

Key Facts

Company Code	ISX
Current Price	\$0.365
Date of Report	27/11/15
Company Website	www.isignthis.com
Analyst	Alex Cowie
Sponsoring Analyst	Chris Northwood

Company Statistics

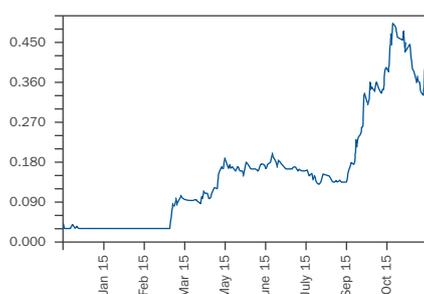
12-Month Range	A\$0.05 – A\$0.51
Market Cap (A\$Mil)	\$365 (Dil)
Issued Shares	289.9 Million
Listed Options (ISXO)	18.6 Million (Exp 31/12/15)
Escrowed Shares	311.7 Million
Perf Rights	336.7 Million
Cash	\$12.1 Million

Major Shareholders

UBS Nominees Pty Ltd	8.49%
Citicorp Nominees Pty Limited	5.68%
Mycatmax Pty Ltd	5.17%
Brispot Nominees Pty Ltd	4.68%
IFM Pty Limited	3.45%

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

Share Price Performance



Canaccord Colts provide research coverage on a select group of early-stage ASX-listed microcap companies that our institutional research team believes have strong development trajectories.

Making verification cheaper and faster

iSignthis has developed, and patented, technology that enables rapid, low cost, user-friendly identity verification for online financial transactions.

In the face of increasing compliance requirements, this allows obligated entities to meet Anti Money Laundering (AML) & Counter Terrorism Funding (CTF) legislation, with little disruption to customer acquisition. It is applicable to a large number of deep verticals including online gaming, Payment Service Providers (PSPs), financial institutions, eWallets and trading platforms.

Costs of compliance are rising, with verification a significant portion of that cost. 'Know Your Customer' (KYC) verification costs vary by provider and scale. However, Electronic identification and trust services (eIDAS) estimates at least 50 Euros (~A\$75) per customer. This compares to iSignthis' expected average charge of A\$15 per customer announced in its recent agreement with Australian company Tikforce. Costs are likely to be lower for large clients, and for gaming firms that verify millions of customers each year, iSignthis will be of strong interest on an ROI basis.

By taking minutes rather than days, as is typical of competing services, and not requiring uploading sensitive documents, iSignthis reduces attrition during customer on boarding, thus improving client conversion and improving the ROI on marketing.

Patented and being commercialised

The company has developed a disruptive service, and to maintain its competitive edge has registered more than twenty patents across multiple jurisdictions. Canaccord has engaged external technology patent consultants to review the patent portfolio. In our opinion, iSignthis appears to have the ability to benefit from a significant barrier to entry in the foreseeable future.

The company is in the initial stages of commercialisation and as such is "pre-revenue". In recent months, the company has signed initial agreements with eleven small and medium clients across verticals that include online gaming, crypto-currency trading, payment service providers, and HR tech.

The company is aggressively marketing direct to clients, and presenting at various global financial technology conferences and regulatory seminars. It has been actively involved with regulators in formulating laws for the KYC industry in key prospective markets. With marketing spend increasing further we expect strong client growth over the coming year.

Significant revenue opportunities

Revenue from the announced agreements is anticipated to commence in early 2016. While it is too early to model revenues accurately, we see scope for the company to form arrangements that could be measured in the millions of dollars annually for mid-sized clients, and in the tens of millions annually for larger clients.

We have initiated as a Canaccord Colt due to the company's early stage of commercialisation. As more detail about potential revenues become more transparent and the company de-risks, we anticipate increasing our level of financial detail and gaining a clearer view of potential equity valuation.

