

INITIATING COVERAGE

2017 is the year of delivery for this blue sky prospect

- iSignthis Ltd (ISX) is a technology company focused on managing the issue of identity verification for regulated merchants. These merchants are under increasing scrutiny in the wake of a spate of terrorist incidents across Europe in recent years. Sectors such as financial market trading and online gaming that are massive in size, are being targeted for increased scrutiny through updated regulatory frameworks. ISX has highlighted a range of other sectors that could be beneficiaries from ISX's technological offering, including travel and real estate that also fall under the umbrella of regulated merchants. While ISX's automated and patented identity verification process should provide a strong annuity income profile, it really acts as a Trojan Horse into the lucrative payment facilitation functions (processing and settlement) that have significant blue sky potential given the size of the sectors being targeted. ISX has built its technological and corporate foundations over the past few years and is now ready to demonstrate its commercial prospects. ISX is unique in that it marries automated identity verification for online regulated merchants with secure online payment facilitation in a quick, effective and cost competitive fashion. We value ISX at \$0.50 / share. BUY**
- Across 2015 and 2016, ISX has demonstrated cost discipline as it establishes its model and opportunities, burning a modest c\$4m pa. Revenues commenced in 1QFY17 and should ramp-up over 3QFY17 and 4QFY17 to highlight developing traction, before stepping up further in FY18.
- Customers and partners signed to date, such as XM.com and NAB, are strategic in nature. They should deliver substantial revenues over FY18 and FY19, leaving undemanding requirements to meet our forecasts over this period. We expect ISX to generate c\$5.7m in revenue for FY17 and be profitable with revenues ramping up to c\$20.2m in FY18 and then c\$40m in FY19. The online nature of ISX's processes means that margins are high, but we find the potential operating leverage to be exceptional.
- Risks for investors revolve around execution, integration and demonstrating that its offering is compelling and benefits from the regulatory tailwinds established, bear out in reality. Managing growth and demonstrating that operating leverage is as significant as it appears, are also key issues to satisfy for investors in the short-to-medium term.

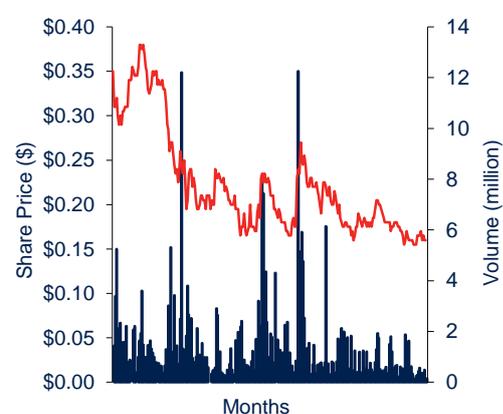
Year End June 30	2015A	2016A	2017F	2018F	2019F
Reported NPAT (\$m)	(9.6)	(9.2)	0.3	9.1	21.5
Recurrent NPAT (\$m)	(1.9)	(4.4)	0.3	9.1	21.5
Recurrent EPS (cents)	(0.6)	(0.7)	0.0	0.9	2.1
EPS Growth (%)	na	na	na	2,437.6	135.3
PER (x)	(27.0)	(21.9)	445.1	17.5	7.5
PEG	na	na	na	0.0	0.1
EBITDA (\$m)	(1.5)	(4.3)	0.3	13.0	30.5
EV/EBITDA (x)	(34.4)	(22.4)	490.1	12.4	5.3
Free Cashflow	0.9	(3.7)	(0.3)	7.1	17.4
FCFPS (cents)	0.3	(0.6)	(0.0)	0.7	1.7
PFCF (x)	54.8	(25.6)	(483.5)	22.6	9.2
DPS (cents)	0.0	0.0	0.0	0.5	1.2
Yield (%)	0.0	0.0	0.0	3.1	7.3
Franking (%)	0.0	100.0	100.0	100.0	100.0

6 February 2016

12mth Rating		BUY
Price	A\$	0.16
Target Price	A\$	0.50
12mth Total Return	%	212.5
RIC: ISX.AX		BBG: ISX.AU
Shares o/s	m	290.2
Free Float	%	40.0
Market Cap.	A\$m	46.4
Net Debt (Cash)	A\$m	-9.0
Net Debt/Equity	%	na
3mth Av. D. T'over	A\$m	0.11
52wk High/Low	A\$	0.335 / 0.145
2yr adj. beta		0.26
Valuation:		
Methodology		DCF
Value per share	A\$	0.50

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12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	6.2	-5.6	-44.3
Rel. S&P/ASX 300	6.2	-5.6	-44.3

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BACKGROUND

ISX was founded in 2013 to research a means of preventing Card Not Present (CNP) fraud in order to protect consumers and merchants from the growing problem of online fraud. In addition to patented technology, this research has led ISX to be on the cusp of being a global leader in online, dynamic verification of identity and financial transactions via regulated e-payment instrument authentication. This electronic verification method is available to nearly half the world's population across more than 200 countries.

Identity verification is sourced from data based on regulated e-payment instruments including credit cards, debit cards, direct debit, e-mandate and wire transfers. Not only does ISX provide the legal basis for compliance to meet customer identification requirements for obligated entities, but it also delivers operational benefits for any online business seeking to reduce customer on-boarding friction, mitigating CNP fraud, monitoring transactions and streamlining operations.

As regulations for online transactions grow stricter to combat fraud and money laundering, the challenge for online payment service providers to comply whilst maintaining a user-friendly transaction process increases. ISX aims to meet increasing compliance requirements without adding complexity to the transaction process.

WHAT PROBLEM IS ISX TRYING TO SOLVE?

ISX's online identity verification tool is designed to ensure that highly regulated businesses understand who their customer actually is, with ISX screening them on sanction lists and thus enabling businesses to avoid illegally sourced funds being laundered through their operations, which may then be used for criminal or terrorism purposes.

In defining the problem, one needs to appreciate its magnitude. The United Nations Office on Drugs and Crime (UNODC) conducted a study to determine the magnitude of illicit funds generated by drug trafficking and organised crimes and to investigate to what extent these funds are laundered. The report estimates that in 2009, criminal proceeds amounted to c3.6% of global GDP with c2.7% of global GDP being laundered. This equates to cUS\$1.6tn being laundered, approximately the size of Australia's GDP.

When a criminal activity generates substantial profits, the individual or group involved need to find a way to control the funds without attracting attention to the underlying activity, or the persons involved. This is done by disguising the sources, changing the form, or moving the funds to a place where it is less likely to attract attention.

In recent years, highly regulated merchants have been targeted to launder illegally sourced funds. In particular there is concern that high frequency financial market trading and online-gaming are key sectors in which funds are being laundered.

One particular area of concern within the money laundering topic is identity theft.

Identity theft has been quantified to impact:

- c.8m victims in the US costing cUS\$45bn in 2010
- In the UK, identity fraud losses equated to GBP1.3bn across 80,000 victims. By 2009, there had been a c32% increase in identity fraud, with c85,000 victims of impersonation fraud, 24,000 victims of ID takeover
- In Australia, identity fraud cost cA\$1.1bn in 2002. In 2008 the ABS concluded that c3.1% of the Australian population had been victims of identity fraud

Another metric is loss to card fraud, which amounted to cUS\$16bn globally in 2014, which was up c19% according to the Nilson Report in 2015.

In 2015, there were c85bn mobile and e-commerce payment transactions, representing a c35% increase over 2014, according to the World Payments Report.

ISX's online identity verification tool is unique, easy and cheap to use, as well as patented (circa 20 live patents registered worldwide (USA, Australia, Portugal, South Africa, New Zealand and Singapore). It has the capacity to prevent money laundering and identity theft. In view of its functionality, significant financial services and financial trading firms are seeing potential to assist them in preventing significant losses to their own businesses, prevent or impede criminal activity and comply with tighter regulation around the world.

REGULATORY FRAMEWORK DRIVES ISX MOMENTUM

PCI-DSS

In March 2016, ISX announced that version 2 of its 'Paydentity' cloud-based identity and payment processing services was certified to PCI (Payment Card Industry) DSS (Data Security Standard) v3.1 Level 1. This allows ISX to offer payment processing services across all major card schemes. The certification covers technical, security and operational procedures of ISX. ISX also advised that it was registered with VISA as a "Card Authentication Service".

European Union (EU) Region – 4th AML / CTF Directive

The 4th EU Anti-Money Laundering (AML) Directive was officially adopted by the European Parliament in May 2015. The purpose of the 4th Directive is to remove any ambiguities identified in the previous Directive and associated legislation and improve consistency of AML and counter-terrorism financing (CTF) rules across all EU Member States. The 4th Directive takes into account recommendations of the Financial Action Task Force (FATF) from 2012. The new legislation becomes effective in June 2017, although the European Commission (EC) had proposed that this deadline be brought forward to the end of December 2016. The 4th Directive outlines a number of amendments to the 3rd Directive, with the primary modifications relating to areas of:

- Risk based approach
- Ongoing monitoring
- Beneficial ownership
- Customer due diligence (CDD)
- Politically exposed persons (PEP)
- Third party equivalence
- Coverage of the gambling sector and tax crimes

In December 2015, the EC proposed a Directive on combatting terrorism which criminalises terrorist financing and the funding of recruitment, training and travel for terrorism purposes.

The updated guideline for the 4th Directive and a new proposal for the 5th Directive include 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 countries
- Strengthening measures against 'pre-paid' cards by lowering the thresholds for identity verification from EUR250 to EUR150, opening KYC (Know Your Customer) requirements up to a greater range of online transactions
- Increasing the power of Financial Intelligence Units, including access to information on holders of bank accounts.

Article 11, introduces coverage over gambling services, as the use of gambling services to launder the proceeds of criminal activity is of concern to the EC. Subsequently, there is now an obligation on the providers of gambling services to apply customer due diligence measures for single transactions amounting to EUR 2,000 or more, whether the transaction is carried out in a single transaction or in several operations which appear to be linked. Member states need to apply the same threshold to the collection of winnings, wagering a stake, including by the purchase and exchange of gambling chips, or both. Gaming customers of ISX would be caught under this provision and be required to implement this high level of CDD, and nearly all customers of such operators would be assumed to be wagering / gaming >EUR 2,000.

Customer Due Diligence (CDD)

Article 13 of the 4th Directive refers to measures of CDD consisting of identifying the customer and verifying the customer's identity on the basis of documents, data or information obtained from a reliable and independent source. It also refers to conducting ongoing monitoring of the business relationship scrutinising transactions undertaken throughout the course of the relationship. This is 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.

Simplified Due Diligence (SDD)

SDD is the lowest level of due diligence that can be completed on a customer. This is appropriate where there is little opportunity or risk of ones services or customers being involved in money laundering or terrorist financing. Subsequently, the only requirement is to confirm the identity of the customer. In the case of ISX, this would be satisfied by its online on-boarding tool confirming the division of payment as control of the appropriate bank account.

Enhanced Due Diligence (EDD)

The 4th AML Directive represents a tightening in AML controls. Unlike the 3rd AML Directive, all remote transactions must be subject to EDD, with SDD no longer automatic in certain circumstances or industries. The 3rd AML Directive took a permissive approach, allowing blanket exemptions for certain entities, such as financial institutions and listed companies whose securities are admitted to trading on a regulated market:

- Article 15 provides that the application of SDD can only be justifiable on a risk-sensitive assessed basis
- Article 16 provides that factors influencing a risk assessment include: types of customer; geographic areas; and particular products, services, transactions or delivery channels
- Article 18 establishes the basic requirement for EDD for customers in high risk countries, as well as in other cases of high risk, identified by Member States or obliged entities. Member States shall require obliged entities to apply EDD measures to manage and mitigate risks appropriately
- Annex III provides a non-exhaustive list of factors and types of evidence that potentially indicate higher-risk situations that indicate when EDD should be used by an obliged entity:
 - Customer risk factors
 - Product, service, transaction or delivery channel risk factors, such as non-face-to-face business relationships or transactions without certain safeguards, such as electronic signatures
 - Geographical risk factors

ISX's online on-boarding tool satisfies EDD through the division of payment amounts evidencing control of the source bank account and the upload of documents from one's smart phone where the nature of the location and merchant risk requires it. The second element of EDD may also be satisfied from an electoral roll check or credit reference check. Internal electronic systems and an OCR service (Optical Character Recognition) ensure that documents uploaded are legitimate.

