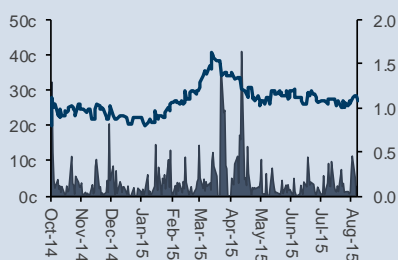


SPEC BUY

Current Price \$0.270
Market Cap \$35.4m

Ticker:	RXH.ASX	
Sector:	Software & Services	
Shares on Issue (m):	131.2	
Market Cap (\$m):	35.4	
Net Debt / (Cash) (\$m):	(4.9)	
Enterprise Value (\$m):	30.6	
52 wk High/Low:	0.41	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	Dec-14	Jun-15
Merchants (#)	2,857	4,077
Members (#)	610,000	1,075,474
Check-Ins (#m)	8	15
P/paid Credit Held (\$'000)	262.1	438.1
P/paid Credit Used (\$'000)	720.3	1,384.7

Share Price Graph



Friday, 14 August 2015

Rewardle (RXH)

Impressive growth, now to monetise

Analyst | Ian Christie, CFA

Quick Read

The rapidly growing merchant and member numbers underline the attraction of the RXH platform at a time when mass marketing is rapidly becoming more personal. There is value in customer data, which helps smaller merchants offer loyalty programmes like the major retailers. Getting scale has been RXH's first challenge. To cement the model the next challenge will be converting "freemium" merchants to fee-paying customers.

Event & Impact | Positive

Marketing and transacting in the digital age: The ability to offer rewards is just one aspect of RXH's technology platform that allows small merchants to access and utilise the sort of data that has previously only been available to the big retailers. Further, with an increasing level of innovation at point of sale, RXH's introduction of a mobile payments service together with the agreement with Mint to integrate payment processing into the tablets are important and attractive additions to the RXH platform.

Impressive growth to date: Technology allows digital ideas to become reality at a rapid pace, and success is often determined by first mover advantage and rapid market penetration to achieve scale. RXH has shown impressive performance in this regard, with merchant numbers climbing above 4,000 and member numbers above 1 million in the June quarter. These are levels that are heading towards commercial significance, as evidenced by the first two brand partnerships announced in the latest quarter.

The challenge: The price of rapid growth has been revenue sacrifice in the short term. Merchants have been signing up for free, while staff and client acquisition costs have been increasing (cash burn currently ~\$1.3m/quarter). Cash outflows have been funded by equity. In the coming year it will be important for RXH to demonstrate monetisation of the model. Brand partnerships will be the first source of revenue, but this is lumpy, and we believe it will be critical for RXH to provide evidence that merchants are willing to convert to a monthly fee-paying model.

The value: It is too early to value RXH on forecast earnings and cash flow. However there is already existing value in the data that RXH captures through its platform. With the world transitioning away from mass marketing to promotion that is targeted and personalised, there is rapidly growing value in customer data. This data can be worth a great deal as evidenced by brand partnership deals and the multiples on which similar companies around the world trade and transact.

Recommendation

The platform and growth metrics to date are impressive. Risk remains high prior to monetisation of the platform, and we maintain a speculative buy call.

Rewardle

Equity Snapshot

Ian Christie, CFA

Date	14-Aug-15
Recommendation	SPEC BUY
Current Price (\$)	0.270

Sector	Software & Services
Market Cap (\$m)	35.4
Fully Diluted Market Cap (\$m)	46.4

