

SPEC BUY

Current Price \$0.29
Market. Cap \$34m

Ticker: RXH.ASX
Sector: Software & Services

Shares on Issue (m): 116.0
Market Cap (\$m): 33.6
Net Debt / (Cash) (\$m): (2.2)
Enterprise Value (\$m): 31.4

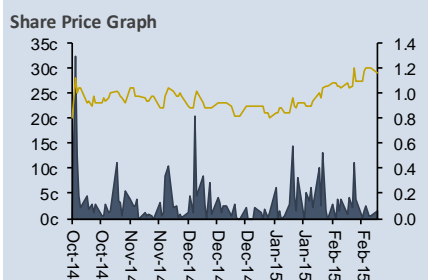
52 wk High/Low: 0.30 0.20
12m Av Daily Vol (m): 0.13

Financials:

	13A	14A
Revenue (\$'000)	10.0	19.9
Loss After Tax (\$'000)	(948.8)	(1,586.3)
Net Assets (\$'000)	(1,002.3)	(2,827.1)

Growth Metrics

	Jun-14	Dec-14
Merchants (No.)	1,587	2,857
Members (No.)	299,544	610,000
Check-Ins (No.)	3,400	7,900
P/paid Credit Held (\$'000)	92.3	262.1
P/paid Credit Used (\$'000)	242.0	720.3



Monday, 2 March 2015

Rewardle (RXH)

Where loyalty lies

Analysts | Emily Reilly | Ian Christie, CFA

Quick Read

Rewardle is a marketing technology service provider to local SME merchants, chains and enterprise clients. The platform is centred around customer loyalty and rewards but its capabilities encompass social media, marketing, analytics and payments. Although the technology is pre-commercialisation, a growing network and recent developments in mobile payments position the Company for a bright future.

View | Building a social network

All about scale and data: Rewardle has reported impressive growth in merchants, members and prepaid credit, setting the scene for future revenue streams. Another important point to note is the value in the data itself. A large pool of member data may be valued highly by a corporate looking to engage with the member database via brand partnerships or it could make Rewardle an attractive takeover target itself in the future.

Digital advertising is big business: In our view, Rewardle is well positioned to benefit from the shift from traditional advertising to digital advertising and “owned” channels. Companies are seeking ways to communicate with their audience directly rather than through mass market advertising. The platform addresses the largely unserved local area marketing segment, particularly following the demise of the Yellow Pages.

Disrupting the payments sector: Rewardle made a significant announcement recently, introducing mobile ordering and payments. This feature will enable convenient mobile ordering and payments, saving merchants typical credit card transaction fees. Similar to the Uber payment process, Rewardle members can order and pay with a credit card securely via the app while simultaneously collecting points. In our view, this is a highly attractive feature that will save merchants time and money in transactions.

Easier to achieve growth with Freemium: We believe the key risk for Rewardle is failure to transition merchants from the freemium to paying version of the platform. Whilst the Company has reported strong growth metrics to date, merchants are mostly on the Freemium model. It may not be as easy to maintain strong growth of paying customers, particularly in the current economic climate. Rewardle will need to clearly demonstrate value to merchants, such as the recent mobile payment announcements. There is, however, a level of engagement by merchants even for the Freemium version as employee training and changes to business processes will be required.

Recommendation

Growth metrics, signing up of chains and ongoing technology developments (such as mobile ordering and payments) position Rewardle for an exciting future. However, we note the early stage nature of the Company’s development and the higher risk profile that comes with it. Argonaut rates RXH a Speculative Buy.

Business Summary

Rewardle is a marketing technology service provider...

...providing merchants with digital customer engagement solutions

Merchants place a customer facing Rewardle tablet on their counter...

