
# RESEARCH REPORT

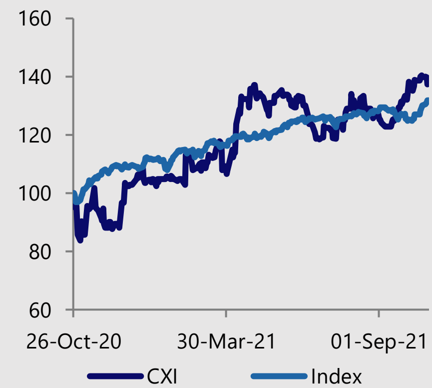
October 24, 2021

| | |
|---|---|
| Stock Rating | HOLD |
| Price Target | CAD $19.57 |
| Current Price | CAD $14.52 |

| Bear Case | Price Target | Bull Case |
|---|---|---|
| $17.42 | $19.57 | $21.43 |

| | |
|---|---|
| Ticker | CXI |
| Market Cap (MM) | $93.1 |
| EV/Revenue NTM | 0.89x |
| EV/EBITDA NTM | 8.70x |

## 52 Week Performance




## Currency Exchange International

# Money, Money, Money

Following the FIG team's initiation of a position in Real Matter, the team wanted to take a look at Currency Exchange International (CXI). A <$100M market capitalization company, CXI presents another opportunity for FIG to enact its 2021-22 sector strategy: identifying potential deep value in names that face significant investor sentiment given near-term headwinds.

To evaluate a potential investment in the name, the FIG team evaluated three aspects of the company:

I. It's market attractiveness, as well as CXI's position within this market.

II. The management team of CXI and their ability to deploy capital in an accretive manner for shareholders.

III. CXI's proprietary software offering, and the competitive advantages that this software affords to the company.

Additionally, the team conducted a Discounted Cash Flow Analysis on CXI, illustrating an implied upside of ~34%.

As for now, the FIG rates CXI as a hold. The team is looking to set up a couple of calls with CXI's management team in order to understand their ability to deploy capital in an accretive manner, and will update the name's rating accordingly.

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## Table of Contents

## Company Overview

**Company Introduction**

Currency Exchange International is a full-service foreign exchange provider for business and retail customers across North America, headquartered in Orlando, Florida. Founded in 1998, when CEO Randolph Pinna acquired the Bank of Ireland's currency exchange business, the company has grown from eight original branches to over 30 retail locations across the United States. In 2011, the company launched a subsidiary, Currency Exchange International of Canada Corporation, to expand operations and gain market share in the Canadian space. The subsidiary was renamed the Exchange Bank of Canada in 2016 and is now a federally regulated Schedule 1 bank that accounts for 22% of the company's revenues.

**Business Model Overview**

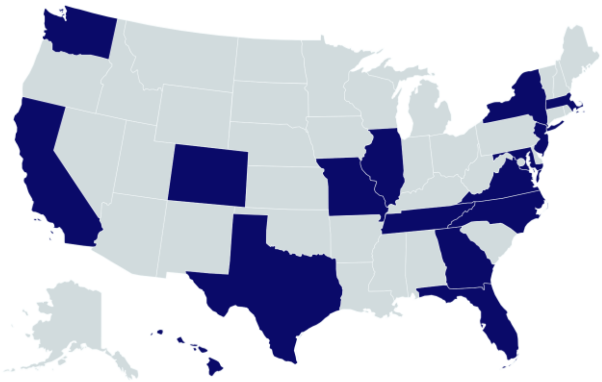
The firm currently operates 35 branch locations that are set up as kiosks in high traffic areas, like malls, airports, and banks. The high concentration of branches in California and Florida (10 and 11, respectively) allow Currency Exchange International to capitalize on the influx of tourists requiring foreign currency services. To supply the branches with the necessary cash to execute transactions, Currency Exchange International operates vaults in four major metropolitan areas, Los Angeles, New York, Miami, and Toronto. This allows the firm to maximize transaction volumes, despite a lower number of branches relative to larger firms in the industry. Services provided by the company include the exchange of foreign currencies and wire transfer payments, as well as the licencing of its proprietary CEIFX foreign exchange software to other firms.

Currency Exchange International's main services can be classified into three sections: wholesale foreign exchange services, retail foreign exchange services and wire transfers (or payments).

Wholesale customers can be further divided into two main groups: centralized and decentralized. Centralized customers maintain large amounts of foreign currency banknotes in vaults and trade in bulk with Currency Exchange International to replenish or trim inventory, depending on their needs. Decentralized clients find it more practical to make more frequent, smaller sum transactions, as these clients hold no currency inventory. Retail customers are often individuals who employ the firm's branch locations to exchange currency banknotes. The volume of currency generated by retail customers can also be used to satisfy orders from wholesale clients, further reducing transaction costs on wholesale currency exchanges. Wire transfers form the last category and companies and individuals alike employ Currency Exchange International's services to satisfy the currency requirements of foreign vendors or customers.

