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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

SITO Mobile Ltd.

Speculative Buy

John Nobile
January 14, 2015

SITO $0.20 — (OTC BB)

	2013A	2014A	2015E	2016E
Revenues (millions)	$7.8	$9.9	$12.2	$13.8
Earnings (loss) per share	$(0.04)	$(0.03)	$(0.02)	$(0.02)

52-Week range	$0.70 – $0.16	Fiscal year ends:	September
Common shares out as of 12/1/14	153.3 million	Revenue per share (TTM)	$0.07
Approximate float	114.0 million	Price/Sales (TTM)	2.9X
Market capitalization	$31 million	Price/Sales (FY2015)E	2.2X
Tangible book value/share	NMF	Price/Earnings (TTM)	NMF
Price/tangible book value	NMF	Price/Earnings (FY2015)E	NMF

SITO Mobile Ltd., headquartered in Jersey City, New Jersey, is a mobile media technology company that enables marketers to create mobile device content targeted to audiences based on location, interests, behaviors, and loyalty. The company's principal products and services include location based advertising and mobile messaging. (www.sitomobile.com)

Key investment considerations:

Reiterating Speculative Buy rating but lowering twelve-month price target to $0.60 per share ($0.70 previously) due to a contraction in the price/sales multiple.

In September 2014, the advertising research and advisory firm BIA/Kelsey projected 2019 location targeted mobile ad revenues of $17.9 billion, a compound annual growth rate of approximately 33%.

SITO's most recent quarter's (4Q14) media placement revenue was $557,000, a run rate of $2.2 million. We project this to grow 55% to $3.4 million in FY15 and 38% to $4.7 million in FY16 using BIA/Kelsey's location-targeted mobile industry growth projections.

For FY15 we project revenue of $12.2 million and a net loss of $3 million or ($0.02) per share versus our earlier estimates of $11.6 million revenue and a loss of $3.1 million or ($0.02) per share. The change in our projections stems primarily from increased expectations for media placement revenue.

For FY16 we project revenue of $13.8 million driven by increased media placement gains and a net loss of $2.7 million or ($0.02) per share.

4Q14 revenue (10-K released 12/2/14) increased 43% to $3 million. The company reported a net loss of $1.6 million or ($0.01) per share. We projected 4Q14 revenue of $2.6 million and a net loss of $767,000 or ($0.01) per share.

****Please view our disclosures on pages 13 - 15.***

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Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on shares of SITO Mobile Ltd. (SITO) but lowering our **twelve-month price target to $0.60 per share ($0.70 previously)** due to a contraction in the price/sales multiple.

In the past year, shares of SITO have traded from 3X TTM sales (its current multiple) to 15X. A comparison group of 11 companies in the business software & services industry currently trade at an average P/S multiple of 5X. We believe the drop in SITO's multiple reflects substantially diminished revenue growth in wireless applications (from 23% in FY13 to 5% in FY14). However, we believe the reduced growth in wireless application revenue will be more than offset by strong growth in media placement revenue due to the acquisition of DoubleVision in 4Q14 and a strong growing location-targeted mobile ad industry. With renewed growth momentum, we believe the market should value SITO at 7X (the level before end of year tax loss selling) our discounted FY16 sales estimate of $0.08 per share, or approximately $0.60 per share.

Recent Developments

Jerry Hug Appointed CEO; Board Expanded – In November 2014, SITO announced that Jerry Hug, who had been serving as the company's interim chief executive officer, was permanently named to the position and will also join the company's board of directors. Additionally, it was announced that Phil Livingston has been appointed to the board of directors and will serve as the chair of the compensation committee. The addition of Phil Livingston to the board increases the total number of company directors to six.

Livingston is currently interim chief executive officer of Ambassador Group, Inc. Over the past 25 years served as CEO and CFO in various Fortune 2000 companies. Currently serves on the boards of AGI, Rand Worldwide Inc.

Name Change – In September 2014, the company changed its name from Single Touch Systems, Inc. to SITO Mobile, Ltd.

