

Key Facts

Company Code	ISX
Current Price	\$0.245
Date of Report	19/07/16
Company Website	www.isignthis.com
Analyst	Chris Northwood

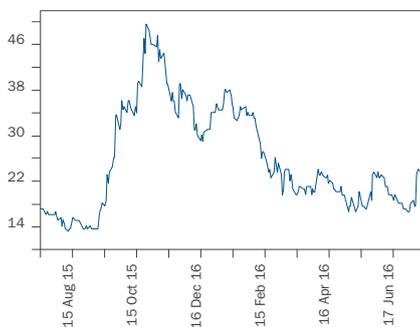
Company Statistics

12-Month Range	A\$0.13 – A\$0.51
Market Cap (A\$Mil)	\$243.1m
Issued Shares (Ful. Dil.)	935.2m
Escrowed Shares	308.3m
Perf Rights	336.7m
Cash (Est.)	\$8.5m

Major Shareholders

iSignthis Ltd	32.97%
Citicorp Nominees P/L	3.75%
UBS Nominees Pty Ltd	2.34%
National Nominees Ltd	1.98%
Mycatmax Pty Ltd	1.89%
Brispot Nominees Pty Ltd	0.75%

Share Price Performance



Canaccord Genuity (Australia) Limited was the Lead Manager to the Placement of ~26.125 million shares at \$0.40 per share to raise A\$10.45 million in November 2015.



If you have received this indirectly, please click [here](#) to receive future research on iSignthis and other Colt companies.

Regulatory tailwinds in the key target regions within the EU

Regulators in the EU have been assertive in their efforts to reinforce rules on anti-money laundering (AML) and counter-terrorism financing (CTM). This is being driven through more stringent “Know Your Customer” (KYC) requirements, with a particular focus on online transactions where the payment card is not present (CNP or “Card Not Present” transactions). We note that regulators in key online merchant markets have made “no objection” to the use of the ISX process in satisfying these requirements, which is in turn supporting customer acquisition for ISX.

On the 5th July 2016, the EU Commission made a press release, which among other things, suggested that member states had agreed to bring forward the deadline for the implementation of the 4th Directive AML (“4AML”) regulations to December 2016 (from June 2017). In addition, they made reference to new guidelines under a future ‘5th Directive’, which are likely to include a number of more stringent requirements which appear to be positive for ISX.

Estimated FY17 revenue range of A\$10.8m to \$17.5m

Given the early stage of commercialisation, we have used a scenario-based analysis to derive an estimated revenue range for FY17 of A\$10.8m to \$17.5m. The main variable in this analysis is the number of “end users” on each merchant customer’s platform, which we expect will range from tens-of-thousands up to millions in some cases. Other variables include: the fee charged per verification, the number of financial transactions processed each year and the fees charged per transaction for SCA/payment processing.

Relatively low cost base with ample cash to execute

The company has an operating expense base of approximately A\$4.1m per annum and does not anticipate a significant increase in the cost as they scale, due to the low variable cost of delivering the “cloud” based service. We estimate the company will report FY16 year end cash of \$8.5m, which should be adequate to fund the business through to our anticipated break-even point later in calendar 2016.

Speculative BUY – for investors with a higher risk appetite

We have a Speculative BUY rating and a 12-18 month valuation range based on FY18 estimates of between \$0.42/share and \$0.76/share. The company is in the early stages of commercialization and while it has announced a number of customer contracts, there is still some risk associated with onboarding customers and generating meaningful revenue in the short term.

The patented verification process

iSignthis splits the charge on a credit/debit card to make a “secret PIN”

iSignthis has a patented process that can split a “charge” on the credit or debit card into two amounts: a random amount and a balancing amount to total the amount of the transaction being undertaken (i.e.: uploading \$50.00 to a betting website for the first time). The resulting random charges act as “one time secret PIN numbers” that only the owner of the bank account could know. These numbers are then only valid for a certain timeframe. With this secret, iSignthis “piggy-backs” the 100-point check that banks use to open bank accounts, or to issue credit or debit cards.

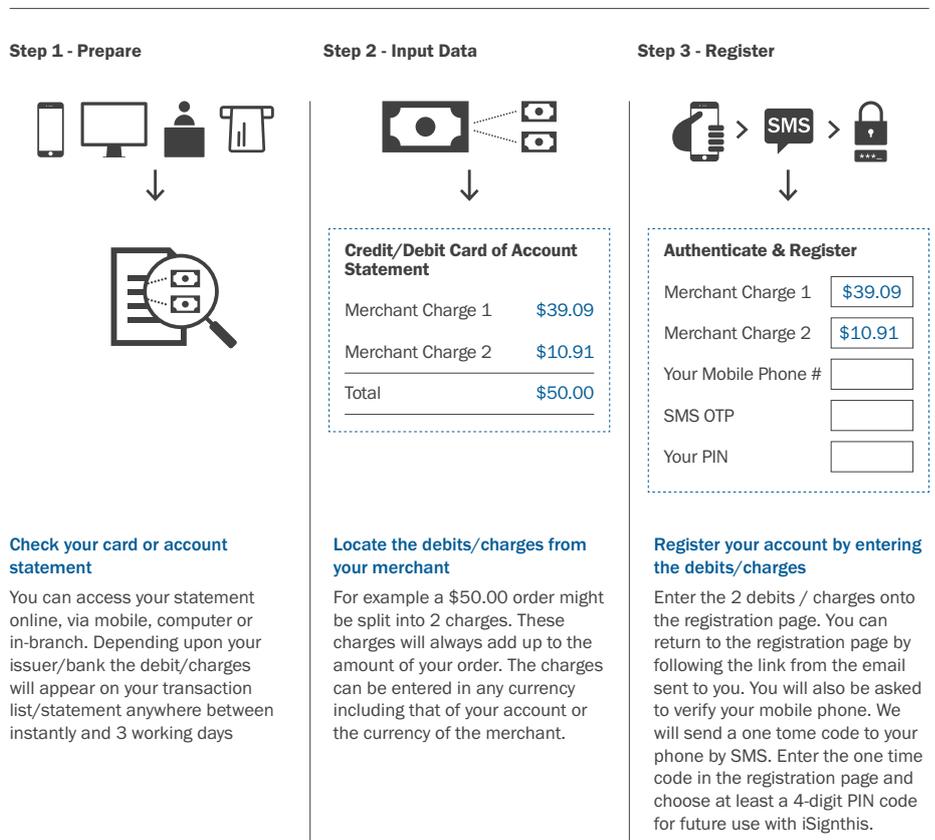
Once the “first factor” split payment secret has been entered into the iSignthis process, a “second factor” verification is sent to the user’s mobile phone (which is an AML regulated device) to provide an approved verification of identity for the user on the merchant platform. This process has been verified as a suitable method for verifying identity for the purposes of KYC/AML.

