

8 July 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
06/09e	2.7	(11.2)	(3.3)	0.0	N/A	N/A
06/10e	9.0	(7.8)	(1.9)	0.0	N/A	N/A
06/11e	14.3	(5.9)	(1.4)	0.0	N/A	N/A

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

### Investment summary: Transformational Visa deal

The group is on track to reach one million subscribers in 2009 and the recently announced global alliance deal with Visa does underwrite the scalability of the business model. Valuing the equity remains challenging given the massive market opportunity weighed against current losses. However, we reach a DCF value of 25p and look for H2 newsflow to support a move back towards 12-month highs.

### Trading update: Investment and \$13m alliance with Visa

H2 FY09 revenues were slightly behind our forecast, but pre-tax losses will be slightly lower. More, importantly the group announced a global alliance with Visa Inc. The deal brings contracted \$13m of revenue over five years, a new 14% shareholder (part of a £5m fund-raising at a 33% premium to the closing price) and importantly another endorsement of the group's roadmap from one of the payment industry leaders.

### Business model: Scalable business model

Implementation revenues to date accounted for around half of revenues, but we expect this to change sharply over the next two years as the group signs up more regional JV partners and transactional payments from the roll-out of consumer services accelerate (both are higher margin income). With more modest need for investment in costs, the operational gearing of the business model should be evident into FY11. The Visa deal supports the P&L outlook and lifts the group's gross cash to c £15m.

### Forecasts: Review in August

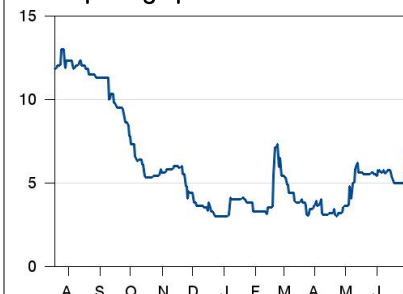
We have slightly adjusted our forecasts to reflect the trading statement, but will await more details at the time of the final results (Aug 25) before reviewing our projections.

### Valuation and view: Judge the newsflow

The technology looks proven by the quality of the partners. More difficult is assessing the pace at which consumers will use the services offered by Monitise's platform and how this translates into its P&L. Nevertheless the market opportunity is substantial, the ecosystem approach provides competitive protection, and newsflow over the next 12 months will go a long way to determining the extent of the group's success.

Price 6.9p  
Market Cap £23m

#### Share price graph



#### Share details

Code MONI  
Listing AIM  
Sector Mobile Telecommunications  
Shares in issue 337m

#### Price

52 week High 12p Low 2p

#### Balance sheet as at 30 June 2009 (est)

Debt/Equity (%) N/A  
NAV per share (p) 3p  
Net cash (£m) 7.8

#### 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

	2008	2009e	2010e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	4.4	3.8	1.9
ROE	N/A	N/A	N/A

#### Revenues by geography 2008e

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

#### Analyst

Andrew Bryant 020 3077 5729  
abryant@edisoninvestmentresearch.co.uk

## Investment summary: Transformational Visa deal

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### Company description: Uniquely placed

Monitise is a global leader in mobile banking and payments. Monitise provides secure, mass-market services which enable consumers to manage bank accounts, cards and payments directly from their mobile phones. Working in partnership with financial institutions and MNOs, Monitise creates multi-issuer/multi-operator ecosystems that allow all parties to share in the benefits. Monitise derives value by charging an annually recurring licence fee to license its technology into regions. However, the real upside for Monitise is through future transactional payments when this technology is adopted in the UK, US and new territories by consumers on a mass market scale. The group has target of 1m consumer users by the end of this calendar year and TV advertising campaigns, based around mobile access to accounts, by the likes of Lloyds TSB, highlights the growing industry take-up of services.

### Valuation: 25p DCF valuation

There are risks inherent with an early stage commercial roll-out, but we believe the Visa deal, and newsflow over the next 12 months (subscriber growth, JVs, new customer wins), should increasingly highlight the commercial potential of the company. Given the nascent stage of the market and the losses sustained by Monitise, a discussion of valuation is still fairly academic. However, the market opportunity is substantial, the barriers to entry are growing and if the company can show that consumers are demanding mobile banking services then the upside for equity holders is significant. The latest deal with Visa is transformational in validating the group's strategy and supporting the short-term P&L and balance sheet. In this report we fall back on a DCF approach (recognising all its subjectivity) in reaching a value of 25p.

