

Source: FactSet, QUIS-V started trading Aug 13, 2018.

Market Data (C\$)

Share Price	\$ 0.70
Market Capitalization (M)	\$ 78.3
Net Debt (M)	\$ 10.9
Enterprise Value (M)	\$ 89.1
Basic Shares O/S	111.8
Avg. Daily Volume (M)	0.056
52 Week Range	\$0.55 / \$0.07
Dividend Yield	0.0%
EV/Sales (2020E)	2.1

Management

CEO	Mike Reinhart
CFO	Michael Murphy
SVP, Consulting Services	Steven Balusek
SVP, Production Innovation	Scotty Perkins
President, CRG	Dr. Vijay Jog
President, Menlo Technologies	Gary Prioste
VP, North America Sales	Kevin Castillo
VP, Marketing	Tami Anders

Total Insider Ownership 23%

Business Description

Quisitive is a premier Microsoft solutions provider that helps enterprise organizations move, operate and innovate in the Microsoft cloud: Microsoft Azure, Microsoft Dynamics and Microsoft O365 as well as provide proprietary Software as a Service ("SaaS") solutions such as CRG emPerform(TM), LedgerPay payments and cloud data services (platform and business solutions from other technology partners that complement the Microsoft platform). QUIS helps customers harness the power of the Microsoft cloud and innovative technologies such as, artificial intelligence (AI), machine learning (ML), the Internet of Things (IoT) and blockchain through customized solutions. QUIS serves clients globally with offices in Dallas/Austin, TX; Denver, CO; Silicon Valley; Washington, DC; Minneapolis, MN; Ottawa/Toronto, ON; and Hyderabad, India.



Q4/19 and Q1/20 PREVIEW; MORE ON THE MOVE TO THE CLOUD AND LEDGERPAY

Highlights

- QUIS is scheduled to report Q4/19 and year-end financial results after market closes on Tuesday, April 28, 2020. Management will host a conf call at 8:30am ET on Wednesday, April 29, 2020. Dial in: (800) 319-4610 / (416) 915-3239. Replay info: (800) 319-6413 / (604) 638-9010 (pass: 4376).
- The Street is looking for: (1) Q4/19 revs/EBITDA of \$5.4M/\$0.6M – with no Menlo contribution which closed on January 2, 2020; and (2) Q1/20 revs/EBITDA of \$10.0M/\$1.4M – which includes Menlo, but no LedgerPay revs which should start ramping in Q2/20 (all values in US\$ unless otherwise noted).
- QUIS recently launched LedgerPay, announced a strategic partnership and software licensing agreement with Rev19, and announced a strategic go-to-market relationship with dunnhumby, a global leader in customer data science - offering a first-of-its-kind service for brick-and-mortar merchants such as QSRs, grocers, and other retailers. See our previous note ([here](#)).
- In this note, we look at the Azure opportunity from Phil Sorgen's viewpoint, and provide more colour on LedgerPay.

Catalysts

- We expect more LedgerPay announcements as QUIS works through its pipeline. Future deals could be a mix of SaaS-based revenue and annual license with maintenance and support.
- QUIS will report Q1/20 results towards the end of May 2020.