We have included an actual payment/verification example on the Coinify platform in Appendix 2 in this report, to show the process in a real life commercial situation.

For additional background on the process, please refer to our Canaccord COLTS note from late 2015 [here](#)

“
...iSignthis has a patented process that can split a “charge” on the credit or debit card into two amounts...creating a one time secret PIN number...
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Figure 1: Identity verification process



Source: Company Reports. Canaccord Genuity Estimates.

Regulatory tailwinds driven by KYC/AML

PCI-DSS audit

In March 2016, the company announced that Version 2.0 of its “Paydentity” SaaS solution was certified to PCI (Payment Card Industry) DSS (Data Security Standard) V3.1 Level 1. This announcement confirmed they could now offer “payment processing services” which integrate the verification and payments processing within their cloud based service, across all major card schemes. They also announced that the company is registered with VISA as a “Card Authentication Service”.

The commercial launch of the platform was pushed back approximately two months in early calendar 2016, in order to complete this audit and make some adjustments to the platform, ready for commercial volumes of transactions to be processed. At the time of writing, the company has announced a number of customers, including XM.Com (the 2nd largest online FX trading platform in the world), Tradologic (largest binary options “white label platform” provider), iForex (Cyprus based FX platform) and Coinify (Bitcoin eWallet). We expect that a number of potential customers may go live in the September quarter, with more substantial volumes of verifications/processing likely in the December quarter. The company has announced integration time is expected to be up to 10 weeks, which supports the timing of first revenue.

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Regulatory update for EU region – 4th Directive and proposed 5th Directive

The EU Commission has been working to provide guidelines and regulations for member states to legislate covering the “prevention of the use of the financial system for the purposes of money laundering or terrorist financing”.

The regulations are moving very rapidly, particularly in the face of recent terrorist activities in Europe (i.e.: Paris), but essentially require an “obliged entity” (i.e.: those entities covered under the regulations) to meet the identification requirements of Customer Due Diligence (“CDD”) pursuant to Fourth EU Directive on Prevention of Money Laundering (“the 4th Directive” or “4AMLD”) for a person or customer.

EU member states were initially given until 26th June 2017 to implement the 4th Directive and pass it into law in their respective jurisdictions. On the 5th July 2016, the European Commission put out a press release, suggesting that “Member States have committed at the level of Finance Ministers to bring forward the date for effective transposition and entry into force to end 2016 at the latest”, suggesting the new date is 31st December 2016, or six months earlier than previously anticipated.

This updated guideline for the 4th Directive, and a new proposal for a 5th Directive, included a number of changes to thresholds for requiring CDD, including:

- Bringing virtual currencies under the regulatory framework (e.g.: Bitcoin)
- Applying “enhanced” due diligence for high risk “third world” countries
- Strengthening measures against “pre-paid” cards by lowering the thresholds for identity verification from €250 to €150 (i.e.: opening KYC requirement up to a far greater range of online transactions)
- Increasing the power of Financial Intelligence Units, including access to information on holders of bank accounts

Customer Due Diligence (CDD)

The 4th Directive stated in regards to Customer Due Diligence (CDD) the following:

1. Customer Due Diligence measures shall comprise:
 - a. Identifying the customer and verifying the customer’s identity on the basis of documents, data or information obtained from a reliable and independent source;
 - b. ...; [this clause does not contain specific relevant information for ISX]
 - c. ...; [this clause does not contain specific relevant information for ISX]
 - d. Conducting ongoing monitoring of the business relationship including scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the obliged entity’s knowledge of the customer, the business and risk profile, including where necessary the source of funds and ensuring that the documents, data or information held are kept up to date.

The proliferation of online gambling/wagering has triggered some specific action from regulators. This includes requirements for a more active due diligence process for any customer gambling €2,000 or more in any single transaction, or series of transactions that may be linked. This could imply that many of the gamer/trader customers of ISX would consider most of their customers as requiring this level of due diligence (i.e.: they would expect all their customers to be actively gambling/wagering over €2,000). As stated in the 4th Directive:

- d. “For providers of gambling services, upon collection of winnings, the wagering of a stake, or both, when carrying out transactions amounting EUR 2 000 or more, whether the transaction is carried out in a single operation or in several operations which appear to be linked;

Simplified Due Diligence (SDD) vs Enhanced Due Diligence (EDD)

The 4th Directive represents a tightening in AML controls in this regard, as unlike the 3rd Directive, all remote transactions must be subject to enhanced due diligence. SDD is no longer automatic in certain circumstances or industries. Article 15 provides that the application of SDD can be justifiable on a risk-sensitive assessed basis only. Article 16 provides that factors influencing a risk assessment include: types of customers, geographic areas, and particular products, services, transactions, or delivery channels.

Article 18 establishes the basic requirement for Enhanced Customer Due Diligence (EDD):

“in ... cases of higher risk ... Member States shall require obliged entities to apply enhanced customer due diligence measures and manage and mitigate those risks appropriately”

Annex III of the Directive sets out factors indicating potentially higher-risk situations which indicate when EDD should be used by an obliged entity.

2 Product, service, transaction or delivery channel risk factors:

- c. non-face-to-face business relationships or transactions, without certain safeguards, such as electronic signatures;

Strong Customer Authentication (SCA)

We have outlined some detail for SCA below, but put simply, it can be described as the requirement to “monitor all transactions to ensure you can verify the user you are engaging in a financial transaction, through the use of a two-step identity verification process”.

