REWARDLE HOLDINGS LIMITED

Research Note

LOYALTY REWARDED

Investment Highlights

- **Rewardle Holdings Limited ("RXH" or "the Company") is a digital customer engagement platform that is designed to help small and medium enterprises (SME) connect with their customers. RXH has taken the humble "buy 9, get 1 free" punch card digital, and in doing so, has allowed merchants the ability to operate a rewards type program with "big data" analytics, previously available only to large corporations (Qantas Frequent Flyer, Coles FlyBuys, Woolworths Everyday Rewards etc.). We initiate with a Speculative Buy recommendation.**

- The Rewardle platform was initially rolled out in 2012 and currently stands at approximately 4,000 merchants. A snap shot of current merchants include Ezymart Convenience Stores, Goodlife Healthclubs, SuperChem Pharmacies, Toby's Estate coffee network, BYO Cellars NSW, Red Lea Chicken and Taco Bill. RXH is targeting 25,000 merchants and 5 million members within three years.

- The key competitive advantage of the Rewardle platform is customers receive rewards they want in a simple app-based product on their mobile device, while merchant can gain insight into their customers buying habits and target advertising spend on a source they know already trusts their brand. When combined with the potential for brand partnerships on the network, you create a flywheel or circular engagement concept that self-perpetuates.

- RXH raised $4 million from its October 2014 IPO (at $0.20) and subsequently raised another $5 million (at $0.33) in March 2015. Following the raise, RXH had approximately $6 million in cash to fund further growth of its merchant network. We estimate that the Company has sufficient funds on hand to see them through the next 12 months. We anticipate that with further positive catalysts to come from brand partnership agreements and conversion of merchants to paying subscribers, the Company may not need to come back to the market but may choose to be opportunistic to further accelerate growth.

- RXH is backed by an experienced management team and was founded by Ruwan Weerasooriya. Ruwan is a technology and media entrepreneur with a track record of founding and growing technology and media related businesses. Over his career Ruwan has developed and sold several businesses including an ISP, a digital strategy and web development service (Method + Madness) and a digital out of home media company (CafeScreen).

28 May 2015		
12mth Rating		**SPEC BUY**
Price	A$	0.285
RIC: **RXH.AX**		BBG: **RXH AU**
Shares o/s	m	131.2
Free Float	%	31.5
Market Cap.	A$m	37.4
Net Debt (Cash)	A$m	(6.1)
Net Debt/Equity	%	na
3m Av. D. T'over	A$m	0.08
52wk High/Low	A$	0.41/0.195

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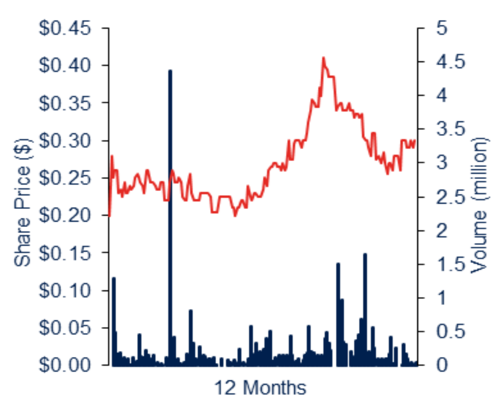
Disclosure: Patersons Securities Limited acted as Lead Manager and Underwriter to an institutional and sophisticated investor placement that raised $5.0 million at 33 cents per Rewardle Share in March 2015. It was paid a fee for this service.

An investment in this company should be considered speculative and note assumptions employed are contingent on broader market conditions remaining buoyant. These can change at short notice. Recommendations are current at the time of publication.

12 Month Share Price Performance



The Business

Rewardle Holdings Limited ("RXH" or "the Company") is a digital customer engagement platform that is designed to help small and medium enterprises (SME) connect with their customers. In its simplest form, the Rewardle platform is a loyalty based application that allows merchants to better interact directly with their customers. RXH has taken the humble "buy 9, get 1 free" punch card digital, and in doing so, has allowed merchants the ability to operate a rewards type program with "big data" analytics, previously only available to large corporations (Qantas Frequent Flyer, Coles FlyBuys, Woolworths Everyday Rewards etc.).