... and customers can check-in using either a card or app to collect points and redeem rewards

The platform provides digital marketing capabilities and allows merchants to connect with their customers

The Enterprise Edition is a white label solution

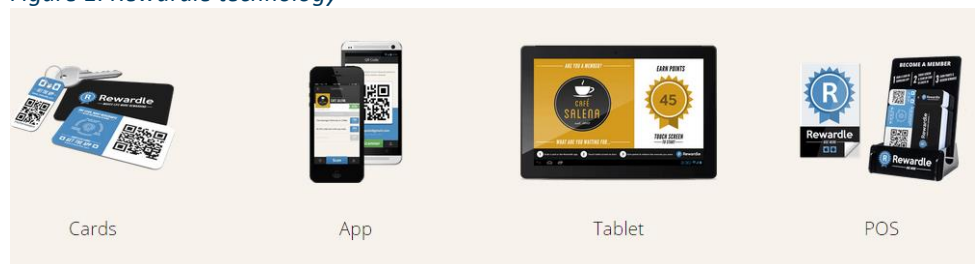
Brand partnerships involve corporates paying a fee to engage with the merchant and member network

Pre-ordering and Uber-style credit card payments will be rolled out

Established in 2012 and listed on the ASX in October 2014, Rewardle (ASX:RXH) is a marketing technology service provider to local SME merchants, small to medium size chains and enterprise clients. The Rewardle platform encompasses mobile computing, cloud based software and Big Data analysis to provide merchants with digital customer engagement tools and business intelligence.

How it works: Merchants place a Rewardle tablet on their counter and customers can check-in using either a card or the Rewardle smartphone app to collect points and redeem rewards. The technology has been rolled out to merchants in a wide range of categories including cafes, salad bars, sushi shops, florists, fashion retail, hairdressing salons, restaurants, dry cleaning and many more. Tablets are funded by Rewardle and merchants initially start on a “freemium” version and then move to a \$49/month payment scheme plus fees for additional services.

Figure 1: Rewardle technology



Source: RXH

Merchant services: In its simplest form the Rewardle platform replaces the traditional paper “buy 9 get 1 free” stamp cards to promote customer loyalty, however, the capabilities of the platform and benefits to the merchant extend far beyond this. Rewardle’s digital engagement tools open a line of communication between merchants and customers and provide digital marketing capabilities via email, social media and mobile. Merchants can gain useful insight into their customer base via Big Data and analytics.

Enterprise Edition: Rewardle has launched an Enterprise Edition of the Rewardle platform which is a white label version targeted at large corporate clients, chains and well-known brands. The Enterprise Edition enables a high level of customisation by clients as well as additional features including app icon branding, central control over rewards, additional social media features and staff and management access.

Brand partnerships: Another aspect of Rewardle’s business model is a loyalty program structure whereby corporates pay a fee to engage with the merchant and member network. The idea is similar to loyalty programs such as Frequent Flyer or Virgin Velocity, where brands can purchase points for distribution to their customers as incentives.

Payments and pre-ordering: The platform allows customers to order ahead or upload prepaid credit for purchasing via the smartphone app. The Company recently made an important announcement regarding the roll-out of pre-ordering and credit card payments similar to the Uber payments system which will reduce merchant transaction fees.

Business Drivers & Risks

Shift from traditional advertising to digital

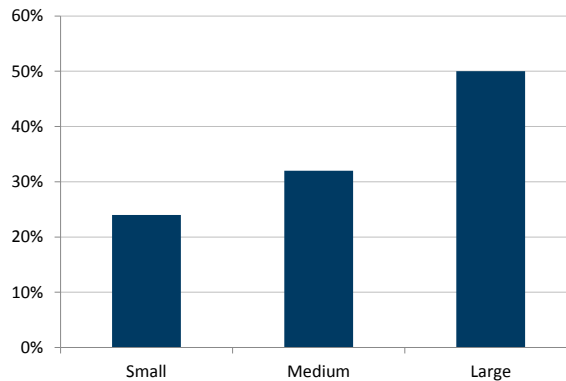
Companies want to communicate directly with their audience

Small, medium and large business plan to increase social media expenditure this year

Growth in key metrics means higher potential revenue and a more valuable database

Digital advertising is big business: A key driver of Rewardle’s business model is the shift from traditional advertising (eg TV, radio, magazines, outdoor, print) to digital advertising and “owned” channels. Companies are seeking ways to communicate with their audience directly rather than through mass market advertising. The platform addresses the largely unserved local area marketing area, particularly following the demise of the Yellow Pages. The 2014 Yellow Pages Social Media Report reveals that there is a clear indication that those companies that currently have a social media presence are planning to increase their expenditure in this area in the year to come. Social media budgets (as a portion of total marketing spend) already increased in 2014 across SME businesses.