Business

SITO Mobile Ltd., incorporated in 2000 and headquartered in Jersey City, New Jersey, is a mobile media technology company that enables marketers to create mobile device content targeted to audiences based on location, interests, behaviors, and loyalty. The company's principal products and services include location based advertising and mobile messaging.

Location Based Advertising – FollowMe® is SITO's location based mobile ad targeting software application (app). FollowMe enables advertisers to deliver targeted ads to the smartphones of people within close proximity (approximately 15 feet) of a specific location (i.e. roofing ad when customer enters Home Depot).

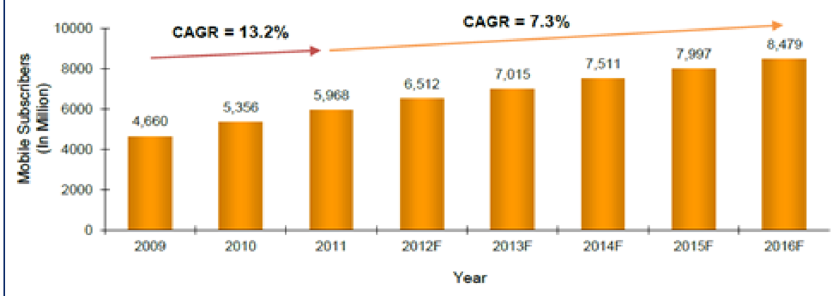
Messaging and Notifications – SITO's short message service enables retailers to send targeted mobile coupons and transactional messages based on a shopper's profile. Targeted mobile coupons can be sent based on past purchase behaviors making the content relevant and timely to a shopper. Transactional messages send shipping and order pick-up alerts, as well as notifications for reorders, layaway and new product releases.

The bulk (83% in FY14) of SITO's revenue is generated from contracts with eight customers covered under an agreement with AT&T which enables the media to be sent via all US mobile carriers including AT&T, Verizon, Sprint, and T-Mobile. AT&T packages and marks up SITO's offering which is sold through AT&T's sales force. SITO also pursues sales directly. Approximately 79% of the company's revenue in FY14 came from notifications sent for a single client (Walmart).

Mobile Industry Market and Forecast

More than 90% of mobile phone owners use text messaging, an effective way for businesses to alert customers and clients about special promotions and deals, send them coupons, and keep them informed about company news. As with email marketing, text-message marketing requires customers and clients to opt into the service. Once they sign up and provide their mobile phone number, businesses have the right to send them text messages.

Figure 1: Mobile Subscribers – Worldwide (In Million, End 2009 – End 2016F)

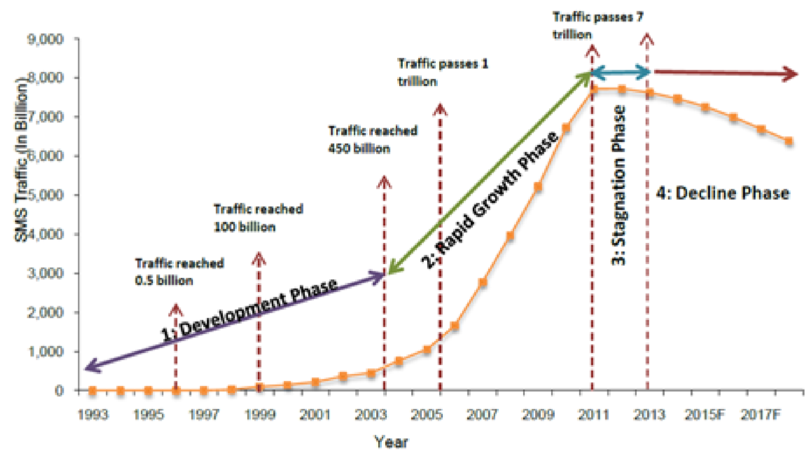


Source: Portio Research Ltd.

