

November 11, 2016

INITIATING REPORT

Sector View: **OUTPERFORM**

Start-up Set to Disrupt Multi-Billion Dollar Risk Management Industry

The business of risk is booming. As banks struggle to keep up with ever-increasing compliance and regulatory standards a new breed of next-generation technology and service providers is emerging, vying for a piece of the multi-billion-dollar Enterprise Risk Management market.

Business Overview

Financial institutions and their regulators are facing new and tougher standards of compliance and reporting. While these changes promise both a more robust banking system and improvements to individual bank operations, they are highly complex and costly to implement – typically running into the millions of dollars. These costs are relatively easily absorbed by the big banks, but for smaller regional second and third-tier institutions with assets under \$10 billion, the financial burden can be especially punitive.

BlackIce Enterprise Risk Management Inc. was formed around a suite of products and services designed to address this need. The company's advisory/development relationship with global banks and the guidance of several central banks has resulted in a unique, open data management system that provides for instantaneous reporting capabilities that address all aspects of risk management in accordance with current standards.

BlackIce owns the intellectual property to two technology-based applications used to help financial institutions meet their compliance and regulatory obligations. Enterprise Risk Aggregation (ERA); and Governance Compliance Database (GCD).

- ERA provides regulatory capital, economic capital and stress-testing capital calculators for wholesale and retail credit risk.
- GCD provides financial institutions with a central repository of all regulatory, country specific regulatory and best practice directives.

Much of the demand for these services is driven by independent committees such as the Basel Committee on Banking Supervision (BCBS), which, in consultation with financial regulators, authors recommended international standards.

BlackIce is initially focused on financial institutions in Southeast and North Asia where local regulators have adopted BCBS guidance, and implementation schedules

Company data

Price (\$CAD)	\$0.06
Market cap	\$5.1m
Shares O/S	84.8m
52-week hi/low	\$0.075/0.025
Sector	Technology
Industry	Banking

52-week stock chart – CSE:BIS



Recent news

2016-09-22

Blackice appoints Hai country manager for Vietnam

2016-09-06

Blackice begins sales in Vietnam

2016-03-30

Blackice customer implements ERA in Vietnam

2016-02-09

Blackice starts testing risk-weighted asset calculator

See page 4 for important disclosures and disclaimers.

are in place. There are over 450 banks in ASEAN jurisdictions and 1,000 banks in China that provide immediate opportunities to the company.

Current Situation

In March 2016 (See News Release 3-30-16) the company announced the first successful commercial implementation of its ERA product with the Vietnam International Commercial Bank, in collaboration with IBM, which supplied its Cognos and Infosphere products.

The State Bank of Vietnam (Vietnam's central bank) is now performing a validation process. This process is being monitored by more than 30 banks in Vietnam alone and the company expects to sign two more bank installation contracts in 2016 and up to 10 more in 2017.

Discussions are under way for several other Asian markets and, at the time of writing, Blackice is pursuing an agreement with the central bank of Nepal to deliver products and services to administer, monitor, regulate and supervise the 100-plus banks in its jurisdiction.

There is also a very strong demand from the smaller second and third tier banks operating in other developing markets, especially in Eastern Europe (360 Banks), Central Europe (840 banks) and Russia/Ukraine (1,200 banks). All of these must comply with BCBS regulations by 2019.

While Asian markets could theoretically keep the company fully occupied for the foreseeable future, a new cloud-based SaaS (software-as-a-service) stress-testing product is under development to address the U.S. market. There are almost 7,000 banks in the US, most of which are small regional institutions. The tier-two and tier-three banks currently face challenges in implementing stress-testing guidance issued by the Office of the Comptroller of the Currency (OCC). BlackIce is leveraging its relationship with IBM to pursue a cloud-based stress-testing model for this market.

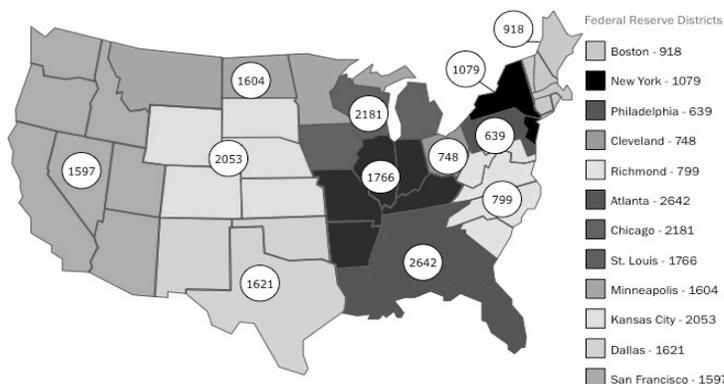
The company will initially focus on the Northeast region of the U.S. market, leveraging existing relationships with supervisors and in partnership with IBM. The primary target market in the US is in excess of 6000 institutions.