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

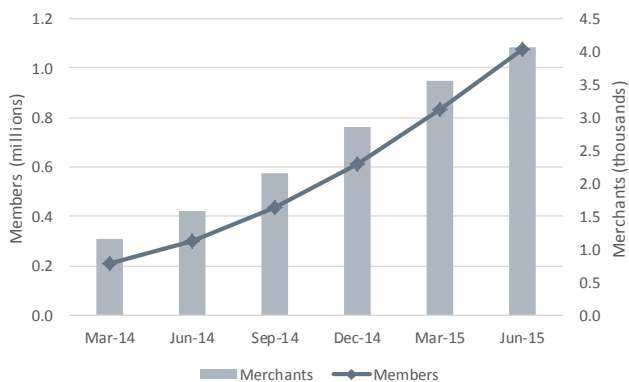
Board and Key Management

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

Business Metrics	Sep-14	Dec-14	Mar-15	Jun-15
Merchants	2,164	2,857	3,553	4,077
Growth (%)	36%	32%	24%	15%
Growth (no.)	577	693	696	524
Members	437,433	610,000	834,219	1,075,474
Growth (%)	46%	39%	37%	29%
Growth (no.)	137,889	172,567	224,219	241,255
Check-Ins	6	8	11	15
Growth (%)	65%	41%	35%	36%
Growth (no.)	2	2	3	4
Prepaid added	639,153	982,372	1,380,819	1,822,816
Growth (%)	91%	54%	41%	32%
Growth (\$)	304,852	343,219	398,447	441,997
Prepaid used	471,104	720,310	1,026,343	1,384,669
Growth (%)	95%	53%	42%	35%
Growth (\$)	229,099	249,206	306,033	358,326
Prepaid held	168,049	262,061	354,476	438,147
Growth (%)	82%	56%	35%	24%
Growth (\$)	75,753	94,012	92,415	83,671

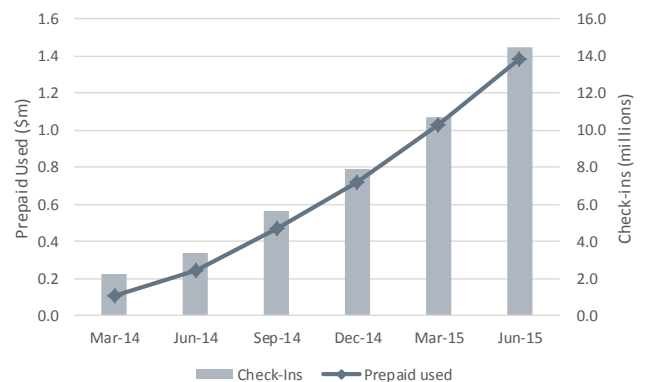
Cash Flow (\$'000's)	Sep-14	Dec-14	Mar-15	Jun-15
Receipts	13.0	29.0	29.0	28.0
Payments	(702.0)	(1,057.0)	(901.0)	(1,283.0)
Net Interest	(12.0)	(144.0)	9.0	19.0
Tax	304.0	-	-	770.0
Operating Cash Flow	(397.0)	(1,172.0)	(863.0)	(466.0)
Payment for PP&E	(266.0)	(299.0)	(353.0)	(358.0)
Other Investing	(15.0)	-	-	(1.0)
Investing Cash Flow	(281.0)	(299.0)	(353.0)	(359.0)
Proceeds from issue of shares	4,068.0	-	180.0	4,820.0
Net Borrowings	260.0	(30.0)	-	-
Other Financing	(95.0)	(281.0)	-	(327.0)
Financing Cash Flow	4,233.0	(311.0)	180.0	4,493.0
Opening Cash	454.0	4,009.0	2,227.0	1,191.0
Net Increase / Decrease	3,555.0	(1,782.0)	(1,036.0)	3,668.0
Closing Cash	4,009.0	2,227.0	1,191.0	4,859.0

Member and Merchant Growth



Source: RXH

Member Check-Ins and Prepaid Credit Growth



Source: RXH

Investment themes

Data gives merchants information previously only accessible to the big retailers

Rewards are the tip of the iceberg

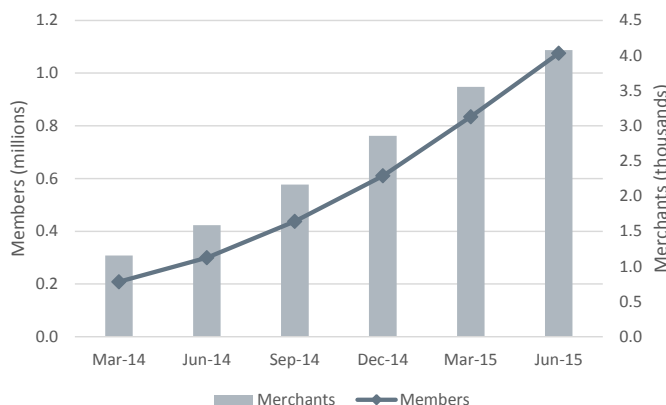
The RXH platform is far more than a digital replacement of the old “buy 9 get 1 free” stamp card. It allows small merchants’ access to the sort of demographic and sales data that the big retailers like Woolworths and Coles use to generate targeted marketing campaigns. For smaller companies the ability to engage in personalised local area marketing (the right offering at the right time to the right customer) could prove invaluable in a competitive marketplace.

