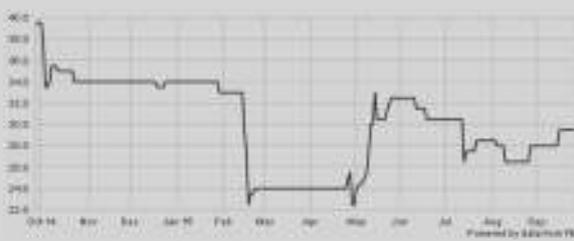


Mi-Pay: Pushing On to Profitability

Key Statistics

Code	: MPAY
Listing	: AIM
Sector	: Transaction & Payment Services
Market Cap	: £12.27m
Share in issue	: 41.59m
Current Price	: 29.50p
12 month High/Low:	: 35.00p/22.50p

Stock Performance



Financials

£'m	2014	2013	2012
Revenue	2.7	3.3	2.8
PBT	(4.8)	(1.9)	(2.1)
Profit	(4.3)	(1.8)	(2.0)

Historic Mi-Pay Limited Company Trading Numbers.

Source: **Mi-Pay** (* N.B Not the shell company numbers)

* From 2013 and backwards this was the 'Aim Shell' and previously 'Autoclenz' business and as such the historical numbers for the shell are not a fair view of Mi-Pay, the current trading business.

Company description

Mi-Pay Group plc, is a United Kingdom-based company which operates in the cardholder-not-present payment solutions market. The Company provides outsourced, secure payment services platform for mobile operators' top up and digital content services.

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There has been some tremendous work done by **Mi-Pay**. Six months ago the management had set itself some big targets with regards to driving the margins (gross and operating) and they have now achieved everything they set out to do; and arguably more.

- **Fast growth Fin-Tech company**
- **Transactional Revenue Model**
- **Tier 1 customers**
- **Focussed and experienced management team**
- **Approaching cash-flow breakeven**
- **Driving top-line – strong operational gearing**

Mi-Pay provides a fully out-sourced payment services platform for mobile operators' Top-Up and digital content services.

Cash-flow breakeven is scheduled for next year and this should be a fulcrum point from an investing and a valuation perspective.

For now, it is all about driving the top line. It will be tough work, but the team have demonstrated that they have the mettle to do it, and though there is some competition, the market size is almost limitless.

A big chunk of cost in 2014 related to the reverse acquisition and already H1 2015 shows a major improvement in profit levels.

The Business

Mi-Pay is a pioneer in the cardholder-not-present payment solutions market. It provides a fully outsourced, secure payment services platform for mobile operators' top up and digital content services, receiving a percentage of the successful transactions made by its customers' customers; the end users.

Typically **Mi-Pay** takes a fee of around 4% of the transaction value depending on the level of risk and volume of transaction, on average these are around £12. Of this around 1.5% goes to the acquirer, 0.2% to the bank (and other connectivity) and 0.2% is assumed fraud (actual rates currently around 0.1%). So **Mi-Pay** receives around 2% of the transaction value.

The current business was reversed into a shell in 2012. Additionally they lost a large customer in 2013. The historical P&L is therefore not representative of the current

Underlying Transaction Services Revenue growth which looks like this:

2011	2012	2013	2014
£700k	£900k	£1.2m	£1.7m
	+11%	+41%	+44%

The Company has a particular expertise in assessing and mitigating fraud risks whilst optimising the direct top-up journey for prepay mobile or international calling card

consumers and increasing non-fraudulent transaction acceptance rates. This expertise allows it to offer outsourced services that are fully indemnified against fraud (subject in most cases to certain limits), which adds significant value to the proposition it can offer to its customers, and this service is therefore a key competitive advantage.

The **Mi-Pay** product allows end-customers to top up using multiple payment methods, such as credit/debit card, PayPal™, bank transfer and direct debit across all channels including: web, on-device and interactive voice response and has built solutions such as recurring and low balance auto top ups to encourage consumers to register their payment details and turn the traditional unregistered pre-pay consumer to a 'post pay like' customer. In addition, it has recently launched social media applications, which have been shown to increase top-up transaction values for operators by up to 20%. A key benefit to operators using its services is that they can improve the retention rate of their prepaid customers significantly by increasing the number of available channels, and therefore making it easier to top-up.

The **Mi-Pay** service platform, includes a fully certified Payment Card Industry (PCI) DSS Level 1 compliant payment gateway and BACS approved direct debit bureau. It is PCI: DSS Level 1 certified as both a service provider and a merchant.

The Company sells, integrates and operates its products and solutions on a global basis from four offices; UK, Romania, Dubai and the Philippines. Professional Services Revenues represent around 25% of the total and this is likely to reduce as the core focus is to increase its Transactions Services revenues with Professional Services remaining flat. Professional Services revenues typically achieve a higher gross margin (usually in excess of 70%), but these revenues are one-offs and project based so lumpy.

