

27th July 2015

ASX CODE: RXH
Speculative Buy
FLASH NOTE

Rewardle

If you could own tablets at the front of 25,000 merchants around Australia, how much would this network be worth?

That's the question investors need to solve to put a value on Rewardle!

Capital Structure

Sector	Information Technology
Share Price (A\$)	0.25
Fully Paid Ordinary Shares (m)	131.2
Options (ex \$0.20, exp. 30/6/2017)(m)	19.4
Options (ex \$0.20, exp. 7/2/2018)(m)	20.1
Options (ex \$0.25, exp. 7/2/2018)(m)	0.8
Options (ex \$0.30, exp. 7/2/2018)(m)	0.6
Options (ex 20c, exp 31/3/2018)(m)	1.0
Market Capitalisation (undil) (A\$m)	32.8
Share Price Year H-L (A\$)	0.41 - 0.20
Approx. Cash (A\$m)	5.0

Directors

Ruwan Weerasooriya	Managing Director
Jack Matthews	Non-Executive
Brandon Munro	Non-Executive

Major Shareholders (as at March 2015)

Ruwan Weerasooriya	66.7%
--------------------	-------

Share Price Performance

source: www.asx.com.au



Rewardle Holdings Ltd (RXH) provides digital infrastructure for merchants in 'the High Street' to provide loyalty points to their customers. It replaces existing manual methods like stamping cards on each purchase. The sophisticated cloud based system allows small merchants to analyse and market to their customers in a more effective and meaningful way.

Revenue

Rewardle is monetizing this network via several methods:

- Monthly fee per merchant - indicated to be around \$50 per month (currently it is free for merchants). This is much less than similar US company, Belly, which charge merchants US\$99 per month.
- Marketing to Rewardle customers – this has already started with brand partnerships with AirAsia and QuickFlix (both “six figure deals”).
- Transaction fees – the partnership with Mint Wireless includes bundling eftpos facilities with the tablets. A portion of each transaction fee is to be rebated to Rewardle (approximately 0.35 to 0.5% of each transaction).

Winner takes all

It is critical that Rewardle becomes the dominant player in Australia, just as Realestate.com and Carsales.com have done in their respective markets. We are confident the company is focused on this goal and is on track to achieve significant market share.

Management team:

- Strong management led by founder and managing director Ruwan Weerasooriya. He has a track record of creating successful companies in technology and media.
- Management have retained approximately 68% ownership of the company. This aligns management with other shareholders, as well as a tight free float.
- All options have a strike price of 20c or greater, thus if, and when, exercised it will raise capital near to the current market price of 25c.

Valuation

Rewardle currently has 4000 merchants. Assuming merchant numbers grow to 25,000 in 2018 and revenue from merchant fees is \$600 pa per merchant (and assuming no revenue from marketing and transaction fee), we forecast free cash flow will be \$6.2m in 2018. Using an EV/FCF multiple of 25 and discount rate of 20% that gives a **present valuation of \$73m**. This is **72% above** the current diluted market capitalization (123% above undiluted market capitalization).

The above valuation is conservative when compared to Yelp, which has a revenue per merchant of \$3,700pa. Yelp is an American business that primarily publishes crowd-sourced reviews about local businesses.

RM Research recommends Rewardle as a **Speculative Buy**.

Table 1: Forecast and Valuation
(Source: RM Research)

Cash flow Model (A\$ '000s)		Notes	2015F	2016F	2017F	2018F
Receipts from Customers		1,2	101	757	4,204	15,000
Operating and investing outflows		3,4	4,692	6,100	7,320	8,783
Free Cash Flow			(4,591)	(5,342)	(3,116)	6,217
Customer Acquisition						
	Notes	2014A	2015F	2016F	2017F	2018F
Number of merchants	5	2,857	4,094	7,574	14,012	25,000
Revenue per merchant (\$)	6		0	100	300	600
Float						
Current shares on issue		131,151,515				
Options		39,375,000				
Valuation (A\$ '000s)						
	Notes				per share (diluted)	
Estimated EV in 2018	7	155,414.40			0.91	
discount rate			20%			
Present Value			74,949.07		0.44	
Present Value of accumulated outflows			(6,615.73)		(0.04)	
Cash (approximate)			5,000.00		0.03	
Debt			0.00		0.00	
Net Value			73,333.34		0.43	