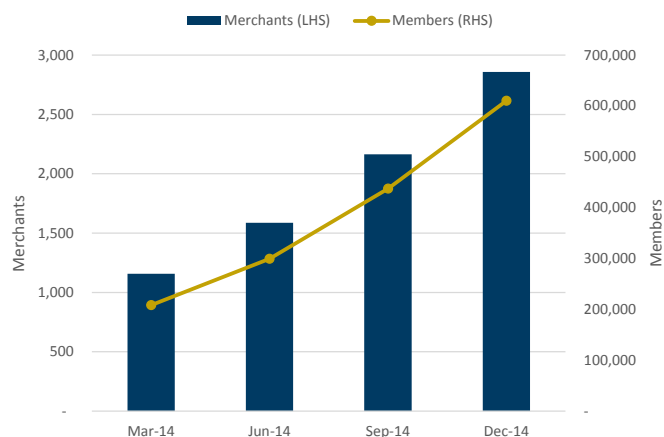
Figure 2: Businesses planning to increase social media expenditure this year (net)



Source: 2014 Yellow Social Media Report

Value in growth metrics is twofold: Rewardle has reported impressive growth in all metrics; merchant numbers, member numbers and prepaid credit. Bigger merchant numbers mean higher future revenue potential when merchants evolve into paying customers. Another important point to note, however, is the value in the data itself. A large pool of member data may be valued highly by a corporate looking to engage with the member database via brand partnerships or it could make Rewardle an attractive takeover target itself in the future. Continued growth in the network is key to the success of this business and something we will be watching closely at each update.

Figure 3: Merchant and member numbers



Source: RXH

Mobile payments save merchants time and money

Disrupting the payments sector: Rewardle made a significant announcement recently, introducing mobile ordering and payments. Similar to the Uber payment process, Rewardle members can order and pay with a credit card securely via the app while simultaneously collecting points. In our view, this is a highly attractive feature that will save merchants time and money in transactions. Payment services are still in Beta testing and will be rolled out in the future. Rewardle may commercialise this feature by taking a small fee on payments. Further, transaction data adds value to business analytics.

One of Rewardle's key strengths is its first mover advantage

Building scale and leveraging network effects: One of Rewardle's key strengths is its first mover advantage. The growth of the member and merchant network create a snowball effect as more of the population and SME community becomes aware of the Rewardle brand and platform. The success of social media and digital technology companies is generally all about building scale. Successful social media companies (eg Facebook, Twitter, Instagram, WhatsApp) have focused on building scale before monetising the technology. Further, if the network effect is successful, it will create barriers to entry to new entrants to the market.

Rewardle has signed up a number of chains and well-known brand names...

Big names on board: Since listing, Rewardle has announced a number of chains that have signed up, including some well-known names (refer below). Many of the chains initially sign up for a pilot version in a few outlets, with the intention to expand if successful. Engaging chains such as these are not only positive for growth metrics but also for technology verification and brand promotion. Aside from chains, Rewardle is also working with channel partnerships for endorsement to end clients and local merchants, such as Toby's Estate coffee roasters which represents a 700 café opportunity.

Table 1: Chains announced by Rewardle

Chain	Type	Potential no. of outlets
SuperChem	Pharmacy	12
Harajuku Gyoza	Casual dining	5+
Nitrogenie	Ice cream	5+
Hombre	Mexican restaurants	5+
La Porchetta	Italian restaurants	70
Nike	Fashion retail	N/A
BYO Cellars	Liquor store	20
Red Lea Chicken	Casual Dining	47
Taco Bill	Mexican restaurants	35
Blockbuster	DVD rental	100+

Source: Rewardle

We believe the key challenge for Rewardle will be converting merchants from freemium to paying models

Easier to achieve growth with Freemium: We believe the key risk for Rewardle is the failure to transition merchants from the freemium to paying version of the platform. Whilst growth metrics to date have been impressive, it may not be as easy to maintain strong growth of paying customers, particularly in the current economic climate. As a result a focus on minimising costs may render some merchants reluctant to sign on for the paying version, particularly as value or returns of the platform are difficult to measure and may not be well understood. Rewardle must clearly demonstrate value to clients (such as the recent mobile payments announcement) to entice them to sign on to a long term paying model. There is, however, a level of engagement by merchants even for the Freemium version as employee training and changes to business processes will be required.

