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MGM Wireless Limited (MWR)

Speculative Buy

Proven Technology; Positioning for International Growth

\$0.15

Robin Morgan
rmorgan@taylorcollison.com.au
+618 8217 3900

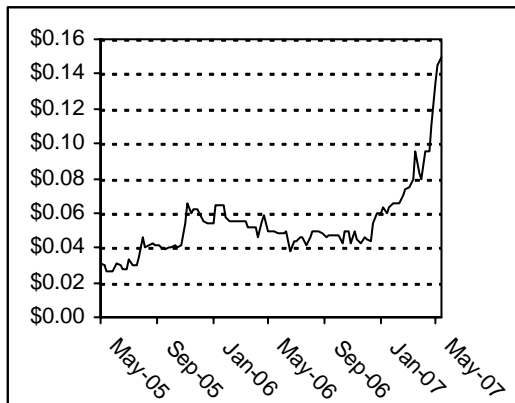
Summary

Market Capitalisation	\$25.9M
Share Price	\$0.15
52 week low	\$0.03
52 week high	\$0.16
Ave Monthly Vol (year rolling)	3.768M

Key Financials

Year End	FY05 Actual	FY06 Actual	FY07 Est.
Revenue (\$m)	1,080	1,992	2,240
EBIT (\$m)	(522)	(654)	(710)
NPAT (\$m)	(497)	(631)	(702)
EPS (c)	(0.3)	(0.4)	(0.4)
Growth (pcp)	-38%	18%	5%
PE Ratio (x)	(73.1)	(48.7)	(28.6)
DPS (c)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
Franking	0.0%	0.0%	0.0%
EV (\$M)	25.2	25.3	25.9
EV/EBIT	(48.3)	(38.7)	(36.4)
ROE	-39.1%	-52.6%	-82.1%
EBIT Margin	-48.4%	-32.9%	-31.7%

Share Price Graph (A\$)



Key Points

MGM's software targets the global problem of school truancy.

Proven technology with schools implementing MGM's software reducing student absenteeism by 30-70%.

Socio-economic benefits and accompanying cost savings support the roll-out of MGM's technology.

Company Overview

- **Truancy combating technology** - MGM Wireless' flagship software uses an automated system to combat school truancy and improve student safety, converging internet and mobile technology. SMS messages are automatically generated from the school and sent to parents of children who are unexplainably absent.
- **Support for MGM's offering** - Supporting factors include
 - Western World truancy levels averaging 10-12%
 - Parent and school concerns over pupil welfare
 - Efforts to extract the benefits of spent education dollars
 - Rapidly growing and accepted use of mobile telephony
- **Superior and proven technology** - MGM's integrated approach differs from competitors who typically offer little support or backup to stand alone software. MGM integrates its offering into a school's existing systems, working closely with school administrators. Of Australian schools using absenteeism alerting technology, 92% employ MGM's software.
- **International strategy showing promise** - To penetrate international markets, MGM established a Californian base in Jan 2007 and has since signed a US distribution agreement with global specialist education group VIPTone, and an Indian distribution deal with diversified educational group Roltin Global. Initial US results are encouraging with three Californian schools signing up in April 2007. The US market is 20 times the size of Australia and offers considerable potential.
- **Speculative Buy** - If MGM can capitalise on the global drive to combat school truancy, significant opportunities exist both in Australia and overseas. Superior software, an integrated service offering, and an international business model provide scope for long term growth. We recommend MGM as a Speculative Buy.

Business Overview

Provider of mobile phone messaging solutions, targeting school truancy.

MGM Wireless operates as a provider of mobile phone messaging solutions, developing software that utilises and converges internet and mobile technology. Its flagship messageyou™ Schools software application targets school truancy, using an automated system to send SMS messages to parents when children are unexplainably absent from school, seeking a reason for non-attendance.

Successfully proven to reduce school absenteeism.

