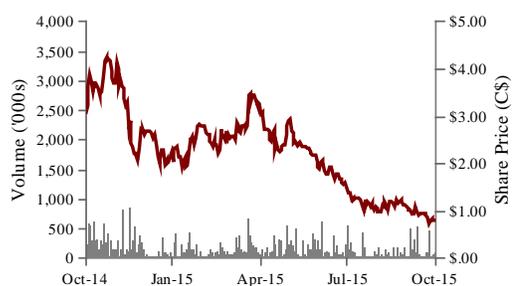


## Vogogo Now Entering Growth Inflection Stage

Estimates (C\$)	2014	2015e	2016e	2017e
Revenue (\$MM)	\$0.3	\$0.4	\$10.6	\$30.8
EBITDA (\$MM)	(\$7.6)	(\$12.2)	(\$5.1)	\$9.7
Adj. EBITDA (\$MM)	(\$4.8)	(\$9.2)	(\$2.1)	\$13.7
Adj. EBITDA Margin	(1899%)	(2614%)	(20%)	44%
Diluted EPS	(\$0.33)	(\$0.29)	(\$0.13)	\$0.17

Valuation	2014	2015e	2016e	2017e
Price/Sales	169.0x	122.3x	4.0x	1.4x
EV/Adj. EBITDA	NM	NM	NM	2.1x
P/E	NM	NM	NM	5.1x

Market Data	
Previous Close	C\$0.85
Potential Return	311.8%
52-Week High - Low	C\$4.60 - C\$0.75
Avg. Daily Vol. (3-month)	130,973
Shares Basic / Diluted (pro forma, MM)	47.0 / 50.5
Mgmt & Dir. Ownership (pro forma)	22.6%
Market Cap (pro forma, C\$MM)	\$42.9
Net Cash (C\$MM)	\$14.1
Enterprise Value (pro forma, C\$MM)	\$28.9
Fiscal Year End	Dec. 31



### Company Profile

Vogogo is a cloud-based electronic payment services company that provides conventional and cryptocurrency (Bitcoin) merchant service providers risk management and transaction processing solutions to be compliant with government Know Your Customer/Anti-Money Laundering regulations for online transactions.

We believe Vogogo is now entering the growth inflection stage. The Company announced on 10/22 that it signed European merchant services provider Easy Payment Gateway (EPG) to provide risk management and payment processing services to EPG's merchants. This is the second sizable deal Vogogo has achieved recently in the "conventional" merchant services sector (the other is US-based Payscale) and we understand there are many more in the sales funnel.

- We understand 5 EPG merchants are now live on the risk management platform and 5 more should be live by the end of 2015. Pricing is on a per-transaction basis. In addition, EPG is starting to migrate its payment processing to Vogogo, with perhaps US\$10MM/month of processing run-rate by the end of 2015 priced at 1% of transaction volume. All in, EPG should drive over C\$850,000 of revenue/quarter for Vogogo entering 2016.
- We expect multiple positive announcements in the near term on the cryptocurrency processing side as well. Vogogo is awaiting its e-Money Issuer license from the UK that will make it easier and cheaper to service Bitcoin exchanges in Europe, and the Company has already gone live with a Canadian-based Bitcoin exchange in the U.S. Positive regulatory events for Bitcoin in the EU and China should also assist Vogogo's efforts in this sector.
- Vogogo has a highly fixed cost structure so we expect significant earnings leverage as new customers are onboarded to the platform.
- The EPG deal gives comfort to our estimates. Our 12-month target price of **\$3.50 per share** equates to 13x 2017e EV/Adjusted EBITDA – in line with the average consensus 2016e EV/EBITDA of our risk management data services tracking universe. We reiterate our **SPECULATIVE BUY** rating.

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**VOGOGO ANNOUNCES SIZABLE EUROPEAN CLIENT FOR “CONVENTIONAL” RISK MANAGEMENT AND TRANSACTION PROCESSING**

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Vogogo has two target customer verticals in the payment processing and risk management sector:

- 1) Cryptocurrency – Exchanges and merchant service providers that do transactions between fiat currency and cryptocurrencies such as Bitcoin; and
- 2) Conventional – Merchant service providers that do payment processing for online transactions, with a particular focus on higher-risk transactions such as gaming, financial services, and health products.

