Update

Edison investment research

17 December 2009

Monitise

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/08	1.5	(11.9)	(4.7)	0.0	N/A	N/A
06/09	2.7	(11.4)	(3.4)	0.0	N/A	N/A
06/10e	7.7	(11.0)	(2.5)	0.0	N/A	N/A
06/11e	13.3	(7.8)	(1.5)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding share-based payments and exceptional items.

Investment summary: Expanding the ecosystem

Monitise has a proven technology based upon 1.3m current users. Today's announcement of joint ventures and new investments from Asia and The Carphone Warehouse in the UK highlight the ambition of management and major shareholders to rapidly expand the ecosystem and establish the group's solutions as a standard mobile application globally. As importantly, the structural shift towards consumer purchases of smart phones and downloadable apps should enhance the margin mix for Monitise over the next few quarters. We leave our forecasts unchanged ahead of interims in February. In our view the group still has significant cost requirements in building out the partnership structure, but the combination of user up-take and additional partnerships can support a push towards 20p.

New partnerships: Major Asian and UK partners

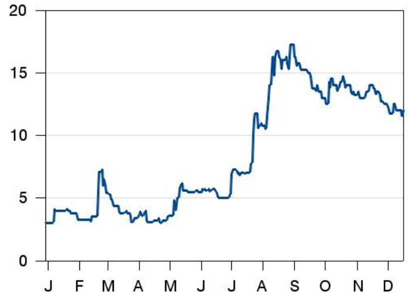
Monitise has been analysing the Asian opportunity for a while and today announced Heads of Terms to create a joint venture with First Eastern Investment Group, a Hong Kong-based investment firm, led by Victor Chu. First Eastern is one of the largest investment firms in Asia and will work with Monitise to deploy mobile banking and payment services in Hong Kong, China and other territories across Asia-Pacific. The group also announced a partnership with The Carphone Warehouse in the UK, which will market Monitise's solutions to its mobile customers. Importantly, this adds a retail channel to market to sit alongside the group's dominant position in the banking channel. Both companies are also making equity investments in Monitise PLC.

Current trading and forecasts: Positive momentum

H1 revenues are expected to exceed £1.7m and, with the group adding well over 100k users a month, we leave our forecasts unchanged (we estimate FY10 revenue of £7.7m). The P&L outcome this year and next will largely depend upon the mix of customer ARPUs (which we expect to be positively impacted by the up-take of iPhone apps) and therefore margins, balanced against the pace of cost investment to support the partnerships' roll-out. At this stage there is still a lot of guesswork and we are leaving P&L forecasts unchanged ahead of results on 16 February. The balance sheet is significantly strengthened by up to £15.8m of new funds this year.

Price	12.75p
Market Cap	£68m*

Share price graph



Share details

Code	MONI
Listing	AIM
Sector	Mobile Telecommunications
Shares in issue	530m (est FY11)*

Price

	High	Low
52 week	17.25p	3.00p

Balance sheet as at 30 June 2009

Debt/Equity (%)	N/A
FY10 est NAV per share (p)	3.6
FY10 est net cash (£m)	15.9

Business

Monitise provides a mass market technology platform that enables banks, card schemes and other financial providers to offer mobile banking and payment services.

Valuation

	2009	2010e	2011e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	13.3	5.4	4.5
ROE	N/A	N/A	N/A

Revenues by geography 2009e

UK	Europe	US	Other
75%	0%	20%	5%

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Monitise is a research client of Edison Investment Research Limited

Partnerships & trading update: Key deals & positive mix

Monitise has made several major announcements over the last 12 months, most notably, the deal with Visa and the acquisition of 100% of Monilink. However, today's news marks the first step in rolling-out its services in the massive Asian market, and the deal with The Carphone Warehouse helps cement the group's position as a key IT mobile payment partner in the UK market.

New joint venture with Hong Kong's First Eastern

The board has announced Heads of Terms to create a new joint venture agreement, covering the wider Asia-Pacific region to provide mobile banking and payment services, with First Eastern (Holdings) Limited, part of the First Eastern Investment Group, a leading Hong Kong-based direct investment firm. First Eastern, led by Victor Chu, is one of the largest investment firms in the region, and while it does not bring a payments infrastructure (Monitise have found the payment processing market to be fragmented in the region), it does bring wide-ranging expertise and relationships in the region. The group will work with Monitise to deploy mobile banking and payments services in Hong Kong, China and other territories in the Asia-Pacific region. The first services are expected to be available through banks and financial institutions to consumers during 2010. The scale of the opportunity is clear, with the region including eight of the 15 most populous countries in the world. First Eastern is subscribing for £5m of new Monitise ordinary shares at 13p per share. In addition, First Eastern has agreed to subscribe for an additional £2.5m of new Monitise ordinary shares at 13p per share upon completion of the Asia-Pacific joint venture.