**EXHIBIT I**

CXI Retail Branch Locations



Source(s): Industrial Alliance

## Company Overview

### Revenue Model Overview

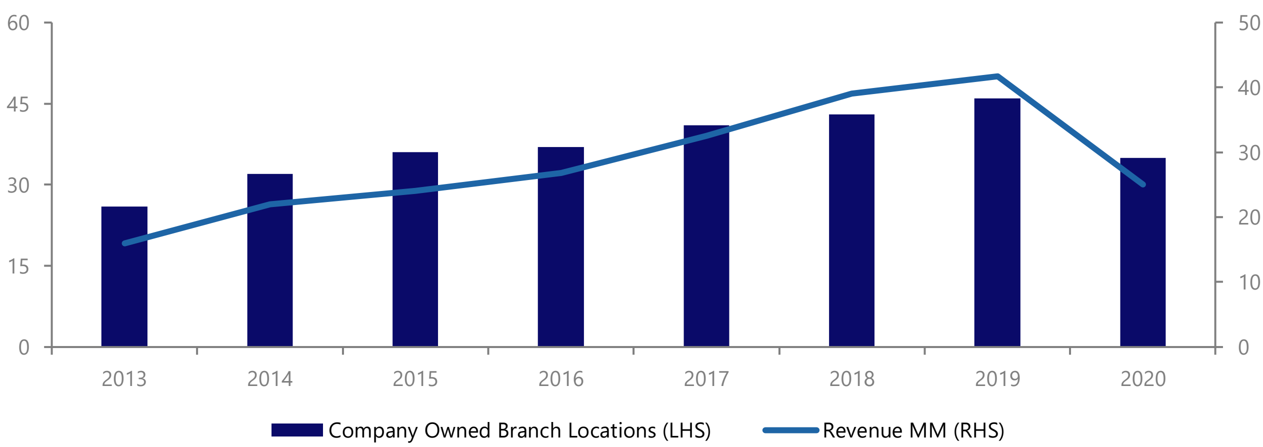
Currency Exchange International's revenue comes from commissions and fees incurred when customers exchange currency or send wire transfers. Commission-based revenue is derived from the currency spread, or the difference between the cost and sale price of foreign currency and affiliated products. This spread may be widened to offset the risk of currency volatility, thereby stabilizing this source of revenue. Depending on the service offered, commissions may also be increased or decreased. Fees are collected every time a customer performs an exchange transaction, cashes a traveler's or payroll check and when customers send wire transfers and other payments. Of the primary revenue sources, retail branches have the highest gross margins, often exceeding 6%. However, the company's main customers are the centralized wholesale clients, who make up most of the US volume and nearly all of the Canadian volume, despite the lower gross margins on these transactions, typically between 0.5% and 1%.

### Outlook and Future Developments

The pandemic took a toll on Currency Exchange International, eliminating the revenue generated from peak tourism season. Exchange volume is down 22% year over year, total revenue decreased 40% year over year and 11 branches were closed. Yet despite this bleak outlook, there is reason for optimism. Management is committed towards diversifying the company's offering to achieve sustainable growth and has deployed its wealth capital for partnerships and acquisitions that have been unfairly evaluated by investors given the circumstances. Many smaller competitors have been forced to exit the industry. And the branches that closed were those with the lowest revenue figures and that would take the longest to recover. In a sense, Currency Exchange International took advantage of the pandemic to engage in a twisted restructuring, efficiently deploying capital and eliminating inefficiencies, and that itself makes the company an intriguing option for investors.

**EXHIBIT II**

Number of Company Owned Branches Relative to Revenue




Source(s): Company Filings, Industrial Alliance

# I. Evaluating CXI's Market Attractiveness

**Introduction**

The foreign exchange industry is the largest market in the world, built up over decades of deregulation, rampant globalization, and growth in financial services. However, the glory days of forex are likely over, with the contraction of overall forex market activity reflecting tighter banking regulations and a fading emerging market boom. These regulatory changes were sparked by the global financial crisis of 2008 and have reduced the ability and willingness of financial institutions to take risks. However, with the vast majority of the shrinkage behind us, the QUIC team wants to evaluate two things: i) the competitive landscape of CXI's market and ii) the long-term attractiveness of the market.

**Competitive Landscape**

CXI plays within the North American foreign currency banknote market. According to CXI management calls, this market is roughly $500M a year and consists of three major players: i) Bank of America (BoA); ii) Wells Fargo; iii) CXI. The U.S. market is ~60% of this market (~$300M annually) and is dominated by BoA and Wells Fargo, which combined service a majority of the trade. The Canadian market is the remaining ~$200M is and is primarily serviced by BoA, with CXI providing a noticeable amount.

The lack of size of the North American foreign currency banknote market describes the oligopolistic nature of the industry; it is simply uneconomical for other large banks to service the industry given its size. Additionally, an increased focus on regulation and Anti-Money Laundering (AML) safeguards means that there are higher capital costs and relevant expenses associated with risk management. Therefore, these banks have retrenched in their trading activities.

In 2020, Travelex, a large foreign exchange company headquartered in England, decided to exit the North American banknote market. Given the significant headwinds posed to the foreign exchange industry throughout COVID-19, the company found that it was too expensive to compete in North America. Additionally, the North American foreign currency banknote market is inherently less attractive than the other major foreign currency banknote markets, like Europe and Asia. Therefore, the exit of Travelex from the market propelled a substantial increase in market share for CXI.