Vogogo’s management cut their teeth in higher-risk conventional payment processing in the online gaming industry, but the Company’s initial focus was in the cryptocurrency sector. The Company has been successful in sourcing more than 20 cryptocurrency exchanges and service providers for the Canadian market (including market leaders BitStamp, Kraken, Coinbase, and BitPay), but Vogogo’s expansion outside of Canada has been limited while it secured regulatory licenses and/or bank partners in Europe, Asia and the U.S.

We expect the cryptocurrency segment to start ramping for Vogogo very soon, but in the interim the Company has been signing up customers in the conventional payments sector for both its risk management (i.e. fraud prevention) and payment processing solutions.

The first notable client was U.S.-based Payscale – revealed in late August – and on October 22 Vogogo announced it had signed up Gibraltar-based merchant services provider Easy Payment Gateway (EPG) to provide risk management and payment processing services to EPG’s client base.

EPG acts as a sales organization to sign up merchants for online processing and is also a payment facilitator. Vogogo fills a gap for fraud minimization (and in turn revenue maximization) solutions for EPG clients. In addition, Vogogo can serve as a lower-cost “in-house” payment processor for EPG as well.

We understand the deal has the following metrics:

- Risk management: 5 EPG clients, with aggregate of ~125,000 monthly transactions, have gone live on Vogogo’s platform. The clients pay a per-transaction fee that scales according to complexity of the data request, with management expecting an average of about US\$0.50 per transaction. Vogogo expects another 5 EPG clients, totaling another 125,000 monthly transactions, to be onboarded by the end of December. In sum, EPG-related risk management services should be driving US\$375,000 (C\$487,500) per quarter of revenue for Vogogo as of early 2016.
- Payment processing: EPG is gradually moving some of its clients’ payment processing over to Vogogo, and management expects this to reach about US\$10 million/month in transaction volume by the end of December. Vogogo receives a 1% fee of transaction volume processed, so EPG-related payment processing should be generating US\$300,000 (C\$390,000) per quarter of revenue for Vogogo as of early 2016.

Together, we expect EPG clients to be generating about C\$877,500 per quarter of revenue for Vogogo in Q1-2016. There is also the potential for additional EPG clients to start using Vogogo’s risk management or payment processing services.

We understand that there are several more conventional merchant service providers (of similar size or larger than EPG) that are in discussions with Vogogo for risk management or payment processing. In addition, we expect Payscale to ramp up its use of Vogogo's risk management service over the next few quarters.

### **WE EXPECT CRYPTOCURRENCY PROCESSING TO START EXPANDING OUTSIDE OF CANADA VERY SOON**

Vogogo recently announced that Canadian-based cryptocurrency exchange DIGATRADE had integrated with Vogogo to permit credit card transactions from residents of Canada, the U.S., the U.K. and the EU in their local currencies. We believe this was the first wide expansion of Vogogo's solution for cryptocurrency risk processing outside of Canada. DIGATRADE is a small exchange, but it had larger meaning for Vogogo: it means that the Company is finally ready to deploy outside Canada into its key identified growth markets of the U.S. and Europe.

The Company has a stellar client list of cryptocurrency exchanges and service providers in Canada, including BitStamp (#1 USD/BTC exchange by volume), Kraken (#1 EUR/BTC exchange), Coinbase (probably the largest exchange operating in the U.S. today), and #1 Bitcoin merchant service provider BitPay. We note that BitStamp, Kraken, and Coinbase collectively handle over US\$10 million in transactions per day worldwide, of which only a tiny fraction is undertaken with Canadian residents.

There are a few announcements we expect very soon:

- Receipt of an e-Money Issuer license from the UK FCA, which is applicable for the entire European Economic Community and should make it easier and cheaper for Vogogo to handle risk processing for European exchanges;
- Announcement of U.S. banking partners (although perhaps not by name);
- Launch in Japan and/or China; and
- Expansion of services for one or more of the large Bitcoin exchanges into Europe or the U.S.

