



Freelancer Ltd (FLN.ASX)

Focusing on strong revenue growth, profits to come later.

Event:

- We initiate research coverage on Freelancer Limited (FLN).

Investment Highlights:

- FLN is a global leader in the online freelancing market. FLN's marketplace benefits from the network effect, where it brings together many freelancers and employers together in one central marketplace. This is similar to other successful online marketplaces across different industries such as eBay, Priceline, REA, Lendingclub, and Uber.
- FLN leads the online freelancing market, possessing the greatest number of registered users (14.5M). The company focuses on micro and small-to-medium businesses as employers. The only other competitor similar in scale to FLN is Elance-oDesk. However it is biased more towards large enterprises and payroll services.
- Estimates of the online freelancing market range from at least US\$75b. Even if FLN was to take 1% share of a US\$75b market at a 22% take rate, this would be equivalent to the company earning US\$165M revenue p.a.
- The drivers for online freelancing include: 1) Broader penetration of the internet providing greater access for developing world workers to become freelancers; 2) Increasing wealth of developing nations to generate more posters; 3) Widening access to online education and training relevant to freelancing skills; 4) Outsourcing; 5) Job insecurity; 6) Autonomous work lifestyle and flexibility, and 7) Mobile internet.
- FLN's 14.5M members, its leadership in offering freelancing to SMEs, and its exposure to fast growing developing economies, provide the company with corporate appeal to traditional staffing firms seeking to adapt to tech (e.g. Recruit, Adecco); online-era employment companies (LinkedIn, Seek), and web marketplaces in other sectors (e.g. Amazon, eBay)

Earnings and Valuation:

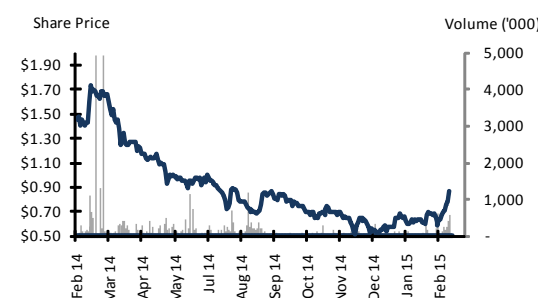
- Given FLN is in the early stages of growth, earnings are less meaningful than revenue growth. The latter is critical to demonstrating FLN's success in attracting freelancers and posters to grow its marketplace.
- We illustrate that EV/sales is an important metric for companies in the technology space, with the higher the sales growth rate the higher the EV/sales multiple attributed to the company valuation.
- Peers with similar sales growth rates to FLN are on an average EV/sales multiple of 14.8x vs the 10.3x FLN trades at, implying it is undervalued. We have also derived a DCF, assuming FLN growing revenue at an average of 31% p.a. over the next five years.
- Our blended valuation of FLN – utilizing equal weighting of an EV/sales multiple and DCF valuation – is \$1.35/share.

Recommendation

- We initiate our rating on FLN with a Buy recommendation and \$1.35/share price target. We believe the stock offers investors significant exposure to the numerous drivers in the online freelancing industry. Catalysts for the stock include continuing demonstration of strong revenue growth.

Recommendation		Buy		
Previous		N/A		
Price Target		1.35		
Previous		N/A		
Share Price (A\$)		0.92		
ASX Code		FLN		
52 week low - high (A\$)		0.515-1.76		
Valuation		\$1.35/share		
Methodology		Blended (DCF/sales multiple)		
Risk		Med		
Capital structure				
Shares on Issue (M)		436.3		
Market Cap (A\$m)		401.4		
Net Debt/(Cash) (A\$m)		-20.0		
EV (A\$m)		381.4		
12mth Av Daily Volume ('000)		179.2		
Y/e Dec est.	2014a	2015e	2016e	2017e
Revenue A\$m	26.1	35.0	46.5	60.9
Revenue growth	39%	35%	33%	31%
NPAT A\$m	-1.8	-0.1	-0.2	-0.2
EV/sales	14.6x	10.9x	8.2x	6.3x

Share Price Graph



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"The fundamental unit of [the new] economy is not the corporation but the individual. Tasks aren't assigned and controlled through a stable chain of management but rather are carried out autonomously by independent contractors.

These electronically connected freelancers - e-lancers - join together into fluid and temporary networks to produce and sell goods and services. When the job is done - after a day, a month, a year - the network dissolves, and its members become independent contractors again".

"The Dawn of the E-Lance Economy", Harvard Business Review (1998)

BACKGROUND

FLN owns the world's largest online marketplace for freelancing as measured by number of members.

- Freelancer (FLN) is the owner and operator of the world's largest online marketplace for outsourcing, freelancing, and crowdsourcing services, as measured by the total number of its website users and listed projects. The company's headquarters are in Sydney.
- FLN was founded in 2009, acquiring GetAFreelancer in that year. Since then it has acquired and integrated other leading marketplaces of online jobs LimeExchange (acquired 2010), Freelancer.co.uk (2010), EUFreelance (2011), RentACoder/ vWorker (2012), and Scriptlance (2012). In 2014 the company's acquisitions included Warrior Forum and Fantero. FLN undertook an IPO in 2013 raising \$15M in new equity. At the end of FY2014, FLN had staff (FTE) of 390.

WHAT FREELANCER DOES

FLN connects freelancers with micro, small, & medium businesses; consumers; and entrepreneurs from across the globe.

- FLN connects small businesses, consumers, startups, and entrepreneurs from across the globe with a global workforce of skilled online freelancers via marketplace on its websites. The company's major portal is www.freelancer.com.
- Users that wish to have a job undertaken – known as posters or employers - by a freelancer will post the project on freelancer.com network of websites. Jobs can be posted as a project (outsourcing) or contest (crowdsourcing). The users that post the project are termed "employers" or "posters".
- Freelancers with the appropriate skills and job interest will then receive the proposal, allowing them the opportunity to submit a bid to the employer. The employer can view the profile of each freelancer that has submitted a bid, gauging their experience, skills, and accumulated feedback ratings. The employer can engage in online chat with freelancers to ask questions and gather further information.
- Once satisfied, the employer then awards a project to the preferred freelancer, who can accept the job. The freelancer can also view the profile of the employer including feedback and ratings.
- About 2M bids for projects per month from users are made through FLN's, with ca. 98% of projects posted receiving bids.