However, while CXI's share of the North American foreign currency banknote market remains small, the company continues to take share from BoA and Wells Fargo. This is driven by the company's internally developed compliance-focused software, which will be discussed later in the report. Another advantage that CXI boasts over its larger peers is service. Foreign exchange services are the company's sole focus. In contrast, foreign exchange services make up a minuscule portion of BoA and Wells Fargo's revenue streams – thus, the QUIC team believes that CXI is the most motivated and focused service provider in the sector.

**Regulatory Barriers**

Regulatory barriers to entry augment the strength of CXI's position in this market. These barriers to entry are rooted in the bank charter. On November 23, 2012, CXI submitted an application to continue its wholly-owned subsidiary, CXIC, as a Canadian Schedule 1 bank under the name Exchange Bank of Canada (EBC). The process to approval was lengthy and expensive, spanning more than three years in length and underscored by significant investment into regulatory compliance with the addition of key personnel. Additionally, the approval process for CXI, as difficult as it was, was likely more accessible than the traditional process given the non-deposit gathering nature of CXI's operations and the absence of relevant leverage risk.

## I. Evaluating CXI's Market Attractiveness

There are plenty of structural advantages with becoming a Schedule 1 bank:

*New Sales Opportunities*: In Canada, many large institutions require that their foreign exchange and currency vendors be regulated with a banking license or be a bank. Therefore, the bank charter allows firms to meet the compliance requirements and access the big Canadian banks and many other large wholesale institutions in North America.

*Margin Savings*: The bank charter allows firms to source foreign currency directly from Central banks. Traditionally, the majority of foreign currency inventory would be sourced via currency exchange brokers, obtaining this inventory ~10-15bps above the spot currency rate. Therefore, by being able to source from the Bank of Canada (BoC) and the U.S. Federal Reserve System and thus source at spot rates, the bank charter provides companies with ~10-15bps of margin savings. This also means that CXI's buying power is equivalent to that of BoA and Wells Fargo, even as a smaller company. Thus, the company is not at risk of any predatory practices from a currency pricing point of view.

*Sales Cycle Improvement*: By shortening the request for proposal due diligence timeline, the bank charter improves the sales cycle of foreign currency services firms.

*Wire Business Growth*: The bank charter provides firms with better inter-bank rates – this has afforded CXI the ability to expand its wire payments services business.

However, while the QUIC team recognizes the structural advantages associated with the possession of a bank charter, as well as the difficulty in achieving the approval, we note that there are a significant number of banks who have obtained this bank charter but still choose to not enter the foreign exchange industry. Therefore, the regulatory barriers to entry afforded by the Schedule 1 bank charter are only applicable to new and very small entities, not the larger financial institutions in North America. We believe that the barriers to entry for these larger financial institutions are the small scale and long-term unattractiveness of the foreign currency banknote market.

**Drivers and Outlook**

The outlook of the foreign currency banknote market boils down to the positive impacts from tourism and the negative impact from the shift away from cash. We believe that the vast majority of the regulatory headwinds are behind us and that the trajectory of the industry will follow the trade-off of these two factors.

The global tourism industry has been expanding at a consistent pace for decades as international travel has become more convenient. Adjusting for the impact of COVID-19, tourism has been the fifth fastest-growing industry in the world, with much of this growth coming from emerging middle-class economies (i.e., Brazil, Russia, India, China, and Mexico). Given the global proliferation of COVID-19 vaccines, we believe that global tourism will begin to prosper as we move into 2022 and return to the high growth rates that the world witnessed before the Pandemic.

However, the growth of the industry via tourism is likely to be offset by the future of cash. Today, it is common knowledge that credit cards, debit cards, and prepayment cards have established a position of dominance in the global payments market. By value of transactions, cash payments have declined to under 20% of total payments from above 50% in 1992. This decrease shows no sign of slowing down, and, ultimately, the QUIC team believes that cash is in terminal decline.

However, while the trend in non-cash payments cannot be disputed, the team also must take into account the nature of tourism. Travelex's disclosures provide a view of the continued importance of cash use while travelling. In virtually every one of Travelex's main markets, the majority of payments made by people travelling abroad are made in cash.

# I. Evaluating CXI's Market Attractiveness

This dynamic displays the nature of the tourism industry as well as the habits of tourists. Therefore, while cash is in terminal decline, CXI's particular market may not be as perilous as initially thought out to be in the near term.

**Conclusion**

In conclusion, the QUIC team is fairly neutral about CXI's market. On the positive side, the market exhibits strong barriers to entry, and we believe that it is likely to sustain its oligopolistic nature moving forward. Additionally, CXI competes well in the industry, not suffering from its inferior scale given the equivalent buying power and utilizing this inferior scale to achieve a competitive advantage on service.

However, the duality of this nature is that the market is likely to stay insulated from new entrants, given its long-term unattractiveness. While already being a small market, the terminal decline of cash will eventually offset worldwide growth in tourism, and the market size will decline.

