UMT

Let the Payback begin

UMT is at an exciting time in its development. Germany's largest loyalty scheme, Payback, has announced it will launch its UMT-powered mPay service in June. This should give rise to new platform maintenance and commission streams, and potentially new data analytics earnings arising from data crossing UMT's platform. Helped by the reputational boost from the Payback launch and a promising new client pipeline, we see good prospects for UMT to bring a number of new customers on board in 2016-17 and generate significant earnings growth over the next two to three years.

Year end	Gross profit (€000s)	PBT (€000s)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/12	822	174	2.88	0.0	44.8	N/A
12/13	1,304	486	4.08	0.0	31.6	N/A
12/14	1,278	133	0.89	0.0	144.9	N/A
12/15	1,645	951	6.29	0.0	20.5	N/A

Note: Based on unconsolidated accounts.

UMT set to take German lead in mPay

As a result of the current contract with Payback, UMT will embed its mobile payments (mPay) technology in the tills of 45% of Germany's retail sector and power the mobile payments of the largest loyalty programme in Germany, with 28 million members. UMT is also Payback's preferred partner for the roll-out of mPay to its loyalty programmes in Italy, Poland, Mexico, India and the US, where the rest of Payback's 75 million members are located. Payback's plans to intensively advertise and promote the app and mPay, and the existing tally of 8.5m downloaded apps, should boost early adoption of mPay. This has led us to forecast that 2.6 million of Payback's German customers will already be using mPay by the end of this year.

Business model: mPay, big data, B2B and B2C

UMT's current multi-year contract with Payback should establish it firmly in the white-label sphere. If the company is able, as it expects, to resell user data crossing its platform, we expect data analytics to form a significant new revenue stream. UMT has good new client prospects, being at workshop level with six companies and having non-disclosure agreements with 13 more. The promising pipeline includes fashion retailers, social media sites, port authorities, retail associations and hotel developers.

Valuation: Payback the first milestone in value chain

We are not undertaking a valuation of UMT at this stage because of the lack of consolidated accounts. In terms of valuation milestones, we expect the imminent launch of Payback services to boost UMT's profile and earnings. We are also looking for a number of major client wins and for the start of big data operations to have a positive impact on valuation over the next 12-18 months. We also see UMT as a potential take-over target as the FinTech sector consolidates. Against this, we believe it likely that UMT will seek additional equity funding over the next 12-18 months, leading to some risk of dilution.

Investment summary

Let the Payback begin

UMT is at an exciting point in its history. In June, the international loyalty scheme Payback will launch its UMT-powered mPay service in Germany. Over the last year UMT has been installing and beta testing its mPay-enabling upgrade of the point of sale (POS) systems of the largest retailers in the German part of the scheme, such as Galeria Kaufhof (a department store), dm-drogerie markt (Germany's largest drugstore/retail chain), REWE, BP and the hypermarket chain real. With the launch, which will signal the start of the multi-year platform contract with Payback, mPay should go live in these outlets. By end-2017 we see good prospects for UMT to have extended the system to cover the whole scheme, representing a 45% share of the German retail market.

We also understand that UMT's platform will be allowed to bundle, resell and undertake analytics on the anonymised data passed across the platform, without charge, enabling the potential addition of a major new revenue stream. We expect the launch of Payback's mPay system to help UMT to seal further white-label mPay contracts with other B2B and B2C operators, which should boost the group valuation.

Valuation: Payback the first milestone in the value chain

In the absence of published consolidated accounts, we have not been able to undertake a valuation of UMT. Were we to, we believe at this early stage the best form of valuation method would be DCF. From this perspective, the key valuation drivers will be the roll-out of the Payback contract in Germany, the planned expansion into big data analytics, winning new clients helped by the company's existing pipeline of prospects and expansion in other Payback geographies. We also see the potential for UMT to attract takeover interest as the FinTech sector consolidates. Also the company may come to the market for equity funding over the next 12-18 months.

Financials: Growth from a basis of consulting/set-up fees

UMT reports in German GAAP in unconsolidated form. In the absence of consolidated accounts, we have not published forecasts for the group. Since 2012 the parent company has been profit-making but the most recent data for FY14 show that at least one associate was in loss. UMT AG raised €1.4m from an equity issue in May 2015 to fund working capital. As of end-2015 the company had €1.7m in cash and €2.2m debt on its balance sheet (we understand €1.5 of that is a shareholder loan), resulting in a net debt balance of €0.5m. We understand that UMT's revenues for the last year have been dominated by consulting and set-up fees relating to the Payback contract. Over the life of the first Payback revenue cycle, which began in 2014 and should extend several years from launch of the platform, management expects revenues from set-up fees, maintenance/other platform fees and volume based commissions to comprise around one-third of the total.