F – Forecasted

The worldwide mobile market has grown significantly over the past few years. According to the mobile industry research firm Portio Research, the overall mobile industry (includes mobile phones, smartphones, tablet computers) should continue growing over the next three years. In its Mobile Factbook 2013, Portio Research projects the mobile subscriber base to grow at a compound annual growth rate (CAGR) of 7.3% from 2012 to 2016 reaching 8.5 billion by the end of 2016 (see chart above right). However, Portio Research said that text messaging peaked in 2012 and will gradually decline from 2013 to 2018 (see chart at right). The key reason for the decline is a shift away from texting in mature markets (North America, Europe, and parts of Asia Pacific) as smartphone penetration increases and more users shift their communications to instant messaging applications. Although text messaging traffic has been in a decline since 2012, SITO's messaging revenue has grown at an average annual growth rate of approximately 14% over the past two years.

Figure 14: SMS Traffic Growth (In Billion, 1992-2018F)



Source: Portio Research Ltd.

F – Forecasted

Mobile ad spending should underlie strong growth for SITO. The latest projection (July 2014) by eMarketer was for US mobile advertising spending to reach $26.59 billion in 2015, up 50% from $17.73 billion in 2014. For 2015, eMarketer projects spending to further increase by approximately 41% to $37.499 billion. Virtually all growth in US digital ad spending will be centered on mobile devices. This growth will come at the expense of desktop spending which is projected to have peaked in 2013 (see table at right).

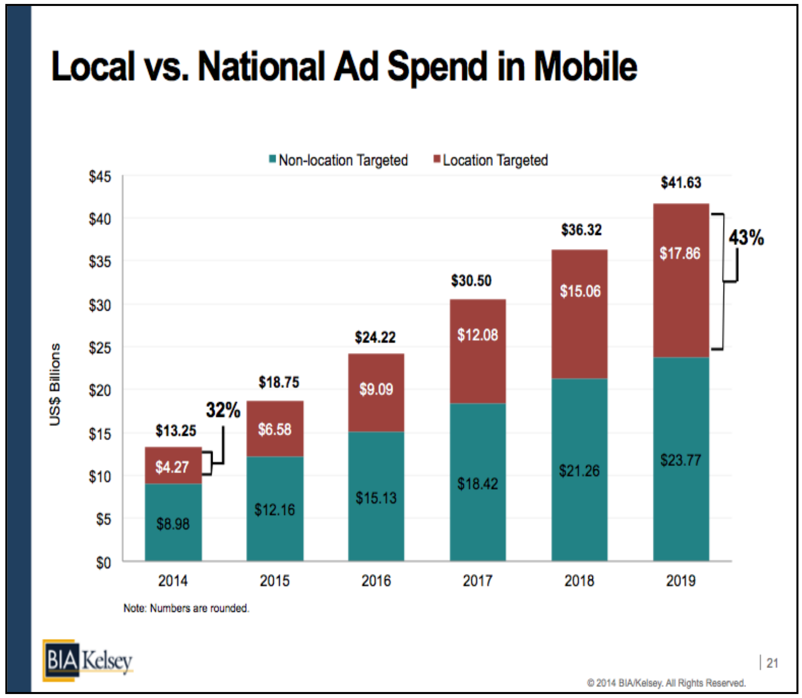
US Digital Ad Spending, by Channel, 2012-2018
billions and % change

	2012	2013	2014	2015	2016	2017	2018
Desktop*	**$32.43**	**$33.40**	**$32.99**	**$32.01**	**$29.00**	**$26.68**	**$23.90**
—% change	6.6%	3.0%	-1.2%	-3.0%	-9.4%	-8.0%	-10.4%
Mobile**	**$4.36**	**$9.69**	**$17.73**	**$26.59**	**$37.49**	**$47.43**	**$58.33**
—% change	178.3%	122.0%	83.0%	50.0%	41.0%	26.5%	23.0%
Total	**$36.80**	**$43.08**	**$50.71**	**$58.60**	**$66.49**	**$74.11**	**$82.24**
—% change	15.0%	17.1%	17.7%	15.6%	13.5%	11.5%	11.0%

*Note: *includes spending primarily on desktop- and laptop-based ads; **includes classified, display (banners and other, rich media and video), email, lead generation, messaging-based and search advertising; ad spending on tablets is included*
Source: eMarketer, June 2014