The European Union announced the second Payment Service Directive (PSD2), 23 December 2015, which will be required to be passed into legislation across the region. PSD2 establishes requirements of payment service user authentication, which should ensure that Payment Service Providers (PSP’s) can confirm the authenticity of users for each transaction. PSD2 requires PSPs to apply “strong customer authentication” (SCA) in cases where a regulated entity or natural person tries to access payment accounts online, initiates an electronic payment transaction, or “carries out any action through a remote channel which may imply a risk of payment fraud or other abuses”. The European Banking Authority (EBA) will develop a set of Regulatory Technical Standards (RTS) or requirements for SCA, in cooperation with the European Central Bank (ECB).

The authentication procedures outlined in the draft guidelines suggest that the process for authenticating a transaction must be based on the use of two or more of the following elements – categorised as knowledge, ownership and inherence:

- **Knowledge:** something only the user knows, e.g. static password, code, personal identification number; (ISX : a PIN number or other user secret – Step 1)
- **Ownership:** something only the user possesses, e.g. token, smart card, mobile phone; (ISX will send an “unrelated” separate authorization number to the users mobile phone – Step 2)
- **Inherence:** something the user is, e.g. biometric characteristic, such as a fingerprint.

At least one of the elements should be non-reusable and non-replicable (except for inherence), and not capable of being surreptitiously stolen via the Internet. The strong authentication procedure should be designed in such a way as to protect the confidentiality of the authentication data.

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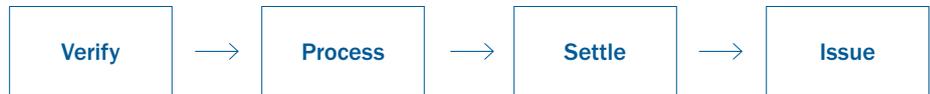
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Potential revenue streams

ISX has four core revenue streams available to it that investors should be aware of in the short and medium-term. There may be scope for other additional streams, but we believe these four cover the bulk of future potential revenue.

In order to keep the modelling of revenues as simple as possible, we have characterized those four revenue streams as follows:



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While ISX has clearly outlined their “Paydentity” process in recent announcements, which is the combination of “payments” and “identity verification”, we believe investors have not been able to quantify the payments side of this process adequately. In our opinion, the potential for ISX to become a payments processor in the short term, and ultimately a payments settlement house and a “card issuer”, is the reason investors should be taking a long-term position in the shares. We have outlined each revenue stream and what it may mean for ISX below.

Verify

ISX uses its patented process for splitting a charge on a credit/debit card, to create a one time “secret” PIN style number. The two split amounts add up to the total the user is uploading onto a trading platform for example – such as \$24.50 and \$6.50 to make up a total \$30.00 upload. These can be used to identify users of that bank account, as theoretically, only the owner of the account would have immediate access to the account. It is confirmed that this process, in conjunction with a second mobile phone based check, is adequate for confirming the identity of a person under EU regulations in key regions such as Cyprus, Gibraltar, Malta and Isle of Man.

Under EU law, users will have to be re-verified on average every 12 months. ISX will therefore charge a fee for each verification they undertake on behalf of their customers, and will see recurring revenue from this process. We expect the fee for this service could vary widely based on customer volumes and requirements, but could “average” between €3.00 and €6.00 initially.

Process

A key part of the “Paydentity” service ISX offers is their ability to offer SCA (Strong Customer Authentication), which allows them to connect the payment device (i.e.: credit/debit card) to the person and to continually monitor that “authenticated payment device” throughout the customers ongoing interactions with the merchant (i.e.: when “processing” transactions). We believe customers will opt to use “Paydentity” as their payment processor, which will provide ISX with a second core revenue stream, which could be significant, depending on transaction volumes.

We highlight two potential variations of this processing relationship with ISX’s customers:

- 1) **Payment processing only (“Processor”)**: is a company (often a third party) appointed by a merchant to handle transactions from various channels such as credit cards and debit cards for merchant acquiring banks. Put simply, ISX would simply process the payments for the acquirer, but does not hold the relationship directly with the card holder for that payment. ISX is approved to undertake this activity currently, as confirmed by the PCI DSS audit carried out earlier this year.
- 2) **Payment processing acting as the acquirer (“Acquirer”)**: An acquiring institution (or acquirer) is a bank or financial institution that processes credit or debit card payments on behalf of a merchant. The term acquirer indicates that the merchant accepts or acquires credit card payments from the card-holders. ISX would therefore act as the merchant in this case, whereby it holds the relationship with the card-holder throughout the payment process (but DOES NOT act as the settlement clearing house). We understand ISX would be required to hold an online/banking license to undertake this activity, which at the time of writing has not been issued to the company.

The company will charge a fee for the processing of payments, however the total quantum of the “per transaction” fee charged would differ depending on whether or not they act as the processor or the acquirer, as outlined above. We estimate the fees could range from €0.01 to €0.04 per transaction for processing and from €0.10 to €0.20 per transaction for acquiring.

SCA (Strong Customer Authentication): We note the SCA service offered by ISX’s Paydentity-integrated process offers a secondary revenue contribution as part of the payment processing. We expect this fee to be added to every transaction, regardless of whether they act as processor or acquirer, to link the payment device (card) to the user for every transaction. Any changes to payment devices would be tracked, verified, re-verified (if required) or blocked based on the Paydentity service. We expect this revenue stream could be in the order of €0.04 to €0.08 per transaction.

Settle

Settlement is the exchange of funds between a card issuer and an acquiring institution, which effectively completes the transaction and occurs concurrently with the “clearing process”. The merchant receives the funds for the amount of the “card sale” (less any fees) that has been submitted. For acquirers, the majority of the transactions are credits, as the merchant “sells” the product (in this example, a user places a bet on a gambling website) to credit or debit card holders (users), and their acquirers (the merchant) get paid for those through settlement. The “clearing and settlement” process requires that financial institution handling the process to “carry the financial risk” of that payment for the 48 to 72 hours that it typically takes for this process to be finalized and payments made (along with all relevant charge backs or other adjustments be made).