Sensitivities

Key sensitivities for UMT include the potential risks of its white-label strategy (ie lower share of merchant fees, contract non-renewal risk vs branded) and UMT's high customer concentration with regards to major client, Payback. Nevertheless, the white-label strategy gives rise to the potential to leverage the data crossing UMT's mPay platform into a big-data business. mPay businesses such as UMT's are sensitive to ongoing pressure on interchange fees for credit and debit cards. The mPay market is also highly dynamic with tech majors such as Apple, Google and Facebook jostling for dominance. We see the possibility for the market to misunderstand the group's financial position given the lack of published consolidated accounts. We also believe there is potential for the company to come to the equity market for more funding to maintain a safe cash cushion.

Company description

Company background: Product to major contract in three years

UMT is the operator of a proprietary mobile payments and loyalty platform. It took its current form in 2011 and listed on the Deutsche Boerse's Entry Standard segment in July 2012. The business started out on its current path in 2010 when software developer Robert Schmiedler approached Albert Wahl, the CEO and founder of Munich-based venture capital company GCI Management, with an idea to build a better mobile payment system. One year later the company launched iPAYst, an easy-to-use mPay and loyalty rewards platform. In 2014, PwC awarded UMT's mobile payment platform "best mobile payment product" in a review of the German mPay market.

In November 2014 UMT won a tender against global giants PayPal and Apple Pay to provide a white-label mobile payments platform in Germany for Payback, the Amex-owned loyalty scheme with 28 million members. It also won preferred partner status for later roll-out to Payback's other loyalty schemes with 47 million more customers worldwide. With the launch of the Payback scheme the company should generate start-up, platform maintenance and volume-based commission revenues. UMT is also tendering to create B2C and B2B mPay platforms for businesses and associations across Europe as well as preparing to launch data products based on data crossing its platform. The group has five key subsidiaries/affiliates: UMS United Mobile Services GmbH (100%), the group's tech innovator and developer of its mPay platform; Mobile Payment Systems Espana SL (70%), iPAYst Riga (100%) and UMT Turkey (26%), founded to sell the group's mPay platforms in Spain, Italy, Central Europe and Turkey, respectively; and a 20% stake in the Spanish data-analytics company SEKS, with the right to increase this shareholding to 100%.

Strategy

UMT's key strategic objectives are:

- **Drive revenues with superior white-label mPay technology** leveraging off the knowledge and reputational boost provided by the Payback contract.

- **Build market share in big-data/analytics** leveraging data flows from its mPay platform.

- **Expansion into new verticals and B2B** services using new and existing mPay technology. UMT is also looking to acquire a single-retailer loyalty platform to expand its multi-retailer loyalty scheme capabilities developed via its work on Payback.

- **Leverage off widespread native integration of software in merchant POS** to allow lower-cost roll-outs of mPay to retailers using POS systems in which UMT has already deployed software. UMT may also monetise these pathways by allowing other platforms to access them.

- **Continue to foster a diversified portfolio of mobile technologies and apps**, with a focus on cash generation potential within subsidiary UMS GmbH.

- **Divestment of non-core and non-performing assets,** such as the 22.5% stake in the restaurant mPay platform **delinski,** is planned as part of a disciplined strategy.

- **Utilise UMT's core of technical staff to strengthen the P&L and balance sheet** by generating earnings from project management and consulting.

Management: Experienced, innovative and connected

CEO Dr Albert Wahl has extensive experience in engineering, banking and start-ups. Before founding the consulting and venture capital firm GCI Management in 1997, he was employed at BMW, IBM and Deutsche Bank. CIO, Erik Nagel has extensive banking experience. CTO Robert Schmiedler joined UMT in 2010 and developed the iPAYst concept. Previously, he worked at gaming and travel websites, bwin and HitchHiker. CBDO Alexander Franckenstein has experience and understanding of tech investments and financial markets via the fund management industry.

Mobile payments market

We define the mobile payments market in the discussion below as the payments for goods or services with a mobile device, either online or in-store, excluding the money transfer segment.

