Update

Edison investment research

2 September 2008

Monitise

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (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	5.0	(11.0)	(3.3)	0.0	N/A	N/A
06/10e	15.0	(5.4)	(1.6)	0.0	N/A	N/A

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

Investment summary: On track

Monitise has reported FY08 results in line with market expectations, with a trebling of revenues to £1.5m (£0.5m in FY07). Monitise is uniquely positioned as a hub: multiple banks, telecom and other service operators 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. We believe that the recent £11.8m subscription alleviates near-term funding uncertainty and adds a number of strategic investors, most notably Standard Chartered, which will facilitate the roll-out of the standardised Monitise platform overseas, open new opportunities in Asia and Africa and drive ratings higher.

Funded and positioned for expansion

Current cash balances of £9.7m and proceeds from the subscription provide total cash of approximately £21m. Cash costs for the forthcoming year are c £14m, leaving the group well funded, with sufficient flexibility to continue to implement its development strategy. Monitise is uniquely positioned to pursue opportunities in developed and emerging markets.

Highly scalable technology platform

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.

Untapped potential

The mobile money industry is growing rapidly and MONILINK has the potential to become the primary access device for consumer banking. Encouragingly, partner banks' premium account customers are on average using the service six times per month. Increased information on consumer usage patterns now enables partner banks and Monitise to up-sell services and functionality.

Conservative valuation

The share subscription was at 15p, at a premium to the prevailing share price. Our long-term DCF estimate implies a total equity value of 22p per share. Additionally, the group has agreements and technology that could prove attractive in a sector undergoing consolidation.

Monitise is a research client of Edison Investment Research Limited

Price	11.25p
Market Cap	£37m

Share price graph

Share details

Code	MONI
Listing	AIM
Sector	Mobile Telecommunications
Shares in issue	333.2m

Price

52 week	High	Low
	21.25p	6.75p

Balance sheet as at 30 June 2008

Debt/Equity (%)	N/A
NAV per share (p)	3.6
Net cash (£m)	7.2

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	19.9	5.4	2.1
ROE	N/A	N/A	N/A

Revenues by geography 2008

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

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Investment summary: On track

Company description: Uniquely placed

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 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.

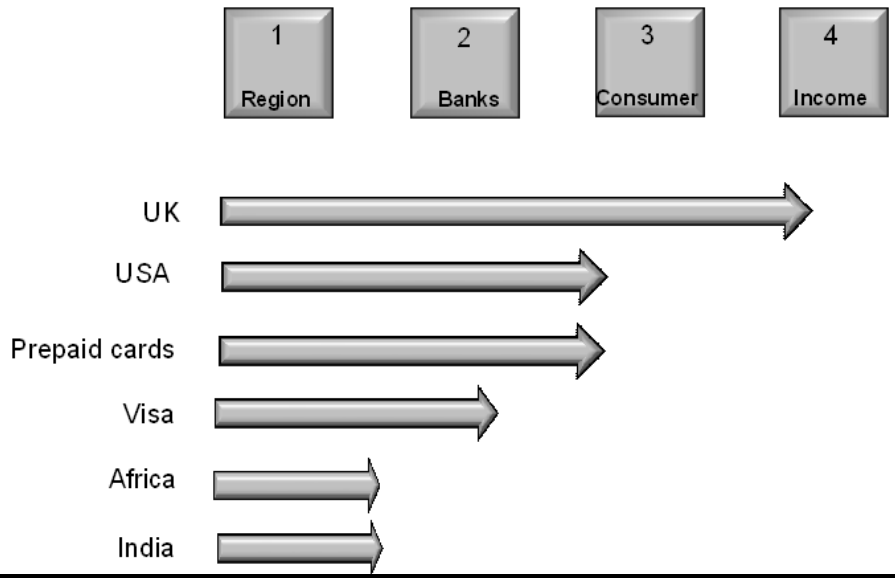
At present, the company has revenues from the UK (where it has in excess of 50% coverage of the market – 37% in January 2008 – following the integration of the latest tier-one bank) and the US, with a growth strategy targeting new partners in Africa, India and other territories.

Business model: Significant competitive advantage

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 2 shows the four stages of development within each Monitise target market, which provides the mechanism for measuring the progress and milestones reached by management. It shows Monitises 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



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 banking market and a considerable barrier to entry.

In the US, Monitise launched a November 2007 49/51 JV with Metavante, a leading US processor, to deliver mobile banking and payment services across North America. Thirty-eight financial institutions have now adopted Monitise Americas' technology and service will soon be launched in Canada through partnership with Everlink.

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 ATM 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: the front end of an ecosystem within which both merchants and pre-pay providers can 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: 22p 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 £30m, the equity value per share is underpinned at 11.8p. In exhibit 1, we have used a conservative discounted cash-flow model to value the company at 22p, based on a 20% discount rate and long-term growth rate of 2.5%.

There are precedents in the marketplace in terms of an indicative business valuation – in November 2007, Qualcomm paid $210m to acquire Firethorn (an early-stage US mobile banking software provider) to expand its payments functionality.

On our forecasts, Monitise has an EV/sales of c 5x and a revenue growth rate of over 200% for 2009, which is significantly greater than any other comparatives among its peer group of publicly listed payments companies.