## II. Evaluating CXI's Proprietary Software Offering

While it is easy to think of CXI as a physical currency exchange player, through its other business units, as mentioned in this report, the company utilizes a differentiated software offering to win and retain business. For CXI and Exchange Bank, these software programs are called CEIFX and EBCFX, respectively.

These software programs are integrated within their clients' internal platforms to lock in foreign exchange rates, record all transaction activity, monitor foreign currency inventory levels, and execute wire transfers. By being a fully integrated API, the software can be customized to each client's specific needs without having to use a separate application. The software offered by the business is the leading platform relative to its peers.

The primary value-add of the software to CXI's clients is how the software ensures compliance regulations are always followed and eliminates back-office work. For compliance, the company's software works to follow the regulation of not dealing with any restricted entities or individuals, ensures clients' transactions are legitimate and legal and allows clients to set their own customized compliance restrictions.

With regards to processing transactions, the software automatically checks 21 different global watch lists to ensure the transaction is legitimate and compliant. This real-time integration includes the lists of FinCEN (the U.S. Treasury's Financial Crimes Enforcement Network), FINTRAC (Financial Transactions and Reports Analysis Centre of Canada), Interpol, the FBI (Federal Bureau of Investigation) and many more. Some of the lists are required to be checked, while others the customer can opt-in to have checked prior to a transaction. For example, some banks choose not to include the Hong Kong Monetary Authority, which is their right as a bank to choose which optional lists are referenced. However, no matter what, the U.S. FinCEN must be scrubbed and cannot be turned off my clients.

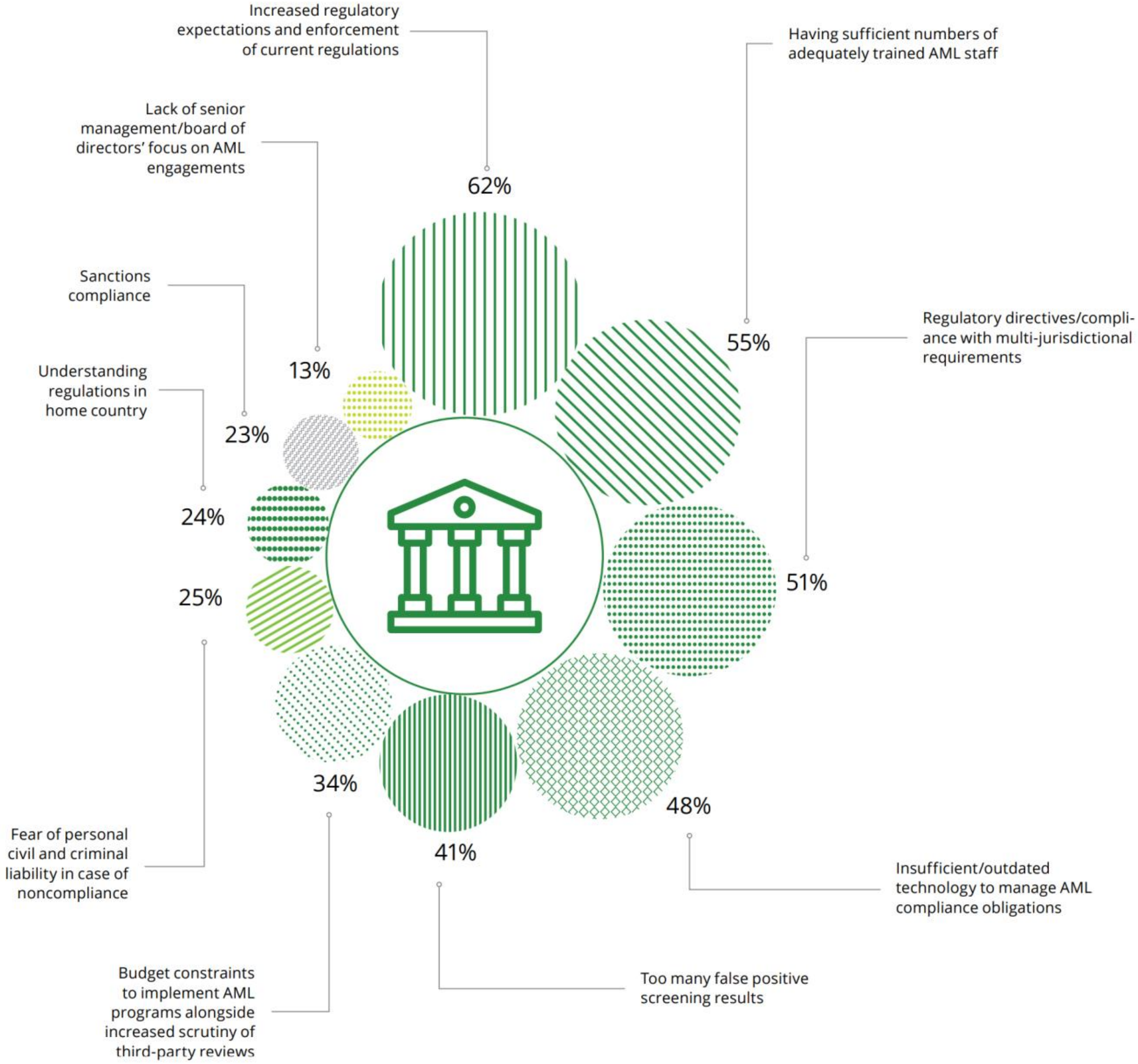
**EXHIBIT III**

Global Watch Lists Utilized in Software Offerings

Source(s): Company Filings, Deloitte Anti-Money Laundering Preparedness Report (2020), Earnings Calls