The Rewardle platform benefits both consumers and merchants. For consumers, loyalty is rewarded with the swipe of a card or smartphone, with points and rewards all stored digitally in the cloud forgoing the need to remember your "punch card". For merchants (coffee shops, bars, gyms, fast food chains, hairdresser, butchers etc.) the major benefits include:

- Direct marketing with existing customers (lower marketing costs, higher probability of sale).
- Big Data analytics (customer data and analytics are highly valuable to the merchant).
- Payments system which will include prepayment, online ordering and credit card linkage to smartphones.

Figure 1: The Rewardle platform

Source: Rewardle Holdings Limited Prospectus

How it works

Merchants place a customer facing Rewardle tablet on their counter that acts as a kiosk. During visits, customers "check in" on the tablet using a card or the Rewardle smartphone app to collect points and redeem rewards.

Figure 2: How the platform works

Source: Rewardle Holdings Limited Prospectus

Figure 3: Tablet illustration

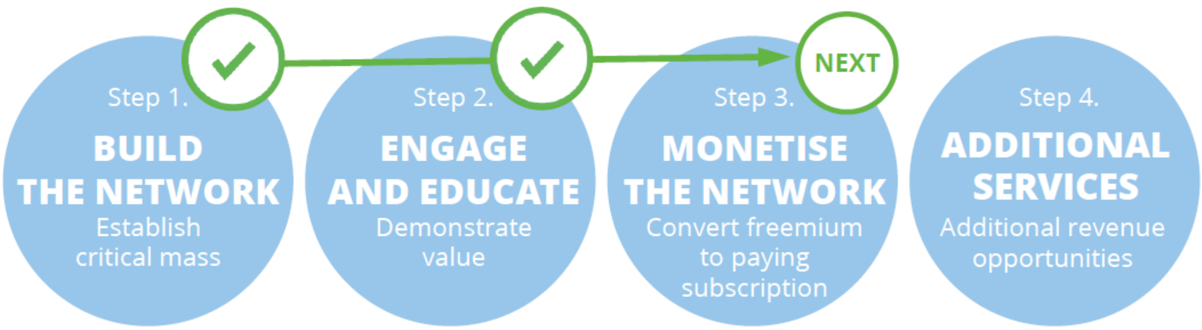
Source: Rewardle Holdings Limited presentation February 2015

Merchants are currently brought onto the platform under a "freemium" model where RXH funds the tablet and merchants trial the program for free. Upon acceptance, merchants pay $49 per month for the service which currently allows them access to most aspects of the platform. In time, a minimum sub-set of the technology and analytics will form the basis of the $49/month with other features to be subscribed for at an additional cost. The Rewardle platform was initially rolled out in 2012 and currently stands at approximately 4,000 merchants. A snap shot of current merchants include Ezymart Convenience Stores, Goodlife Healthclubs, SuperChem Pharmacies, Toby's Estate coffee network, BYO Cellars NSW, Red Lea Chicken and Taco Bill.

Competitive advantage

As has been demonstrated by other technological successes (Facebook, Yelp, Twitter, WhatsApp, MenuLog), first mover advantage and building critical mass are the keys to a "winner takes all" strategy. Typically, growth to critical mass primes monetisation and this creates a substantial barrier to entry and provides a platform for future revenue generation through additional features and the network effect.