HOW FLN GENERATES REVENUE

FLN generates revenue mostly by commissions and membership fees.

- FLN generates revenue from both freelancers and employers. The two major sources of revenue stem from commissions and subscriptions.

Commissions

- For employers, it is free to post a project, free to review bids, and free to talk to freelancers and review samples of work. For freelancers it is free to view projects posted, free to bid on projects, free to talk to employers, and provide samples of work.
- The main fee income (commission) is payable when projects are awarded by posters and accepted by users. Commission is payable by both the poster and freelancer.
- Project commissions payable are between 0% and 3% of the project value for employers, and 3% to 10% of the project value by freelancers. The exact commission rate depends on whether a user is on a free or paid membership plan.
- The average project value on FLN was A\$177 in FY14. Bids for projects can be a fixed price or hourly rate. Freelancer purposely lowered the minimum value of work posted to \$10 in FY13, in order to encourage freelancers from developing nations to engage with its website and become long term members.
- FLN's payment terms require that users deposit funds by credit card or Paypal. FLN has agreements with Paypal Australia for users to deposit and withdraw funds on its website. The company also has agreements with Skrill, WorldPay, and GlobalCollect for credit card payments.

Subscriptions

- To either post a project or bid for work, users must first register on the FLN website. As part of registration, user can join a membership plan which can be free or up to US\$199.95/month. The more expensive membership plans can entitle users to benefits, such as employers not being charged fees on award and acceptance of their project, and freelancers incurring reduced fees on their acceptance of projects.

Other - Advertising Offers Significant Future Potential

- Other sources of revenue besides commissions and membership plans include project upgrades, crowdsourcing contests, advertising, and certification fees. Of these, advertising, while currently relatively small, offers potentially strong opportunity for growth as FLN increases in size, especially in registered memberships and monthly web visits.

Revenue - Take Rate of 25% of Gross Payment Volumes

- FLN's take rate is the revenue it earns (commissions, membership fees, other revenue), divided by the gross payment volume (payments to Freelancer users for products transacted through the website plus FLN revenue), reported as a percentage. For FY14, the company's take rate was 25.1%, based on gross payment volume of \$103.7M and company revenue of \$26.1M.



EXPENSES

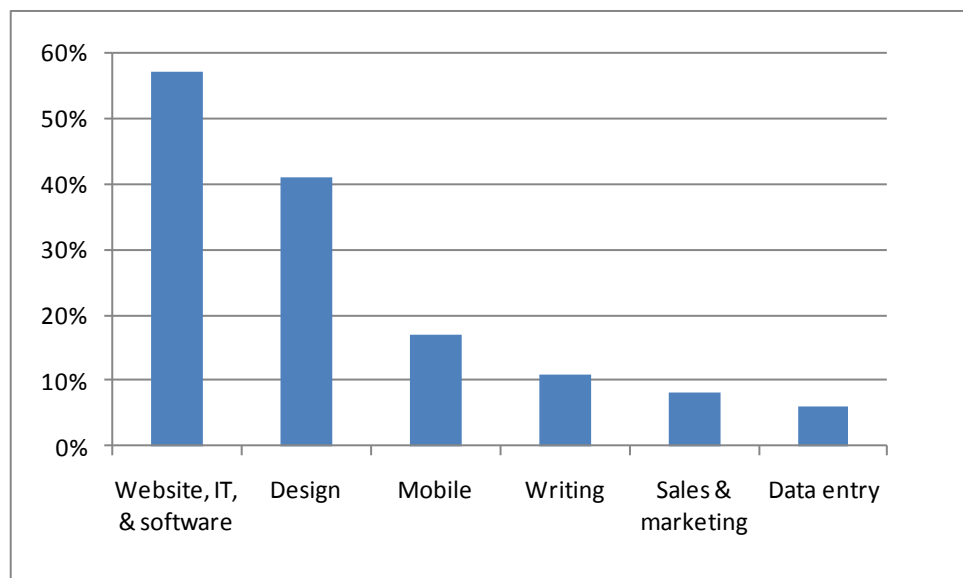
- FLN's major expenses are hosting, research and development, and those associated with labour and office. All research and development is expensed (and has been to date) in the profit and loss, even if it results in commercialised product. Most capex is attributable to software, hardware, and offices.

TYPES OF JOBS POSTED ON FLN

Over 750 job categories of work are available on FLN's website, including IT, software, engineering, marketing, writing, & design.

- Approximately 750 categories of work are available on FLN's website. The major work types are diverse and include:
 - Website design and IT;
 - Software development;
 - Mobile apps and computing;
 - Writing and content;
 - Design;
 - Media and architecture;
 - Data entry and administration;
 - Engineering, including aerospace and mechanical;
 - Science, including biotechnology;
 - Product sourcing and manufacturing;
 - Sales and marketing;
 - Business accounting;
 - Human resource and legal;
 - Translation and languages.
- Website, IT, Software and Design are the largest contributors to work being completed on the FLN websites, while mobile development and product sourcing/manufacturing are the fastest growing categories. Figure 1 shows a breakdown of the top project work categories.

Figure 1: Top Project Work Categories by Volume in FY14



Source: Company; Foster Stockbroking estimates.

*Projects associated with multiple categories results in sum of each category of work being > 100%.



FLN has 40 regional websites covering 32 languages, 19 currencies and serving over 230 nations.

A TRULY GLOBAL NETWORK

- FLN's business is truly global. Besides its major website freelancer.com, it has 40 regional websites which together cover 32 languages and 19 currencies. Freelancer and employers from over 230 nations have used FLN. A breakdown of the leading nations for posting jobs and for freelancers is shown in Figure 2.