## EXHIBIT IV

Anti-Money Laundering Survey: Biggest AML Compliance Challenges Faced by Banks




Source(s): Deloitte Anti-Money Laundering Preparedness Report (2020)

## II. Evaluating CXI's Proprietary Software Offering

Another key advantage of the software is its robust compliance verification system (CVS). Since the focus on anti-money laundering laws, a big focus of compliance has been on customer activity. Therefore, within this software, CXI has implemented a robust engine, keeping track of customer activity, whether they sell currency, buy currency, do a wire, do a check, all the administrative work around that, such as pricing and fees, and most importantly, reporting.

The software offering's focus on compliance is invaluable to financial institutions as 62% of global institutions cited increased regulatory expectations and enforcement as their biggest concern when dealing with compliance and anti-money laundering. The second biggest concern was having sufficient numbers of adequately trained staff to be in compliance with the regulations. Following this, respondents stated that the regulatory directives in multiple jurisdictions were their greatest concern. CXI's software aims to solve all these issues through checking global watch lists, automating back-end work, allowing clients to customize the product, and for CXI to consistently innovate to fulfill future regulatory requirements.

Currently, customers of CXI are able to use this software for free within the agreement, while CXI is compensated indirectly through its spread income. However, as more and more global financial institutions continue to use their software offering, management could transition this business into a recurring business line or software as a service (SaaS). As of today, the only customers that pay a monthly fee for access to their software are customers that rarely transact with the business. This category represents a very small number of customers and an even smaller amount of revenue. In the future, however, CXI could begin to charge for this service leading to a material avenue for earnings growth with high rates of churn unlikely, given the proprietary and differentiated software offering relative to competitors.

## III. Evaluating CXI's Management Team

CXI's senior management team consists of six key individuals by the names of Randolph Pinna (CEO), Alan Stratton (Interim CFO), Matthew Schillo (COO), Jennifer McDougall (Chief Compliance Officer of Exchange Bank of Canada), Dennis Winkel (Chief Risk Officer), and Ian Zarac (Vice President, Financial institutions).

**Randolph Pinna – CEO**

Randolph Pinna has been the CEO of CXI since 2007. Before beginning CXI, he worked as the CEO of Foreign Currency Exchange Corporation (FCE) from 1989 to 2003. During his tenure at the firm, he successfully grew FCE from a small one-location operation in Tampa Bay, Florida to a multinational publicly traded company on the TSX with over 30,000 customers and client bank locations. FCE was acquired by the Bank of Ireland Group in 2003. At this time, Randolph was promoted to CEO for their North American Foreign Exchange Business and was one of five executives on the banks supervisory committee. He worked there until he began at CXI.

Prior to his professional career, Randolph graduated from the University of Central Florida with a bachelor's degree in finance with a focus on international business.

**Other Executives**

Alan Stratton is the current Interim CFO for the business as the previous CFO, Stephen Fitzpatrick, stepped down for personal reasons in August of 2021. Internally, Alan previously held the position of VP, Finance since January 2020 where he led the enterprise finance and account teams. Prior to his role at CXI, he had served as a CFO of a different public business (Diamond Estates Wines & Spirits) and has held senior finance roles at the Toronto Innovation Accelerations Partners and HD Supply Canada.

Matthew Schillo provides leadership in the daily business lines, maintains efficient operating procedures, and develops logistical and security protocols. Prior to working at CXI, Matthew was a vice president at FCE with Randolph, with a focus on their retail division.

Dennis Winkel serves as the Chief Risk officer of the firm. Mr. Winkel has more than 20 years of risk management experience comprising of financial and non-financial risk in a variety of cultural and linguistic contexts including the Netherlands, Australia, Spain, Japan, and Canada. Previously, he held positions at ING Group, and ING Direct Australia.

**Insider Ownership**

The AIF outlines that all senior executives have to own a certain amount of stock within five years of beginning at the firm, or by January 1, 2022 (Which ever comes later). The CEO is required to hold 3x their base salary, the CFO and COO 2x, and the CRO and Chief Compliance Officer 0.5x. Vice Presidents do not need to hold any stock. Find below a table depicting executive stock ownership as a multiple of their salary.

