

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)	0.059
52 Week Range	\$0.85 / \$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%
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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.



QUIS Q4/19 RESULTS & OUTLOOK; MSFT FQ3/20 SHOWS MULTIPLE SURGES

Highlights

- QUIS reported 2019 revenue of \$18.5M (+47% y/y), with gross margin of \$7.9M (43% margin) and adj. EBITDA of \$1.3M (7% of revs). For Q4/19, revenue \$5.4M (cons: \$5.5M) (+39% y/y), with gross margin of \$2.3M (43% margin) and adj. EBITDA of \$0.78M (14.5% margins) (Cons: \$0.6M) (excl. discretionary bonus expense of \$0.46M). There was no revenue contribution from Menlo in Q4/19.
- QUIS provided positive preliminary Q1/20 guidance for revenue of ~\$10.9–11.1M (Cons: \$10.0M), gross margin of ~\$4.1–4.3M, and adj. EBITDA of ~\$1.0-1.2M (Cons: \$1.4M). This includes Menlo, but no LedgerPay revs which should start ramping in Q2/20 (all values in US\$ unless otherwise noted).
- MSFT reported FQ3/20 revenue of \$35.0B (+15% y/y) (Cons: \$33.8B), and EPS of \$1.40 (+23% y/y) (Cons: \$1.27). Azure revenue grew 59% y/y (+61% in constant currency). CEO Satya Nadella commented on seeing “two years’ worth of digital transformation in two months” and helping customers adapt to “a world of remote everything”.
- In this note, we also look at the continuing cloud war between Microsoft Azure and Amazon AWS, and how much the two combatants are spending on capex to keep up with the secular surge in demand.

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.

Valuation

On 2021E consensus estimates, QUIS is trading at an EV/Sales and EV/EBITDA of 2.4x/17.2x (fully diluted) versus its North American IT Services and Global Payment Technology comparables trading at 1.5x/11.1x and 5.5x/14.0x, 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 \$0.73-1.46 range (vs. \$0.69-1.41 prev).

