Update

Edison investment research

27 August 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)	(2.7)	0.0	N/A	N/A
06/11e	13.3	(7.8)	(1.9)	0.0	N/A	N/A

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

Investment summary: Positioned for strong growth

FY09 financials were as expected and the group is on track to exceed its target of one million subscribers in 2009. More importantly the recently announced global alliance deal with Visa and the buy-out of Monilink further underwrites the medium-term growth potential of the business model. We have pulled back our forecast for FY10 reflecting both a slightly more conservative view of the top line and the mechanics of the Monilink deal. The shares have bounced very strongly over the last few weeks but we reach a DCF value of 24p a share.

FY09 results: Upside from Visa and Monilink

FY09 revenues were slightly behind our initial forecast, but pre-tax losses were slightly lower. More important have been the post balance sheet events; in the last few weeks the group announced a global alliance with Visa bringing contracted revenue of $13m over five years, a £5m fund-raising and the buy-out from partner VocaLink to take full ownership of the UK joint venture Monilink Ltd. The Monilink acquisition streamlines the group structure and gives Monitise 100% of future 'value' from the major opportunity in the UK.

Forecasts: Adjusted for FY10 revenue and Monilink

We have adjusted our forecasts to reflect a slightly more cautious view of revenue growth in FY10, the impact of the Monilink deal (we estimate the balance of extra gross profit and higher operating expenses will impact group profits by a modest additional £1m this year) and overseas investment. Importantly, Monitise has a highly operationally geared business model (we forecast a move into monthly profitability in FY12) and around £15m of gross cash currently.

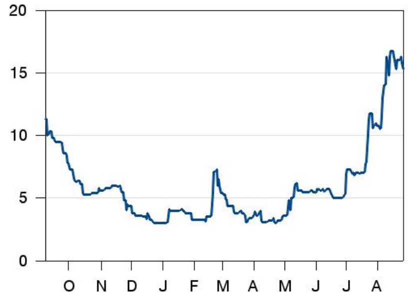
Valuation and view: Further upside despite strong bounce

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 (the group can exceed 1m users by end December). Nevertheless the market opportunity is substantial, the ecosystem approach provides competitive protection, and recent newsflow highlights the strategic momentum of the group. We reach a DCF value of 24p (15% discount rate).

Monitise is a research client of Edison Investment Research Limited

Price	16.0p
Market Cap	£66m

Share price graph



Share details

Code	MONI
Listing	AIM
Sector	Mobile Telecommunications
Shares in issue	413m

Price

52 week	High	Low
	16.75p	2.95p

Balance sheet as at 30 June 2009

Debt/Equity (%)	N/A
NAV per share (p)	2
Pro-forma gross cash (£m)	15

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	17.3	8.3	5.4
ROE	N/A	N/A	N/A

Revenues by geography 2009e

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

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FY09 results update: Positioned for growth

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 a target of one million consumer users by the end of this calendar year and TV advertising campaigns, based around mobile access to accounts, by the likes of Lloyds Group and NatWest, highlights the growing industry take-up of services. The recent deal with Visa and the buy-out of Monilink are both major strategic milestones for the group.

FY09 results: Encouraging progress

Revenue grew by 80% to £2.7m and adjusted operating loss, which excludes share based payments, reduced to £12.0m (2008: loss £12.8m). At the end of June Monitise had over half a million customers. Management expects to exceed 1m customers by end December, underpinned by July, which was another record month for customer acquisition (Monitise currently has more than 750,000 customers). Monitise has now signed up over 110 partner banks and financial institutions in the UK and North America.

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 1: 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 3) consumer driven transactional payments paid by the banking customers for adding consumers to the network and planned revenue share as partners 'up-sell' more transactional based services.

Financials: Adjusted FY09, but highly operationally geared

We have reduced our FY10 revenue forecast to £7.7m (previously £9.0m) and our forecast loss increases to £11.0m (£7.8m loss). The reduction in our revenue projection broadly reflects more conservative assumptions about integration revenue, not any change in our forecast pace of consumer uptake. Taking full control of Monilink means that the group will recognise higher gross profits in the UK going forward, but will also carry an additional c £2m of operating expense. Adding in likely additional investment in the Asian market opportunity drives the higher forecast pre-tax loss. Looking further out, there is potential for the business to scale revenues very rapidly, control costs and therefore deliver substantial operational gearing (see our assumptions in Exhibit 2). Post the recent share placing the group has around £15m of gross cash in July (we forecast FY10 year end gross cash of c £5m).

Valuation: DCF valuation of 24p

It is too early to ascribe any multiple based valuation metrics to the business. Therefore, we have taken a DCF approach (as shown in Exhibit 2) based upon our revenue and cost assumptions. 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 reaching a value of 24p a share. 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).

Sensitivities: Early stage development company

There are inherent risks associated with investment in any early stage development company where technology, pricing and competition are highly variable. 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. In addition, Monitise's business growth strategy is based on implementing the Monitise platform internationally. This could involve the need for debt or further equity-based fund-raisings. We believe these risks have been significantly mitigated by the recent deal with Visa. The focus for the group now is to continue to grow subscriber numbers and reach profitability in FY12.

Exhibit 2: 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 3: 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	413	415
EPS - normalised (p)		(1.6)	(3.4)	(4.7)	(3.4)	(2.7)	(1.9)
EPS - FRS 3 (p)		(1.6)	(3.8)	(5.5)	(4.0)	(3.1)	(2.4)
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	9,089	6,091
Debtors		0	185	642	3,653	1,500	2,000
Other		923	1,936	2,895	2,000	3,000	4,000
Cash		160	20,373	9,681	10,145	4,589	91
Current Liabilities		(4,923)	(2,705)	(5,250)	(7,399)	(6,100)	(10,300)
Creditors		(595)	(1,411)	(2,873)	(4,020)	(4,100)	(5,300)
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	4,397	(2,340)
CASH FLOW							
Operating Cash Flow		(3,902)	(8,680)	(12,861)	(11,396)	(8,645)	(6,837)
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	5,000	0
Dividends		0	0	0	0	0	0
Net Cash Flow		(4,174)	23,247	(12,432)	449	(4,120)	(7,498)
Opening net debt/(cash)		0	4,168	(19,079)	(7,213)	(6,709)	(2,589)
Closing net debt/(cash)		4,168	(19,079)	(7,213)	(6,709)	(2,589)	4,909

Source: Monitise report and accounts and Edison Investment Research

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