### **GLOBAL BITCOIN REGULATORY ENVIRONMENT IMPROVING**

We also see the global regulatory environment for Bitcoin improving, particularly outside the U.S. Yesterday, in response to a request by the Swedish high court, the European Court of Justice ruled that exchanging fiat currency for bitcoin online should be exempt from VAT sales tax. More importantly, the ECJ also ruled that bitcoins should be considered a currency rather than a commodity. The U.K. had previously ruled that bitcoin exchanges were VAT-exempt. The consideration of bitcoins as currency also brings into question whether capital gains taxes should be applied if bitcoins held in a person's digital wallet appreciate in fiat currency value between their purchase and sale.

Meanwhile, China is also starting to make intonations that the central government could loosen restrictions on bitcoin usage. Currently, banks in China are forbidden to accept or hold bitcoins, and merchants are not permitted to take them as payment for transactions. China remains by far the largest market for bitcoin exchange volume, but the exchanges are primarily used for speculation or foreign currency hedging purposes. On October 13, the Cyberspace Administration of China (CAC) issued a statement that blockchain technology has merit for the larger financial system and that Bitcoin could evolve beyond a "bad boy" image within a more regulated environment.

The U.S. remains quite convoluted, with some states such as New York seeking to regulate cryptocurrency service providers, and several federal agencies trying to jostle to determine who ultimately has regulatory authority. We note that the Commodity Futures Trading Commission considers cryptocurrencies a commodity, which has the implication that capital gains taxes will be levied on realized value appreciation. However, the cryptocurrency industry is working to improve its image. Yesterday a group of digital currency companies and organizations and several U.S. law enforcement agencies formed the Blockchain Alliance that will work together to improve communication between the companies and law enforcement and seek to improve the image of cryptocurrencies and blockchain technology.

We have seen a sizable rebound in bitcoin value in US\$ terms since late August as shown in Exhibit 1 with small spikes up following the CAC and ECJ announcements but the price has remained in a broad US\$200 to US\$300 range per bitcoin since late December 2014.

Exhibit 1. One-Year Bitcoin Daily Price Chart (in US\$ per Bitcoin) to October 22, 2015



Source: bitcoinaverage.com.

**NO CHANGE TO ESTIMATES BUT WE HIGHLIGHT THE HIGH EARNINGS LEVERAGE POTENTIAL OF VOGOGO’S BUSINESS MODEL**

We are not making any changes to our estimates on the back of the EPG announcement, but it does give significant comfort to our estimates. For example, we are currently forecasting about \$700,000 of total revenue for the March 2016 quarter, but that could be exceeded by just EPG-related activities if the rollout is as large and fast as management expects.

We continue to expect cryptocurrency risk processing to be the primary driver of revenue growth during our forecast period. Our model assumes at least one large Bitcoin exchange starts using Vogogo outside Canada starting in Q1-2016 and ramping quite quickly thereafter. We continue to believe our forecast is very possible if the Company can start to onboard European and/or American transactions for the existing client base currently using Vogogo in Canada.

## Exhibit 2. Annual Revenue Forecast 2015e - 2017e

<b>in C\$ Millions</b>	<b>2015e</b>	<b>2016e</b>	<b>2017e</b>
Legacy customers	\$0.09	\$0.069	\$0.060
New conventional risk mgmt & processing	\$0.12	\$1.400	\$3.500
Cryptocurrency risk mgmt & processing	\$0.14	\$9.162	\$27.253
<b>Total Revenue</b>	<b>\$0.35</b>	<b>\$10.631</b>	<b>\$30.813</b>

Source: Clarus estimates.

We believe Vogogo's current cash overhead cost is about \$700,000 per month, and that should include most of the database licenses needed to do risk management on transactions in North America, Europe and Asia. We expect some increase in R&D staffing and sales commissions as the Company grows but the Vogogo business model should have high earnings leverage potential.

Our forecast calls for Vogogo to reach positive Adjusted EBITDA on a quarterly basis in Q3-2016 (September) on revenues of \$3.5 million.