Valuation

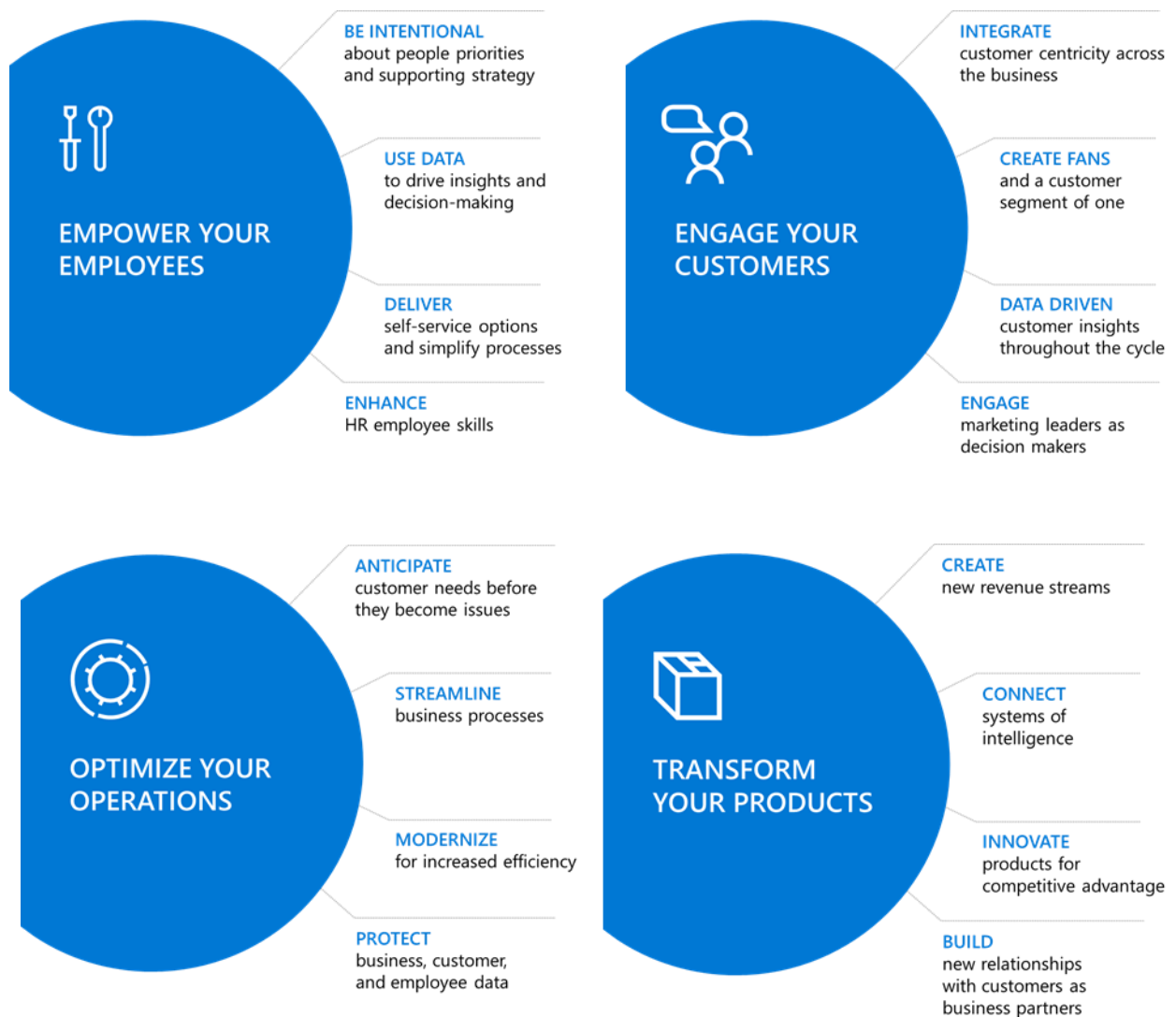
On 2021E consensus estimates, QUIS is trading at an EV/Sales and EV/EBITDA of 2.2x/15.9x (fully diluted) versus its North American IT Services and Global Payment Technology comparables trading at 1.5x/10.9x and 5.4x/13.8x, respectively.

We believe QUIS's consulting business should trade in-line with IT Services companies at 1-1.5x EV/Sales, and 10-12x EV/EBITDA, and LedgerPay should trade in-line with Fin Tech companies at 5-6x EV/Sales, and 13-15x EV/EBITDA. Using a sum-of-the-parts calculation on 2021E estimates for QUIS yields a valuation in the \$0.69-1.41 range.

