

**June 16, 2011**
**Mobile Loyalty, PLC (Frankfurt Exchange)**
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**Mobile Loyalty is Perfectly Positioned to Exploit Rapidly Developing Market Niche in Mobile App Advertising Technology. Leveraging Media Expertise in Delivering Turnkey Advertising System Through Highly Scalable Recurring Revenue Sharing Business Model.**
**Strong  
Buy**
**Recent Price:**
**N.A.**
**Balance Sheet as of 12/31/11, Post-Merger**

Market Capitalization (mln)	N.A.
Enterprise Value (mln)	N.A.
Issued and Outstanding Shares (mln)	25.0
Basic and Diluted Shares (mln)	25.0
Avg. Volume (90 day, approx.)	N.A.
Expected Float	1.75
Insider Ownership	74.8%
Exchange	Frankfurt

**Balance Sheet as of 12/31/11, Post-Merger**

Shareholders' Equity (mln)	1.05
Price/Book Value	N.A.
Net Working Capital (000s)	(390)
Long-Term Debt (000s)	624
Total Debt to Equity Capital	1.09

**Company Overview**

Mobile Loyalty is a Malmö, Sweden-based Company that was recently spun out of a well-established firm called Scandvision, to exploit a large opportunity in mobile advertising enablement technology. The Company has a solid team and product plan, and a product that is already generating sales. The Company is listed on the Frankfurt stock exchange, and is also currently in the process of setting up an ADR Level I to be quoted on the OTC Market. The Company plans to upgrade to ADR Level III and to the NasdaqGS as soon as possible thereafter.

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**Summary and Investment Opportunity**
**Media Companies are Struggling to Monetize Digitally-Delivered Content**

Successful broadcasters and newspaper publishers have achieved strong local market footprints by consistently providing consumers with high-quality, desirable content. This has allowed these media companies to develop strong brand-loyalty in their viewers and readers, although they have historically derived little or no revenue from these individuals. Instead, these companies have thrived by selling advertising services, which enable brand owners and local businesses to reach members of their target markets.

In recent years, technology trends have led these media companies to make their content available digitally, which they have accomplished by deploying branded, downloadable "content apps" for smartphones such as Apple's iPhone. Although these companies have been quite successful in providing users with mobile access to their content, they have been almost universally unsuccessful in monetizing those users through the sale of advertising.

**Technology is the Key to Fully Monetizing Users of Mobile Content Applications**

Because of their industry's historical skill requirements, most media companies are notoriously lacking in technology expertise - and given the rate of smartphone adoption, they simply have no time to develop it on their own. This dynamic has created a rapidly growing need for high-end, quickly-deployable mobile advertising technologies.

Because GPS smartphones are actually location-aware mobile computers, they have myriad tracking and logic capabilities that promise to revolutionize advertising effectiveness. These devices can present a user with location-specific offers, and other marketing messages based on each individual's personal interests and buying patterns. Such highly targeted advertisements will undoubtedly create superior response rates, and would allow media companies to fully monetize the value of their mobile content consumers.

**Mobile Loyalty's System Should Revolutionize Media Companies' Mobile Apps**

The Company's technology is built to be quickly and seamlessly integrated into media companies' existing mobile apps, thus enabling them to finally succeed in monetizing their mobile users. Mobile Loyalty's initial successes and insightful approach indicate to us that they are likely to emerge as a market leader in the rapidly maturing mobile technology industry. *We therefore rate the shares of Mobile Loyalty a Strong Buy, and recommend shares in the Company to all institutional and risk-tolerant individual investors.* Based on our 2013 and 2014 EPS and fully-diluted shares outstanding estimates, *we have set our 12-month price target at US\$1.00 per share, with significant upside possible.*

P&L (000s)	FY'10A	Q1 '11A	Q2 '11E	Q3 '11E	Q4 '11E	FY'11E	FY'12E	FY'13E	FY'14E
Revenues	205	133	67	148	334	682	3,474	10,238	20,080
YoY Rev. Gr.	N.A.	N.A.	N.A.	N.A.	N.A.	233%	410%	195%	103%
Gr. Margin	76%	36%	33%	49%	66%	53%	78%	85%	85%
Op. Income	(532)	(158)	(332)	(550)	(603)	(1,644)	(1,075)	3,300	9,568
Op. Margin	-260%	-119%	-497%	-371%	-181%	-241%	-31%	32%	46%
Net Income	(786)	(132)	(508)	(615)	(503)	(1,757)	(1,064)	2,101	6,889
Net Margin	-384%	-99%	-759%	-415%	-151%	-258%	-31%	21%	33%
Dil. EPS	(0.03)	(0.01)	(0.02)	(0.02)	(0.01)	(0.06)	(0.03)	0.06	0.20
Dil. Shares	25,000	25,000	25,000	34,000*	34,000*	34,000*	34,000*	34,000*	34,000*

\*Total est. shares outstanding based on likely future dilution associated ONLY with current financing plans.

**Please see analyst certification and required disclosures on page 15 of this report.**

## Industry Background

### Introduction

Mobile Loyalty is an innovator in the nascent but very rapidly growing mobile applications space. The Company's leaders have a strong background in providing advertising services to the media industry, and in mobile technology, and have developed an exciting technology product that we believe has great potential for revolutionizing the monetization of online/mobile consumers, for media companies and for digital content in general. However, most investors will find it difficult or downright impossible to assess Mobile Loyalty's product, strategy, and potential investment merits without first understanding the world in which it operates - past, current, and probable future - the fundamentals of which we explain in this section. In section two, Company Analysis, we move on to consider Mobile Loyalty's investment merits based on a more traditional analysis of team, industry, products, plan, risks, and value potential. Investors who are already intimately familiar with the emerging trends in media, the Web, mobile apps, and advertising should feel free to skim over or even omit this section.