Figure 4: The Rewardle business plan



Source: Rewardle Holdings Limited presentation February 2015

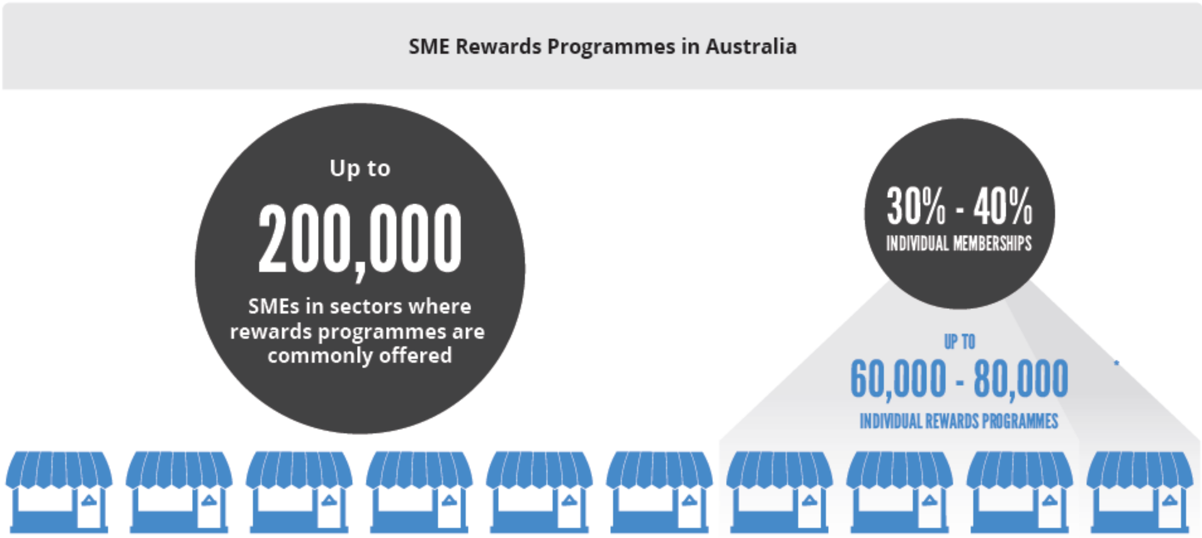
Previous experience has shown that merchants will likely be "sticky" once signed up to the technology. The inconvenience of switching programs, losing accumulated points/rewards and replacing cards should mean that merchants will become entrenched in the platform, provided the offering remains relevant and of significant value.

Industry dynamics

Merchants

A recent independent study by Frost and Sullivan (2014) highlighted that there were an estimated 200,000 SME's operating in Australia in sectors where rewards programs were currently offered (retail, restaurants, cafes, personal services). Within this universe, 60,000 – 80,000 were currently operating some form of a rewards based, loyalty program.

Figure 5: SME's in Australia with the potential to offer a loyalty program



Source: Rewardle Holdings Limited Prospectus, Frost and Sullivan

When we combine that potential with the success of the major loyalty programs, we can start to see how big the initial pool size could be and just how valuable customer data is to merchants.

Figure 6: Major loyalty programs in Australia

Largest Australian Rewards / Loyalty Programmes

Programme	Owner	Estimated Membership
Frequent Flyer	Qantas Airways	**9.0 million members**
Flybuys	Coles Supermarkets	**6.9 million members**
Everyday Rewards	Woolworths Limited	**6.5 million members**
Sister Club	Priceline (API)	**3.9 million members**
Velocity	Virgin Australia Airlines	**3.7 million members**

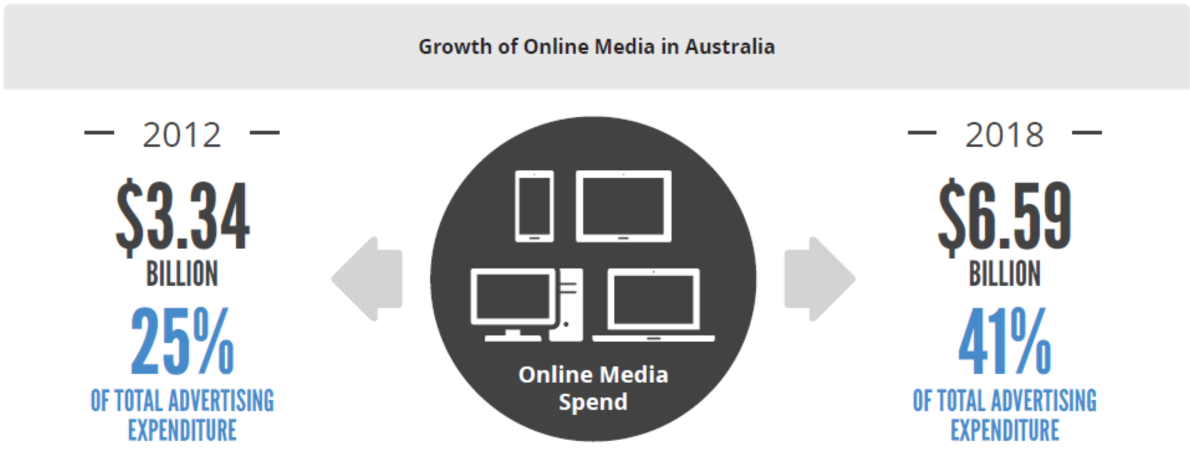
Source: Rewardle Holdings Limited Prospectus, Frost and Sullivan