Exhibit 1: Mobile payments market players				
Category	**Companies**	**Aim**	**Offer**	**Outlook**
Customer facing / B2C				
Tech companies	Amazon, PayPal, Apple Pay, Groupon, Google Android Pay, Samsung Pay	Disrupt market to dominate payments space	Managing POS, delivery, product information, ticketing, loyalty	Handful of leaders likely to emerge after fight for merchant market share.
Retailer consortiums	MCX (Target, K-Mart, Shell, Dunkin' Donuts etc)	Reduce payments of credit card interchange fees	Mpay, merchant loyalty scheme, coupons.	Lack of cohesive loyalty programme/strong retail identity will make a challenge to incentivise consumers to download app.
Individual retailer loyalty programmes	Starbucks, Target, Burger King	Reduce payments of credit card interchange fees	Mpay, merchant loyalty scheme, coupons.	Only a viable option for iconic companies. Over time many of these firms are likely to allow ubiquitous players to host their programmes or lose out to Google Pay etc.
Third-party loyalty schemes	Payback (Amex), Pirq, Reward Junkie	Interchange fee and data analytics revenue generation	mPay offered in combination with loyalty points over single app.	Smaller schemes likely to lose mPay subscribers to more ubiquitous offerings. Larger likely to coexist if loyalty scheme is attractive.
Mobile carriers	Majority of carriers	Revenue sharing/ customer loyalty	Direct carrier billing allows payments without the need to download an app or have a bank/credit card account.	Likely to maintain significant market share where poor banking infrastructure but lose to branded offerings as mobile wallet use grows.
Credit Card Brands	Visa, MasterCard, Amex	Maintain dominant payments market share	Contactless payment linked to credit card.	Slow market share declines.
Social Media	Facebook, Twitter, Buzzfeed, LinkedIn, Pinterest, YouTube, G+	Leverage off the migration of online purchasing to social media ads	Wallet function likely to be added to site login.	Heavy consumer time spent on social media sites makes them a threat to existing players but many are likely to join forces with established mPay brands.
Support / B2B				
Merchant enablers mPOS developers	Square, iZettle, Payworks, Stripe, LevelUp, Fivory, Braintree (PayPal)	Build loyal merchant customer base	Full range of payments solutions for SMEs.	Likely to dominate SME segment but not challenge major players.
White label operators	Paydiant (PayPal),UMT, Mobetize, Wirecard	Rapid market growth with platform, volume based fee and data analytics revenue generation without high marketing cost burden	Full range of payments solutions that can be tailored for B2C & B2B clients of all sizes.	Likely to derive benefit from new players such as social media using their services. More successful will have big data or B2B businesses to offset margin pressures.
Big data/Analytics	Dunnhumby, Bilendi.(+many more)	Monetise data flows from mobile applications	Analyse and re-package data to drive advertising and consumer promotions/ targeting.	The quality of data inputs and analytics is key. Commoditisation and privacy controls key risks.

Source: Edison Investment Research

Payment by mobile device has taken off in the US over the last year, growing from $11.4bn in Q315 to $15.6bn in Q415. Business Insider forecasts in-store mobile payments in the US to grow from $37bn in 2015 to $808bn in 2019, representing an increase from 0.2% to 4.5% of 2015 GDP. It forecasts the proportion of the population making mobile payments to rise from 8% in 2014 to 65% by 2019 driven by the vast expansion of mobile wallet payment systems, such as Apple Pay, Samsung Pay and Google Wallet. Looking at mPay within e-commerce (rather than in-store transactions) Forrester projects revenues in the US to grow from $15bn in 2015 to $252bn by 2020.

We think it likely that Germany, and to a lesser extent the EU, will maintain pace with the US in mobile payments adoption given similarities to date in the m-commerce share of e-commerce (c 29% in the US and Germany, and >25% in all major EU countries (source Criteo)) and the efforts being taken by the EU to create a more level playing field for payment service providers (PSPs). On this basis, assuming that in-store mobile payments grow to 4.5% of current GDP, as indicated by Business Insider for the US, German and European mobile payments could rise to €136bn and €658bn, respectively in 2019. A similar treatment of Forrester's mPay forecast implies a mobile payments market of €178bn in Germany and €863bn in the EU in 2019/20.

Helped by the enormous boost provided by the Payback program (our forecast of €8.9bn mPay transactions in 2019/20 = 5.0% of the above German market forecast), we believe that UMT has the potential to power an 8% share of the German mPay market by 2019. Added to the planned roll-out of Payback in Italy and Poland we believe it has the potential to power c 3% share of the EU market, or €26bn, in 2019/20 helped by growth at its existing operations Spain and Central Europe.

UMT's mPay platform solution

Best in class for functionality

According to PwC research a key barrier in the uptake of mPay has been the difficulty in convincing consumers that it is more convenient than a cash or card payment. As a result, successful platforms such as Starbucks, have had to, in some way, incentivise customers to use them. According to Deloitte, consumers have also been deterred by multiple fragmented technology and a focus on features versus benefits. UMT's platform has been designed to address these concerns with the following features:

- **Speed of payment**: Similar to or faster than cash and cards
- **Caters to vast majority of smartphones and shopping channels:**
    - *Systems*: iOS, Android and Windows phones
    - *Connectivity*: Bluetooth, NFC, QR codes, Wi-Fi, barcodes
    - *Channels:* Online, POS, Print, TV, iBeacons
- **Standardised customer interface** in every outlet for ease of payment
- **Does not require the wallet to be pre-loaded by user:** can be linked to a debit/credit/EC card or bank account via a Single European Payments Area (SEPA) transfer mandate
- **Seamless integration with loyalty schemes** to incentivise consumers to use mPay