### Basic Terms and Concepts

Before we can discuss Mobile Loyalty's product and industry, we must first clarify some basic terms and concepts that we will use throughout this Research Report.

#### Content

This is the basic thing of value that media customers are getting when they "consume" any media product, such as watching a television program or reading a newspaper.

#### Content Consumer vs. General Consumer

A Content Consumer is any individual who spends time (and possibly money) to read, listen to, or watch content. Content of interest includes data, educational material, editorial, and entertainment content. General Consumers, on the other hand, are simply any and all entities that purchase goods and services in the general economy - targeting and reaching attractive subgroups of general consumers is the primary goal of advertisers.

#### Advertisers

In the context of this report, advertisers consist of any company or organization that wishes to reach one or more individuals with some form of marketing message. That message can take several forms, and is typically crafted to increase brand awareness and loyalty, to drive overall revenues and the acquisition of new customers, and in some cases to create volume purchases of certain temporary sales or discount programs, commonly known as "deal of the day" marketing offers. Historically, the process of advertising has consisted of creating the actual advertisement, often with the help of an outside advertising agency, and then placing it (through media companies) in various publications or programs.

#### Media

Commonly confused with content, media refers only to the transmission and storage of content, not to the content itself. For example, subscribers to cable television pay the media company to deliver signal to their television set; this signal carries "content" to this television set for viewer consumption. To provide this content, the cable company (or satellite TV company) enters into various contracts with both actual content creators and with various other networks and media companies who can sub-license their licensed content. In the case of radio, local radio stations license content (music) primarily from record companies, and so on. It is important for investors in this space to have a clear understanding of the difference between content and media, because current trends in technology and communications are quickly causing a sea change in how these interact in the market.

#### Types of Media

Media has traditionally come in three basic forms: print, audio, and video. Each type and subtype of media often has its own industry and industry-specific dynamics; for example, the local newspaper business is very

different than the monthly magazine business, even though both would be considered print. This level sub-segmentation holds true throughout the media industry.

### The Media Industry

The media business is big business, and a crucially important business, mainly because it offers two important value propositions to two very important groups. On one hand, it provides a wealth of information and entertainment content to the general population, which it consumes by reading newspapers and magazines, listening to the radio, and by watching television. On the other hand, by including a small percentage of marketing and branding content with its core offering, the media industry allows myriad large and small companies to reach their respective target audiences, thus generating sales and building brand loyalty.

Historically, media companies have found it fairly simple to monetize their readers, listeners, and viewers through the sale of advertising. Media companies have accomplished this by creating "inventory" that can be purchased by advertisers; to help sell this inventory, the media companies also provide demographic information about the audience their advertisers can expect to reach. However, in recent years, certain technological developments have caused media companies to make more and more of their content available online and, more recently, through mobile applications. Although the process of making content available through these channels is relatively straightforward, the process of monetizing the consumers of this content is not.

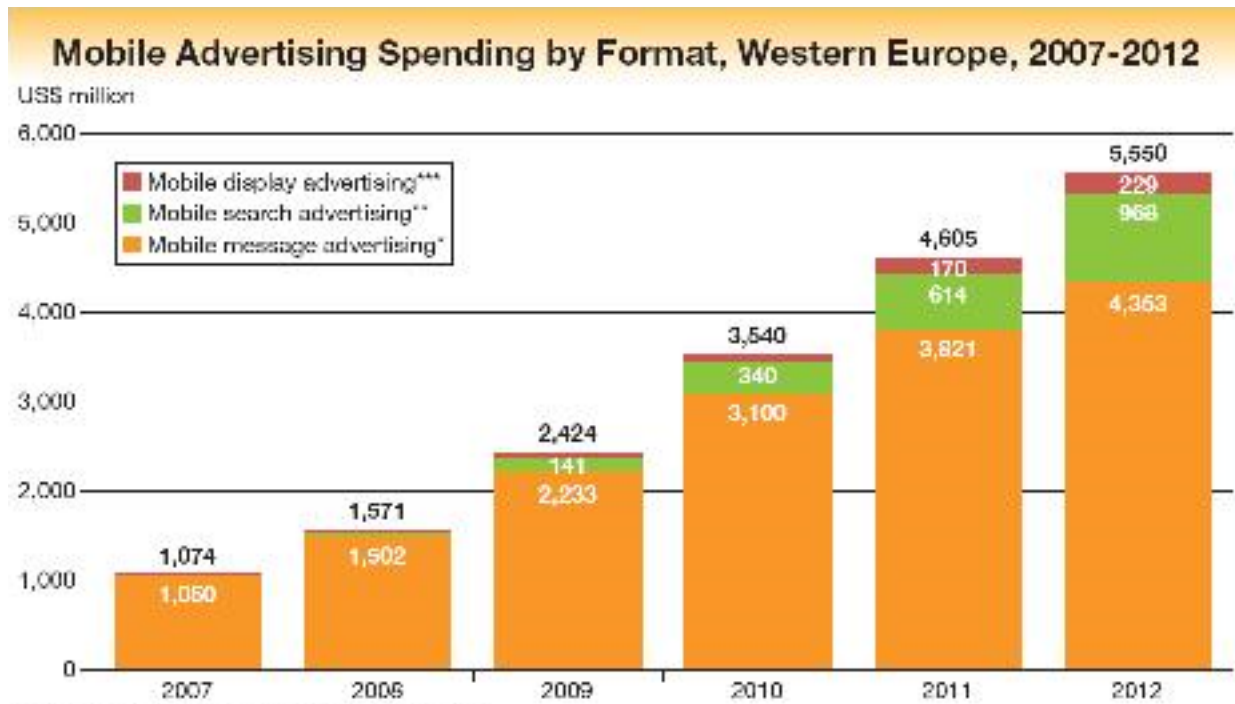
### Key New Technologies

Over the last twenty years we have witnessed a radical shift in the media industry, driven primary by three successive technology-based revolutions:

- **The PC Revolution.** Over a period of years, the computer industry put inexpensive personal computers into a high percentage of households, businesses, and schools throughout the developed world. The applications these computers ran changed the way we worked, played games, and managed our households and daily lives.
- **The Internet Revolution.** By the mid 1990s, a majority of consumers either owned or had regular access to a personal computer. The Internet allowed all of those computers to become interconnected, both with each other, and with the mainframe-based "institutional" computing infrastructure. Over time, startups and established companies alike created applications that took advantage of this newly available universal connectivity, bringing sea change to many aspects of human-to-human and human-to-business interaction.
- **The Mobile Revolution.** Mobile phones had already become almost universally used by the time the Internet Revolution began to take hold. Given price/performance trends in all electronics, it was just a matter of time before mobile phones became fully-functioning computers, which has finally come to pass. Devices such as Apple's iPhone and those based on Google's operating system are gaining market share so quickly that they will soon be ubiquitous in the market. The users of these devices keep them on their person nearly 24/7, creating a wealth of possibilities for advertisers - if they can take advantage of what these location-aware, always-connected smartphones have to offer.

One of the most important challenges facing media companies today involves deploying solutions that allow these media companies to offer advertisers an effective method of reaching online/mobile users, and thus monetizing those users for the media companies themselves.

Mobile Advertising Growth, Western Europe



source: eMarketer

The Challenge - Monetizing Mobile Content Apps

At this point in early 2011, most media companies have made serious efforts to make their content available online and available through most smartphones. These efforts typically take the form of Web and mobile applications, such as downloadable viewers for printed content, and other mobile apps for audio and video content. Blending advertising messages into this content, however, is a far greater challenge. This is mainly because online and mobile applications have many capabilities that traditional media do not, such as:

- **Behavior and Preference Awareness.** Unlike a piece of paper or a television program, a connected computer has the ability to "know" each individual user: what are the user's interests? What types of offers has the user responded to in the past? Where is the user currently located, based on GPS coordinates? What types of offers is the user most likely to respond to at this moment in time? The mobile computer has the ability to track data and help answer these questions - but what technology allows the media company's mobile app to respond accordingly?
- **Location.** Advertisers do not consist of only large national or multi-national companies - many would-be advertisers are local merchants who are interested in driving retail traffic to their individual storefronts. Portable smartphones have the unique ability of presenting users with location-specific offers in real time - but only if the underlying technological infrastructure enables it.

Without a doubt, mobile smartphones offer media companies and other content providers the unprecedented ability to offer marketing messages on a highly personalized, location-specific basis, which should both radically improve response rates and minimize the degree to which each user is presented with irrelevant marketing messages. This is essentially the "holy grail" of targeted advertising, and is something that each and every media company is striving to offer its advertising customers. To date, however, media companies' achievement of this goal has remained elusive - primarily because of the daunting technology challenge that it entails.

**Conclusion**

Media companies have for years been successful in profitably providing advertising inventory to advertising customers. This inventory has historically consisted of television or radio airtime, or fixed-size advertising within paper publications. However, this success does not immediately translate to the online and mobile world, primarily because successful advertising in this world requires a huge technology investment. In the mobile world, consumers are far less tolerant of irrelevant advertising messages, and advertisers are less comfortable paying for advertisements of questionable value. What the online/mobile world demands is simple: an intelligent system that provides each consumer with preference-specific, and in some cases location-specific, timely marketing offers and messages.

Since the building of such a system requires technology competency well beyond that possessed by most media companies, a profound product gap exists in the market. Media companies understand the potential of online and mobile advertising, and want to capitalize on it - but alone, they cannot. The system that can capitalize on it needs to use a highly developed level of artificial intelligence that can make decisions in real-time based on incomplete preference data and location information - decisions that allow it to present each user an offer most likely to be relevant and to generate action at that moment.

**Mobile Loyalty has built just such a system.** The Company has applied its collective decades of experience in technology and in the advertising industry to create a highly flexible technology platform. This platform can be inexpensively built in to each media company's online or mobile application, thus immediately enabling that application to take full advantage of Mobile Loyalty's technology investment and expertise. This capability is something the media companies desperately need and, to date, have been largely unable to acquire. Although not without competitors, we believe Mobile Loyalty has an excellent early market position and is likely to garner a significant share of the media industry's mobile app market, at a minimum in the Scandinavian countries and quite possibly in the larger German, U.K, and United States markets. Furthermore, we believe that Mobile Loyalty's system will have equally large benefits to direct content providers (e.g. YouTube contributors) and to other appropriate applications (e.g. Google Maps), which provides additional sales and valuation upside to Mobile Loyalty and its shareholders.