### Sensitivities: Company at an early stage of development

The majority of the sensitivities to our investment outlook are those associated with a technology company at an early stage of the roll-out of its commercial model. In particular, they are the pace of consumer uptake of the group's services, reliance on key personnel, potential need for further equity based financing and the risks of new entrants as the market matures.

### Financials: Scalable business model

Monitise proportionally consolidates and therefore recognises a c 50% contribution of revenues and costs from the UK and US joint venture (JV). The revenue stream to date has been consultancy driven, but we believe the mix will change fundamentally over the next three years as higher margin licence and transactional income accelerates. Importantly, Monitise is largely through its R&D phase and therefore going forward costs will grow a lot slower than revenues (we show our detailed assumptions in Exhibit 5). This approach generates revenues of £9.0m in FY10 and £14.3m in FY11 and an EBIT loss of £7.9m in FY10 and £5.9m in FY11. Post the closing of the recent investment round, the group will have c £15m of gross cash (over two years of liquidity based on our forecasts).

## Company description: Mobile banking platform

### Background: Mobile payments ecosystem

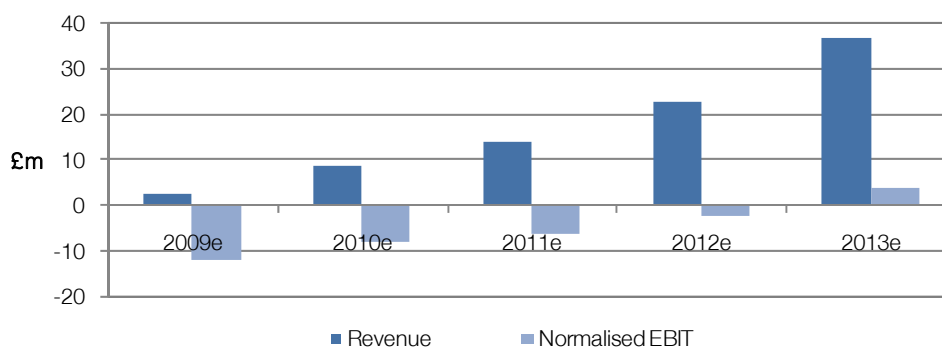
Monitise has designed a mass market technology platform that facilitates secure services enabling consumers to manage bank accounts, cards and payments directly from their mobile phones. Working in partnership with financial institutions and mobile network operators (MNOs), Monitise has created a multi-issuer/multi-operator ecosystem with value-added services for consumers and a revenue share business model for partners.

### What does Monitise do?

The initial mobile platform IP was established by its founders in 2003, and subsequently incubated within the Morse Group. Management built out relationships with banks and telecoms companies in the UK, the end result being a 50/50 joint venture with VocaLink in the UK. Monitise was then created to own and internationalise all the IP and was demerged and listed on AIM in June 2007. Within 12 months the group had announced a JV partner in the US and RBS as the next major financial customer in the UK. In February 2009 Monitise was awarded a patent for its mobile banking payments platform.

- **UK JV with VocaLink.** In the UK Monitise has created a 50/50 JV. The JV partner is VocaLink, the operator of the UK ATM switch and the UK BACS networks. Monitise's technology has been adopted by the majority of UK retail banks.
- **US JV with Metavante.** In the US, Monitise has a 49/51 JV with Metavante, a leading US processor, to deliver mobile banking and payment services across North America, launched in November 2007.
- **International partnerships.** The group continues to make progress in India (working with ICICI Bank), Asia (final stages of discussion with Standard Chartered) and the Middle East and Africa (discussing a regional JV with potential partners). Management has indicated that positive progress is being made and that at least one new regional operation is expected to come on-stream each financial year.
- **Visa Inc.** We expect the group to continue to build out partnerships with leaders in the electronic payments space. The recent Visa deal is the latest endorsement of the group's strategy and the contracted revenue and equity investment highlights the importance of Monitise to its own road-map. The combination of Visa's reach and Monitise's powerful platform should provide a major opportunity.

Exhibit 1: P&L projections



Source: Monitise and Edison Investment Research

## Partner and consumer proposition

Essentially Monitise JVs target customers are the major retail banks which, in turn, market mobile banking services to their retail banking customers. There are a number of cost and service advantages for the banks while consumers benefit from the 24/7 access to a range of account information and services.