FRAMING THE DIGITAL TRANSFORMATION OPPORTUNITY WITH PHIL SORGEN

Mr. Phil Sorgen is an Independent Director on Quisitive’s board and former Corporate Vice President of Microsoft’s US Enterprise Commercial group. In a recent interview, Phil spoke about **how professional IT services firms can capitalize on the multi-trillion dollar digital transformation opportunity**. With 60% of enterprises now implementing organization-wide digital platform strategies, IDC forecasts that this market could exceed \$20 trillion or 20% of global GDP. Mr. Sorgen talked about the four ways companies can accelerate their digital transformations: (1) empower your employees; (2) engage your customers; (3) optimize your operations; and (4) transform your products. **Quisitive is well-positioned to capitalize on every aspect of this journey.**

Exhibit 1 – Accelerating Digital Transformation



Source: Phil Sorgen interview with O/M Partners

Mr. Sorgen goes on to describe how IT services providers can differentiate themselves, with the *Market Leaders* having the greatest chance to outperform peers. Phil emphasized how critical it is that Microsoft partners develop the deep expertise needed to help customers across industries leverage the value of Microsoft’s public cloud offerings. In particular, the capability to develop innovative first-party IP (such as emPerform and LedgerPay) will be highly accretive to margin growth.

Exhibit 2 – IT Channel Business Model Differentiation



Source: Phil Sorgen interview with O/M Partners

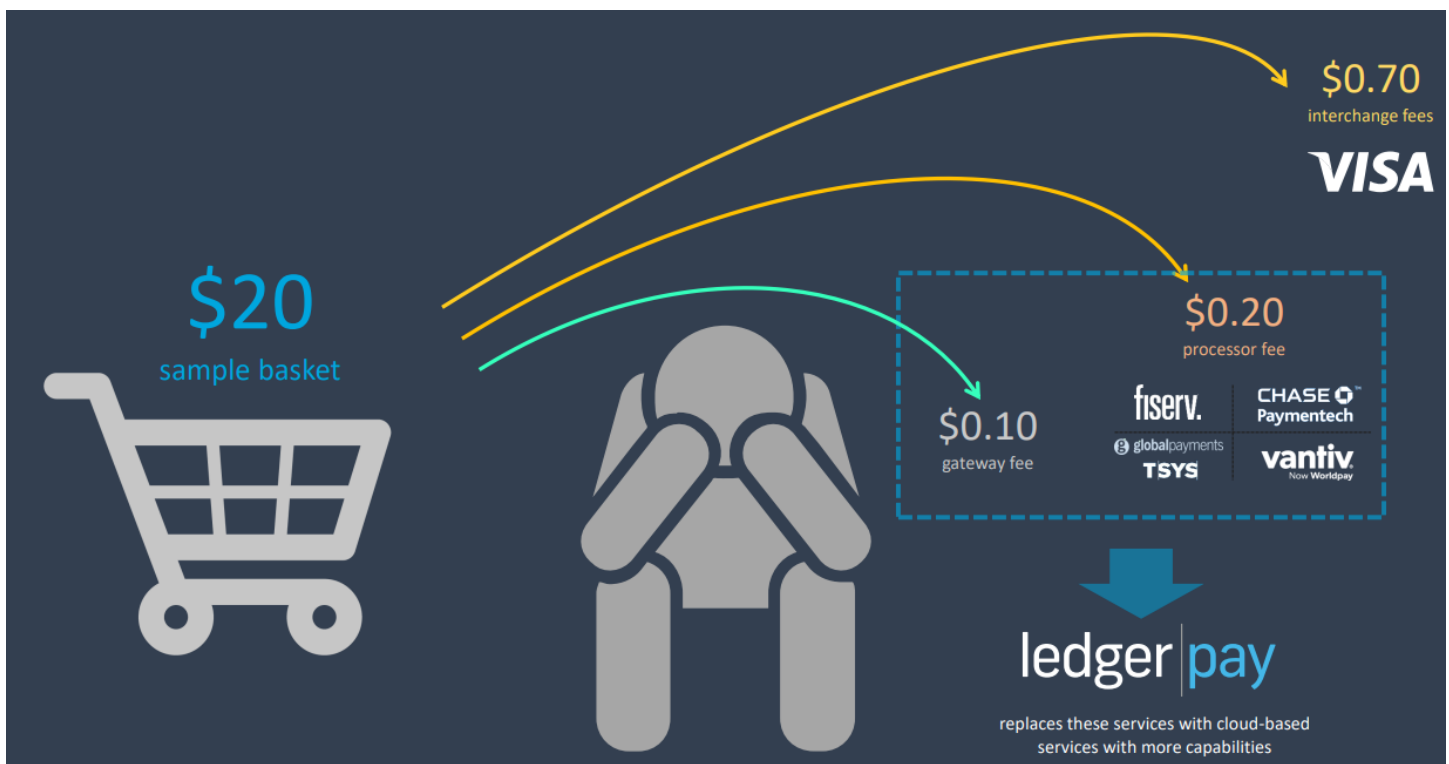
LEDGERPAY – THE COMPETITIVE LANDSCAPE

LedgerPay harnesses the power of Microsoft Azure to enable merchants to instantly learn specific, definable information about their customers that they can then act upon for marketing, promotions, and assortment purposes. Unlike loyalty programs, which only account for a small percentage of consumers who opt in, LedgerPay taps into data from every single customer who uses a payment card. There are two distinct solutions within the LedgerPay Suite:

Payment Processing. Provides traditional payment processing services on a modern, Microsoft cloud-based platform, providing merchants with a highly cost-effective combination of exceptional performance and ease of integration. LedgerPay is the first payment processor designed specifically to personalize and improve the customer experience and increase the retailer’s bottom line and customer loyalty. ***LedgerPay could save merchants money on the 1-2% cost that goes to gateway and processor fees.***

