

ASX ANNOUNCEMENT

29 APRIL 2020

## Q3 FY20 BUSINESS UPDATE

### Key highlights:

- **The planned transition to new sales packages and approaches for Merchant Services and Brand Advertising during the March Quarter were disrupted by COVID-19 pandemic.**
- **The Company's COVID-19 response has initially been focussed on staff safety, business continuity and cost reduction initiatives.**
- **Management is undertaking a strategy and operational review to determine how to best navigate the ongoing impact of COVID-19.**
- **Pepper Leaf partnership benefiting from accelerated consumer take up of home delivery services during COVID-19 restrictions.**
- **Working capital bolstered by Executive Chairman, Mr Ruwan Weerasooriya extending the current unsecured, interest free loan of \$250,000 to \$500,000.**

Commenting on the Company's activities during the Q2 FY20, Rewardle founder and Executive Chairman, Ruwan Weerasooriya, said;

"The impact of the COVID-19 pandemic during the March Quarter has made our key challenge of cost effectively growing existing and new revenue streams significantly more difficult."

"While we review our strategy and operations to determine how to best navigate these challenging times, we are continuing to invest in research and development to extend the capabilities of the Rewardle Platform to enhance our value proposition for local businesses and brands."

"While the COVID-19 pandemic has created an unprecedented health and economic crisis, through a combination of our cost reduction initiatives and Government support we believe the Company can keep its team employed and intellectual property intact, so that we are in a position to quickly scale up when conditions improve."

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**Merchant Services and Brand Partnership (Advertising) revenue development:**

During the March Quarter, the launch of new products and services using new sales approaches was significantly disrupted by the COVID-19 pandemic. As such, these activities were placed on hold while organisation focused on its immediate response to the crisis.

The measures implemented by authorities to slow the community transmission of COVID-19 have significantly impacted the local businesses that are the primary customers of Rewardle.

The majority of merchants that Rewardle services have closed or seen their trade significantly restricted. During March the Company experienced a modest decline in Merchant Services (SaaS) revenue, a trend which management expects to continue over coming months.

Management expects that the majority of local businesses, which represent the underlying basis of the Company's business model, will experience significant financial hardship and many will fail. As such, management is closely monitoring account management operations while reviewing strategy, operating structure and costs to navigate the business through these uncertain times.

Given the uncertainty around the trading position of our merchant partners, management has elected to temporarily cease providing Merchant network statistics until a clearer picture of the Merchant network can be established.

**Impact of COVID-19 and response:**

The Company has taken its responsibility to protect staff and contribute to slowing the spread of COVID-19 extremely seriously. Planning for remote working was initiated at the start of March and the Company instituted remote working practices from the 13<sup>th</sup> March.

As a digitally native business, the implementation of remote working systems and processes has been relatively seamless and the business has been able to continue serving Merchants, Members and other partners while observing social distancing advice and rules.

The unprecedented economic conditions that have been caused by the COVID-19 pandemic are expected to challenge the previously detailed management assumptions that the Board has relied on in assessing the businesses capability to continue as a going concern.

The Company is anticipating that existing revenue streams will decline significantly over coming weeks and that there will be a prolonged period during which there will be limited scope for new business development activity.

In response, management is reviewing its commercial and corporate strategy, current operating structure and associated costs to navigate the business through this challenging period.

As part of the strategy and operational review, management is considering the various support packages announced recently by the State and Federal Governments and their impact on operating budgets.

While the COVID-19 pandemic has created an unprecedented health and economic crisis, the unprecedented financial support offered by the Federal Government will support the Company in keeping its team employed and intellectual property intact, so that the Company is ready to quickly scale up.

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**Development of commercial partnership opportunities:**

As previously outlined, the Company has identified that Rewardle's proprietary technology, data, operations and corporate infrastructure can be leveraged to support the objectives of complimentary businesses with minor operational disruption or incremental cost.

To date, strategic partnerships have been established with Pepper Leaf, SportsPass and Beanhunter. The specific nature of each partnership has been covered in detail in previous ASX announcements. These partnership opportunities are based on the Company earning equity and cash fees in return for the provision of the following services:

- Marketing/advertising
- Software Licensing and/or development
- Telephone and field sales
- 1<sup>st</sup> tier customer service
- Corporate strategy and fundraising

Of particular note, Pepper Leaf has seen a significant increase in demand over recent weeks and the business stands to benefit in the long term from the acceleration in consumers adopting home delivery of groceries and takeaway meals due to the COVID-19 restrictions.

Under the existing partnership, Rewardle has been providing Pepper Leaf with operational support, promoting Pepper Leaf's meal kit service to Rewardle members and is assisting with the development of new opportunities that leverage its operational infrastructure.

**R&D activity and rebate financing options:**

The R&D Tax Incentive is an Australian Government scheme which supports investment in innovation under which companies receive cash refunds for eligible expenditure on research and development benefiting Australia. The Company has received refunds under the scheme in previous financial years.

Due to its highly strategic nature, the Company is maintaining its commitment to investing in research and development during FY20.

While R&D expenditure is incurred progressively during the the Financial Year, the refunds from the program are typically received 3-9 months from the end of Financial Year. Due to this timing asymmetry Radium Capital (Radium) has developed a financing model to provide eligible companies with working capital advances secured by forecast R&D refunds.

The financing facility offered by Radium allows the Company to manage the cash flow asymmetry associated with the timing difference between investment in research and development activity and receipt of the R&D refund.

The Company has previously established a financing facility with respect to the Q1 FY20 R&D expenditure and through discussions with the Radium account management team has confirmed that it has the option of financing subsequent expenditure during FY20 if the need arises.

The Company intends to continue investing in research and development and will consider using R&D financing services as a component of its cash flow management strategy. Updates will be provided in the case of the Company entering into formal financing agreements.

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## Working capital management

The Company is responding to the challenges posed by the COVID-19 pandemic by reviewing its commercial and corporate strategy, current operating structure and associated costs to navigate the business through this challenging period.

As part of the review, management is implementing a series of cost reduction measures over coming months and is considering the impact of State and Federal Government support packages on operating budgets. The Company expects it will qualify for payroll tax and PAYG tax support packages along with the JobKeeper program.

As previously announced to the ASX, to support the Company's working capital requirements during this time of great uncertainty, Executive Chairman, Mr Ruwan Weerasooriyas has agreed to extend the current unsecured, interest free working capital loan of \$250,000 to \$500,000.

While the Company is clearly operating in challenging times, management is confident that it will have sufficient working capital to meet its budget objectives for FY20 and beyond based upon:

- Ongoing reduction of operating costs
- Access to State and Federal Government COVID-19 support packages
- Improvements trading conditions and sales performance across Merchant Services and Brand Partnership revenue streams
- Development of corporate partnership opportunities
- Financing of FY20 R&D activities and access to Director loan

The board is regularly reviewing operating budgets and strategy taking into consideration a variety of commercial and corporate scenarios and opportunities.

This ASX announcement has been approved for release by Executive Chairman, Ruwan Weerasooriya.

## About Rewardle Holdings Limited

Rewardle connects millions of Members with thousands of local businesses across Australia.

The Rewardle Platform is a marketing and payments platform that combines membership, points, rewards, payments and social media into a single cloud based platform powered by Big Data analysis.

Rewardle is positioned to be a leading player as the worlds of social media, marketing, mobile and payments converge to transform how we connect, share and transact.

The Company is led by an experienced entrepreneurial team with a successful background in Internet and media businesses.

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