

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

May 28, 2019

iSignthis Ltd. (ASX: ISX / FRA: TA8): Breakeven Run-Rate Achieved, Gross Processed Turnover Value Growth Accelerates

Sector/Industry: Technology

www.isignthis.com

Market Data (as of May 28, 2019)

Current Price	A\$0.66
Fair Value	A\$0.90
Rating*	BUY
Risk*	4
52 Week Range	A\$0.10 - A\$0.68
Shares O/S	1,082,521,838
Market Cap	\$606.19 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	62.43x
YoY Return	233.33%
YoY ASX	7.53%

*see back of report for rating and risk definitions
**all \$ amounts are A\$ unless otherwise specified.



Highlights

- iSignthis Ltd. (“ISX”, “company”) has entered rapid growth as their card acquiring operations have entered EBIT profitability and Gross Processed Turnover Value (“GPTV”) continues to experience outsized growth.
- We had introduced ISX in a note published on December 18, 2018, when the company’s stock traded at \$0.16 per share. **Since then, ISX’s stock price has appreciated 275%.**
- **EBIT Profitability and Rapid Actual GPTV Growth:** The management of ISX reported that, subsequent to the quarter, the company has attained EBIT profitability (on a weekly basis). In addition, the actual GPTV has grown from \$380 million at the end of Q1-2019, to \$542 million as of May 9, 2019, demonstrating tremendous growth in topline potential.
- **Strong Revenue Growth:** The company’s revenues grew to \$1.85 million in Q1-2019, exhibiting 25% YoY growth and 77.54% QoQ growth. Though on an annualized basis this is well short of our 2019 revenue forecast of \$17.20 million, the recent growth in GPTV suggests that growth in coming quarters will accelerate, and we are maintaining our outlook.
- **We are revising our fair value estimate to \$0.90 per share versus our previous fair value estimate of \$0.82 per share.**

Key Financial Data (FYE - DEC 31)

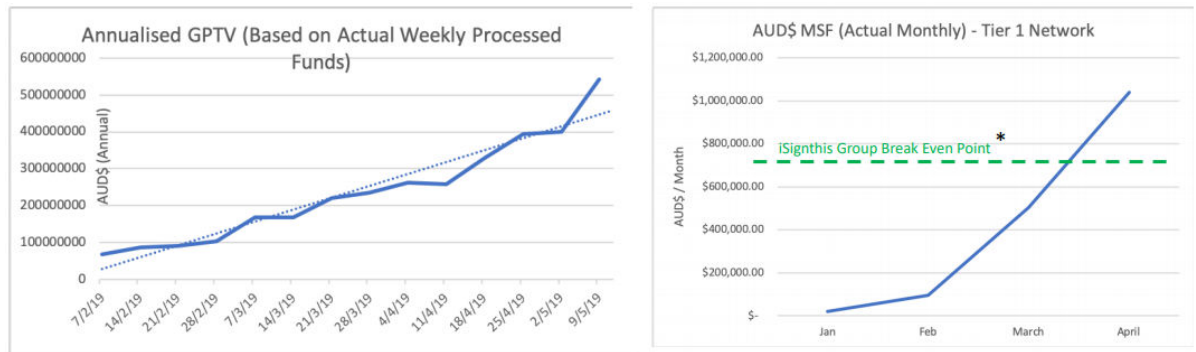
(A\$)	2017	2018E	2019E	2020E
Cash	\$ 7,653,681	\$ 8,433,874	\$ 12,158,947	\$ 22,972,938
Working Capital	\$ 8,068,165	\$ 9,850,889	\$ 13,959,438	\$ 25,731,719
Assets	\$ 10,378,044	\$ 21,868,159	\$ 27,460,353	\$ 41,251,978
Total Debt	\$ -	\$ -	\$ -	\$ -
Revenues	\$ 1,889,915	\$ 6,623,413	\$ 17,200,000	\$ 37,500,000
Net Income	\$ -4,950,486	\$ -8,038,650	\$ 3,584,612	\$ 10,354,384
EPS (basic)	\$ -0.01	\$ -0.01	\$ 0.00	\$ 0.01

Breakeven Run-Rate Achieved, Actualized GPTV Growing Rapidly

On May 14, 2019, the company reported that they had entered the “extreme growth” phase, as annualized actual GPTV hit \$542 million as of May 9, 2019, and ISX’s weekly cash run rate (their average weekly cash receipts from merchants for card acquiring services) exceeded their estimated annual operating cost base (\$8.75 million). This is significant positive news for the company, as EBIT profitability has been achieved despite there being significant growth runway ahead.