Payment Tokenization. Enables merchants to securely and instantly learn specific, definable information about their customers they can leverage for marketing, promotions, and inventory purposes. Unlike loyalty programs, which only account for a small percentage of consumers who opt in, LedgerPay provides data insights from every customer who uses a payment card. ***This becomes a very profitable and strategic revenue stream for the merchant.***

Exhibit 3 – Taking Out Costs from Typical Merchant Fees



Source: Company documents

The “Big 4” processors (Fiserv/First Data, Chase Paymentech, Global Payments/TSYS and Vantiv/Worldpay) have legacy architecture that are static and expensive. To keep margins high, massive consolidation is underway to stave off disruption and avoid the inevitable race to the bottom. Fiserv acquired First Data for \$38.5B; Global Payments acquired TSYS for \$25.9B; and Vantiv acquired Worldpay for \$11.2B. We note that the legacy incumbent leaders do not have access to the data LedgerPay offers. This will become more problematic to them if LedgerPay partners with a bank sponsor to launch a merchant model - **a scale payment processor to compete directly with the “Big 4” as the default payment platform for any Microsoft Azure cloud customer.**

Exhibit 4 – Payment Processing Competitive Matrix

Solution	Type	Features									
		Tokenization	Marketplace Signup	Gateway	Rules Engine	ACH processing	Direct Credit/Debit	Issuing	Push-to-Card	Loyalty	Gift Cards
LedgerPay	Full Stack	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
First Data	Processor	✓					✓	✓	✓		✓
Global/TSYS	Processor						✓	✓	✓	✓	✓
Paymentech	Processor						✓	✓	✓	✓	✓
Adyen	Processor						✓	✓	✓		
Rapyd	Payments Platform			✓				✓	✓		
Stripe	Payments Platform		✓	✓	✓			✓			
Square	Payments Platform		✓	✓					✓	✓	✓

Source: Company documents

INDUSTRY HIGHLIGHTS

Stripe Valued at \$36B. Stripe raised \$600M at a \$36B valuation in a Series G extension, leading to ~\$2B on its balance sheet to help fuel its explosive growth. The latest round was led by a number of its existing investors, including Andreessen Horowitz, General Catalyst, GV and Sequoia. Stripe now handles more than 250 million API requests a day—and often upwards of 10,000 per second—while maintaining 99.999% uptime. The direct platform further bolsters Stripe’s reliability and ensures better authorization rates (more legitimate transactions approved) for users who care about the best performance.