174313 www.eMarketer.com

SITO's FollowMe technology targets consumers based on their precise location by placing "geo-fences", a virtual perimeter within a radius of a store or point location. Ads are delivered based on specific demographic profiles. In September 2014, the advertising research and advisory firm BIA/Kelsey projected location targeted mobile ad revenues to grow more than four fold over the next five years, reaching $17.9 billion by 2019 (see chart at right) and accounting for 43% of overall US mobile ad spending. This rate of growth equates to a compound annual growth rate of approximately 33% from 2014 to 2019. A key factor driving this rate of growth include increased adoption of mobile advertising tactics (i.e. geo-fencing) by national advertisers, who currently account for most US mobile ad spending.



Strategy

The company's strategy is to expand within the fast growing mobile marketing space. SITO plans to do this by investing in sales and business development staff, diversifying its revenue mix, and monetizing its patents. The end goal is to establish a direct sales channel and increase media buys (mobile ads) through its FollowMe product.

SITO's FollowMe product enables strategic mobile ad placements. The strong growth projected for mobile ad placements should underlie strong growth for the company's FollowMe product.

Competition / Competitive Advantage

With the rapid growth and adoption of mobile data services, the mobile media and data communications market remains highly competitive. There are a large number of small developers creating products for this market. Barriers to entry are low, as most developers can keep programming, project management, and distribution costs relatively low. New market entrants and existing competitors are expected to introduce new products and services that compete with SITO's.

SITO competes with publicly traded companies providing similar service offerings including Voltari Corporation, Hipcricket, Inc., and Mobivity Holdings Corp. Voltari Corporation provides mobile data solutions for mobile operators, consumer brands and enterprises, and advertising agencies. Its software-as-a-service (SaaS) platform enables customers to implement marketing, merchandising, commerce, and advertising to target customers and prospects through mobile devices. Sales and growth rates for SITO and its public competitors are shown at right.

Company	TTM ended	YoY Change
Voltari	$13.0M (9/14)	NMF
Hipcricket	$27.6M (8/14)	-3%
Mobivity	$4.0M (9/14)	-5%
Single Touch	$9.9M (9/14)	27%

Source: Company filings

Hipcricket, Inc. provides mobile marketing and advertising technology and services. Hipcricket offers AD LIFE, an interactive software-as-a-service platform to provide clients a suite of mobile marketing and advertising solutions.

Mobivity Holdings Corp. provides mobile marketing technology. Mobivity offers C-4, a mobile marketing and customer relationship management platform that facilitates short messaging service, multi-media messaging, and interactive voice response interactions.

SITO is the only company in the US that offers a nationwide suite of voice and SMS services across all US carriers on a Free to End User (FTEU) basis, a significant competitive advantage. There are a few competitors that offer SMS services on a FTEU basis nationwide, however, they do not offer voice services. FTEU messaging allows end users to receive messages and content without being charged by their mobile carrier. By offering value added services (such as copywriting and strategic mobile advice) at no cost to their customers, SITO's clients enhance their consumer relationships. This can be seen in what currently makes up the bulk of SITO's current revenue, reminder messages. An example of a reminder message is where a customer receives a message to his mobile device that reminds him that his pharmacy order is ready to be picked up. This helps reduce calls into the pharmacy and the costs associated with returning inventory to stock.

Q4 and Fiscal 2014 Financial Results

<u>*4Q14*</u> – Total revenue increased 43% to $3 million. SITO lost $1.6 million or ($0.01) per share compared to a loss of $682,000 or ($0.01) per share in 4Q13. We projected 4Q14 revenue of $2.6 million and a net loss of $767,000 or ($0.01) per share.

Wireless application revenue was up 12% at $2.4 million, licensing and royalty revenue was $95,000 versus nil, and media placement revenue was $557,000 versus nil in 4Q13.

Gross margins improved to 62.2% from 59% as the media placement business that started in December 2013 has a higher gross margin than wireless applications, and licensing and royalty revenues have no underlying costs.