The Cyprus Securities Exchange (CySEC) is a critical regulator within the EU on these issues, as many potential customers of ISX are domiciled in that location. The Directive DI144-2007-08 of 2016 provides strong guidance on remote verification. The Directive increases the level of compliance required, with documents needing to be either original, certified as true copies or used in support of and with other remote verification methods.

The following methods used to verify a customer's identity, together with the quality and reliability of the source data, fit directly into ISX's sphere:

- An authenticated transaction from an EU or equivalent financial institution drawn from an account in the customer's name. The ISX process confirms source account and name as well as proving "control" of the account.

- Confirmation of home or office telephone listed in a reliable public directory. ISX verifies mobile (and optionally landline) via automated means. CySEC have confirmed to ISX that the requirements are verification of a fixed line service, which can be incorporated into the ISX service using automated text to speech functionality.
- Electronic verification data must conform to EU privacy / data laws in how they are sourced, and be registered with an EU data protection agency. This should not be particularly difficult, but US Technology firm, PayPal faced some difficulty in its Turkish operation, as it failed to store data in Turkey to the requirements of Turkish law, in the first half of 2016, losing its Turkish license as a result. ISX is registered with Cypriot, Dutch and UK data agencies.

These and other methods will be interesting to observe in practise as it requires quality and consistency of data that may not be commonly available, with the directive drawing from the best practise elements from regulators outside the EU.

In addition to quality, completeness, validity and reliability of the information that is sourced, the directive also requires that the review process includes both positive and negative information. In this regard, ISX use data and metadata derived directly from payment transactions that deliver:

- **Security** – data sourced via the payment network is secure. The integrity of the payment message is considered secure, through application of PCI DSS requirements or interbank transfer protocols.
- **Accuracy** – the origin of the issuer is known via either the Issuer Identification Number (IIN) on the card, or via the interbank transfer protocols.
- **Currency** – the source is considered reliable as the account is active at the time of initiating the ISX process, and is not based on historic data that may no longer be accurate or may have been compromised.
- **Comprehensive** – the data source is considered to have implemented its own initial and ongoing PEP and Sanction screens, and ensure that lost, compromised or stolen accounts are revoked immediately upon notification to the account holding customer.
- **Reliance** – the data is maintained by the issuer pursuant to legislation, and ISX ensure that the issuer is not located in a sanctioned, non-cooperative or high risk jurisdiction, and that the bank has not been subject to any recent and relevant fines, undertakings or regulatory non-conformances themselves, and that the issuer meets any equivalency requirements set out in the regulation under which ISX client's operate.
- **Authentication** – dynamic challenge / response authentication is used to verify that the person controls the account and initiated the payment transaction.

Strong Customer Authentication (SCA)

The EU has initiated a process whereby a merchant / organisation will be required to monitor all transactions to ensure that one can verify the user engaging in a financial transaction, through the use of a two-step identity verification process.

In December 2015, the EU announced the second Payment Service Directive (PSD2) which is required to be passed into legislation across the Member States within 12 to 24 months. PSD2 sets out requirements for payment user authentication, which should ensure that Payment Service Providers (PSPs) can confirm the authenticity of users for each transaction. PSD2 requires PSPs to apply 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 and other abuses.

The European Banking Authority (EBA) has developed a set of Regulatory Technical Standards (RTS) for SCA in conjunction with the European Central Bank (ECB).

The authentication procedures suggest that the process for authenticating a transaction must be based on the use of two or more of the following elements:

- Knowledge – something only the user knows – code, personal identification number (ISX would use a PIN number or another user secret – step 1)
- Ownership – something only the user possesses – token, smart card, mobile phone (ISX sends an unrelated separate authorization number to the user's mobile phone – step 2)
- Inherence – something the user is – biometric characteristic such as fingerprint or retina scan

At least one of the elements should be non-reusable and non-replicable, and not capable of being surreptitiously stolen via the Internet. The strong authentication procedure should be designed to protect the confidentiality of the authentication data.

The Regulators intend to place liability for fraud onto the PSP / gateway unless SCA is adopted.

ISX's Paydentity solution is innovative in that it merges payment and identity. By using the card payment as the source of identity, ISX meets the PSD2 SCA requirements, as well as the electronic verification transaction based requirements of the 4th AML Directive for CDD. ISX reduces the inherent friction associated with payment authentication and the separate and regulated friction associated with KYC, which still relies mostly on manual systems for most regulated businesses. By combining these, ISX aims to provide a better process for regulated sector businesses including wallets, wagering, gaming, remittance, forex etc.

Regulatory Jurisdiction

ISX's services satisfy local legislation and regulations in key gaming and trading jurisdictions, including Australia, US, and Europe (UK, France, Italy, Cyprus, Gibraltar, Malta, Isle of Man).

ISX has focused its marketing efforts on Cyprus, Malta, Gibraltar and Isle of Man as critical regions, as these are the locations where key customer prospects are domiciled. Cyprus covers both FX and gaming markets, whereas the other jurisdictions are more noted for their gaming activities. These jurisdictions fit within the overarching regulatory structure of the EU, but have the capacity to establish more stringent regulation in such volatile sectors as financial trading and gaming.

HOW DOES ISX RESOLVE A GLOBAL PROBLEM

ISX provides its regulated merchant customers evidence of identity (EOI) for its users, authenticating that a customer owns a payment instrument, and uses ownership to identify the customer. This is performed in accordance with the recommendations of the FATF and in accordance with the 4th AML Directive.

It leverages off the customer due diligence already performed by banks and regulated financial institutions, which relieves a merchant of having to repeat the identity process again. Customer identity can be verified across 190 countries and c3.5bn people. ISX is able to systematically screen people for various sanction lists including; politically exposed persons (PEP), MasterCard's System to Avoid Fraud Effectively (SAFE) and Visa Card Fraud detection messages (TC40), forming part of ISX's real time analytic service. In conjunction with EOI, ISX links the customer with the payment instrument on an issuer agnostic basis to a two factor (2FA) authentication system.

The ISX process functions across more than 30 card schemes and thus allows the online on-boarding of customers using routine online payments.

Regulations oblige certain entities to identify their customers. This process of identification is known as "Know Your Customer" (KYC). The list of obligated entities is large and varied and results in an estimate of the global AML compliance market at cUS\$20bn according to a KPMG survey in 2014.

Figure 1: Customer Profile

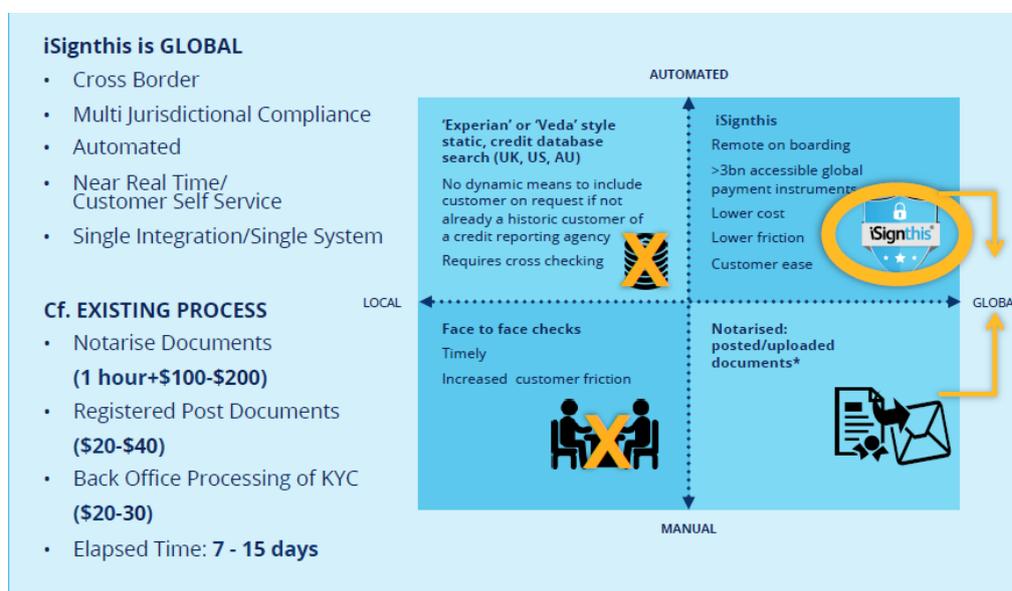


Source: iSignthis Ltd

At present there are four ways to verify one's identity, across two basic segments, manual and electronic.

The ISX KYC process results in a basic charge of EUR4.5 and takes only a few minutes. This compares with existing options that are far more expensive and time consuming as depicted in Figure 2.

Figure 2: Minimising customer friction increases access and service



Source: iSignthis Ltd

The ISX process is aimed at delivering a better service than current static electronic verification methods that rely on 'big data' databases that have certain limitations:

- Big upfront investment and maintenance to create identity pools
- Data ages and becomes obsolete
- Security predictability decreases with each re-use / re-access of database
- Susceptible to mass hacking / compromise
- Limited accessibility in most countries

By contrast, electronic KYC (e-KYC) creates "small data" by using a person's 'live' financial identity which has the following features:

- Minimal upfront investment and maintenance
- Creates identity on demand / per person / when required
- Data is generated in real time
- It is more secure as minimal data is held upfront
- Security predictability is high as distributed active data sources are used
- Possible in most countries (over 190 to date)
- ISX can KYC any financially-included person who can access the internet in minutes (c3.5bn persons)

HOW DOES EVIDENCE OF IDENTITY OPERATE

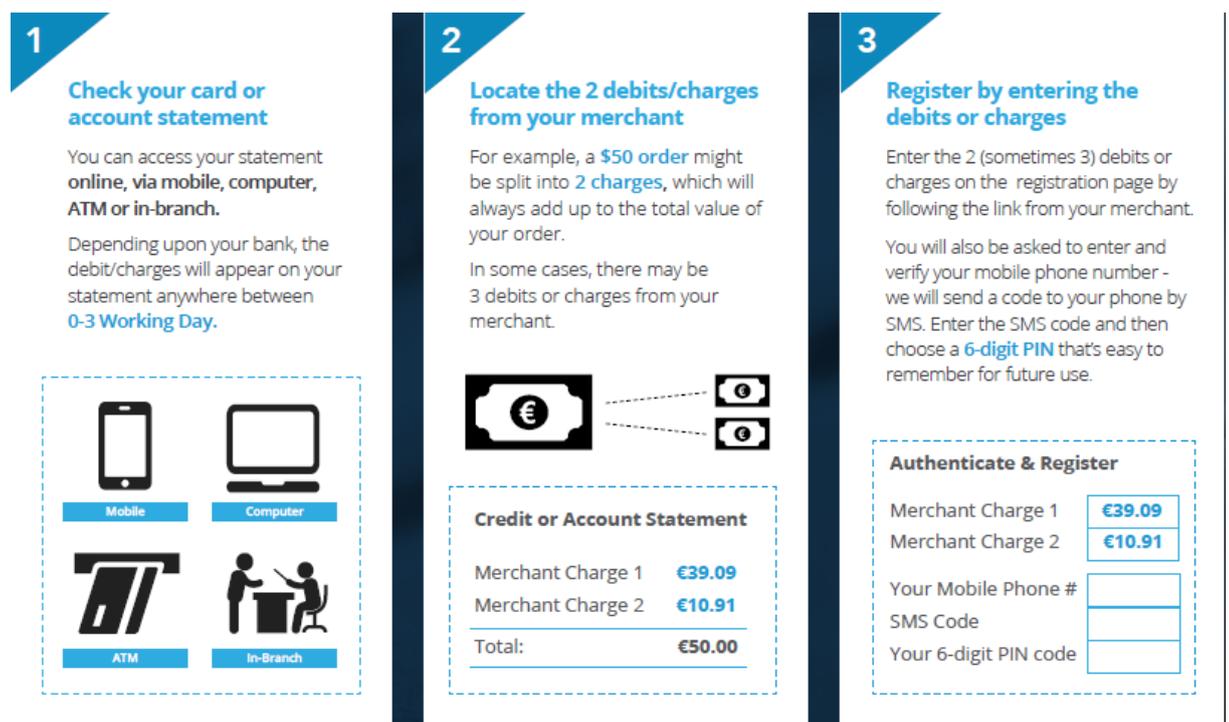
When a customer is attempting to on-board with a particular merchant through the merchant's website, the user would commence by submitting a small payment e.g. EUR50 to provide a starting balance. Embedded in the payment gateway, ISX divides the EUR 50 charge on the credit or debit card into two amounts: a random amount and a balancing amount, before pushing these as two separate real-time charges to the user's account. The resulting random charge acts as a one-time secret PIN number that only the owner of the bank account could know. These numbers are then only valid for a limited time. With this secret, ISX leverages off the 100-point check that banks use to open bank accounts, or to issue credit or debit cards.