Visa Acquires Plaid for \$5.3B. Plaid, which was launched in 2013, is attractive to Visa because it has the technology to get access to a customer’s bank account data, collect it and aggregate it for financial services providers to use. Plaid uses a unified application programming interface (API) to link FinTech apps with people’s bank accounts. The company has integrated with about 15,000 banks in Canada and the United States.

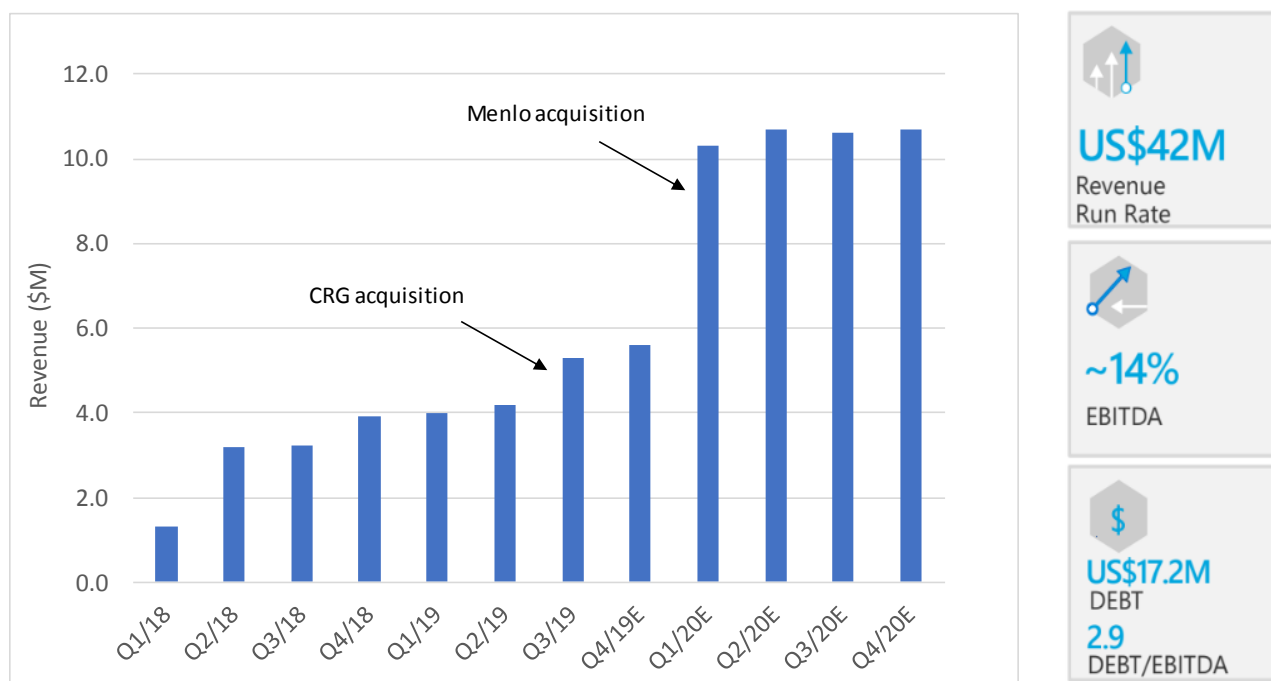
SoFi Acquires Galileo for \$1.2B. Social Finance Inc (SoFi), the online personal finance company, acquired Galileo Financial Technologies ("Galileo") for \$1.2B in cash and stock. Galileo’s digital payments platform enables critical checking and savings account-like functionality via its powerful open APIs, providing companies with an easy way to create sophisticated consumer and B2B financial services. The company's offerings are accessible via mobile, desktop, and a physical debit card. Galileo's APIs power functionalities including account set-up, funding, direct deposit, ACH transfer, IVR, early paycheck direct deposit, bill pay, transaction notifications, check balance, and point of sale authorization as well as dozens of other capabilities. Galileo processed over \$53B of annualized payments volume in March 2020, up from \$26B in September 2019, with accelerating growth.