Compensation expense (excluding $269,000 stock-based compensation in 4Q14 and $37,000 in 4Q13) increased to $1.1 million from $617,000. SG&A expense (excluding $320,000 stock-based compensation in 4Q14 and $255,000 in 4Q13) increased to $1.3 million from $618,000. Total stock-based compensation increased to $589,000 from $292,000. Research and development expense decreased to $11,000 from $20,000. Interest expense decreased to $180,000 from $192,000.

<u>*Fiscal 2014*</u> – Total revenue increased 27% to $9.9 million. SITO lost $4.5 million or ($0.03) per share versus a loss of $5.2 million or ($0.04) per share in FY13.

Wireless application revenue increased 5% to $8.2 million, licensing and royalty revenue was $916,000 versus nil in 2013, and media placement revenue was $758,000 versus nil in 2013. Licensing and royalties revenue was primarily due to one-time licensing revenue of $750,000 from Zoove Corporation.

Gross margins improved to 63.6% from 57.2% as the media placement business that started in December 2013 has a higher gross margin than wireless applications, and licensing and royalty revenues have no underlying costs.

Compensation expense (excluding $658,000 stock-based compensation in 2014 and $1.3 million in 2013) increased to $3.6 million from $2.5 million primarily due to the termination of the former chairman and CEO. SG&A expense (excluding $1.4 million stock-based compensation in 2014 and $952,000 in 2013) increased to $3.6 million from $2.9 million primarily due to spending on patent and legal matters. Total stock-based compensation decreased to $2 million from $2.2 million as the company focuses on reducing the number of issued shares of its common stock. Research and development expense remained flat at $59,000, a level that is consistent with past periods. Interest expense decreased to $749,000 from $1.3 million due to a decrease in the outstanding principal balance on convertible debentures.

Liquidity

As of September 30, 2014, the company had $620,000 cash, a current ratio of 0.4X versus 3X for the software industry, and a debt/equity ratio of 1.6X versus 0.1X for the industry. By our forecasts, the company should have sufficient capital to meets its operational needs through the end of our forecast period.

Cash used in operations in FY14 was $970,000 consisting primarily of a cash loss of $1 million. Cash used in investing of $1.2 million consisted primarily of $452,000 of capitalized software development costs, $390,000 for acquisitions, and $336,000 in patent related expenditures. Cash provided by financing of $1.7 million consisted primarily of proceeds from the issuance of common stock. Cash decreased by $527,000 to $620,000 at September 30, 2014.

Subsequent to September 2014, SITO entered into revenue sharing and note purchase agreement with CF DB EZ LLC (the revenue participant) and the Fortress Credit Co. LLC (the note purchaser). SITO issued and sold senior secured notes worth $10 million and issued 2,619,539 new shares of common stock to Fortress at $0.3817 per share for $1 million. SITO netted approximately $9.9 million after deducting original issue discount of 10% on the notes and a structuring fee.

The 42-month note bears interest at a rate equal to LIBOR plus 9% per annum. 85% of monetization revenues from the company's patents will be applied to the payment of the note until the note has been paid in full. After the repayment of the note, the revenue participant will be paid up to 50% of the monetization revenues totaling $5 million if paid in full prior to March 31, 2018, or $7.5 million thereafter.

With the proceeds from this financing, SITO repaid all outstanding convertible notes in the aggregate principal amount of $3.7 million and accrued interest, which eliminated the potential issuance of approximately 7.8 million common shares of the company's stock upon conversion of the convertible notes.

Economic Outlook

In October 2014, the International Monetary Fund (IMF) lowered its global economic growth forecast to 3.3% in 2014, down from an earlier (July 2014) growth forecast of 3.4% to reflect setbacks such as high debt burdens and high unemployment in advanced economies during the first half of 2014. However, global growth is projected to increase 3.8% in 2015 driven by a recovery in both the advanced economies and emerging markets.

The IMF raised its US economic growth estimate to 2.2% from 1.7% (July 2014). The current projection is flat with US GDP growth of 2.2% in 2013. In December 2014, the US Bureau of Economic Analysis revised upward its 3Q14 GDP growth estimate to 5.0% from 3.9% (November 2014). The IMF's US growth estimate for 2015 remained unchanged at 3.1%. The IMF said that US employment growth has been strong and household balance sheets have improved amid favorable financial conditions and a recovering housing market.