Figure 2: Leading Freelancer and Employer Countries on freelancer.com

Rank	Top five employer countries	Top five freelancer countries
1	USA	India
2	India	Pakistan
3	UK	Bangladesh
4	Australia	Romania
5	Canada	The Philippines

Source: Company; Foster Stockbroking estimates

FLN's marketplace leverages off the network effect, of which eBay is the most prominent example.

MARKETPLACES AND THE NETWORK EFFECT

- *Freelancer.com* is a marketplace that leverages off the network effect. The network effect brings many buyers (employers) and many sellers (freelancers) to one centralized hub (freelancer.com), thus maximising the permutations for interaction and transactions.
- eBay was one of the first major commercial online examples of the network in the consumer space, and still remains the most prominent example. Amazon, which began as a purely online store attracting many buyers to just one seller (itself), has since added a marketplace where other sellers can sell alongside Amazon, thus moving to the network effect.

The network effect accelerates the building of brand, scale, and leadership....

Network Effect Accelerates Building Brand, Scale, and Leadership...

- The network effect creates significant momentum and scale and efficiency, as many sellers and many buyers can congregate in ideally just the one hub. The marketplace is more attractive for the buyers as rather than being limited to one seller, it can access many sellers through the one hub or portal. It is also attractive for buyers as they can search efficiently for their desired good or service via the one hub, rather than having to search many different portals.

...while lowering both the cost of customer acquisition and cost of services being sold.

...And Reduces Cost Of Customer Acquisition...

- Besides accelerating scale and brand, the network effect reduces the cost of customer acquisition, as the attractiveness of the network's hub induces more users to gravitate to the marketplace, knowing that it offers the widest scope of choice and product. This in turn reduces the need to spend on marketing and advertising.

...As Well Lowering Cost Of Services Sold

- By acting as a network, the cost of supplying products and services is borne mostly by the suppliers – in this case the freelancers - who provide the labour, time, and their final work to the employers. This allows FLN to generate a high gross profit margin (87%).



- Examples of leading network marketplaces with global or regional reach across a number of different businesses are shown in Figure 3.

Figure 3: Online Marketplaces Leveraging the Network Effect

Marketplace	Business
Freelancer.com	Freelancing and crowdsourcing jobs
Ebay.com	New and used goods
craigslist, indeed.com	General classifieds
Seek.com, monster.com	Employment
realestate.com.au	Property classifieds
carsales.com.au	Auto classifieds
airbnb	Accommodation
uber	Passenger transport
taskrabbit	Local jobs
99designs	Graphic design
service seeking	Trades
ZocDoc	Health services
legalzoom	Legal
Priceline, Expedia	Travel, Hotel Bookings
LendingClub	Loans

Source: Company; Foster Stockbroking estimates.

Scalable Economies

- Freelancer's online business model makes it highly scalable. Gross margin was 87% in FY14, with cost of services basically being payment facilitator costs. The marketplace nature of the business means no working capital needs to be committed to inventory, direct labour, or logistics.
- FLN has a relationship with Amazon Web Services (AWS) who provide a hosting platform for FLN's website. FLN utilises AWS' servers to serve traffic growth.

FLN ESTABLISHED AS AN INDUSTRY LEADER IN ITS MARKET

- A key factor in the success of network marketplaces is possessing leadership in the market. Leadership enhances economies of scale, barriers to entry and most significantly brand across the public and business. The last is critically vital. When a business or consumer seeks to buy or sell a service or good, the first -and likely only - marketplace that will be accessed will be that with highest reputation and brand awareness.

FLN focused on micro, small, and medium sized enterprises (MSMEs)

- As at 15th February 2015, FLN had 14.5M registered users (appx. split 75% freelancers, 25% employers) from over 240 countries, which had posted 7.1M projects. Using registered users as a measure, FLN is a leader in the freelancing/outsourcing online marketplace. Its employer customers are mostly micro, small, and medium sized enterprises (MSMEs).

FLN is a leader in the freelancing market for micro, small and medium size businesses, with 14.5M registered users.



No true direct competitor to FLN

- The only significant competitor to FLN is the unlisted US-based Elance-oDesk (formed from the merger of Elance and oDesk at the end of 2013). It claims to have over 13.5M registered users. However we do not believe that Elance-oDesk represents either direct or threatening competition to FLN. The reason: Elance-oDesk's has a greater bias towards large enterprises as employers. Some of its enterprise clients have included Google, Microsoft, and Disney.
- Key large enterprise functions, especially payrolls, are outsourced on Elance-oDesk. Not only are the large enterprises a different market to the MSMEs, but they also require a different business culture in servicing their needs, a more corporate-type culture. This makes Elance-oDesk different to the more agile and flexible culture that FLN adopts in servicing its clients.
- A comparison of the two companies across key parameters is shown in Figure 4. The most significant difference between the two companies lies in the value of work posted, with that of Elance-oDesk being ca. almost 10x that of FLN's, despite similar number of registered users. However this is due mostly to Elance-oDesk's large enterprise customer base. Also, the higher number of postings on Elance-oDesk reflects its payroll services.

Figure 4: Comparison of FLN and Elance-oDesk

Parameter	FLN	Elance-oDesk
Employer bias	Micro, small, & medium	Large
Registered users	14.3M	13.5M
Founded	2009	1999 (Elance); 2003 (oDesk)
Value of work in CY14	A\$104M	US\$941M
Revenue	A\$26M	na
New postings in CY14	1.6M	2.8M
Countries served	247	180

Source: Companies; Foster Stockbroking estimates.

FLN BUILDING FREELANCING VERTICALS

- During FY14, FLN acquired the marketplaces Warrior Forum, fantero.com, and zleccenia.przez.net which specialise in certain freelancing markets, representing key verticals for the company.

Warrior Forum - Online marketing

- Warrior Forum is a portal for online marketing and websites and domains. The acquisition of Warrior Forum has provided FLN with an online community of internet marketing professionals and entrepreneurs, possessing 0.8M registered members, which increased to 0.9M end FY14. Warrior Forum is regarded as the no.1 internet marketing marketplace and community since 1997, ranking as a top 200 US website and top 300 globally.
- FLN is operating Warrior Forum as a standalone website, to maintain its established brand and expertise in the online internet marketing vertical. There exists future potential cross marketing of both Warrior Forum and Freelancer.com, especially for tech savvy internet entrepreneurs on Warrior Forum seeking to hire online freelancing talent.
- Warrior Forum launched Warrior Payments in July 2014, where the payments system integrates analytics and distribution to a global network of affiliates who earn commissions on

Acquisition of verticals offers cross marketing opportunities and building scale in niche markets.



promoting others' products, enhancing the data collected. It also contained a marketplace for domain names, websites, and offers which FLN has since spun out.