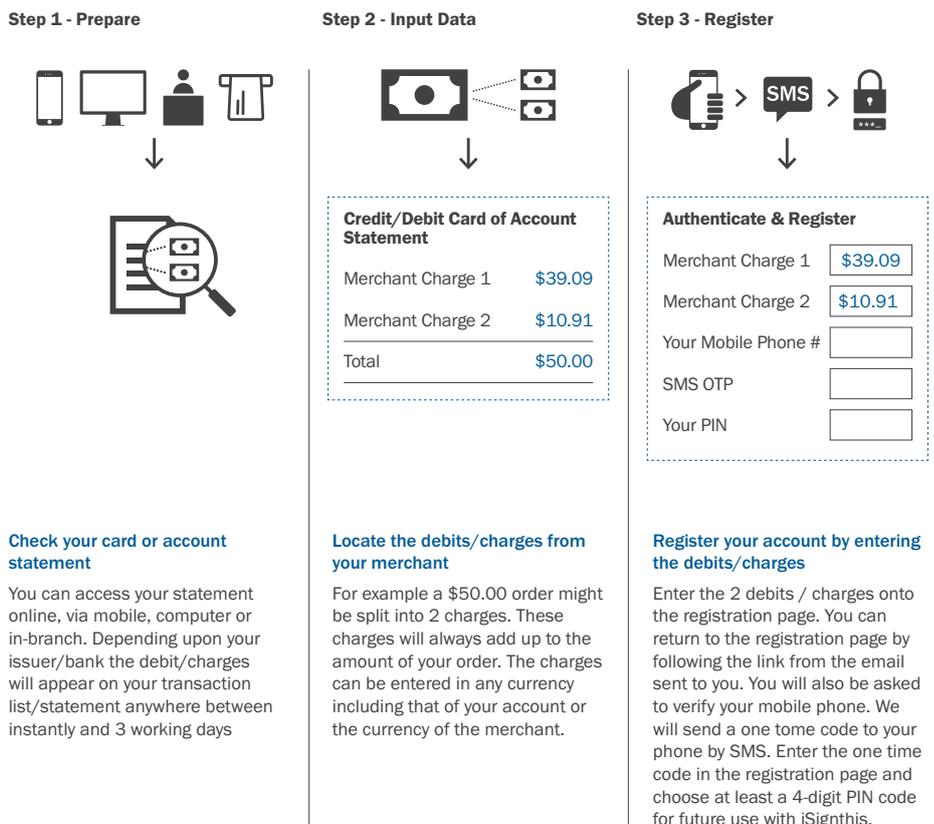
How does it work?

iSignthis is able to leverage the verification established by the customer's financial institution, i.e. the hundred-point check used in setting up a bank account, thus allowing it to verify customers from a global pool of approximately 3.5 billion people.

Take the example of a customer on-boarding to a gaming site. As part of the account set up process, the end-user would make a transaction to the gaming company, e.g: by sending €50 to provide a starting balance. Embedded in the payment gateway, iSignthis splits this €50 into two amounts: a random amount and a balancing amount, before pushing these as two separate, real-time charges to the user's account. Splitting the payment like this elegantly **turns the payment into a couple of 'four-digit PINs'**. The customer will typically be able to view the debits on their online bank statement instantly.

Subsequently entering these two 'four-digit pins' into the gaming site unequivocally links the customer to their bank account. Given the account has already satisfied KYC verification standards, the customer's gaming account is subsequently able to meet KYC requirements.

Fig 1: iSignthis Patented Method for Identity Verification in Action



Enhancing the verification, the process requires that customers enter a password which iSignthis sends to their mobile device. Customers are screened for names on sanctions lists and politically exposed persons (PEP) lists. Significant amount of metadata, including geolocation and IP address, is also reviewed to identify transfers involving politically sensitive jurisdictions.

The company gave a real time demonstration of the process in [this presentation](#) at London fintech conference, Finovate. The authors of this report also ran a real time test of our own credit card, satisfying us that the method was both effective and rapid, being completed in a couple of minutes.

For the means of comparison, a typical KYC process from a competing provider is described on the Crownbet site at [this link](#). It is important to note that Crownbet plans to integrate iSignthis to their on-boarding process early 2016.

Patent protected IP

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

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

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...Accordingly, in my view the granted US, Australian, and certified Australian Innovation patents cover the iSignthis system disclosed...

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

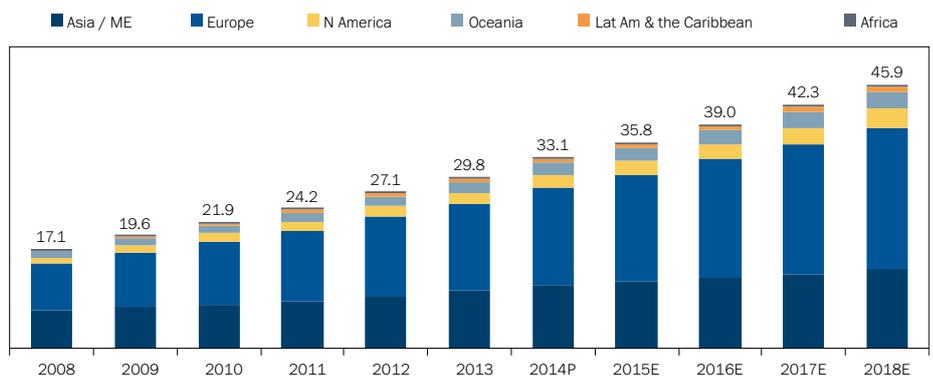
"During prosecution of both the US patent and the Australian Innovation Patent, the main document cited as relevant to whether the invention was patentable was a patent application owned by PayPal, Inc. which was published as US Patent Publication 2002/004772. In both the Australian Innovation Patent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