In order for ISX to act as “settlement” institution for transactions, they would require a banking/efmoney license plus an appropriate capital reserve allocation on their balance sheet allocation to cover the risk of that transaction for the 48 to 72 hours it typically takes for the payments to clear and settle. It is our understanding that the current capital reserve requirements for the EU region that ISX operates within is between 2% and 2.5% of the total transaction value being settled, for the period of 72 hours. NOTE: We do not expect to see this part of the potential business model implemented in the near term.

Issue

A credit card or debit card issuer is a bank or other financial institution that offers credit or debit cards to users (ie: the General Public). The card issuer makes the credit limit available (NB: no credit limit in the case of debit cards) to cardholders, and is responsible for sending payments to merchants for purchases made with their issued cards. Credit card issuers are lenders and accept a risk when they approve credit card applicants and typically have to follow strict government regulations, including allowing for regulated capital reserve requirements.

It is a possibility that ISX may choose to offer these instruments to users in the future, which will require a banking license and a capital reserve requirement, together with an end user consumer strategy that would allow them to secure a large enough share of the market to make the risk and effort required appropriate. One business model may be to issue e-debit cards in a virtual way to users of gambling websites, which could then be used by the users to bet on other websites. NOTE: We do not expect to see this part of the potential business model implemented in the near term.

Regions of operation

The process is applicable to over 3.5bn bank account holders globally

The ISX identification process relies on the verification activity undertaken by banks and other regulated financial institutions, when bank accounts and cred/debit cards are issued, which is usually done with a 100-point check, with original documents. and/or face-to-face with the customer. As such, the company suggests their process could be applied to approximately 3.5bn regulated bank account holders globally.

Presently, the company has identified the regions of Cyprus, Malta, Gibraltar and Isle of Man as the priority regions for their sales efforts, with a very high concentration of online businesses based in those regions (due to favourable regulatory frameworks). The business verticals with the greatest requirement for the ISX service appears to be: online FX trading, CFD trading, binary options trading, gambling/poker, sports betting, Bitcoin trading, virtual currency trading and eWallets. We expect more opportunities will open up to the company in other verticals over time, but have focused on these verticals in the short and medium term to form the basis of our assumptions.

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...ISX has recently announced a number of commercial customer contracts, which we expect will provide meaningful revenue commencing in the Sept qtr...

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Regions where the regulatory environment is most favourable

Cyprus

Cyprus Lotteries & Gaming Authority are the regulators of the gaming industry and Cysec (Cyprus Securities and Exchange Commission) being the regulator for investment and securities, which takes in online FX trading, options/binary options and other investment platforms.

Gibraltar

Gibraltar has developed a reputation as one of the leading online gambling jurisdictions. It began issuing betting and gaming licenses in 1998 and since then many of the leading industry brands have chosen to base their operations in the region. The Gibraltar Betting and Gaming Association is the regulator.

Malta

Malta is one of the largest online gambling jurisdictions within the European Union, having acted early to introduce legislation to deal with betting and gaming. The Malta Gaming Authority (MGA) is the single, independent, regulatory body responsible for the governance of all gaming activities in Malta, both online and land-based.

Isle of Man

Well-established licensing jurisdiction for online betting and gaming companies. Licenses are issued by the Gambling Supervision Commission (GSC), an independent statutory board established in 1962 and the requirements for a company to be licensed are very strict. The regulatory framework in place allows for close monitoring of licensees to ensure their compliance with all the relevant legislation.

Recent customer agreements

XM.Com

XM.com is currently the 2nd largest online FX trading platform in the world, with in excess of US\$12bn of daily FX transactions through their platform. According to their website it has approximately 500,000 existing customers, and we estimate they may process between 50m to 100m “financial transactions” per annum, although we note the numbers cited by Tradologic suggest it could be higher (Tradologic reports 900m transactions from 1.5m people). We expect to see first revenue from XM.com late in the September quarter.

Tradologic

On the 8th July 2016: an agreement to provide their service to Tradologic’s customer base of 70 operators, for its Binary Option “white label” platform. Tradologic cites end-users in excess of 1.5m, and over 900m “financial transactions” annually through those 70 third party platforms. We note that ISX will need to secure individual relationships with each of Tradologics customers due to privacy and regulatory requirements. The company expects first revenue to be generated from this relationship within 2-3 months, or the December quarter 2016.

Coinify

In April 2016, Coinify agreed to use iSignthis for their payment processing and identity verification activity. Coinify is a Bitcoin (and other digital currency) trading platform. The use of ISX’s services will allow their customers to transact and receive their Bitcoin purchases immediately, rather than the previously slow processes used before the agreement. That system was live and commercial for ISX in April and the author of this report successfully used the service to test the speed and simplicity of the process, in less than 90 seconds and with no complications. Although a small customer overall, it should provide some minor revenue in the June quarter.

iForex

A “pilot” agreement was signed in late May 2016 for iForex to test the ISX process, with the pilot taking place over a 2-month period for their Germany-based customers. We expect this pilot may be taking place in the current quarter, and hope to hear that the service agreement is expanded to all of the CFD & FX trading customers later in the year.

CrownBet

The company announced an agreement with CrownBet in September 2015, stating that the system will go live in 2016. It is our understanding that the system is still yet to be implemented and our discussions with CrownBet suggest that ISX’s system will likely be used to on-board their “more difficult users” (which is likely to be a small percentage of the total KYC requirement). The regulatory framework in Australia is not as stringent as those being implemented in the EU and therefore, we do not factor in significant revenue from CrownBet (or other Australian businesses) in the short term.

Earnings scenario analysis

XM.com case study – scenario range analysis

We have explored the potential revenue streams from the recently announced XM.com contract agreement, using key variables such as; new customers each year, the fee being charged per verification, the number of “financial” card based transactions each year and the fees being charged for Strong Customer Authentication (SCA) and processing (assuming 100% of the processing work was to be done by ISX – which may not always be the case).

