

# REWARDS NEXUS, INC.

## Poised to Change the Rewards Industry

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### REWARDS NEXUS, INC. (OTC:PK – ERNI - \$0.12)

Price Target: \$1.05

Rating: Speculative Buy

#### COMPANY SNAPSHOT

Rewards Nexus, Inc. specializes in building and implementing key strategies for firms with high-potential and capabilities of achieving sustainable growth. Rewards Nexus provides professional support for its consolidated subsidiaries through operational business management, financing, and controlling activities. The Company's business lines currently target the following business sectors: the customer loyalty management market, the gift card industry, the online food ordering industry and the marketing consulting industry. Through its Earn IQ Inc. subsidiary, the Company is currently running an innovative -first of its kind- rewards program in the U.S. serving restaurants in the New York area with combined services of online food ordering and in-store dining rewards.

#### KEY STATISTICS

Price as of 11/4/13	\$0.12
52 Wk High – Low	\$0.43– 0.07
Est. Shares Outstanding	75.5M
Market Capitalization	\$9.1M
3 Mo Avg Vol	87,000
Exchange	OTC:PK

#### COMPANY INFORMATION

Rewards Nexus, Inc.  
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 Brooklyn NY 11220  
[www.rewardsnexus.com](http://www.rewardsnexus.com)  
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#### INVESTMENT HIGHLIGHTS

**Rewards Nexus is poised to change the face of the loyalty management and rewards industry.** Following a six-month beta test, the Company's Earn IQ subsidiary has officially launched its innovative rewards program with tremendous results.

**Earn IQ's unique loyalty program currently serves hundreds of restaurants in the New York area with combined services of online food ordering and in-store dining rewards.** Earn IQ has amassed 2,000 members in short order due to its clever Endless Rewards program which is a key, driving differentiator in the market. *Diners can earn back an industry-leading 5-9% of their total bill.*

**The size of the loyalty and rewards market is huge. ACI Worldwide estimates that the total value of all loyalty rewards and points stands at \$48 billion.** According to the National Restaurant Association state statistics, there are over 42,000 restaurants in New York alone, which is ERNI's initial target market.

**In addition to broadening the reach of its loyalty program into related entertainment and leisure sectors, the Company is set to launch an outsourced gift card processing initiative as well.** The Corporate Executive Board estimates that the size of the merchant and dining gift card market was over \$55 billion last year.

**We believe ERNI will experience exponential membership and revenue growth over the coming quarters as it penetrates its current target markets during Q4, typically the industry's most important season.** As a result, we rate what may be the only pure play membership rewards stock Speculative Buy with a \$1.05 price target.

## REWARDS NEXUS, INC. (OTC:PK ERNI)

### COMPANY OVERVIEW

Rewards Nexus, Inc., which officially changed its name on October 2, 2013, specializes in building and implementing key strategies to firms with high-potential and capabilities of achieving sustainable growth. The Company has invested in emerging consumer loyalty technologies and cutting-edge gift card processing solutions through the acquisitions of Earn IQ, Inc. and Alpha Card Technology, Inc. Rewards Nexus provides professional support for its consolidated subsidiaries through operational business management, financing, and controlling activities. The Company targets four key business sectors: customer loyalty, online food ordering, gift card, and marketing consulting.



**EARN IQ**

On February 15, 2013, Earn IQ Inc. launched a beta test of the Earn IQ reward program in the New York Metropolitan Area ([www.EarnIQ.com](http://www.EarnIQ.com)). This reward program is a tailor-made marketing solution for small to medium sized businesses desiring to capitalize on brand recognition and strengthen brand loyalty. Due to the strength of its model, we believe that Earn IQ has great potential in building a brand that will define a service that is similar to powerful rewards programs such as Payback in Germany (22.5 million members), Nectar in the UK (22 million members) and Malina in Russia (3.6 million members).

Earn IQ offers a unique proposition that is attractive to both consumers and retailers. Earn IQ is a highly-flexible rewards program that allows consumers to purchase items either online or in-store from participating retailers in the Earn IQ network and earn back anywhere from 5% - 9% of their total bill in points, translated in equal amount of dollars for purchases from the affiliated vendors. Earn IQ points may be aggregated into a reward point exchange account and be redeemed by consumers, either online or in-store, for products or services at any retailer within the Earn IQ network and at any time (1 Earn IQ point equals \$1). Customers carry a single card that works at all participating merchants, or they can simply download the Earn IQ app and scan their Smartphone. Earn IQ is currently focusing on the dining and entertainment sector and has already signed up over 200 hundred restaurants in the New York region along with over 2,000 members. Following further penetration of the dining market, management plans to pursue other popular merchant retail segments including apparel, theaters, along with the recreation and amusement spaces.

