

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%
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**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, as well as online reservation service, SeatMe and food delivery service, Eat24.

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

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

<b>Cash flow Model (A\$ '000s)</b>		Notes	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
<b>Receipts from Customers</b>		1,2	<b>101</b>	<b>757</b>	<b>4,204</b>	<b>15,000</b>
Operating and investing outflows		3,4	4,692	6,100	7,320	8,783
<b>Free Cash Flow</b>			<b>(4,591)</b>	<b>(5,342)</b>	<b>(3,116)</b>	<b>6,217</b>
<b>Customer Acquisition</b>						
	Notes	<b>2014A</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>	<b>2018F</b>
Number of merchants	5	2,857	4,094	7,574	14,012	25,000
Revenue per merchant (\$)	6		0	100	300	600
<b>Float</b>						
Current shares on issue		131,151,515				
Options		39,375,000				
<b>Valuation (A\$ '000s)</b>						
	Notes				<b>per share (diluted)</b>	
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 growth 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.

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<b>Buy</b>	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.
<b>Speculative Buy</b>	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.
<b>Hold</b>	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.
<b>Sell</b>	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.

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