The exceptional growth in annualized actual GPTV is also a bullish signal, as the current actual GPTV of \$542 million is significantly higher than the company’s GPTV of \$380 million at the end of Q1-2019, demonstrating outsized growth in a short period of time. Readers should recall that the company derives their card acquiring revenues as a percentage of actual GPTV, and the rapid growth in actual GPTV implies increased revenue potential moving forward. We had forecasted GPTV of \$880 million in 2019, and at the company’s current rate of growth, we expect outsized revenue growth in the coming quarters.

The charts below show growth in actual annualized GPTV (left chart) and the company’s actual monthly MSF (card acquiring revenues) cash receipts (right chart). As the right chart shows, the company exceeded their estimated breakeven point in April 2019.



Source: Company

Furthermore, based on the company’s commentary, there is still ample runway available to the company. ISX has stated that less than 25% of contracted and approved merchants have yet to be onboarded to their network and brought live – meaning that the growth of actual GPTV could potentially accelerate in the coming months. More interestingly, ISX have not commented if the currently onboarded merchants represent the largest or smallest contracted clientele – the GPTV to be actualized could in fact be larger than expected.

Financials

The company reported revenues of \$1.85 million for the quarter ended March 31, 2019, up 77.54% QoQ, and up 25% YoY. The major growth in revenue is attributable to the growth in ISX’s GPTV. Based on the company’s performance in Q1-2019, our 2019 revenue forecast of \$17.20 million may appear to be aggressive. However, the company’s revenue generation has been outsized since it began in 2015, and management have already acknowledged that the pace of revenue growth between Q4-2018 and Q1-2019 has been slow due to a focus on internal infrastructure and technical issues. ISX’s recent growth in GPTV leads us to believe that the following quarters of 2019 may yield higher revenue to

reach our year-end outlook. **We are maintaining our 2019 revenue forecast of \$17.20 million and our 2020 revenue forecast of \$37.50 million. We are also maintaining our 2019 and 2020 net earnings forecasts of \$3.58 million (EPS: \$0.00) and \$10.35 million (EPS: \$0.01), respectively.**

Given the financial reporting system of the Australian Stock Exchange, further details regarding the company's income statement was not disclosed. The company is only required to provide detailed three statement reporting on a half-year basis. However, the company does report cash flow items on a quarterly basis. The company's cash receipts (which we understand to be cash received for services) from customers grew 50.43% QoQ to \$1.41 million in Q1-2019. YoY, they declined 10.38% from \$1.57 million in Q1-2018. The reason for the YoY decline was not disclosed.

Furthermore, though an explicit income statement was not provided, the company does provide an overview of cash costs. As shown below, operating cash costs came to approximately \$3.10 million in Q1-2019, or 120.17% of cash receipts. The annualized operating cash costs based on Q1-2019 is \$12.40 million. To meet their expectation of an operating cost base of \$8.75 million, the company will need to reduce their operating costs in subsequent quarters of 2019.

Consolidated statement of cash flows		Current quarter \$A'000
1.	Cash flows from operating activities	
1.1	Receipts from customers	1,408
1.2	Payments for	
	(a) research and development	(84)
	(b) product manufacturing and operating costs	(390)
	(c) advertising and marketing	(1)
	(d) leased assets	-
	(e) staff costs	(1,299)
	(f) administration and corporate costs	(1,326)
1.3	Dividends received (see note 3)	-
1.4	Interest received	29
1.5	Interest and other costs of finance paid	-
1.6	Income taxes paid	-
1.7	Government grants and tax incentives	-
1.8	Other (provide details if material)	-
1.9	Net cash from / (used in) operating activities	(1,663)

Source: Company

Free cash flows ("FCF") have deteriorated, largely due to deteriorating operating cashflows. The YoY deterioration in cash receipts outlined above was a contributing factor, as was a major increase in cash outflows due to operating costs.

