

4th July 2019

Data Exchange Network

New contract win

The Data Exchange Network Ltd (ASX:DXN) is a vertically integrated prefabricated modular data centre business with manufacturing facilities in Perth and a soon to be commissioned data centre at Sydney Olympic Park in Sydney. The company has announced it has secured its third contract in as many months to build two state-of-the-art cable landing stations in the Cook Islands for the Manatua Cable. DXN was awarded the NZ\$1.2m (A\$1.15m) by Avaroa Cable Ltd, the state-owned enterprise from the Cook Islands and part of the Manatua Cable Consortium. The two landing stations, destined for Rarotonga and Aitutaki, are expected to be installed later this year with full commissioning in May 2020. The contract win also follows confirmation late last month that DXN's SYD01 data centre was progressing as planned with civil works now complete, cooling towers and back-up generators installed, and mechanical services close to completion. Our base case DCF valuation is \$0.24/share (WACC 10.7%, terminal growth rate of 2.2%) and includes the dilution from anticipated capital raises from FY19-22. On the current share count of 361.3m shares, our base case valuation is \$0.34/share.

Business model

The Data Exchange Network is building pre-fabricated modular co-location data centres in leased premises in Sydney, utilising its established engineering and manufacturing facility in Perth to deliver its custom-designed, inhouse data centre infrastructure. The company also has a site at Port Melbourne which is at an earlier stage of development. The company's strategy is to build capacity in stages starting with 1 MW or 145 racks in Sydney and gradually installing 5MW in Sydney and 6MW in Melbourne as demand fills existing infrastructure. This enables DXN to maintain a capital light model compared to traditional DCs which build greater capacity upfront. Revenue will be derived from manufacturing data centre modules for third parties, operating and renting rack space in its co-location data centres and from software licence fees for its monitoring, management and access control system. We forecast breakeven at 2.9MW built and \$10m pa in DXN Module sales.

DXN Modules putting runs on the board

DXN continues to benefit from the recently formed and focused DXN Modules which has now secured more than \$2.5m contracts since May. This includes the \$500,000 contract to engineer, manufacture and install a cable landing station for the Government of Niue, a \$1.06m contract with WA wireless communications leader Radlink Communications to engineer and manufacture prefabricated communications modules for a global mining company's Queensland mine and the just announced Cook Islands' contract. We had factored in an uptick in contract wins as a result of the new focused DXN Modules in our recent re-initiation report "Manufacturing the edge in its data centre strategy". We are pleased to see that the sales progress remains in line with our expectations.

Historical earnings and RaaS Advisory estimates (in A\$m)

Year end	Revenue	EBITDA reported	NPAT reported	EPS (c)	EV/Sales (x)	EV/EBITDA (x)
06/18a	2.0	(4.0)	(5.7)	(5.86)	na	na
06/19e	2.6	(7.3)	(6.1)	(2.04)	5.77	na
06/20e	18.8	(2.1)	(2.2)	(0.46)	0.96	na
06/21e	32.1	3.2	0.9	0.16	0.62	6.29

Source: Company data, RaaS Advisory Estimates for FY19e, FY20e, FY21e

Share details

ASX Code	DXN
Share Price	\$0.056
Market Capitalisation	\$19.9M
Number of shares	361.27M
Enterprise Value	~\$10.9M
Sector	Technology
Free Float	~58%

Share price performance (12-months)



Upside Case

- Edge Infrastructure and Manufacturing facility in Perth assists in early cashflows and has capacity to meet both internal and external customer demand
- Capital light compared to traditional data centre operators as building 1MW at a time
- Modularised and smaller data centres will be critical to 5G mobile and the Internet of Things

Downside Case

- Small player in a market dominated by global players with deep pockets
- Significant data centre capacity currently in the market
- Growth of mature centres reverts to CPI

Catalysts

- Commissioning of Sydney data centre in July 2019
- Further contract wins for DXN Modules

Comparative companies (Australia & NZ)

MAQ, NXT

Substantial Shareholders

Carason Ward Pte Ltd (Dean Coetzee and Tim Desmond) 15.42%,
Buttonwood Nominees Pty Ltd (Newgate Capital Partners) 15.48%,
SG Hiscock & Company Limited 9.88%

RaaS Advisory contacts

Finola Burke +61 414 354 712
finola.burke@raasgroup.com

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 26th November 2018

About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License ("AFSL") number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS's services and includes such things as

- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

What Financial Services are we authorised to provide? RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below.

BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

DISCLAIMER and DISCLOSURES

This report has been prepared and issued by RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363) on behalf of Data Exchange Network. RaaS is paid for the research it produces by way of a monthly retainer. The authors of this report may own shares in this company and if so, this will be clearly displayed on the front page of this report. RaaS's analysts adhere to a strict trading policy. This disclaimer and disclosure should be read in conjunction with RaaS Advisory's Financial Services Guide on the previous two pages or at www.raasgroup.com. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; neither RaaS Advisory nor Data Exchange Network can guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory is a Corporate Authorised Representative under AFSL licence No 456663. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. Past performance is not a guarantee of future performance. To the maximum extent permitted by law, RaaS Advisory, its affiliates, the respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. Copyright 2019 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.