

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

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August 23, 2019

iSignthis Ltd. (ASX: ISX / FRA: TA8): First Quarter of Positive Operating Cashflows

Sector/Industry: Technology

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Market Data (as of August 23, 2019)

Current Price	AS\$1.01
Fair Value	AS\$1.30
Rating*	BUY
Risk*	4
52 Week Range	AS\$0.11 - AS\$1.15
Shares O/S	1,089,005,828
Market Cap	AS\$1.09 B
Current Yield	N/A
P/E (forward)	N/A
P/B	96.11x
YoY Return	461.11%
YoY ASX	26.95%

*see back of report for rating and risk definitions

**all \$ amounts are A\$ unless otherwise specified.



Highlights

- In Q2-2019, iSignthis Ltd. ("ISX", "company") posted its first quarter of positive operational cashflows of \$1.36 million compared to -\$1.66 million in Q1-2019.
- We had introduced ISX in a note published on December 18, 2018, when the company's share price was \$0.16 per share. **Since then, ISX's stock price has appreciated 525% and market capitalization has increased from \$172 million to \$1.09 billion.**
- According to the company, the annualized gross processed turnover value ("GPTV") was \$690 million as of July 19, 2019. This implies the company expects the total GPTV in July 2019 to be approximately \$57.5 million (\$690 million divided by 12), up 82% from \$32 million in March 2019.
- Revenues in Q2-2019 were \$6.3 million, up 240% QoQ, and well above our expectations. We believe YoY comparisons are not meaningful, as the company recently changed their business direction by stepping in to offer card acquiring services for a number of high brand risk ("HBR") merchant sectors following the exit (outlined in our initiating report) by the National Australia Bank (ASX: NAB).
- On August 8, 2019 the company entered into an Australian Principal Member licensing agreement with Visa (NYSE: V). Prior to this agreement, in Australia, ISX was a principal member of Mastercard (NYSE: MA), ChinaUnionPay, Diners Club and Discover (NYSE: DFS).

Key Financial Data (FYE - DEC 31)

(A\$)	2017	2018	2019E	2020E
Cash	\$ 7,653,681	\$ 8,433,874	\$ 16,546,660	\$ 49,466,600
Working Capital	\$ 8,068,165	\$ 9,850,889	\$ 18,347,150	\$ 52,225,380
Assets	\$ 10,378,044	\$ 21,868,159	\$ 32,078,066	\$ 67,975,640
Total Debt	\$ -	\$ -	\$ -	\$ -
Revenues	\$ 1,889,915	\$ 6,623,413	\$ 34,003,125	\$ 77,500,000
Net Income	\$ -4,950,486	\$ -8,038,650	\$ 6,297,230	\$ 30,860,333
EPS (basic)	\$ -0.01	\$ -0.01	\$ 0.01	\$ 0.03

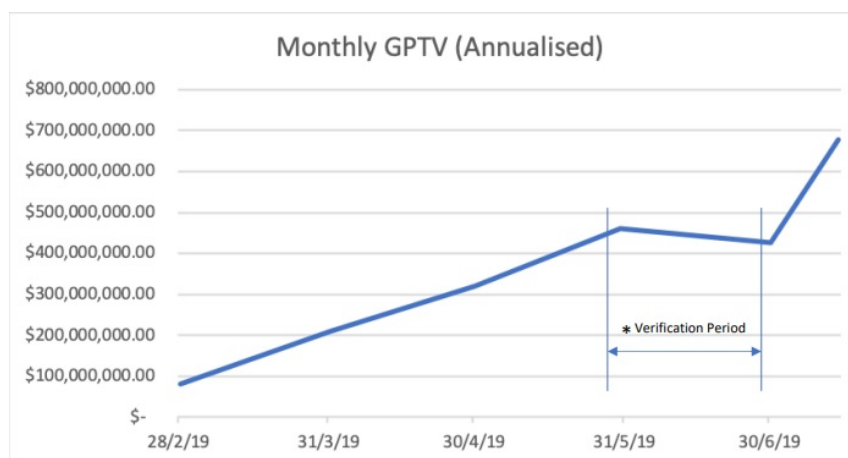
Licensing Agreement with Visa

On August 8, 2019, the company entered into an Australian Principal Member licensing agreement with the Asia Pacific Singapore based regional subsidiary of Visa. Prior to this agreement, in Australia, ISX was a principal member of Mastercard (NYSE: MA), ChinaUnionPay, Diners Club and Discover (NYSE: DFS). We believe this licensing agreement will (1) allow the company to secure substantial new customers in Australia and (2) pave way for the company to expand into the Asia Pacific region (should the company choose to do so).