Freemarket.com – Website and domains

- In September 2014 FLN spun out the website and domain marketplace out of Warrior Forum by launching Freemarket.com – a marketplace to buy and sell domain and websites. It complements the website projects posted on freelancer.com – users can get their domain name and website designed through freelancer websites, then either sell it or use it for their own business. (Over 174 freelancer users say they have websites or domains for sale). Internet marketing professionals are the no.1 buyers for websites domains. Freemarket.com has 8,500 websites and domains listed.

Fantero - Design

- Fantero is a content marketplace where members can buy and sell virtual content such as images, logos, templates, stock photos, web templates, audio, music, flash and video files, 3D models, plugins, and scripts.

SydStart

- FLN bought SydStart, a technology startup specialising in conference, expo and professional communities including around 5,000 tech startup professionals and investors.

ACQUIRING CUSTOMERS

FLN acquires customers via a number of different marketing approaches. The main targets are employers. Marketing channels used include:

- **Search engine optimization (SEO).** This ensures that Freelancer.com ranks favourably in search results when someone types in relevant keywords such as “freelance”, in search engines such as Google, which influences traffic to FLN’s websites.
- This is achieved by a number of factors including ensuring freelancer.com is accessible to search engines; the website’s pages features key relevant words, and popularity of site and links. As FLN grows its business this should enhance its rankings for certain search terms, subject to the algorithms Google uses in ranking pages.
- **Search engine marketing (SEM).** These are predominantly advertisements (“sponsored links”) listed on the right hand side of a search engine results page. This space is generally bid for.
- Public relations work.
- Events.
- **User referrals.** This is important not only in establishing word-of-mouth credentials, but also can result in links pointing to the freelancer.com site, in turn in increasing the success of SEO.
- Competitions.
- Traditional advertising.



- **Email marketing.** FLN tailors emails specific to the freelancers or poster's relevant interest or skills, based on its analytics.
- Business combinations.

STAFF GROWTH OF 31%

- FLN's FTE had staff of 390 grew 31% over the 297 in end FY2013. 100 are based in Sydney (predominantly computer software development professionals), 280 in Manila (mostly support), 7 in Vancouver and 3 London (business development). During FY14 FLN commissioned an engineering lab in Vancouver, opened a regional office in London, as well as expanding its campus office in Manila.

BUILDING TRUST AND REPUTATION VIA RATINGS SYSTEM

Ratings system key to building reputation and ensuring trust.

- **Minimising freelancers and employers transacting outside FLN's website.** A risk, which exists for established marketplaces such as eBay, is that freelancers and employers, once establishing initial contact on a FLN website, then proceed to engage in business outside of FLN's websites, depriving FLN of commission and possibly membership fee.
- **Feedback key.** To counter this, FLN has established a feedback ratings system, where both freelancers and employers can leave feedback on work undertaken and provided. This is key to building and marketing a member's profile, especially regarding quality of work, integrity, reputation, and communication, and promotes their trust among potential employers.
- Users can view the feedback, ratings, and history of others whether they are a freelancer or employer, and can rate any user they engage with after a job is completed. This provides confidence from existing and new users to engage with a poster and/or freelancer. The feedback system is critical and in both underpinning and allowing most marketplace websites, such as eBay and Amazon, to flourish and grow and ensure repeat business. It is also a deterrent against working outside the FLN and engaging with as the fallback of the feedback system is not there.
- Another initiative introduced by FLN is a directory of freelancers on freelancer.com, where an employer can search for freelancers with specific skills.

ONLINE FREELANCING – AT LEAST A US\$75B MARKET

Online freelancing – at least a US\$75b global market.

- FLN has estimated that its total available freelancing opportunity from micro, small, and medium sized businesses alone is a US\$16b+ p.a addressable market. Assuming a take rate of 22%, this implies a US\$75b freelancing market. The logic used to arrive at this figure is sound, and summarised as follows:
 - McKinsey estimates there exist 420M to 510M micro, small, and medium sized enterprises (MSME) globally.
 - To be conservative, FLN assumed the global (MSME) market is 4.4x larger than that in the USA of 28M (source: US Gov Dept small business Administration). This is equivalent to 123M MSMEs vs the McKinsey estimate of 420M to 510M.



Even just a 1% share of a \$75b market would equate to US\$167M pa in revenues for FLN.

- US job posters posted on average 3.13 projects in 2013 on freelancer.com, with an average project size of US\$194, generating revenue of \$43 per project to FLN at a 22.2% take rate.
- Therefore the total assessable revenue market of the global MSMEs for FLN is $\$43 \times 3.13 \times 123\text{M} = \text{US\$}16.7\text{b}$. **Assuming a take rate of 22%, this implies the total value of the freelancing projects market is US\$75b.**
- **Even if FLN acquires only 1% market share of the \$75b market at a 22% take rate, this translates to a US\$167M p.a. revenue opportunity**

Other estimates point to potentially significantly larger market

Other industry estimates of the freelancing and staffing market range from US\$2b to US\$700b.

- If \$75b seems large, it is conservative versus other industry estimates of the global freelancing staff market:
- The global staffing market for temporary and contingent workers is **US\$422b** according to the Staffing Industry Association.
- **US\$700b** to the economy is contributed by 53M Americans that freelance, according to a report by Edelman Berland commissioned by the Freelancers Union and Elance-oDesk.
- Online staffing is worth US\$1.3b in 2013, was expected to be \$2b in 2014, growing to US\$5b in 2018 (Staffing Industry Analysts). **If FLN were to achieve 10% market share of the global online staffing US\$5b market in 2018 at a 22% take rate, this would be equivalent to US\$110M p.a. in revenues to the company.**
- Accenture estimate this to be only a fraction of the **US\$300b** in global contingent workers
- While we realise that not all functions can be outsourced online (e.g. manufacturing), many significant work functions such as research, marketing, design, engineering, strategy, IT, writing etc can.