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

Gaming market as a target opportunity

A huge revenue opportunity for the company is the provision of verification in the large, and increasingly regulated online gaming market. The industry was worth US\$33.1 billion last year in terms of gross win, and is forecasted by H2 Gambling Capital to grow at a CAGR of 8.5% to reach US\$45.9 billion by 2018. Within this, the European gaming market is the dominant segment.

Fig 2: Online Gaming Market - By Region



Source: H2 Gambling Capital, Canaccord Genuity estimates

iSignthis recently announced its first gaming client agreement with Crownbet, which is due to go live in early 2016. While Crownbet is a relatively small player, it gives some comfort that we may see adoption by more players in the industry. The industry is effectively in an ongoing 'arms race', such that any tech that provides a leading edge to one player leads to increased demand by peers in order to remain competitive.

The rapid growth in the industry is leading to rising costs: staff costs are rising as talent becomes scarcer, marketing costs are rising as more players appear, and compliance costs are rising as regulatory requirements increase. Given this backdrop, reduction of operating costs through significantly cheaper verification represents an additional incentive for adoption of iSignthis by gaming clients.

As illustration of the potential impact of cheaper verification, market leading online gaming company 888 reported 19.2 million depositing customers in FY15. Reducing verification costs from approximately 50 Euros to 10 Euros or less would be meaningful.

Highly valuable within other verticals

iSignthis KYC is equally applicable to trading platforms handling forex, CFD's or bitcoin. These are all deep markets, and represent significant opportunities for the company. In September, the company announced an agreement to provide verification for Europe's leading Bitcoin payment service provider Coinify, which sees 125,000 transactions daily. Coinify reported that *"...We now have a KYC and Evidence of Identity that outperform the current financial sector. We are very pleased with iSignthis, and the fact that we now can open for global card payment is a milestone achievement."*

Payment institutions and Payment service providers are another significant market opportunity. iSignthis has signed a number of agreements in recent months with channel partners in this vertical, including IPGPay, Flying Merchant, eMerchant, Clearhaus, Alpha Payments, and eMerchantPay (direct to consumer as well).

Most recently, an agreement was signed with Australian HR tech firm, Tikiforce, to provide a fully automated, digital complementary alternative to the current manual verification service on offer. The HR Tech vertical is another very large opportunity that iSignthis may be able to exploit.

Fig 3: Announcements Agreed to Date

Announced	Agreement with	Vertical	Details
1/05/2015	Solid Trust	Payments	Card processing, E-wallets
16/06/2015	IPGPay	Payments	Direct to merchant solutions
14/07/2015	Flying Merchant	Payments	Payment tech and merchant PSP
21/07/2015	eMerchant	Payments	Payment service provider
8/09/2015	Crownbet	Gaming	Online gaming: Australian market
24/09/2015	ClearHaus	Payments	Payment and card acquiring institution
30/09/2015	Coinify	Trading	Bitcoin trading with integrated PSP
21/10/2015	Alpha Payments	Payments	Global payments system consolidator
21/10/2015	Tikiforce	HR Tech	Employee verification

Source: iSignthis, company release

Regulatory tailwinds

There is increasing global regulatory pressure to provide effective verification, and there have been sizeable fines for failures to do so recent years. These include HSBC (\$1.92 billion), Standard Chartered (\$327 million), BNP (\$8.9 billion), and most recently BNY Mellon (£128 million).

Within the EU28 and Single Euro Payment Area (SEPA), Authentication of all online payments will be increasingly enforced over the next few years. Remote gaming jurisdictions such as Malta, Gibraltar, Cyprus have seen years of explosive growth on the back of tax breaks and easier license applications. This growth has led to challenges in providing effective KYC, with a number of companies in these jurisdictions coming under scrutiny in recent years for inadequate KYC and lax record keeping, and these jurisdictions may present an opportunity for iSignthis.

Australia's regulatory environment scored poorly in the Financial Action Taskforce (FATF) requirements in early 2015, with compliance to increase as a result. Within the local gaming sector, AUSTRAC recently took Federal Court action against Tabcorp for 'extensive, significant and systemic non-compliance with Australia's AML & CFT legislation'. Tabcorp was fined \$17 million for allowing 30 TAB accounts to be opened under false names and filter fraudulent credit card funds for organised crime figures.