Once step 1 (the first factor divided payment secret) has been completed, step 2 commences with a verification message sent to the user's mobile phone (an AML regulated device) to provide an approved verification of identity for the user on the merchant website.

The four digit PINS and the verification message clearly link the user to its bank account that has already satisfied AML KYC verification standards, and subsequently, the user and its account is able to satisfy KYC requirements.

As the verification process is occurring, ISX is also screening the user for names on various sanction lists. Metadata items such as geolocation and IP address is screened to identify transfers involving politically sensitive jurisdictions.

Figure 3: Identity Verification Process



Source: iSignthis Ltd

ISX's Process is Unique and Patent Protected

ISX has developed a process that is to date unique and has registered c20 patents across multiple jurisdictions to defend its Intellectual Property (IP). We understand that ISX's patent has been reviewed by independent examiners and passed this review. Two of ISX's c20 patents include patent no. US8,620,810 covering "Methods and systems for verifying transactions" which is registered in the US and patent no. 11761840.5 covering the same area for the European jurisdiction is pending. We also understand that ISX's patent was previously challenged by PayPal Inc. which has a similar process patented under 2002/004772, but failed in this challenge.

The PayPal process relies on similar legal principles and ISX facilitates online identity in a similar fashion to PayPal facilitating online payments. A key difference is that PayPal **credits** two random amounts to a customer's bank account, whereas ISX **debits** two random amounts. The PayPal credits take several days to show-up on an online bank statement, whereas the ISX debits appear instantly, making the KYC process seamless and user friendly.

We believe this unique process is at the heart of the ISX value proposition to various industry sectors and subsequently to equity investors.

Security of Identity is Safe with ISX

ISX adheres to security methods developed by the PCI and complies with technology requirements of regulators including the European Banking Authority's (EBA) SecuRE Pay (Security of Internet Payments) and the US FDIC's (Federal Deposit Insurance Corporation) mobile payments guidance, to ensure a user's information is secured at all times. ISX includes the following security features:

- **PCI Certification** – ISX uses the same industry standard security practices as a user's bank and credit card issuers. No one at any point has access to a user's credentials or full account data. ISX does not request banking login details.
- **Privacy by Design** – Unlike other identity schemes that request personal details or bank login details, ISX only requests standard payment and delivery details from a user (payment transaction, name, address, birth date). ISX does not access accounts directly and does not store actionable payment data. Data that is kept by ISX cannot be used for withdrawals, payments or to transfer a user's funds unless the user initiates the transaction. ISX works with a user's merchant, the payment service provider, the bank and the user, with all elements of the payment chain required in order to initiate a payment.
- **Strong Encryption** – Communications are protected with strong encryption through Secure Socket Layers (SSL) and with X509 certification between ISX's partners. This means that data between a user and ISX's systems are protected at all times. Data sessions are individually encrypted using at least industry standard AES 256 technology
- **SMS Codes** – All SMS codes are generated automatically and are single use only, with a validity of 3 minutes. The codes are sent to a user's mobile phone that has been registered and linked to a user's payment instrument.

Information that is stored includes transactional level detail but not full account details or anything that could be used to initiate a funds transfer from a user's account. ISX does track network and device data, in addition to collecting data to meet AML and CTF legislation, including the USA Bank Secrecy Act (BSA), the Patriot Act, and the European Commission's AML / CTF Directive and other legislation as applicable in various jurisdictions (IP addresses and metadata).

Therefore...Value Proposition is Strong

ISX offers PSPs a safety net in meeting SecuRE Pay requirements in complying with legislation and avoiding penalties, irrespective of whether the issuer and acquirer have met their own obligations. It protects merchants from card not present fraud (CNP), with enrolment only requiring cardholder and merchant side PSP participation. It operates a single domain so that integration removes complexity, maintenance and capital costs for PSPs.

ISX offers the consumer a simpler, faster, safer experience, across the consumer's choice of any of over 30 debit / credit card schemes operating globally, which widens the appeal of the PSP to its merchants, and the merchants to its consumers, by offering both payment choice and global reach.

In addition to PSPs using ISX's EOI system to on-board merchants faster than competing identity verification systems, it may also on-board individuals with equal or faster speed.

It may replace existing processes via the following:

- Over the counter KYC costs
- Back office processing costs (manual KYC warehouses replaced by online automated check processing)
- Customer inconvenience time and cost of attendance at counter / notarising
- Eliminates delay and abandonment of sales

It will also enhance the customer experience in the following manner:

- Enhance customer reach to include hundreds of countries from one solution
- Enhance customer conversion rate through low friction on-boarding process
- Enhance ability to churn customers easily away from competing financial services
- Enhance customer stickiness to ISX
- Enhance transaction confidence by eliminating CNP fraud on more than 30 card schemes.
- Enhance user engagement by approaching the KYC element post the customer buy-in decision by the user, which is really important for the online gaming sector that is focused on customer acquisition costs.

PAYMENT SYSTEM 101

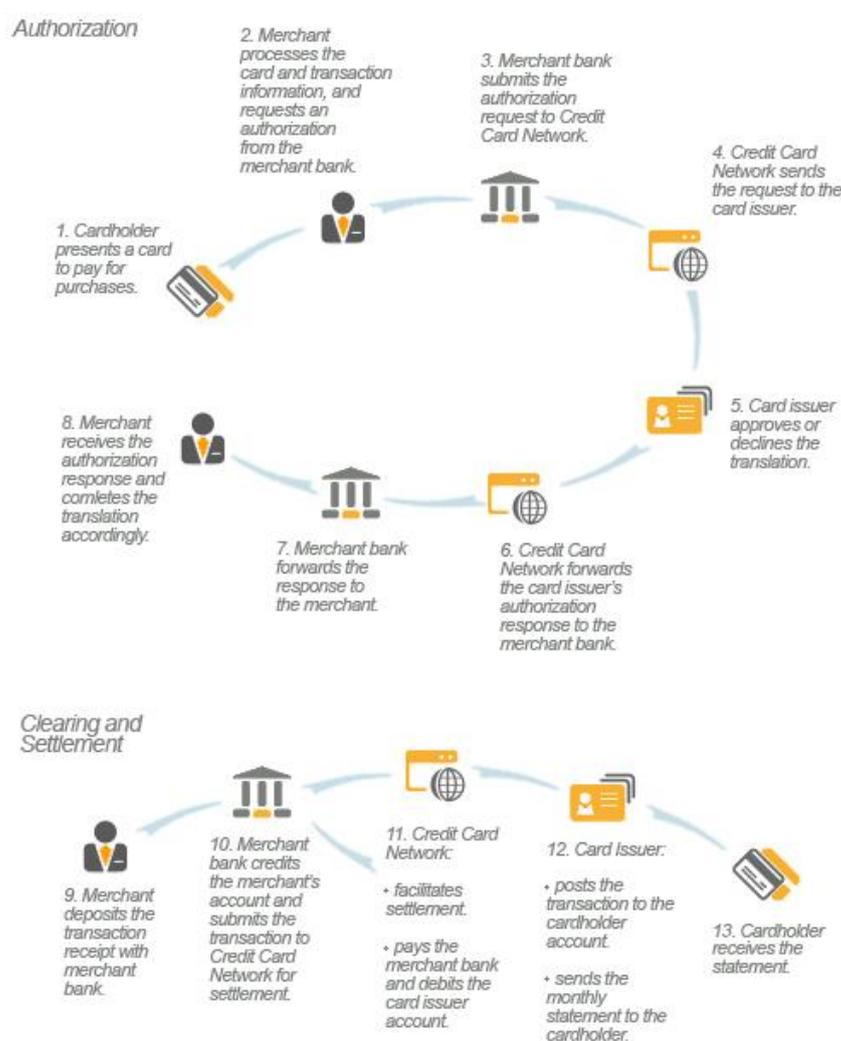
To appreciate how ISX intends to insert itself into the world of online payments to become a payment services provider, it is useful to obtain a basic understanding of the mechanics of the payment system. In Figure 4 below, the following parties are involved:

- **Cardholder** – authorised user of credit or debit card.
- **Card issuer** – financial institutions that are members of Visa and MasterCard, which issue payment cards on behalf of the two Credit Card Associations and contract with their cardholders for the terms of the repayment of transactions.
- **Acquiring bank** – (also called acquirers, processing banks or merchant banks) are financial institutions, members of Visa and MasterCard, that contract with merchants to enable them to accept debit and credit card payments for their products and services. They can also, and mostly do, contract with third parties to provide some of these services
- **Payment processor** – is an organisation that has contracted with an acquiring bank to provide merchants with card payment processing services on behalf of an acquirer. Payment processors must be registered with Visa and MasterCard and must identify on all of their marketing materials, including their websites, the name of the bank partner.
- **Merchant** – is a business that has contracted with an acquiring bank or merchant processor to accept card payments
- **Credit Card Associations** – member-owned association of banks that govern the issuing of Visa and MasterCard cards and the acquiring of Visa and MasterCard card transactions. Both organisations have developed payment systems to facilitate the processing of transactions between member banks.
- **Service provider** – any third party that provides a service used in the card payment transaction process: point-of-sale terminals, payment gateways, web hosting, SSL certificates, shopping carts etc.

Transaction Processing Stages

- **Authorisation** – the process by which the card issuer approves or declines a card transaction
- **Authentication** – the process of establishing the validity of the credit or debit card account information provided by the customer. Authentication is conducted by utilising various fraud prevention tools, including Address Verification Service, Card Security Codes etc.
- **Clearing** – the process through which a card issuer exchanges transaction information with a processing bank
- **Capture** – the process of collecting and organising information of credit and debit card transactions for submission for settlement
- **Settlement** – the process through which a card issuing bank exchanges funds with a processing bank to complete a cleared transaction. Note clearing and settlement occur simultaneously.