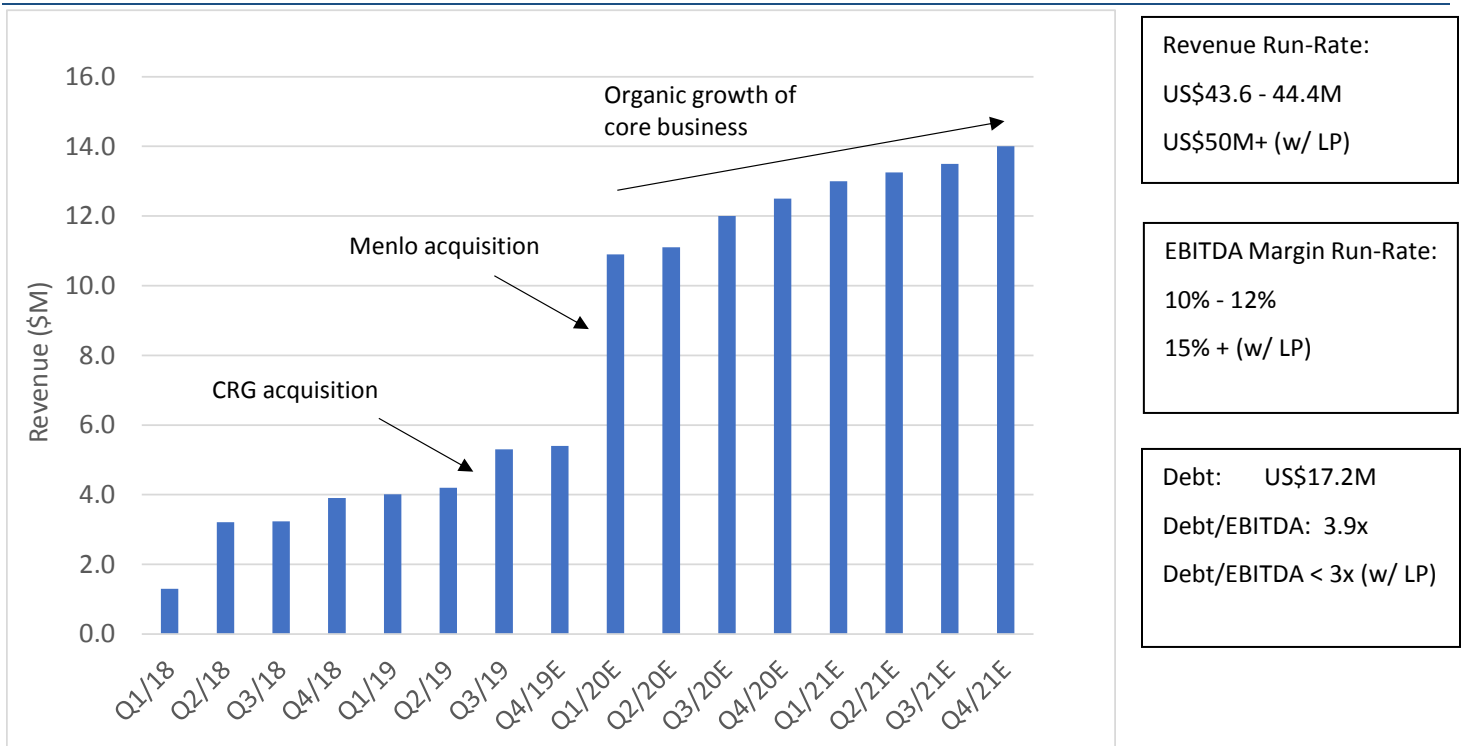
QUIS REPORTED Q4/19 RESULTS IN-LINE; PROVIDES POSITIVE OUTLOOK FOR Q1/20

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The combined company heading into 2020, will have 300+ employees, with a rev/EBITDA run rate of US\$44M/US\$4.4M (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.

Exhibit 1 – Revenue Estimates Show CRG and Menlo Impact (Without Revenue Synergies or LedgerPay)



Source: FactSet, Consensus estimates

MSFT REPORTS FQ3/20 WITH MULTIPLE SURGES IN TEAMS, DYNAMICS & AZURE

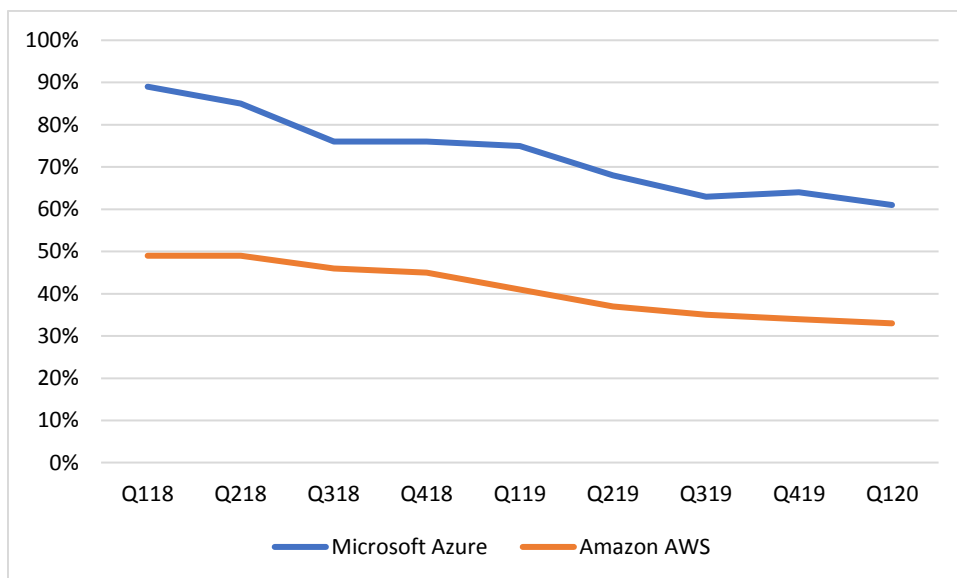
MSFT reported FQ3/20 revenue of \$35.0B (+15% y/y) (Cons: \$33.8B), and EPS of \$1.40 (+23% y/y) (Cons: \$1.27). Azure revenue grew 59% y/y (+61% in constant currency). CEO Satya Nadella commented on seeing COVID-19 drive “two years’ worth of digital transformation in two months” and helping customers adapt to “a world of remote everything”.

A Surge in Microsoft Teams. MSFT saw 200M+ meeting participants in a single day this month, generating more than 4.1B meeting minutes. Microsoft Teams is the only solution that integrates meetings, calls, chat, collaboration, the power of Office and business process workflows, with the highest security as well as compliance. Teams now has 75M+ daily active users (DAUs), and supports meetings of all sizes, meetings that scale from 250 active participants to live events for up to 100,000 attendees to streaming broadcasts. In healthcare alone, there were 34M+ Teams meetings in the past month; and 183K+ educational institutions now rely on Teams. At the enterprise level, twenty organizations with 100K+ employees are now using Teams, including Continental AG, Ernst & Young, Pfizer, and SAP. We note that Accenture became the first organization to surpass 500K users; and that MSFT expanded its partnership with the NFL to include Teams, which powered the first-ever virtual NFL draft.