Online/mobile advertising and smartphone usage

Australian smartphone use is increasing rapidly, thanks to cheaper handsets and more reliable mobile networks. This has led to an increased acceptance/reliance to undertake certain activities on our phones and other devices such as social networking, bill payment, shopping and making bookings/reservations. Furthermore, the ability of online data to be stored “in the cloud” has reduced the cost to providers of these services making technology available anytime, anywhere.

The opportunity to make direct contact with both existing and potential customers through online and mobile channels significantly reduces the cost of advertising for merchants (compared to mass marketing) with evidence confirming it also leads to the increased likelihood of a sale. The ability to target specific customers at a reduced cost is very attractive to SME’s where their advertising budgets are relatively small and must provide value for money. This is a key competitive advantage for Rewardle.

Figure 7: Growth of online media in Australia



Source: Rewardle Holdings Limited Prospectus, Frost and Sullivan

Cashless society

Regardless of the metric, whether it be the number of EFTPOS terminals in use, the amount of debit and credit card transactions, or the number of Australian consumers not using cash on a monthly basis, we are moving toward a cashless (or at least a significantly reduced reliance on physical cash) society. The next wave of contactless technology is coming from mobile payment via smartphones. While the technology is still being developed and improved, it will only be a matter of time.

In April 2015, RXH signed a non-exclusive Agreement with Mint Wireless (ASX: MNW) to integrate Mint’s mobile payments and processing capability into the Rewardle platform. Mint’s technology enables card present payments (credit, debit and EFTPOS) to be made via a range of devices. This technology will turn the Rewardle tablet/kiosk into an EFTPOS terminal capable of accepting tap and go or chip and pin payments. Following the Mint integration, Rewardle will be able to support the following payment methods:

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

In parallel to the integration, RXH and Mint have undertaken to establish and formalise mutually agreeable commercial terms for a Master Services Agreement (MSA), which will deliver a merchant proposition and fee structure that will allow both parties to share in the potential revenue stream associated with the payment processing facility.

Competitors

RXH has no direct competitor in the Australian marketplace with current loyalty programs either being the domain of large corporates, or tackled at an individual merchant level. RXH aims to provide a local community network of merchants who can all benefit from a platform thought only to be available to billion dollar companies. The inherent network effects and first mover advantage that RXH has created should act as a significant barrier to entry as the merchant and member base grows.

Outside of Australia, we believe a private US company Belly, provides the most direct comparison. We highlight some of the similarities below.

- Belly is a loyalty program and marketing solution with more than 10,000 merchants and 5 million members across the US and Canada. Similar to RXH, Belly has sought to revamp the traditional loyalty concepts and works with each business to design a customised, unique rewards program their customers want. Using a tablet and single card or iPhone or Android App, Belly unlocks new opportunities for customer engagement and digital advocacy. Belly is headquartered in Chicago, Illinois and has received funding from Andreessen Horowitz, Silicon Valley Bank, Lightbank, NEA, DAG Ventures, Cisco, and 7-Ventures, LLC (a subsidiary of 7-Eleven, Inc.).
- Belly was launched in 2011 and has reportedly raised approximately US$28 million thus far. We believe Belly offers merchants payment plans varying upwards from US$50/month depending on the analytics offered.
- One of Belly's biggest achievements to date was the signing of 7-Ventures as a brand partner. This brought approximately 2,600 7-Eleven stores onto the Belly program which highlights the attractiveness of these platforms to key brand partners.

Figure 8: Belly rewards program

Source: Belly website

While similar businesses, we don't believe each company presents a current threat to the other, as both are focused on growing their respective businesses in their current jurisdictions. Over time, this may change which in turn could lead to M&A activity or an impetus to expand internationally more rapidly.