Margins

There are two key elements driving the delta of the Gross Margin on the Transaction business: "Fraud" and "Success".

Within the mobile top-up payments arena the typical rate of fraud runs at around 2.5% (Source GSMA). **Mi-Pay** has reduced this rate to 0.1% with its in-house fraud screening system Cynic. The development and delivery of this solution has enabled them to deliver a fully indemnified solution to its clients for a number of years and in 2014 it insourced the processing of fraud screening which has resulted in a 4% increase in gross profits and enhanced the commercial flexibility of their model

Mi-Pay only gets paid a clip where the transaction has been successfully completed. Transactions can fail for many reasons some

of which are unavoidable – such as when funds are not available or when GPS signal drops mid-transaction– but many failures can be eliminated by reliable software and good user experience. Since January 2012 the payment success rate has improved from around 67% to around 85% currently.

With the 'fraud' ratio down into small basis point levels and improved 'successful' transaction levels GP margin is currently running at 49% June 15, vs 45% June 14.

Operating margins are set to improve too, as the Company moves from an **engineering** business to a **process** one and staffing costs come out. Headcount has been reduced from a peak of around 70 to something closer to 40 now. Overhead is now £1.56m (H1 2015) vs £2m (H1 2014).

The operational gearing is excellent and enhanced by the working cap / capex light business model. Adding to this **Mi-Pay** has over £12m of tax losses to utilise and annual recovery of R&D tax credits (as cash c. £300k each year) which will further accelerate the near term profitability.

Customers

Mi-Pay's customers fall into three groups:

1. Tier 1 Mobile Network Operators (MNO) such as *Vodafone*, *O2* and *Three* as well Mobile Virtual Network

- Operators (MVNO) such as *Tesco Mobile* and *Mobile by Sainsbury*
2. Payment and technology companies – including *Chase Paymentech*, *PayPal* and *Direct Debit*
 3. Market Partners - including *Microsoft* and *PCI*.

Competitors

The competition is primarily from the operators themselves in Europe where they insource the whole management of payments therefore working directly with the 'acquirers' such as **Worldpay (WPG)** / Adeyn etc.... but this is not a managed service and the operator incurs all the risk. Limited competition in Asia although this is more about the operators taking the plunge into on-line world. Thus the biggest competitive challenge is the outsource vs. the insource. Vesta are the closest global competitor. They originate from the US but **Mi-Pay** only comes up against them in Europe where the outsource model is delivered.

Outlook

Revenue growth is currently running at 43% on the "transaction" side of the business. This is very punchy but it needs to be that level of growth for a few years to get to full profitability. It is also not unrealistic. The market is enormous and growing fast. The majority of phone user in the world are 'pre-paid' and this is also the biggest growth area particularly in developing countries where

there is no fixed line infrastructure and little PC ownership. As well as the UK, Eire and Central Europe, **Mi-Pay** has operations in Singapore and the Philippines and is targeting Malaysia and Thailand next.

It is estimated that \$5bn of 'pre-paid' global revenue in 2012 will grow to \$9bn this year. Outside the emerging economies online sales in Europe are growing fast and within that segment 'mobile' commerce is growing around 3x faster than the PC market. So even here there are strong growth drivers.

The operational side of the business is in good shape and it is now all about growing the top line. The business has been re-structured and headcount has been reduced in the engineering areas but not in the sales or marketing area where the focus now lies.

Valuation

The shares are currently trading at around 4x sales. This is not particularly stretched when compared to other AIM Fin-tech companies without earnings. The Company is forecasting cash-flow positive for next year (to Dec 2016) Assuming overheads are around £2.5m, breakeven would occur at revenues of around £4.6m run rate.

This is not a huge stretch and this validation of the model, could and should improve the multiples that investors will give too.

Conclusion

There is no debt, and depreciation and amortisation is de-minimus and currently offset by a positive tax receipt. So improvements to sales will flow very quickly to the bottom line.

The addressed market is huge and growing, and cash-flow 'break-even' is not so far away. Cash at end of June was £3.8m. Barring acquisitions this should see them through to profitability. However it is worth noting that £2.3m is related to 'client monies' as part of **Mi-Pays** outsourced model, so has a 10 day working capital turnaround time. Operating cash is therefore more like £1.5m but demonstrates the positive working capital controls that are naturally part of the business model.

However, it is likely that the market will be sceptical. The AIM fin-tech sector is strewn with disappointment - but **Mi-Pay** has a real business with excellent customers and decent margins and it has a driven management

team who have thus far delivered what they promised.