- **Target customers.** Monitise's JVs have signed up seven UK banks (including RBS, HSBC, Natwest and Lloyds TSB) giving them potential coverage of around 80% of UK current account holders. In the US around 90 financial institutions and pre-paid card providers have now adopted the technology.
- **Proposition for banks.** Nearly all financial institutions have a mobile strategy. Banks increasingly recognise the potential for mobile to transform their internal processes. Their motivation to adopt new technology can be summarised as: 1) Cost savings – currently customers typically access their account information in branches, over the web or by call centre. Market estimates for the cost of an operator-received call is c \$5-7 per five minutes (it is estimated that over 60% of calls to a bank's call centres are from a mobile phone), while the marginal cost of delivering the information over a wireless platform are close to zero; 2) Value added services and revenue – the ecosystem approach to mobile phone based payment systems also gives banks and telecoms carriers another channel to 'up-sell' services and drive new revenue streams. In particular UK banks are looking at aggressive roll-outs of mobile services to activate debit cards, provide mortgage application progress, and alerts for unusual transactions etc; 3) Regulation – there is more pressure on banks to inform retail customers of pending overdraft breaches and associated banking charges. Clearly the immediacy of mobile phone alerts enables banks to keep their customers up to date but also provides a tracked audit trail of communication.
- **Proposition for consumers.** The advantages of mobile access to banking information for retail customers are fairly obvious, ie, the immediacy of checking account information, making payments, transactions, etc. This is not only more time effective for consumers but 'always on' monitoring of balances helps customers avoid possible charges. The service is now being used by signed-up consumers on average five times a month.

## Business model: Scaling from implementation to usage

Monitise goes to market via a joint venture model or via partnership agreements. The most fundamental part of Monitise's revenue model is that it owns its own IP. Investment is focused on creating and driving this software and platform both in the UK and in overseas territories. Monitise derives value by charging an annually recurring licence fee to license its technology into regions or to major global payment players. This contributes an initial annuity revenue stream. However, the real upside for Monitise is through future transactional payments when the technology is adopted in new territories on a mass market scale. Within each territory, income for the Monitise joint venture is driven by service fees from banks (eg per user transaction payments as they add consumers to the network) and from operators and merchants (eg commissions on pre-pay mobile and stored value top-up cards).

### Exhibit 2: Revenue streams

Revenue stream	Deployment	Licence	Transactional
Description	Deployment and integration of the service for customers	Software licence for use of the service	Revenue share from consumer usage of the service
Typical current customers	UK and US banks and financial institutions	Monilink (UK) and Metavante (US) JV partners	Target 1m UK and US consumers 2009
Revenue model	Time and materials	Annual licence payment	Per user per month royalties & transaction fees shared with telecoms companies
Revenue recognition	50% from JVs 100% from direct third parties	50% from JVs 100% from direct 3rd parties	50% from JVs 100% from direct third parties
Typical gross margins	30%	100%	50%

Source: Monitise and Edison Investment Research

Monitise therefore derives revenues from essentially three sources: 1) the deployment and implementation of its technology into the enterprise IT systems of the banks and telecoms partners; 2) the annual payments for the joint venture companies to license the usage of the technology and consumer driven transactional payments paid by the banking customers for adding consumers to the network; and 3) planned revenue share as partners 'up-sell' more transactional based services.

- Deployment revenue.** To date the revenue from implementing the technology accounts for around half of Monitise's top line. Over time we would expect this percentage to decline sharply as other income streams scale and the group potentially builds out an implementation partner channel. Typically Monitise will provide services to the JV partner or through the JV to end customers (in both cases recognising 50% of the revenue). In addition, over-time, we expect the group to grow direct third-party implementation revenues as evidenced by the recent Visa deal (where the group will recognise 100% of revenues).
- Licence income.** In the UK the joint venture, MONILINK, does not pay an annual usage licence to Monitise (essentially reflecting its initial 'seeding' of the IP). The US joint venture pays an annual usage licence fee of \$1.5m (because Monitise jointly funds the JV 50% of revenue eliminates on consolidation). Management believes there is scope to increase the annual licence payments with future joint venture partners (ie as the model is rolled out geographically).

- **Consumer transaction.** In addition, the joint venture companies charge the banking customers a monthly fee for each consumer signed up to the network. These monthly revenues are shared by the joint venture with the switch operators and mobile network operators that are supporting the service (therefore of the total fees paid by consumers the joint venture we estimate Monitise will earn a c 50% gross margin – Monitise from the JV holding recognises 50% of the revenues and profits).
- **Consumer transactional structures.** The success of Monitise's mobile banking strategy is based upon the gradual introduction of additional functionality rather than hitting consumers with function-rich applications in one go. Monitise has therefore designed, and banks are offering, two service levels to consumers. The 'essentials' package is aimed at entry level customers with a very simple registration process and straightforward services. The 'active' package is targeted as an upgrade for essentials customers and directly at more active and sophisticated users who are seeking more interactive services. Clearly there is a range of pricing structures across the banking partner base. However, we estimate that the joint ventures receive from the banks in the range 25p to 40p per month for essentials customers and 50p to 80p for active customers. Both the JV and Monitise earn a c 50% gross margin on this income (after revenue sharing with switch operators and MNOs).