**EXHIBIT V**

Share Ownership by Executive

| Executive | Share Ownership Required | Ownership Multiple of Salary |
|---|---|---|
| Randolph Pinna (CEO) | 3x Base Salary | 29x |
| Alan Stratton (Interim CFO) | 2x Base Salary | Nil |
| Matthew Schillo (COO) | 2x Base Salary | Nil |
| Dennis Winkel (CRO) | 0.5x Base Salary | Nil |
| Ian Zarac (VPFI) | N/A | Nil |
| Jennifer McDougall (CCO of EBC) | 0.5x Base Salary | Nil |

Source(s): CXI AIF

## III. Evaluating CXI's Management Team

While the lack of stock ownership is somewhat concerning (apart from the CEO), there is a likely explanation for this phenomenon. Historically, CXI executives only share based compensation has come in the form of stock options. The share price of CXI has fluctuated significantly over the past roughly 5 years, meaning a lot of the executives' stock options have likely vested not in-the money. Because this is the only stock compensation management has received, in order to be a stock owner, they would have to purchase it out of pocket.

While most executives do not own enough stock, Randolph makes up for it. He owns ~21.5% of common shares issued (~1.375mm shares). His ownership gives the team confidence that he specifically is firmly aligned with shareholders.

**Management Compensation Plan**

CXI's compensation plan historically has been mediocre, however similar to other competitors. It had been a mix of cash salaries, cash bonuses, and stock options. Although it is still similar, it was altered in 2021 to include restricted share units (RSU's) that can only be *exchanged for cash*.

The new compensation plan consists of a base salary, a cash bonus that is established based on net income before tax and individual objectives, stock options as a percentage of base salary, and restricted share units as a percentage of salary. Find below a table depicting the breakdown of each senior executives' salaries (Exhibit IV).

A few segments of the compensation package to be noted are the net income targets, individual executive objectives, the stock option plan, and the restricted share units. The value of the cash bonus is established based on a balance of net income targets and individual objectives (Exhibit V).

**EXHIBIT VI**

Management Compensation by Segment as a Percentage of Salary

| | | As a Percentage of Base Salary (%) | | |
|---|---|---|---|---|
| **Executive** | **Base Salary** | **Cash Bonus** | **Stock Options** | **Restricted Share Units** |
| Randolph Pinna (CEO) | $325,000 | 50% | 40% | 20% |
| Alan Stratton (Interim CFO) | $202,000 | 40% | 20% | 20% |
| Matthew Schillo (COO) | $195,000 | 40% | 20% | 20% |
| Dennis Winkel (CRO) | $185,000 | 40% | 20% | 20% |
| Ian Zarac (VPFI) | $61,975 | N/A | N/A | N/A |
| Jennifer McDougall (CCO of EBC) | $164,000 | 35% | 18% | 18% |

Source(s): Company Filings

## III. Evaluating CXI's Management Team

**EXHIBIT VII**

Cash Bonus Weightings

| Executive | Company Performance Weighting | Individual Objectives |
|---|---|---|
| Randolph Pinna (CEO) | 85% | 15% |
| Alan Stratton (Interim CFO) | 85% | 15% |
| Matthew Schillo (COO) | 85% | 15% |
| Dennis Winkel (CRO) | 0% | 100% |
| Ian Zarac (VPFI) | N/A | N/A |
| Jennifer McDougall (CCO of EBC) | 0% | 100% |

Source(s): CXI AIF

Additionally, to establish the size of the case bonus relative to net income before tax targets, management uses the scale below.

**EXHIBIT VIII**

Net Income Target Payouts

| | Percentage of Net Income Target | | | | |
|---|---|---|---|---|---|
| | < 71% | 71% | 77% | 100% | > 100% |
| Percentage of Target Corporate Performance Bonus to be Paid | 0% | 50% | 90% | 100% | 125% |

Source(s): CXI AIF

Overall, although it incentivizes management to grow net income over time, the individual objectives portion of the cash bonus is unclear and arbitrary.

Moving forward, the stock option plan put in place does not necessarily align management with shareholders. Although the executives get to partake in the stock price upside, there is no downside risk in having options for these executives. Additionally, the stock option plan is a rolling stock option plan, meaning there is significant possibility for share dilution over the longer term.

Finally, the newly implemented RSU program is interesting as it forces the executives to cash in their shares for cash upon vesting. This means that the executives do not actually retain any share ownership once these shares vest. Although it is disguised as a share compensation plan, the executives are essentially just getting paid in cash for the value of the shares three years in the future. This incentivizes management to increase the share price, however it does not make them owners of the business.

Overall, although the compensation plan does not necessarily encourage executives to become shareholders, it aligns them with shareholders to some degree. Executives are incentivized to increase the share price as well as figures such as EPS.

**Capital Allocation**

CXI has never participated in share buybacks and has a limited acquisition history. Its only acquisitions in the last 5 years have been extremely small (less than $5mm), and within the realm of its business operations. The two acquisitions are EZ Forex and Denarius Financial Group ("DFG"). DFG specifically has highlighted the success of these small bolt on acquisitions, as the acquisition helped CXI transact with more than 600 new financial institutions and businesses, and better positioned their banknote business when international travel returns.

Apart from the recent small acquisitions done by CXI, management has highlighted how they will be allocating capital going forward. In their most recent 3-year strategic plan they state that they plan to return to profitability through increased penetration in a consolidating market, continued acquisition of corporate payment clients, and expansion in the international marketplace.