Figure 2: XM.com scenario analysis

XM.com scenario analysis	Low	Mid	High
Existing Customers to Verify	500,000	500,000	500,000
New customers each year	100,000	200,000	250,000
Verification customers - next 12 mths	600,000	700,000	750,000
Avg verifications per person	1.0	1.0	1.0
Verification (once per annum)	2.00 €	3.00 €	4.00 €
Verification revenue	1,200,000 €	2,100,000 €	3,000,000 €
A\$/Euro exchange rate	\$0.670	\$0.670	\$0.670
Revenue A\$ - Verification	\$1,791,045	\$3,134,328	\$4,477,612
Processing - assumes 100% of business			
Transactions per customer (per week)	1.0	3.0	5.0
Transactions per customer (per annum)	52	156	260
Total Transactions per annum	31,200,000	109,200,000	195,000,000
Fee per transaction (SCA & process only)	0.05 €	0.08 €	0.12 €
Potential Revenue - Transaction	1,560,000 €	8,736,000 €	23,400,000 €
A\$/Euro exchange rate	\$0.670	\$0.670	\$0.670
Revenue A\$ - Transactions	\$2,328,358	\$13,038,806	\$34,925,373
Total Potential Revenue A\$	\$4,119,403	\$16,173,134	\$39,402,985

Source: Company Reports. Canaccord Genuity Estimates.

Earnings - scenario analysis

Our earnings assumptions are based on a wide range of variable scenarios that we believe could eventuate if management execute effectively. Given they are at such an early stage of the commercialisation phase, it is difficult to accurately forecast earnings, so we have taken the approach of offering three scenarios (low, mid & high) to outline a range of possible earnings profiles under differing assumptions. The table below outlines our modelling assumptions and resulting earnings for FY17 and FY18 (for FY16, we offer a single estimate only, given our relatively insignificant revenue expectation).

The company currently has operating expenses of approximately A\$1.0m per quarter and is expected to increase this incrementally over time. Our assumptions are for FY16 op-ex to be -A\$4.1m, rising to -A\$5.1m in FY17 year as the company ramps up its sales effort.

We expect the company will end the FY16 financial year with approximately A\$8.5m cash, which implies 8 quarters of cash at the current burn (2 years). It is our expectation that revenue will begin to ramp up in Q1FY17 (this current quarter), and as such our modelling suggests the company could reach a cash-flow break-even situation in the December 2016 quarter.

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Figure 3: Earnings scenario analysis

FYE: Jun

Earnings Forecast (A\$m - unless otherwise noted)	FY16E			FY17E			FY18E		
	Mid	Low	High	Low	Mid	High	Low	Mid	High
Revenue (A\$m)	0.0	10.8	13.6	17.5	24.6	35.3	50.5		
Wages	-2.2	-3.0	-3.0	-3.0	-3.8	-3.8	-3.8		
Marketing	-0.1	-0.2	-0.2	-0.3	-0.1	-0.2	-0.3		
R&D	-0.4	-0.2	-0.2	-0.3	-0.2	-0.2	-0.3		
Admin	-0.8	-1.1	-1.1	-1.1	-1.5	-1.5	-1.5		
Other	-0.6	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6		
EBITDA	-4.0	4.8	7.2	10.6	16.0	25.4	38.9		
D&A	-0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		
EBIT	-4.1	4.7	7.1	10.5	15.8	25.3	38.7		
Net Financing Exp	0.1	0.1	0.1	0.1	0.2	0.2	0.3		
Profit Before Tax	-3.9	4.8	7.2	10.6	16.0	25.5	39.0		
Income Tax Exp	0.0	-0.3	-0.4	-0.5	-3.4	-5.3	-8.2		
NPAT	-3.9	4.5	6.8	10.1	12.6	20.1	30.9		
EPS (€)	-0.4	0.5	0.8	1.1	1.4	2.2	3.4		
P/E Ratio	-60.0x	54.0x	34.5x	24.3x	19.4x	11.7x	7.9x		
EV/Revenue @ \$0.26	n/a	21.7x	16.5x	13.1x	9.1x	5.9x	4.1x		
EV/EBITDA @ \$0.26	-56.4x	49.1x	31.2x	21.7x	14.1x	8.2x	5.3x		

Model Summary	FY16E			FY17E			FY18E		
	Mid	Low	High	Low	Mid	High	Low	Mid	High
Customer Assumptions									
Customers - end (#)	0	6	6	6	10	10	10		
Avg Users per customer (#)	175,000	300,000	416,667	583,333	432,500	471,875	528,125		
% verification activity	5.0%	60.0%	60.0%	60.0%	65.0%	65.0%	65.0%		
Total Users (m)	0.00	0.54	0.66	0.84	2.25	2.46	2.74		
Verifications									
Verifications - per person pa	1	1	1	1	1	1	1		
Recurring verifications (m)	0.00	0.54	0.66	0.84	2.25	2.46	2.74		
Avg fee per verify (Euro)	€ 4.25	€ 4.00	€ 4.00	€ 4.00	€ 4.00	€ 4.00	€ 4.00		
Avg fee (A\$)	\$6.44	\$6.06	\$6.06	\$6.06	\$6.15	\$6.15	\$6.15		
Revenue - recurring (A\$m)	0.0	3.3	4.1	5.1	13.9	15.1	16.9		
One off fees/existing cust's (A\$m)	0.0	5.2	5.2	5.2	0.0	0.0	0.0		
Revenue - Verifications (A\$m)	0.0	8.5	9.2	10.3	13.9	15.1	16.9		
Processing of payments									
Avg transactions - cust (m)	19.5	10.4	19.5	32.5	10.4	19.5	32.5		
Customers - ISX dealing with	0	3	3	3	8	8	8		
Total potential transactions (m)	0.0	26.0	48.8	81.3	83.2	156.0	260.0		
% of cust using ISX to process	0%	60%	60%	60%	85%	85%	85%		
Total actual trns processed (m)	0.0	17.2	32.2	53.6	71.2	133.6	222.6		
Avg processing fee (Euro)	n/a	€ 0.09	€ 0.09	€ 0.09	€ 0.10	€ 0.10	€ 0.10		
Avg processing fee (A\$)	n/a	\$0.13	\$0.13	\$0.13	\$0.15	\$0.15	\$0.15		
Split of process/acquiring	100%	98%	98%	98%	90%	90%	90%		
Revenue - Processing Payments (A\$m)	0.0	2.3	4.3	7.2	10.7	20.1	33.6		
Settlement of payments									
Total potential transactions (m)	0.0	13.0	24.4	40.6	41.6	78.0	130.0		
% of customers settling w/ISX	0%	0%	0%	0%	0%	0%	0%		
Avg transaction value (Euro)	€ 250	€ 250	€ 250	€ 250	€ 250	€ 250	€ 250		
Avg transaction value (A\$)	\$379	\$379	\$379	\$379	\$385	\$385	\$385		
Potential value of all trans (A\$m)	0.0	9,941.2	18,639.7	31,066.1	32,000.0	60,000.0	100,000.0		
ISX potential share of trans (A\$m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
% of customers settle't work (%)	0	0.015	0.015	0.015	0.048	0.048	0.048		
Avg fee (%)	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%		
Revenue - Settlements (A\$m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Total Revenue - All Services (A\$m)	0.0	10.8	13.6	17.5	24.6	35.3	50.5		

Source: Company Reports, Canaccord Genuity Estimates.