Scaling up quickly is critical

Where technology is bringing ideas to reality far quicker than ever before, gaining market share quickly is critical. RXH’s focus has therefore been on growing scale, and in this regard the Company’s growth trend metrics to date have been impressive. In the latest quarter merchants and members climbed above 4,000 and 1 million respectively. These are levels that start to gain commercial significance, as evidenced by recent brand partnerships deals.

Market share and momentum vital first steps to demonstrate value

Figure 1: Growth in merchants and members



Source: RXH

Critical is the ability to accept all types of payments and integrate with point of sales systems

Participating in new payments technology

Cash payments are at historical lows as customers embrace quick and easy contactless payments. Innovation at point of sale is ramping up, and the ability to use different payment methods and devices, while having access to other services, such as loyalty rewards, is an increasing focus. Mobile payments are likely to increase dramatically given the high ownership of smartphones. In the last half, the introduction of a mobile payments service and the agreement with Mint to integrate payment processing into the tablets are critical additions to the RXH platform.

Figure 2: Supported payment methods following Mint integration

Payment Methods	
Pay with points	Tap card to pay
Prepaid Credit / Giftcards	Chip and Pin
Mobile order ahead	

Source: RXH

Growth to date

Achieving scale

The latest June quarterly update provided detail on the ongoing positive trends across all business metrics. Members passed through the 1 million mark and merchants climbed above 4,000 – numbers which are 259% and 157% higher respectively than in June 2014.

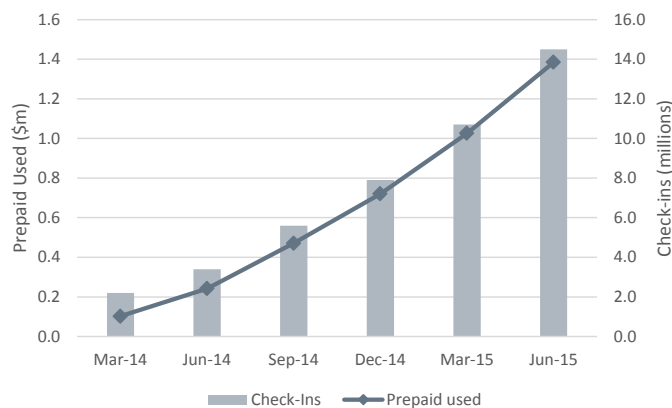
Positive trends across all business metrics

Figure 3: Metrics

	Unit	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Merchants	#	1,157	1,587	2,164	2,857	3,553	4,077
Growth (%)		-	37%	36%	32%	24%	15%
Growth (no.)		-	430	577	693	696	524
Members	#	208,261	299,544	437,433	610,000	834,219	1,075,474
Growth (%)		-	44%	46%	39%	37%	29%
Growth (no.)		-	91,283	137,889	172,567	224,219	241,255
Check-Ins	#m	2.2	3.4	5.6	7.9	10.7	14.5
Growth (%)		-	55%	65%	41%	35%	36%
Growth (no.)		-	1.2	2.2	2.3	2.8	3.8

Source: RXH

Figure 4: Check-ins and prepaid used



Source: RXH

A number of merchant chains have signed up to the platform.

Figure 5: Merchants

Chain	Type	Potential # of outlets	Chain	Type	Potential # of outlets
Ezymart	Convenience Store	200	Red Lea Chicken	Casual Dining	47
Goodlife	Health Clubs	75	Taco Bill	Mexican restaurants	35
SuperChem	Pharmacy	12	Blockbuster	DVD rental	100+
Harajuku Gyoza	Casual dining	5+	Toby's Estate	Cafes	700
Nitrogenie	Ice cream	5+	Gregan	Casual dining	20
Hombre	Mexican restaurants	5+	IGA branded group	Supermarkets	10
La Porchetta	Italian restaurants	70	Munch Express	Food trucks	70
Nike	Fashion retail	N/A	Shopping Centres	Retail	2
BYO Cellars	Liquor store	20			

Source: RXH

A number of merchants have signed up to the platform

At the same time as building scale, over the last 6 months RXH has also signed agreements with various partners to improve and promote the platform.