It also has significant advantages for merchants:

- **Technology agnostic** so no requirement for retailers to invest in new hardware
- **Simple for staff to operate** to avoid the need for expensive staff training
- **No third-party software required,** thereby reducing retailer outlays
- **Higher online conversion** through one-click check-out. This is a key issue for m-commerce with mobile sales per user conversion rates of only 2.7% vs 4.4% for desktops (Criteo 2015)
- **Scalability** helped by the tailoring of software to the major POS brand**s**
- **Highly secure** complying with ISO 27001 based on German BSI IT Grundschutz

A key part of UMT's success in achieving the above has been its decision to undertake native integration of its software into the merchant's IT infrastructure. By undertaking all the "heavy lifting" at the merchant end, it has enabled quicker processing times, a simpler staff and customer interface and uniform functionality across stores.

Before switching to its white-label strategy UMT honed its mPay product with merchant deals in the DACH region (Germany, Austria, Switzerland) as well as Spain, Turkey, Italy and Latvia. Customers included luxury restaurant chain, Kuffler Group, Loden-Frey, a Munich department store and the Four Seasons Hotel, Munich. As mentioned above, Ernst and Young rated iPAYst in the top three "best in class" mobile payments operators in June 2014 with iPAYst rated highest in terms of overall B2B and B2C functionality. The move to a white-label strategy reflected the realisation that creating a branded product would mean loss of control to a partner to fund heavy marketing spend.

Payback Contract: A major springboard

The Payback loyalty scheme came into being in Germany in 2000 and was later rolled out in Poland (2009), India (2011), Mexico (2012) and Italy (2014). Amex acquired Payback's parent company Loyalty Partners in 2011 and in 2015 it launched a similar loyalty scheme in the US owned directly by Amex, branded Plenti.

In November 2014 UMT won a tender to operate the mPay platform for Payback Germany as well as Preferred Partner status for expanding coverage to the rest of the Payback programme with its total 75 million active users. The platform is set for launch in Germany before the end of H116 where Payback has 28 million active users, or 41% of the adult population. Payback's scheme is by far the largest loyalty programme in Germany (bigger than Nectar in the UK), dwarfing the second-largest player with eight million subscribers, DeutschlandCard run by Bertelsmann.

Payback Germany has over 650 online and offline partners, representing c 45% of the retail market share. They include giants Galeria Kaufhof, ARAL, REWE, dm, real, Lufthansa and Burger King. Online stores include ePay, ToysRUs and Bonprix. In 2015 the scheme generated 20bn coupons, its cards were swiped for sales of €27bn and points were collected worth €338m, of which 95% were redeemed.

Currently, prior to the launch of mPay, customers register online for the Payback loyalty card and either collect paper coupons or activate e-coupons online or with the Payback app for use in stores. The loyalty card and paper coupons, if applicable, are presented at the POS to have the points credited to the customer's account or to redeem points.

The system has already been heavily digitised, with 18bn of the 20bn coupons issued in 2015 in electronic form. Being able to activate coupons while out shopping has also made the Payback app a popular service and it has already been downloaded by 8.5 million (29%) of scheme members.

With the move to mobile pay, powered by UMT, customers will not need to download a new app. Instead, they will see a new button appear on their existing loyalty app, which they can use to pay at Payback partners after registering for their preferred payment method. This can be via debit or credit card or from their bank account by SEPA mandate. UMT's software will also enable payment by vouchers and promotion redemptions as well as cash withdrawals. It will also allow users to keep track of their points on the Payback app for the first time, rather than via in-store terminals.

Features of Payback scheme should boost mPay adoption

We think the features of the Payback/UMT mPay system bode well for the rapid adoption of mPay by a sizeable proportion of scheme members. We forecast Payback to have 2.6 million mPay users by the end of 2016 rising to 5.2 million by end 2017 based on the following:

- Payback already has 8.5 million customers who have downloaded the app forming the basis for mPay; the incentive of convenient coupon activation should attract more people.
- We understand that Payback intends to increase awareness and use of the app via a major marketing programme, encompassing TV and other media advertising and direct incentivisation.
- The large range of physical and online stores within the Payback scheme should give shoppers a greater incentive to adopt its mPay app over those of smaller loyalty schemes.
- Many customers with their mobile device already in-hand to activate coupons in-store will find it more convenient to use it to pay rather than digging out loyalty cards and cash or credit cards.
- UMT's mPay system works in the same way across all Payback stores and works for all standard smartphones and mobile devices, which should give consumers a high degree of confidence to use MPay.