FINANCIALS – Q4/19 and Q1/20 Previews

The combined company heading into 2020, will have 300+ employees, with a rev/EBITDA run rate of US\$42M/US\$5.9M (without any revenue synergies or LedgerPay). Post the Menlo deal, QUIS will have ~US\$17.2M in debt, for a Debt/EBITDA ratio of 2.9x – which is manageable in our view, and leaves room for further acquisitions in the second half of the year.

The Street is looking for: (1) Q4/19 revs/EBITDA of \$5.4M/\$0.6M – with no Menlo contribution which closed on January 2, 2020; and (2) Q1/20 revs/EBITDA of \$10.0M/\$1.4M – which includes Menlo, but no LedgerPay revenue which should start ramping in Q2/20 (all values in US\$ unless otherwise noted).

Exhibit 5 – Revenue Estimates Show CRG and Menlo Impact (Without Revenue Synergies or LedgerPay)



Source: FactSet, Consensus estimates

Exhibit 6 – Capital Structure

Share Price (C\$)	\$ 0.70	Warrants Outstanding	2.5M @ C\$0.35 expiry (Mar 2022) 19.5M @ C\$0.35 expiry (Dec 2022)*
Shares Outstanding(M)	111.8		
- Insider/Officers	36%		
Warrants Outstanding (M)	22.0	Stock Options Outstanding	0.7M @ C\$0.35 expiry (April 2023) 0.3M @ C\$0.15 expiry (Aug 2024) 1.2M @ C\$0.20 expiry (Dec 2024)
Stock Options/RSU's (M)	8.8		
LedgerPay Shares Convertible	4.2		
Debt (C\$, M)	\$ 26.0	Other Equity	10.2M shares, Quisitive US\$2.5M earnout, issued July 2020 30.9M shares, Menlo US\$4.9M Convertible Note**
Convertible Debt *	\$ 13.0		
Market Cap (C\$, M)	\$ 78.3		
Enterprise Value (C\$, M)	\$ 117.3	Restricted Stock Units (RSU's)	6.6M

* C\$6.5M note with 19.5M detachable Warrants @ C\$0.35

** Convertible Notes C\$6.5M @ C\$0.20

Source: Company Documents, FactSet

VALUATION

On 2021E consensus estimates, QUIS is trading at an EV/Sales and EV/EBITDA of 2.2x/15.9x (fully diluted) versus its North American IT Services and Global Payment Technology comparables trading at 1.5x/10.9x and 5.4x/13.8x, respectively. We believe QUIS's consulting business should trade in-line with IT Services companies at 1-1.5x EV/Sales, and 10-12x EV/EBITDA, and LedgerPay should trade in-line with Fin Tech companies at 5-6x EV/Sales, and 13-15x EV/EBITDA. Using a sum-of-the-parts calculation on 2021E estimates for QUIS yields a valuation in the \$0.69-1.41 range.