The move toward increasing regulatory oversight, and resulting fines, provides a strong tailwind for iSignthis as the platform offers an effective and truly global solution, with cross border and multicurrency support. Obligated entities face the difficult balancing act of satisfying regulators without making the process so demanding as to impair customer acquisition. iSignthis offers a user friendly, disruptive technology that currently meets regulators requirements in many of its key target markets.

Strategy for 2016

iSignthis is marketing actively at major financial technology conferences and with potential clients directly, and we expect the company to continue to build its sales pipeline and deliver new contracts. In its release to the ASX in conjunction with the recent capital raising on 2nd Nov 2015, the company highlights its intention to boost its marketing, activities and expand their US, Latin American, Asia Pacific and European sales teams.

It also plans to leverage the accelerating trend of the move to mobile. Mobile gaming has doubled in the last four years to be worth around 24% of total online gaming spending and is expected to grow to over 40% by 2018. iSignthis works well on mobile devices, though a mobile optimised version of iSignthis is in final stages of development.

The company plans to diversify its product mix to increase client retention and possible revenue streams. It has also given guidance of evaluating the opportunity to invest in a European eMoney License. This would allow settlement of transactions to be handled internally and retain the associated fees. While too early to speculate on how this evolves, it would add a new dimension to ways to monetise the technology.

Significant revenue opportunities across multiple verticals

Existing clients are currently enjoying a waiver period in return for feedback on the platform. The company is therefore pre-revenue at present, however intends to commence revenue generation in early 2016. We highlight that there is insufficient data to model the company effectively, and we have chosen not to set a target price at this point. However, the initial signing of customers and the potential value of potential contracts appears to justify a bullish outlook of the company's future revenue trajectory.

Within the gaming vertical, iSignthis is able to monetise its service a number of ways. Firstly by providing verification when new customers are on boarding ('verification revenue'), secondly for regular (e.g. annual) re-verification of existing customers to comply with AML regulations ('reverification revenue'), and thirdly by charging a fee for authenticating the source of funds when transacting into or out of a customer's account ('transaction revenue'). We anticipate clients being comfortable to pay a fee on transactions if it improves the customer acquisition rate and speed of payout.

By virtue of the scalability of Software As A Service (SaaS), cloud-based platforms, iSignthis is expected to have a low cost of service. We would anticipate gross margins to be 90-99% depending on the scale and specifications of the service offered.

To give a sense of the potential scale of the revenue opportunity, we have made some assumptions around existing agreements. In the case of Crownbet, we assume the company to initially use iSignthis for a small proportion of verification, before rolling out across a higher proportion of new clients later if successful. Crownbet has not publically disclosed performance data, however it formed twelve months ago, and reports '110,000 new customers' in its current marketing. At an estimated fee of A\$15 per customer (the same fee for Tikforce), verifying existing customers annually would drive A\$1.7million / annum, and continued acquisition at this rate would drive additional revenue of A\$1.7million / annum. A A\$0.10 fee on 50 transactions annually, for 110,000 customers, would add a further A\$0.6 million. Total revenue per annum to iSignthis would add to A\$3.9 million in this scenario. This would be a meaningful contract from a relatively small player in the gaming sector.

Larger international online gaming companies represent a huge opportunity. Using fast-growing mid-tier gaming company Bet365, and market leader 888 Holdings as examples, we can demonstrate potential for highly significant revenue, in 'bull-case scenarios'.

For example, Bet 365 recently reported 4.1million customers and a 42% increase in customer base. Assuming it can maintain this trajectory, and that it is charged a lower verification fee (given the scale) of 4 Euros (A\$6), and that its customers transact with the same frequency and fee as Crownbet, the annual revenue opportunity increases to \$55.4 million. Making similar assumptions around 888 Holdings, which has 19.2 million customers and a 15% growth rate, derives a revenue opportunity of \$227 million, as illustrated in Fig 4 overleaf. Note that these scenarios for 888 and Bet365 are purely indicative, and to illustrate potential opportunity.