### Exhibit 3: Consumer services model

Service offering	Essentials	Active
Description	Entry level service	For more IT confident/more active users
Services	Updates eg weekly balance Alerts eg overdraft limits	Account management eg balances, mini statements Alert preference settings Sales & service messages Payments/Commerce
Banks business case	Call centre migration Service enhancement	Call centre migration Service enhancement Customer retention Revenue share opportunities
Estimated per user per month gross royalty (pence)	25p to 40p	55p to 80p

Source: Monitise and Edison Investment Research

### Growth outlook: Consumer uptake & accelerated geographic roll-out

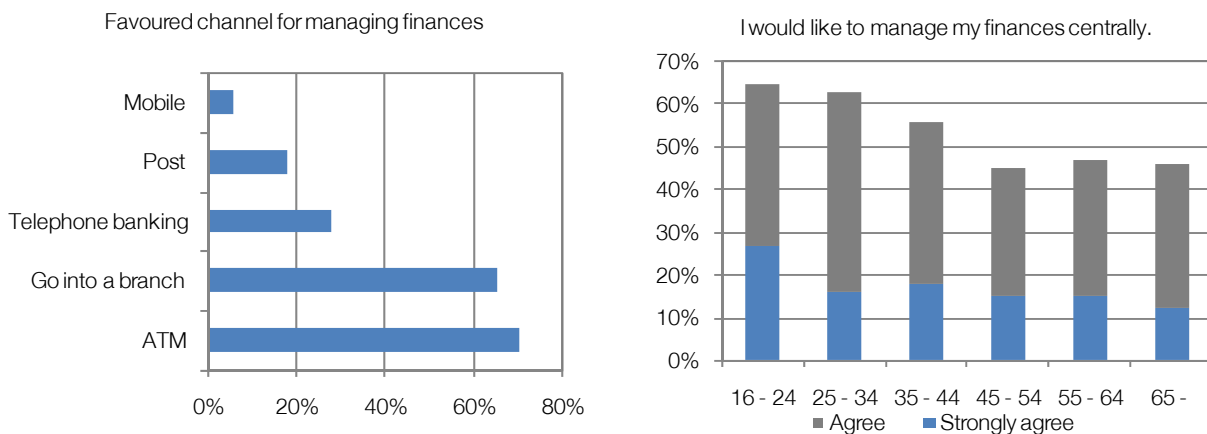
The upside to revenues for Monitise will come initially from the roll-out of services to consumers in the established UK and US markets – management has reaffirmed its target of one million users by the end of 2009. Accelerating this growth will be the roll-out of joint ventures internationally (with the initial positive impact of scaling licence income with longer-term upside consumer transactional payments) supported by the recent deal with Visa.

- **Growth in mobile banking.** Mobile banking is becoming the fifth channel to market for retail banks after branches, ATMs, call centres and internet banking. Monitise estimates the global mobile banking market could exceed £5bn in five years and surpass internet banking, which currently has a 20% penetration across Tier One banks in the UK. The basic premise is that mobile phones are cheaper than PCs, there are three times as many of them, take-up of mobile phones is growing at twice the speed of PCs, and more people have mobile phones than have internet access. Monitise's technology

works with 85% of handsets and close to 100% of new handsets in the UK. We believe that Monitise's technology is differentiated from pure SMS text-based mobile banking services currently on offer by its functionality, security and ease of use. It will be further differentiated by increased functionality over time.

- **Mobile payments.** Monitise's technology enables users to top up pre-pay mobiles and, in time, transit cards such as the Oyster. In addition, online shopping is set to reach £2.4bn this year (according to Verdict) and over £20bn by 2013. Clearly, it is very difficult to assess the pace at which consumers will be comfortable 'transacting' over their mobile phones. However, given the penetration rates of mobile phones and the improvements in wireless broadband networks, we would expect mobile transactions to grow very quickly over the next five years. In addition, there are a number of players in the UK and US that are trialling 'contact less' payment cards. If these prove successful it is likely that the processing functionality would be integrated into next generation mobile handsets.
- **Demographics.** New mobile experiences such as the Blackberry and the Apple iPhone have significantly broadened the functionality and experience for mobile phone users. While the most heavy users of these products are technology 'early adopters' there is, not surprisingly, a great deal of evidence that younger people are significantly more comfortable transacting using mobile phones. As these users grow older, the available market for service providers like Monitise will grow substantially. Initial research from Monitise shows that the average age of their current users is around 28, although the age curve is well spread.