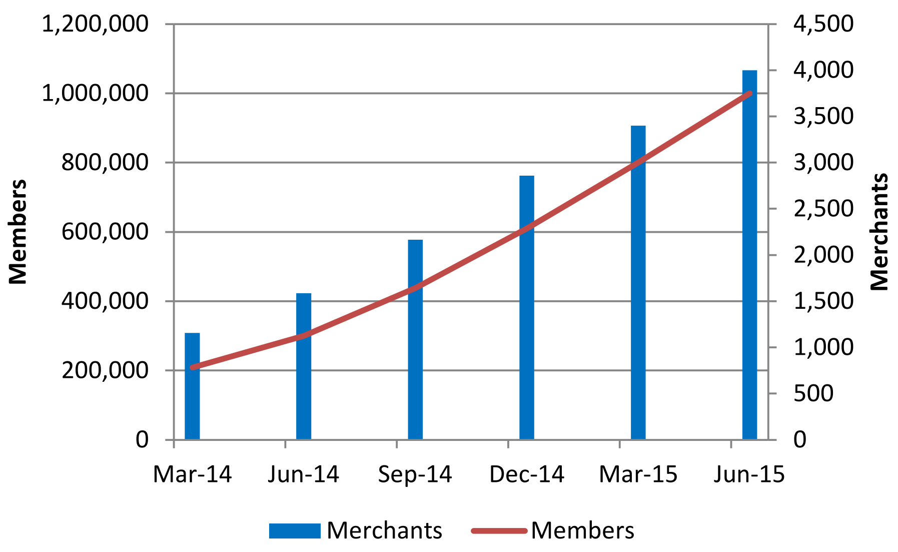
Revenue generation

In line with the business model, revenue generation is expected to come from three concurrent/circular sources.

Merchants

Merchants subscribe to the Rewardle platform for the use of engagement tools which use email, social media and mobile marketing to directly connect with their existing customers. Evidence suggests that the likelihood of converting advertising dollars to a sale is multiple times higher when you engage an existing customer versus targeting a new customer. The subscription model (pay per month) can be leveraged up to provide additional services over time, which will attract a higher average revenue rate per merchant. RXH is targeting 25,000 merchants and 5 million members within three years. Merchant and member growth to date is shown in the chart below.

Figure 9: Rewardle merchant and member growth



Source: Rewardle Holdings Limited, Patersons Securities Limited

Brand partnerships

Once a merchant platform is established, RXH has the ability to derive revenue from brands by charging a fee for them to engage with its merchant and member network. Perhaps the most successful example of this is the Qantas Frequent Flyer program. Companies (in particular the big four banks) will pay Qantas many millions of dollars to purchase points to be distributed to their customers as incentives. Not only does this create revenue for RXH, it makes the platform more attractive to new merchants and members, creating a circular/flywheel effect. Most recently, RXH announced a brand partnership with Air Asia, a significant affirmation of the potential in the platform and its business model.

Payments

Over time, RXH will look to derive fees from payment processing. The rollout of tablets at each merchant site, along with the ability to turn each of those tablets into a quasi EFTPOS terminal, creates yet another potential revenue source and point of differentiation for the merchant. Secondary to this, it makes the platform attractive for a bank partnership to provide the payment facilitation now that the infrastructure is already in place and growing with each new merchant added.

Cash flow and Balance Sheet

RXH raised $4 million from its October 2014 IPO (at $0.20) and subsequently raised another $5 million (at $0.33) in March 2015. Following the raise, RXH had approximately $6 million to fund further growth of its merchant network. The Air Asia partnership announced in May 2015 should also provide a “six figure” revenue item in the coming months.

Staff costs and expansion of the merchant network (tablet rollout) should see cash burnt at a rate of approximately $1 million per quarter. We estimate that the Company has sufficient funds on hand to see it through the next 12-18 months. We anticipate that, with further positive catalysts to come from brand partnership agreements and conversion of merchants to paying subscribers, the Company may not need to come back to the market but may choose to be opportunistic to further accelerate growth. Should RXH remain on track to meet its merchant and member targets, we believe the Company should be cash flow positive within 18-24 months. Ultimately, the Company will look to balance growth ambitions with market conditions and adjust its level of spending accordingly. This will impact when the Company will ultimately reach breakeven and profitability.