Continued Rapid Growth of GPTV

The company reported that their annualized GPTV was \$690 million as of July 19, 2019 – up 27% compared to May 9, 2019, and up 82% compared to the end of Q1-2019. The exceptional growth in annualized GPTV is a positive signal and demonstrates the company’s growth potential. The significant increase was a result of the onboarding of approved merchants. As of May 14, 2019, the company reported that under 25% of its approved merchants were onboarded. Although the company has not provided an update regarding the percentage of approved merchants onboarded by the end of Q2-2019, we are maintaining our view that GPTV could accelerate further in the coming quarters, especially because the company has maintained its guidance of \$880 million in total GPTV for 2019.

Readers should be reminded that the company derives their card acquiring revenues as a percentage (%) of GPTV. As such, growth in GPTV would translate directly into growth in top-line revenues. The chart below illustrates the growth in annualized GPTV.

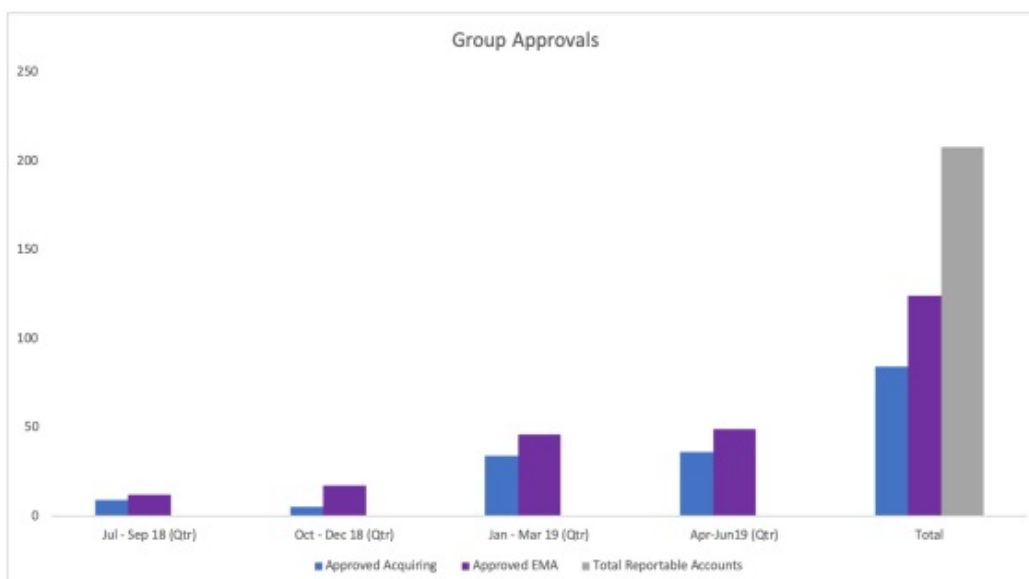


Source: Company

Additionally, the number of approved EMA accounts have continued to grow, as shown in the chart below. As of June 30, 2019, the company had approved more than 130 EMA accounts. The contracted EMA (dollar figures) was undisclosed and, for the sake of conservatism, we are maintaining our 2019 EMA forecast of \$400 million. The chart below illustrates the number of total reportable accounts.

CFO Appointment

Financials



Source: Company

On July 31, 2019, the company appointed Elizabeth Warrell as its Chief Financial Officer (“CFO”). Elizabeth Warrell has over 20 years of banking and financial services experience, including 11 years of experience working at the National Australia Bank. Ms. Warrell held the position of General Manager Finance, Consumer Banking, at NAB, and will start the position of CFO with the company on September 2, 2019.

ISX achieved their first quarter of positive operational cashflows of \$1.36 million in Q2-2019, compared to -\$1.66 million in Q1-2019.

The company reported revenues of \$6.3 million for Q2-2019, up 240% QoQ. For H1-2019, the company reported revenues of \$8.15 million, a 50% increase compared to \$5.43 million in H1-2018. The major growth in revenue was attributed to the growth in GPTV.

The company has not disclosed segmented revenues. However, referencing the annualized monthly GPTV graph (on page 2), we deduce that annualized GPTV was approximately \$400 million and \$120 million in Q2-2019, and Q1-2019, respectively. Based on these GPTV figures, and if we speculate that 80% of revenues (or \$5 million in Q2-2019) came from GPTV, we believe that the company’s GPTV revenues, or the merchant discount rate (“MDR”), was approximately 5% of GPTV.