We also see good prospects for UMT to continue as Payback's platform operator after the end of its current contract term. This is because in addition to the merits of its system, UMT is likely by then to have embedded its mPay technology into the POS systems of Payback's partners worldwide.

mPay new prospects

UMT is actively tendering for mobile payment contracts across the B2C and B2B spheres. We understand that the group has six companies in workshops and 13 with which it has letters of intents and non-disclosure agreements. UMT has been helped in this by a new partnership from January 2016 with Spanish IT solutions house GTD, which has strong links in the airlines, maritime and infrastructure industries. Prospects include:

- **Major fashion retailers:** UMT is in negotiations with several fashion retailers including the Spanish chain Desigual, as well as telcos and major retailers.

- **Hotels payments/access:** UMT has been approached to design a system for a new hotel/casino development to enable guests to use smart-phones to regulate everything from room and facility access, payment, loyalty point conversion etc.

- **UK loyalty operators and retailers**: UMT plans to enter the UK market and sees a good fit with Nectar, given its similarity with Payback, and the major retailers.

- **Port authorities**: UMT is one of three on a shortlist to provide mPay to a major port authority to eliminate cash payments by ship and airline crews. Transaction margins could be 0.2-0.3% in its EU bases and even higher in non-EU countries where there are no caps on fees.

- **Major retail associations**: UMT is on a list of three firms tendering to provide an mPay platform for a national retail association to head off the threat from Apple Pay etc.

- **Social media:** UMT has been approached to enable mPay sales directly from site adverts.

Big data analytics

Using data flowing across its platforms UMT hopes to generate significant revenues from providing retailers with insights into the payment habits of their target markets, including retail type, location and time of transaction.

In preparation for this, in September 2015 UMT acquired a 20% stake (with a right to increase this to 100%) of SEKS – Serial Entrepreneurship Knowledge Society, a private data analytics operation in Spain. The company is headed by a team of three big data veterans with experience at the European Space Agency and EADS. To give an idea of the potential ballpark revenues of the business we have applied a current rule of thumb in the market for third-party data of c $3 per 1,000 data impressions. So, for example, if a retailer wanted to look at data relating to men between the ages of 25 and 50 and this applied to 15% of UMT's overall 2.6 million mPay user points, the fee at $3 per 1,000 impressions would be $1,170. By 2019 with an assumed 11.5 million users the company could attain over $5,000 for the same search request, assuming the current price metrics still apply, leading to $500k revenue for 100 such searches.

One potential headwind facing big data companies in Europe is the intention of the EU to pass new EU-wide legislation reforming data protection rules in 2018. The agreed text states that "in assessing whether consent has been freely given, account shall be taken, for example, of whether the performance of a contract is made conditional on the consent to processing data that is not necessary to perform that contract" (source: Allen & Overy, January 2016). It is conceivable that this could be used to allow consumers to opt out of allowing app providers to process their data for any other purpose than executing their transactions. If passed in this form, the legislation could potentially substantially reduce the availability of usable customer data from the UMT platform.

Sensitivities

The key sensitivities for UMT are as follows:

- **Payback customer concentration/renewal risk:** Payback is by far UMT's largest customer, bringing contract termination risk. We expect this concentration to decline substantially over the term of the contract, as UMT attracts new clients.

- **White-label service vs branded service risks:** Adopting a white-label strategy is enabling UMT to compete for larger contracts but means lower margins and contract termination risk.

- **Potential upside surprise from data analytics business,** particularly in the event of a faster than expected take-up of mPay by Payback subscribers, and therefore bigger data flows.

- **Exposure to contraction of interchange fees:** UMT typically structures its fees to include share of card fees, so pressure on credit or debit card fees is likely to have a knock-on effect.

- **Dynamic market likely to produce winners and losers:** UMT operates in the highly dynamic mobile payments space. New entrants and technologies that allow for ongoing market disruption and larger players such as Apple, Google and Facebook may make it difficult for smaller operators without niche market positions or white-label contracts with larger players to survive.

- **Lack of consolidated accounts and/or detailed information on subsidiaries** limits financial transparency and may lead to the market forming erroneous views about group finances.

- **Reliance on third-party data to power big-data business**: Under UMT's current strategy it is reliant on the use of third-party data crossing its platforms to generate its big-data products.

- **New EU data legislation:** May severely restrict availability of data to the big data business

- **Reliance on key employees:** UMT's position in a highly competitive area makes it important to maintain an edge in its products that depends on retaining and recruiting key technical staff.

- **Potential share issue:** We believe UMT will look to add to its cash reserves over the next 12-18 months to maintain its cash cushion at safe levels (see Financials section below).

Valuation: Key drivers

As discussed above, in the absence of consolidated accounts we have not attempted a valuation of UMT. Nevertheless, we believe there are a number of value-driver milestones that we expect to impact valuation over the next two to three years.

- **Launch of Payback mPay in Germany (June 2016):** Payback announced the launch of mPay in late April enabling UMT to roll out mPay to Payback's 28 million customers in Germany. Although likely to be low margin the contract allows for early year cash flow generation from set-up fees and platform charges. We expect rapid growth in mPay to allow UMT to generate commissions of c €0.3-0.6m in 2017 rising to c €1.2-2.4m by 2020.