Asian Market by Region

Country	Banks	Country	Banks
Bangladesh	44	Myanmar	20
Cambodia	30	Philippines	74
China	1001	Singapore	49
India	634	Thailand	23
Indonesia	119	Vietnam	54
Malaysia	21	Nepal	100+

US Market by Region



US Market by Type

Bank	Asset Size	Potential Market
Banks	> \$10B	88
Banks	< \$10 B	6076
Savings and Loans	> \$10 B	16
Savings and Loans	< \$10 B	799
Other (Credit Unions and Co-ops)	> \$10 B	6
Other (Credit Unions and Co-ops)	< \$10 B	7357

Forward Looking Projections

	FY2017	FY2018	FY2019
Sales	\$2,688,000	\$10,752,000	\$24,455,532
Cost of Sales	\$1,132,212	\$2,257,920	\$5,135,662
Fixed Expenses	\$804,172	\$1,612,800	\$3,668,330
EBITA	\$751,616	\$6,881,280	\$15,651,540
Tax 23%	\$172,872	\$1,582,694	\$3,599,854
Net P/L	\$578,744	\$5,298,586	\$12,051,686

Assumptions

- Sales projections for 2017 represent the company's current sales opportunities in Southeast Asia as well as anticipated preliminary sales in the US Market.
- Continued growth in solution sales in the Vietnam market
- Closure of 10 banks with the cloud based SaaS in the U.S. within the first year, projecting a goal of 8% of the overall market of 6000 financial institutions within 4 years.
- Average SaaS deployment generates \$10,000 (range of \$7500 - \$15,000)/month revenue.
- Fixed Cost, while not unrelated to sales, is not correlated to the increase in sales. Estimates include the opening of additional office locations to support sales in the US region, the requirement to hire additional domain experts to support the sales and development process, and the increase in travel expenses.

"With the ability to scale its service offering globally, and without other competing players, the company would very likely become an acquisition target."

Conclusion

BlackIce is revolutionizing the financial industry with its "out of the box" enterprise risk management products. It has a qualified senior management team with decades of experience in financial services and information technology, and its approach to the market, with a state-of-the-art open platform solution, is almost certainly the way the industry is trending.

The company has achieved a great deal with very little capital - in effect innovating itself to a first mover advantage within a very big industry. The challenge now is to translate that technological advantage into market share. The first sales in Vietnam are important proof of concept and will no doubt pave the way to more sales in the region.

The company's own forward-looking guidance suggests management is cautiously optimistic about market uptake over the course of the next 36-months, indicating a projected net profit of \$12.1m on sales of \$24.5m for fiscal 2019. At a reasonable 4X profit multiple this implies a target company valuation of \$48.4m.

Compared to a current market capitalization of \$5m this represents significant growth, however, the game changer for BlackIce is potentially around the corner.

The company now intends to leverage its relationship with IBM to pursue a cloud-based model for all of its enterprise applications. This is a natural evolution of its current technology platform and, if successful, would position the company as a truly disruptive force in the category.

By offering their clients the option of a SaaS product, BlackIce effectively turns a punitive and uncertain capital expense into predictable operating expense. With the ability to scale its service offering globally, and without other competing players, the company would very likely become an acquisition target.

Risks

Development stage: The company has a limited operating history and is subject to early stage risks including undercapitalization, limitations with respect to personnel, limited research and development budgets and market acceptance.

Intellectual Property: The company's products utilize a variety of proprietary rights that are important to its competitive position and success. To date, the company has not been granted any definitive patents.

Capital Markets: As a junior issuer the market for the company's shares may be characterized by significant price volatility and limited liquidity.

General Operations: Operating results may fluctuate as a result of a number of factors, many of which are outside of the control of the company. These may include unforeseen operating costs and capital expenditures related to the maintenance and expansion of the business, operations and infrastructure; general economic conditions and those economic conditions specific to the banking industry.

Disclaimers and Disclosures

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