## Company Analysis

### Corporate Overview

Mobile Loyalty is marketing-focused mobile applications company based in Sweden. Mobile Loyalty's leadership team has a strong background in advertising agencies and mobile technology, and founded the Company to enable technologically un-savvy media companies to successfully deploy smartphone-based advertising campaigns. Unlike traditional print and broadcast media, smart phones' sophisticated users and multifaceted capabilities require advertising messages to be delivered through a technologically sophisticated software system. The Company has built a just such a system - a system that serves as a behind-the-scenes advertising delivery platform, enabling print and broadcast media companies to deliver highly-targeted, actionable advertising to users of their own mobile content-delivery applications. Potential and current customers of Mobile Loyalty include newspapers, magazines, radio and television stations, and the local merchants whose customers they reach.

Mobile Loyalty, AB is a wholly-owned Swedish subsidiary of Mobile Loyalty, PLC, which trades on the Frankfurt Exchange under a soon-to-be-issued new symbol. The Company plans to begin trading in the U.S. as an ADR<sup>1</sup> Level One (Pinks) and then as an ADR Level Three (NasdaqGS) as soon as possible.

### The Opportunity - The Groupon Example

#### Local Markets

Groupon is now a globally-recognized brand and has almost overnight become a household name, with a planned 2011 IPO that a recent Wall Street Journal article suggests could carry a total market valuation of approximately US\$20 billion. Founded less than three years ago in late 2008, Groupon has managed to grow sales and market valuation at the fastest rate of any company in history (Wall Street Journal, online edition, 6-3-11). Despite these successes, however, Groupon is losing money at an equally incredible rate; its recent IPO filing shows that it lost nearly US\$114M in the first quarter of 2011 alone. These losses are a direct consequence of Groupon's business model, which involves it developing relationships with a large number of local business owners in each market in which it operates. Under the Groupon system, each of these businesses agrees to offer Groupon users a "deal of the day" that they must pay for in advance. These deals typically carry discounts of 50% or more off of typical retail prices, require that a minimum number of purchasers sign up for the deal to be "finalized" and are usually designed to drive a high sales volume over a short period of time. Under this system, Groupon and the deal-offering vendor split revenues on a 50/50 basis, which has proven to be acceptable to offering vendors and exceptional for Groupon's ability to grow sales. Although the potential attractiveness of this system has allowed Groupon's global membership to reach over 35 million users, the cost of creating the underlying local business relationships has been extreme. ***We believe Mobile Loyalty will over time develop a similar value proposition to end users, through its customers' mobile apps, without it having to bear the expenses and ramp time associated with building out these local relationships.***

Although the benefits of Mobile Loyalty's strategy and system extend into non-local advertising markets as well, we believe the local markets may prove to be its most lucrative and profitable, and in this context the Groupon comparison is warranted. Because the Mobile Loyalty application provides users the same deal of the day functionality as does the Groupon app, and leverages local media companies' pre-existing sales teams and local business relationships to generate the actual deals, it creates the possibility of extreme growth without the concomitant costs Groupon is experiencing.

#### Regional, National & Global Markets

Advertisers at this level tend to be consumer brand owners (e.g. Levi Strauss, Apple, etc.) or large service providers such as airlines and financial institutions. Somewhat counter-intuitively, these types of advertisers can also benefit from Mobile Loyalty's ability to know where each of its users is located, due to the

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<sup>1</sup> "ADR" stands for American Depository Receipt. ADRs allow foreign enterprises to trade on major U.S. exchanges as if they were U.S. Companies. Well-known ADRs include British Petroleum (BP - NYSE) and LM Ericsson (ERIC - NasdaqGS). For more information visit [www.adr.db.com](http://www.adr.db.com) on the Deutsche Bank website.

interrelationships between these companies and local businesses. For example, clothing brand owners can drive sales of their products within the context of a near-by apparel store, thus benefitting both the brand owner and the local business. This same dynamic applies to food and beverage franchises, local dentists and optometrists, hardware and home improvement stores, local department stores, and many other types of local businesses.

**Conclusion**

Regardless of advertiser type, we believe other aspects of Mobile Loyalty's system, such as its ability to present specific marketing messages based on each user's preferences and likely behaviors, give it an even stronger value proposition in the market - especially when taken in the context of its local market strengths. For example, a common complaint of Groupon's members is that most of the offers they are presented with are irrelevant to them - yet despite this, Groupon has been extremely successful in scaling its revenues, local relationships, and base of users. We believe that its current successes pale in comparison to what local media companies could achieve by embedding Mobile Loyalty's application into their mobile apps. By leveraging their superior and long-standing relationships with local advertisers, and because they will have the ability to present users with mostly relevant offers and advertising messages, we believe these Media companies could become very successful mobile advertising platforms. And because Mobile Loyalty's business model is built on revenue sharing, this will generate great success for them as well.

**Mobile Loyalty's Product Addresses Multiple Needs for the Mobile User**

How Mobile is Used Throughout the Purchase Process

CHART A



source: comScore/Millennial Media Mobile Retail Study, 2010

**Products and Services**

Mobile Loyalty's product offering, called AdMomoco, is designed to facilitate media companies' monetization of proprietary mobile content applications. It has the following core features:

- **Scalable and Reliable.** Product has undergone extensive internal and customer-testing, demonstrating the scalability and reliability that will allow Mobile Loyalty to expand its customer base quickly and have a high level of customer retention.
- **Full Administration Toolset.** Offers administration interfaces that customers can use to manage their advertising campaigns; alternatively, Mobile Loyalty can administer these campaigns on behalf of the customer.
- **Customer CRM Integration.** System can integrate with customers' CRM (customer relationship management) systems via the Internet, allowing them to build a valuable understanding of each customer's preferences, response actions, and brand loyalties.