#### Exhibit 4: Consumer preferences



Source: Monitise, Future Foundation

- Growth in emerging market mobile phone usage. According to a recent United Nations report, two-thirds of the world's cell phone subscriptions are in developing nations, with the highest growth rate in Africa, where a quarter of the population now has a mobile. While just one in 50 Africans had a mobile in the year 2000, now 28% have a cellular subscription, according to the International Telecommunications Union (ITU). The ITU report highlighted that the internet is far less accessible in poorer parts of the world. Fixed internet infrastructure and access in developing countries is still limited and, where available, is often slow and/or expensive. Therefore, many banks and other service providers are targeting the mobile phone channel as the most effective route to servicing consumers.

## Financials: Operationally geared

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### Scalable business model: Edison estimate monthly profitability FY12

Monitise's business model is fairly typical of technology providers with an indirect sales channel. Looking forward there is the potential for the business to scale revenues very rapidly, control costs and therefore deliver substantial operational gearing.

- **Scalable revenues.** Licence revenue is forecast to grow very strongly (combination of new JVs and higher licence per JV) but the biggest upside will be the growth from consumer transactional payments and, in the medium-term, revenue share from transactions. In turn, this should drive higher gross margins at a group level (licence income is 100% gross margin, transaction payments are at c 50% gross margin compared with c 30% margins for services). US revenues are likely to build rapidly and exceed UK revenues in the medium term.
- **Operationally geared cost base.** Importantly, Monitise is through its R&D phase and the joint venture business model means the marketing costs are partly funded by the joint venture partners (Monitise recognising 50%). Therefore going forward we expect costs to grow slower than revenues. In the short term management has actually been able to reduce the fixed overheads. A cost reduction programme is targeted at removing around £4m of costs, after a net reinvestment of £2m in new geographic territories. We forecast a reduction in cash overheads in FY10.

### Edison P&L forecasts: Revenues trebling by FY10

We show our detailed assumptions in Exhibit 5. We have modelled the number of joint venture partners and the average licence fee per partner. In addition we show our estimate of the year-end total number of subscribers, a split between essential, active and registration customers and pricing assumptions in-line with the levels we highlighted earlier. We then show a breakdown of gross profitability for each revenue stream and make assumptions about group cost growth going forward. We recognise that this approach had a large number of variables and currently there is little visibility further out. Nevertheless it does provide an illustration of the market potential and Monitise's business model. We show revenues of £9.0m in FY10 and £14.3m in FY11. After our assumption of modest growth in costs this translates into a full year normalised EBIT loss of £7.9m in FY10 and £5.9m in FY11. We forecast the group should hit monthly profitability towards the end of FY12 (management's target is to reach monthly cash break-even towards the end of FY11).

### Balance sheet: £15m of gross cash

At the end of FY09 we estimate Monitise had net cash of £7.8m. Post the closing of the recent share placement the group has available gross cash of around £15m (excluding the joint venture funded loans). Based on our assumptions this should provide around two years of cash resources, which is sufficient to see the group through to cash flow positive.

**Exhibit 5: Financial assumptions and valuation**

Note: £/\$ = 1.6.