Valuation – range analysis

We have provided a range of valuation possibilities for each valuation methodology, which correspond to the scenario analysis of customers, uptake of the service and resulting revenue/earnings scenarios set out on the previous page.

Figure 4: EV/EBITDA valuation range

EV/EBITDA - valuation range						
	FY17E			FY18E		
	Low	Mid	High	Low	Mid	High
EBITDA - A\$m	4.8	7.2	10.6	16.0	25.4	38.9
EV/EBITDA ratio (x)	16.1x	16.1x	16.1x	16.1x	16.1x	16.1x
EV - A\$m	77.0	115.5	170.5	256.9	409.0	626.2
Net Debt/(Cash) - A\$m	-10.6	-12.4	-15.0	-20.4	-28.4	-39.8
Equity Value - A\$m	66.4	103.1	155.5	236.5	380.6	586.3
Valuation/share (fully dil.)	\$0.07	\$0.11	\$0.17	\$0.26	\$0.42	\$0.65
Premium/(Discount) @ \$0.26/sh	-72.9%	-56.3%	-36.6%	-3.5%	61.2%	139.2%

Source: Canaccord Genuity Estimates.

Figure 5: P/E valuation range

P/E - valuation range						
	FY17E			FY18E		
	Low	Mid	High	Low	Mid	High
EPS - cents (fully dil.)	0.5¢	0.8¢	1.1¢	1.4¢	2.2¢	3.4¢
P/E ratio	34.2x	34.2x	34.2x	34.2x	34.2x	34.2x
Valuation/share (fully dil.)	\$0.17	\$0.26	\$0.38	\$0.48	\$0.76	\$1.16
Premium/(Discount) @ \$0.26/sh	-36.7%	-1.0%	40.7%	76.2%	191.9%	330.8%

Source: Canaccord Genuity Estimates.

Speculative BUY – suitable for investors with a higher risk appetite

We have a Speculative BUY rating on iSignthis (ISX), as the company is in the early stages of commercialization, has little existing revenue and will require continued contract wins with potential customers to secure the long term revenue opportunity we believe is possible. Therefore the shares of ISX have a higher risk profile, suitable for investors with an appetite for higher risk startup stage companies.

It is our expectation that investors are likely to look at forward projected FY18 earnings to base a valuation range. As such, our 12-18 month price target range is \$0.42/share to \$0.76/share, assuming effective execution of the business model and a continued favourable regulatory framework in their key regions of operation.

Valuation comparable company matrix

We have chosen a number of listed Australian/NZ and USA based financial services and financial technology companies, to derive a fair market multiple for our valuation range analysis on the previous page.

The table below shows average 2017 EV/EBITDA and P/E ratio multiples at the bottom, highlighted in green, which is how we have derived the following multiples:

- 2017 EV/EBITDA multiple = 16.1x
- 2017 P/E multiple = 34.2x

Figure 6: Comparable company valuation metrics table

Comps	Price	Mkt Cap	Fully Dil. EV	Curr Yr Revenue	Revenue Growth			EBITDA Margins			EV/EBITDA			P/E		
					2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
{S}ignithis (CGAU ests)	\$0.24	224.4	213.6	-4.0	n/a	100%	160%	n/a	52.9%	72.1%	-52.9	29.8	8.4	-55.4x	31.9x	10.8x
Best Comparables -																
eMerchants - ASX	\$1.25	303.0	239.9	14.4	82.9%	160.6%	13.7%	19.5%	28.7%	n/a	46.6	12.1	15.0	132.8x	74.0x	45.5x
Mint Payments - ASX	\$0.09	51.2	44.6	3.9	107.7%	78.8%	40.6%	-45.0%	11.2%	31.8%	-12.4	27.9	7.0	-11.1x	50.0x	9.3x
Zero - NSX	\$17.80	2,439.1	2,250.9	207.1	50.2%	40.0%	33.9%	-12.4%	0.2%	10.4%	-58.2	2,677.0	37.2	-36.0x	-54.5x	196.9x
American Express - US	\$59.48	56,567.4	82,318.7	32,818.0	-2.3%	-0.7%	3.2%	n/a	n/a	n/a	n/a	n/a	n/a	10.9x	10.7x	9.6x
Fiserv Inc - US	\$108.71	24,169.5	28,359.8	5,254.0	6.2%	4.3%	3.4%	34.1%	35.6%	36.2%	14.9	13.7	13.0	24.6x	21.8x	19.9x
Global Payments - US	\$72.06	11,097.2	10,571.7	2,143.9	47.4%	12.7%	n/a	34.2%	31.5%	n/a	9.8	9.4	n/a	20.8x	16.9x	n/a
Mastercard - US	\$86.83	95,367.1	99,063.6	9,667.0	8.5%	10.7%	12.1%	57.4%	58.7%	59.3%	16.5	14.5	12.8	24.5x	21.0x	17.9x
PayPal - US	\$35.93	43,548.2	39,051.3	9,248.0	15.8%	15.6%	14.7%	26.4%	26.5%	26.5%	13.8	11.9	10.4	24.0x	20.4x	17.6x
Square Inc - US	\$9.00	3,049.7	2,653.7	452.2	42.6%	30.1%	25.8%	2.1%	9.6%	15.6%	199.4	33.0	16.1	-134.3x	103.1x	34.2x
Total System Services - US	\$52.57	9,652.5	10,383.5	2,499.3	23.4%	11.3%	22.5%	33.8%	34.0%	29.9%	10.0	8.9	8.2	18.6x	16.4x	14.7x
Varivent Inc - US	\$57.85	9,044.0	14,079.9	1,681.7	10.1%	8.1%	8.5%	48.1%	48.6%	49.7%	15.8	14.5	13.0	21.9x	19.5x	17.3x
VISA - US	\$74.06	176,605.2	179,170.7	13,880.0	5.3%	10.6%	11.6%	70.4%	73.5%	74.0%	17.4	15.1	13.4	26.7x	22.8x	19.5x
Selected Comparable Multiples					28.6%	20.1%	17.6%	24.9%	32.9%	37.1%	33.2	16.1	12.1	14.5x	34.2x	21.8

