Trickle Research

Every raging river, every great lake, every
deep blue sea starts … with a trickle

Acquisition Update

Date: **06/19/17**

12- 24 month Price Target: **$.42 ($USD)**

Allocation: **5**

Closing Stock Price Prior to Initiation on 10/13/16: **$.14 ($USD)**

Stock Price @ Close on 06/16/17: $.38 **($USD)**

ID Watchdog, Inc.

(Stock Symbol - Other OTC: IDWAF)
(Stock Symbol - Toronto SXV: IDW.V)

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On Friday June 16, 2017, ID Watchdog announced that the board of directors of the company had accepted an offer to be acquired by Equifax, Inc. (NYSE:EFX) for roughly $63 million cash, which equates to approximately $.40 per share. Throw in some time value of money adjustments and that number is just about spot om our price target. The full text of the release is below. We have some additional comments following the text of the release.

ID Watchdog Signs Definitive Agreement to be Acquired by Equifax Inc.

DENVER, June 16, 2017 /PRNewswire/ -- ID Watchdog, Inc. (TSX VENTURE: IDW) (IDWAF) ("ID Watchdog" or the "Company"), provider of consumer-facing identity theft protection and resolution services, announced today that it has entered into a definitive merger agreement providing for the acquisition by a subsidiary of Equifax Inc. (EFX) ("Equifax") of all of the issued and outstanding Ordinary Shares of the Company for USD $63,335,000 in cash, which equates to approximately USD$0.40 per Ordinary Share. The purchase price represents a premium of 77% of the closing price of the Company's Ordinary Shares on the TSX Venture on June 15, 2017. The transaction is structured as a statutory merger and is expected to be completed in the third quarter of 2017.

"The Company has experienced tremendous growth over the last several years and we are proud of our significant accomplishments," said Michael Greene, CEO of the Company. Mr. Ramsay, CIO of the Company stated, "Combining ID Watchdog's award-winning identity theft protection services with the unique data, insights, and solutions powered by Equifax, will accelerate innovation and service development, enhancing the experience for current and prospective ID Watchdog customers."

Recommendation of the ID Watchdog Board of Directors

The Board of Directors of the Company, after consulting with its financial and legal advisors, has determined that the merger is in the best interest of the Company and its shareholders and that the consideration being offered to the Company's shareholders is fair from a financial point of view. The Board of Directors has resolved to recommend that the Company's shareholders vote their shares in favor of the merger at a meeting of shareholders to consider the merger, which is expected to be held in early August 2017.

Additional Information on the Merger

The definitive merger agreement contains a non-solicitation covenant on the part of ID Watchdog, subject to customary "fiduciary out" provisions, with Equifax being entitled to a termination payment of USD$2,120,000 in certain circumstances. Completion of the merger is subject to customary closing conditions, including approval of two-thirds of the votes cast by holders of Ordinary Shares in person or by proxy at the meeting of shareholders in accordance with applicable securities laws. The merger is not subject to any financing condition.

ID Watchdog shareholders will be asked to vote on the merger at a special meeting of the Company's shareholders, which is expected to be held in early August 2017. Full details of the merger will be included in the Company's information circular to be mailed to holders of ID Watchdog's Ordinary Shares in accordance with applicable securities laws. A copy of the definitive merger agreement, the information circular, and related documents will be filed with Canadian securities regulators and will be available at www.sedar.com.

Certain directors, officers and other shareholders of the Company, representing approximately 8.7% of the Company's issued and outstanding Ordinary Shares, have entered into voting agreements with

Equifax pursuant to which they have agreed to vote their shares in favor of the merger, subject to the terms and conditions of such agreements.

Teknos Associates LLC has issued an opinion that the consideration to be received by ID Watchdog's shareholders in the merger is fair, from a financial point of view, to such shareholders.

ID Watchdog's financial advisor is Headwaters MB. ID Watchdog's legal advisors are Polsinelli PC, Fogler, Rubinoff LLP and Walkers. Equifax's legal advisor is King & Spalding LLP.

***About ID Watchdog**: ID Watchdog provides award-winning identity theft protection and resolution services to the employee benefits marketplace and also offers breach resolution, white label, wholesale, and embedded programs. Founded in 2005 and headquartered in Denver, Colorado, ID Watchdog leverages proprietary technology that searches billions of data points to detect changes in the personal identity profiles of each subscriber and provides immediate resolution services.*

ID Watchdog holds six industry awards for its identity protection software and service. The Company has been recognized for its leadership in identity theft protection, detection, and resolution as well as for its innovative technology, premier customer service, and personalized communication.

***About Equifax**: Equifax is a global information solutions company that uses trusted unique data, innovative analytics, technology and industry expertise to power organizations and individuals around the world by transforming knowledge into insights that help make more informed business and personal decisions. The company organizes, assimilates and analyzes data on more than 820 million consumers and more than 91 million businesses worldwide, and its database includes employee data contributed from more than 7,100 employers.*

Headquartered in Atlanta, Ga., Equifax operates or has investments in 24 countries in North America, Central and South America, Europe and the Asia Pacific region. It is a member of Standard & Poor's (S&P) 500® Index, and its common stock is traded on the New York Stock Exchange (NYSE) under the symbol EFX. Equifax employs approximately 9,700 employees worldwide.

Some noteworthy achievements for the company include: Named to the Top 100 American Banker FinTech Forward list (2015-2016); named a Top Technology Provider on the FinTech 100 list (2004-2016); named an InformationWeek Elite 100 Winner (2014-2015); named a Top Workplace by Atlanta Journal Constitution (2013-2017); named one of Fortune's World's Most Admired Companies (2011-2015); named one of Forbes' World's 100 Most Innovative Companies (2015-2016). For more information, visit www.equifax.com.

