

# Results Focus | Monitise plc

## Monitise shows fruits of £5m annual R&D

Mobile money provider Monitise has announced a substantial upgrade of its technology platform and product offering (Monitise Globe), enhancing the existing mobile banking services as well as adding mobile wallet, payments, shopping, stock trading and financial account management capabilities. The shares are now at our 23p valuation, having risen 47% since we initiated coverage in February, and are therefore up with events. However, this substantial product upgrade provides further evidence of Monitise's intent, and will maintain its position as a leading player in a strategically important part of the mobile market.

### Company basics

RIC	MONI
Share price £	0.242
Market cap £m	168.0
Net cash £m	(44.2)
Enterprise value £m	123.8

### Estimates and valuation

Year end March	Financials					Valuation			
	Rev £m	Adj EBIT £m	Adj EPS p	DPS p	Net cash £m	EV/ sales x	EV/ NOPAT x	PER x	Yield
FY-09A	2.7	-12.0	-2.3	0	10.1	59.4	Na	Na	0%
FY-10E	6.0	-14.6	-2.1	0	12.9	25.7	Na	Na	0%
FY-11E	13.9	-12.3	-1.2	0	29.3	9.9	Na	Na	0%
FY-12E	25.3	-7.6	-0.7	0	18.8	5.9	Na	Na	0%
FY-13E	39.6	-0.6	0.0	0	15.2	3.8	Na	Na	0%
FY-14E	51.6	4.8	0.5	0	17.2	2.9	40.1	44.2	0%

Source: ISR, Company, Morningstar

The launch of Monitise Globe represents a substantial upgrade in Monitise's mobile money offering, and should ensure that it remains one of the leading players in the emerging and potentially very significant mobile money space. It is also a very tangible sign of the company's c£5m a year R&D spend. The company has upgraded its existing mobile banking offering, as well as adding a range of new capabilities. These include a mobile wallet, for mobile users without bank accounts; mobile payments and shopping, aimed particularly at retail and transport environments; stock trading; and account management for credit, debit and prepaid cards.

The mobile wallet component will be particularly useful as the company moves more into emerging markets, where there tend to be substantially more people with mobile phones than with bank accounts. Safaricom's M-PESA service shows what is possible with mobile wallet services, with penetration at March 2010 of 47% of Kenyan mobile subscribers and 24% of the entire Kenyan population.

The new shopping and mobile payments functionality follows the recent announcement that Monitise is partnering with DeviceFidelity to offer Visa 'wave and pay' contactless payments, incorporating a special chip on an SDMicro card (or using a special phone cover), and we understand that a US bank is now trialling this offering. Banks and mobile operators seem to be announcing so-called contactless payments trials on an almost daily basis, using a range of technologies (eg NFC) and this move enables Monitise to support such services going forward.

Monitise's service is offered on a managed, white label basis to partners, and the enhanced product set can be customised to suit particular markets and partners. It is also all-encompassing, being available using SMS, mobile app, mobile browser and USSD (a mobile real time signalling protocol), thus supporting 2,700 different handsets and configurations.

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We spoke this morning with FD Tom Spurgeon, who characterised the enhanced product set as being a mixture of functionalities requested by Monitise's existing partners as well as capabilities that the company believe will be an increasing important element of the market going forward. This new enhanced offering maintains Monitise's position as an early mover in the mobile money arena, and is probably a more extensive product offering than many if not most of its competitors. The company has the luxury of being able to spend £5m a year on R&D, and with £42m net cash following the July funding, will be able to maintain significant R&D activity. The shares are now at our 23p valuation, having risen 47% since we initiated coverage in February, and are therefore up with events. However, this substantial product upgrade provides further evidence of Monitise's intent, and will maintain its position as a leading player in a strategically important part of the mobile market.

**Estimates & metrics**

	June-09	June-10	June-11	June-12	June-13	June-14
<b>Financials</b>	<b>Act</b>	<b>Est</b>	<b>Est</b>	<b>Est</b>	<b>Est</b>	<b>Est</b>
<b>Profit &amp; Loss</b>						
Revenue £m	2.7	6.0	13.9	25.3	39.6	51.6
Adj EBITDA £m	-11.4	-13.7	-11.4	-6.7	0.2	5.6
Adj EBIT (before SBP) £m	-12.0	-14.6	-12.3	-7.6	-0.6	4.8
Reported PBT	-13.1	-15.1	-13.9	-9.3	-2.6	2.6
PBT before excepts and AAG	-12.8	-15.4	-13.3	-8.7	-2.0	3.2
Fully adj PBT	-11.0	-13.9	-11.6	-6.9	0.0	5.4
NOPAT £m	-8.1	-9.8	-8.2	-4.9	0.0	3.7
Reported EPS	-4.0	-3.1	-2.0	-1.3	-0.4	0.4
EPS before excepts and AAG	-2.7	-2.3	-1.3	-0.9	-0.2	0.3
Fully adjusted EPS p	-2.3	-2.1	-1.2	-0.7	0.0	0.5
Dividend per share p	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash flow &amp; Balance sheet</b>						
Operating cash flow	-11.4	-14.4	-11.8	-7.5	-0.7	4.9
Free Cash Flow	-11.3	-14.9	-12.6	-8.3	-1.5	4.1
FCF per share p	-3.4	-3.2	-1.8	-1.2	-0.2	0.6
Capex	-0.3	-1.6	-3.0	-3.0	-3.0	-3.0
Acquisitions	0.0	0.1	0.0	0.0	0.0	0.0
Net cash flow	-11.1	-15.5	-14.7	-10.4	-3.6	2.0
Shares issued	11.6	18.3	31.0	0.0	0.0	0.0
Net cash	10.1	12.9	29.3	18.8	15.2	17.2
<b>Metrics</b>	<b>FY-09</b>	<b>FY-10</b>	<b>FY-11</b>	<b>FY-12</b>	<b>FY-13</b>	<b>FY-14</b>
Revenue growth	140%	126%	132%	81%	57%	30%
Adj EBITDA growth	14%	20%	-17%	-41%	-104%	2174%
Adj EBIT growth	14%	22%	-16%	-38%	-92%	-855%
Adj PBT growth	20%	26%	-16%	-41%	-73%	-202%
Adj EPS growth	-16%	-12%	-43%	-41%	-77%	-264%
Dividend growth	na	NA	NA	NA	NA	NA
Adj EBIT margins	-208%	-233%	-84%	-28%	0%	10%
Operating cash conversion	109%	105%	103%	112%	-282%	87%
Capex/Depreciation	576%	576%	1071%	1071%	1071%	1071%
<b>Valuation</b>	<b>FY-09</b>	<b>FY-10</b>	<b>FY-11</b>	<b>FY-12</b>	<b>FY-13</b>	<b>FY-14</b>
EV/sales	59.4	25.7	9.9	5.9	3.8	2.9
EV/EBITDA	-13.8	-11.8	-12.1	-22.2	615.2	26.7
EV/NOPAT	-19.4	-16.3	-16.9	-30.4	-6772.2	40.1
PER	-10.4	-11.7	-20.6	-34.7	5475.2	44.2
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	-7.0%	-7.4%	-13.4%	-20.3%	-111.9%	40.7%



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