Source: Factset, Canaccord Genuity estimates

Issued Capital, Escrow and Shareholders

Issued capital assumption – fully diluted

In addition to the un-restricted 290.2m shares, there are another 308.3m shares in voluntary escrow (see below) and a further 336.7m Performance Shares that we assume will be issued to the founders, as set out below.

As a result, we use a fully diluted share capital outstanding for all our calculations of 935.2m shares.

Performance shares

There are three tranches of Performance Shares subject to hurdles, which we believe are likely to be issued within the 3 year timeframe set for those milestones to be achieved. The hurdles are:

- 1) Class A : 112.2m shares : annualized \$5m run-rate in a 6 month period
- 2) Class B : 112.2m shares : annualized \$7.5m run-rate in a 6 month period
- 3) Class C : 112.2m shares : annualized \$10m run-rate in a 6 month period

In total, 336.7m Performance Shares are likely to be issued to the founders of the business over the coming 12-18 months based on our estimates.

Escrow shares

There are 308.3m shares subject to voluntary escrow for a period of 24 months from the re-quotations of the listed shell company within which the ISX entity became a public company. These shares will be released from escrow on 13th March 2017.

Top shareholders

Figure 7: Top shareholders

Top Shareholders	Shares	%
iSignthis Ltd	308,333,333	32.97%
Citicorp Nominees Pty Limited	35,105,710	3.75%
Ubs Nominees Pty Ltd	21,858,126	2.34%
National Nominees Limited	18,519,796	1.98%
Mycatmax Pty Ltd	17,650,000	1.89%
Brispot Nominees Pty Ltd	7,014,156	0.75%
Ms Merle Smith & Ms Kathryn Smith	6,233,955	0.67%
Cs Fourth Nominees Pty Limited	5,000,000	0.53%
Ms Merle Smith & Ms Kathryn Smith	4,000,000	0.43%
Mahsor Holdings Pty Ltd	3,940,000	0.42%
Bannaby Investments Pty Limited	3,900,000	0.42%

Source: Company Reports. Canaccord Genuity estimates.

Appendix 1: Patent protection legal opinion

Patent protected IP

iSignthis appears to have established an extremely valuable competitive advantage. To protect the defensibility of the IP at the core of the company's technology, it has registered over twenty relevant patents across multiple jurisdictions. As part of due diligence on iSignthis, Canaccord enrolled an independent Patent Attorney to review these patents, who reported: "...Accordingly, in my view the granted US, Australian, and certified Australian Innovation patents cover the iSignthis system disclosed..."

It is important to note that the iSignthis method bears some similarities to the method adopted by PayPal™ to meet KYC requirements. The customer experience is comparable, and both rely upon similar legal principles. A key difference however is that PayPal™ CREDITS two random amounts to the customer's bank account, contrasting with iSignthis which DEBITS two random amounts. While the PayPal credits can take a few days to show on an online statement, the iSignthis DEBITS generally appear within seconds (sometimes longer), making the KYC process extremely rapid.

As there is some similarity between the two processes, Canaccord Genuity requested the Patent Attorney to review the online file histories of these patents and patent applications to determine whether there was any activity related to PayPal:

"During prosecution of both the US patent and the Australian Innovation Patent, the main document cited as relevant to whether the invention was patentable was a patent application owned by PayPal, Inc. which was published as US Patent Publication 2002/004772. In both the Australian Innovation Patent and the US Patent, iSignthis provided arguments which convinced the Examiner that the claims of the patent were patentable when compared to the Templeton document and other prior art documents."

These reports give confidence that the patents not only secure the defensibility of the company's core IP, but that any similarities with PayPal™ have been overcome by iSignthis throughout the patent registration process.

Appendix 2: Coinify test transaction

Canaccord Genuity went through the iSignthis/Coinify onboarding verification and payment process to test the speed and simplicity of the platform. The whole process took around 60 seconds and was simple, unobtrusive and required no uploading of documents or screen shots.

Figure 8: Steps 1 and 2 – joining the platform and entering card details (a suitable third party Bitcoing eWallet had already been setup)

The screenshot displays the Coinify website interface. At the top, there is a navigation bar with the Coinify logo and a search icon. Below the navigation bar, there are four tabs: 'Buy bitcoin with bank deposit', 'Buy bitcoin with Card payment', 'Sell bitcoin', and 'Open orders'. The 'Buy bitcoin with Card payment' tab is selected.

The main content area is divided into two columns. The left column is titled 'Buy bitcoin with Card payment' and contains a form with the following fields: 'Amount to buy Bitcoin for:', 'Currency:', 'Bitcoin address:', and a link 'Don't have a Bitcoin address? Get one here.'. Below the form, there is a section 'Buy larger amounts?' and 'Accept Terms:' with a checkbox labeled 'Accept Terms' and a 'Buy bitcoin' button.

The right column is titled 'About Card payment' and contains text: 'March 23rd, 2016: As of today you will be redirected to our partner iSignThis to complete your card payment. This new identification step helps us ensure the security of your payment and protects you from online fraud. If you need help, please contact our support . Price: 1 Bitcoin approximately including 3.9% fee: 403.22 EUR'. At the bottom right of this section, there are links for 'English' and 'Live chat'.