	Q1-2019	Q2-2019	Q3-2019E	Q4-2019E	2019
Revenues from GPTV (FRC Estimate)	1,480,000	5,040,000	8,625,000	14,878,125	30,023,125
GPTV in the Quarter (FRC Estimate)	30,000,000	100,000,000	172,500,000	297,562,500	600,062,500
Implied Merchant Discount Rate	4.93%	5.04%	5.00%	5.00%	4.99%

Source: Company, FRC

As the GPTV in July 2019 was approximately \$57.5 million, a 72.5% increase over the average monthly GPTV of approximately \$33.3 million in Q2-2019, we conservatively estimate that Q3-2019 GPTV will also be 72.5% higher than Q2-2019. We have applied a

similar QoQ growth rate in Q4-2019, which would bring the total GPTV to approximately \$600 million in 2019, versus management's guidance of \$880 million (see above table).

As stated in our previous update report, given the financial reporting system of the Australian Stock Exchange, further details regarding the company's income statement were not disclosed. 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 327% QoQ to \$6.01 million in Q2-2019, from \$1.41 million in Q1-2019. In addition, product manufacturing and operating costs were \$2.30 million, implying a 62% gross margin. The company's Q2-2019 operating cash flow is shown below.

Consolidated statement of cash flows		Current quarter \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		6,014
1.2 Payments for		
(a) research and development		(279)
(b) product manufacturing and operating costs		(2,303)
(c) advertising and marketing		(182)
(d) leased assets		-
(e) staff costs		(1,695)
(f) administration and corporate costs		(819)
1.3 Dividends received (see note 3)		-
1.4 Interest received		28
1.5 Interest and other costs of finance paid		-
1.6 Income taxes paid		-
1.7 Government grants and tax incentives		593
1.8 Other (provide details if material)		-
1.9 Net cash from / (used in) operating activities		1,357

Source: Company

In our previous report, we had forecasted a gross profit margin of 36% for 2019. Given the strong margin in Q2, and taking into consideration the Payment Processor industry average gross profit margin of 56.1% (Source: S&P Capital IQ), we have revised our 2019 gross profit margin to 56%. We are also raising our longer-term gross margin and EBITDA forecasts to be in line with the industry averages. Our revised forecasts are shown below:

	2019E	2020E	2021E	2022E	2023E
GPTV	\$ 600,062,500	\$ 1,250,000,000	\$ 3,000,000,000	\$ 5,000,000,000	\$ 8,000,000,000
Merchant Discount Rate	5.00%	5.00%	5.00%	5.00%	5.00%
Payment Processing Revenue	\$ 30,003,125	\$ 62,500,000	\$ 150,000,000	\$ 250,000,000	\$ 400,000,000
EMAs	\$ 400,000,000	\$ 1,500,000,000	\$ 3,000,000,000	\$ 5,000,000,000	\$ 8,000,000,000
Average EMA Service Fees	1.00%	1.00%	1.00%	1.00%	1.00%
EMA Revenues	\$ 4,000,000	\$ 15,000,000	\$ 30,000,000	\$ 50,000,000	\$ 80,000,000
Total Revenues	\$ 34,003,125	\$ 77,500,000	\$ 180,000,000	\$ 300,000,000	\$ 480,000,000

Source: FRC

STATEMENTS OF OPERATIONS (in A\$) - YE Dec 31st							
	2017	2018	2019E	2020E	2021E	2022E	2023E
Revenue	1,889,915	6,623,413	34,003,125	77,500,000	180,000,000	300,000,000	480,000,000
COGS	455,737	5,122,216	15,001,563	31,250,000	75,000,000	125,000,000	200,000,000
Gross Profit	1,434,178	1,501,197	19,001,563	46,250,000	105,000,000	175,000,000	280,000,000
	76%	23%	56%	60%	58%	58%	58%
EXPENSES							
SG&A Expense	4,485,181	6,517,067	8,500,781	8,925,820	40,500,000	67,500,000	108,000,000
Share-Based Compensation	248,080	486,204	1,020,094	3,100,000	7,200,000	12,000,000	19,200,000
R&D	324,608	333,964	748,069	822,876	905,163	995,680	1,095,247
Other Expenses	1,151,940	1,967,349	2,262,451	2,375,574	4,500,000	7,500,000	12,000,000
EBITDA	(4,775,631)	(7,803,387)	6,470,167	31,025,730	51,894,837	87,004,320	139,704,753
Depreciation & Amortization	126,878	178,997	172,937	165,397	243,395	364,857	547,274
EBIT	(4,902,509)	(7,982,384)	6,297,230	30,860,333	51,651,442	86,639,463	139,157,478
Financing Costs	4,574	4,564					
EBT	(4,907,083)	(7,986,948)	6,297,230	30,860,333	51,651,442	86,639,463	139,157,478
Non-Recurring Expenses	43,403	43,104					
Taxes		8,598			15,495,433	25,991,839	41,747,244
Net Profit (Loss)	(4,950,486)	(8,038,650)	6,297,230	30,860,333	36,156,009	60,647,624	97,410,235

