

2 March 2009

Monitise

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/07	0.5	(7.9)	(3.4)	0.0	N/A	N/A
06/08	1.5	(11.9)	(4.7)	0.0	N/A	N/A
06/09e	3.0	(11.7)	(3.5)	0.0	N/A	N/A
06/10e	9.0	(7.5)	(2.2)	0.0	N/A	N/A

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

Investment summary: Building momentum

Monitise has reported H1 revenues of £1.1m (£0.4m in H108) demonstrating resilience in a tougher macro environment. Monitise is uniquely positioned as a hub; multiple banks, telecom and other service operators continue to roll out mobile financial services through its partnership arrangements and its relationship with both the ATM and banking networks in the UK, the US and beyond. Monitise recently secured a patent for its core mobile banking and payments platform, validating and protecting its position as a leader in this fast-growing market. The platform enables fast speed to market for partners, at low marginal cost and with inherent cost efficiencies. Management remains confident of accelerated growth in the UK and North American markets and new growth opportunities in a number of territories should drive ratings higher.

Monthly cash flow break-even during FY11

Total cash post the July £11.8m (gross) fund-raising was approximately £21m. Current cash balances are £15.4m. Cash overheads for the forthcoming year are reducing to c £12m due to the shift from cash intensive development costs to deployment of the now established Monitise platform, leaving the group well funded, with sufficient flexibility to continue to implement its development strategy. On projected revenue growth, Monitise will be cash flow break-even on a monthly basis by FY11.

One million users forecast in calendar 2009

With platforms live in the UK and the US, the foundations of key technologies and operating practices are already in place for rapid development and international reach. One million users are forecast in calendar 2009. An international development funding of \$1.5m to help launch mobile banking and payments services in East Africa was recently announced along with a partnership with E-Fulusi Africa in East Africa. Further such opportunities exist.

Scalability of platform

Consumers increasingly use their mobile phone as a secure medium to connect to their bank. Enhanced text service, account to account transfers and international money transfer services are some of the services that went live to consumers in the first half.

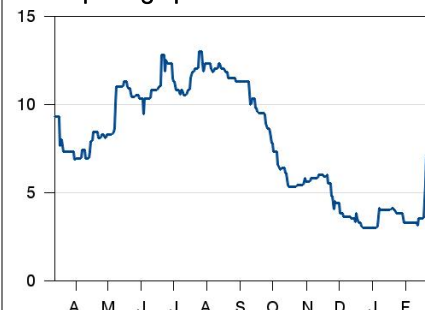
Conservative valuation

Monitise has agreements and technology that could prove attractive in a consolidating sector. Our long-term DCF estimate implies a total equity value of 21.8p per share.

Monitise is a research client of Edison Investment Research Limited

Price 5.4p
Market Cap £18m

Share price graph



Share details

Code MONI
Listing AIM
Sector Mobile Telecommunications
Shares in issue 336.6m

Price

52 week High 12.5p Low 3.0p

Balance sheet as at 31 December 2008

Debt/Equity (%) N/A
NAV per share (p) 4.5
Net cash (£m) 15.4

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	3.1	1.7
ROE	N/A	N/A	N/A

Revenues by geography 2008

	Europe	US	Other
75%	0%	20%	5%

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Investment summary: Building Momentum

Company description: Firmly established internationally

Monitise is a global leader in mobile banking and payments. Monitise provides secure, mass-market services that enable 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 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. The real upside for Monitise is through future royalties or via equity participation in joint ventures when this technology is adopted in new territories on a mass-market scale.

Currently, the company has revenues from the UK (where its market share increased to over 50% post the integration of Lloyds TSB) and the US, with a growth strategy targeting new partners such as the recently announced partnership in East Africa, India and other territories.