New joint venture with The Carphone Warehouse

The board also announced that Heads of Terms have been agreed with The Carphone Warehouse Group for a new joint venture agreement. The Carphone Warehouse will initially market Monitise's mobile money network solutions to UK consumers, before being rolling out into Europe and the US. This fits with The Carphone Warehouse's strategy to win market share and drive higher ARPU by offering value-added mobile services (we would probably expect Monitise's platform to be 'bundled' with phones with a range of usage options for the consumer). This agreement is important for a couple of reasons in our view. Firstly, it highlights the flexibility of the solution – Carphone Warehouse plans to enable consumers to sign up to mobile banking services, buy goods and services from network members, send money to their friends and family including those in other countries, top up their prepaid and loyalty cards and top up their mobile phones etc (the first services are expected to be available to consumers in early 2010). Secondly, illustrating Monitise's ecosystem strategy, this deal enables it to reach the UK consumer and corporate markets through the retail channel as well as through the major banks. The Carphone Warehouse will subscribe for £2.5m of new Monitise ordinary shares at 15p per share on completion of the Mobile Money Network joint venture.

Current trading and forecasts

In the first half revenues are expected to exceed £1.7m, an increase of at least 55% on the equivalent period last year. Transaction revenue for the half year of c £0.8m is a fourfold increase on the equivalent period last year. This reflects the fast growth in customer numbers and the gradual migration of customers to higher levels of revenue per user.

- Consumer uptake and margin mix. We currently estimate the group is adding close to 150k new users a month. Intriguingly we estimate a significant proportion of these are iPhone customers. These typically higher-end consumers are signing up to higher value usage deals (as a reminder, Monitise essentially markets a low end feeder proposition covering debit card activations etc, a higher value SMS service for checking balances etc, through to a top end java download solution). Given that we expect this tend to accelerate (as more banks offer apps and the iPhone is sold by more than one service provider) this has the potential to materially positively impact the margin mix of the business over the next few quarters.
- Costs. Costs over the next few quarters will include the impact of the acquisition of 100% of Monilink, ongoing investment in technical development, the roll-out of support for new partnerships and, across the group, the embedding of structures to build on these new business lines. Therefore, with a number of uncertain variables below our FY10 consumer user assumption (we assume 2.3m users at the end of June FY10) we leave our P&L forecasts unchanged (apart from reflecting the expected higher number of shares this year and next).
- Strengthened balance sheet. Cash balances across the group at 31 December 2009 are anticipated to be c £9m. However, existing major shareholders Visa International Service Association, UBS Global Asset Management and Standard Chartered Bank are supporting the subscriptions by the new shareholders. In total therefore subscriptions announced should add a maximum of £15.8m by the year end. We now forecast June end FY10 net cash of almost £16m, which highlights the strength of the group (and the willingness of existing shareholders to back them) in building out the business further.

Valuation: DCF valuation of 24p

It is too early to ascribe any multiple based valuation metrics to the business. Therefore, we have taken a discounted cash flow (DCF) approach (as shown in Exhibit 1) based upon our revenue and cost assumptions. Clearly, this analysis is highly sensitive to changes in assumptions (as highlighted above), although we have attempted to capture some of the risks to forecasts by using a discount rate of 15% in reaching a value of 24p a share. We believe milestones that investors should monitor over the next six months include subscriber growth (management delivered ahead of its target of 1m users by the end of December), overseas partnerships (in our view the two deals today are material), any major new large customer wins and the ARPU as consumer take-up accelerates (the trend towards Smartphone and an apps based model could clearly help accelerate the up-take of higher end services for Monitise).

Exhibit 1: Financial assumptions and valuation

Note: £/$ = 1.6.