- **Advanced AI Engine.** Artificial intelligence engine that allows the Mobile Loyalty system to make intelligent filtering and selection choices in regards to the advertisements it displays to each user, in real-time.
- **Location-based Search and Push.** The system can access each mobile device's location by GPS, and serve up marketing messages based on that location, either during a user-initiation search or by push. This capability is integrated with its artificial intelligence to maximize overall segmentation and targeting ability.
- **Software as a Service (SaaS).** The Company has designed its product so that its customers pay little or no upfront and have no upfront IT burden.

Over time, we believe this product (given this combination of features) will be very well accepted by the media marketplace, as it enables them to offer advertising clients incremental value at a low cost.

Because different media companies have different needs, budgets, and timelines, Mobile Loyalty offers its product in two primary forms.

### Quick-Deployment Version

Specially designed for ease-of-use and quick deployment schedules, Mobile Loyalty offers a "standard" module that can be used "off the shelf" to immediately enable content apps to incorporate marketing messages. Although this product does not include customization and integration into a proprietary application, it does enable magazines and other content publishers to deploy a branded advertising solution in a matter of two to three weeks.

### Fully Customized and Integrated Version

This version of Mobile Loyalty's offering is based on the principle of seamless integration. Although it currently takes approximately three months to deploy, it offers media companies the benefit of enabling their own applications with the full functionality of the Company's back-end systems. Also, it is important to note that the Company is rapidly maturing, and with this maturity will come improved technical and support resources, which will almost certainly allow its standard deployment intervals to shrink to perhaps one-third of the current deployment time requirements.

### **Business Model**

During 2010 and 2011, Mobile Loyalty derived its revenues almost exclusively from consulting fees, which it received from its initial publishing customers. However, in addition to these fees, the Company was able to scale, test, and improve its core offering, which is now ready for mainstream use. Going forward, the Company plans to employ a business model based primarily on revenue sharing - currently set at 30% - and plans to charge up-front and/or per-user fees only in those cases where revenue sharing doesn't apply. We believe this gives the Company three key, distinct advantages as it seeks to build market share:

- **Reduced Customer Risk.** Because Mobile Loyalty's prospective customers are not being asked to pay in advance for what they perceive as an un-proven advertising channel, they are far more likely to adopt the Company's platform for their mobile advertising strategies. This is highly important during the early phases of the Company's market-attack strategy, and should significantly improve the rate of customer adoption within the Company's target markets.
- **Alignment of Objectives.** From the Company's point of view, its customers consist of both the media companies with which they work directly, and the advertisers who pay the media companies for exposure. By structuring their contracts and business model based on revenue sharing, the Company is clearly linking its success to the success of its media customers and to the successful



of their advertising clients. This should also enhance the Company's perceived (pre-adoption) value proposition, further speeding sales and reducing organizational resistance to adopting the AdMomoco solution.

- **Nearly Unlimited Upside Potential.** The Company's business model allows it to grow revenues pro-rata along with its customers; the more successful they are, the more successful the Company is. If the Company executes well in terms of sales, marketing, product development, and support, this means that actual revenues and profits could far exceed anything we or the Company could reasonably predict at this time.

Overall, we are highly encouraged by the Company's choice of business model, and by the initial market reaction they report as a result. Importantly, we are also encouraged by the applicability of the Company's system and business model to mobile applications which do not involve media-related content; although we have not considered this in our forecasts or valuation assessment, we do believe it adds tremendous potential upside to the Company's sales and earnings over the medium to long term.

### Total Available Market - Geographical Analysis

The total market available to the Company is highly dependent on which geographical foci end up becoming a reality. Based on its initial focus on Sweden and Scandinavia, we believe the market to breakdown as follows:

- **Newspapers.** The country has approximate 85 local newspapers, most of which are owned by Stockholm-based Bonnier, NTM Gotha, Metro, and Stampen. We believe the total addressable market for Mobile Loyalty in this context is approximately US\$80M - from Sweden alone. Note that Bonnier has publishing operations throughout Scandinavia and in Spain as well.
- **Radio.** The Company is currently in talks with several radio stations in the U.K. as well as one major network of local stations in Sweden, which has already had 700,000 downloads of its mobile audio application. The Scandinavian radio market primarily consists of approximately five dominant station networks, and has a total revenue potential of US\$6M within the next couple of years.
- **Television.** This market is likely to develop more slowly than print and radio, but could eventually become quite lucrative for the Company. Sweden has several television networks consisting of approximately 35 local television stations, and the broader Scandinavian market has a total of approximately 65 stations. According to our models, this indicates that the Swedish television market could represent a total revenue opportunity of nearly US\$50M, and the broader Scandinavian market could represent as much as two to three times this potential.
- **Deal of the Day.** This is an extremely difficult market to estimate in revenue terms, because the Company will derive revenues from it based on the number of participating local businesses within the entire geographic coverage of each of its broadcasting and publishing customers. However, based on the success Groupon and other deal of the day marketing is experiencing, we believe this is potentially a large and lucrative market for the Company.
- **Germany, the United Kingdom, and the United States.** We have not factored potential revenues from these markets into our models, as they do not represent a near-term focus of the Company. However, suffice it to say that success in these markets would multiply the Company's revenue potential by at least a factor of ten in a best-case scenario.

Given the nature of the Company's markets, we think it is likely that if successful it will emerge as a market leader - perhaps the market leader - at least in the Scandinavian markets, which include Sweden, Norway, Finland, and Denmark. In total, these nations have a population of approximately 30,000,000 people.