<b>Year end June</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
	June	June	June	June	June	June	June	June	June	June	June	June	June	June	June	June	June
Integration services revenue	1.5	3.8	4.5	5.1	5.6	6.0	6.3	6.5	6.7	6.8	6.9	6.9	7.0	7.0	7.0	7.0	7.0
Average Number of international JV partners	1	3	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
JV License Revenue @ 50% recognition	0.5	1.7	2.0	2.9	4.0	5.1	6.2	7.2	8.2	9.2	10.2	11.1	12.1	13.0	13.9	14.9	15.8
Year end Active users (millions)	0.6	2.4	4.5	9.2	17.0	27.0	38.0	49.0	58.9	67.2	73.9	79.0	82.8	85.6	87.6	89.1	90.1
Average # Active users '000	0.3	1.5	3.5	6.9	13.1	22.0	32.5	43.5	54.0	63.1	70.5	76.4	80.9	84.2	86.6	88.4	89.6
% Low end (Essentials)	50%	42%	43%	44%	44%	45%	45%	45%	44%	44%	43%	42%	42%	42%	42%	42%	42%
% High end (Active)	50%	48%	46%	44%	42%	41%	39%	38%	36%	35%	33%	33%	33%	33%	33%	33%	33%
% High volume	0%	10%	11%	12%	13%	15%	16%	18%	19%	21%	24%	25%	25%	25%	25%	25%	25%
Royalty/Transactional Revenue @ 50% recognition	0.8	3.5	7.8	14.9	27.1	43.5	61.6	78.8	93.3	104.0	111.0	116.8	120.8	122.9	123.5	126.0	127.8
<b>Total Revenue</b>	<b>2.7</b>	<b>9.0</b>	<b>14.3</b>	<b>22.9</b>	<b>36.8</b>	<b>54.7</b>	<b>74.1</b>	<b>92.5</b>	<b>108.2</b>	<b>120.0</b>	<b>128.0</b>	<b>134.8</b>	<b>139.8</b>	<b>142.9</b>	<b>144.4</b>	<b>147.9</b>	<b>150.6</b>
<b>Total Gross Profit</b>	<b>1.3</b>	<b>4.6</b>	<b>7.2</b>	<b>11.9</b>	<b>19.3</b>	<b>28.7</b>	<b>38.9</b>	<b>48.6</b>	<b>56.8</b>	<b>63.2</b>	<b>67.7</b>	<b>71.6</b>	<b>74.5</b>	<b>76.5</b>	<b>77.8</b>	<b>80.0</b>	<b>81.8</b>
Operating Costs	(12.8)	(12.5)	(13.1)	(13.9)	(15.0)	(16.2)	(17.5)	(18.9)	(20.4)	(21.5)	(22.5)	(23.7)	(24.8)	(26.1)	(27.4)	(28.8)	(30.2)
<b>EBITA&amp;SBP</b>	<b>(11.5)</b>	<b>(7.9)</b>	<b>(5.9)</b>	<b>(2.0)</b>	<b>4.3</b>	<b>12.5</b>	<b>21.3</b>	<b>29.6</b>	<b>36.4</b>	<b>41.8</b>	<b>45.2</b>	<b>47.9</b>	<b>49.7</b>	<b>50.4</b>	<b>50.4</b>	<b>51.2</b>	<b>51.6</b>
<b>Cashflow Assumptions</b>																	
EBIT	(11.5)	(7.9)	(5.9)	(2.0)	4.3	12.5	21.3	29.6	36.4	41.8	45.2	47.9	49.7	50.4	50.4	51.2	51.6
Cash Tax £m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(11.7)	(12.6)	(13.4)	(13.9)	(14.1)	(14.1)	(14.3)	(14.4)
Depreciation £m	0.2	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	(0.5)	(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	(0.1)	(0.2)	(0.3)	(0.5)	(0.7)	(1.1)	(1.5)	(1.9)	(2.2)	(2.4)	(2.6)	(2.7)	(2.8)	(2.9)	(2.9)	(3.0)	(3.0)
Operating Cashflow £m	(11.9)	(8.4)	(6.5)	(2.7)	3.2	11.0	19.5	27.4	33.8	27.2	29.4	31.2	32.3	32.7	32.6	33.0	33.1
Discount Factor £m	1.0	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	(11.9)	(7.3)	(4.9)	(1.8)	5.5	8.4	10.3	11.0	7.7	7.3	6.7	6.0	5.3	4.6	4.1	3.5	
Discount Rate	15%																
LT growth rate	3%																
NPV Forecast Period £m	68.4																
NPV Continuing Value £m	25.3																
FY09 Net Cash	7.5																
Equity Value £m	101.1																
	24.5																

Source: Edison Investment Research

## Sensitivities: Early stage development company

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There are inherent risks associated with investment in any early stage development company where technology, pricing and competition are highly variable. These risks, however, create opportunity.

- **Up-take of mobile phone services.** Clearly Monitise's long-term business model is based upon assumptions of the pace of take-up of mobile financial services by consumers and their willingness to use their phones to make transactions
- **Dependence on key personnel.** Monitise has grown rapidly and now has c 100 employees. While Alastair Lukies is a driving force behind the direction of the group, it is our belief that the quality of senior management and the advisory board has diluted the importance of any one individual and therefore does not detrimentally impact growth prospects for the group.
- **Ability to implement growth strategy.** Monitise's business growth strategy is based on implementing the Monitise platform internationally. Clearly, this could involve the need for further equity-based fund-raising.
- **Intellectual property rights and competitive outlook.** Mobile VPT argued in January 2007 that there had been an infringement to patent. However, the case is "stayed" (no activity for the last 18 months) and management strongly believes the claim to be invalid. However, as the market matures and the economic rewards become clearer there is the risk of new entrants that could either take market share or at least pressurise pricing.