A Surge in Microsoft Office/Dynamics. MSFT continued to see momentum with organizations across Microsoft 365, with Office 365 now at 258M paid seats. Usage of Windows Virtual Desktop tripled this quarter, as organizations deploy virtual desktops and apps on Azure to enable secure remote work. At the enterprise level, Interpublic Group, Kohler and Vodafone, selected Microsoft 365 as their productivity cloud. We note that Coca-Cola went with the trifecta of Microsoft 365, Dynamics 365 and Azure in a five-year multi-cloud agreement.

A Surge in Microsoft Azure. In “a world of remote everything”, organizations are relying on Azure to stay up and running, driving increased usage. MSFT has more data center regions than any other cloud provider (adding Mexico and Spain this quarter), and will continue to spend on capex to handle the surge in secular demand. In addition, Azure Edge Zones now extends Azure to the network edge, connecting directly with the carrier’s 5G network to enable immersive real-time experiences that require ultra-low latency. MSFT’s acquisition of Affirmed Networks will help operators deploy and maintain 5G networks and services cost effectively and securely.

Exhibit 2 – Microsoft Azure vs AWS Growth Rates



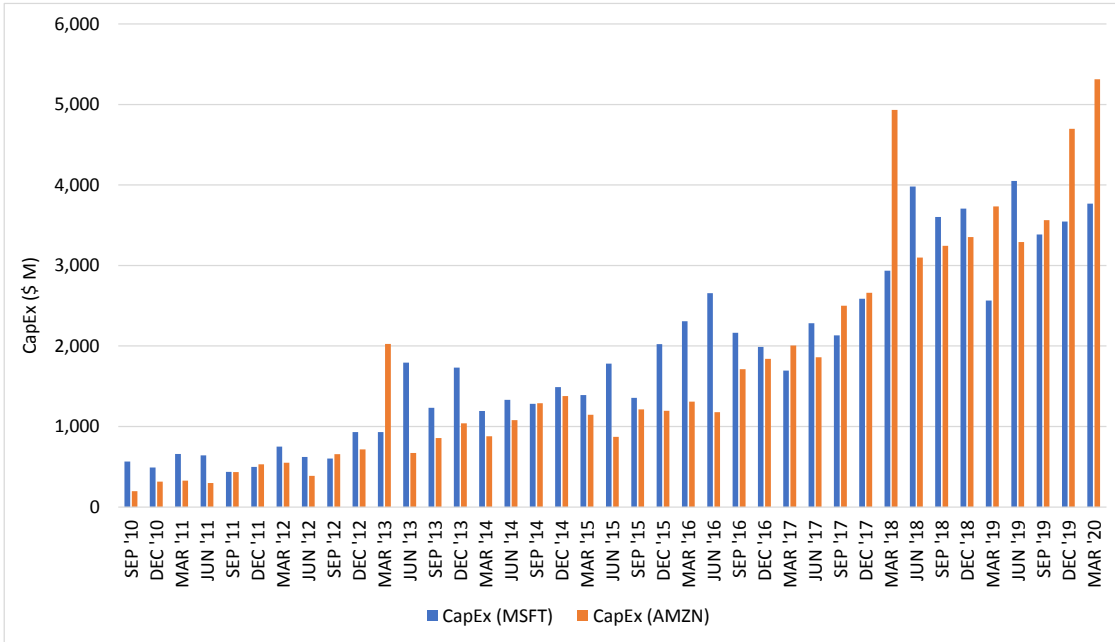
AWS generated revs of \$10.2B in CQ120 (or 13.5% of total revs of \$75.5B). However, AWS was 77% of AMZN’s total operating income of \$3.99B. AWS y/y growth slowed from 41% to 33%.

MSFT’s Intelligent Cloud revenue was \$12.3B in FQ320, with oper. income of \$4.6B (~35% of both revs/oper inc.) Azure revs grew 59% y/y (+61% @ CC), and now represents ~20% of total revs vs 10% last year. Given the differing growth rates, we believe that Azure continues to win market share in the enterprise.

Source: Company documents, FactSet

In the continuing cloud war between Microsoft Azure and Amazon AWS, both combatants continue to spend on capex to keep up with the secular surge in demand.

