

## FY17 RESULT, NEXT STEP COMMERCIALISATION

## In line, with transaction flow to accelerate

Isignthis Ltd (ISX) reported its full-year result that was in line with our expectations. Revenue was c\$1.4m, well up on the pcp, but included a c\$0.6m R&D tax concession (c\$0.24m pcp). The underlying loss was c\$4.7m and the statutory result was a loss of c\$5.7m, down from c\$9.2m for the pcp. ISX secured funding agreements with NAB and Worldline in Europe, as well as an agreement with Japan Credit Bureau (JCB) to offer card acquiring, settlement and processing services to European Union / European Economic Area (EU / EEA) merchants for JCB's 106m card members. It received its e-Money Institution License enabling ISX to provide card acquiring and issuing services within the EEA. XM went "live" with XM.com's UK business and further rollout is expected next month. XM's global business has c1m clients. ISX also went "live" with Ixaris (payments provider) and Borgun (Icelandic card acquirer). ISX's technology, regulatory and partnering developments over the year mean that ISX is the only Company to offer a full end to end, globally compliant payment and identity verification solution for regulated merchants under the 4<sup>th</sup> AMLD / PSD2. The challenge for ISX now is to demonstrate it can monetise its position and generate rapid revenue growth. We maintain our forecasts and valuation at \$0.50/sh. BUY

- We note that at this point, significant uncertainty exists around the pace of ISX's development and subsequent forecasts, primarily due to lead times on agreements with large multinational customers. We expect to see growth in the September Qtr, but clarity around ISX's trajectory should be clear by the December Qtr release. We also note that ISX needs to generate c\$10m in annualised revenues over a six-month period by 30 June 2018 to qualify for its c336m director performance shares.
- The focus for ISX in FY18 will be to roll-out a number of contracted customers that have been undertaking integration processes through 2H17 / 1H18. ISX will also be aiming to complete the global roll-out of XM.com. We should also see progress on the acquisition of settlement books of varying size, in both regulated and unregulated sectors in multiple jurisdictions, off the back of preventing credit card fraud. A recent example was the announcement regarding contracting of settlement services for two settlement books totalling over c\$20m in Australia, belonging to online retailers. That acquisition should generate net revenue of c\$0.23m annualised with a charge of c91bp. We should see more of these in 1H18.

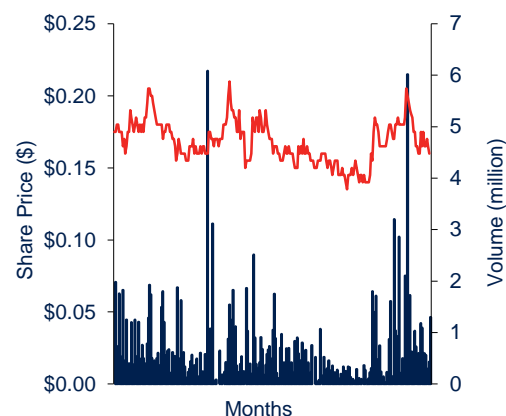
Year End June 30	2016A	2017A	2018F	2019F	2020F
Reported NPAT (\$m)	(9.5)	(6.7)	9.1	21.5	56.0
Recurrent NPAT (\$m)	(4.4)	(4.7)	9.1	21.5	56.0
Recurrent EPS (cents)	(0.7)	(0.8)	0.9	2.1	5.6
EPS Growth (%)	na	na	na	136.4	160.7
PER (x)	(21.9)	(21.0)	17.7	7.5	2.9
PEG	na	na	na	0.1	0.0
EBITDA (\$m)	(4.7)	(5.7)	13.0	30.6	79.7
EV/EBITDA (x)	(20.3)	(17.2)	12.3	5.2	2.0
Free Cashflow	(4.2)	(6.5)	6.5	17.4	50.5
FCFPS (cents)	(0.7)	(1.1)	0.6	1.7	5.0
PFCF (x)	(22.9)	(15.2)	24.7	9.2	3.2
DPS (cents)	0.0	0.0	0.5	1.0	3.0
Yield (%)	0.0	0.0	3.1	6.5	18.7
Franking (%)	100.0	100.0	100.0	100.0	100.0

31 August 2017

12mth Rating		BUY
Price	A\$	0.17
Target Price	A\$	0.50
12mth Total Return	%	203.0
RIC: ISX.AX		BBG: ISX AU
Shares o/s	m	621.8
Free Float	%	44.8
Market Cap.	A\$m	102.6
Net Debt (Cash)	A\$m	-3.4
Net Debt/Equity	%	na
3mth Av. D. T'over	A\$m	0.12
52wk High/Low	A\$	0.22 / 0.13
2yr adj. beta		0.49
<b>Valuation:</b>		
Methodology		DCF
Value per share	A\$	0.50