Australian schools employing MGM's technology have reported a 30-70% reduction in school absenteeism, with accompanying cost savings and administrative efficiencies. The trialling of three US schools in Arizona has seen similarly positive results.

Clear endorsement of MGM's technology in Australia.

MGM's integrated approach differs from competitors who typically offer little support or backup to stand alone software. MGM integrates its offering into a school's existing systems, working closely with school administrators. As a clear endorsement of MGM's product, of Australian schools using absenteeism alerting technology, 92% employ MGM's software. The remaining 8% is fragmented across 10-12 small players.

Socio-economic and monetary benefits to pupils, schools and parents.

In addition to reduced truancy levels, there are a number of socio-economic benefits such as child safety; increased educational levels; reduced crime; and improved relations between schools and parents. MGM's technology can also be applied to crisis communication, alerting students to critical situations (gas leaks, etc.)

Revenue Model

Three year licence agreement provides for a stable revenue model.

MGM derives revenue from annual licence fees and SMS transmission fees. Licence agreements are typically signed for three years with an initial up-front fee covering system set-up, training, maintenance and the first year of use. Ongoing annual licence fees for years two and three are typically two thirds of the up-front fee providing an element of annuity to the revenue model.

An SMS fee is received by MGM each time an SMS transmission is sent through its message network. On an average school day, the parents of approximately 10% of students are sent notification of an unexplained absence. With MGM's technology currently employed in 280 Australian schools, each with an average of 650 students, a not insignificant 18,000 messages are generated each day.

Supporting Factors

Global truancy levels are typically 10-12%.

A number of factors support the uptake of MGM's offering:

- Truancy levels averaging 10-12% in the Western World
- Parent and school concerns over pupil welfare
- Government efforts to extract as much benefit from spent education dollars
- The rapidly growing and well accepted use of mobile telephony

Government funding for schools is linked to attendance levels.

In addition to the socio-economic benefits of reducing truancy, the monetary benefits in employing MGM's technology are a persuasive argument for school administrators. In Australia, a portion of government school funding is dependent on student numbers and satisfactory attendance levels. In the US the relationship between funding and attendance is even more significant with each unexplained daily absence resulting in a loss of school funding, highlighting the need for successful targeting of student absenteeism.

Combating of school truancy is supported by State and Federal governments.

With billions of Federal and State dollars being invested in education, there is increasing government awareness that students should attend school regularly to receive the benefit of that investment. Ongoing government funding and educational policy in Australia and overseas will likely increase the rate of take up of MGM's software.

Statistically supported dependence on mobile technology.

MGM's product dependence on mobile telephony is statistically supported, with the Australian mobile phone industry a large and accepted market. A saturation level of 100% of the Australian population has been reached, dramatically up from 42% in 1999-2000. As one of the major communication tools in the developed world, there is significant market potential for MGM's software.

Australian Expansion

MGM is successfully rolling out its offering across Australia and NZ both directly (in NSW and NZ) and through franchise agreements (in VIC/TAS, SA and WA/NT). There are approximately 2,600 Australian secondary schools, with MGM's technology currently employed in 280 schools. At this stage the 4,000 strong primary school sector is not being targeted, where truancy levels are somewhat lower. The Australian market alone offers significant opportunities with management targeting 60% saturation of the marketplace longer term.

Scope for accelerated take up in Australian schools.

International Opportunities

Management's overseas ambitions are showing initial promise. In the US, MGM established a Californian base in January 2007 to facilitate the roll out of its product range to US schools. After trialling the technology in three Arizona schools during 2006, MGM signed up three Californian schools in April 2007. With over 57,000 secondary schools and 110,000 primary schools, the US offers considerable growth in set-up fees, annual renewal fees, and SMS fees.

Initial entry of US market proving successful.

To complement the US direct sales strategy, MGM signed a two-way distribution alliance with VIPTone in March 2007, a specialist global education software and communications group. The size of the US supports both direct and distribution sales methods with management looking to sign more alliances in future. At 20 times the size of the Australian market, the US offers considerable potential.