## Valuation: DCF valuation of 25p

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Monitise is still too immature and the losses too high to ascribe any multiple based valuation metrics to the business. Therefore, in this report we fall back on a DCF approach (as shown in Exhibit 5) in reaching a group value of 25p. Clearly, this analysis is highly sensitive to changes in assumptions, although we have attempted to capture some of the risks to forecasts by using a discount rate of 15%. In our view what is key to highlight about Monitise is:

- The group has a highly invested and proven technology for wireless banking and transactions over mobile phones.
- Monitise has already signed industry leaders in the UK, US and increasingly overseas adding credibility to the technology platform and providing a major competitive barrier.
- The group is on track to reach 1m users this year, highlighting the financial viability of the business model and giving management increasing visibility of cash break-even.

We believe milestones that investors should monitor over the next six months should include subscriber growth (minimum 1m by end 2009), overseas partnerships (we expect at least a further one), any major new large customer wins and the ARPU as consumer take-up accelerates (ie evidence that consumers/banks are 'willing to pay' for the service).

**Exhibit 6: Financials**

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

Year end 30 June	£'000s	2006 UK GAAP	2007 IFRS	2008 IFRS	2009e IFRS	2010e IFRS	2011e IFRS
<b>PROFIT &amp; LOSS</b>							
<b>Revenue</b>		<b>240</b>	<b>472</b>	<b>1,492</b>	<b>2,734</b>	<b>8,984</b>	<b>14,267</b>
Cost of Sales		(250)	(327)	(630)	(1,433)	(4,398)	(7,055)
Gross Profit		(10)	145	862	1,301	4,586	7,212
<b>EBITDA</b>		<b>(3,338)</b>	<b>(7,825)</b>	<b>(12,637)</b>	<b>(11,299)</b>	<b>(7,614)</b>	<b>(5,513)</b>
<b>Operating Profit (before GW and except.)</b>		<b>(3,338)</b>	<b>(7,909)</b>	<b>(12,786)</b>	<b>(11,499)</b>	<b>(7,914)</b>	<b>(5,913)</b>
Exceptionals		0	(596)	0	0	0	0
Share based payments		0	(183)	(2,107)	(2,000)	(2,000)	(2,000)
<b>Operating Profit</b>		<b>(3,338)</b>	<b>(8,688)</b>	<b>(14,893)</b>	<b>(13,499)</b>	<b>(9,914)</b>	<b>(7,913)</b>
Net Interest		7	8	919	300	100	0
<b>Profit Before Tax (norm)</b>		<b>(3,331)</b>	<b>(7,901)</b>	<b>(11,867)</b>	<b>(11,199)</b>	<b>(7,814)</b>	<b>(5,913)</b>
<b>Profit Before Tax (FRS 3)</b>		<b>(3,331)</b>	<b>(8,680)</b>	<b>(13,974)</b>	<b>(13,199)</b>	<b>(9,814)</b>	<b>(7,913)</b>
Tax		897	2,775	0	0	0	0
<b>Profit After Tax (norm)</b>		<b>(2,434)</b>	<b>(5,309)</b>	<b>(11,867)</b>	<b>(11,199)</b>	<b>(7,814)</b>	<b>(5,913)</b>
<b>Profit After Tax (FRS 3)</b>		<b>(2,434)</b>	<b>(5,905)</b>	<b>(13,974)</b>	<b>(13,199)</b>	<b>(9,814)</b>	<b>(7,913)</b>
<b>Average Number of Shares Outstanding (m)</b>							
		156.9	157	254	337	413	415
<b>EPS - normalised (p)</b>		<b>(1.6)</b>	<b>(3.4)</b>	<b>(4.7)</b>	<b>(3.3)</b>	<b>(1.9)</b>	<b>(1.4)</b>
<b>EPS - FRS 3 (p)</b>		<b>(1.6)</b>	<b>(3.8)</b>	<b>(5.5)</b>	<b>(3.9)</b>	<b>(2.4)</b>	<b>(1.9)</b>
<b>Dividend per share (p)</b>		<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Margins</b>							
Gross Margin (%)		N/A	31	58	48	51	51
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
<b>BALANCE SHEET</b>							
<b>Fixed Assets</b>		<b>816</b>	<b>1,147</b>	<b>1,258</b>	<b>1,665</b>	<b>2,140</b>	<b>2,601</b>
Intangible Assets		478	790	793	900	1,100	1,300
Tangible Assets		338	357	465	765	1,040	1,301
<b>Current Assets</b>		<b>1,083</b>	<b>22,494</b>	<b>13,218</b>	<b>12,724</b>	<b>11,235</b>	<b>7,161</b>
Debtors		0	185	642	400	700	1,400
Other		923	1,936	2,895	2,000	3,000	4,000
Cash		160	20,373	9,681	10,324	7,535	1,761
<b>Current Liabilities</b>		<b>(4,923)</b>	<b>(2,705)</b>	<b>(5,250)</b>	<b>(5,800)</b>	<b>(6,500)</b>	<b>(7,800)</b>
Creditors		(595)	(1,411)	(2,873)	(3,300)	(4,000)	(5,300)
Short term borrowings		(4,328)	(1,294)	(2,377)	(2,500)	(2,500)	(2,500)
<b>Long Term Liabilities</b>		<b>0</b>	<b>0</b>	<b>(91)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long term borrowings		0	0	(91)	0	0	0
<b>Net Assets</b>		<b>(3,024)</b>	<b>20,936</b>	<b>9,135</b>	<b>8,589</b>	<b>6,875</b>	<b>1,962</b>
<b>CASH FLOW</b>							
<b>Operating Cash Flow</b>		<b>(3,902)</b>	<b>(8,680)</b>	<b>(12,861)</b>	<b>(10,689)</b>	<b>(7,314)</b>	<b>(5,113)</b>
Net Interest		0	8	820	300	100	0
Tax		0	(56)	0	0	0	0
Capex		(125)	(541)	(517)	(500)	(575)	(661)
Acquisitions/disposals		(120)	0	0	0	0	0
Financing (including demerger adjustments)		(27)	32,516	126	11,500	5,000	0
Dividends		0	0	0	0	0	0
Net Cash Flow		(4,174)	23,247	(12,432)	611	(2,789)	(5,774)
<b>Opening net debt/(cash)</b>		<b>0</b>	<b>4,168</b>	<b>(19,079)</b>	<b>(7,213)</b>	<b>(7,824)</b>	<b>(5,035)</b>
<b>Closing net debt/(cash)</b>		<b>4,168</b>	<b>(19,079)</b>	<b>(7,213)</b>	<b>(7,824)</b>	<b>(5,035)</b>	<b>739</b>