FLN has corporate appeal because of its unique marketplace, 14.5M members, and exposure to developing economies.

UNIQUENESS OF FLN PROVIDES CORPORATE TO DIVERSE RANGE OF FIRMS

- We believe FLN has corporate appeal to a wide variety of firms, the company being unique in its role as a networker between employers and freelancers for small to medium enterprises. Its community of 14.5M members is valuable, and it also provides access to the developing world economies which represent future growth and favourable demographics. We believe firms that would find FLN attractive include:

Traditional staffing firms are under threat from online disruptors. Some - such as Japan's Recruit - are pursuing acquisitions in the tech arena.

Traditional Staffing Firms

- These firms (Figure 5) are large and established success well before the internet era. However their business models have been, and continue to be, impacted by the emergence of the online era employment firms such as LinkedIn. Some firms have already made significant acquisitions to address their online strategy. A notable example has been the \$18bn market capitalised Japan's Recruit Holdings, which acquired Indeed.com - a US-based job classifieds aggregator - in 2012 for US\$1bn. Recruit was also reported to have approached FLN prior to the latter's IPO.

**Figure 5: Leading Traditional Staffing Firms**

Company	Country	Mkt Cap (US\$b)	Revenue (US\$b)
Recruit Holdings	Japan	17.6	10.9
Adecco	Switzerland	14.1	22.8
Randstad	Netherlands	10.6	19.6
Manpower Group	USA	6.4	20.7
Allegis	USA	na	7.4

Source: Companies; Thomson; Foster Stockbroking estimates
Revenue figures for CY 2014.

Online-era Employment Companies

- These companies (Figure 6) are more attuned to the culture, technology, agility, and innovativeness of the online tech world, especially concerning the network effect of marketplaces.

Figure 6: Online-Era Employment Companies

Company	Country	Market Cap (US\$b)	Revenue (US\$b)
LinkedIn	USA	33.1	2.2
Seek	Australia	4.6	0.6
51job	China	2.1	0.3
Monster Worldwide	USA	0.6	0.8
Aspire Media Group	UK	na	na

Source: Companies; Thomson; Foster Stockbroking estimates
Revenue figures for CY 2014.

Other Marketplaces

- Companies that operate marketplaces - albeit outside the job space – that would find FLN strategically attractive include eBay and Amazon.

**Online era job companies
are more tech savvy.**

**Other marketplaces such
as eBay and Amazon
understand the
importance of network
effect.**



VARIOUS TAILWINDS AND DRIVERS FOR THE ONLINE FREELANCE INDUSTRY

Positive industry drivers include greater use by consumers, increased posting by developing nations ...

...autonomy of when and where to work, mobile internet, work flexibility, job insecurity...

..increasing internet penetration of developing nations allowing more freelancers to enter the marketplace.....

Wider access to education and training offering appropriate freelancing skills.

1. Increased postings by consumers

- Mostly small to medium enterprises post on freelancer.com. However opportunities exist for more consumers to use its website. For example, a consumer may want a product such as household furniture, designed by a freelancer.

2. Wealth of developing nations

- To date, most posters and employers are from developed nations. However as developing nations become wealthier and more affluent, they will generate more potential posters and employers, increasing the demand for freelancing and outsourcing. An example of this is already being demonstrated by India ranking as major employer nation, as well as a freelancing one. Nations from central and southeast Asia, Eastern Europe, Middle East, North Africa, and Latin America represent growth opportunities for employers as well as freelancers.

3. Wage differential between the developing and developed world

- Most workers in the developing world – even those with a secondary or tertiary education - earn little to low wages relative to similarly qualified people from developed nations. These developing nation workers are seeking to enhance their incomes. Freelancing via the internet allows them to offer their skills to employers from affluent developed nations.

4. Autonomy of where and when to work –job insecurity, mobile internet, flexibility

- Intuit estimates that by the time millennials (aged 18 to 33) are 30, they will have worked five companies. It estimates by 2020 that 40% of US workforce will be independent. 34% of the US workforce, or 53M Americans, are already freelancing according to report by Elam Berland commissioned by Freelancers Union and Elance-oDesk
- Increasing job insecurity, the desire for job flexibility, and the empowering impact of the internet in enabling working from home are all factors conducive to freelancing.
- The advent of mobile internet further enhances flexibility for freelancers. FLN already offers freelancer for android and Apple IOS.

5. Internet penetration of developing nations – only 42% of world is connected

- According to Internet World Stats, only 3.0b (or 42%) of the global population of 7.1b are connected to the internet. In the developing world only 31% of the population is online compared with 77% in the developed economies. However growth in internet users is highest in the developing nations. It is estimated that 5b people from the developing world, that are earning less than \$10/day, will join the internet over next decade .



6. Increasing access to education and training – via the web

- McKinsey estimates that the tertiary educated supply in developing nations is ca. 370M people, equivalent to 10% of the 3.7b global working age population. The current global labour force is 2.9b and it is expected to increase to 3.5b by 2030.
- The proliferation of the web is seeing a change in education and training, both in developed and developing nations. More online courses are available which enables those from remote areas such as in the developing world, and from less urbanised developed areas, to access skills.
- Self tutorials, youtube, and internet education are examples of that allow freelancers to acquire skills in their desired field of interest and expertise. Some institutions, like Arizona State University, are working with large number of technology companies to expand is online delivery of education to those that cannot access traditional education due to such restraints as affordability, geography, or quota limits.
- Companies such as FLN, Seek, and LinkedIn realise the importance of education and training as a first step in their ecosystem for users to access jobs and work.

7. Outsourcing

- Functions such as finance/accounting/IT/R&D/admin/back office/product development are highly amenable to offshore outsourcing, especially where there is little requirement for customer interaction. McKinsey about 160M jobs or about 11% of projected 1.46b services jobs worldwide, could be carried out remotely barring any constraints in supply. Time poor (developed world).