Cash Flow & Balance Sheet

In Rewardle's quarterly cash flow report (ended 31 Dec 2014), the ending cash position was \$2.2m. The operating cash outflow was \$1.2m and investing cash outflow was \$0.3m which we assume largely relates to the investment in tablets and merchandise for merchant point of sale. Accelerating scale in the merchant network has resulted in increased cash outflows as working capital requirements are higher and greater capital is required to fund growth.

We believe the Company is likely to require a cash injection this half if operations continue at a similar run-rate

Given Rewardle is not expected to generate meaningful revenue in the short term, we believe the Company is likely to require a cash injection this half if operations continue at a similar run-rate. Potential sources that could boost cash reserves include:

- Federal Government R&D tax incentive scheme (the Company has submitted an application)
- Brand partnerships and/or Enterprise Edition sales
- Exercise of options already on issue (49m options on issue with \$0.20 exercise price, founder and management holding a large portion and have previously provided funding to the business)
- Strategic investors or a potential capital raising (or a combination of both)
- Slow down growth

While there are funding options available, we note that there is a risk of a capital raising which would dilute existing shareholder value.

Peers & Competitors

Belly (US-based) appears to have the most similar business model to Rewardle

Rewardle's strategy is to utilise a first mover advantage to build scale through network effects. The Company believes that being first to market and creating relevant scale will act as a barrier to entry to new market entrants. We have outlined a few loyalty apps we have come across in both Australia and internationally. From the research we have done, Belly (US-based) appears to have the most similar business model to Rewardle (refer Case Study page 7).

Beat the Q and Stamp Me are other loyalty apps in Australia...

Other loyalty apps developed in Australia include Stamp Me, Beat the Q and eCoffee Card. Stamp me is a loyalty card based app on customers phones and validated through a Stamp Mate device. Beat the Q provides mobile payments and order ahead solutions for customers. It is free for customers but charges the café or merchant per transaction. Interestingly, it is reported that Beat the Q acquired loyalty app, eCoffee card, in February 2014. Media articles indicate the eCoffee Card is free to both customer and merchant and is intended to run as a loss leader to provide Beat the Q with merchant relationships. It does not appear that capabilities of the two apps have been integrated

...but we believe Rewardle will outperform these peers

We believe that Rewardle is well positioned to outperform these competitors because:

- It is further along the curve in terms of building scale, for example according to the Beat the Q app, the platform is only available in 101 stores in Australia
- Rewardle has more capabilities; loyalty, analytics, mobile ordering and prepayment capabilities as well as a focus on Enterprise Edition and brand partnerships

- We believe a public company profile will increase brand awareness and contribute to the network effect for Rewardle

Another outcome could be acquisitions of other apps or technology if compelling for Rewardle.

Internationally, and particularly in the US, there is a lot of activity in the loyalty, rewards, and customers engagement app space. These include:

Internationally, and particularly in the US, there is a lot of activity in the loyalty, rewards, and customers engagement app space

- **Yelp** – crowd-sourced reviews about local businesses (mkt cap \$3.4bil)
- **Groupon** – deal of the day app featuring discounted coupons (mkt cap US\$5.3bil)
- **GrubHub** – mobile and online food-ordering company (mkt cap US\$3.2bil)
- **OpenTable** – online real-time restaurant reservation service (acquired by Priceline for US\$2.6bil in July 2014)
- **Perka** – digital loyalty marketing platform (acquired by First Data for around \$30m with ~1,200 locations)
- **Shopkick Local** – shopping app that rewards customers for walking into stores
- **Spendgo** – rewards app for spending over a predefined threshold
- **Punchcard** – Customers take a photo of their receipt and tag a business to earn a “punch” which can later be redeemed for rewards