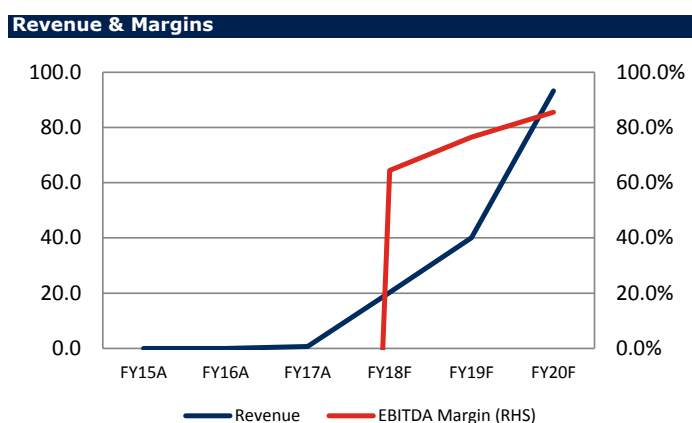
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## 12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	-11.1	10.3	-8.6
Rel. S&P/ASX 300	-10.6	11.1	-11.9

<b>Isignthis (ISX)</b>	<b>\$0.16</b>			
<b>Cash Flow (\$m)</b>	<b>2017A</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
<b>Adj. Operating Cashflow</b>	<b>-5.3</b>	<b>6.9</b>	<b>18.2</b>	<b>51.6</b>
Capex	0.0	-0.5	-0.5	-0.5
Capitalised R&D	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0
Earn-out Payments	-0.5	0.0	0.0	0.0
<b>Investing Cashflow</b>	<b>-0.6</b>	<b>-1.0</b>	<b>-1.0</b>	<b>-1.0</b>
Equity Raised	0.4	0.0	0.0	0.0
Increase (Repay) Debt	0.0	0.0	0.0	0.0
Distributions Paid	0.0	-1.7	-8.5	-20.1
Other	0.0	0.0	0.0	0.0
<b>Financing Cashflow</b>	<b>0.4</b>	<b>-1.7</b>	<b>-8.5</b>	<b>-20.1</b>
Change in Cash Held	-5.5	4.1	8.7	30.5
<b>Closing Cash Balance</b>	<b>3.4</b>	<b>7.5</b>	<b>16.3</b>	<b>46.8</b>



<b>Valuation</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
<b>DCF</b>			
Beta			2.0x
WACC			18.0%
<b>DCF per share</b>			<b>\$0.50</b>
<b>Capitalisation of future earnings</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
EBITDA	13.0	30.6	79.7
EV / EBITDA multiple	15.0x	15.0x	15.0x
<b>Enterprise value</b>	<b>195.6</b>	<b>459.0</b>	<b>1195.8</b>
Net cash / (debt)	7.5	16.3	46.8
<b>Equity value</b>	<b>203.1</b>	<b>475.2</b>	<b>1242.6</b>
<b>Equity value per share</b>	<b>\$0.20</b>	<b>\$0.47</b>	<b>\$1.24</b>

<b>Directors &amp; substantial shareholders</b>	
<b>Name</b>	<b>Position</b>
Timothy Joseph Hart	Independent Chairman
Nickolas John Karantzis	Managing Director
Barnaby Ian Robert Egerton-Warburton	Independent Non Exec Director
Scott William Minehane	Independent Non Exec Director

<b>Shareholder</b>	<b>No. shares</b>	<b>%</b>
iSignthis Ltd	311.7	50.1
Deutsche Bank	31.9	5.1
<b>Total substantial</b>	<b>343.6</b>	<b>55.2</b>

<b>Profit &amp; Loss (\$m)</b>	<b>Year end June</b>			
	<b>2017A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
Sales Revenue	0.7	20.2	40.0	93.2
COGS	0.0	-1.0	-2.0	-4.7
<b>Gross Profit</b>	<b>0.6</b>	<b>19.2</b>	<b>38.0</b>	<b>88.6</b>
Operating Expenses	-5.9	-6.2	-7.4	-8.8
Associates	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>-5.3</b>	<b>13.0</b>	<b>30.6</b>	<b>79.7</b>
Depn & Amort	0.5	-0.2	-0.3	-0.4
<b>EBIT</b>	<b>-4.8</b>	<b>12.9</b>	<b>30.3</b>	<b>79.4</b>
Net Interest	0.1	0.1	0.4	0.7
<b>PBT</b>	<b>-4.7</b>	<b>13.0</b>	<b>30.7</b>	<b>80.0</b>
Tax expense	0.0	-3.9	-9.2	-24.0
<b>NPAT (Underlying)</b>	<b>-4.7</b>	<b>9.1</b>	<b>21.5</b>	<b>56.0</b>
Adjustment	-1.0	0.0	0.0	0.0
<b>Statutory NPAT</b>	<b>-5.7</b>	<b>9.1</b>	<b>21.5</b>	<b>56.0</b>
<b>NPAT (Adjusted)</b>	<b>-4.7</b>	<b>9.1</b>	<b>21.5</b>	<b>56.0</b>