Figure 4: Generic Transaction Cycle



Source: unibulmerchantservices.com

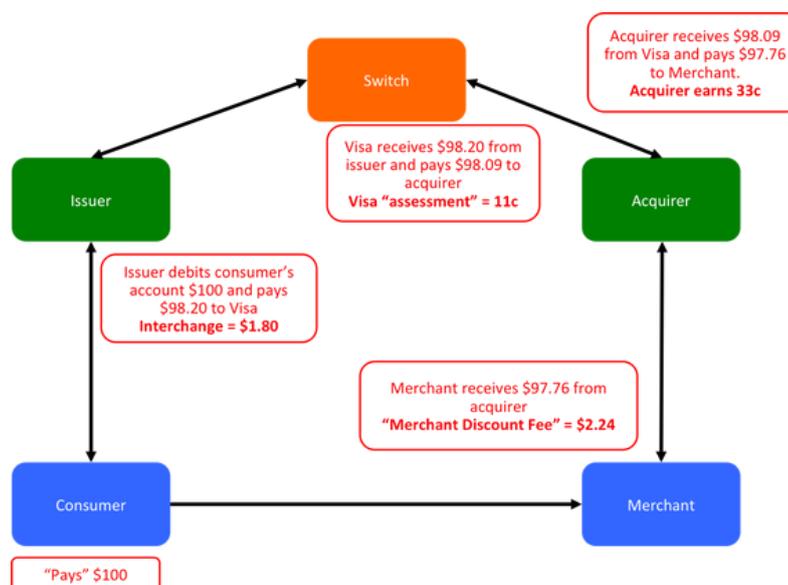
A Simple Example

We sourced this example via internet search and for simplicity we have kept the names in place that are international in nature.

Figure 5 below relates to a scenario where a consumer buys \$100 of goods from an online retailer. So how do the key parties participate in this process?

- Merchant Perspective** – The Merchant contracts with an acquirer, such as First Data. First Data may charge 1.99% plus 25c per transaction, which translates to \$2.24 and is often referred to as the “Merchant Discount Fee”. So from a \$100 transaction, the Merchant actually receives net proceeds of \$97.76.
- The Issuer’s Perspective (The Interchange Fee)** – The Merchant Discount Fee that is paid to the credit card industry then needs to be allocated amongst different parties. The interchange fee is the primary fee in the chain and is paid to the issuer of the card. The fee is set by the scheme custodian such as Visa. The interchange fee is based on whether the card was present or not, the type of goods, whether a debit or credit card was used, a corporate card, an international transaction etc. The issuer may be entitled to 1.65% +15c which equates to \$1.80. So the issuer owes \$98.20 with the Merchant receiving \$97.76. This leaves 44c between the switch / scheme operator “Visa” and the Acquirer’s processing firm, First Data.
- Scheme Operator** – In a low risk situation, Visa may charge a low fee of 0.11% or 11c. There may be a menu of other charges which we do not canvass in this scenario.
- Transaction Processor** – This leaves 0.33% or 33c for First Data as the payment processor.

Figure 5: Payment System Fee Value Chain



Source: Richard Gendal Brown, Head of Technology at R3CEV

In the kind of online transactions that ISX would be involved in, the overall fee may range from 200bp to 300bp of the transaction value. It will be up to ISX’s negotiating skill and demonstration of the quality and value of its offering to determine how much of the pie it can carve out.

As Visa itself demonstrates, there is significant leverage in volume, as opposed to just price / transaction. ISX is aiming to play in the non-acquiring processing (not reflected above), the acquiring and potentially the issuing segments (subject to efficient design). The NAB relationship is a key relationship for a range of reasons, not least of which is the fee sharing arrangement. While the fee splits are not disclosed to the public, the split to ISX would indicate how a major bank views the quality of ISX’s offering. We understand it is favourable but we do not know to what extent.

WITHOUT PEER

Although there are payment processors for online payments and there are identity verification firms that claim to verify identity in an automated fashion, we are not aware of anyone that has managed to merge both functions in a similar fashion to ISX in a cost competitive fashion that also complies with global regulation on anti-money laundering, such as the 4th AML Directive.

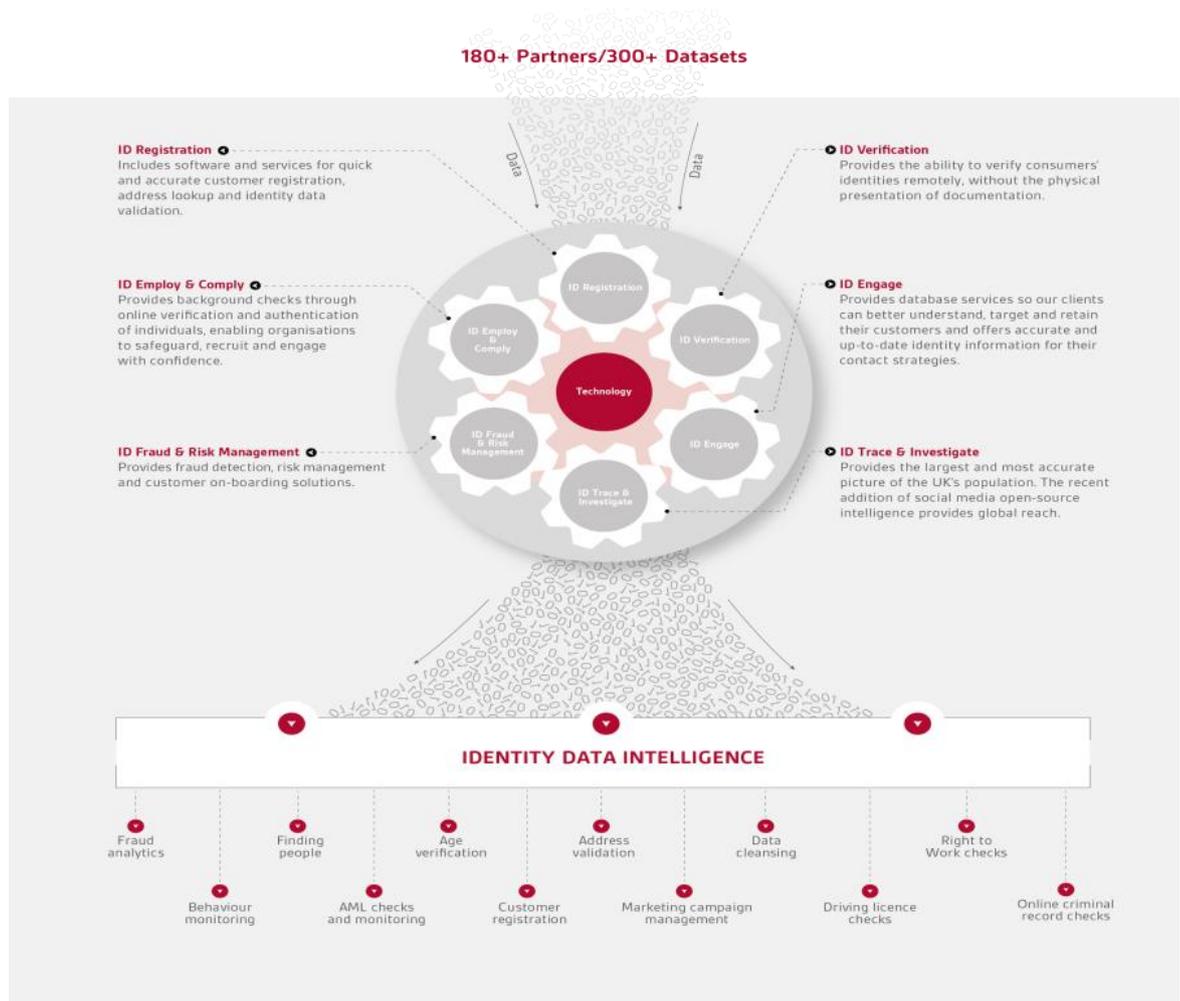
We have highlighted a brief profile of some operators in the identity and payment processing space to provide a flavour of the competitive landscape:

GBG Group (LSE- GBG)

GBG is engaged in identity data intelligence and combines trillions of data records from around the world to help merchant clients make the right decisions about the customers it serves and the people it employs. GBG operates in three main areas: supporting fraud, risk and compliance management; managing data quality through location intelligence and customer behaviour insights; and offering HR professionals' superior employee screening capability. While GBG is generally perceived to be the gold standard in identity verification, this is generally due to a lack of awareness of ISX's presence and capability. However, the business model appears to consume a lot of effort for a relatively low margin; as in 2016, GBG generated revenue of GBP73.4m with EBITDA of GBP13.5, for a margin of c18.4%. GBX is valued at cGBP384m.

Note that GBG is a reseller of bank CRA data and is focused more on delivery of data, whereas ISX originates its own data and delivery system.

Figure 6: GBG Group Business Model



Source: GBG Group LLC

SafeCharge International Group (LSE: SCH)

SCH provides online merchants with comprehensive payment solutions which include:

- secured connectivity to financial institutions
- a hosted payment page with customisable checkout options
- a state-of-the-art risk management platform
- sophisticated and flexible back-office tools

SafeCharge is recognised as a leading supplier to merchants in the regulated European sports betting and gaming industry; retail securities derivatives; foreign exchange trading sector, as well as enjoying a significant presence in digital goods and services.

In 2015, SCH processed cGBP6.9bn of payments; generating cGBP100m in revenue for a blended charge rate of 145bp. SCH generated cGBP31.1m in EBITDA for a margin of c31.1%. SCH is valued at cGBP309m

Paysafe Group (LSE: PAYS)

Paysafe delivers a full suite of payments solutions; from card issuing to acquiring; from payment gateways to merchant accounts; from fraud and risk to compliance; from digital wallets and mobile to invoicing. PAYS' processes millions of transactions across the globe annually.

PAYS' proprietary products and scalable tools provide merchants, partners and consumers with one of the market's largest suite of products and services. PAYS offers domestic and international proprietary gateway solutions, to customizable risk and fraud tools, and alternative payment methods. PAYS also offers merchants interchange flexibility, as well as a range of integrated solutions to support their business. PAYS acquires (settles) merchant accounts and processes transactions in the UK and EEA, servicing the entire payment value chain. PAYS enables merchants to activate accounts seamlessly, manage transactions efficiently and drive business immediately.

In 2015, PAYS processed cGBP39.7bn in payments and generated cGBP613.4m in revenue for a blended charge rate of 155bp. PAYS sources c45% of revenue from the online gambling sector and c45% of revenue is sourced in Europe. PAYS generated cGBP152.1m in EBITDA for a margin of c24.9%. PAYS is valued at cGBP1.7bn.

Although there is potential for M&A to bring identity verification and payment processing together, our estimate of ISX's blended charge-out rate is c15bp (assuming an aggressive c15% of settlement activity), while still generating vastly superior margins once it builds some scale. ISX's competitive pricing and significant operating leverage should make it difficult for larger offshore competitors to compete over time.

Both these groups (PAYS and SCH) however fail to provide identity verification in an online dynamic and efficient fashion, and thus are at risk from competition by ISX.

Figure 7: ISX Service Offering



Source: iSignthis Ltd

FINANCIAL MODEL

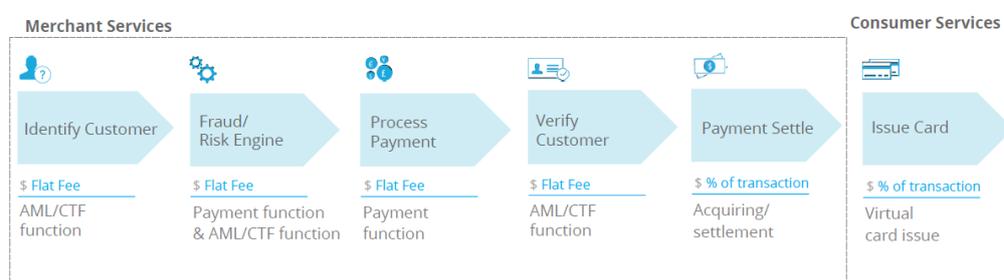
Within ISX's fee structure, there are three core revenue streams, and there is a fourth (Card Issuer) that also has potential, although we have not attempted to model it at this stage. We have segmented our modelling into Identity Verification, Transaction Processing and Settlement of Transactions (Card Acquiring).