Table 2: Value per merchant

Company	Year Listed	Approx. No. of Merchants	Approx. Value per Merchant
Yelp	2012	86,000+	US\$38,000
Open Table	2009	30,000+	US\$82,000
Grub Hub	2014	31,500+	US\$68,000
Perka	N/A	1,200	US\$25,000
Rewardle	2012	2857	A\$10,500

Source: RXH

Australia offers a large market opportunity in the digital loyalty app space

In our view the key takeaway is that the US is further up the curve than Australia in terms of the growth in the digital loyalty and rewards space. While apps like Yelp and Groupon are already widely used in Australia, to our knowledge, there is a large market opportunity in the digital loyalty app space and Rewardle, as an early mover, is well positioned to leverage this position.

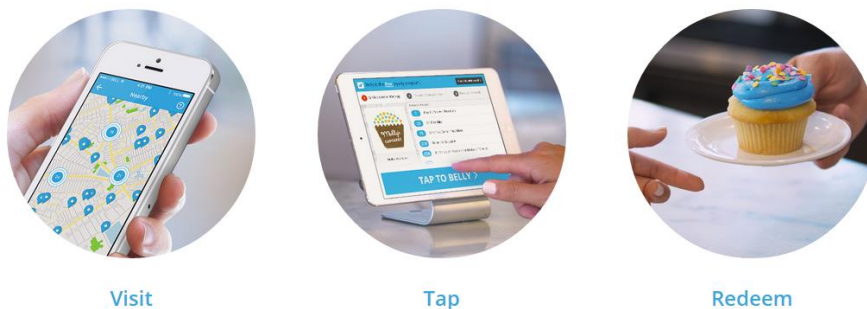
Case Study: Belly

What is Belly? Belly is a privately owned digital loyalty platform that was launched in 2011 in the US. The Belly platform is the most similar peer comparison to the Rewardle platform, according to the market research we have undertaken. Customers can either download an app on their smartphone or use a “Bellycard” to redeem points for purchases. Belly provides merchants with a consumer-facing tablet and uses QR code technology to track transactions. Belly has reportedly raise US\$28m in financing since 2011.

Belly provides merchants with an iPad and promotional materials and reportedly charges \$50/month plus fees for additional services

Revenue model: Similar to Rewardle, Belly provides merchants with an iPad, cards and promotional materials up front at no cost. We believe the monthly merchant fee to be higher than Rewardle, at \$79 base per month, with additional fees for extra loyalty and customer acquisition services which vary in cost.

Figure 4: Belly loyalty program



Source: Belly

There are some high profile names on the Belly register such as Cisco and 7-Ventures, a subsidiary of 7-Eleven....

...and subsequently Belly is being rolled out to 2,600 7-Eleven stores

We see Belly’s success as positive read through for Rewardle...

...as the two apps are targeting different markets

Strong growth trajectory and funding: According to Frost and Sullivan, Belly had signed up over 6,000 merchants as at June 2014 and had more than 4 million members. Interestingly, it has been reported that Belly received a round of investor funding in August 2013 which brought some high profile names on to the register including Lightbank, Cisco Systems and 7-Ventures, a subsidiary of 7-Eleven. Subsequently, 7-Eleven has signed up to the rewards program, with 2,600 stores expected to have the Belly technology up and running by the end of 2014.

Read-through for Rewardle: We see the successful growth in the Belly app and support of large organisations such as Cisco and 7-Eleven/7-Ventures as positive read-through for Rewardle as the business models are very similar. It demonstrates the propensity for a large corporate (7-Eleven) to buy into the technology. So does Belly represent a threat to Rewardle? At this stage we don’t believe so for a couple of reasons. Firstly, Belly is currently focussed on the North American market and Rewardle the Australian market. Secondly, If Rewardle successfully builds a large scale network in Australia, and Belly subsequently enters the Australian market, existing Rewardle customers may be reluctant to switch platforms as the service offering is so similar. If Belly were to offer a superior or cheaper product than Rewardle then we would see it as a threat.