- **Winning major new clients helped by the launch of mPay on Payback (2016/17):** UMT is tendering for a number of B2C and B2B prospects that we expect to bear fruit in 2016/17, helped by the reputational boost from the Payback win. With its software in the POS of Payback retailers, UMT has the prospect to cross-sell them retailer-branded mPay services.

- **Roll-out across other Payback regions (2017/18):** Although there is no public schedule, we think it likely that Payback will want to roll-out mPay to the bulk of its 47 million customers outside Germany in 2017/18 to secure loyal mPay users before they are harvested by other mPay firms.

- **Growth in big data business (2017/18):** UMT management plans to use the data passing over its mPay platform to fuel growth in its big data analytics business. With analytics expertise

in SEKS in Spain (20% owned, with an option for 100%), the group expects to generate sizeable revenues from data products with a potential major boost to valuation.

- **Enabler fee revenues (2017/18):** A potential revenue stream could open up if competitors are willing to pay UMT to use the software pathways it has built into the tills of Payback members.

- **Legislation creating a more level playing field with banks (2017/18):** New EU legislation, most notably PDS2, is expected to favour new third-party players in the payments field such as UMT. The legislation is likely to be implemented across European countries during 2017/18.

- **Industry consolidation/takeover potential (2017/2018):** The FinTech sector has expanded rapidly in recent years resulting in many well-funded players looking to make acquisitions. With its contract with Payback, ownership of software embedded in POS terminals, and its high potential in data analytics we believe UMT could be an attractive takeover target.

- **Growth in competition /emergence of new mPay leaders (2017/18)**: Tech giants such as Apple, Amazon, Google, Samsung and PayPal and disruptive technology of mPOS developers such as Stripe are likely to produce new leaders over the next 12-24 months. We think this competition could boost demand for UMT's white-label services while putting pressure on margins. Having additional revenue streams such as data analytics should also reduce risk.

Financials

UMT reports its accounts according to German GAAP in unconsolidated form. We understand the parent company, UMT AG, reports the bulk of group revenues, with a large proportion of expenses reported within subsidiary UMS United Mobile Services. Helped by this, UMT AG has consistently reported net profits over the last two and a half years, with net income in 2014 and H115 of €121k and €605k, respectively, principally from consulting work and set-up fees. The most recent data for UMT's five associates shows that 100%-owned UMS United Mobile Services reported a FY14 loss of €2.2m. The three other associates with operations in 2014 made losses of less than €100k each in 2014.

We understand that the bulk of UMT AG's revenues over 2014 and 2015 have been derived from set-up fees and consulting work, the bulk of which has related to the Payback contract. Set-up fees are set to drop in 2016 with the completion of much of the work. For the life of the multi-year Payback contract (starting from payment launch) but including these prior year set-up fees UMT expects to generate c 70% of revenues from set-up, maintenance and platform charges (which are likely to be €0.5-1.0m pa), and c 30% from transaction fees. We expect the latter to grow to over €1m per year from 2019 (see table below) reflecting strong growth in mPay user numbers. We also see it as likely that UMT's set-up revenues will be augmented over the next 12-18 months with new client wins. UMT looks to derive c €1-5m set-up fees for larger retail chains and €0.25-1m for SMEs. Helped by this the company targets €4-5m revenues for 2016 rising to €7-8m in 2017.

We understand that management tendered very competitively for the Payback contract because of the potential for it to further its winning of new business and big data revenues. The high degree of scalability of UMT's platform nevertheless leads us to expect margins on the commission stream to grow strongly from a low base over the course of the contract, leading to a gradual increase in the margins of the overall contract. We also expect the work already done for the Payback contract (eg placing software in different branded POS systems) to enable the group to generate higher margins on new mPay contracts. UMT targets EBIT margins of 30-35%.

The German Payback contract: Transaction volume potential

Under the Payback contract, UMT will be paid an undisclosed fixed annual fee for processing mPay transactions, and then tiered commissions of 1-2bps above an agreed commission free level.