Consolidated Statement of Comprehensive Income for the period of 6 months ended 30 June 2015

	Six months ended 30 June 2015	Six months ended 30 June 2014	Year ended 31 December 2014
	£	£	£
Revenue	1,500,072	1,358,411	2,699,315
Cost of sales	-763,843	-744,556	-1,495,605
Gross profit	736,229	613,855	1,203,710
Administrative expenses			
General and administration	-1,218,696	-1,913,369	-3,116,789
Research and development	-349,569	-361,470	-1,117,915
Depreciation and amortisation	-81,042	-108,757	-217,892
Share-based payment	-202,473	-76,115	-298,419
Exceptional items - listing costs	-	-1,166,517	-1,166,816
Total administrative expenses	-1,851,780	-3,626,228	-5,917,831
Operating loss	-1,115,551	-3,012,373	-4,714,121
Finance income	1,031	8,100	19,142
Finance expense	-471	-107,618	-124,792
Loss before taxation	-1,114,991	-3,111,891	-4,819,771
Taxation	109,030	274,089	502,128
Loss for the period/year from continuing operations	-1,005,961	-2,837,802	-4,317,643
Other Comprehensive expense for the year			
Exchange differences on translation of foreign operations	-1,927	-	-3,838
Loss and total comprehensive expense for period attributable to the owners of the parent	-1,007,888	-2,837,802	-4,321,481
Basic and diluted loss per ordinary share for continuing operations	-3p	-12p	-15p

Source: *Mi-Pay Group PLC Interim Results*

Consolidated Statement of Financial Position as at 30 June 2015

	Six months ended 30 June 2015	Six months ended 30 June 2014	Year ended 31 December 2014
	£	£	£
ASSETS			
Non-current assets			
Other non-current financial assets	-	166,669	-
Property, plant and equipment	275,197	415,195	310,281
Deferred tax asset	-	1,413	-
Total non-current assets	275,197	583,277	310,281
Current assets			
Trade and other receivables	966,705	1,200,376	759,143
Current tax	451,512	387,565	339,333
Cash and cash equivalents	3,756,283	2,215,085	2,002,698
Other current financial assets	-	333,332	-
Total current assets	5,174,500	4,136,358	3,101,174
Total assets	5,449,697	4,719,635	3,411,455
LIABILITIES			
Current liabilities			
Trade and other payables	-3,866,172	-2,651,806	-2,636,010
Obligations under finance lease	-66,000	-66,000	-66,000
Total current liabilities	-3,932,172	-2,717,806	-2,702,010
Non-current liabilities			
Obligations under finance lease	-132,000	-181,500	-165,000
Total non-current liabilities	-132,000	-181,500	-165,000
Total liabilities	-4,064,172	-2,899,306	-2,867,010
Net assets	1,385,525	1,820,329	544,445
Equity			
Share capital	4,159,323	3,401,992	3,398,453
Share premium	1,403,923	529,268	518,298
Share options reserve	500,892	76,115	298,419
Reverse acquisition reserve	6,920,115	6,920,115	6,920,115
Merger reserve	6,808,742	6,808,742	6,808,742
Retained deficit	-18,407,470	-15,915,903	-17,399,582
Total equity attributable to the equity shareholders of the parent	1,385,525	1,820,329	544,445

Source: *Mi-Pay Group PLC Interim Results*

Consolidated Statement of Cash Flows for the period of 6 months ended 30 June 2015

	Six months ended 30 June 2015	Six months ended 30 June 2014	Year ended 31 Dec 2014
	£	£	£
Cash flows from operating activities			
Loss before tax from continuing operations	-1,114,991	-3,111,891	-4,819,771
Adjusted for:			
Depreciation	81,042	108,757	217,892
Finance income	-1,031	-8,100	-19,142
Finance expense	471	107,618	124,792
Share based payment	202,473	1,006,651	1,228,955
(Increase) / decrease in trade and other receivables	-207,562	576,080	1,017,302
Increase / (decrease) in trade and other payables	1,228,235	-1,122,740	-1,138,536
Adjusted loss from operations after changes in working capital	188,637	-2,443,625	-3,388,508
Interest received	1,031	8,100	19,142
Interest paid	-471	-334	-17,508
Income taxes (paid) / received	-3,149	-4,888	272,795
Net cash flows from operating activities	186,048	-2,440,747	-3,114,079
Cash flows from investing activities			
Cash acquired on acquisition	-	2,808,149	2,808,149
Redemption of loan notes receivable	-	83,333	564,999
Purchase of property, plant and equipment	-45,958	-41,136	-45,357
Net cash flows from investing activities	-45,958	2,850,346	3,327,791
Cash flows from financing activities			
Proceeds from issue of share capital, net of issue costs	1,646,495	700,000	700,000
Issue of debt and convertible debt, net of issue costs	-	198,589	198,589
Finance lease payments	-33,000	-49,500	-66,000
Net cash flows from financing activities	1,613,495	849,089	832,589
Net increase in cash and cash equivalents	1,753,585	1,258,688	1,046,301
Cash and cash equivalents at beginning of period	2,002,698	956,397	956,397
Cash and cash equivalents at end of period	3,756,283	2,215,085	2,002,698

Source: *Mi-Pay Group PLC Interim Results*

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