

## Equity Research Alert

### Monitise Plc (MONI)

Market cap.	Change	Share price
<b>£151.9m</b>	<b>2.00p (+9.2%)</b>	<b>21.75p</b>

### Monitise meets UK breakeven milestone

Mobile money provider Monitise has hit an important milestone, with its European operating business (primarily the UK) breaking even on a month by month cash basis at the end of 2010, as promised at the start of the year. The company has also reached the 3m customer mark, up 50% in less than a year. The UK breakeven provides strong validation of the Monitise model at a time when the company continues to invest heavily in R&D and developing an increasing number of geographic, partner and product JVs worldwide.

Monitise Europe is the operating company for the currently primarily UK banking operations, with Monitise supporting the mobile banking activities of banks accounting for 55% of UK current accounts, including Lloyds and RBS. We understand that the UK accounts for the large majority of Monitise's 3m mobile banking customers, with the rest coming from the US operations.

The UK operation has a current cash annual operating cost base of approximately £4m, or say £330k per month. Given gross margins of broadly 60%, this implies that the UK is generating c£550k revenues per month. Assuming that the UK accounts for, say, 85% of the 3m customers, this implies average revenues of £2.50 a year per customer. Like 2.4 children, this is a misleading average, as the Monitise customer base is divided between users of more simple SMS-based services, generating less than £1 a year and smartphone users generating significantly more.

From a backdrop of monthly breakeven, the UK business should now start to enjoy good operating leverage. The growth from 2m to 3m customers since last February for the whole business represents c100k new customers a month, suggesting that the UK customer base is growing at c5% month on month. ARPUs are likely to trend upwards as customer migrate up to smartphones; indeed, this is reflected in usage stats also published by Monitise, showing that usage of its platform has grown 30% between September and December 2010, to over 13m transactions a month. It is also not beyond the realms of possibility that Monitise could sign up other major UK banks. Given a relatively stable cost base, much of the incremental gross profit should fall through to the bottom line.

This is an important achievement as it demonstrates the commercial potential of mobile money in a single market, even before Monitise has moved onto more advanced mobile banking and financial transactions

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services, as well as related services such as retail payments, ticketing, location-based money services and so on. Monitise, of course, continues to generate significant losses overall, as it invests in R&D and developing an increasing number of geographic, partner and product JVs worldwide (eg the US, Hong Kong/China, India, Africa, Visa and Retail), but the UK breakeven provides strong validation of the Monitise model.

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