Valuation

Given the Company is still in the relatively early stages of its listed life, traditional valuation metrics are difficult to forecast. As RXH establishes a revenue base and costs stabilise, these metrics will become more appropriate to use as a valuation tool. That said, recent comparable market transactions and metrics may provide some insight into the potential growth attainable by the Company.

A number of US peers with similar business models, shown below, can be compared on a market value per merchant basis. This shows some of the potential that may exist for RXH if growth targets can be achieved and monetisation of the platform continues.

Figure 10: US Peer comparison

Peer	Equity Value ($m)	Approx. Merchants	Value per Merchant
Yelp (NYSE)	US$3,480	90,000	US$38,667
Open Table* (Nasdaq)	US$2,460	30,000	US$82,000
Grub Hub (Nasdaq)	US$3,379	35,000	US$96,543
Menu Log* (Private)	A$855	5,500	A$155,454
Rewardle	A$37	4,000	A$9,350

Source: Rewardle Holdings Limited, Patersons Securities Limited. Equity values and merchant numbers approximate as of May 2015

** Open Table was acquired by Priceline in July 2014 and numbers are representative of the date of purchase. Menu Log announced it was to be acquired by UK based Just Eat in May 2015 and numbers are drawn from that announcement.*

Secondly, RXH is directly comparable to the loyalty programs offered by Qantas and Virgin Australia. In mid-2014, Virgin sold a 35% stake in its Velocity program to Affinity Partners for $336 million. The implied enterprise value of that sale equated to $960 million for the entire program. Similar assumptions can be used to value the Qantas Frequent Flyer program with estimates ranging from $2.5 billion to $3.0 billion. When we look at these enterprise values on a per member basis, it again highlights the potential for RXH, clearly recognising that the Company still has work to do to reach the membership base equivalent to these two programs.

Figure 11: Airline loyalty programs in Australia

Loyalty Program	Enterprise Value (A$m)	Approx. Members (m)	Value per Member (A$)
Velocity (Virgin)	960	4.5	213
Frequent Flyer (Qantas)	2,750	10.0	275
Rewardle	31	1.0	31

Source: Patersons Securities Limited

Capital structure and liquidity

Following the Share Placement in March 2015, RXH has approximately 131.2 million shares on issue, of which 75.7 million are restricted/escrowed until October 2016. A breakdown of key management's holdings is shown below.

Figure 12: Current Rewardle shareholders

Shareholder	Shares held	% held
Ruwan Weerasooriya	87,500,000	66.7%
Jack Matthews	266,667	0.2%
Brandon Munro	783,333	0.6%
Peter Pawlowitsch	1,316,667	1.0%
All others	41,284,848	31.5%
Total	**131,151,515**	**100.0%**

Source: Rewardle Holdings Limited FY14 Annual Report, Appendix 3B – 14/4/2015

With Directors and management retaining a 68.5% stake in the Company, the free float is currently 31.5%. This means Directors will be able to exert significant influence over matters relating to the business. However, it also means that their interests are aligned to those of the remaining shareholders. The limited free float has the potential to increase the volatility of the share price from time to time and should be considered before making an investment.

There are currently 39,375,000 unlisted and performance options outstanding in the Company, primarily held by management and staff. These options are all exercisable at $0.20 with expiry dates between June 2017 and February 2018. Assuming options are exercised, this would contribute c. $7.9 million to the Company.

Key risks

- Limited operating history – RXH has a limited operating history and is currently loss making. No assurance can be given that the Company will achieve commercial viability.
- Reliance on key personnel – Execution of the business strategy is highly dependent on current, key personnel (namely Ruwan Weerasooriya and Jason Potter). Furthermore, the business may be adversely affected if it is unable to attract and retain talented individuals.
- Reliance on new products and relevance – The Company's ability to grow will depend on its ability to create successful new products and stay relevant in the face of new technology and competition.
- Technology and security risk – RXH must proactively manage changes in technology, the potential for hosting disruptions and security breaches. Any disruption to the platform could potentially damage the Company's reputation and question its reliability.