The bottom section is titled 'Payment details' and contains the text: 'Please review the transaction details are correct; and select the card you would like to use from your previously stored cards.'. It features a card image on the left and a 'Card details' form on the right. The card image shows a blue card with the name 'CHRISTOPHER NORTHWOOD' and the number '4557'. The 'Card details' form includes fields for 'Name' (Christopher Northwood), 'Address', 'Card number', 'Month', 'Year', and 'CW'. A 'Process Card' button is located at the bottom of the form.

At the bottom left of the page, there is a logo for 'Powered by iSignthis' which is circled in red. At the bottom right, there are links for 'Privacy', 'Legal', 'About', and a 'Need help?' button.

Source: Company Reports, Canaccord Genuity estimates

Figure 9: Step 3 – the split charge appeared in the online bank statement within seconds (converted for A\$)

Verify your card

To protect you from online fraud, Coinify requires verification that you are the true owner of this card.

- Check your account statement
- Retrieve the 2 secret amounts from your bank or card provider
- Enter the 2 secret amounts into the fields provided.

iSignthis Help

Credit or Account Statement

Bank Charge 1	€9.85
Bank Charge 2	€0.15
Total	€10.00

My transaction amount
€10.00 (EUR)

Enter Debit/Charge amount (Secret 1) ?

14.55

Enter Debit/Charge amount (Secret 2) ?

0.85

Verify card

Powered by **iSignthis**
Privacy Legal About
Need help?

Internet Banking
Chris

Menu
Logout

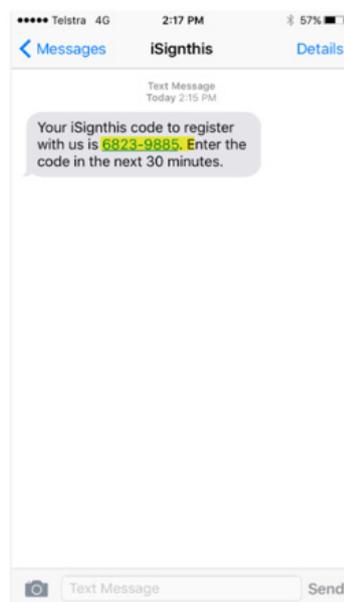
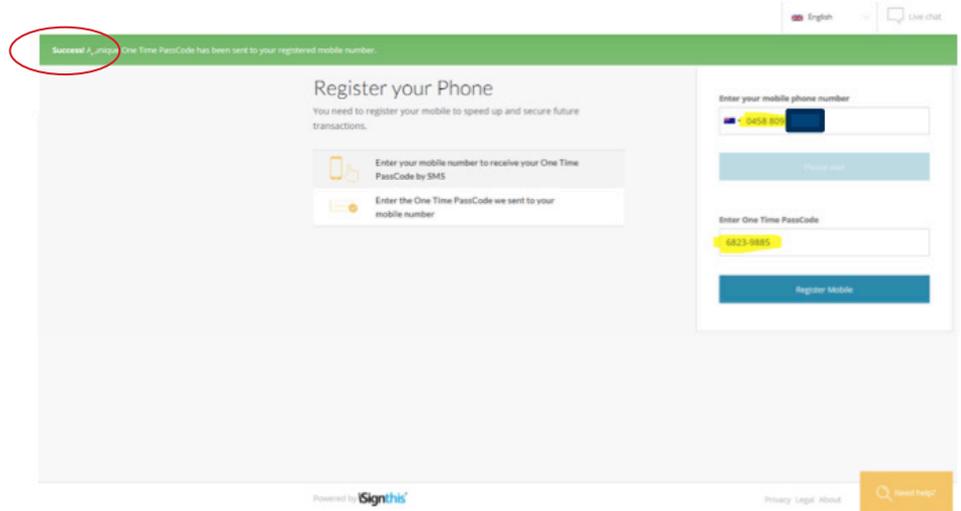
Transaction history
Account details

All transactions
Show filter

04 May 2016	coinify.com Herlev	0.85 DR
PURCHASE AUTHORISATION		
Ref.#		
4557016838300411		
04 May 2016	coinify.com Herlev	14.55 DR
PURCHASE AUTHORISATION		
Ref.#		
4557016838300411		

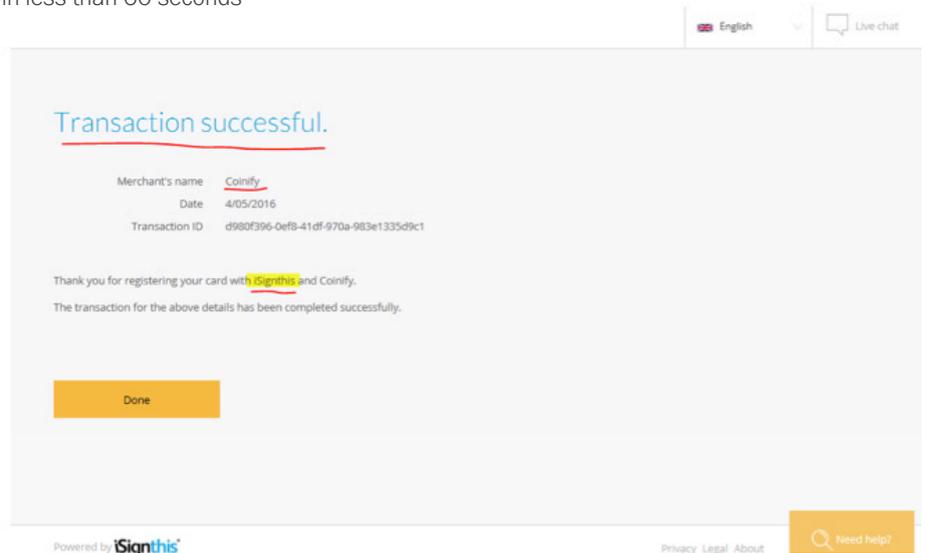
Source: Company Reports, Canaccord Genuity estimates

Figure 10: Step 4 – register my mobile phone numbers (an AML regulated device) and enter the verification code seconds later



Source: Company Reports, Canaccord Genuity estimates

Figure 11: Confirmation of successful transaction – the whole process could be completed in less than 60 seconds



Source: Company Reports, Canaccord Genuity estimates

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