Directors and Key Personnel

The Company boasts impressive Board and management experience.

Ruwan is the founder and Managing Director of Rewardle

He has over 20 year of experience in the technology industry and has founded a number of technology and media businesses

Jack has extensive knowledge, experience and networks in the digital media industry and was the CEO of Fairfax Digital

Brandon is a lawyer by profession and has experience across a number of industries

Peter is CPA qualified and brings in depth knowledge of operational management, business administration and project evaluation

Jason is a founding member of Rewardle and has 20 years of computer engineering experience

Ruwan Weerasooriya, Managing Director

Ruwan is the founder and Managing Director of Rewardle. He has over 20 years of experience in technology industry and has founded or co-founded a number of technology and media related businesses including:

- Method + Madness – a web development firm that was acquired by Sausage Software in 1999, now trading as SMS Management and Technology (ASX:SMX)
- Huge Digital – a business incubator supporting technology and media ventures
- TouchTaxi – a business that delivered content and advertising to taxi passengers while in transit. Ruwan sold his stake in 2007 to a fellow co-founder who continued operating the business under a different model
- CafeScreen – an advertising platform via a network of over 400 digital screens in inner city cafes around Australia. In 2012, a leading Australian out of home media company purchased a majority stake in the business

Ruwan developed the business concept and commercial model for Rewardle and funded the initial product development. In 2013 he was named in the top 50 Australian Startup influences by Startupdaily.com.au.

Jack Matthews, Non-Executive Chairman

Jack brings extensive knowledge and experience in the digital media industry. He has held a number of senior leadership roles within the digital media and subscription television industries, was the CEO of Fairfax Digital and, more recently, CEO of Fairfax Metropolitan Media. Jack has strong commercial networks in the industry and is experienced in executing and integrating digital business acquisitions.

Brandon Munro, Non-Executive Director

Brandon is a corporate lawyer by profession with a wealth of experience in private equity, mining, infrastructure and IT sectors. Brandon is currently the Managing Director of ASX-listed Kunene Resources Ltd and brings regulatory, governance, mergers and acquisitions and capital markets knowledge to the team.

Peter Pawlowitsch, Corporate Development

With over 15 years of experience Peter has been a director and officer for numerous ASX listed companies and is a Certified Practising Accountant. With over 15 years' experience, he brings the team an in depth knowledge of operational management, business administration and project evaluation.

Jason Potter, Chief Technology Officer

Jason is a founding member of the Rewardle team with 20 years of experience as a computer engineer. Jason expertise's technology in the financial services and digital media interpretation and has worked previously with Managing Director Ruwan at Method + Madness, TouchTaxi and Cafescreen.

Rewardle

Equity Snapshot

Emily Reilly

Ian Christie, CFA

Date	2-Mar-15
Recommendation	SPEC BUY
Current Price (\$)	0.290

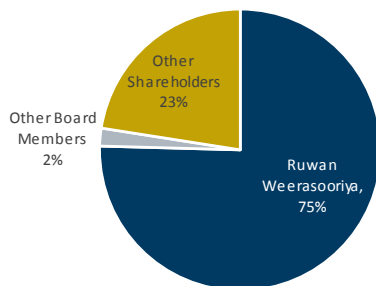
Sector	Software & Services
Market Cap (\$m)	33.6
Fully Diluted Market Cap (\$m)	48.0

Profit and Loss (\$'000s)	FY13A	FY14A	1H15A
Revenue	10.0	19.9	60.4
Depreciation	(191.8)	(188.8)	n/a
Loss Before Tax	(948.8)	(1,586.3)	(4,224.5)
Income Tax	-	-	-
Loss After Tax	(948.8)	(1,586.3)	(4,224.5)