Summary of Cash Flows		
(\$, mm)	2018 (3M)	2019 (3M)
Operating	-\$0.24	-\$1.66
Investing	-\$0.07	\$0.07
Financing	-\$0.34	\$0.05
Effects of Exchange Rate	\$0.10	\$0.33
Net	-\$0.54	-\$1.21
Free Cash Flows to Firm (FCF)	-\$0.31	-\$1.60

At the end of Q1-2019, the company had a cash position of \$7.22 million. As a detailed balance sheet was not given, we cannot comment on working capital, debt or liquidity.

Stock Options and Warrants: We estimate that the company has 11.13 million stock options (weighted average exercise price of \$0.45) and 5.86 million employee incentive performance rights outstanding. We believe that 6.17 million of the options are currently in the money. We estimate that the company could raise up to \$4.96 million if all the in-the-money options were exercised.

Discounted Cash Flow Valuation

Our updated DCF valuation on ISX's shares is \$0.43 per share, versus our previous valuation of \$0.42 per share. The minor increase is due to the increased present value of cash flows.

DCF Model	2019E	2020E	2021E	2022E	2023E	Terminal
EBIT(1-tax)	\$ 2,509,228	\$ 7,248,069	\$ 16,343,791	\$ 29,390,461	\$ 48,994,424	
Non-Cash Expenses	\$ 688,937	\$ 1,665,397	\$ 3,993,395	\$ 6,614,857	\$ 10,547,274	
Investment in WC	\$ -383,476	\$ -958,290	\$ -2,203,588	\$ -4,837,687	\$ -3,165,135	
CFO	\$ 2,814,690	\$ 7,955,176	\$ 18,133,598	\$ 31,167,631	\$ 56,376,563	
CAPEX	\$ -165,000	\$ -247,500	\$ -371,250	\$ -556,875	\$ -835,313	
FCF	\$ 2,649,690	\$ 7,707,676	\$ 17,762,348	\$ 30,610,756	\$ 55,541,250	\$ 57,207,488
PV	\$ 2,503,721	\$ 6,502,740	\$ 13,379,976	\$ 20,587,849	\$ 33,352,973	\$ 381,706,244
Discount Rate	12.00%					
Terminal Growth Rate	3.00%					
Total PV	\$ 458,033,504					
Cash - Debt	\$ 7,222,000					
Equity Value	\$ 465,255,504					
Shares O/S (dil)	1,091,987,554					
Fair Value (AS)	\$ 0.43					

Source: FRC

Comparables Valuation (Peer Companies)

Based upon the comparables group in our initiating report, we are updating our valuation of the company's equity at \$874.37 million on an EV/R basis and \$1.53 billion on an EV/EBITDA basis. Our previous comparables valuation was \$831.53 million on an EV/R basis and \$1.29 billion on an EV/EBITDA basis. Our valuation increased because the peer

companies are trading at higher valuations than in our previous report. Our updated comparables valuation model is outlined below:

Comparables Valuation					
2023 Forecast (Gross Revenues)	\$	200,000,000	2023 Forecast (EBITDA)	\$	70,539,308
Average EV/ Revenue		7.60	Average EV/ EBITDA		37.93
Expected EV (A\$)	\$	1,444,023,500	Expected EV (A\$)	\$	2,542,024,134
Discounted EV (A\$)		\$867,147,865	Discounted EV (A\$)		\$1,526,506,182
Expected Market Cap (A\$)		\$874,369,865	Expected Market Cap (A\$)		\$1,533,728,182
Value per Share (A\$)	\$	0.80	Value per Share (A\$)	\$	1.40

Source: FRC

Comparables Valuation (Comparable Sectors)