Fig 4: Indicative scenarios for existing and potential gaming clients

	Crownbet	Bet365	888Holdings
	(Small)	(Medium)	(Large)
Existing clients	110,000	4,100,000	19,200,000
Annual verification	\$15	\$6	\$6
Verification revenue	\$1,650,000	\$24,600,000	\$115,200,000
Growth rate	100%	42%	14%
New clients	110,000	1,722,000	2,688,000
Registration verification	\$15	\$6	\$6
Registration revenue	\$1,650,000	\$10,332,000	\$16,128,000
Transactions / year	50	50	50
Existing clients	110,000	4,100,000	19,200,000
Estimated fee	\$0.10	\$0.10	\$0.10
Transaction revenue	\$550,000	\$20,500,000	\$96,000,000
Total	\$3,850,000	\$55,432,000	\$227,328,000

Source: Canaccord Genuity estimates

Regarding the recent agreement with HR Tech company, Tikforce, we estimate this could drive revenue of ~\$0.75 million/annum, based on the \$15/customer fee and Tikforce's aspirational target of 50,000 customers per annum. Tikforce's pipeline of prospective clients suggests that it may reach and exceed this target, driving a significantly greater revenue opportunity for iSignthis.

We believe the revenue opportunity is very significant, particularly within the gaming vertical. We anticipate providing financial models in due course when more details on existing and future agreements are available.

Post raise \$12 Million cash balance

The cash balance as of 30 Sept was \$1.65 million, with a \$0.6 million burn rate through the quarter. Following a \$10.45 million placement (26.1 million shares at 40c), carried out by Canaccord in early November, the current cash balance is approximately A\$12.1 million.

There are 18.6 million listed options (ISXO) with a \$0.50 strike and 31/12/15 expiry, which would deliver a further \$9.3 million if exercised. There are a further 48.3 million dated mid-2017 (or later).

Post placement, there are 289.9 million listed ISX shares, as well as a further 311.7 million shares escrowed (until 16/3/17). There are an additional 336.7 million performance shares, broken down into three tranches with varying revenue hurdle rates (respectively \$2.5mil, \$3.7mil, \$5.0mil within a six-month period). The fully diluted capital base includes one billion shares, options and performance rights.

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...Large international gaming companies represent a huge opportunity...
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Experienced team with strong regulation credentials

John Karantzis (B.E., LL.M, MEnt., FIEAust) serves as CEO/ Managing Director. John has gained experience at board level of ASX companies through working as Director of Data and Commerce Limited (DCL), then as MD/CEO of ReelTime Media. His responsibilities in iSignthis include P&L, balance sheet, and strategy, with management of the legal, regulatory, corporate development functions, and driving revenues, growth and strategy on the lowest reasonable cost base.

Tim Hart (BSc, MM(T), MMktng, M Ed(Melb), PGDIPSI (Oxon), FAIM, GAICD) is Non-Executive Chairman. He also serves as Managing Director of Ridley Corporation (ASX:RIC). Previous management positions include CSR Sugar, SCA Hygiene Australasia, Carter Holt Harvey, ACI Plastics Packaging, Amcor Ltd and Pasminco Limited.

Todd Richards (B.Bus, CPA) serves as CFO, and also previously worked as CFO with Reeltime Media. Experience in building, leading and advising corporations through high growth and start up phases. Over 5 years as public company CFO. Strong involvement and leadership across all business divisions (finance, operations, HR, legal, IT).

Scott Minehane, Non-Executive Director (B.Econ., LLB, LLM) Lawyer with focus on international regulatory compliance and strategy in telecommunications industry. Scott is an international regulatory and strategy consultant in the telecommunications sector 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

Chris Muir, Chief Legal Officer and Chief Operating Officer, is a qualified lawyer with 20 years experience spanning the private sector and government, including roles at the Australian Transaction Reports and Analysis Centre (AUSTRAC). Chris's roles at AUSTRAC included Director, Enforcement; Director, Rules & Guidance and Senior Manager, Policy. Chris has also been Chief of Staff with a Federal Minister for Justice and a NSW Treasurer.

Chirs Bongers, Commercial Director Europe, is based in the European office in Amsterdam. He was previously Western Union's Head of Business Development for Europe, and has over 12 years' general management, strategy and business development experience in the retail, payments, online payments and retail banking.

iSignthis has around sixteen employees across Amsterdam, London, Perth and Melbourne, with the team set to increase expand globally using funds from the recent placement.

Summary

iSignthis should soon start commercialising what may be a substantial revenue opportunity across multiple verticals, with a disruptive online identity verification technology with patents that appear to protect its competitive advantage.

While there is unpredictability on future contracts and contract specifications, we anticipate meaningful revenue to commence in the second half of FY16, and increase significantly into FY17.

We have initiated as a Canaccord Colt due to the company's early stage of commercialisation. As more detail about potential revenues become more transparent and the company de-risks, we anticipate increasing our level of financial detail and gaining a clearer view of potential equity valuation.

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Site Visit Disclaimer

A site visit has been conducted.

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