8. Increasing competition to improve quality of freelancers and attract more posters

- As more of the developing world freelancers gain access to the internet, this should drive further competition between freelancers and drive up the quality of work that can be performed, which should be a positive in attracting more posters to FLN's website.

9. Aging demographic of developed economies – shortage of skilled replacement workforce

- Currently there exists a discrepancy in between the developed and developing world economies, with a more aged demographic profile. A shortage of skills can be addressed not only by immigrating I skilled labour, but by accessing it via online.

VALUATION – HOW WE VALUE FLN

Earnings Irrelevant At Current Stage of Company Lifecycle - Revenue Growth Is Key

Revenue growth, not profit, is key for FLN at its stage in the company lifecycle.

- We have valued FLN using a blended combination of DCF and EV/sales multiple. We have chosen EV/sales as a more appropriate multiple than P/E for FLN.
- A P/E for FLN, and other companies similarly growing earnings at an early stage in the technology sector is largely irrelevant during the company's current stage in its lifecycle. The focus on growing revenues which entails investment in business and scaling up the cost base to support growth ahead. Growth in revenues also demonstrates that the company is able to attract users, build brand, and scale.

Figure 7: Market Caps and EV/sales of Selected Marketplace Tech Companies

Company	Founded	Listed	Business	Valuation/ mkt cap US\$M	F'cast CY15 revenue US\$M	F'cast CY 15 revenue growth %	EV/ Sales x
eBay	1995	Yes	new and used goods	69,757	19,023	6%	3.4
Priceline	1997	Yes	travel	63,777	9,433	12%	6.7
Uber	2008	No	passenger transport	41,000	400	369%	102.5
Linkedin	2002	Yes	employment/social	33,486	2,974	34%	10.5
Craigslist	1995	No	general classifieds	12,500	166	33%	75.3
Expedia	1996	Yes	travel	11,694	6,463	12%	1.8
Airbnb	2009	No	accommodation rental	11500	125	100%	92.0
Lendingclub	2006	Yes	loans	8,469	375	79%	23.1
REA Group	1995	Yes	property classifieds	4,972	463	21%	9.8
SEEK	1997	Yes	job ads	4,797	732	18%	6.8
58.com	2005	Yes	classifieds China	3,817	414	58%	8.1
HomeAway	2005	Yes	accommodation	2,922	528	18%	5.2
Carsales	1997	Yes	autos	1,912	252	19%	7.4
Zocdoc	2007	No	health appointments	1,600	Na	na	na
Indeed	2004	No	job classifieds	1,000	115	na	8.7
Monster	1999	Yes	employment	545	758	-2%	0.9
Legalzoom	2001	No	legal	425	156	29%	na
iProperty Gp	2007	Yes	property classifieds	407	26	50%	15.3
Freelancer	2009	Yes	freelancing	295	35	35%	10.9
iCarasia	2012	Yes	autos	189	6	150%	27.8
Taskrabbit	2008	No	local unskilled job	na	na	na	na
99designs	2008	No	graphic design	na	32	na	na
ServiceSeeking	2007	No	trades	na	na	na	na
ElanceoDesk	1999/2003	No	freelancing	na	88	na	na
Average for all companies (ex FLN)							20.8x
Average for companies with revenue growth rates >20% and <50% (ex FLN)							14.8x

Source: Companies; Thomson; Industry sources; Foster Stockbroking estimates.



WHY EV/SALES MATTERS

Higher revenue growth is rewarded by the market as it signals positive market dynamics and success in attracting customers.

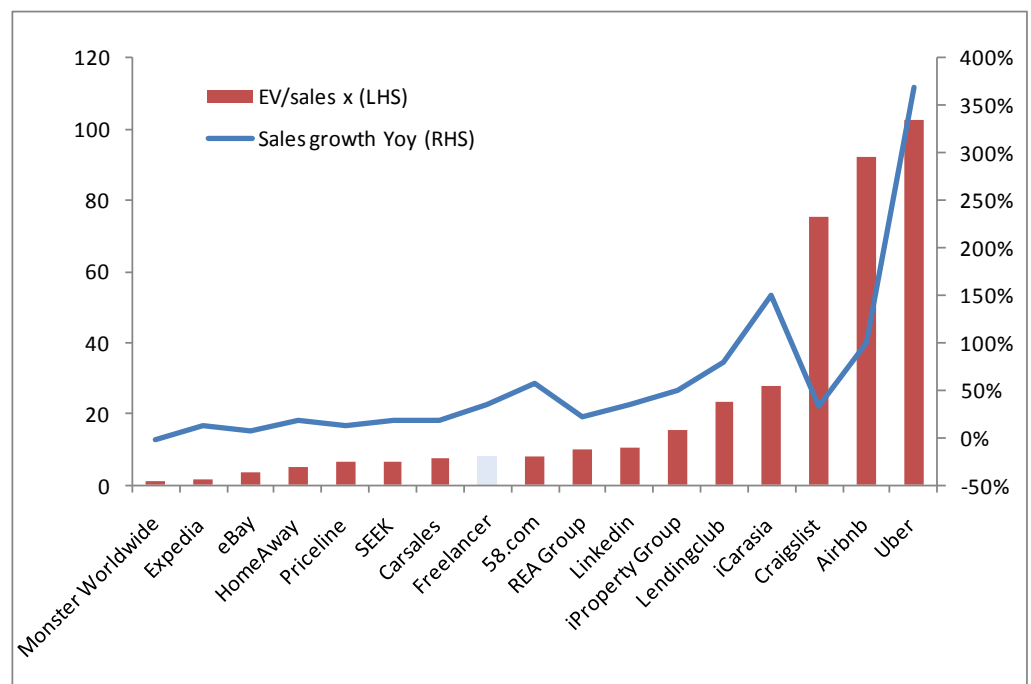
- EV/sales is important because it can be linked to the company's sales growth. The greater a tech company can grow sales, the greater it can extract a greater valuation at a constant multiple. This is because the company is most likely to reach critical scale, brand reputation, category leadership more rapidly the faster that its sales accumulate.

