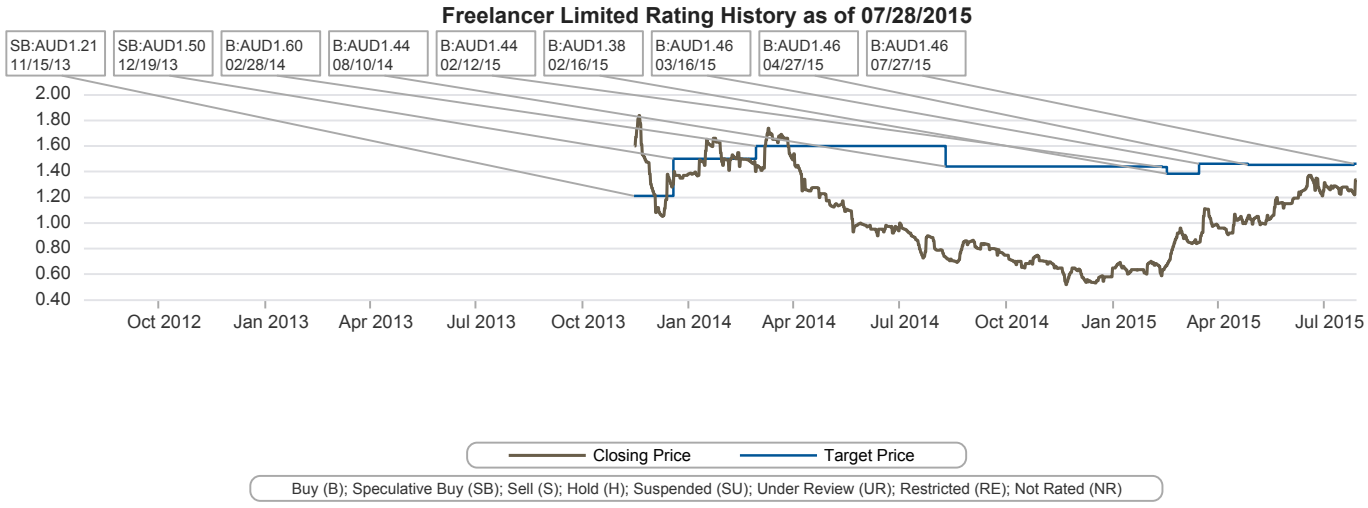
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