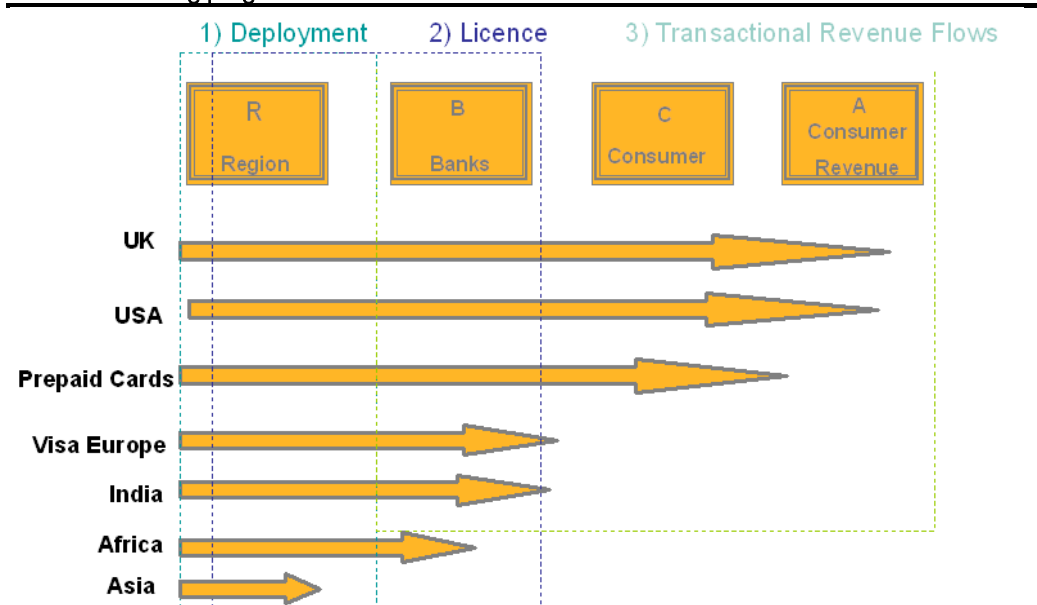
Monitise recently announced that it has been granted a patent for its core mobile banking and payments platform, validating its position as a leader in this fast growing market.

Business model: Patent secure, geographic expansion

The business model capitalises on the rapidly developing global mobile banking and payments market through building further partnerships with major international retail banks and MNOs in the UK and in overseas territories. The most fundamental element of the business model is Monitise owning its own IP. Monitise goes to market via a joint venture model or via partnership agreements.

Exhibit 1 shows the four stages of development within Monitise’s target markets, which provides the mechanism for measuring the progress and milestones reached by management. It shows Monitise’s focus is now shifting towards consumer income in the UK, and in the US additional bank coverage is being built. Each region follows a similar pattern of development.

Exhibit 1: Tracking progress – Value creation



Source: Monitise

In the UK, Monitise has taken a partnership approach and created a 50/50 joint venture (JV) called MONILINK. The JV partner is VocaLink, which operates the UK ATM switch and the UK BACS network and introduced Faster Payments in the UK. Monitise's technology has been adopted by seven banks, representing coverage in excess of 50% of the UK banking market and a considerable barrier to entry. Moreover, this platform is now widening its MONILINK offering. Enhanced text service, account to account transfers and international money transfer services are all live. In December 2008, NatWest became the first UK bank to launch international money transfers by mobile phone. This marks an important milestone for Monitise given the significant size of the UK market for international remittances.

In the US, in November 2007, Monitise launched a 49/51 JV with Metavante, a leading US processor, to deliver mobile banking and payment services across North America. Sixty financial institutions and pre-paid card providers have now adopted Monitise Americas' technology and customer numbers have started to build, albeit later than originally planned. Services will also soon be launched in Canada through partnership with Everlink, a Canadian processor.

The Monitise platform enables fast speed to market for partners in countries globally, at a low marginal cost and with inherent cost efficiencies. In India, Monitise has recently announced that it proposes to bring together a consortium of industry leaders to provide services across the country. In Africa, Monitise recently announced that the Africa Enterprise Challenge Fund (AECF) had granted \$1.5m funding to help Monitise establish operations in East Africa. Monitise has partnered with E-Fulusi, an African-based mobile wallet provider specialist.