Source: Monitise Report and Accounts and Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
N/A	N/A	N/A	Litigation/regulatory	◐
			Pensions	○
			Currency	◐
			Stock overhang	◐
			Interest rates	◐
			Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 05-09e	N/A	ROCE 09e	N/A	Gearing 09e	N/A	Address:	
EPS CAGR 07-09e	N/A	Avg ROCE 06-09e	N/A	Interest cover 09e	N/A	Providian House	
EBITDA CAGR 05-09e	N/A	ROE 09e	N/A	CA/CL 09e	2.2	16-18 Monument Street	
EBITDA CAGR 07-09e	N/A	Gross margin 09e	48%	Stock turn 09e	N/A	Phone	020 7868 5200
Sales CAGR 05-09	N/A	Operating margin 09e	N/A	Debtor days 09e	53	Fax	020 7868 5201
Sales CAGR 07-09e	N/A	Gr mgn/Op mgn 09e	N/A	Creditor days 09e	107	www.monitisegroup.com	

Principal shareholders		%	Management team
Visa		14	<b>CEO: Alastair Lukies</b>
UBS		13	Alastair has a proven track record of turning visions and concepts into real businesses. Prior to conceiving, financing and successfully building Monitise, Alastair was a co-founder of epolitix.com, the portal for Westminster, Whitehall and the devolved institutions.
Standard Chartered Bank		8	
3i		6	
Capital		6	
Directors		5	<b>CFO: Tom Spurgeon</b>
HK Telemedia (PCCW)		5	Tom brings over 15 years of financial management experience. He is a chartered accountant and trained with Price Waterhouse (London). Prior to joining Monitise, Tom spent five years as UK finance director of Morse plc.
Forthcoming announcements/catalysts		Date *	
Full year results		August 2009	
AGM		October 2009	<b>Chairman: Duncan McIntyre</b>
Trading update		January 2010	Former CEO of Morse plc, which he joined as finance director in 1994. A qualified accountant, he previously working for 10 years at Price Waterhouse before joining Morse. He is also a non-executive director of Profero Limited and executive deputy chairman of Morse plc.
<i>Note: * = estimated</i>			

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Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk  
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