### Growth Strategy

The Company has planned a multi-phase growth strategy, and is currently focused on executing the first phase of this plan, as follows:

- **Sales and Marketing.** Although the Company does have several promising prospects in radio arena, at this stage it is primarily focusing on publishing groups that have a strong presence in Sweden. The rationale behind this focus is simple - publishers are experiencing sharp declines in newspaper and magazine sales and in the advertising revenues these sales have historically generated for them. They also have strong local brand loyalty and (in that context) pervasive consumer reach. Furthermore, most local daily publications in Sweden are owned by one of just a small group of companies, so success with one publisher could easily expand to a contract with the entire group of publishers owned by the parent company. Lastly, online daily publications are a natural fit for the Company's core offering, potentially generating much greater revenues than local radio or even local television contracts. During the next phase in its growth, perhaps in late 2011 or early 2012, the Company does plan to expand aggressively into the Finish, Danish, and Norwegian markets, as well as perhaps into the German and/or British markets.
- **Financing.** As with any company of this size and at this stage in its development, adequate growth financing is a key determinate of eventual success and market share. The Company has recently completed a merger of Mobile Loyalty AB and Mobile Loyalty PLC; the new parent company is approved for trading on the Frankfurt Exchange and should be soon listed as an ADR in the U.S. as well. Based on this, the Company is currently pursuing an institutional financing of at least several million dollars, which will allow it to aggressively built its sales, system development, and customer support capabilities. Although we will feel even more comfortable with the Company's likely success once this financing is complete, we do believe the Company has the right professionals, model, team, strategy, and product to make the closing of its planned financing a likely near-term event.
- **Product Development.** Over the coming months, the Company's stated product initiatives include the dramatic reduction in required system deployment time (from three months to just one month), the expansion of its customer support infrastructure, and the addition of several key product development professionals. The achievement of these goals is of course highly dependent on the Company's success in fundraising, as the achievement of its sales and market goals are as well.

Although management is thinking about longer-term plans involving both other markets (notably the United States) and plans involving non-media target markets, we do not see any of this as being important to the Company for at least the next several months and probably not for the next several years.

### Competition

The Company operates in a nascent, highly fragmented, and rapidly developing industry; as such, it is characterized by myriad small competitors, each with different solutions and business models. Because of this, it is very difficult to analyze or even find competitors and would-be competitors. We do have anecdotal evidence that Ericsson personnel believe that at least in the Scandinavian markets the Company's system and value proposition is unique. However, we do expect that other competitors and would-be competitors will emerge soon, as the market continues to rapidly develop and mature.

Perhaps the Company's closest competitor is Ireland-based Velti, PLC (VELT - NasdaqGS), but other competitors and potential competitors include larger U.S. based companies that offer related services, such as Groupon, JumpTap, and Valueclick (VLCK - NasdaqGS). Given the size and early stage of the market in which the Company operates, and given its focus on the relatively undeveloped Scandinavian mobile advertising markets, we do not see these companies posing a major competitive threat to Mobile Loyalty at this time.

### Key Management

We believe that one of the Company's greatest strengths comes from its deep leadership and governance teams. Its executives, directors, and advisors have a strong background in the advertising and media businesses, and in the mobile telecom industry, giving it access to important sales channels and product development guidance.

**Leadership Team, Directors, and Key Advisors**

**Nicklas Gerhardsson**, *Director and Chief Executive Officer*, Mobile Loyalty

Professional Experience

- Chief Executive Officer, Mobile Loyalty, PLC
- Senior management experience from international CEO position
- More than ten years experience from the telecom industry, including leading positions in Sales and Product Management at Ericsson.
- Hands-on experience from international start-ups, including a major Ericsson spin-off unit.
- Several years experience in management consulting, leading major change and transformation programs in multinational companies
- Experience of merging multicultural organizations
- Education: Lund University and Wirtschaftsuniversität Wien

Board Memberships

- Mobile Loyalty, PLC; Genovis AB

**Sterner de la Mau**, *Chairman, Co-Founder, and EVP of Business Development*, Mobile Loyalty, PLC

Professional Experience

- Co-Founder of Scandvision 1990
- Founder of several subsidiaries to Scandvision Holding 1990 – 2006
- CEO and founder of Mobile Loyalty Europe AB

Board Memberships

- Scandvision Holding AB, Scandvision Communication AB, Mobile Loyalty, PLC
- QuickSpot AB
- Co-Founder and Board Member of Media Evolution AB (<http://www.mediaevolution.se/>)

**Jonas Thuresson**, *Director, Sales and Marketing Director*, Mobile Loyalty, PLC

Professional Experience

- Sales/Marketing Director, Mobile Loyalty
- Senior management experience from media and consulting companies, including Sales Manager at TV4.
- More than ten years experience from TV-media and local advertising.
- Hands-on experience starting up, training and leading media sales organizations.
- More than ten years experience of consulting in sales strategies, media selling and leadership, focusing on cross media solutions.
- Education: Lund University

Board Memberships

- Mobile Loyalty Europe AB (Current)
- Kombinat Sälj och Media AB

**Anders Oelmann**, *Head of Research and Development*, Mobile Loyalty

Professional Experience

- Ten years experience from design and development of mobile services
- More than ten years experience from management of SW development teams
- Several years of consulting for mobile operators and phone producers
- Education: Royal Institute of Technology, Stockholm

**Michail Kotanidis**, *CEO*, Scandvision AB; *Director*, Mobile Loyalty, PLC

- Co-Founder of Scandvision 1990
- 1990-2005 Technology manager at Scandvision AB

- 2005 - present Managing Director at Scandvision AB
- Board member - Scandvision AB

