

Single Touch Systems

Technology

12 December 2013

A year of firsts

A 30% increase in Q4 revenues enabled Single Touch to report its first ever pro forma operating profits and, with new services being rolled out, management is confident on the outlook for 2014. Following the announcement of its first IP-driven settlement agreement with Zoove, management is seeking to add to this new revenue stream by pursuing other patent claims. This adds a degree of option value to the share, which trades on a historic 2013 EV/Sales of 9.3x – a premium valuation, but somewhat below other large-cap peers in the mobile media sector.

2013 – first profits reported and first patent success

In Q4, messaging volumes at 79m were up 23% y-o-y (18% in H1 and 21% in Q3), driving a 30% increase in revenues to \$2.1m. Gross margins continued to trend upwards to 59% (56% Q412). The group has been cash-flow positive since Q313 and this strong top-line performance enabled the group to report its first ever adjusted EBITDA positive quarter in Q4 (\$160k). The Zoove settlement (announced on 13 November) marks Single Touch's first success in its IP monetisation strategy and board level recruitments have been made to bring additional experience to drive these initiatives forwards. Letters of notification have been issued to 11 companies, including some of the world's largest technology and media companies. The near-term focus is on its video and audio streaming patents.

Outlook – good revenue visibility

The pharmacy notification service (76% of sales) for Walmart generates a reliable, recurring revenue stream and with new services being introduced (eg for the automotive division, the extended Layaway service and message sponsorship) it offers considerable room for growth. With a view to widening its customer base, new products (FollowMe) have recently been launched and the initial customer response is encouraging. Non-Walmart message volume increased 341% and in Q4, new programmes launched added \$100,000 to revenues.

Investment case: Mobile media with IP option value

First operating profits have been reported, and with a scalable and operationally geared business model, should convert to strong earnings growth. On a reported 2013 EV/Sales of 9.3x, it trades on a premium valuation, but still below its large-cap peers (Facebook 16.6x, Twitter 47.6x). While there is little visibility on the value of the patent portfolio, the Zoove settlement validates to an extent the IP strategy and adds a degree of option value to the share, which has been included in the IP CloseUp 30 index since April. The share buyback programme signals the board's confidence in the outlook and may support the share on the downside.

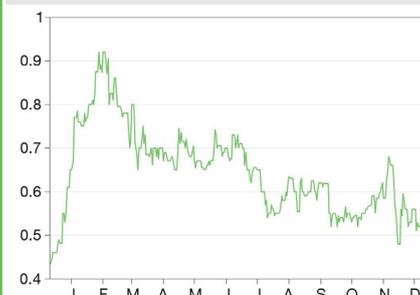
Historic financials

Year end	Revenue (\$m)	PBT (\$m)	EPS (\$)	DPS (\$)	P/E (x)	EV/Sales (x)
09/11	4.58	(7.98)	(0.06)	0.00	N/A	15.8
09/12	6.35	(3.26)	(0.02)	0.00	N/A	11.4
09/13	7.78	(5.25)	(0.04)	0.00	N/A	9.3

Source: Company accounts, Bloomberg

Price **\$0.51**
Market cap **\$69m**

Share price graph



Share details

Code SITO
Listing OTCBB
Shares in issue 135.76m

Business description

Single Touch Systems (SITO) is a technology driven mobile media marketing company specialising in push notifications, abbreviated dial codes, loyalty rewards, location-based marketing and campaign management. With a portfolio of 20 patents and 30 in application, it also pursues a strategy of IP acquisition and exploitation.

Bull

- Mobile marketing pure play – mobile advertising is the fastest-growing advertising segment.
- 95% of revenues are recurring.
- New services expand opportunities.
- IP portfolio could deliver significant revenues.

Bear

- Almost all revenues are currently derived from one customer and one product – Walmart represents 95% of sales and its prescription product 76%.
- Little visibility on patent infringement portfolio.
- Competition in the mobile advertising space is increasing.

Analysts

Bridie Barrett Schmidt +44 (0)20 3077 5700
Fiona Orford-Williams +44 (0)20 3077 5739
Dan Ridsdale +44 (0)20 3077 5729

tech@edisongroup.com

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 9258 1162
Level 33, Australia Square
264 George St, Sydney
NSW 2000, Australia

Wellington +64 (0)48 948 555
Level 15, 171 Featherston St
Wellington 6011
New Zealand