Year end June	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	June	June	June	June	June	June	June	June	June	June	June	June	June	June	June	June
Integration services revenue	2.6	3.1	3.5	3.8	4.1	4.3	4.4	4.5	4.6	4.7	4.7	4.7	4.7	4.8	4.8	4.8
Average Number of international JV partners	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Average Licence per JV $m	1.8	2.1	2.4	2.6	2.7	2.8	2.9	2.9	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0
JV Licence Revenue @ 50% recognition	1.7	2.6	3.7	4.8	6.0	7.1	8.1	9.1	10.1	11.1	12.0	13.0	13.9	14.9	15.8	16.7
Year end Active users (millions)	2.3	4.4	8.9	16.2	26.4	39.2	52.5	64.9	75.7	84.6	91.4	96.7	100.5	103.3	105.4	106.8
Average # Active users '000	1.5	3.4	6.6	12.5	21.3	32.8	45.8	58.7	70.3	80.1	88.0	94.1	98.6	101.9	104.3	106.1
% Low end (Essentials)	42%	43%	44%	44%	45%	45%	45%	44%	44%	43%	42%	42%	42%	42%	42%	42%
% High end (Active)	48%	46%	44%	42%	41%	39%	38%	36%	35%	33%	33%	33%	33%	33%	33%	33%
% High volume	10%	11%	12%	13%	15%	16%	18%	19%	21%	24%	25%	25%	25%	25%	25%	25%
ARPU/month Low end (p)	24	24	23	22	21	21	20	20	19	18	18	17	17	16	16	16
ARPU/month High end (p)	59	58	56	55	54	53	52	51	50	49	48	47	46	45	45	45
ARPU/month High volume (p)	10	10	10	9	9	9	9	9	9	8	8	8	8	8	8	8
Royalty/Transactional Revenue @ 50% recognition	3.4	7.6	14.4	26.0	42.2	62.1	82.9	101.5	116.0	126.1	134.5	140.5	143.9	145.4	148.8	151.3
Total Revenue	**7.7**	**13.3**	**21.6**	**34.7**	**52.2**	**73.4**	**95.5**	**115.1**	**130.8**	**141.8**	**151.3**	**158.2**	**162.6**	**165.0**	**169.4**	**172.8**
Gross Margin services	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Gross margin licence	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross margin royalties and transactions	50.0%	50.5%	51.0%	51.5%	52.0%	52.5%	53.0%	53.5%	54.0%	54.5%	55.0%	55.5%	56.0%	56.5%	57.0%	57.5%
Total Gross Profit	**4.4**	**7.7**	**12.4**	**19.8**	**29.5**	**41.4**	**53.8**	**65.2**	**74.6**	**81.7**	**87.9**	**92.8**	**96.4**	**98.9**	**102.5**	**105.6**
Operating Costs	(15.0)	(15.0)	(15.3)	(15.8)	(16.5)	(17.4)	(18.2)	(19.2)	(20.1)	(21.1)	(22.2)	(23.3)	(24.4)	(25.7)	(27.0)	(28.3)
EBITA&SBP	**(10.6)**	**(7.3)**	**(2.9)**	**4.0**	**13.0**	**24.0**	**35.6**	**46.1**	**54.5**	**60.5**	**65.7**	**69.6**	**72.0**	**73.2**	**75.6**	**77.3**
Cashflow Assumptions																
EBIT	(10.6)	(7.3)	(2.9)	4.0	13.0	24.0	35.6	46.1	54.5	60.5	65.7	69.6	72.0	73.2	75.6	77.3
Cash Tax £m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(15.3)	(17.0)	(18.4)	(19.5)	(20.1)	(20.5)	(21.2)	(21.7)
Depreciation £m	0.3	0.4	0.4	0.5	0.5	0.6	0.6	0.7	0.8	0.9	0.9	1.0	1.1	1.3	1.4	1.5
Net Capex £m	(0.6)	(0.7)	(0.7)	(0.8)	(0.9)	(1.0)	(1.1)	(1.2)	(1.3)	(1.4)	(1.6)	(1.7)	(1.9)	(2.1)	(2.3)	(2.5)
Working Capital £m	(0.2)	(0.3)	(0.4)	(0.7)	(1.0)	(1.5)	(1.9)	(2.3)	(2.6)	(2.8)	(3.0)	(3.2)	(3.3)	(3.3)	(3.4)	(3.5)
Operating Cashflow £m	(11.0)	(7.9)	(3.6)	3.0	11.6	22.1	33.3	43.3	36.1	40.2	43.7	46.2	47.8	48.6	50.1	51.2
Discount Factor £m	0.9	0.8	0.7	0.6	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Discounted Cashflow £m	(9.6)	(5.9)	(2.4)	1.7	5.8	9.6	12.5	14.2	10.3	9.9	9.4	8.6	7.8	6.9	6.2	5.5

Discount Rate	15%
LT growth rate	3%
NPV Forecast Period £m	90.3
NPV Continuing Value £m	0.0
FY09 Cash	10.1
Equity Value £m	100.5
Per share	24.3

Source: Edison Investment Research

Exhibit 2: Financials

Note: Normalised EPS excludes exceptionals and share-based payments.