Balance Sheet (\$'000s)	FY13A	FY14A	1H15A
Cash (Incl Cheque Account)	54.3	454.3	2,227.4
Receivables	10.4	34.7	102.1
Other	38.9	-	-
Current Assets	103.5	489.0	2,329.5
Receivables	-	1.5	3.2
Intangibles	0.7	-	-
Employee Loans	5.2	-	-
Non-Current Assets	5.8	1.5	3.2
Total Assets	109.4	490.5	2,332.7
Payables	53.1	200.9	248.8
Provisions	-	49.7	60.7
Borrowings	-	3,066.9	-
Current Liabilities	53.1	3,317.5	309.5
Loans from directors	1,058.6	-	-
Non-Current Liabilities	1,058.6	-	-
Total Liabilities	1,111.7	3,317.5	309.5
Net Assets	(1,002.3)	(2,827.1)	2,023.2
Share capital	0.1	220.1	7,633.4
Reserves	-	1,061.7	2,723.2
Accumulated Loss	(1,002.4)	(4,108.8)	(8,333.4)
Total Equity	(1,002.3)	(2,827.1)	2,023.2

Board and Key Management	
Ruwan Weerasooriya	Managing Director
Jack Matthews	Non-Executive Chairman
Brandon Munro	Non-Executive Director
Peter Pawlowitsch	Corporate Development
Jason Potter	Chief Technology Officer

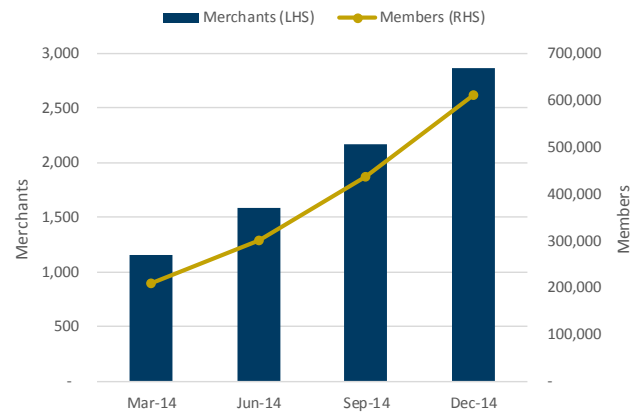
Shareholder Structure



Source: RXH

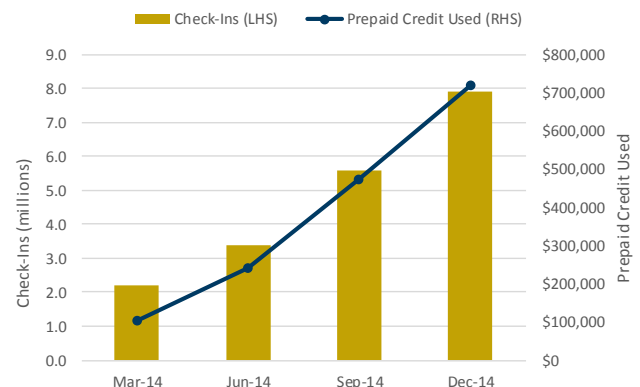
Business Metrics	Mar-14	Jun-14	Sep-14	Dec-14
Merchants (no.)	1,157	1,587	2,164	2,857
Growth (%)	-	37%	36%	32%
Growth (no.)	-	430	577	693
Members (no.)	208,261	299,544	437,433	610,000
Growth (%)	-	44%	46%	39%
Growth (no.)	-	91,283	137,889	172,567
Check-Ins (000)	2,200	3,400	5,600	7,900
Growth (%)	-	55%	65%	41%
Growth (no.)	-	1,200	2,200	2,300
Prepaid added (\$)	157,736	334,301	639,153	982,372
Growth (%)	-	112%	91%	54%
Growth (\$)	-	176,565	304,852	343,219
Prepaid used (\$)	102,593	242,005	471,104	720,310
Growth (%)	-	136%	95%	53%
Growth (\$)	-	139,412	229,099	249,206
Prepaid held (\$)	55,143	92,296	168,049	262,061
Growth (%)	-	67%	82%	56%
Growth (\$)	-	37,153	75,753	94,012

Member and Merchant Growth



Source: RXH

Member Check-Ins and Prepaid Credit Growth



Source: RXH

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Important Disclosure

Argonaut participated in the IPO in October 2014 and received fees commensurate with this service. The analyst(s) has an interest in RXH shares.

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