Expect more international distribution alliances to be signed.

In India, a distribution deal was signed in April 2007 with Roltin Global, part of the diversified Texspin group, and a long time supporter of many educational initiatives. With no outgoings, MGM has the potential to earn royalties on license fees and SMS transmissions in the world's largest education system.

Sizeable Indian market offers further opportunities.

Financials

Our revenue forecasts assume growth in Australian school numbers of 43% in FY08 and 28% in FY09. The table below details our expectations and the subsequent affect on sales.

School Numbers	FY06A	FY07E	FY08E	FY09E
Australian & NZ	211	305	435	555
US Direct	0	5	60	185
US Distributor	0	0	30	90
India	0	0	15	35
Total	211	310	540	865
Sales (\$'000)	1,968	2,232	3,745	5,729

Global marketplace offers considerable growth potential.

With management committed to its land grab strategy for the next 18-24 months, we anticipate associated expansion and overseas set-up costs with achievement of breakeven earnings not forecast until FY09. We commend management's strong intent to grow the business and the realisation that the greatest long term opportunities lie overseas.

Land grab strategy for 18-24 months, with profitability expected from FY09 onwards.

The key short term drivers for MGM will be increased school take up and the signing of further distribution alliances. Given the unpredictability of these factors, share price volatility is to be expected.

Investment Summary

MGM's messageyou™ Schools software is the leading SMS based truancy combating technology in Australia. Recent acceptance in the US and the signing of the Indian distribution deal are the first steps in MGM's international growth strategy. Longer term strategies to enter other regions and target other applications for the technology provide as yet unmeasurable opportunities.

Market leader, with global strategy showing promise.

If MGM can capitalise on the global drive to combat school truancy, there exists significant market potential. With further Australian and overseas opportunities, superior software and service offerings, and an international business model showing initial promise, we recommend MGM as a Speculative Buy.

Speculative Buy recommendation.

MGM WIRELESS LIMITED - Summary of Forecasts

MWR \$ 0.15

PROFIT & LOSS SUMMARY (A\$'000s)

Period	FY04A	FY05A	FY06A	FY07E	FY08E
Total Revenue	406	1,080	1,992	2,240	3,749
<i>Growth (pcp)</i>	<i>n/a</i>	<i>165.8%</i>	<i>84.4%</i>	<i>12.5%</i>	<i>67.4%</i>
EBITDA	(437)	(306)	(475)	(520)	(9)
Dep'n	(19)	(21)	(26)	(32)	(30)
EBITA	(456)	(326)	(501)	(552)	(40)
Other Amort'n	(143)	(196)	(153)	(159)	(183)
EBIT	(600)	(522)	(654)	(710)	(222)
Net Interest	20	(0)	(0)	0	0
Pre-Tax Profit	(580)	(502)	(631)	(702)	(218)
Tax Expense	0	0	0	0	0
Minorities	0	5	(0)	0	0
NPAT	(580)	(497)	(631)	(702)	(218)
<i>Growth (pcp)</i>	<i>n/a</i>	<i>-14.3%</i>	<i>27.0%</i>	<i>11.2%</i>	<i>-68.9%</i>
Net Abnormals	0	0	0	0	0
Reported Profit	(580)	(497)	(631)	(702)	(218)

PER SHARE DATA

Period	FY04A	FY05A	FY06A	FY07E	FY08E
EPS (c)	(0.6)	(0.3)	(0.4)	(0.4)	(0.1)
<i>Growth (pcp)</i>	<i>0.0%</i>	<i>-38.5%</i>	<i>17.9%</i>	<i>4.9%</i>	<i>-68.9%</i>
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%