Monitise has a significant competitive advantage; through its exclusive relationship with VocaLink and via Metavante, the company acts as a hub for banks, telecom operators and other service providers. Crucially, as the VocaLink and Metavante networks are embedded in the networks of these banks, integrating the Monitise technology is seamless. The telecom operators have the benefit of being able to access multiple banks through a single connection. For Monitise, this is an unrivalled position. It is the front end of an ecosystem that also allows merchants and pre-pay providers to market their own products and services.

Monitise derives value by charging an annually recurring licence fee to license its technology into regions. This contributes an initial annuity revenue stream. However, the real upside for Monitise is through future royalties or via equity participation in joint ventures when this technology is adopted in new territories on a mass-market scale.

Within each territory, income for the Monitise joint venture is driven by monthly service fees from banks and commissions on pre-pay mobile and stored-value top-up cards from operators and merchants.

The revenue stream to date has been driven by deployment and integration consultancy, but we believe that the mix will change fundamentally over the next two to three years. Licence revenue will increase, but the key driver will be the increasing value share of transaction income from mass-market adoption.

Investment case and valuation: 21.8p DCF valuation

There are inherent risks in early-stage development stocks, but we believe they are outweighed by the growth trajectory for Monitise and the displacement value already achieved through the JVs now up and running in the UK and the US. Based on previous investment of c £35m, the indicative

equity value per share is underpinned at 10.4p. In Exhibit 2, we have used a conservative discounted cash flow model to value the company at 21.8p, based on a 20% discount rate and a long-term growth rate of 2.5%.

On our forecasts, Monitise has an EV/sales of 1.7x and a revenue growth rate of 200% for 2010.

Financials: Monthly cash flow break-even by FY11

The first half saw encouraging revenue growth, up from £0.4m in H108 to £1.1m in H109, an increase of 175%. This was boosted by the increased rate of penetration in the UK market. We now anticipate a roll-out of at least one new region per annum and have adjusted our forecasts accordingly. We anticipate that revenues will grow substantially in the second half, driven by an increase in licence fees along with growth in usage fees. At the EBITDA level, including share based payments, losses decreased from £7.4m in H108 to £6.6m in H109. The resulting EPS loss was 1.94p for H109, compared with a 2.76p loss for H108. This performance demonstrates resilience in a tougher macro environment and the company remains on track to move towards profitability.

The business is not yet cash-generative at the operating level; there was a net operating cash outflow of £6.2m during H109 (£5.2m in H108). The core element of the cash spend was product development and deployment costs. To fund its ongoing operations and plans for expansion, a total of £11.8m gross was raised in July 2008 following a successful placement. Current cash balances are £15.4m and management has indicated that cash costs for the year to June 2010, before taking into account any group revenues, will reduce to approximately £12m. Evolution of the business model enables this significant reduction in cash overheads. Management also indicated that the company will become monthly cash-generative at the operating level in FY11.

We believe that the group is well funded with sufficient flexibility to continue to implement its development strategy. Following a six-year period of intensive investment in integrating its service, Monitise has significantly improved its ability to roll out in multiple geographies.

Exhibit 2: DCF analysis

FYE June	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e
Net cash from operating activities (£m)	(10.0)	(5.7)	1.0	6.0	11.0	19.0	26.0	35.0	41.0	47.0
Net cash invested in operating activities (£m)	(0.5)	(0.5)	(1.3)	(1.5)	(1.8)	(2.2)	(2.6)	(3.0)	(3.4)	(3.8)
Free cash flow (£m)	(10.5)	(6.2)	(.30)	4.5	9.2	16.8	23.4	32.0	37.6	43.2
Free cash flow per share (p)	(2.8)	(1.7)	(0.1)	1.2	2.5	4.5	6.3	8.6	10.2	11.7
DCF values										
PV of next nine years (£m)	19.5									
Terminal value (£m)	39.9									
Total enterprise value (£m)	59.4									
Add: cash funding (£m)	21.2									
Total equity value (£m)	80.6									
Value per share (p)	21.8									
Discount rate (%)	20.0%									
Perpetual growth rate (%)	2.5%									
Enterprise value sensitivity table (£m)										
	Discount rate									
Perpetual growth	16%	18%	20%	22%	24%					
2.00%	97.8	75.0	58.3	45.8	36.2					
2.25%	99.1	75.8	58.8	46.2	36.5					
2.50%	100.4	76.6	59.4	46.5	36.7					
2.75%	101.7	77.5	60.0	46.9	37.0					
3.00%	103.2	78.4	60.6	47.3	37.3					