## Risks & Catalysts

**Risk: Foreign Currency Risk**

Currency Exchange's commission-based revenue source is dependent on the exchange rates between currencies around the world. Therefore, the company's currency assets may fluctuate unpredictably depending on the geopolitical and economic environment of the issuing country. Less prominent or minor currencies may also be too cost-prohibitive to hedge. To mitigate foreign currency risk, the firm widens its bid/ask spreads for volatile currencies, thereby ensuring the stability of commission revenues. Contracts and options are also employed in certain instances to further minimize currency risk. The rapid turnover of foreign exchange inventory also serves as to reduce the effect of volatile foreign currencies on top line performance.

**Risk: Changes in Travel**

Even prior to the pandemic, Currency Exchange's business was very cyclical, peaking during travel season. With international travel restrictions still in place in many places around the globe, it is difficult to project when leisure travel will once again become mainstream. Furthermore, international business travel may never recover to pre-pandemic levels, given the popularity of online meeting platforms in the workplace. The unknowns surrounding the final impact of the pandemic on the company make this risk one that is worth actively monitoring.

**Risk: Shift Toward Electronic Payment Options**

The emergence of electronic payment options and their rapid rise in popularity poses a significant threat to Currency Exchange's core banknote business. The increased use of touchless payment options during the pandemic may have accelerated the decline in cash use. Banknotes and other forms of physical money will likely become obsolete in the long-run, but it is also unreasonable to predict that obsolescence occurs within the next decade.

**Catalyst: Unrealized Acquisition Potential**

The acquisition of Montreal-based foreign exchange company Denarius Financial group (DFG) in July of 2020 has immense potential to grow CXI's presence in Canada. DFG is a leading provider of foreign exchange services in Quebec. The move has already yielded approximately 450 new corporate customer relationships and over 82% of new customers in Canada were attributable to the DFG acquisition. Travel and lockdown restrictions implemented after the acquisition led to abnormally low revenue figures and the subsequent sharp fall in stock price prevented many investors from realizing the long-term benefits of the takeover.

**Catalyst: Greater Globalization**

Currency Exchange's significant cash assets have allowed it to explore international expansion, even during the pandemic. In 2020, the firm was able to establish relationships with banks in 10 countries around the world. The role of trade in accelerating economic development is another trend that benefits the firm's foreign exchange operations. As a market leader in North America with up-to-date technology and strong Anti-Money Laundering (AML) practices, Currency Exchange has become an attractive provider of currencies for firms everywhere. The growing employment of migrant workers is another catalyst for growth, as workers must use the company's international wire transfer services to send money back to their home countries.

**Catalyst: Reduced Competition**

The pandemic, combined with the lack of growth potential for the banknote business, has caused a number of competitors to exit the market. This leaves Currency Exchange as the lone provider focused solely on foreign exchange. These two factors leave the firm plenty of room to gain market share, rewarding investors in the near-term.

## Valuation and Final Comments

The FIG team values CXI using a 5-year discounted cash flow analysis (DCF). The DCF implies a 34.8% return from the current price of C$14.52 and the FIG standard 8.00% discount rate.

**The Model**

The operating model is driven by the segmentation of banknotes and payments, rather than the reported commission revenue and fees revenue. Although the latter more closely aligns with how the business generates revenue, banknotes and payments are deemed as CXI's two core products/services and can therefore hold more grounded assumptions. Along with our outlook on both business lines written about previously, the integration with the Jack Henry platform, reopening of the tourism economy, recent acquisition, and expansion with more international customer's boast a positive outlook. Additionally, payments have trended to grow exponentially, as management has provided guidance that they expect the division between banknotes and payments to be equal in the long-run. Since payment volumes are driven moreso by economic health than just solely tourism, the team has more conviction in strong growth from this segment. Further, as CXI is quite a seasonal business, revenue growth is looked at on a yearly basis. The gross margin also acts as a key revenue driver in the forecast period, and the team grew this value towards a ~15-20% value, with CXI's shift towards more high margin products and recovering from pandemic margin cuts. After discussions with the team, Gordon Growth model has a 1% terminal growth value, due to a combination of economics of how large CXI can expand, in addition to the uncertainty of the economy within the next few years.

Another key point in the team's discussions is the extremely large cash balance that CXI holds. FIG sees this cash as unpriced upside, as it is not needed for operations, and management has the capacity to allocate the cash efficiently through acquisitions, share buybacks (which management has not deployed historically), etc. If management is unable to, then it becomes immensely value destructive within the next few years and destroy the unpriced upside.