STRONG CORRELATION OF EV/SALES TO REVENUE GROWTH

- To demonstrate the importance of revenue growth, we have plotted the EV/sales versus sales growth for the companies we tabulated in Figure 6. The result is shown in Figure 8.

High EV/sales multiple usually reflects a company's higher growth rate.

Figure 8: EV/Sales vs Sales Growth For Select Technology companies



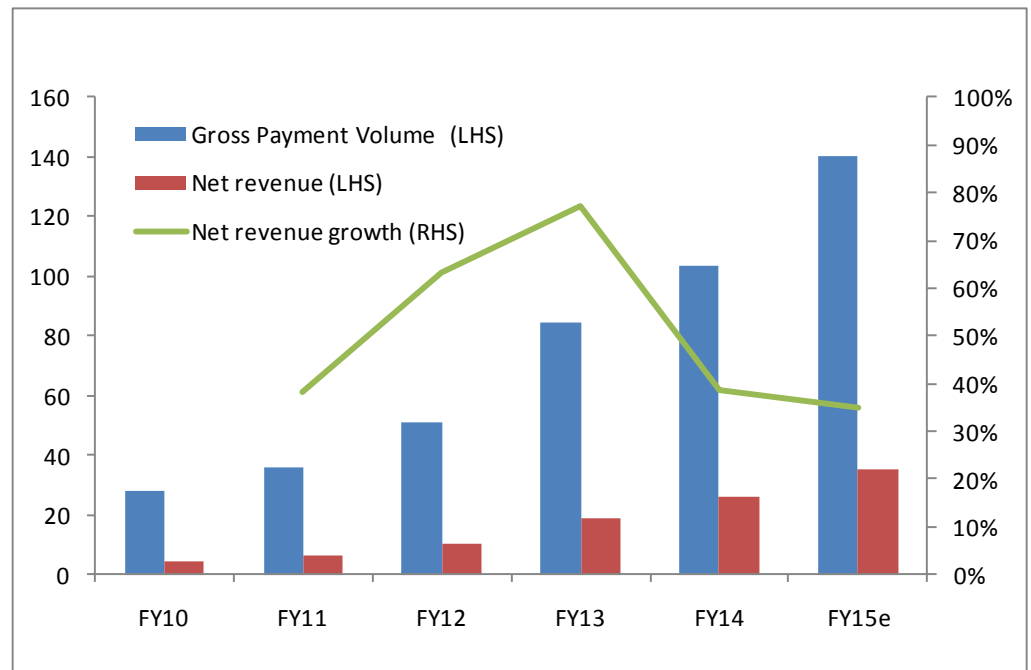
Source: Companies; Thomson; Industry sources; Foster Stockbroking estimates.

Tech marketplace companies with similar growth rates to FLN average 14.8x EV/sales. FLN trades on 10.9x, suggesting the company is undervalued.

Average Peer EV/sales multiple of 14.8x implies FLN is undervalued

- FLN grew its revenues 39% in FY14, and we estimate growth of 35% in FY15 (Figure 9). The company has demonstrated successful +30% growth over the past four years, and stated in its FY14 results presentation that it "...expect[s] exceptional growth will continue in 2015". The average EV/sales multiple of tech companies that lie in a similar revenue growth range (>20% and <50%) is 14.8x as highlighted in Figure 6. This suggests FLN is undervalued, its EV/sales being 10.9x.

Figure 9: FLN Gross Payment Volume and Net Revenue (A\$M)



FLN has demonstrated >30% p.a. revenue growth in past four years.

Source: Companies; Industry sources; Foster Stockbroking estimates.

Implied Valuation for FLN of \$1.24/share using EV/sales

- Applying the average multiple of 14.8x EV/sales yields an EV of \$838M, or equity valuation of A\$541M, equivalent to \$1.24/share.

DCF MODEL

- We also derived a DCF valuation for FLN, employing a 10% WACC and terminal growth rate of 3%. We assumed the company will continue to run at a break even for at least the next five years, and begin to generate meaningful profits thereafter at a long-term EBIT margin of 30%. We assume average sales growth of 31% p.a. for the next five years.
- Our DCF valuation for FLN \$1.46/share.

BLENDED VALUATION OF \$1.35/SHARE

- Our blended valuation of FLN, using an equal weighting of EV/sales multiple and DCF, is \$1.35/share (Figure 10).

Figure 10: FLN Blended Valuation

Methodology	Assumptions	Valuation A\$/share
EV/Sales	14.8x multiple	1.24
DCF	10% WACC, terminal growth 3%	1.46
Average		1.35

Source: Foster Stockbroking estimates.

We value FLN at \$1.35/share using a blend of DCF and EV/sales multiple.

**EARNINGS FORECASTS**

We forecast revenue growth of 35% and 33% in FY15e and FY16e.

- We forecast FLN's revenue to grow 35% in FY15e and 33% in FY16e, driven by 1) Increase in numbers of registered users; 2) Increased postings; 3) Enhancement of product offering and value added services; 4) increasing conversion rate of projects posted being awarded, accepted, and completed.
- As we expect cashflow to be reinvested in business, we forecast NPAT losses in FY15e and FY16e.
- **Currency impact.** About 80% of FLN's revenues are in US\$ and 70% in A\$, so the company's A\$ earnings should extract a tailwind from the weakening of the A\$. Around 93% of revenues are generated in offshore currencies, with GBP, EUR, and CAD being the major ones after the USD.

RECOMMENDATION AND PRICE TARGET

We initiate with a Buy recommendation and \$1.35/share price target

Buy recommendation with \$1.35 price target

- We initiate on FLN with a Buy recommendation with a price target of \$1.35/share based on our valuation of \$1.35/share. We believe the stock offers investors significant exposure to the numerous driver sin the online freelancing industry. Catalysts for the stock include demonstration of continuing strong revenue growth.