<b>Segment Revenue (\$m)</b>	<b>2017A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
Average User No. (m)	1.0	2.8	3.8	4.8
Average Transactions Processed (m)	0.5	12.5	28.2	50.0
Verification Catch-Up Revenue	0.2	3.0	1.4	1.8
Verification Annuity Revenue	0.4	9.4	19.8	25.9
Transaction Processing Revenue	0.2	5.5	7.9	17.4
Settlement Revenue	0.0	2.3	10.9	48.2
<b>Total Revenues</b>	<b>0.8</b>	<b>20.2</b>	<b>40.0</b>	<b>93.2</b>

<b>Balance Sheet (\$m)</b>	<b>2017A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
Cash	3.4	7.5	16.3	46.8
PP&E	0.1	0.5	0.8	1.1
Intangibles	1.3	1.8	2.2	2.6
Other	1.6	4.1	7.8	12.9
<b>Assets</b>	<b>6.4</b>	<b>14.0</b>	<b>27.1</b>	<b>63.3</b>
Payables	0.6	0.7	0.9	1.2
Borrowings	0.0	0.0	0.0	0.0
Other liabilities	0.5	0.5	0.5	0.5
<b>Liabilities</b>	<b>1.0</b>	<b>1.2</b>	<b>1.4</b>	<b>1.6</b>
<b>Shareholders Funds</b>	<b>5.4</b>	<b>12.8</b>	<b>25.8</b>	<b>61.7</b>

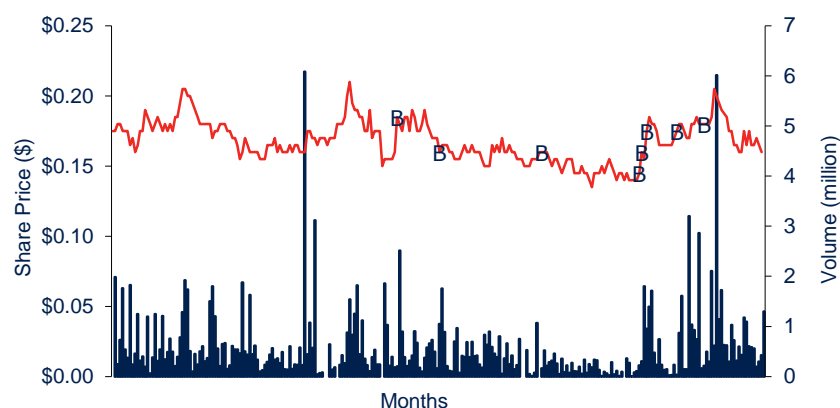
<b>EPS &amp; DPS</b>	<b>2017A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
EPS (Reported)	-0.9	0.9	2.1	5.6
EPS (Adjusted)	-0.8	0.9	2.1	5.6
EPS growth (%)	na	na	136.4	160.7
DPS	0.0	0.5	1.0	3.0
Payout Ratio (%)	0.0	55.6	48.3	53.7
Dividend Yield (%)	0.0	3.1	6.5	18.7

<b>Ratios</b>	<b>2017A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
<b>Profitability</b>				
NPAT Growth (%)	na	na	136.4	160.7
Sales Growth (%)	3082.4	2937.4	97.8	132.9
EBITDA Margin (%)	na	64.4	76.4	85.5
ROIC (%)	na	171.4	222.6	371.7
ROE (%)	na	71.3	83.4	90.8
ROA (%)	na	93.4	112.8	125.9
Tax Rate (%)	0.0	30.0	30.0	30.0

<b>Valuation</b>	<b>2017A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
Price / Earnings (x)	-21.0	17.7	7.5	2.9
EV / EBITDA (x)	-29.9	11.7	4.7	1.4
Price / FCF (x)	-17.4	27.9	9.5	3.2
Price / NTA (x)	24.1	14.6	6.8	3.6

<b>Balance Sheet</b>	<b>2017A</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
Net Debt / Equity (%)	na	na	na	na
Net Debt / Assets (%)	na	na	na	na
Interest Cover (x)	na	na	na	na
NTA (\$/share)	0.0	0.0	0.0	0.0
Shares (m)	1002.8	1002.8	1002.8	1002.8

## Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
06 Feb 17	Research Note	0.50	0.16	B	
01 Mar 17	Research Note	0.50	0.17	B	6.3%
27 Apr 17	Research Note	0.50	0.17	B	-2.9%
21 Jun 17	Hot off the Press	0.50	0.14	B	-15.2%
22 Jun 17	Hot off the Press	0.50	0.16	B	14.3%
26 Jun 17	Hot off the Press	0.50	0.18	B	9.4%
12 Jul 17	Hot off the Press	0.50	0.17	B	-2.9%
27 Jul 17	Hot off the Press	0.50	0.18	B	5.9%
	Current Share Price		0.16		-11.1%

**Stock recommendations:** Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.



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