KEY RATIOS

Period	FY04A	FY05A	FY06A	FY07E	FY08E
EBITDA/Sales Margin %	-107.6%	-28.3%	-23.9%	-23.2%	-0.2%
EBIT/Sales Margin %	-147.6%	-48.4%	-32.9%	-31.7%	-5.9%
EBIT Interest cover (x)	n/a	n/a	n/a	n/a	n/a
Current ratio (x)	6.9	4.0	3.0	0.9	1.4
Net Debt : Equity (%)	-30.6%	-49.9%	-51.3%	-1.7%	-15.5%
ROE (%)	0.0%	-39.1%	-52.6%	-82.1%	-25.2%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%

VALUATION MULTIPLES

Period	FY04A	FY05A	FY06A	FY07E	FY08E
Undiluted PER (c)	n/a	(43.5)	(36.9)	(35.2)	(113.1)
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITA (x)	(55.9)	(77.3)	(50.5)	(46.9)	(650.0)
EV/EBIT (x)	(42.6)	(50.0)	(40.0)	(37.1)	(119.0)

BALANCE SHEET SUMMARY

Period	FY04A	FY05A	FY06A	FY07E	FY08E
Cash	379	649	563	10	173
Receivables	155	273	329	379	637
Inventories	0	0	0	0	0
Other	1	5	5	0	0
Total Current Assets	534	927	897	390	810
Investments	0	0	0	0	0
Inventories	0	0	0	0	0
Property Plant & Equip	89	108	159	152	152
Intangibles	694	498	345	224	146
Capitalised R&D Intang.	0	0	0	280	591
Other	0	0	0	0	0
Total Non-Current Assets	782	606	503	656	888
TOTAL ASSETS	1,317	1,533	1,400	1,046	1,698
Accounts Payable	70	223	281	399	524
Borrowings	0	0	0	0	0
Provisions	8	7	23	33	56
Other	0	0	0	0	0
Total Current Liab	78	230	304	433	581
Borrowings	0	0	0	0	0
Provisions	0	0	0	0	0
Other	0	0	0	0	0
Total Non-Current Liab	0	0	0	0	0
TOTAL LIABILITIES	78	230	304	433	581
TOTAL EQUITY	1,239	1,303	1,097	613	1,118

CASH FLOW SUMMARY

Period	FY04A	FY05A	FY06A	FY07E	FY08E
EBIT (excl Abs/Extr)	(600)	(522)	(654)	(710)	(222)
Add: Depreciation	19	21	26	32	30
Amortisation	143	196	153	159	183
Change in Pay.	0	153	58	118	125
Less: Tax paid	0	0	0	0	0
Net Interest	20	20	23	9	4
Change in Rec.	0	(117)	(56)	(50)	(257)
Change in Inv.	0	0	0	0	0
Gross Cashflows	(417)	(250)	(451)	(443)	(137)
Capex	(5)	(40)	(77)	(25)	(30)
Free Cashflows	(422)	(290)	(527)	(468)	(167)
Dividends Paid	0	0	0	0	0
Net Cash Flow	(422)	(290)	(527)	(468)	(167)

Disclaimer

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TC Corporate Pty Ltd, a wholly owned subsidiary of Taylor Collison, has a retainer to provide corporate advisory services to MGM Wireless. Taylor Collison has derived fees from previous capital raisings.

Taylor Collison Limited **Sharebrokers and Investment Advisers**

A.B.N. 53 008 172 450
AFSL No. 247083

Participant of the Australian Stock Exchange Group

Level 2, 12 Pirie Street
Adelaide, South Australia, 5000
G.P.O. Box 2046, Adelaide, South Australia, 5001
Telephone: 08 8217 3900 Facsimile: 08 8231 3506
Email: broker@taylorcollison.com.au

Level 2, 55 Hunter Street
Sydney, New South Wales, 2000
G.P.O. Box 4261, Sydney, New South Wales, 2001
Telephone: 02 9232 1688 Facsimile: 02 9232 1677
Email: sydney1@taylorcollison.com.au

www.taylorcollison.com.au

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