Verification revenues provide a base annuity stream, whereas Processing and Settlement revenues provide high levels of leverage to the financial market trading and online gambling sectors, in particular, that are extremely high transaction volume markets.

The average daily volume for the FX industry was cUS\$4.8tn in January 2016, although the average daily volume had been as high as cUS\$6tn in 2014.

The European Gaming and Betting Association estimated that regulated betting would equate to c\$70bn in 2016, representing c13.5% of global gross gambling yield, and had grown by c5.4% pa from 2001 to 2013.

Figure 8: Fee Structure



Source: iSignthis Ltd

Identity Verification

ISX uses its two factor authentication Payidentity process to on-board customers to a regulated merchant. Under EU Law, current users will need to be verified (catch-up) and new users will have to go through the process at origination. In addition, users will need to be re-verified annually. We would expect the catch-up verifications to be priced at a discount to new user verifications. One could assume cEUR2.0 for catch-up verifications and anywhere from EUR4.5 to EUR10.0 for new user verifications, depending on the scope of transaction volumes generated by the merchant. We would typically assume EUR4.5 for what ISX would consider to be high volume merchants and up to EUR9.0 for "normal" or lower volume merchants.

Transaction Processing

ISX's Payidentity service affords it the ability to offer SCA, which allows them to connect the payment device (credit / debit card) to the person and to continually monitor that authenticated payment device throughout the processing of the transaction with the merchant. We expect merchants will use the ISX processing service as the unique and efficient KYC on-boarding process should act as a "Trojan Horse" to accessing deeper relationships with regulated merchants.

Where ISX acts as a processor, it will be handling transactions from various channels such as credit cards and debit cards for merchant acquiring banks. ISX will process the payments for the acquirer, but does not hold the relationship directly with the card holder for the payment. ISX is approved under PSD2 to carry out this function.

Fees charged for this service will vary depending on transaction volumes. We assume a standard high volume customer might be charged EUR0.08 per transaction whereas normal retail pricing could be as high as EUR0.26 per transaction. As a blended rate we think that EUR0.15 is reasonable.

Settlement

Settlement relates to the exchange of funds between a card issuer and an acquiring institution that completes the transaction in what is referred to as the "clearing process". In this situation, a merchant receives funds equating to the amount of the "card sale" which is typically a credit transaction and is paid at settlement. The clearing process requires that a financial institution handling the process also carries the financial risk of that payment for 2 to 3 days until the process is finalised and payments are made, including any chargebacks or other adjustments as required.

ISX is currently waiting on being awarded an electronic money institution license (EU Money License) that would enable it to take on settlement activity on its own balance sheet. Our understanding is that, if ISX could build up a cash reserve of c\$10m, it would be able to settle up to \$500m of payments per day, based on an EU requirement that a settlement institution hold between 2% and 2.5% of the total transaction value being settled as a cash reserve. Once ISX receives its Money License (expected early 2017), it would have the capacity to settle up to c\$182.5bn annually. This would be an extraordinary feat if achieved.

However, ISX already has settlement capacity through its relationship with NAB where ISX is in effect, "renting NAB's balance sheet". Under the arrangement announced in August 2016, the two parties have entered into a Payment Facilitator Program Service Agreement. NAB is enabling ISX to use card acquiring services together with its identity, payment processing and authentication solutions. NAB will act as the acquirer for transactions processed by ISX on behalf of merchant customers, with both parties taking a share of the merchant fee.

We find this to be a really intriguing arrangement where, a major bank has publicised its relationship with a start-up minnow. This suggests that NAB believes ISX has some unique IP that it can benefit from. Although the fee sharing arrangement has not been disclosed, we understand that it is favourable for ISX. Although the arrangement formally covers Australia and New Zealand, NAB does have operations in Europe, and it is conceivable that the relationship could extend to settlement activity in Europe, which will be ISX's main jurisdiction.

One of the areas where ISX can assist NAB is in preventing card fraud. Card fraud cost the Australian economy cUS\$521m in FY16, according to the Australian Payments Clearing Association (APCA). Card Not Present (CNP) fraud accounted for cUS\$402m of this, representing c24% growth over FY15.

We understand that selling of Settlement services commenced in January and Settlement activity will commence in the March quarter with some of ISX's customers. We see this particular revenue stream as one which can become truly large and a company maker over the medium term. Further, should ISX move to build its own balance sheet capacity, the reserve requirements do not seem onerous or capable of impeding what we expect to be attractive dividend flows to shareholders.

Obviously, if ISX had its own settlement capacity, it would not have to share settlement fees.

Card Issuer

We do not expect this function to become part of ISX's core business in the short to medium term, and we certainly do not expect any entrance into this space to be conducted in a capital intensive fashion.

Card issuing relates to financial institutions offering credit to the public, setting credit limits to cardholders and being responsible for sending payments to merchants for purchases made with the issued cards. Card issuers accept financial risk when they approve credit card applicants and are required to follow extensive government regulation, including capital reserve requirements.

It is feasible for ISX to engage in the virtual card issuing space. One method of this occurring would be to issue e-debit cards to users of gambling websites, which could then be applied by the users to bet on other websites.

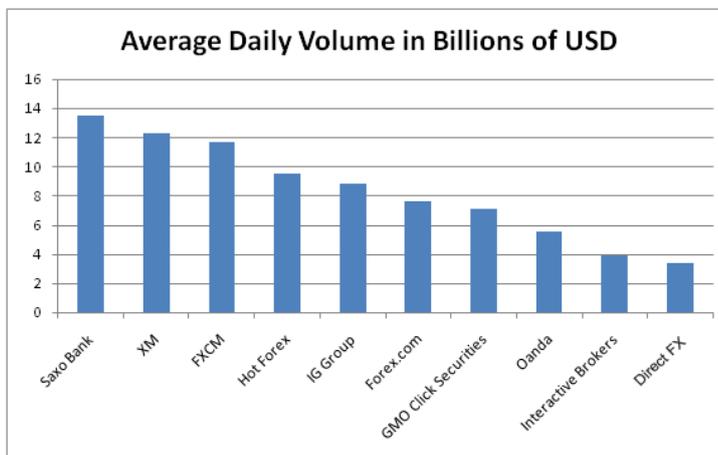
KEY CUSTOMERS

XM.com

In July 2016, ISX signed up XM.com, the second largest online FX and CFD trading platform in the world. XM.com. has c500,000 users and processes over US\$12bn in FX transactions per day, supporting 24 languages. While the announcement only refers to the enhanced due diligence KYC service, we understand that it also includes processing and settlement activities. The XM contract is expected to go live in February and is the single largest customer that ISX has signed up. The 500,000 current users need to go through the identity verification process, in the same fashion as new users.

We would expect this service to be discounted for such a large client, with new users being charged a standard rate that we assume to be EUR4.5. We would expect to see the bulk of backlog verifications completed in 2H17.

Figure 9: Largest Forex Brokers by Volume in 2016



Source: Wikipedia, Foreign Exchange Market

Leverate Financial Services (Leverate)

In November 2016, ISX contracted with Leverate to provide the full suite of ISX's services with an expected start date in late February 2017. Leverate is a trading platform encompassing c100 broking firms and separately over 100,000 traders in a social trading pool. Leverate received an award in 2013 for the best "White Label Solution". We estimate that Leverate is c30% the size of XM.com.

Ixaris

In November 2016, ISX commenced providing "key controller" KYC services with global payment expert Ixaris. The "key controller / UBO (Ultimate Beneficial Owner)" service enables Ixaris to verify the key controllers of merchants, including travel agents, and other partners that use, resell or promote the Ixaris payment service. The ISX service will fast track the verification of 3rd party identified key controllers. Typically card acquirers, issuers and e-wallets have manually conducted KYC verification of key controllers via notarized or certified documents or face to face interviews. This process typically takes between 15 to 28 working days. Under the ISX service, it should take no more than 10 to 15 minutes. It is worth noting that Ixaris speaks for c30,000 travel agents who would have c3 UBOs that need to be verified. The lower volume than FX trading or gaming would command a higher price, so we think annual verification revenue could equate to c\$1m pa. However, the key to this relationship is eventually gaining access to the customers of the travel agents and processing / settling their travel card expenditure. This is an important and evolving relationship and one to watch carefully, as travel is considered a regulated activity.

IronFX

In October 2016, ISX signed an agreement with IronFX, a global leader in online trading with 10 trading platforms, over 200 tradeable instruments and operating in 180 countries. The agreement covers the full suite of ISX's services and should go live in the March quarter. We estimate that IronFX is c20% of the size of XM.com

Coinify

In April 2016, ISX entered into an agreement with Coinify to provide KYC and transaction processing services. Coinify is a Bitcoin (digital currency) trading platform. The use of the ISX service will enable users to transact and receive Bitcoin purchases immediately, rather than the previously slow processes used. It is hard to quantify the magnitude of this customer, but we are hearing that volumes have ratcheted up significantly recently.

KEY PARTNER

National Australia Bank (NAB)

In August 2016, ISX entered into a partnership agreement with NAB, where NAB would facilitate payment processing and settlement activities covering the Australia / New Zealand jurisdiction for ISX. As referred to in the “Financial Model” section of this report, we find this relationship to be intriguing on many levels. It opens the door to ISX to win customers of NAB more easily than would otherwise be the case. The identity verification tool could enhance NAB’s offering to its customers. It also may assist NAB to improve its market share via partnering with ISX, a company that has such a unique selling proposition.

ISX has noted in its presentations that Real Estate is an area where its online identity verification tool could be useful. We note the recent arrangement announced between NAB and REA. While it has not been disclosed whether ISX is involved, we can see that this type of arrangement could be something that ISX could participate in. Digital home loans would require a more efficient and more automated identity verification process than is currently in place within the home loan market.

Apart from the potential revenues it could generate domestically, the name recognition in being involved in such a high profile arrangement would be significant, and could provide a test bed for similar type arrangements in jurisdictions encompassing larger markets such as the EU, North America and China.

EARNINGS SCENARIO

Given the early stage of development in ISX’s life cycle, it is difficult to gain a strong understanding of the dynamics of revenue generation. We have therefore attempted to provide a deeper understanding of ISX’s financial model through breaking down the discreet revenue flows for its largest client to date, XM.com. We have applied assumptions based on public information and general assumptions following discussions with ISX.