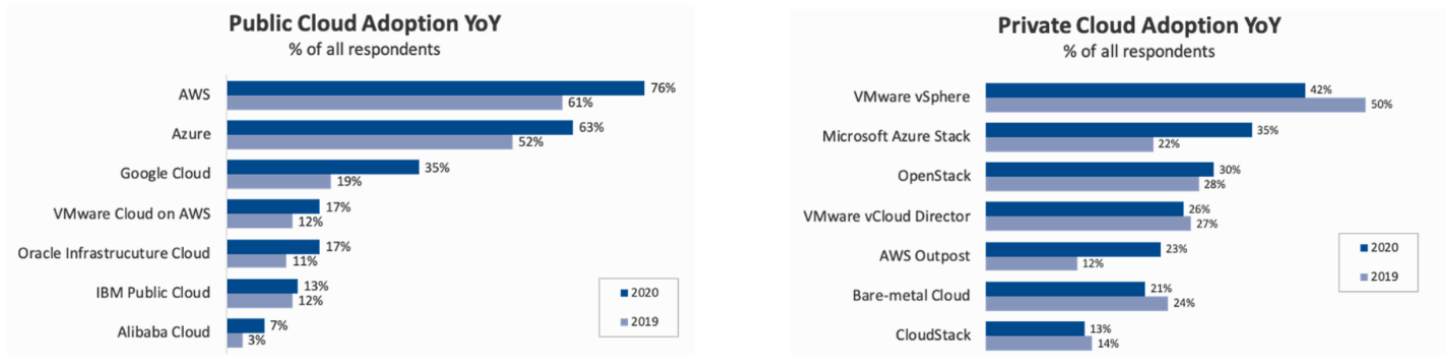
Exhibit 3 – CapEx Spend - MSFT vs AMZN



Source: Company documents, FactSet

In its annual *State of the Cloud* report, Flexera highlighted that 93% of the respondents are implementing either a multi-cloud or hybrid cloud strategy. While public adoption remains a two-horse race between AWS and Azure (with Google a distant third), the Microsoft Azure Stack is showing great promise in private cloud adoption with a jump to 35% in 2020 from 21% y/y.

Exhibit 4 – State of the Cloud



Source: Flexera 2020 State of the Cloud Report (N=750)

VALUATION

On 2021E consensus estimates, QUIS is trading at an EV/Sales and EV/EBITDA of 2.4x/17.2x (fully diluted) versus its North American IT Services and Global Payment Technology comparables trading at 1.5x/11.1x and 5.5x/14.0x, 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 \$0.73-1.46 range (vs. \$0.69-1.41 prev).

Exhibit 5 – Sum of the Parts (SOTP) Valuation

	2020E			2021E		
	Consulting	LedgerPay	SOTP	Consulting	LedgerPay	SOTP
Revenue	\$45-50M	\$5-10M		\$55-60M	\$10-20M	
Multiple	1-1.5x	5-6x		1-1.5x	5-6x	
Valuation	\$45-75M	\$25-60M	\$70-135M	\$55-90M	\$50-120M	\$105-210M
			\$0.49-\$0.94/share			\$0.73-\$1.46/share
EBITDA	\$6-8M	\$2-3M		\$8-10M	\$3-5M	
Multiple	10-12x	13-15x		10-12x	13-15x	
Valuation	\$60-96M	\$26-45M	\$86-141M	\$80-120M	\$39-75M	\$119-195M
			\$0.60-\$0.98/share			\$0.83-\$1.35/share