Figure 6: Partners

Company	Type
Kounta	Point of Sale (POS) integration
Revel	Point of Sale (POS) integration
Mint Payments	Tablets EFTPOS integration
Bell Direct	Test & Learn Project
Australian Newsagents' Federation	Endorsement & promotion

Source: RXH

Brand partnerships will deliver first revenues, but perhaps more important is the additional value demonstration to merchants and clients

The RXH platform, together with the demonstration of rapidly growing member and merchant numbers has also allowed RXH to sign two brand partnership deals with AirAsia and Quickflix. More are reportedly in the pipeline. These are “six-figure” deals, which will provide first evidence that RXH has started to commercialise the network in 1H16.

Figure 7: Brand partners

Company	Type
AirAsia	Brand partnership
Quickflix	Brand partnership

Source: RXH

Revenue has been sacrificed for growth in merchants and members

The revenue contribution from these deals is one thing, but perhaps more important is the value demonstration to merchants, who for the first time will be able to offer rewards that are in addition to their own. The deals also increase the appeal for members.

The Challenge

The price of rapid growth has been revenue sacrifice in the short term. Merchants have been signing up for free, while staff and client acquisition costs have been increasing (cash burn currently ~\$1.3m/quarter). Cash outflows have been funded by equity and in the coming year it will be important for RXH to demonstrate monetisation of the model.

While brand partnerships will be the first source of revenue, this will be lumpy, and we believe it will be critical for RXH to provide evidence that merchants are willing to convert to a monthly fee-paying model. To do this, merchants need to understand the value in the data and its usefulness in connecting with their clients, which will probably require input and training from RXH staff.

Monetisation is important in the coming year and will require full integration of the payments system and the training of merchants so they can understand the value in their data

We feel the full integration of the payments system will be a critical next step in helping to convert merchants to paying fees. A monthly fee already has to be paid for a payments system, so if RXH can deliver an alternative payment method that ties in with the existing point of sale system while also connecting merchants with customers, the added value will be far more likely to drive uptake of the paying version.

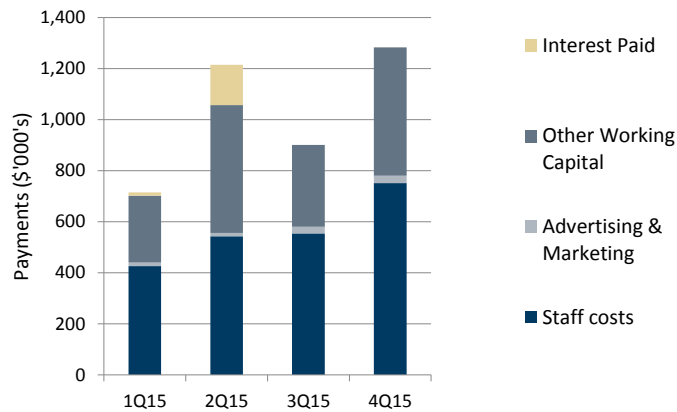
Cash Flows

Demonstration of monetisation of the model is important in the coming periods

As discussed, demonstration of commercialisation in the coming periods will be an important milestone for investors. Quarterly cash burn has grown to exceed \$1m per quarter, and is likely to grow further as member and merchant numbers grow.

..... as the cash

Figure 8: Quarterly cash burn

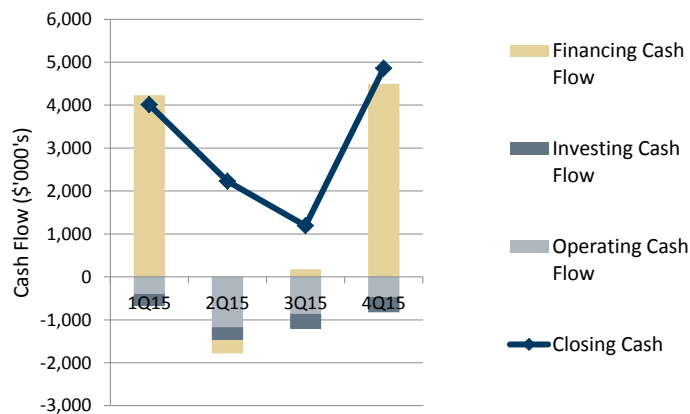


Source: RXH

With negative operational cash flow to date, this has meant that equity capital injections have been required to boost cash. In the latest quarter another \$4.8m was raised

..... necessitates equity capital to fund the growth

Figure 9: Quarterly cash flow



Source: RXH

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