

Investment Failure - Freelancer, held from 2013 to 2017.

Speculative Investment.

Freelancer (FLN) is a platform for outsourcing tasks to the crowd. It operates an online marketplace of tasks and freelancers and handles all payments.

The assessment made at the time was an investment in the business model. Analysis indicated strong growth and profitability to come. Initial investment was made in 3 lots on 18/11/2013 for \$1.95, 03/04/2014 for \$1.43 and 04/04/2014 for \$1.46. The erroneous investment decision was recognised by July 2017 and all stock was sold on 26/07/2017 for \$0.685 as shown in Chart One below.

The following insights were gained:

- Percentage of portfolio invested into this speculative investment was too high at 10%, now capped at 5% or less for speculative investments (Which we rarely make).
- Profitability at the margin was not recognised, we now analyse profitability per unit and profitability without growth. Investments are only made where we can clearly see underlying profitability.
- Future growth rates for revenue were overly optimistic. Our valuations are now far more conservative with downside built in. We now value companies with and without growth.
- Market value was far too high. We now demand a much greater margin of safety before we make a purchase.
- Return on invested capital (ROIC) was too low. Even with fast growth in revenue in 2014, ROIC was too low. We now demand a higher ROIC.

- Not scaling. Spend on administration and marketing not resulting in greater revenue leading to erosion of value. We now thoroughly check every line item as a portion of revenue to see if investments are being recouped in increased revenue and cash flows. We must be able to see that a business is scaling.

FLN's business model and revenue growth in 2013 was compelling. However the company was quite overvalued and lacked underlying profitability. With the changes made to our investment methodology gained from insights from this investment our current screening process does not uncover a company with these financials. Furthermore, if we did make a speculative investment of this kind that proved to be made in error, our exposure would now be less than 5%, half of what was made in this investment.

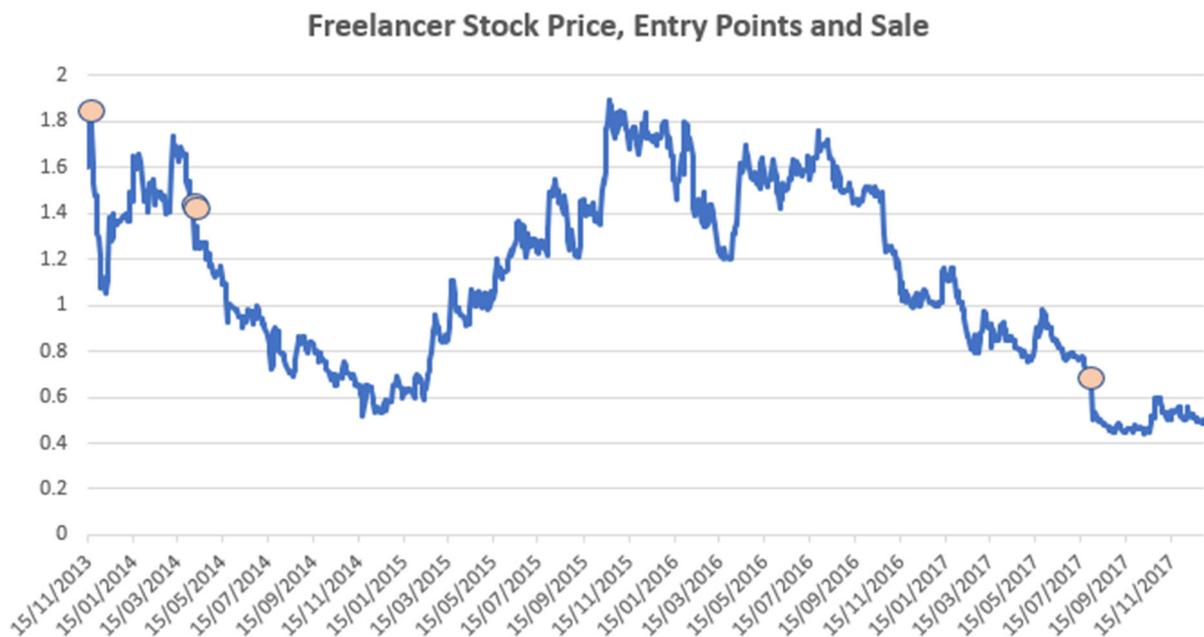


Chart One. FLN entry points at \$1.95, \$1.43 and \$1.46 with subsequent sale at \$0.685.