Key advantages for Earn IQ and its members are rooted in the functionality and inherent value of the program relative to the competition. Members have the ability to redeem points through all participating merchants both online and in-store and to foster long-term loyalty and repeat business. In return, Earn IQ's unique reward to the consumers is 50% of the fees collected from the merchants, resulting in rewards of 5-9% of the total bill. The actual reward level is based upon the program level negotiated between Earn IQ and its participating merchants.

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Earn IQ generates revenue based upon commission produced via the contribution attributable to merchants' revenue, as well as value added marketing services.



In addition to broadening the reach of its loyalty program into related entertainment and leisure sectors, the Company is set to launch an outsourced gift card processing initiative as well. The Company will offer its technology platform to create, provide and manage innovative and flexible merchant gift card programs.

### **INDUSTRY SNAPSHOT: LOYALTY MANAGEMENT**

Faced with increased competition in a weak economic environment, customer rewards programs have become a key driver in retaining customers and fostering relationships for merchants of all sizes. Plus, the tough economy has prompted consumers to attempt to eke out every dollar they can in their spending habits, via in part through the use of rewards programs. As a result, memberships in loyalty rewards programs in the U.S. reportedly now exceed 2 billion. This figure is confirmed by ACI Worldwide, which estimates 3 out of 4 consumers have more than one loyalty card that rewards them with redeemable points. In fact, ACI projects that the value of all of those rewards, points and miles earned is substantial, now at almost \$48 billion. These huge numbers indicate an increasing understanding of loyalty rewards programs among consumers and a heightened level of savvy in terms of how to best benefit from them.

According to Colloquy, while the average U.S. household has enrolled in more than 18 programs, they are active in only 8.4. However, the encouraging sign is that as a percentage, the level of activity is improving significantly even as overall membership numbers rise. Today, members are active in 46% of the loyalty programs in which they are enrolled, while in 2008, members were active in 44% of their programs. In 2006, they were active in 39%.

Critical components of reward and loyalty programs are indicated in the statistics:

- 15% percent of a retailer's most loyal customers account for as much as 50% of its sales
- It takes between 12 and 20 new customers to replace a lost loyal customer
- Customer spending is 46% higher with companies that offer reward card programs.

### **THE EARN IQ ADVANTAGE**

Following the completion of a robust six month beta test of its rewards program, the Company now boasts more than 200 dining establishments in the New York metro area, including some of the most popular restaurants, and more than 2,000 members. According to our due diligence, the Company has no direct

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competitors given it is in both the loyalty and online food ordering/dining in space, and is the only publicly traded pure play in this arena.

Going forward, a business model that enables redemption across the network and rewards of up to 9% of the total bill to its members should enable the Company to enroll 10,000 active members in short order. Moreover, merchants have gravitated to the program due to its apparent universal popularity with consumers and ease of use by the merchants. As noted above, the simplicity of the features is a key factor in the execution of the business model.



Image I. Table with Earn IQ Card

Source: Rewards Nexus, Inc.

- Merchants choose among three different fee levels that are shared equally by the cardholders and Earn IQ for its provided services. The three different fee levels charged are based on different levels of promotion and service.
- Consumers are able to earn rewards at participating retailers in our network through the use of the Earn IQ card, a QR code scan card, as well as by ordering items online or through mobile devices.
- The Earn IQ cards are available to consumers at the retailers' checkout counters or during outdoor advertising and hosting events. Consumers may also request for a card through the Earn IQ portal and they receive them by mail within 5 days.
- Consumers can easily discover participating retailers in our network by selecting on the categories provided in geographical order, cuisine type etc. within our portal or through our mobile apps.

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- All consumers are eligible for rewards; however, points are not available for redemption until they have registered online. The simple registration process is accomplished quickly via online forms available on our portal and our mobile apps. Unlike other club loyalty and rewards programs, Earn IQ does not require any membership fees from cardholders to become an Earn IQ member.
- Once consumers start making purchases from our partners' stores or online, they earn an amount of Earn IQ points that is equivalent to US dollars on a 1 to 1 ratio and ranges from 5% to 9% of their total bill. The Earn IQ points are electronically stored on cardholders' individual accounts and they can redeem them immediately or save them for later use. Cardholders can be informed of their account balance as well as any other transaction records through our portal, email notifications and mobile apps.
- Cardholders are able to spend the cash value amount they have earned at any participating retailer in the Earn IQ network they desire. The physical card or the mobile apps work as the redemption vehicles again. For online shopping, the whole process is made automatically. It should be mentioned that **consumers earn points even at the redemptions.**