For our comparable sectors approach, our valuation has been updated to \$931.40 million on an EV/R basis and \$1.12 billion on an EV/EBITDA basis. Our previous valuation was \$855.08 million on an EV/R basis and \$1.02 billion on an EV/EBITDA basis. Our valuations increased because the comparable sectors are exhibiting higher valuation multiples than in our previous report. Our updated comparables valuation model is outlined below:

Sector Comparables Valuation					
2023 Forecast (Gross Revenues)	\$	200,000,000	2023 Forecast (EBITDA)	\$	70,539,308
Average EV/ Revenue		8.10	Average EV/ EBITDA		27.78
Expected EV (A\$)	\$	1,539,000,000	Expected EV (A\$)	\$	1,861,267,817
Discounted EV (A\$)		\$924,182,026	Discounted EV (A\$)		\$1,117,706,473
Expected Market Cap (A\$)		\$931,404,026	Expected Market Cap (A\$)		\$1,124,928,473
Value per Share (A\$)	\$	0.85	Value per Share (A\$)	\$	1.03

Source: FRC

We are updating our fair value per share estimate on ISX to \$0.90 per share versus our previous fair value estimate of \$0.82 per share. This is the average of all our valuation model outputs.

We believe the company is exposed to the following risks (list is non-exhaustive):

- Valuation is highly dependent on forecasted GPTV and contracted EMAs which is difficult to forecast accurately given the lack of discrete factors which can predict GPTV/ EMA value.
- The payment processing landscape is dominated by large-scale players.
- Partner risk associated with third-party card acquirers.
- Failure to secure licensing with Australian financial regulatory authorities (outlined earlier in the report) may hinder the growth of the company’s Australian business.
- Access to capital and share dilution.
- Interest rate risk.
- Liquidity risk.
- Exchange rate risk.

Our risk rating is 4 (Speculative).

Risks

Appendix

STATEMENTS OF OPERATIONS	*YE JUN 30	*YE JUN 30				
(in A\$) - YE Dec 31st	2015*	2016*	2017	2018	2019E	2020E
Revenue	28,962	443,881	1,889,915	6,623,413	17,200,000	37,500,000
COGS						
Gross Profit	28,962	443,881	1,889,915	6,623,413	17,200,000	37,500,000
EXPENSES						
SG&A Expense	1,507,519	3,407,019	4,940,918	11,639,283	10,320,000	22,500,000
Share-based Compensation	4,601,216	4,834,907	248,080	486,204	516,000	1,500,000
R&D	15,805	521,347	324,608	333,964	344,000	378,400
Other Expenses	369,169	781,006	1,151,940	1,967,349	2,262,451	2,601,819
EBITDA	(6,464,747)	(9,100,398)	(4,775,631)	(7,803,387)	3,757,549	10,519,781
Depreciation & Amortization	7,305	107,546	126,878	178,997	172,937	165,397
EBIT	(6,472,052)	(9,207,944)	(4,902,509)	(7,982,384)	3,584,612	10,354,384
Financing Costs	2,086	1,391	4,574	4,564		
EBT	(6,474,138)	(9,209,335)	(4,907,083)	(7,986,948)	3,584,612	10,354,384
Non-Recurring Expenses	13,665,287	25,882	43,403	43,104		
Taxes				8,598		
Net Profit (Loss)	(20,139,425)	(9,235,217)	(4,950,486)	(8,038,650)	3,584,612	10,354,384
FOREX Translation Adj.	-5,818	-60,540	7,400	-50,484		
Comprehensive Net Profit (Loss)	(20,145,243)	(9,295,757)	(4,943,086)	(8,089,134)	3,584,612	10,354,384
Shares outstanding	389,476,571	605,377,229	636,253,853	798,352,882	1,079,170,635	1,079,170,635
EPS	\$ -0.05	\$ -0.02	\$ -0.01	\$ -0.01	\$ 0.00	\$ 0.01