Source: FMG, FactSet

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

Exhibit 7 – North American IT Services 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
Accenture Plc Class A	ACN	180.09	114,722	44,656	2.7	2.6	2.5	16.0	14.5	14.1	24.5	23.5	22.2
CGI Inc. Class A	GIB.A-CA	88.29	16,251	9,216	2.3	2.3	2.2	12.4	11.7	11.1	18.8	18.7	17.1
DXC Technology Co.	DXC	16.79	4,260	20,042	0.6	0.7	0.8	3.8	4.3	4.5	3.1	3.3	2.9
Leidos Holdings, Inc.	LDOS	97.89	13,885	11,094	1.5	1.3	1.2	14.6	13.4	11.7	18.9	18.0	15.4
EPAM Systems, Inc.	EPAM	216.33	12,027	2,294	5.1	4.4	3.6	27.6	24.9	19.5	39.9	37.0	29.4
Booz Allen Hamilton	BAH	72.45	10,159	7,274	1.6	1.5	1.4	15.9	14.9	13.6	23.1	21.1	18.6
CACI International Inc Class A	CACI	251.41	6,307	5,598	1.6	1.4	1.4	17.7	14.4	13.1	24.0	20.2	18.0
Science Applications International Corp.	SAIC	79.16	4,569	6,379	1.0	0.9	0.9	12.3	10.5	9.4	14.0	12.9	10.8
MAXIMUS, Inc.	MMS	66.02	4,222	3,040	1.5	1.4	1.5	10.6	9.9	10.3	17.7	17.6	17.5
ManTech International Corporation Class A	MANT	75.36	3,034	2,332	1.4	1.3	1.2	16.4	15.1	14.1	26.6	26.8	24.7
Conduent, Inc.	CNDT	2.38	498	4,467	0.4	0.5	0.5	4.0	4.7	4.5	3.8	6.1	5.1
ExlService Holdings, Inc.	EXLS	61.41	2,107	991	2.2	2.1	2.0	15.6	14.7	12.6	19.9	19.7	17.1
Perficient, Inc.	PRFT	33.07	1,096	566	2.0	2.0	1.9	12.1	11.7	10.3	16.0	15.8	13.9
Calian Group Ltd.	CGY-CA	45.40	437	362	1.2	1.0	0.9	14.6	11.5	10.0	17.9	20.0	17.8
Alithya Group inc Class A	ALYA	1.72	87	210	0.6	0.6	0.6	12.1	8.4	7.1	NM	NM	NM
Averages:					1.7	1.6	1.5	13.7	12.3	11.1	19.2	18.6	16.5
Qusitive Technology Solutions, Inc.	QUIS-CA	0.70	56	19	NM	1.7	1.5	NM	NM	10.4	NM	NM	NM
With Convert:							2.0						
Fully diluted:							2.4						

Source: FactSet, Consensus estimates

Exhibit 8 – 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	120.61	141,462	17,534	7.7	6.9	5.8	28.2	25.1	20.7	38.9	37.1	30.1
Fidelity National Information Services, Inc.	FIS	129.29	79,867	10,332	7.5	6.0	5.6	18.5	14.1	12.3	23.0	22.7	18.9
Fiserv, Inc.	FISV	100.25	67,803	10,187	5.3	5.3	4.9	16.6	14.1	12.4	25.1	22.4	18.5
Automatic Data Processing, Inc.	ADP	140.42	60,353	14,712	4.3	4.2	4.2	18.4	17.2	17.0	25.8	24.4	24.3
Global Payments Inc.	GPN	161.64	48,513	4,912	8.9	6.1	5.5	20.5	14.0	11.7	26.0	26.4	20.9
Adyen NV	ADYF	990.00	29,947	2,974	NM	8.8	NM	NM	NM	NM	NM	NM	NM
Square, Inc. Class A	SQ	63.00	27,692	4,714	12.7	12.1	9.2	NM	NM	NM	NM	NM	NM
FleetCor Technologies, Inc.	FLT	232.83	19,890	2,649	9.2	9.4	8.4	16.2	16.0	13.8	19.7	20.0	16.9
Wirecard AG	WDI-DE	90.40	11,170	2,513	3.3	2.7	2.1	11.7	9.0	6.9	20.8	16.2	12.2
Jack Henry & Associates, Inc.	JKHY	158.50	12,160	1,631	7.9	7.2	6.8	24.0	22.4	20.4	45.0	43.3	39.0
Temenos AG	TEMN-CH	125.60	9,248	946	11.0	11.3	10.0	26.7	25.1	22.6	37.0	36.4	32.4
WEX Inc.	WEX	127.20	5,515	1,724	4.5	4.7	4.2	11.1	11.3	9.5	13.8	15.9	13.1
ACI Worldwide, Inc.	ACIW	26.48	3,069	1,258	3.6	3.0	2.9	14.5	10.5	9.7	46.5	19.5	17.9
EVERTEC, Inc.	EVTC	25.22	1,812	487	4.7	4.8	4.5	10.3	10.5	9.5	12.9	14.1	12.0
Bottomline Technologies (de), Inc.	EPAY	39.81	1,752	435	4.1	3.8	3.5	17.1	17.2	15.3	29.5	30.2	26.6
Averages:					6.8	6.4	5.5	18.0	15.9	14.0	28.0	25.3	21.8
Qusitive Technology Solutions, Inc.	QUIS-CA	0.70	56	19	NM	1.7	1.5	NM	NM	10.4	NM	NM	NM
With Convert:							2.0						
Fully diluted:							2.4						

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\$44M/US\$4.4M (without any revenue synergies or LedgerPay). 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

I, Ralph M. Garcea, certify that the views expressed in this report accurately reflect my personal views about the industry and company (ies) mentioned.

I also certify that I may own shares/options in some of the companies mentioned in this report, and that although I may not receive direct payment for publishing this report, some of these companies may be consulting clients of Focus Merchant Group.

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