Board and Management

Ruwan Weerasooriya – Managing Director

Ruwan is the founder and Managing Director of RXH. He is a technology entrepreneur with a track record of founding and growing technology and media related businesses. In 2013 he was named in the Top 50 Australian Startup Influencers by Startupdaily.com.au. In 1994, he co-founded one of Western Australia's first commercial internet service providers, the business was sold to competitor Wantree Internet that was in turn acquired by iiNet during its IPO lead up process. Following this, Ruwan went on to co-found web development firm Method + Madness. Method + Madness provided digital strategy and web development services to a number of high profile, top tier clients. Method + Madness was acquired in 1999 by Sausage Software, now trading as SMS Management and Technology (ASX: SMX). In 2005, Ruwan angel funded and co-founded ambient media company TouchTaxi, and in 2007, Ruwan founded and funded the development of digital out of home media company CafeScreen. CafeScreen operates a network of approximately 400 digital screens and free WiFi hotspots located in CBD and inner city cafes in Sydney, Melbourne, Brisbane, Perth and Adelaide. In early 2012 a majority stake in CafeScreen was sold to a leading Australian out of home media company who now manages the day to day operations of the business.

Jack Matthews – Non-Executive Chairman

Jack Matthews brings extensive knowledge of the evolving digital media landscape, strong commercial networks and experience in executing and successfully integrating digital business acquisitions. His specific expertise includes business development, strategic planning, organisational development and political/governmental relations. He has held a number of senior leadership positions within the digital media and subscription television industries in Australia and New Zealand. Since 2006 Jack played an integral role in the success of Fairfax's digital strategy, first as CEO of Fairfax Digital and most recently as CEO of Fairfax Metropolitan Media. Jack is a current director of Crown Fibre Holdings, a company charged with investing $1.5 billion to build an ultra-high speed broadband network in New Zealand.

Brandon Munro – Non-Executive Director

Brandon Munro is a corporate lawyer by profession with executive experience in the private equity, mining, infrastructure and IT sectors. Brandon brings regulatory, governance, mergers and acquisitions and capital markets knowledge to the team, as well as his own experience co-founding start-ups in the IT and exploration sectors. Brandon is currently the Managing Director of ASX-listed Kunene Resources Ltd.

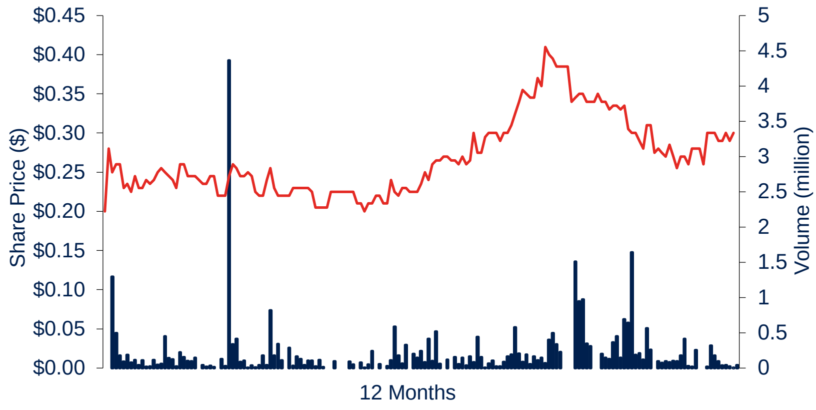
Peter Pawlowitsch – Corporate Development

Peter Pawlowitsch is an accountant by profession with extensive experience as a director and officer of ASX-listed entities. He brings to the team experience in operational management, business administration and project evaluation in the IT, hospitality and mining sectors during the last 15 years. Peter is a current director of ASX listed companies, Ventnor Resources Ltd, Crucible Gold Ltd and Kunene Resources Ltd.

Jason Potter – Chief Technology Officer

Jason Potter is a software engineer with more than 20 years' experience in software application development and business management across the financial services and digital media sectors. He has worked with Ruwan Weerasooriya as a key team member in the establishment and growth of Method + Madness, Huge Digital, TouchTaxi and CafeScreen. For TouchTaxi and CafeScreen Jason developed several proprietary applications including digital media content management and captive WiFi portal systems. He managed substantial components of both organisations development and operations ranging from software development, logistics associated with system installations and various day to day aspects of running the digital media and free WiFi networks.

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return

Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.

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