

Mossberg's Investor Digest

Best Idea Profile:

Mitek (OTCBB:MITK.OB)

DESCRIPTION:

Headquartered in San Diego, Mitek provides imaging and analytical software that allows financial institutions to process payments & deposits via mobile phones and other electronic devices. Mitek has invented new pattern recognition software that is able to read and extract data from a photo of any document taken by a smartphone camera. This capability turns smartphone cameras into virtual scanning devices. Using Mitek's technology, mobile applications and camera-equipped smartphones; users can now deposit checks, pay bills, save receipts and fax documents on a mobile basis from any location. Users can simply take pictures of a document and Mitek's products will correct images from distortion, extract relevant data, route images, and process transactions. The company's patented technology is currently used by leading banks in the US to help process more than 10 billion items per year. Mitek has successfully completed six US patents on check fraud and signature validation technologies. The company is currently pursuing an additional patent on mobile capture technology.

KEY INVESTMENT CONSIDERATIONS:

Trusted Platform – Though the margins have contracted on its legacy business, Mitek is a well-known and trusted vendor to the banking community. Commercial banks use Mitek's technology to process about 10 billion checks a year. The company has a history of doing business with nearly all major US banks including the top 5 US banks.

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Investment Data (as of 11/24/10)

Recent Price	\$3.99
52-Week Range	\$0.55 - \$3.99
Fiscal Year End	Sep
Shares Outstanding	17.4MM
Average Trading Volume (3 mos)	64,000
Market Capitalization	\$69MM
Cash	\$1.5MM
Long Term Debt	680k
Enterprise Value (EV)	\$68MM
LT Debt/ Equity	0.7
BV/ Share	N/A
TTM Revenue	\$5.1MM
P/ Revenue	14x
TTM EPS	\$(0.07)
P/ EPS	NA
TTM EBITDA	NA
EV/ EBITDA	NA

Interesting Play on the Growth of Smartphones – Mitek is now leveraging its technology along with the OEM and bank relationships from its legacy check security business to pioneer/enter a niche within the market for Smartphone applications such as:

- "Mobile Deposit" is the first smartphone application to utilize image analytics and pattern recognition software to allow banks to accept check deposits via photos. Mitek began recognizing rev related to Mobile Deposit in the 3Q09, and received patent #7,778,497 in Aug '10, for the Method and Systems for Mobile Image Capture and Processing of Checks.
- "Mobile Receipt" is designed to convert the photo of a receipt taken with a Smartphone into a high quality image and with a single touch thereby converting the data into a professional looking expense report.
- "Mobile Phax" is designed to take a photo of any letter sized document or page and send it as a PDF file to any email address or fax machine.
- "Mobile Photo Bill Pay" allows users to take pictures of their bills with their Smartphone cameras and the product does the rest. With Mobile Photo Bill Pay, users can submit electronic payments from their Smartphone without having to write checks, lick stamps, visit a payment location or even use their personal computers. Mobile Photo Bill Pay is highly secure, accurate, fast and easy to use.

These are entirely new applications that can piggyback on the growth of smartphones. Smartphone sales increased 96% in the 3Q10 and now make up 19% of mobile phones. Smartphone application sales grew to over \$2.2 during 1H10 vs. \$1.7 billion for all of '09.

OEM Relationships – Financial institutions like to purchase integrated solution packages from OEMs. Some major OEM's to the financial industry such as Fiserv and NCR have already integrated Mitek solutions into their platform. Fiserv has agreed to offer Mobile Deposit to more than 1,100 institutions.

Recent Acceptance – Mobile Deposit has recently been accepted by a number of financial industry participants including Jack Henry and Associates, FIS, BankServ and Wausau Financial Systems.

VALUATION:

Mitek has a unique product line that is addressing a market with explosive growth potential. The company is well positioned and appears to have momentum in a rapidly developing market. The company's small size, bulletin board listing and past history of losses have kept this company off the radar screen of many investors and most institutions. Last quarter the company turned profitable and with continued improvement Mitek's valuation should rise rapidly.

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