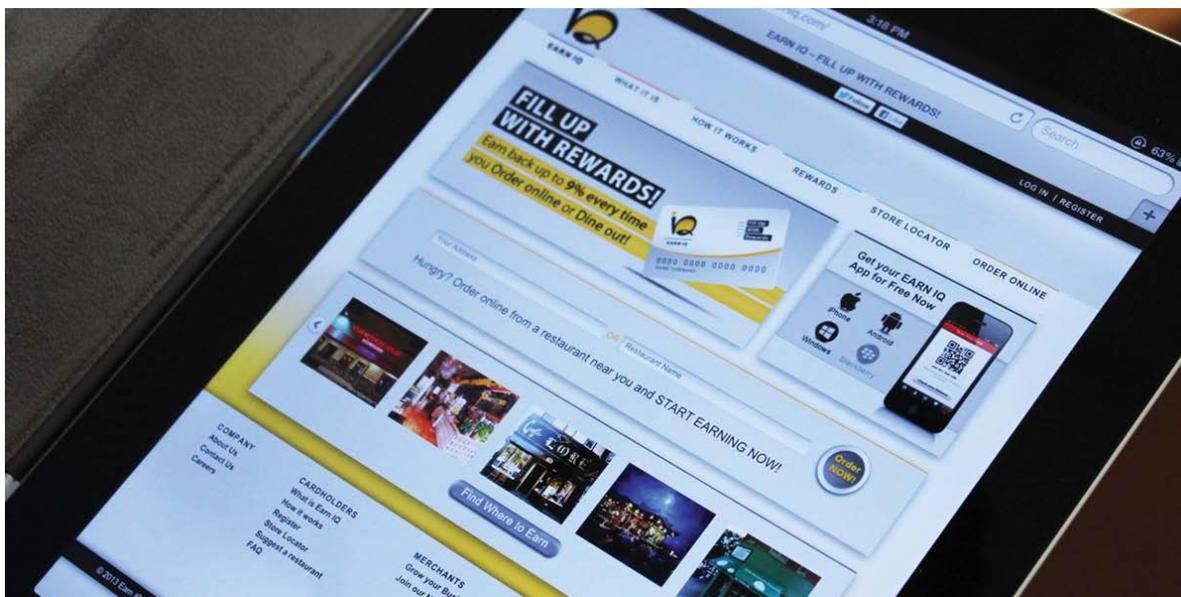


Image II. Earn IQ Web Page on Tablet  
Source: Rewards Nexus, Inc.

Earn IQ currently uses its own Loyalty and Payment System ("Synthesis") which is integrated with the Earn IQ portal and facilitates the processing of transactions between cardholders, enrolled merchants and our network. More specifically, Synthesis is a scalable system that delivers secure card issuing, provides administrative tools for all card activities, processes all incoming customer payment transactions (initiated from and routed to



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different channels) and manages the clearing and settlement of these transactions. Synthesis also consists of a powerful and scalable loyalty transaction engine which provides easy-to-use tools that allow users to design and deploy complex loyalty schemes and promotions, while providing comprehensive reporting tools.

Data transmission concerning rewards and redemptions include the installation of tablets with proprietary software to the merchants' stores. The Company offers all the software, equipment and/or system training to merchants without cost.

As for the processing of the online food orders, the Earn IQ portal is connected with a fax server that automatically sends any orders to the merchants as well as with an IVR server, which conducts automated phone calls to the merchants' stores for the confirmation of the food orders after their placements by the cardholders.

The Earn IQ program offers an easy-install of the merchants menu and offerings to our online ordering system. This sophisticated system gives the consumers the ability to track and view their points balance as they order in real-time. Also, each product or item presents the points collected from that product or item during the online ordering process. This differentiates the Earn IQ online ordering system from many others because studies have shown that if a consumer knows the amount of points they are rewarded as they order, it will create an incentive for them to increase their order amount and eventually, their order frequency.

**We should note that this segment offers huge opportunity for the Company, as exemplified by the success of companies such as Grubhub.com, Seamless.com, and Delivery.com that have thousands of dining establishments in their respective folds. However, the combination of the rewards features with the technology back office functionality makes the Company a formidable competitor going forward.**

Earn IQ's business customers include small and medium-sized retailers engaged in the dining and entertainment sector. Earn IQ focuses its initial efforts in obtaining such customers in districts that are carefully selected through our comprehensive research in the New York metropolitan area. The selection criteria are the highest number of prospective merchant clients by total retail sales, number of retailers, population density and the expenditure (for such retailing products)/income rates in the selected districts. The following table shows the number of such retail establishments in New York, New Jersey and Connecticut.