Year end 30 June	£'000s	2006 UK GAAP	2007 IFRS	2008 IFRS	2009 IFRS	2010e IFRS	2011e IFRS
PROFIT & LOSS							
Revenue		240	472	1,492	2,658	7,666	13,253
Cost of Sales		(250)	(327)	(630)	(1,167)	(3,244)	(5,590)
Gross Profit		(10)	145	862	1,491	4,422	7,663
EBITDA		(3,338)	(7,825)	(12,637)	(11,777)	(10,778)	(7,437)
Operating Profit (before GW and except.)		(3,338)	(7,909)	(12,786)	(11,977)	(11,078)	(7,837)
Exceptionals		0	(596)	0	0	0	0
Share based payments		0	(183)	(2,107)	(1,754)	(2,000)	(2,000)
Operating Profit		(3,338)	(8,688)	(14,893)	(13,731)	(13,078)	(9,837)
Net Interest		7	8	919	604	100	0
Profit Before Tax (norm)		(3,331)	(7,901)	(11,867)	(11,373)	(10,978)	(7,837)
Profit Before Tax (FRS 3)		(3,331)	(8,680)	(13,974)	(13,127)	(12,978)	(9,837)
Tax		897	2,775	0	0	0	0
Profit After Tax (norm)		(2,434)	(5,309)	(11,867)	(11,373)	(10,978)	(7,837)
Profit After Tax (FRS 3)		(2,434)	(5,905)	(13,974)	(13,127)	(12,978)	(9,837)
Average Number of Shares Outstanding (m)		156.9	157	254	330	448	530
EPS - normalised (p)		(1.6)	(3.4)	(4.7)	(3.4)	(2.5)	(1.5)
EPS - FRS 3 (p)		(1.6)	(3.8)	(5.5)	(4.0)	(2.9)	(1.9)
Dividend per share (p)		0	0	0	0	0	0
Gross Margin (%)		N/A	31	58	56	58	58
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A	N/A
BALANCE SHEET							
Fixed Assets		816	1,147	1,258	992	1,408	1,869
Intangible Assets		478	790	793	659	800	1,000
Tangible Assets		338	357	465	333	608	869
Current Assets		1,083	22,494	13,218	15,798	23,889	20,591
Debtors		0	185	642	3,653	3,000	3,000
Other		923	1,936	2,895	2,000	3,000	4,000
Cash		160	20,373	9,681	10,145	17,889	13,591
Current Liabilities		(4,923)	(2,705)	(5,250)	(7,399)	(5,900)	(9,800)
Creditors		(595)	(1,411)	(2,873)	(4,020)	(3,900)	(4,800)
Short term borrowings		(4,328)	(1,294)	(2,377)	(3,379)	(2,000)	(5,000)
Long Term Liabilities		0	0	(91)	(57)	0	0
Long term borrowings		0	0	(91)	(57)	0	0
Net Assets		(3,024)	20,936	9,135	9,334	19,397	12,660
CASH FLOW							
Operating Cash Flow		(3,902)	(8,680)	(12,861)	(11,396)	(10,345)	(6,637)
Net Interest		0	8	820	604	100	0
Tax		0	(56)	0	0	0	0
Capex		(125)	(541)	(517)	(307)	(575)	(661)
Acquisitions/disposals		(120)	0	0	0	0	0
Financing (including demerger adjustments)		(27)	32,516	126	11,548	20,000	0
Dividends		0	0	0	0	0	0
Net Cash Flow		(4,174)	23,247	(12,432)	449	9,180	(7,298)
Opening net debt/(cash)		0	4,168	(19,079)	(7,213)	(6,709)	(15,889)
Closing net debt/(cash)		4,168	(19,079)	(7,213)	(6,709)	(15,889)	(8,591)

Source: Monitise report and accounts and Edison Investment Research

Edison Investment Research

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