FINANCIAL TABLES**Figure 11: FLN Profit & Loss (A\$M)**

Y/e Dec	2014a	2015e	2016e	2017e
Gross payment volume	103.7	140.0	186.2	243.9
Take rate	25%	25%	25%	25%
Revenue	26.1	35.0	46.5	60.9
Operating costs	28.2	35.0	46.5	60.9
EBITDA	-2.1	0.0	0.0	0.0
EBITDA Margin	-8.0%	0.0%	0.0%	0.0%
Depr & Amort	0.3	0.4	0.5	0.7
EBIT	-2.4	-0.4	-0.5	-0.7
EBIT margin	-9.2%	-1.1%	-1.1%	-1.1%
Net interest exp (rev)	0.0	-0.2	-0.3	-0.4
PBT	-2.8	-0.2	-0.3	-0.3
Tax	-1.0	-0.1	-0.1	-0.1
NPAT	-1.8	-0.1	-0.2	-0.2

Source: Company; Foster Stockbroking estimates.

Figure 12: FLN Cashflow (A\$M)

Y/e Dec	2014a	2015e	2016e	2017e
EBITDA	-2.1	0.0	0.0	0.0
Change in WC	1.8	4.2	9.4	7.6
Tax	-0.2	0.1	0.1	0.1
Net interest	0.2	0.2	0.3	0.4
Other	0.2	0.2	0.2	0.2
Operating cashflow	-0.1	4.7	9.9	8.2
Acquisitions	-4.1	0.0	0.0	0.0
Capex	-0.9	-0.5	-0.7	-0.9
Investing cashflow	-5.0	-0.5	-0.7	-0.9
Equity issue	0.0	0.0	0.0	0.0
Borrowing proceeds	0.0	0.0	0.0	0.0
Repaying borrowings	0.0	0.0	0.0	0.0
Other	-0.1	0.0	0.0	0.0
Financing cashflows	-0.1	0.0	0.0	0.0
Net free cashflow (op cashflow-capex)	-1.0	4.1	9.2	7.3
Net cashflow	-5.2	4.1	9.2	7.3

Source: Company; Foster Stockbroking estimates.

Figure 13: FLN Balance Sheet (A\$M)

Y/e Dec	2014a	2015e	2016e	2017e
Cash	20.2	24.1	33.3	40.5
Receivables	3.0	4.3	5.7	7.4
PPE	1.1	1.2	1.4	1.6
Intangibles	13.0	13.0	13.0	13.0
Deferred tax	1.8	1.8	2.5	3.3
Other	1.2	1.6	2.2	2.8
Assets	40.2	46.0	58.0	68.6
Payables	21.8	27.0	37.7	47.0
Provisions	1.2	1.5	2.0	2.6
Tax liabilities	0.0	0.0	0.0	0.0
Deferred revenue	0.4	0.5	0.7	0.9
Other	0.0	0.3	1.1	1.9
Liabilities	23.4	29.3	41.5	52.4
Capital and reserves	17.6	17.6	17.6	17.6
Retained earnings	-0.8	-0.9	-1.1	-1.3
Equity	16.8	16.7	16.5	16.3

Source: Company; Foster Stockbroking estimates.

**Figure 14: FLN Financial Ratios**

Y/e Dec	2014a	2015e	2016e	2017e
EPS (cents)	-0.41	-0.03	-0.04	-0.05
PER x	nm	nm	nm	nm
EPS growth	nm	nm	nm	nm
Sales growth	39%	35%	33%	31%
EV/Sales	14.6x	10.9x	8.2x	6.3x
EV/EBITDA	nm	nm	nm	nm
Interest cover	nm	nm	nm	nm
Gearing (ND/ND+E)	594%	318%	197%	166%
Ave wtd shares (M)	436.4	436.4	436.4	436.4

Source: Company; Foster Stockbroking estimates.

MAJOR SHAREHOLDERS

FLN Shareholder	%
Matt Barrie (CEO & Chairman)	47.3%
Simon Clausen (Non-Executive Director)	40.6%
Darren Williams (CTO & Executive Director)	2.9%

Source: Company; Foster Stockbroking estimates.

BOARD OF DIRECTORS

- **Matt Barrie. Executive Chairman.** BE (Hons I), BSc (Hons I), GDipAppFin MAppFin MSEE (Stanford). Founder of FLN, appointed Chairman 2010. Adjunct Assoc. Prof. Dept Electrical and Information Eng University of Sydney. Previously co-founded and was CEO of Sensory Networks Inc.
- **Darren Williams. Executive Director.** BSc (Hons I), PhD (Computer Science). Appointed Director 2010, Chief Technology Officer of FLN. Previously co-founded and was CTO and CEO of Sensory Networks Inc.
- **Simon Clausen. Non Executive Director.** Appointed Director 2010. Founding investor. Currently director of ASX-listed LatAm Autos Ltd and Startive Ventures. Was CEO of WinGuides, which later became PC Tools.



RISKS

- **Financing risk.** FLN may face issues with obtaining sufficient funding to further develop its business, including for acquisitions, hiring staff, rolling out new products, and research and development.
- **Technology risk.** The technology utilised by FLN in its websites and business model may become superseded by that from competitors.
- **Business model risk.** The technology sector globally is a source of many new companies and startups with new ideas, as well as established tech companies pursuing new business models. There exists a risk that a new tech company or businesses may negatively impact, encroach, disrupt, or render obsolete FLN's current business model.
- **Currency risk.** While FLN's mostly receives revenues in US\$, both its reported earnings and shareprice are denominated in A\$. Any strengthening in the A\$ vs the US\$ may result in reduced earnings and/or a fall in the FLN shareprice.
- **Competitor risk.** FLN may face increased competition from competitors that may cause it to lose or suffer a slowdown in both its numbers of registered users and company revenues.
- **Sovereign risk.** FLN operates globally and may face a negative impact on earnings should some countries increase regulation of the internet and its use.
- **Security risk.** Data theft losses, including personal and credit card information, may damage the company's reputation and weaken confidence in user's trust in the business.
- **Content risk.** FLN's business may suffer if content that is inappropriate, irrelevant, offensive, damaging, or annoying to users is posted. FLN monitors content to make sure it is of appropriate quality.

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