## Exhibit 3. Summary Annual Income Statement Forecast, 2014 – 2017e

<b>in C\$ Millions except per-share items</b>	<b>2014</b>	<b>2015e</b>	<b>2016e</b>	<b>2017e</b>
<b>Total revenues</b>	<b>\$0.3</b>	<b>\$0.4</b>	<b>\$10.6</b>	<b>\$30.8</b>
Total cost of revenues	0.0	0.0	1.1	3.1
Gross profit	0.3	0.3	9.6	27.7
Gross margin (%)	100%	91%	90%	90%
Total operating expenses	8.9	13.2	15.7	19.2
Operating income	(8.7)	(12.9)	(6.2)	8.5
Net interest income (expense)	(0.0)	(0.0)	(0.0)	(0.0)
Net other income (expense)	(0.3)	0.0	0.0	0.0
Net income	(9.0)	(12.9)	(6.2)	8.5
Diluted EPS	(\$0.33)	(\$0.29)	(\$0.13)	\$0.17
Weighted diluted shares outstanding	27.3	44.1	48.1	51.3
<b>EBITDA &amp; Adjusted EBITDA:</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
Net income	(9.0)	(12.9)	(6.2)	8.5
Depreciation & amortization	0.0	0.7	1.0	1.2
Non-recurring expenses	1.3	0.0	0.0	0.0
Net interest expense (income)	0.0	0.0	0.0	0.0
Income tax provision	0.0	0.0	0.0	0.0
EBITDA	(7.6)	(12.2)	(5.1)	9.7
EBITDA margin (%)	(2999%)	(3467%)	(48%)	32%
Non-cash compensation	2.8	3.0	3.0	4.0
<b>Adjusted EBITDA</b>	<b>(4.8)</b>	<b>(9.2)</b>	<b>(2.1)</b>	<b>13.7</b>
Adjusted EBITDA margin (%)	(1899%)	(2614%)	(20%)	44%

Source: Corporate filings and Clarus estimates.

**PRICE TARGET REMAINS \$3.50 PER SHARE; REITERATE SPECULATIVE BUY RECOMMENDATION**

We believe this is the time for investors to seriously consider an investment in Vogogo shares as we expect the EPG deal to be the first of a series of positive announcements by Vogogo over the next few months. We use a target multiple of 13x 2017e EV/Adjusted EBITDA, which is generally in line with the current average

consensus 2016e EV/EBITDA of our international risk management data company tracking universe. We maintain our 12-month target price of **\$3.50 per share** and we reiterate our **SPECULATIVE BUY** rating.

Exhibit 4. Comparable Company Valuations

Company Name	Ticker	Clarus Rating	Stock Price	Market Cap (\$MM)	EV (\$MM)	Price/Sales			EV/Adj. EBITDA			Sales Growth		Adj. EBITDA Growth	
						2015e	2016e	2017e	2015e	2016e	2017e	2016e	2017e	2016e	2017e
Experian plc	EXPN-GB	NR	£11.02	£10,724	£12,902	3.5x	3.4x	3.2x	12.4x	11.6x	11.0x	5%	5%	6%	5%
Equifax Inc.	EFX-US	NR	\$103.29	\$12,522	\$13,174	4.7x	4.4x	4.1x	14.2x	12.9x	11.9x	8%	6%	10%	8%
GB Group plc	GBG-GB	NR	£2.52	£308	£260	4.1x	3.5x	N/A	19.5x	15.9x	N/A	17%	N/A	23%	N/A
<b>Risk Management Data Companies</b>						<b>4.1x</b>	<b>3.7x</b>	<b>3.7x</b>	<b>15.4x</b>	<b>13.5x</b>	<b>11.5x</b>	<b>10%</b>	<b>6%</b>	<b>13%</b>	<b>7%</b>
Vogogo Inc.	VGO-CA	Spec. Buy	\$0.85	\$43	\$29	122.3x	4.0x	1.4x	NEG	NEG	2.1x	2928%	190%	NM	NM

Source: Clarus estimates for Vogogo; FactSet.

Target Price Calculator: We value Vogogo shares using a 13x EV/Adjusted EBITDA multiple on our 2017e forecast.

Key Risk to Target Price: Please refer to the risks disclosed in the report dated June 22, 2015.

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