Exhibit 7 – Sum of the Parts (SOTP) Valuation

	2020E			2021E		
	Consulting	LedgerPay	SOTP	Consulting	LedgerPay	SOTP
Revenue	\$40-45M	\$5-10M		\$50-55M	\$10-20M	
Multiple	1-1.5x	5-6x		1-1.5x	5-6x	
Valuation	\$40-68M	\$25-60M	\$65-128M \$0.45-\$0.89/share	\$50-83M	\$50-120M	\$100-203M \$0.69-\$1.41/share
EBITDA	\$5-7M	\$2-3M		\$6-8M	\$3-5M	
Multiple	10-12x	13-15x		10-12x	13-15x	
Valuation	\$50-84M	\$26-45M	\$76-129M \$0.53-\$0.89/share	\$60-96M	\$39-75M	\$99-171M \$0.69-\$1.19/share

Source: FMG, FactSet

Exhibit 8 – North American IT Services Comparables

	Ticker	Price (Local)	Mkt Cap. (US\$, M)	LTM Rev (US\$, M)	EV/Sales			EV/EBITDA			P/E		
					2019	2020	2021	2019	2020	2021	2019	2020	2021
Accenture Plc Class A	ACN	175.46	111,773	44,656	2.6	2.5	2.4	15.6	14.0	13.6	23.8	22.9	21.6
CGI Inc. Class A	GIB.A-CA	86.05	16,453	9,196	2.2	2.1	2.1	11.8	11.0	10.5	18.3	17.7	16.2
DXC Technology Co.	DXC	15.92	4,039	20,042	0.6	0.7	0.7	3.7	4.1	4.4	3.0	3.1	2.7
Leidos Holdings, Inc.	LDOS	101.95	14,461	11,094	1.6	1.4	1.3	15.1	13.9	12.1	19.7	18.8	16.1
EPAM Systems, Inc.	EPAM	203.03	11,219	2,294	4.8	4.1	3.4	25.8	23.2	18.2	37.5	34.2	27.5
Booz Allen Hamilton	BAH	75.86	10,637	7,274	1.7	1.6	1.5	16.5	15.4	14.1	24.1	22.0	19.4
CACI International Inc Class A	CACI	243.39	6,102	5,398	1.6	1.4	1.3	17.4	14.2	12.7	23.3	20.0	17.5
Science Applications International Corp.	SAIC	85.25	4,921	6,379	1.1	1.0	0.9	13.0	11.0	9.9	15.1	13.9	11.6
MAXIMUS, Inc.	MMS	64.76	4,141	3,040	1.5	1.4	1.4	10.4	9.7	10.1	17.4	17.3	17.2
ManTech International Corporation Class A	MANT	78.06	3,142	2,223	1.5	1.4	1.3	16.8	16.0	14.6	27.6	27.6	25.0
Conduent, Inc.	CNDT	1.83	383	4,467	0.4	0.5	0.5	3.8	4.4	4.2	3.0	4.5	3.8
ExlService Holdings, Inc.	EXLS	56.20	1,931	991	2.0	1.9	1.8	14.3	13.1	11.5	18.2	17.2	15.4
Perficient, Inc.	PRFT	31.94	1,059	566	2.0	1.9	1.8	11.7	11.3	9.9	15.4	15.3	13.4
Calian Group Ltd.	CGY-CA	44.09	425	362	1.1	1.0	0.9	14.2	11.2	9.7	17.4	19.4	17.4
Alithya Group inc Class A	ALYA	1.74	89	210	0.6	0.6	0.6	12.3	8.4	7.2	NM	NM	NM
Averages:					1.7	1.6	1.5	13.5	12.1	10.9	18.8	18.1	16.0
Quisitive Technology Solutions, Inc.	QUIS-CA	0.70	56	19	NM	1.7	1.5	NM	NM	10.4	NM	NM	NM
							With Convert:	1.8	13.1				
							Fully diluted:	2.2	15.9				