**EXHIBIT IX**

DCF Analysis

| Operational Summary (000s) | 2017A | 2018A | 2019A | 2020A | 2021E | 2022E | 2023E | 2024E | 2025E |
|---|---|---|---|---|---|---|---|---|---|
| | | Actual | | | | | Forecast | | |
| Bank Notes Segment | 31,349 | 37,393 | 39,144 | 21,596 | 19,598 | 21,558 | 23,282 | 25,145 | 26,402 |
| Payments Segment | 1,129 | 1,705 | 2,640 | 3,418 | 7,481 | 10,474 | 12,045 | 13,852 | 15,237 |
| Total Revenue | 32,477 | 39,098 | 41,784 | 25,013 | 27,079 | 32,032 | 35,327 | 38,997 | 41,639 |
| *Revenue Growth* | | *20%* | *7%* | *(40%)* | *8%* | *18%* | *10%* | *10%* | *7%* |
| EBITDA | 7,948 | 8,151 | 6,181 | -5,993 | 345 | 3,844 | 4,593 | 5,460 | 6,038 |
| *EBITDA Margin* | *24%* | *21%* | *15%* | *-24%* | *1%* | *12%* | *13%* | *14%* | *15%* |
| Net Income | 3,821 | 4,227 | 2,823 | (8,799) | (2,208) | 883 | 1,233 | 1,648 | 1,913 |
| Earnings Per Share | $0.62 | $0.67 | ($0.03) | ($1.33) | ($0.34) | $0.14 | $0.19 | $0.26 | $0.30 |

Source(s): Company Filings

# Valuation and Final Comments

## EXHIBIT X

Sensitivity Analysis

| Valuation at October 31, 2020 | | | | | |
|---|---|---|---|---|---|
| WACC | 7.50% | 7.75% | 8.00% | 8.25% | 8.50% |
| Implicit Forecast | 12,260 | 12,195 | 12,131 | 12,068 | 12,005 |
| Terminal Value | 47,247,491 | 46,810,523 | 46,378,594 | 45,951,637 | 45,529,581 |
| Enterprise Value | 47,259,751 | 46,822,718 | 46,390,726 | 45,963,704 | 45,541,586 |
| Add: Cash | 59,311,553 | 57,144,411 | 53,467,337 | 57,706,415 | 50,135,957 |
| Equity Value Before Options | 106,571,304 | 103,967,129 | 99,858,063 | 103,670,119 | 95,677,543 |
| Basic Shares O/S | 6,414,936 | 6,414,936 | 6,414,936 | 6,414,936 | 6,414,936 |
| Intrinsic Value Before Options | $ 16.61 | $ 16.21 | $ 15.57 | $ 16.16 | $ 14.91 |
| Cash from Options | 0 | 0 | 0 | 0 | 0 |
| Equity Value | 106,571,304 | 103,967,129 | 99,858,063 | 103,670,119 | 95,677,543 |
| FD Shares O/S | 7,093,945 | 7,093,945 | 7,093,945 | 7,093,945 | 7,093,945 |
| Intrinsic Value per Share (USD) | $ 15.02 | $ 14.66 | $ 14.08 | $ 14.61 | $ 13.49 |
| Exchange Rate | 1.24 | 1.24 | 1.24 | 1.24 | 1.24 |
| Intrinsic Value per Share (CAD) | $ 18.63 | $ 18.17 | $ 17.45 | $ 18.12 | $ 16.72 |

## EXHIBIT XI

Money Service Companies Comparables

| Company Name | Market Cap ($MM) | Enterprise Value ($MM) | EV / EBITDA 2020E | EV / EBITDA 2021E | EV / EBIT 2020E | EV / EBIT 2021E | Price / Earnings 2020E | Price / Earnings 2021E |
|---|---|---|---|---|---|---|---|---|
| Global Payments Inc. | 46,412 | 55,418 | 15.3x | 13.5x | 17.0x | 14.9x | 19.3x | 16.4x |
| WEX Inc. | 8,723 | 11,349 | 16.3x | 13.3x | 33.1x | 23.0x | 22.6x | 18.1x |
| The Western Union Company | 7,952 | 9,888 | 7.5x | 7.0x | 9.0x | 8.5x | 9.5x | 8.6x |
| Euronet Worldwide, Inc. | 6,476 | 6,134 | 15.0x | 9.1x | 25.6x | 12.3x | 31.9x | 16.4x |
| MoneyGram International, Inc. | 613 | 1,320 | 6.1x | 5.8x | 17.6x | 11.9x | 40.9x | 15.0x |
| 25th Percentile | 6,476 | 6,134 | 7.5x | 7.0x | 17.0x | 11.9x | 19.3x | 15.0x |
| 75th Percentile | 8,723 | 11,349 | 15.3x | 13.3x | 25.6x | 14.9x | 31.9x | 16.4x |
| Mean | 14,035 | 16,822 | 12.1x | 9.7x | 20.5x | 14.1x | 24.8x | 14.9x |
| Median | 7,952 | 9,888 | 15.0x | 9.1x | 17.6x | 12.3x | 22.6x | 16.4x |
| Currency Exchange International, Corp. | 93 | 51 | 128.1x | 10.5x | 15.2x | 15.9x | NM | 145.2x |
| Premium / (Discount) to Mean | (99.3%) | (99.7%) | 962.9% | 7.3% | (25.6%) | 12.5% | NM | 874.7% |
| Premium / (Discount) to Median | (98.8%) | (99.5%) | 751.7% | 14.6% | (13.4%) | 28.7% | NM | 785.9% |

Source(s): Company Filings

## References

1. Acumen
2. Capital IQ
3. Company Filings
4. Deloitte
5. Industrial Alliance