Notes

1. Receipts from customers for FY2015 extrapolated from Rewardle Quarterly report for quarter ended 31 Mar 2015. Assumes minimal growth in the last quarter.
2. Receipts from customer figures for FY2016 onwards are derived from merchant numbers and revenue per merchant forecasts in above table.
3. 2015 figure extrapolated from Rewardle Quarterly report for quarter ended 31 Mar 2015. Assumes no growth in last quarter.
4. Operating costs for financial years 2016 onwards assumes compounded yearly growth of 30%.
5. FY2018 'number of merchants' assumes merchant numbers to grow by 85% per annum. In our opinion, this is a reasonable and achievable assumption.
6. Revenue per merchant is assumed to be \$600 pa in 2018. This is inline with Rewardle's prospectus indicating charging \$49 per month per merchant and does not include charging for additional services. Note that revenue from marketing to Rewardle's customers and transaction fees are likely to be significant contributors.
7. Assuming this company will still be considered in 'growth phase' in 2018 we've used a valuation multiple of 25 times free cash flow.

Registered Offices

Perth

Level 1, 143 Hay St
Subiaco WA 6008

PO Box 154
West Perth WA 6872

Email / Website

info@rmresearch.com.au
www.rmresearch.com.au

Phone: +61 8 6380 9200

Fax: +61 8 6380 9299

RM Research Recommendation Categories

Care has been taken to define the level of risk to return associated with a particular company. Our recommendation ranking system is as follows:

Buy	Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.
Speculative Buy	We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk.
Hold	A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.
Sell	Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

Disclaimer / Disclosure

This report was produced by RM Research Pty Ltd, which is a Corporate Authorised Representative (343456) of RM Capital Pty Ltd (Licence no. 221938). RM Research received a payment for the compilation and distribution of this research report. RM Research Pty Ltd has made every effort to ensure that the information and material contained in this report is accurate and correct and has been obtained from reliable sources. However, no representation is made about the accuracy or completeness of the information and material and it should not be relied upon as a substitute for the exercise of independent judgment. Except to the extent required by law, RM Research Pty Ltd does not accept any liability, including negligence, for any loss or damage arising from the use of, or reliance on, the material contained in this report. This report is for information purposes only and is not intended as an offer or solicitation with respect to the sale or purchase of any securities. The securities recommended by RM Research carry no guarantee with respect to return of capital or the market value of those securities. There are general risks associated with any investment in securities. Investors should be aware that these risks might result in loss of income and capital invested. Neither RM Research nor any of its associates guarantees the repayment of capital.

WARNING: This report is intended to provide general financial product advice only. It has been prepared without having regarded to or taking into account any particular investor's objectives, financial situation and/or needs. Accordingly, no recipients should rely on any recommendation (whether express or implied) contained in this document without obtaining specific advice from their advisers. All investors should therefore consider the appropriateness of the advice, in light of their own objectives, financial situation and/or needs, before acting on the advice. Where applicable, investors should obtain a copy of and consider the product disclosure statement for that product (if any) before making any decision.

DISCLOSURE: RM Research Pty Ltd and/or its directors, associates, employees or representatives may not effect a transaction upon its or their own account in the investments referred to in this report or any related investment until the expiry of 24 hours after the report has been published. Additionally, RM Research Pty Ltd may have, within the previous twelve months, provided advice or financial services to the companies mentioned in this report. As at the date of this report, the directors, associates, employees, representatives or Authorised Representatives of RM Research Pty Ltd and RM Capital Pty Ltd may hold shares in this company.