Figure 10: Case Study on Revenue Generation

XM	
Backlog KYC	
Existing Customers to Verify	500,000
Average Verifications per Person per annum	1.0
Price per Verification - EUR cents	2.0
Verification Revenue - EUR dollars	1,000,000
AUD / EUR rate	0.70
Verification Revenue - AUD	1,428,571
New KYC	
New Customers per week	5,000
Customers per year	260,000
Average Verifications per person	1.0
Price per Verification - EUR	4.5
Verification Revenue - EUR	1,170,000
AUD / EUR rate	0.70
Verification Revenue - AUD	1,671,429
Processing - Not Acquiring	
Transactions per Customer per year	12
Total Transaction per annum	9,120,000
Fee per Transaction - EUR	0.08
Transaction Processing Revenue - Not Acquiring	729,600
AUD / EUR	0.70
Transaction Processing Revenue - Not Acquiring	1,042,286
Settlement	
Number of Transactions per year	9,120,000
Average Price per Transaction - EUR	1000
Transaction Value per year - EUR	9,120,000,000
Net Fee to ISX	0.50%
Settlement Revenue @ 100% of Transactions - EUR	45,600,000
AUD / EUR	0.70
Settlement Revenue @ 100% of Transactions - AUD	65,142,857
% of Settlement Volume Allocated to ISX	5.0%
Settlement Revenue to ISX - AUD	3,257,143
Total ISX Revenue from XM - AUD	7,399,429

Source: Patersons Securities Ltd

Assumptions

- We know that, at the time of announcing the contract, XM.com (XM) had 500,000 users, all of whom will have to be verified under the 4th AML Directive. We expect that verification of these users will be priced at a discount from the general verification rate, in view of the size of XM. We expect that standard customers will not be offered a discount for catch-up verification exercises. We know that verifications will occur at least annually, and in some cases it may be more often. We therefore assume that catch-up verification revenue could generate c\$1.4m for a client this size.
- We understand that XM has a 40 person call centre processing 40 verifications per day, which equates to c1,600 new KYC users a day or c8,000 a week. This, of course, only refers to XM's capacity and does not consider the potential users it is missing out on via capacity constraints. ISX will help to capture the extra load but over time may eat into the current processing capacity. We therefore consider that 5,000 new KYC applications a week is a reasonable assumption. New verifications are priced at EUR4.50 each and would translate to c\$1.6m pa. We note that in particular industries, users may use more than one card for online transacting. In these cases, identity verification would need to be conducted in each case attracting a separate charge each time. For example, it is relatively common for users of online gambling sites to use five to ten credit cards. For prudence and simplicity, we only assume one card and one verification conducted per annum.
- We assume that in the case of most ISX clients, ISX will be awarded the processing business, in addition to the identity verification business. We assume this because, in logistics terms, it is a short step to processing from identity verification. ISX should be able to leverage off the efficient KYC process to offer cost competitive processing services. We expect that high volume processing could attract a fee of cEUR0.08 per transaction, whereas a low volume processing client could attract a fee as high as cEUR0.26. In the case of XM, we assume EUR0.08. In terms of transaction volume, we assume customers would transact once a month, however, it really does depend on industry trends. In certain sectors, users could transact far more often than once a month. We therefore expect processing revenue from XM could equate to c\$1.0m pa.
- Settlement activity should provide the biggest revenue stream for ISX of any other function. Settlement fees relate to receiving a % of the value of a transaction that ISX is involved in settling for a user of a particular customer. We assume 50bp for large customers, but it can be as high as 100bp for smaller customers. We assume that the amount of business that a firm the size of XM would allocate to ISX for settling would vary from c5% at the outset to c15% by year three in a customer relationship. For smaller customers the allocation could be larger, although we note that a customer would probably not wish to allocate all its settlement business with one payment service provider, for risk management purposes. In this exercise we assume that 5% of settlement business is allocated to ISX. We understand that XM has annual turnover greater than EUR12bn. Based on our scenario we assume cEUR9bn is traded, and settlement would generate c\$3.2m in revenue.
- This analysis does not factor future net user growth or pricing changes. We consider this scenario is quite conservative and the expected revenues from XM to be realistic. This analysis shows that XM could generate revenue of at least c\$7.4m pa and as a single client for a start-up business, this is quite significant. It is even more significant as, on a full year basis, this one client could make ISX profitable, and highlights the earnings leverage available as ISX gains commercial traction. Following ISX's c\$10m equity raising in late 2015, ISX has remained quite disciplined in its operating costs and there is no reason to believe that it will not remain so.

FINANCIAL FORECASTS

The following format of our forecasts is provided for illustrative purposes. At present, data is scarce, making it difficult to provide forecasts with high levels of confidence. We also note that once tangible data from ISX's operations commences, we think it will be in a different and simpler format than presented in Figure 11 below. The format below is therefore intended to educate investors how the revenues may flow at a functional level.

Figure 11: Revenue Forecasts

		1H17F	2H17F	2017F	1H18F	2H18F	2018F	1H19F	2H19F	2019F
Users										
Users - Opening	m	0.0	1.0	1.0	2.0	2.5	2.0	3.0	3.5	3.0
Net Additions	m	1.0	1.0	1.0	0.5	0.5	1.0	0.5	0.5	1.0
Users - Closing Balance	m	1.0	2.0	2.0	2.5	3.0	3.0	3.5	4.0	4.0
Average Users	m	0.5	1.5	1.5	2.3	2.8	2.8	3.3	3.8	3.8
Total User Growth	%				150.0%	50.0%	50.0%	40.0%	33.3%	33.3%
Average user Growth	%				350.0%	83.3%	83.3%	44.4%	36.4%	36.4%
Assumed Users / Customer	m	0.50	0.50	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Implied Total Customers	#	1.0	3.0	3.0	4.5	5.5	5.5	6.5	7.5	7.5
Transactions / User										
Total Recurring Transactions	m	100	100	100	100	100	100	100	100	100
		50	150	150	225	275	275	325	375	375
Currency										
AUD / EUR		0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Verification Revenue - Catch up on Incumbent Client Base										
% clients requiring catch-up verification		35%	100%		100%	100%		100%	100%	
Actual Users Requiring Catch-UP	m	0.4	1.0	1.4	0.5	0.5	1.0	0.5	0.5	1.0
Average Catch-up Fee	EUR	1.3	1.3		1.3	1.3		1.3	1.3	
Average Catch-up Fee	AUD	1.8	1.8		1.8	1.8		1.8	1.8	
Verification Catch-Up Revenue	A\$m	0.6	1.8	2.4	0.9	0.9	1.8	0.9	0.9	1.8
Verification Revenue - Annual										
Verifications / User		0.5	0.5		0.5	0.5		0.5	0.5	
Average Fee to Verify	EUR	4.5	4.5		4.5	4.5		4.5	4.5	
Average Fee to Verify	AUD	6.4	6.4		6.4	6.4		6.4	6.4	
Average Users for Period	#DIV/0!		0.5		1.5	2.3		2.8	3.3	
Verification Annuity Revenue	A\$m	#DIV/0!	1.6	1.6	4.8	7.2	12.1	8.8	10.4	19.3
Transaction Processing - Non-Acquiring										
% of Users using Transaction Processing		0%	4.0%		4.0%	4.0%		4.5%	4.5%	
Total Transactions Processed	m	0.0	6.0	6.0	9.0	11.0	20.0	14.6	16.9	31.5
Average Transactions Processed							13.0			25.8
Average Transaction Fee	EUR	0.15	0.15		0.16	0.16		0.17	0.17	
Average Transaction Fee	AUD	0.21	0.21		0.23	0.23		0.24	0.24	
Transaction Processing Revenue		0.0	1.3	1.3	2.1	2.5	4.6	3.6	4.1	7.7
Settlement of Processed Transactions										
% of Clients Using Settlement		0.0%	1.0%		1.3%	1.3%		5.0%	5.0%	
Total Transactions Settled	m	0.0	0.1		0.1	0.1		0.7	0.8	
Average Transaction Value	EUR	1000.0	1000.0		1000.0	1000.0		1000.0	1000.0	
Average Transaction Value	AUD	1428.6	1428.6		1428.6	1428.6		1428.6	1428.6	
Total Transaction Value with Client	ASb	-	86		161	196		1,045	1,205	
Total Transaction Value with ISX	ASb	-								
Settlement Fees										
Average Transaction Fee	bps	0.0000	0.0050		0.0050	0.0050		0.0050	0.0050	
Transaction Fee Revenue	\$m	0.0	0.4	0.4	0.8	1.0	1.8	5.2	6.0	11.3
% of client's transactions (10% max)										
Settlement Revenue		0.0	0.4	0.4	0.8	1.0	1.8	5.2	6.0	11.3
Total Revenue		0.6	5.1	5.7	8.6	11.6	20.2	18.5	21.5	40.0

Source: Patersons Securities Ltd

User Numbers

A key variable in modelling forecasts for ISX is user numbers, which relate to the number of customer contracts it can enter into over-time. We have identified c13 customer and partner firms that ISX has entered into arrangements with over 2016, and which should be in full operation during the March 2017 quarter.

We have assumed that ISX will have c2m users or c1.5m average users by the end of FY17, which will generate full year revenues in FY18. We believe it is ISX's strategy to pursue large customers initially which accounts for the perceived large number of users in these early stages. We also think there is considerable runway of large customers that may come on-board over the short to medium term as ISX builds awareness and demonstrates the value proposition of its service offering.

If we look at six of ISX's key contracts executed to date, we estimate that ISX has acquired c1.5m customers including incumbent users and estimated new users in year 1 of the contract period. This leaves c0.5m users that need to be acquired by June 2017. Given that XM accounts for c500k incumbent users alone, we think that ISX is able to achieve our target, subject to the number and size of customers signed up in the remaining period of FY17.

Our forecasts are predicated on these existing customers adding new users in year 2 and year 3, which may equate to c1.0m over FY18 / FY19. This translates to c2.5m existing users by FY19 from c6 customers signed to date.

Our forecasts assume ISX has c4.0m users using its service by FY19, which means that we are assuming ISX needs to acquire c1.5m new users from new customers between now and FY19. Although it seems like a large number, within the retail online FX trading and gambling sectors, it is not as large as it appears.

Assuming there is continued momentum in customer acquisition over the course of FY17, we are only assuming total net new users of c2.0m over FY18 / FY19. This equates to new user growth of c50.0% and c33.3% respectively, which we consider will prove to be conservative, given that we have identified 13 customers and partners to date, and assuming our instincts on ISX are correct.

Verification Revenue

As can be seen from the forecasts above, annual verification revenue on its own could prove to be a strong annuity revenue stream and underwrite the current fully diluted valuation. We assume that verification revenue should be c\$4m in FY17 and rise significantly in FY18 to c\$14m and c\$20m in FY19. It is important to note that we only assume one verification per annum per user however, in areas like online gaming, the number of annual verifications should be much higher which would influence the overall average annual verification per user, and subsequently, the revenue flow in this line.

Transaction Processing Revenue

Transaction processing revenue is a function of the total number of transactions that could be processed by ISX, those transactions allocated to ISX and the price charged for facilitating the payment process.

The total number of transactions that could be processed is a function of the assumed number of users on-board and the number of assumed transactions per user. The number of transactions per user in our forecasts is a blended estimate of the characteristics noted in both, retail online FX trading sector and the online gaming / gambling sector. In gaming, a user may engage in 400 to 500 transactions per annum, whereas in online FX trading it may be only 30 to 40 per annum. We assume a blended rate of 100 transactions per annum, which reflects a skew towards financial market trading as per the trend in contract announcements.

This results in transaction processing capacity of c438m transactions per annum in FY18. We will gain a better understanding of what portion of processing business ISX is receiving through the course of 2017. While we consider that it is logical for ISX to win at least c50% of processing capacity over time, initially we make only a modest assumption of c4% in 2H17, c4% in FY18 and rising to c4.5% in FY19.

The price at which transactions are processed is a function of volume to be processed per customer. Larger customers may be charged in the order of EUR0.08 per transaction while smaller customers could be charged EUR0.26 or higher, and there would be a scale in between these levels. We assume a blended rate of EUR0.15 in FY17, increasing by EUR0.01 each year over the forecast period. We assume that ISX will gradually improve its pricing power because of its unique position and that over time ISX will acquire smaller customers that necessitate a higher processing fee.

Our 2H17 processing revenue assumption is modest at c\$1.6m, but with a full year of transactions and increasing the portion of processing business allocated to ISX, transaction processing revenue should rise meaningfully over the medium term. However, for forecasting purposes, at this stage we assume a relatively flat allocation of business and yet processing revenue would still rise due to increased user numbers to be c\$4.6m in FY18 and c\$7.7m in FY19.

Settlement of Transactions

Settlement revenues should become the largest revenue stream within the financial model. In this segment we take the number of transactions actually processed and assume what portion customers may allocate to ISX for settlement. Over time we expect this to rise to c15%, but we begin at c1% and increase the allocation to 1.3% in FY18 and 5% in FY19.