Forward-Looking Statement

This press release contains opinions, forecasts, projections, and other statements about future events or results that constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and financial outlook and forward looking information within the meaning of applicable Canadian securities laws (collectively, "forward-looking statements"). All statements, other than statements of historical fact, that address activities, events or developments that we or our management intends, expects, projects, believes or anticipates will or may occur in the future are forward-looking statements. Such statements are based upon certain assumptions and assessments made by our management in light of their experience and their perception of historical trends, current economic and industry conditions, expected future developments and other factors they believe to be appropriate. Such forward-looking statements include, but are not limited to, *statements about: expectations with respect to the merger, future revenue and the growth of revenue including growth from our Employee Benefit Channel; our business strategies; our ability to grow in both the near and long term and the funding of our growth opportunities; the plans, objectives, expectations and intentions of the company regarding revenue growth; and the future development of the Company's business.*

The forward-looking statements included in this release are also subject to a number of material risks and uncertainties, including but not limited to economic, approval, competitive, governmental, and technological factors affecting the merger and our operations, markets, services and prices. Such forward-looking statements are not guarantees of future performance, and actual results, developments and business decisions may differ from those envisaged by such forward-looking statements. We identify the principal risks and uncertainties that affect our performance in the Company's filings with Canadian regulators at www.sedar.com. Furthermore, the forward-looking statements and financial outlook contained in this release are made as at the date hereof and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements and financial outlook, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

While it may seem a bit counterintuitive, since the buyout approximates our target, we're not sure this represents the sort of "premium offer" the release suggests. We started covering ID Watchdog because we though it represented a story with multiple type valuation appreciation potential. We realize the difference between the initiation price and the buyout offer *IS* multiple appreciation, but we think the trajectory of the Company speaks to future valuations that could be measurably higher than this offer. Insofar as our research is concerned, we would reiterate the last paragraph from our most recent update of 05/08/17:

To reiterate, the Q1 numbers held no surprises and we think further validated our view that ***the Company should continue to grow into better valuations. We are beginning to think that the likelihood for revenue growth in 2018 and beyond may prove higher than our current estimates****. However, for now, we reiterate or price target and our allocation, and again, will look to additional visibility to revisit each of those as well as our model assumptions.*

To translate, we expect Q2 to be better than Q1, which is atypical for the Company's numbers since historically once enrollments are on the books (a Q1 event) they tend to stay relatively static throughout the year. However, this year, we knew they had some later enrollments that would/will impact Q2. Our plan was to look at raising our targets after seeing those numbers. To reiterate, in our opinion, the acquisition price for the Company, while granted a premium to the prior close, is low based on what we think is accelerating growth and a platform to sustain it.

The above said, as the press release indicates, the acquisition still requires *approval of two-thirds of the votes cast by holders of Ordinary Shares*. Our sense is that vote might be harder to come by than the board has apparently assumed. To that point, the release also notes that: *The definitive merger agreement contains a non-solicitation covenant on the part of ID Watchdog, subject to customary "fiduciary out" provisions, with Equifax being entitled to a termination payment of USD$2,120,000 in certain circumstances.* We don't know what those "*certain circumstances*" are, but we will try to find that out. We assume that rejection of the deal by greater than 1/3 of the shareholders would not be one of those. While we think the Company is worth more money, paying a $2.1 million penalty to keep the acquisition from happening is a hard pill to swallow. We trust the board did not agree to pay a penalty of $2.1 million in an instance where the shareholders simply voted their views. In the event the $2.1 million IS applicable to a “no” shareholder vote, then that vote could clearly have some negative financial impact for ID Watchdog. We could also envision a “no” vote negatively impacting the stock since there will likely be shareholders in favor of the transaction that might not like that outcome. Since the vote is in early August, we would expect the stock to continue to trade around the acquisition price until then, however, given the risk associated with a no vote we could certainly envision a discount associated with that risk.

Lastly, there is a takeaway here regarding small public companies that we think is worth noting. Part of the problem here is the market’s general inability to value small public companies properly, for a variety of reasons. That is not a complaint since it’s the reason we microcap analysts (as few of us as there are) have jobs. We understand Equifax paying $63 million instead of $80 million (for example), because first, they would always rather pay less than more for their own shareholders, and second, the offer represents a *“**73% premium** to the previous closing price”*. “Fair” values aside, 73% is a considerable premium for any acquisition on the face. Like we said, sometimes the market does a poor job of pricing small companies and that appears to be the case here. Generally, paying higher and higher premiums to the market requires greater scrutiny of that purchase price, even if it is because the market simply did a poor job of pricing the acquisition target in the first place. Moreover, when boards have acquiring companies offer them 73% premiums to the market price of their stock, it’s difficult (both practically and fiduciarily) to say no, regardless of what they think the company might be worth. Shareholders don’t carry that same fiduciary baggage, and as such, their concerns are far more focused on fair value. Again, it’s unfortunate from some perspectives, that microcaps sometimes trade well below their fair values, and transactions like this underscore that notion. That is a good part of the reason we believe there is marked opportunity in many microcap names and that is the focus of our research.

To reiterate, we think the acquisition price is short and we don’t view its passage by a 2/3rd majority vote as a forgone conclusion. It is however, encouraging to see our bullish notion of ID Watchdog actually validated by the marketplace. Stay tuned.

Rating System Overview

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 “investment unit” (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let’s use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20 stock coverage list we suggested and leaving some room to perhaps add another 5 of the names from our profiles). We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your “investment unit” would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those hung up on the tradition of more typical rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a “Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.

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