

17th July 2019

Data Exchange Network

CEO appointed

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 appointed Matthew Madden as its new Chief Executive Officer, delivering on the priority stated in its March entitlement offer documents. Mr Madden joins DXN from Kordia Solutions, where he was head of sales and marketing in Australia and New Zealand for the past two years. Prior to Kordia, Mr Madden held several positions in the data centre and technology sectors including General Manager of Corporate and Enterprise Markets at Nextgen and Managing Director of Infoplex. The appointment comes ahead of the scheduled commissioning of DXN's SYD01 data centre at the end of this month. 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.

CEO appointment the final piece in the revised strategy

Mr Madden's appointment is the final piece in DXN's revised strategy announced earlier this year. He delivers extensive experience in the data centre and technology fields, and, as Managing Director of Infoplex is familiar with building early stage companies. His remuneration package includes 3m performance rights which will vest on 30 June 2022 providing the Sydney data centre achieves either annual gross revenue of at least \$15m, or filled capacity of 5 megawatts, or sales equivalent to or in excess of 500 racks. An additional 3m performance rights will vest on 30 June 2022 should DXN Modules achieve total sales of at least \$50m or sales over a rolling 12-month period to June 2022 of \$25m.

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)	3.70	na
06/20e	18.8	(2.1)	(2.2)	(0.46)	0.89	na
06/21e	32.1	3.2	0.9	0.16	0.57	5.79

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

Share details

ASX Code	DXN
Share Price	\$0.052
Market Capitalisation	\$17.7M
Number of shares	361.27M
Enterprise Value	~\$8.9M
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%

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FINANCIAL SERVICES GUIDE

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