Source: Edison Investment Research

Exhibit 3: Financials

Year end 30 June	£'000s	2006 UK GAAP	2007 IFRS	2008 IFRS	2009e IFRS	2010e IFRS
PROFIT & LOSS						
Revenue		240	472	1,492	3,000	9,000
Cost of Sales		(250)	(327)	(630)	(1,500)	(4,250)
Gross Profit		(10)	145	862	1,500	4,750
EBITDA		(3,338)	(7,909)	(12,786)	(11,750)	(7,250)
Operating Profit (before GW and except.)		(3,338)	(7,909)	(12,786)	(12,250)	(7,750)
Exceptionals		0	(596)	0	0	0
Share based payments		0	(183)	(2,107)	(2,000)	(2,000)
Operating Profit		(3,338)	(8,688)	(14,893)	(14,250)	(9,750)
Net Interest		7	8	919	600	300
Profit Before Tax (norm)		(3,331)	(7,901)	(11,867)	(11,650)	(7,450)
Profit Before Tax (FRS 3)		(3,331)	(8,680)	(13,974)	(13,650)	(9,450)
Tax		897	2,775	0	0	0
Profit After Tax (norm)		(2,434)	(5,309)	(11,867)	(11,650)	(7,450)
Profit After Tax (FRS 3)		(2,434)	(5,905)	(13,974)	(13,650)	(9,450)
Average Number of Shares Outstanding (m)						
		156.9	157	254	337	337
EPS - normalised (p)		(1.6)	(3.4)	(4.7)	(3.5)	(2.2)
EPS - FRS 3 (p)		(1.6)	(3.8)	(5.5)	(4.1)	(2.8)
Dividend per share (p)		0.0	0	0	0	0
Margins						
Gross Margin (%)		N/A	31	58	50	53
EBITDA Margin (%)		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
BALANCE SHEET						
Fixed Assets		816	1,147	1,258	1,865	2,365
Intangible Assets		478	790	793	900	900
Tangible Assets		338	357	465	965	1,465
Current Assets		1,083	22,494	13,218	14,532	9,679
Debtors		0	185	642	300	800
Other		923	1,936	2,895	3,000	3,500
Cash		160	20,373	9,681	11,232	5,379
Current Liabilities		(4,923)	(2,705)	(5,250)	(6,732)	(8,829)
Creditors		(595)	(1,411)	(2,873)	(4,232)	(6,329)
Short term borrowings		(4,328)	(1,294)	(2,377)	(2,500)	(2,500)
Long Term Liabilities		0	0	(91)	0	0
Long term borrowings		0	0	(91)	0	0
Net Assets		(3,024)	20,936	9,135	9,665	3,215
CASH FLOW						
Operating Cash Flow		(3,902)	(8,680)	(13,010)	(10,049)	(5,653)
Net Interest		0	8	820	600	300
Tax		0	(56)	0	0	0
Capex		(125)	(541)	(517)	(500)	(500)
Acquisitions/disposals		(120)	0	0	0	0
Financing (including demerger adjustments)		(27)	32,516	126	11,500	0
Dividends		0	0	0	0	0
Net Cash Flow		(4,174)	23,247	(12,581)	1,551	(5,853)
Opening net debt/(cash)		0	4,168	(19,079)	(7,213)	(8,732)
Closing net debt/(cash)		4,168	(19,079)	(7,213)	(8,732)	(2,879)

Source: Monitise Report and Accounts and Edison Investment Research

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