Exhibit 2: German Payback mPay transaction revenues model

	2015	2016e	2017e	2018e	2019e	2020e	2021e
Active card users (ACU) (m)	**27.5**	**29.2**	**30.3**	**30.6**	**30.9**	**31.2**	**31.5**
Change (%)	N/A	6.0	4.0	1.0	1.0	1.0	1.0
App dowloaded/ACU (%)	**29.1**	**35.0**	**40.0**	**46.0**	**52.9**	**60.9**	**70.0**
Payback apps downloaded (m)	8.0	10.2	12.1	14.1	16.4	19.0	22.1
Change (%)	N/A	27.5	18.9	16.2	16.2	16.2	16.2
mPay users (m)	**0.0**	**2.6**	**5.2**	**8.2**	**11.5**	**14.8**	**17.7**
Change (%)	N/A	N/A	104.4	56.7	40.2	29.4	19.1
mPay users/app users at YE (%)	**0**	**25**	**43**	**58.0**	**70.0**	**78.0**	**80**
Change (%)	N/A	N/A	72.0	34.9	20.7	11.4	2.6
mPay users/total ACU (%)	**0.0**	**8.8**	**17.2**	**26.7**	**37.0**	**47.5**	**56.0**
Annual sales/points redeemed via Payback (€bn)	993	1,003	1,013	1,023	1,033	1,043	1,054
mPay user uplift in spend vs standard ACU (%)	-	10.0	10.0	10.0	10.0	10.0	10.0
mPay spend as % of whole for mPay user (%)	-	40.0	70.0	80.0	80.0	80.0	80.0
mPay transaction volumes/mPay user (€)	**-**	**441**	**780**	**900**	**909**	**918**	**927**
mPay transaction volumes (€bn)	**-**	**0.3**	**3.0**	**6.0**	**8.9**	**12.1**	**15.1**
mPay transaction volumes as % of Payback total sales (%)	-	1.0	9.9	19.2	27.9	37.0	45.3
mPay commission at 0.01%, zero commission-free level (€)*	-	0.0	0.3	0.6	0.9	1.2	1.5
mPay commission at 0.02%, zero commission-free level (€)*	-	0.1	0.6	1.2	1.8	2.4	3.0

Source: Payback, Edison Investment Research. Note: Commission estimates assume the Payback contract is renewed at the same terms over the life of the illustrated period. *For illustrative purposes only commission revenues are calculated as if applied to the entire mPay transaction volume, ie, as if the base commission-free transaction level is zero (see comments in text above about commissions being generated only on revenues above an undisclosed commission free base level).

We have modelled potential transaction volumes for the German Payback scheme for the 2015-2021 period in Exhibit 2. We have assumed a 6% increase in Payback's active card users (ACUs) this year and 4% next year and a 1% CAGR thereafter. We assume that the proportion of Payback customers who have downloaded the loyalty app increases from the end-2015 29% to 70% in 2021, driven by increased migration of internet traffic to smartphones and the convenience of e-coupons on mobile devices. We assume the proportion of these customers using Payback's mPay rises from 25% at end-2016 to 80% by end-2021, equivalent to 56% of total ACUs (conservatively below Business Insider expectations of mPay use in the US at 65% of the population in 2019), with early adopters giving way to the 'late majority' as the technology becomes better known and near field communication (NFC) use become ubiquitous.

We assume 1% CAGR in annual purchases per ACU over 2016-2021 from €993 in 2015. Payback recently reported that users downloading the app have increased purchasing activity by 7% and redeem 50% more coupons than the reference group. We have therefore assumed that mPay users will spend 10% more than cash/credit card customers, as we expect them to be slightly more active than standard app users. We also assume that in 2016 only 40% of the user spend is executed using mPay, reflecting the staggered roll-out across all of the stores in the programme, but this rises to 70% the following year and 80% thereafter. This gives rise to our forecast €0.3bn in transaction revenues on the platform in 2016, rising to €3.0bn in 2017 and €12.1bn in 2020.

On this basis, we estimate potential commission revenues for UMT up to €0.6m in 2017 and €1.2m in 2018, applying the maximum 2bp commission fee to our estimate of platform transaction volumes. This assumes that UMT's contract with Payback spans this period and has a zero commission-free base revenue. An assumption of a higher base would reduce this total.

Balance sheet and cash flow analysis

As of 31 December 2015, UMT AG had unconsolidated net debt of €0.5m, comprising total cash reserves of €1.7m and debt of €2.2m, which we understand includes a €1.5m shareholders' loan from SWM Treuhand AG, the vehicle of CEO Albert Wahl. With shareholders' funds of €16.1m, this represents a 3% debt to equity ratio.

At the parent company, cash flow absorbed by operations improved from €2.5m to €1.3m in 2015. Cash reserves nevertheless rose €0.4m to €1.7m helped by a €1.4m share issue in Q215 and sales

of treasury shares. Management has guided for investment at the parent level in 2016 and 2017 of €1m and €2m and across the group at €2m and €3m, respectively, for R&D, expansion of the salesforce and pipeline pre-financing. This leads us to believe UMT may need to increase its cash reserves over the next 12-18 months to finance the ongoing expansion of its business and maintain a safe cash cushion.