Source: Company, FRC

At the end of Q2-2019, the company had a cash position of \$9.99 million. In July 2019, the stock options were exercised for a total of \$3.1 million. As a detailed balance sheet was not presented, we cannot comment on working capital, debt or liquidity.

Stock Options and Warrants: We estimate that the company has 4.66 million stock options (weighted average exercise price of \$0.30) and 5.94 million employee incentive performance rights outstanding. 6.13 million of the options are currently in the money. The company could raise up to \$1.41 million if all the in-the-money options were exercised.

Valuation

Discounted Cash Flow Valuation

Our updated DCF valuation on ISX's shares is \$0.89 per share, versus our previous valuation of \$0.42 per share. The large increase is due to the revision in our margin forecasts.

DCF Model	2019E	2020E	2021E	2022E	2023E
EBIT(1-tax)	\$ 4,408,061	\$ 21,602,233	\$ 36,156,009	\$ 60,647,624	\$ 97,410,235
Non-Cash Expenses	\$ 1,193,031	\$ 3,265,397	\$ 7,443,395	\$ 12,364,857	\$ 19,747,274
Investment in WC	\$ -383,476	\$ -958,290	\$ -2,203,588	\$ -4,837,687	\$ -3,165,135
CFO	\$ 5,217,617	\$ 23,909,340	\$ 41,395,817	\$ 68,174,794	\$ 113,992,374
CAPEX	\$ -165,000	\$ -247,500	\$ -371,250	\$ -556,875	\$ -835,313
FCF	\$ 5,052,617	\$ 23,661,840	\$ 41,024,567	\$ 67,617,919	\$ 113,157,061
PV	\$ 4,911,474	\$ 20,536,479	\$ 31,790,946	\$ 46,784,633	\$ 69,904,489
Discount Rate	12.00%				
Terminal Growth Rate	3.00%				
Total PV	\$ 973,946,059				
Cash - Debt	\$ 8,433,874				
Equity Value	\$ 982,379,933				
Shares O/S (dil)	1,099,600,018				
Fair Value (A\$)	0.89				

Source: FRC

Comparables Valuation

The following table shows a list of comparable companies and sectors.

Sector	EV/R	EV/EBITDA
Payment Service Providers and Gateways	7.40	35.90
Payment Processors	8.90	26.70
Internet Merchant Services	10.20	25.40
Data Processing and Outsourced Services	7.50	23.60
Average	8.50	27.90

Company	EV/R	EV/EBITDA
SafeCharge International Group LSE: SCH	5.40	23.00
EML Payments Ltd. ASX: EML	7.46	22.17
Mint Payments Ltd. ASX: MNW	5.98	
GB Group LSE: GBG	5.92	24.50
PayPal Holdings Inc. NASDAQ: PYPL	5.84	21.79
Square Inc. NYSE: SQ	9.00	43.10
Global Payments Inc. NYSE: GPN	6.31	17.21
Average	6.56	25.30

Source: S&P Capital IQ

Our revised comparables valuation on ISX's shares is shown below. Our fair value estimate based on an EV/Revenue of 5.3x is \$1.42 per share (previously \$0.85 per share), and based on an EV/EBITDA of 20.2x is \$1.60 per share (previously \$1.03 per share).