**Jan Sjöwall**, *Advisor*, Mobile Loyalty

Professional Experience

- 1998 – 2009 Management and Director positions in various companies in the Kinnevik Group (Industriförvaltnings AB Kinnevik)
- Positions include Vice President in MTG (Modern Times Group AB) and operative positions at Metro International S.A. and Metro International.
- **2000–2009: Senior Vice President, Metro International S.A.** Responsible for new markets sourcing opportunities and negotiating deals for Metro. In 2002 Hong Kong and France (Paris and Marseille) was launched. Hong Kong was a result of a two-year project and a final winning bid in a competitive Public Tender.
- Developing a franchise model which first was implemented 2002 in South Korea followed by other franchisees such as Russia (St.Petersburg and Moscow), Mexico (Mexico City), Croatia (National), Brazil (Sao Paulo) and Ecuador (Quito and Guayaquil).
- **1998–2000: President and CEO, Metro International.** Establishing of “Metro International” with head office in London which later acquired Metro Scandinavia with the Stockholm Newspaper launched 1995.
- Negotiating deals and launched the paper in USA (Philadelphia), Canada (Toronto), Chile (Santiago), Holland, Italy (Rome and Milan), Greece (Athens) and Spain (Madrid and Barcelona).
- President and CEO, TV-Shop Europe AB. Founder of TV-Shop, pioneering direct response TV in Scandinavia, launched 1989 in partnership with Kinnevik. 1995 the first internet sites were launched and Macromedia elected TV-Shop one of the ten best multimedia sites in the world. 1997 was CDON founded as a separate internet platform. (spun out of TV-Shop as CDON AB 1999 with current sales of approx. SEK 1,5 billion. 1998 the company TV-Shop had daily TV appearance in 16 countries reaching 120 million households including the Baltic states and Russia which was pioneered in the early 90’s, with total annual sales close to US\$ 100 million.

**Jan Wifstrand**, *Advisor*, Mobile Loyalty

Professional Experience

- President and founder of the regional business newswire Rapidus, media entrepreneur across the board, former Editor of the leading Swedish morning daily Dagens Nyheter and the regional daily Sydsvenska Dagbladet.

Board Memberships

- Board member of Scandvision, The Magazine Vi, Malmo University, Handball 2011 (organizing the handball World Championships in Sweden 2011) and Friends (national organization against bullying).
- Former board member of Berghs School of Communication, and former adviser to Swedish Television and the advertising agency Acne.

**Other Risks**

The primary risks that face the Company involve broad customer acceptance of its system as a means to monetize online content consumers, its ability to secure adequate operating and growth capital, and its ability to effectively scale its organization to meet projected customer demand. Additional potential risks include the possible adoption of new technology that renders the Company's system obsolete, or the rapid decline of the media industry as we know it today.

Risks pertaining to customer acceptance and organizational growth are standard for a company in this stage of development, and we have factored them into our assessment of the Company's risk-adjusted probable future value. Other risks such as technological obsolescence and/or a rapid, unexpected decline in the media industry are relatively remote, and probably worth no more than a passing mention at this time. The Company does face

considerable risks in regards to the timing, amounts, and terms of its planned financing, which we discuss in the following financial analysis.

### **Financial Analysis**

Like most companies at this stage of development, Mobile Loyalty is relatively cash-poor and actively seeking investment capital. Since the amount, terms, and timing of its upcoming capital raise are as of yet unknown, it is impossible for us to predict what the Company's capital structure will look like even in the relatively short term. For the purposes of this report, we have assumed that it will raise in the neighborhood of US\$4 million, under a unit structure of 1 share of common stock and 1/2 warrant, at a price of US\$0.667 per unit. However, these working assumptions represent only one point in the probability distribution regarding funding amounts, terms, and timing, and the Company's actual financing(s) may differ quite considerably from our model's assumptions. This means the company may raise more or less than we have assumed, at different prices and under different terms, and in a timeframe that may be inconsistent with our assumptions. All of these variations from our model's assumptions could and probably will alter the Company's likely rate of success and implied current risk-adjusted valuation. Unfortunately, the Company's actual financing terms and timing are inherently unknowable at this point, so we have been forced to make several "best guesses" about what the future will likely hold. This amounts to a very common situation with early-stage, cash-flow negative companies, and we have factored the risk this represents into our risk-adjusted valuation assessment.

In terms of its audited, IFRS-compliant balance sheet, the Company has no outstanding convertible debt or other equity-linked instruments, and as of its recent merger, Mobile Loyalty, PLC, has 25,000,000 shares of common stock outstanding. As of the end of 2010, the Company states its total liabilities at US\$1,118,000, based on a current exchange rate of 6.48 Swedish Krona (SEK) per U.S. Dollar. Of these liabilities, 42.8% are classified as current. The Company has successfully raised considerable capital to date, giving it positive shareholder equity of US\$1.03 million. We do expect that its balance sheet will strengthen further when it completes its currently-planned financing event.



### Valuation and Investment Opinion

Because most companies in or related to the mobile advertising system industry are either private or highly diversified, it is quite challenging to identify public comparables to Mobile Loyalty. Perhaps the best comparable from a public valuation perspective is Velti, PLC (VELT - NasdaqGS), which is based in Ireland and trades at 22x estimated 2012 earnings. If the Company were to trade at 20x our 2014 EPS estimate of US\$0.20 by mid-2013, that would make it worth approximately US\$4.00 per share at that time, for a total market capitalization of approximately US\$136M (given our 34M shares outstanding estimate). Given our current market value estimate of just US\$18.5M, that would deliver an exceptional potential investment return for common shareholders over the next two years - if management is able to execute well. Although this outcome is far from certain at this early stage in the Company's development, we do believe this caliber of success is a distinct possibility given the Company's team, strategy, and initial successes.

