

STRATEGIC PARTNERSHIP BOOSTS AIRPOCKET'S POTENTIAL

Investment Highlights

- DigitalX Limited (DCC) announced a strategic partnership with a major telecommunications group to market and distribute its flagship product, AirPocket, to over 100m potential customers in the Latin American region. The AirPocket's development is complete and is on track to go live in the June quarter of 2016, and is capable of disrupting the multibillion dollar remittance industry. The strategic partnership allows DCC to target a large potential user base, on which it can generate substantial revenues, for a lower acquisition cost. This further highlights the blue sky potential and we reiterate our Speculative Buy rating.**
- AirPocket overview:** DCC has created the AirPocket application to disrupt the incumbents in the global remittance industry. AirPocket adopts Blockchain technology to quickly and securely record an international money transfer and thus eliminates much of the issues currently associated with remittance. These issues include cost, transparency, timeliness and foreign exchange risks. The App is currently in Beta phase, with the Company recently expanding its beta testing up to 1,000 users. DCC has completed development of the App and is ready to go live by June 2016.
- Strategic partnership with major telecommunications group:** DCC announced that it has signed a marketing, distribution and sales agreement with one of the world's largest telecommunications groups that will potentially deliver the AirPocket application to over 100m mobile phone users. The strategic agreement will allow consumers in the United States to use DCC's money transfer and payment product, AirPocket, to transfer funds directly into mobile phone accounts of users on the partner's network in Latin America including Mexico, Colombia, Ecuador, Perú, Panamá, Argentina, Chile, El Salvador, Guatemala, Nicaragua, and Venezuela.
- Potential impact of partnership:** The revenue generation potential from the agreement to DCC is significant as the Company will earn an 11% gross margin on the value of the transfer, which can range between \$US2 and \$US70 per transaction. For example, if DCC were to gain only 1% of the 100m potential customers, with each sending/receiving a single transfer of US\$36 (midpoint of range) in a year, this would equate to \$4.0m in gross revenue. We note the extent to the blue sky upside, given the Company is now in a position to acquire a large user base, which would likely use the AirPocket for more frequent remittance or at a higher transfer amount than used in our example. For reference the average remittance size to Mexico was US\$234 in 2014.
- Remittance market overview:** A remittance most commonly refers to the funds an expatriate sends to their country of origin via wire, mail, or online transfer. In 2014, US\$583b was transferred between countries, US\$436b of which was received by developing countries. Latin American and Caribbean countries received a total of US\$66.5b in remittances in the year 2007, more than both foreign direct aid and development aid. Three quarters of that money came from migrant labourers working inside the United States. Immigrant households in the United States budget 10% of their income towards remittances, which in turn make up between 50% and 80% of the household income of those receiving the money.
- Balance Sheet in good stead:** As at 31 December 2015, DCC had US\$3.4m (cA\$4.85m) in cash and cash equivalents, including US\$0.4m in Bitcoin, and no debt. The Company was also cash flow positive in the December quarter, generating US\$0.75m in free cash flow driven by improved Bitcoin prices and a significant increase in transaction volumes on the DigitalX Direct platform (cUS\$11.0m in revenue in the December quarter). We anticipate DCC to continue to be at least cash flow neutral in the upcoming quarters. While we feel further capital may be used to fully maximise the roll-out of AirPocket, the recent Latin American telecommunication strategic partnership may allow DCC to leverage off its large potential customer base and alleviate the funding pressures. Additional joint ventures and partnerships may facilitate the capital needs.

18 February 2016

12mth Rating **SPEC BUY**

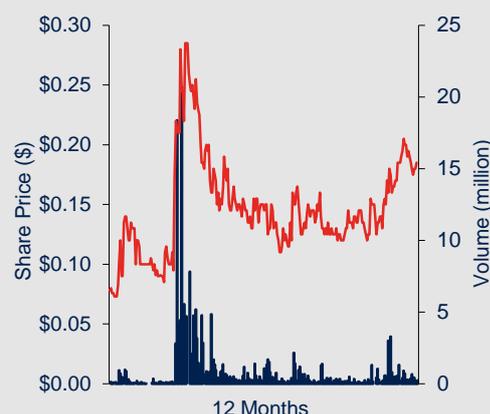
Price	A\$	0.19
RIC: DCC.AX		BBG: DCC AU
Shares o/s	m	178.12
Free Float	%	64.3
Market Cap.	A\$m	33.85
Net Debt (Cash)	A\$m	(4.8)
Net Debt/Equity	%	NA
3m Av. D. T'over	A\$m	0.07
52wk High/Low	A\$	0.29/0.07

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Disclosure: Patersons Securities Limited acted as lead manager to a Placement of \$3.5m at \$0.22 per share on 21 May 2015. Patersons 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



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