Comparables Valuation					
2023 Forecast (Gross Revenues)	\$	480,000,000	2023 Forecast (EBITDA)	\$	139,704,753
Average EV/ Revenue*		5.25	Average EV/ EBITDA*		20.24
Expected EV (A\$)	\$	2,518,491,429	Expected EV (A\$)	\$	2,827,065,372
Discounted EV (A\$)		\$1,555,836,231	Discounted EV (A\$)		\$1,746,462,459
Expected Market Cap (A\$)		\$1,564,270,105	Expected Market Cap (A\$)		\$1,754,896,333
Value per Share (A\$)	\$	1.42	Value per Share (A\$)	\$	1.60

*A 20% discount factor was applied for conservatism

Source: S&P Capital IQ, FRC

We are updating our fair value per share estimate on ISX to **\$1.30 per share** versus our previous fair value estimate of **\$0.90 per share**. This is the average of our three valuations.

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 a licensing with Australian financial regulatory authorities (outlined earlier in the report) may hinder the growth of the company's Australian business.
- Interest rate risk.
- Exchange rate risk.
-

Our risk rating is 4 (Speculative)

Risks

Appendix

STATEMENTS OF OPERATIONS				
(in AS) - YE Dec 31st	2017	2018	2019E	2020E
Revenue	1,889,915	6,623,413	34,003,125	77,500,000
COGS	455,737	5,122,216	15,001,563	31,250,000
Gross Profit	1,434,178	1,501,197	19,001,563	46,250,000
EXPENSES				
SG&A Expense	4,485,181	6,517,067	8,500,781	8,925,820
Share-Based Compensation	248,080	486,204	1,020,094	3,100,000
R&D	324,608	333,964	748,069	822,876
Other Expenses	1,151,940	1,967,349	2,262,451	2,375,574
EBITDA	(4,775,631)	(7,803,387)	6,470,167	31,025,730
Depreciation & Amortization	126,878	178,997	172,937	165,397
EBIT	(4,902,509)	(7,982,384)	6,297,230	30,860,333
Financing Costs	4,574	4,564		
EBT	(4,907,083)	(7,986,948)	6,297,230	30,860,333
Non-Recurring Expenses	43,403	43,104		
Taxes		8,598		
Net Profit (Loss)	(4,950,486)	(8,038,650)	6,297,230	30,860,333
FOREX Translation Adj.	7,400	-50,484		
Comprehensive Net Profit (Loss)	(4,943,086)	(8,089,134)	6,297,230	30,860,333
Shares outstanding	636,253,853	798,352,882	1,089,005,828	1,089,005,828
EPS	\$ -0.01	\$ -0.01	\$ 0.01	\$ 0.03

BALANCE SHEET				
(in AS) - YE Dec 31st	2017	2018	2019E	2020E
ASSETS				
CURRENT				
Cash and Cash Equiv.	7,653,681	8,433,874	16,546,660	49,466,600
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	30,142,851	65,958,322
PPE	99,032	182,039	174,102	256,205
Intangibles	1,220,941	1,531,113	1,761,113	1,761,113
Total Assets	10,378,044	21,868,159	32,078,066	67,975,640
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	42,078,673	42,078,673
Reserves	4,518,891	1,024,087	2,044,181	5,144,181
Deficit	(25,841,910)	(30,257,796)	(23,960,566)	6,899,768
Total shareholders' equity (deficiency)	9,354,275	11,443,964	20,162,288	54,122,621
Total Liabilities and Shareholders Equity	10,378,044	21,868,159	32,078,066	67,975,640

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)	6,297,230	30,860,333
Adjusted for items not involving cash:				
Depreciation and Amortization	126,878	178,997	172,937	165,397
Share-based Compensation	248,080	486,204	1,020,094	3,100,000
FOREX	(135)	18,203		
Funds From Operations	(4,575,663)	(7,355,246)	7,490,261	34,125,730
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)	7,106,786	33,167,440
INVESTING ACTIVITIES				
PPE	(59,707)	(110,000)	(165,000)	(247,500)
Intangibles	(173,987)		(111,000)	
Deposits		(115,201)		
Acquisitions		(396,133)	(119,000)	
Loans		(320,000)		
Cash on Deposit Considered an Investment				
NET CASH USED IN INVESTING ACTIVITIES	(233,694)	(941,334)	(395,000)	(247,500)
FINANCING ACTIVITIES				
Proceeds from Shares	6,900,000	10,000,000	1,401,000	
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	1,401,000	-
Foreign Exchange / Others	7,536	(43,471)		
INCREASE IN CASH FOR THE YEAR	1,242,850	780,193	8,112,786	32,919,940
CASH, BEGINNING OF THE YEAR	6,410,831	7,653,681	8,433,874	16,546,660
CASH, END OF THE YEAR	7,653,681	8,433,874	16,546,660	49,466,600

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.

Disclaimers and Disclosure

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