Exhibit 3: Financial summary						
Unconsolidated		€'000s	2012	2013	2014	2015
31-December			German GAAP	German GAAP	German GAAP	German GAAP
PROFIT & LOSS						
Revenue			N/A	N/A	1,278	3,045
Cost of Sales			N/A	N/A	0	(1,400)
Gross Profit			822	1,304	1,278	1,645
EBITDA			399	529	102	626
Operating Profit (before amort. and except.)			397	527	100	619
Intangible Amortisation			0	0	0	0
Exceptionals			0	0	0	0
Other			0	0	0	0
Operating Profit			397	527	100	619
Net Interest			(223)	(41)	33	331
Profit Before Tax (norm)			174	486	133	951
Profit Before Tax (FRS 3)			174	486	133	951
Tax			133	(9)	(12)	(0)
Profit After Tax (norm)			307	478	121	951
Profit After Tax (FRS 3)			307	478	121	951
Average Number of Shares Outstanding (m)			10.7	11.7	13.6	15.1
EPS - normalised (c)			2.9	4.1	0.9	6.3
EPS - normalised and fully diluted (c)			2.9	4.1	0.9	6.3
EPS - (IFRS) (c)			2.9	4.1	0.9	6.3
Dividend per share (c)			0.0	0.0	0.0	0.0
Gross Margin (%)			N/A	N/A	100.0	54.0
EBITDA Margin (%)			N/A	N/A	8.0	20.5
Operating Margin (before GW and except.) (%)			N/A	N/A	7.8	20.3
BALANCE SHEET						
Fixed Assets			8,506	9,586	10,211	10,062
Intangible Assets			0	0	0	0
Tangible Assets			7	8	10	17
Investments			8,499	9,578	10,201	10,045
Current Assets			798	3,548	5,744	8,438
Stocks			15	15	0	0
Debtors			601	1,589	4,399	6,697
Cash			19	1,841	1,331	1,717
Other			163	103	14	24
Current Liabilities			(1,712)	(2,248)	(2,372)	(2,415)
Creditors			(128)	(266)	(214)	(169)
Short term borrowings			(1,584)	(1,982)	(2,158)	(2,246)
Long Term Liabilities			0	0	(3)	(3)
Long term borrowings			0	0	(3)	(3)
Other long term liabilities			0	0	0	0
Net Assets			7,592	10,885	13,580	16,082
CASH FLOW						
Operating Cash Flow			1,025	(1,199)	(2,665)	(1,676)
Net Interest			(223)	(41)	33	331
Tax			0	0	0	0
Capex			1	(182)	(6)	(15)
Acquisitions/disposals			0	0	(623)	156
Financing			(800)	2,845	2,571	1,502
Dividends			0	0	0	0
Net Cash Flow			3	1,423	(689)	299
Opening net debt/(cash)			1,561	1,564	141	831
HP finance leases initiated			0	0	0	0
Other			(6)	0	0	0
Closing net debt/(cash)			1,564	141	831	532

Source: UMT accounts, Note: Per-share data calculated excluding treasury shares.

Contact details		Revenue by geography	
Brienner Str. 7 Munich 80333 Germany +49 89 20 500 680 www.umt.ag		N/A	

Management team

CEO: Dr Albert Wahl	**CTO: Robert Schmiedler**
After completing a degree in engineering management and a doctorate in Germany and the US, Dr Wahl worked for BMW, IBM and Deutsche Bank before founding the predecessor of MS Industrie AG and joining UMT in 2010.	Robert Schmiedler is the originator of the iPAYst mobile payment platform. Before joining UMT in 2009 he was a .NET Developer at bwin and HitchHiker.
CIO: Erik Nagel	**CBDO: Alexander Franckenstein**
Erik Nagel became CIO/CMO of UMT in 2013 having previously been a partner in Collineo Gruppe, an MD at Sal Oppenheim and Deutsche Bank and founder of Sandbox Security.	Alexander Franckenstein joined UMT in 2015, prior to which he was MD of wealth management firm Focam Family Office and Ethna Capital Partners, having started his career at Julius Baer and then Oppenheim jr &Cie.

Principal shareholders	(%)
SWM Treuhand AG, Munich	45
Level 86 UG (limited liability), Wiesbaden	5
Erik Nagel, Düsseldorf	5
Light Wave Consulting AG, Zug	4
UMT United Mobility Technology AG, Munich	1

Note: Shareholdings rounded to nearest percentage to the knowledge of the company.

Companies named in this report

Amazon, PayPal, Apple Pay, Groupon, Google Android Pay, ,Samsung Pay, MCX, Target, K-Mart, Shell, Dunkin' Donuts, Starbucks, Target, Burger King, Amex, Pirq, Reward Junkie, Visa, MasterCard, Facebook, Twitter, Buzzfeed, LinkedIn, Pinterest, YouTube, Square, iZettle, Payworks, Stripe, LevelUp, Fivory, Braintree (PayPal), Paydiant (PayPal),UMT, Mobetize, Wirecard, Dunnhumby, Bilendi, Kaufhof, DM, BP and Metro Group (owner of real).