The assumption on average transaction value is difficult to assess at this stage due to the lack of real data to evaluate. We understand that financial trading would have higher values than online gaming. We assume average transaction value per user would be cEUR1,000.

We also assume a fee rate of 50bp, although this may rise / fall subject to demand for service and bargaining power. We expect domestic business to operate with higher fees than international business.

After a modest contribution in FY17, we expect revenues to rise c\$1.8m in FY18 and c\$11.3m in FY19.

Figure 12: Earnings Forecasts

	2017F	2018F	2019F	2020F
	\$m	\$m	\$m	\$m
Unit Volume (m)				
Average Verification User No.	1.5	2.8	3.8	4.8
Average Transactions Processed	3.0	13.0	25.8	49.5
Verification Catch-Up Revenue	2.4	1.8	1.8	1.8
Verification Annuity Revenue	1.6	12.1	19.3	25.7
Transaction Processing Revenue	1.3	4.6	7.7	17.4
Settlement Revenue	0.4	1.8	11.3	48.2
Total Revenue	5.7	20.2	40.0	93.1
Growth	-	252.3%	97.9%	132.8%
Verification Catch-Up	2.3	1.7	1.7	1.7
Verification Annuity	1.5	11.5	18.3	24.4
Transaction Processing	1.2	4.3	7.3	16.5
Settlement	0.4	1.7	10.7	45.8
Gross Profit	5.4	19.2	38.0	88.4
Growth		252.3%	97.9%	132.8%
Margin	95.0%	95.0%	95.0%	95.0%
EBITDA	0.3	13.0	30.5	80.3
Growth	na	4790.2%	135.3%	163.0%
Margin	4.6%	64.2%	76.3%	86.2%
Normalised NPAT	0.3	9.1	21.5	56.6
Margin	5%	45%	54%	61%
Normalised EPS	0.0	0.9	2.1	5.6
Growth	na	2438.2%	135.3%	162.8%
Normalised PER	473.5	18.7	7.9	3.0

Source: Patersons Securities Ltd

- Given the automated nature of the end-to-end process, even at very low fee rates, the gross margins are nearly pure.
- Recent quarterly data highlights that ISX has been quite disciplined in managing its opex. Expenses have been trending at c\$1.1m / qtr. A c\$10m equity raising in late 2015 provided over two years of funding for ISX to accelerate its marketing strategy, and ISX has proven frugal since. However, as sales ratchet up, we do assume that opex will rise and allow for a near doubling over the forecast period. Even at such rates of cost growth, the operating leverage is significant, with EBITDA margins approaching c90%.
- The nature of the model is designed to produce significant free cash flow and subsequently dividend flow. We assume a c55% payout ratio in FY18 and FY19, but it really could be much higher than this. ISX's only material requirement for cash is a prudential capital reserve of c2.0% to c2.5% of transaction value settled. A cash reserve of c\$10m would support settlement activity on ISX's own balance sheet of c\$500m / day if ISX chose not to use NAB's balance sheet for settlement activity. We envisage ISX building up such a reserve as a contingency, in the event that its Euro Money License application is successful in 2017. We expect ISX will build sufficient cash levels through FY18, so we do not expect dividend flow to be restrained.

- We note that it is currently difficult to provide clarity and reliability with our forecasts, but if ISX performs, the manner in which the model operates suggests that our forecasts could be just scratching the surface. Given that there are c20,000 FX trading firms and they all have to be compliant with the 4th AML Directive by June 2017, and ISX should prove to be the most efficient and cost competitive solution available, we would expect ISX to build a substantial market share in this sector alone over the medium term. Apart from the financial sector, the online gaming sector should prove another significant market and there are sectors that ISX has mentioned it expects to target that could be significant in their own right in the future.

Quarterly Data

Figure 13: Quarterly Operating Data

Operating Summary	Jun-16	Sep-16	Dec-16
	\$m	\$m	\$m
Cash Receipts	0.02	0.25	0.02
Net Operating Cash Flow	-1.09	-1.17	-1.34

Source: iSignthis Ltd

The financial performance for the December quarter reflected that ISX has been focused on integrating customers; rather than customers actually using the platform in a live setting. Integration fees were minimal as cash receipts on XM integration billing was completed in the September quarter, whereas actual integration work was conducted in the December quarter. We expect XM to go live imminently.

ISX referred to Coinify accelerating usage late in the December quarter, with receipts from users of this customer falling into the March quarter.

Costs increased slightly with a higher head count allocated to the Cyprus office. There may be a couple extra sales staff added in 2H17 but costs are otherwise stable and evidence of management discipline at least until transaction revenue begins to flow.

Other announced customers such as Leverage; IronFX, Valutrades and Tradologic are in the early stages of integration. It is not expected that the integration process will differ from the platform established with XM, and so future customer sign-ups should move to transaction status more efficiently. The March quarter's performance should reveal how successful ISX has been enabling recent customers to become operational.

ISX also noted that it has established a partnering arrangement with Malta's largest card settlement / acquiring institution, Credorax. Credorax has a strong position with binary options operators. While ISX has its own processing capability, partnering with Credorax should accelerate access to certain customers. In these instances, ISX would receive a share of processing and settlement fees.

VALUATION

We value ISX via a two stage DCF valuation methodology, using five years of explicit cash flows and the balance via fading growth. We value ISX at \$0.50 / share which represents a c194% premium to the current price.

Figure 14: DCF Valuation

	\$m	cps		
Explicit Cashflows	285.6	28.5	Risk Free rate	3.0%
Terminal Item	207.0	20.6	Equity Risk Premium	7.5%
Total Firm Value	492.6	49.1	Beta	2.00
Less: Net Debt	-9.0	-0.9	Cost of Equity	18.0%
Total Equity Value	501.5	50	Terminal growth rate	3.5%
Fully Diluted Number of shares	1002.8			
Per share value	\$0.50			

Source: Patersons Securities Ltd

ISX is a unique business for the following reasons:

- Although ISX is at an early stage of development, its strong regulatory tailwind is driving significant interest from large regulated customers exposed to a tightening regulatory environment.
- ISX has a patented process for quick and efficient online identity verification that is unparalleled in dealing with the high risk regulated merchant market. While there are discrete payment processors and identity verification firms, there is yet to emerge one that combines the two functions as seamlessly as ISX and adheres strictly to the regulatory framework of the 4th AML Directive and PSD2.
- As a truly online operation, ISX should prove to be a high margin and capital light business, with significant operating leverage.
- We assume the top 6 customers signed to date may account for as many as 2.5m users by FY19 generating c\$31m in revenue. This compares with an overall user base of c4.0m and c\$40m in revenue. This suggests an undemanding requirement for new customers to achieve our overall forecast.
- Given the patented on-boarding process, ISX has built a strong foundation that will make it difficult for incumbent competitors to compete, or allow new entrants over the medium term.

Figure 15: Valuation Sensitivities

		WACC				
		16.2%	17.1%	18.0%	18.9%	19.8%
Terminal Growth Rate	2.80%	\$0.58	\$0.53	\$0.49	\$0.45	\$0.42
	3.15%	\$0.59	\$0.54	\$0.49	\$0.46	\$0.42
	3.50%	\$0.59	\$0.54	\$0.50	\$0.46	\$0.43
	3.85%	\$0.60	\$0.55	\$0.51	\$0.47	\$0.43
	4.20%	\$0.61	\$0.56	\$0.51	\$0.47	\$0.44

Source: Patersons Securities Ltd

We have provided a sample of companies that operate in the payment system to varying degrees, but we do not believe there is a direct competitor that marries identity verification with payment processing.

Figure 16: Possible Comparatives - Historical

Company	Ticker	Curr Price \$	Mkt Cap \$m	NOPAT \$m	P/E x	EBITDA \$m	EV/EBITDA T12M x	Div Yld %
iSignthis	ISX - ASX	0.17	106 -	9.3	-	9.3	na	na
eMerchants	EML - ASX	1.79	438 -	0.6	33.7	1.0	285.6	na
Mint Payments	MNW - ASX	0.06	35 -	5.6	na -	5.2	na	na
Xero	XRO - ASX	16.70	2,297 -	89.6	na -	61.7	na	na
Paysafe	PAYS - LSE	360.60	1,769	54.7	11.1	138.5	12.2	na
SafeCharge	SCH - LSE	206.00	309	25.9	12.5	29.8	14.1	6.6
GBG Group	GBG - LSE	286.00	384	10.5	29.8	13.4	34.6	0.8
PayPal	PYPL - US	39.74	47,952	1,205.7	26.5	2,069.0	19.8	na
Amercian Express	AXP - US	75.06	68,699	7,151.0	12.7	10,604.0	6.7	1.6
Mastercard	MA - US	104.54	113,908	3,900.2	27.9	6,208.0	16.0	0.7
Visa	V - US	78.36	182,336	5,875.5	23.9	8,385.0	24.1	0.9
Global Payments	GPN - US	71.42	10,977	341.7	20.4	612.8	23.7	0.1

Source: Bloomberg, Patersons Securities Ltd

Valuation Upside Potential

Our target valuation of c\$492m on a fully diluted basis, in our view, only scratches the surface of what ISX may achieve. Based on existing contracts and the requirement for only a limited number of new customer contracts to be signed up over the next couple years, the earnings multiples and dividend yields look remarkable for any type of business, let alone a leading edge patent protected technology company with global scale and ambition.

Over the course of 2017, we expect to see ISX deliver on the first phase of commercialisation of its service offering, and then we expect "the penny to drop" for the market, that until now has not been able to gain a grasp of the underlying potential of ISX. Even in this first phase, we have attempted to be conservative, but we acknowledge there is much uncertainty at present. As we look through to the medium to long term horizon, we see a very strong outlook with ISX being able to win a substantial market share of financial market trading and gaming sectors. These are both vast in their own right and we also look to a range of other applications for identity verification in various regulated sectors that may have lower intrinsic volume but could attract premium pricing.

If the March and June quarterly data show promising signs around ISX's performance, we do not believe it would take much for there to be a material appreciation in the price and subsequently trading multiples.

Figure 17: Valuation Parameters

	2016A	2017F	FY18F	FY19F
PER (x)	-21.9	445.6	17.6	7.5
EV / EBITDA (x)	-21.2	571.3	11.4	4.5
Dividend Yield (%)	0.0	0.0	3.1	7.3

Source: Patersons Securities Ltd

CAPITAL STRUCTURE

ISX has c290.2m quoted shares on issue. However, there is another c331.7m restricted shares under voluntary escrow for a period of 24 months from the quotation of the listed shell company, within which ISX became a publicly listed entity. These shares are to be released from escrow on 13 March 2017.

There are a further c336.7m performance shares that we expect to be issued to the founders as follows -

- Class A – 112.2m shares to be issued when revenue reaches an annualised \$5m run-rate in a 6 month period
- Class B – 112.2m shares to be issued when revenue reaches an annualised \$7.5m run-rate in a 6 month period
- Class C – 112.2m shares to be issued when revenue reaches an annualised \$10m run-rate in a 6 month period

We would expect these shares to be issued over the course of 2017.

There are also c44.4m in options and performance rights that are in the money.

On a fully diluted basis, share capital will be c1,003m shares.