Financials: Forecasts unchanged, funding uncertainty removed

2008 saw encouraging revenue growth from £0.5m in FY07 to £1.5m, an increase of 218%. More encouraging was the strong revenue growth reported in the second half, where revenues increased from £0.4m in the first half to £1.1m. This was boosted by the increased rate of penetration in the UK market. Consumer registration and usage in the UK is developing positively, encouragingly showing that Monitise partner banks' premium account customers are utilising the service an average of six sessions per month. Our FY09/FY10 revenue expectations are in line with consensus, and we anticipate a roll-out of one new region per year. We have not, therefore, materially adjusted our forecasts. At the EBITDA level, losses increased to £12.8m in FY08 from £7.9m in FY07; the resulting EPS loss was 4.7p for FY08, compared with a 3.4p loss for FY07. This performance was in line with expectations and demonstrates that the company remains on track.

The business is not yet cash-generative at the operating level; there was an operating cash outflow of £11m during FY08 (£8.7m in FY07). The core element of the cash spend was product development and deployment costs of £8m which management signalled are now plateauing. We believe that simple information enquiries and basic payment services delivered over a mobile phone will be a precursor to a wider range of payment transactions. Consensus is that the company will become cash-generative at the operating level in FY11e. To fund its ongoing operations and plans for expansion, a total of £11.8m gross was raised in July 2008 following a successful placement. The shares were issued at 15p, a premium to the prevailing share price. This successful fund-raising supplements the existing cash balance of £9.7m, providing total cash of c £21m. Management has indicated that cash costs for the year to June 2009, before taking into account any group revenues, will be approximately £14m. The group is well funded with sufficient flexibility to continue to implement its development strategy.

Exhibit 2: DCF analysis

FYE June (£m)	2009e	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e
Net cash from operating activities	(10.0)	(4.1)	1.0	6.0	11.0	19.0	26.0	35.0	41.0	47.0
Net cash invested in operating activities	(0.3)	(1.0)	(1.3)	(1.5)	(1.8)	(2.2)	(2.6)	(3.0)	(3.4)	(3.8)
Free cash flow	(10.3)	(5.1)	(.30)	4.5	9.2	16.8	23.4	32.0	37.6	43.2
Free cash flow per share	(2.8)p	(1.4)p	(.1)p	1.2p	2.5p	4.5p	6.3p	8.6p	10.2p	11.7p

DCF values	
PV of next nine years	20.5
Terminal value	39.9
Total enterprise value	60.4
Add: cash funding	21.2
Total equity value	81.6
Value per share (p)	22.0
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%	98.8	76.0	59.3	46.7	37.1
	2.25%	100.1	76.8	59.8	47.1	37.4
	2.50%	101.4	77.6	60.4	47.5	37.6
	2.75%	102.8	78.5	60.9	47.9	37.9
	3.00%	104.2	79.4	61.5	48.3	38.2

Source: Edison Investment Research

Exhibit 3: Financials

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

Year end 30 June	£'000	2007 IFRS	2008 IFRS	2009e IFRS	2010e IFRS
PROFIT & LOSS					
Revenue		472	1,492	5,000	15,000
Cost of Sales		(327)	(630)	(1,750)	(5,250)
Gross Profit		145	862	3,250	9,750
EBITDA		(7,909)	(12,786)	(11,750)	(5,750)
Operating Profit (before GW and except.)		(7,909)	(12,786)	(11,750)	(5,750)
Exceptionals		(596)	0	0	0
Share based payments		(183)	(2,107)	(2,000)	(2,000)
Operating Profit		(8,688)	(14,893)	(13,750)	(7,750)
Net Interest		8	919	750	300
Profit Before Tax (norm)		(7,901)	(11,867)	(11,000)	(5,450)
Profit Before Tax (FRS 3)		(8,680)	(13,974)	(13,000)	(7,450)
Tax		2,775	0	0	0
Profit After Tax (norm)		(5,309)	(11,867)	(11,000)	(5,450)
Profit After Tax (FRS 3)		(5,905)	(13,974)	(13,000)	(7,450)
Average Number of Shares Outstanding (m)		157	254	333	333
EPS - normalised (p)		(3.4)	(4.7)	(3.3)	(1.6)
EPS - FRS 3 (p)		(3.8)	(5.5)	(3.9)	(2.2)
Dividend per share (p)		0	0	0	0
Gross Margin (%)		31	58	65	65
EBITDA Margin (%)		(1,676)	(857)	(235)	(38)
Operating Margin (before GW and except.) (%)		(1,676)	(857)	(235)	(38)
BALANCE SHEET					
Fixed Assets		1,147	1,258	1,865	2,365
Intangible Assets		790	793	900	900
Tangible Assets		357	465	965	1,465
Current Assets		22,494	13,218	14,682	11,329
Debtors		185	642	300	800
Other		1,936	2,895	3,000	3,500
Cash		20,373	9,681	11,382	7,029
Current Liabilities		(2,705)	(5,250)	(5,532)	(7,629)
Creditors		(1,411)	(2,873)	(4,232)	(6,329)
Short term borrowings		(1,294)	(2,377)	(1,300)	(1,300)
Long Term Liabilities		0	(91)	0	0
Long term borrowings		0	(91)	0	0
Net Assets		20,936	9,135	11,015	6,065
CASH FLOW					
Operating Cash Flow		(8,680)	(10,995)	(10,049)	(4,153)
Net Interest		8	820	750	300
Tax		(56)	0	0	0
Capex		(541)	(517)	(500)	(500)
Acquisitions/disposals		0	0	0	0
Financing (including demerger adjustments)		32,516	126	11,500	0
Dividends		0	0	0	0
Net Cash Flow		23,247	(10,566)	1,701	(4,353)
Opening net debt/(cash)		4,168	(19,079)	(7,213)	(10,082)
Closing net debt/(cash)		(19,079)	(7,213)	(10,082)	(5,729)

Source: Monitise Report and Accounts and Edison Investment Research