*Previously YE was 30 June

BALANCE SHEET				
(in AS) - YE Dec 31st	2017	2018	2019E	2020E
ASSETS				
CURRENT				
Cash and Cash Equiv.	7,653,681	8,433,874	12,158,947	22,972,938
A/R	288,868	894,501	1,789,002	3,578,004
Prepays	157,755	139,579	209,369	314,053
Security Deposits		120,306	120,306	120,306
Card Scheme Collateral	346,706	1,459,070	1,459,070	1,459,070
Funds Held on Behalf of Merchants	611,061	9,107,677	10,018,445	11,020,289
Total Current Assets	9,058,071	20,155,007	25,755,138	39,464,660
PPE	99,032	182,039	174,102	256,205
Intangibles	1,220,941	1,531,113	1,531,113	1,531,113
Total Assets	10,378,044	21,868,159	27,460,353	41,251,978
LIABILITIES				
CURRENT				
A/P	255,797	904,934	1,357,401	2,036,102
Employee Benefits	123,048	128,348	256,696	513,392
Other		163,159	163,159	163,159
Funds Held on Behalf of Merchants	611,061	9,107,677	10,018,445	11,020,289
Total Current Liabilities	989,906	10,304,118	11,795,701	13,732,942
Employee Benefits	33,863	29,130	29,130	29,130
Deferred Tax		90,947	90,947	90,947
Other				
Total Liabilities	1,023,769	10,424,195	11,915,778	13,853,019
SHAREHOLDERS EQUITY				
Share Capital	30,677,294	40,677,673	40,677,673	40,677,673
Reserves	4,518,891	1,024,087	1,540,087	3,040,087
Deficit	(25,841,910)	(30,257,796)	(26,673,184)	(16,318,800)
Total shareholders' equity (deficiency)	9,354,275	11,443,964	15,544,576	27,398,960
Total Liabilities and Shareholders Equity	10,378,044	21,868,159	27,460,353	41,251,978

STATEMENTS OF CASH FLOWS				
(in AS) - YE Dec 31st	2017	2018	2019E	2020E
OPERATING ACTIVITIES				
Net Profit for the Year	(4,950,486)	(8,038,650)	3,584,612	10,354,384
Adjusted for items not involving cash:				
Depreciation and Amortization	126,878	178,997	172,937	165,397
Share-based Compensation	248,080	486,204	516,000	1,500,000
FOREX	(135)	18,203		
Funds From Operations	(4,575,663)	(7,355,246)	4,273,549	12,019,781
Change in working capital				
A/R	(126,670)	(605,633)	(894,501)	(1,789,002)
Other Assets	(530,512)	(8,085,021)	(910,768)	(1,001,844)
A/P	(81,875)	649,137	452,467	678,701
Prepays			(69,790)	(104,684)
Employee Benefits	32,368	567	128,348	256,696
Other Liabilities	488,060	8,659,775	910,768	1,001,844
NET CASH USED IN OPERATING ACTIVITIES	(4,794,292)	(6,736,421)	3,890,073	11,061,491
INVESTING ACTIVITIES				
PPE	(59,707)	(110,000)	(165,000)	(247,500)
Intangibles	(173,987)			
Deposits		(115,201)		
Acquisitions		(396,133)		
Loans		(320,000)		
Cash on Deposit Considered an Investment				
NET CASH USED IN INVESTING ACTIVITIES	(233,694)	(941,334)	(165,000)	(247,500)
FINANCING ACTIVITIES				
Proceeds from Shares	6,900,000	10,000,000		
Issue Costs	(167,000)	(307,693)		
Card Scheme Membership Security	(469,700)	(1,190,888)		
NET CASH FROM FINANCING ACTIVITIES	6,263,300	8,501,419	-	-
Foreign Exchange / Others	7,536	(43,471)		
INCREASE IN CASH FOR THE YEAR	1,242,850	780,193	3,725,073	10,813,991
CASH, BEGINNING OF THE YEAR	6,410,831	7,653,681	8,433,874	12,158,947
CASH, END OF THE YEAR	7,653,681	8,433,874	12,158,947	22,972,938

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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