Source: FactSet, Consensus estimates

Exhibit 9 – Global Payments Technology Comparables

	Ticker	Price	Mkt Cap.	LTM Rev	EV/Sales			EV/EBITDA			P/E		
		(Local)	(US\$, M)	(US\$, M)	2019	2020	2021	2019	2020	2021	2019	2020	2021
PayPal Holdings Inc	PYPL	120.18	140,958	17,534	7.7	6.8	5.8	28.1	24.9	20.7	38.8	36.9	30.0
Fidelity National Information Services, Inc.	FIS	125.73	77,668	10,332	7.4	5.9	5.4	18.2	13.9	12.0	22.4	22.1	18.4
Fiserv, Inc.	FISV	96.29	65,124	10,187	5.1	5.2	4.8	16.2	13.7	12.1	24.1	21.5	17.7
Automatic Data Processing, Inc.	ADP	139.23	60,113	14,511	4.3	4.1	4.0	18.4	16.3	15.5	25.5	23.2	21.6
Global Payments Inc.	GPN	153.01	45,923	4,912	8.5	5.8	5.2	19.6	13.4	11.2	24.6	24.8	19.7
Adyen NV	ADYF	918.00	28,298	2,974	NM	8.8	NM	NM	NM	NM	NM	NM	NM
Square, Inc. Class A	SQ	62.01	26,989	4,714	12.5	11.8	8.9	NM	NM	NM	NM	NM	NM
FleetCor Technologies, Inc.	FLT	222.62	19,018	2,649	8.9	8.8	8.0	15.6	14.9	13.0	18.9	18.7	15.9
Wirecard AG	WDI-DE	131.48	16,246	2,513	5.1	4.2	3.3	18.2	14.1	10.8	30.2	23.5	17.7
Jack Henry & Associates, Inc.	JKHY	159.11	12,207	1,631	7.9	7.3	6.8	24.1	22.5	20.5	45.2	43.5	39.2
Temenos AG	TEMN-CH	118.85	8,751	946	10.4	10.6	9.5	25.4	23.7	21.3	35.0	34.2	30.4
WEX Inc.	WEX	110.10	4,773	1,724	4.1	4.2	3.8	10.0	10.0	8.7	12.0	13.2	11.0
ACI Worldwide, Inc.	ACIW	24.14	2,798	1,258	3.3	2.8	2.7	13.6	9.7	9.1	42.4	17.8	16.3
EVERTEC, Inc.	EVTC	23.29	1,674	487	4.4	4.5	4.2	9.6	9.9	8.9	11.9	13.0	11.1
Bottomline Technologies (de), Inc.	EPAY	38.85	1,710	435	4.0	3.7	3.4	16.7	16.8	15.0	28.8	29.5	26.0
Averages:					6.7	6.3	5.4	18.0	15.7	13.8	27.7	24.8	21.1
Qusitive Technology Solutions, Inc.	QUIS-CA	0.70	56	19	NM	1.7	1.5	NM	NM	10.4	NM	NM	NM
							With Convert:	1.8					
							Fully diluted:	2.2					

Source: FactSet, Consensus estimates

SUMMARY

We believe QUIS will continue to build the Microsoft Partner of the Future – both organically and through acquisitions. The combined company heading into 2020, will have 300+ employees, with a rev/EBITDA run rate of US\$42M/US\$5.9M (excluding LedgerPay revenue). The QUIS management team is uniquely comprised of former and current Microsoft leaders and technologists who share a deep understanding of market needs and the appropriate application of Microsoft cloud technology.

QUIS is executing a targeted Microsoft partner consolidation strategy to fuel the build of the premier Microsoft partner in North America for business solutions and cloud innovation. QUIS is the 2019 Microsoft U.S. Partner of the Year – earning this top honor among a global field of top Microsoft partners for demonstrating excellence in innovation and implementation of customer solutions based on Microsoft technology.

Microsoft and dunnhumby announced a global strategic partnership, in a move that could transform the \$5.9 trillion retail sector. Under the partnership, dunnhumby will move its customer insights products to Microsoft Azure, giving retailers and suppliers instant and secure access to dunnhumby's data science tools. **LedgerPay also announced a strategic go-to-market relationship with dunnhumby** - offering a first-of-its-kind service (powered by Microsoft Azure) for brick-and-mortar merchants such as QSRs, grocers, and other retailers who want to encourage repeat and more valuable sales by capitalizing on past purchases at the point of sale (POS).

DISCLAIMER

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