BOARD & MANAGEMENT

Figure 18: Board of Directors

Name	Position	Shareholding	Description
Timothy Hart	Non-Executive Chairman	285,107	Hart currently serves as Managing Director of Ridley Corporation ASX: RIC). Hart has an extensive background in senior management in the agribusiness, food, resources, automotive and packaging industries across Australia, New Zealand, Europe and Asia. Previous senior positions held include: CSR Sugar; SCA Hygiene Australasia; Carter Holt Harvey; ACI Plastics Packaging; Amcor; and Pasmenco. Hart is a Member of the Audit & Risk Committee and Member of the Remuneration Committee.
Nickolas John Karantzis	Managing Director	na	Karantzis is founder and largest shareholder of ISX who holds qualifications in Engineering, Law and Business. Karantzis leads the sales effort whilst developing the intellectual property through to commercialisation. Karantzis has over 20 years' experience in a number of sectors, including online media, defence and communications, with a background in secure communications. Karantzis was previously a director of Pacific Star network (ASX: PNW) and Reeltime Media (RMA). Karantzis' role spans strategy, legal, regulatory, and corporate development functions.
Scott Minehane	Non-Executive Director	na	Minehane's legal background has focused on international regulatory compliance and strategy in the telecommunications industry, and has been involved in advising investors, operators, Governments and regulators in Australia, Asia, the Pacific and South Africa. His expertise extends to spectrum management, NBN and new generation fixed and mobile technologies including 4G. Minehane is an independent director of Etherstack (ASX: ESK) which specialises in wireless technology including waveforms and public mobile radio solutions. Minehane is Chairman of the Audit and Risk Committee.
Barnaby Egerton-Warburto	Non-Executive Director	2,847,224	Egerton-Warburton has over 25 years of investment banking and international investment and markets experience. He has held positions with global investment banks in Hong Kong, New York, and Sydney including JP Morgan, BNP, and Prudential Securities. He is currently a director of Eneabba Gas Ltd (ASX: ENB); Global Geoscience Ltd (ASX: GSC) and Interpose Holdings (ASX: IHS). Egerton-Warburton is a Member of the Nomination and Remuneration Committee and Audit & Risk Committee.
Todd Richards	CFO	na	Richards is a co-founder of ISX and a CPA with more than 20 years' experience in statutory corporations and international and ASX companies. Richards' experience has been gained in a number of industries including manufacturing, logistics, professional sport, IT, online media and telecommunications. Richards' previous public company experience includes roles with Destra Corporation Ltd (ASX: DES) and Reeltime Media (ASX: RMA)

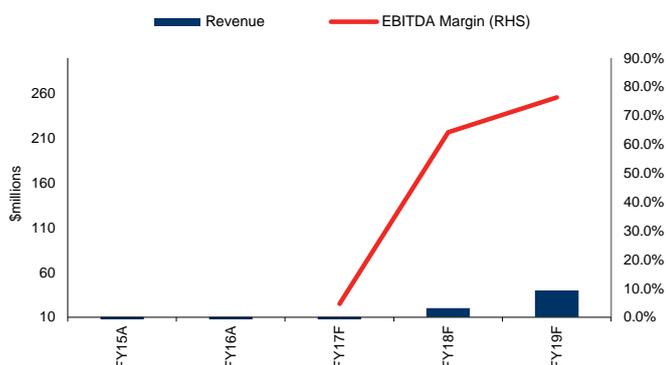
Source: Patersons Securities Ltd. N.B. iSignthis Ltd owns 311.7m shares in ISX. The beneficial owners of this entity have not been disclosed but appear to be related to board members / management

KEY RISKS

- **Is it too good to be true?** Occasionally the market comes across stories that appear to have tremendous blue sky potential and then gradually the market learns that the ability of the company to achieve results for reasons that may be external or internal, is limited and initial expectations disappoint relative to reality. ISX seems to have enormous potential but it has also been five years in the making and there were also delays with finalising processing capacity sign off early in 2016. ISX appears to finally be at that point where it can be judged purely on results and the robustness of the model in reality as compared with “the story”. This makes 2017 a critical year to assess the earnings potential of customers signed to date, as well as the customers to be signed during the year, and the ramp up effect where the market will expect acceleration in customer take-up over the next year.
- **Do the Regulators have Teeth?** ISX is relying on penetrating the financial market trading and online gaming sectors that fall under the umbrella of regulated merchants. These sectors are being scrutinised with increasing intensity due to the view that they are being used as a channel for money laundering and terrorism financing. Subsequently, the gaming sector has been specifically brought into the 4th AML Directive for the first time. It remains to be seen whether the gaming and trading sectors actively seek to become compliant or whether they continue to operate with a “business as usual” philosophy and stare down regulators. If the various regulators show they are serious about combatting money laundering and terrorism activity, which is a reflection of the EU parliament’s commitment, then ISX is positioned to be a strong beneficiary, with many of the operators in these sectors seeking a quick, effective and cost competitive solution. For now it does appear that there is a strong regulatory tailwind supporting ISX’s activities.
- **Commercialisation.** ISX has signed up approximately a dozen customers over the past year, which is the first year where it has focused on commercialising its offering. It has signed up the second largest online FX trading firm in XM.com and partnered with NAB. Both of these relationships should send strong signals to operators in targeted industries and the market, that ISX’s technology has strong merit and could be an effective and cost competitive solution to online identity verification and subsequently payment facilitation. Given that there are c20,000 retail FX trading firms in Europe, there is a long runway of growth ahead for ISX, but it does need to demonstrate an ability to negotiate and build a much larger customer base than is evident to date.
- **Scale.** Our understanding to date is that there is enormous leverage in the ISX business model. Gross margins are almost pure because there is no human involvement by ISX in the KYC process, due to its algorithmic nature. We also see that the opex base has been quite consistent over several quarters and we have been assured by ISX that minimal additional operating cost is required relative to the expansion potential. Maintaining cost discipline and assessing the true magnitude of leverage should be key areas for the market in 2017 to determine the scope of potential PE expansion.

iSignthis (ISX)	\$0.16			
Cash Flow (\$m)	2016A	2017F	2018F	2019F
Adj. Operating Cashflow	-3.9	1.1	8.2	19.0
Capex	-0.1	-1.0	-1.0	-1.0
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	0.0	0.0	0.0	0.0
Investing Cashflow	-0.1	-1.1	-1.1	-1.1
Equity Raised	10.7	0.0	0.0	0.0
Increase (Repay) Debt	0.0	0.0	0.0	0.0
Distributions Paid	0.0	0.0	-2.9	-8.5
Other	0.0	0.0	0.0	0.0
Financing Cashflow	10.7	0.0	-2.9	-8.5
Change in Cash Held	6.8	0.0	4.3	9.4
Closing Cash Balance	9.0	8.9	13.2	22.6

Revenue & Margins



Valuation	2017F	FY18F	FY19F
DCF			
Beta			2.0x
WACC			18.0%
DCF per share			\$0.50
Capitalisation of future earnings	2017F	2018F	2019F
EBITDA	0.3	13.0	30.5
EV / EBITDA multiple	15.0x	15.0x	15.0x
Enterprise value	4.0	194.6	457.7
Net cash / (debt)	8.9	13.2	22.6
Equity value	12.9	207.8	480.3
Equity value per share	\$0.02	\$0.21	\$0.48

Directors & substantial shareholders

Name	Position
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

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

Profit & Loss (\$m)	2016A	2017F	FY18F	FY19F
Sales Revenue	0.4	5.7	20.2	40.0
COGS	0.0	-0.3	-1.0	-2.0
Gross Profit	0.4	5.4	19.2	38.0
Operating Expenses	-4.7	-5.2	-6.2	-7.5
Associates	0.0	0.0	0.0	0.0
EBITDA	-4.3	0.3	13.0	30.5
Depn & Amort	-0.1	-0.2	-0.3	-0.3
EBIT	-4.4	0.1	12.7	30.2
Net Interest	0.0	0.3	0.4	0.5
PBT	-4.4	0.4	13.1	30.7
Tax expense	0.0	-0.1	-3.9	-9.2
NPAT (Underlying)	-4.4	0.3	9.1	21.5
Adjustment	-4.9	0.0	0.0	0.0
Statutory NPAT	-9.2	0.3	9.1	21.5
NPAT (Adjusted)	-4.4	0.3	9.1	21.5

Segment Revenue (\$m)	2017F	FY18F	FY19F
Average User No. (m)	1.5	2.8	3.8
Average Transactions Processed (m)	3.0	13.0	25.8

Verification Catch-Up Revenue	2.4	1.8	1.8
Verification Annuity Revenue	1.6	12.1	19.3
Transaction Processing Revenue	1.3	4.6	7.7
Settlement Revenue	0.4	1.8	11.3
Total Revenues	5.7	20.2	40.0

Balance Sheet (\$m)	2016A	2017F	FY18F	FY19F
Cash	9.0	8.9	13.2	22.6
PP&E	0.2	1.1	2.0	2.8
Intangibles	1.2	1.1	1.1	1.0
Other	0.1	1.4	3.2	7.1
Assets	10.4	12.6	19.5	33.5
Payables	0.5	2.5	3.1	4.1
Borrowings	0.0	0.0	0.0	0.0
Other liabilities	0.1	0.1	0.1	0.1
Liabilities	0.7	2.6	3.2	4.2
Shareholders Funds	9.7	10.0	16.3	29.3

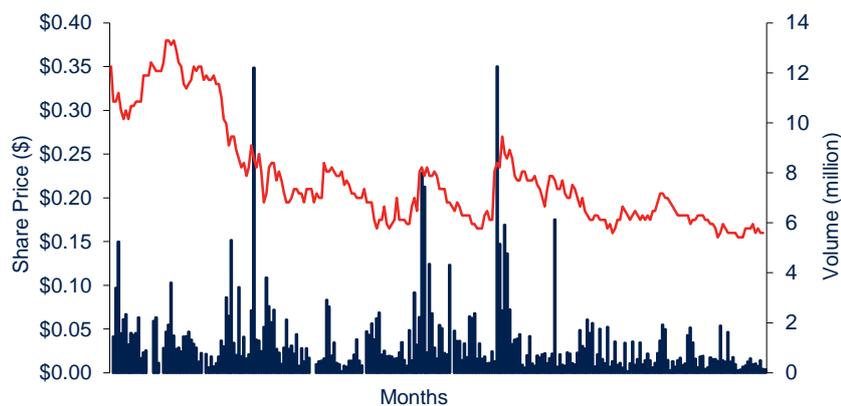
EPS & DPS	2016A	2017F	FY18F	FY19F
EPS (Reported)	-1.5	0.0	0.9	2.1
EPS (Adjusted)	-0.7	0.0	0.9	2.1
EPS growth (%)	23.7	-104.9	2438.2	135.3
DPS	0.0	0.0	0.5	1.2
Payout Ratio (%)	0.0	0.0	54.7	54.8
Dividend Yield (%)	0.0	0.0	3.1	7.3

Ratios	2016A	2017F	FY18F	FY19F
Profitability				
NPAT Growth (%)	133.6	-106.7	3032.7	135.3
Sales Growth (%)	1432.6	1191.4	252.3	97.9
EBITDA Margin (%)	-961.0	4.6	64.2	76.3
ROIC (%)	-555.8	-6.0	283.2	311.3
ROE (%)	-44.9	2.9	56.1	73.4
ROA (%)	-40.9	2.1	66.5	91.0
Tax Rate (%)	0.0	30.0	30.0	30.0

Valuation	2016A	2017F	FY18F	FY19F
Price / Earnings (x)	-21.9	445.6	17.6	7.5
EV / EBITDA (x)	-21.2	571.3	11.4	4.5
Price / FCF (x)	-23.3	-352.4	23.7	9.3
Price / NTA (x)	11.2	14.6	10.5	5.7

Balance Sheet	2016A	2017F	FY18F	FY19F
Net Debt / Equity (%)	-91.9	-89.1	-81.0	-77.0
Net Debt / Assets (%)	-85.9	-70.8	-67.7	-67.3
Interest Cover (x)	-3143.8	-0.2	-35.5	-57.2
NTA (\$/share)	0.0	0.0	0.0	0.0
Shares (m)	621.8	1002.8	1002.8	1002.8

Recommendation History



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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