Other notable comparable companies would include Groupon, which is planning an IPO at approximately 20x trailing 2010 sales, and two private acquisitions recently made by Google and Apple. In late 2009 Google acquired AdMob for \$750M, and in early 2010 Apple acquired Quattro Wireless for \$275M. We believe that the market is likely to continue its high valuations of companies likely to succeed in this space, as we believe it is correctly assessing the potential sales and earnings that will be won by those early-movers who are able to garner significant local/regional market share during this time of rapid market growth and development.

### Peer Group Analysis – Mobile Loyalty, PLC

Company Name and Symbol	Price per Share*	Market-Cap*	Forward P/E, 2012*	Price/Sales Estimate (2012)*	Est. '12 Revenue Growth
<b>Mobile Loyalty, PLC</b>	<b>0.74 E</b>	<b>\$18.5M E</b>	<b>N.A.</b>	<b>5.3</b>	<b>410%</b>
Velti, PLC (VELT - NasdaqGS)	15.73	800M	24.2	3.2	42%
Groupon (Private)	N.A.	\$10B+	N.A.	N.A.	100%+
Valueclick (VCLK – NasdaqGS)	16.01	1.29B	15.8	2.3	12%

\* Mobile Loyalty numbers based on assumed US\$4M offering at 0.667 per (share + 1/2 warrant), \$18.5M valuation pre-offering. "E" denotes estimated valuation. Closing prices for U.S. traded public companies as of 6/15/11.

### Conclusion

Without a doubt, Mobile Loyalty embodies more potential investment upside than any company we have covered for quite some time. We believe that their strategy is both unique and very well crafted, given the dynamics of the media industry and current mobile technology trends. Furthermore, we applaud their choice of building their business model based primarily on revenue sharing, as we (and surely their customers) see this as positioning them as a business partner rather than as a vendor. This should in turn speed the adoption of their solution and help them quickly build market share. Although not without risks and challenges, we have been quite impressed with the Company's vision, team, and strategy, and feel very comfortable assigning it our highest research rating of Strong Buy. *We therefore set our 12-month price target at US\$1.00 per share, with significant upside possible, assuming a total of 34M shares outstanding. We recommend aggressive accumulation for all institutional and risk-tolerant individual investors.*

## Our Rating System

We rate enrolled companies based on the appreciation potential we believe their shares represent. The performance of those companies rated “Speculative Buy” or “Strong Speculative Buy” are often highly dependent on some future event, such as FDA drug approval or the development of a new key technology.

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### Explanation of Ratings Issued by Harbinger Research

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<b>STRONG BUY</b>	We believe the enrolled company will appreciate more than 50% relative to the general market for U.S. equities during the next 12 to 24 months.
<b>BUY</b>	We believe the enrolled company will appreciate more than 30% relative to the general market for U.S. equities during the next 12 to 24 months.
<b>STRONG SPECULATIVE BUY</b>	We believe the enrolled company could appreciate more than 50% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.
<b>SPECULATIVE BUY</b>	We believe the enrolled company could appreciate more than 30% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.
<b>NEUTRAL</b>	We expect the enrolled company to trade between -10% and +10% relative to the general market for U.S. equities during the following 12 to 24 months.
<b>SELL</b>	We expect the enrolled company to underperform the general market for U.S. equities by more than 10% during the following 12 to 24 months.

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### Analyst Certification

I, Brian R. Connell, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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### **Analyst Highlight**

#### **Brian R. Connell, CFA**

#### **Senior Research Analyst**

Mr. Connell has over 15 years' experience in the securities industry, as an equity analyst and portfolio manager, and as the founder and CEO of StreetFusion (acquired by CCBN/StreetEvents), a software company serving the institutional investment community. On the sell-side, Mr. Connell served as the technology analyst for Neovest, an Atlanta-based boutique, and as a Senior Analyst - Internet for Preferred Capital Markets, an investment bank based in San Francisco. Mr. Connell has also held the position of Executive Director of Marquis Capital Management, a technology-focused investment management organization.

Mr. Connell holds degrees in Economics and Psychology from Duke University, and is a CFA Charterholder.





# Mobile Loyalty, PLC (Frankfurt Exchange), Balance Sheet

(Audited on 12/31/2010, IFRS Standards)

SEK/US\$ Exchange rate, as of June 15, 2011	6.4784 kr to <u>In SEK, 000s</u>	1.0000 US\$ <u>In \$US, 000s</u>
Assets		
Current assets		
Cash and cash equivalents		
Accounts receivable	150	23
Other assets	489	75
<b>Total current assets</b>	<b>639</b>	<b>99</b>
Intangible assets, net	13,200	2,038
Property, plant, and equipment, net	73	11
<b>Total assets</b>	<b>13,912</b>	<b>2,147</b>
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	1,264	195
Deferred costs	465	72
Other liabilities	1,372	212
<b>Total current liabilities</b>	<b>3,101</b>	<b>479</b>
Long-term debt	3,944	609
Additional depreciation	197	30
<b>Total liabilities</b>	<b>7,242</b>	<b>1,118</b>
Shareholders equity		
Common stock, XXX issued and outst.	144	22
Additional paid-in capital	11,358	1,753
Retained earnings	(4,832)	(746)
<b>Total shareholders' equity</b>	<b>6,670</b>	<b>1,030</b>
<b>Total liabilities and equity</b>	<b>13,912</b>	<b>2,147</b>