**Table I: Market Analysis**

	New York	New Jersey	Connecticut
Restaurant Establishments	42,610	18,055	7,323
Arts, Entertainment and Recreation Establishments	11,378	3,418	1,607
<b>Total</b>	<b>53,988</b>	<b>21,473</b>	<b>8,930</b>



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Earn IQ's cardholder targets include individuals who desire simplicity, ease-of-use, and organization regarding their shopping, dining and saving endeavors. These are men and women (women are more likely than men to participate<sup>1</sup>), value oriented, educated with active lifestyles, aged 18-65 and who make shopping decisions for their household. Membership of loyalty program tends to be lean toward younger people, but older consumers spend more on dining due to higher incomes. A Consumer Expenditure Survey has showed that people with such characteristics in the New York metropolitan area dine out at least twelve times monthly and spend \$267, on average. They also spend an average of \$209 monthly for entertainment purposes. In 2012, New York's restaurants were projected to record \$33.6 billion in sales (5.3% increase), New Jersey's restaurants \$14.2 billion (4.4% increase) and Connecticut's \$6.1 billion (5.2% increase).

### THE REWARDS NEXUS EXECUTIVE TEAM

#### **Nikolaos Mangas, President, Treasurer**

Nikolaos Mangas is the President and Treasurer of Rewards Nexus Inc. where his deep passion for business development, entrepreneurial spirit and expertise inspire him to implement several new innovative projects with the best interest of shareholders, customers, employees, and the public. He was appointed to this role in 2011.

His professional experience so far includes his participation and implementation of various strategic planning solutions and financial management for start-up companies in various sectors. Prior to his appointment by Rewards Nexus Inc., he held a position in the Credit Division of a major Greek Bank.

Nikolaos Mangas holds a MSc in International Business and Finance from the London Metropolitan Business School, UK and a Bachelor's degree in Maritime Economics from the University of Piraeus, Greece.

#### **Niko Papavasiliopoulos, Vice President**

Niko Papavasiliopoulos is the Vice President of Rewards Nexus Inc. He is responsible for administering corporate strategy and business development including Rewards Nexus' program of investing in emerging consumer reward technology companies and assets. Niko plays different roles within the Company, helping formulate its long-term plan, identifying and developing the Company's strategic partnerships, while seeking out new business opportunities. He was appointed to this role in 2012.

In addition to serving as Vice President of Rewards Nexus Inc., the parent company, Niko has been responsible for supporting the development of its subsidiary companies' efforts in targeting the food industry. His core value comes from entrepreneurial expertise gained from his experience in privately held enterprises.

Niko Papavasiliopoulos holds a Bachelor's degree in Business Entrepreneurship and Business Management from Quinnipiac University, Hamden, CT.



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### Vassiliki Anagnostou, Secretary

Vassiliki Anagnostou is the Secretary of Rewards Nexus Inc. She has been the driving force behind the efficient functioning of the corporation, working behind the scenes to enhance its corporate governance and structure. She was appointed to the role in 2010.

Her work experience so far includes her participation and implementation of several public tender projects in the Telecommunications and IT field. Prior to her appointment by Rewards Nexus Inc., she was involved in the implementation and management of several EU funded projects, regarding small and medium sized enterprises in the tourism sector.

Vassiliki Anagnostou holds a Bachelor's degree in European Culture from the School of Humanities, University of Patra, Greece.

### **RISK FACTORS**

In our view, the biggest risk to Rewards Nexus is execution risk. Still, we deem it unlikely that management would have difficulty in enrolling new merchants or members, given the win-win scenarios for both parties. A longer term risk could be the ties that the industry has to consumer spending habits both in the aggregate and with the specific retailers. If fewer dollars are spent in general or with these merchants in specific, it would have a materially negative impact on the Company's financials which may also impair the success of the gift card processing initiative. Other risks include the introduction of new technologies or competition from larger firms or from newer entrants. However this risk is a typical concern and is also consistent with firms of the Company's size and standing.

### **CONCLUSION**

In our view, Rewards Nexus is poised to change the face of the loyalty management and rewards industry. Following a six-month beta test, the Company's Earn IQ subsidiary has officially launched its innovative rewards program with tremendous results. Earn IQ's unique loyalty program currently serves hundreds of restaurants in the New York area with combined services of online food ordering and in-store dining rewards. Earn IQ has amassed 2,000 members in short order due to its clever Endless Rewards program which is a key, driving differentiator in the market. *Diners can earn back an industry-leading 5-9% of their total bill.*

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### Recent Trading History For ERNI

(Source: BarChart.com)

ERNI - E-Rewards Network Inc. - Daily OHLC Chart





## REWARDS NEXUS, INC. (OTC:PK ERNI)

### Senior Analyst: Robert Goldman

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

### Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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