The current oil price is below $50/barrel, down over 50% since the summer, potentially increasing consumer's disposable income. But reduced oil prices may signal lower demand stemming from weak economic growth.

Projections

In FY14 the company began to realize three distinct areas of revenue, wireless application revenue (realized since inception), licensing and royalty revenue, and media placement revenue (from the newly launched FollowMe app).

While wireless application revenue increased over 20% in FY13, growth has tapered to just 5% in FY14. The company's plans to increase revenue in this area include bolstering its direct sales force and focusing on marketing messages beyond the typical functional (reminder) messaging the company has provided in the past. We are forecasting growth in wireless application revenue at 3%.

The most recent quarter's (4Q14) media placement revenue was $557,000, an implied run rate of $2.2 million. We project this to grow to approximately $3.4 million in FY15 and $4.7 million in FY16 using BIA/Kelsey's growth projections for location-targeted mobile ad spending.

For FY15 we project revenue of $12.2 million and a net loss of $3 million or ($0.02) per share, up from $11.6 million revenue and a loss of $3.1 million or ($0.02) per share previously. The change in our projections stems primarily from increased expectations for media placement revenue.

We project gross margins of 64%, in line with FY14. Compensation expense is projected to decrease to $3.9 million from $4.2 million primarily due to the absence of termination charges that were exhibited in FY14. G&A expenses are projected to increase to $5.5 million from $5 million primarily due to the continuation of professional fees related to patent matters.

We project SITO will burn $127,000 cash used in operations in FY15 primarily from a cash loss of $481,000 and a $355,000 decrease in working capital. The decrease in working capital will come primarily from increases in accounts payable and accrued interest and expenses, offset in part by an increase in accounts receivable. Capital expenditures of $100,000, patent and application costs of $336,000, and capitalized software development costs of $452,000 should result in $888,000 cash used in investing. Cash from financing should consist of $6.1 net proceeds from the issuance of debt and common stock. Cash should increase by $5.1 million to $5.7 million at September 30, 2015.

For FY16 we project revenue of $13.8 million driven by increased media placement gains and a net loss of $2.7 million or ($0.02) per share. Gross margins are projected to remain at 64%. Compensation expense is projected to increase to $4.2 million from $3.9 million primarily due to salary increases. G&A expenses are projected to increase to $5.9 million from $5.5 million primarily due to the continuation of professional fees related to patent matters.

We project SITO will generate $502,000 cash from operations in FY16 from a cash loss of $265,000 and a $768,000 decrease in working capital. The decrease in working capital will come primarily from increases in accounts payable and accrued interest and expenses, offset in part by an increase in accounts receivable. Capital expenditures of $100,000, patent and application costs of $336,000, and capitalized software development costs of $452,000 should result in $888,000 cash used in investing. Cash used in financing should consist of $3 million for the repayment of debt. Cash should decrease by $3.4 million to $2.4 million at September 30, 2015.

Risks

In our view, these are the principal risks underlying the stock.

Customer concentration – SITO's present and future business depends heavily on a single client (Walmart). The loss of business with this client will have a detrimental effect on SITO's revenue.

Carrier agreement – SITO relies on wireless carriers, primarily AT&T, to market the company's products and services and generate revenue. Should AT&T choose to promote another vendor's products and services over SITO's, the company's current and future business could be negatively impacted.

History of operating losses – SITO has a history of losses since its inception in 2000 and has not achieved profitability on an annual basis. If revenues grow slower than anticipated, or if operating expenses exceed expectations, the company may not be able to achieve profitability in the near future or at all.

Potential need for additional financing – SITO may require additional funds in the future to fund its business plans, either through additional equity or debt financings or other sources. Any additional capital raised through the sale of equity or equity-backed securities may be dilutive to current stockholders. If the company is unable to obtain additional financing, it may be unable to implement its business plan.

Competition – SITO has many competitors, many of whom may have more financial resources than the company. New market entrants are expected and existing competitors are expected to introduce new products and services that compete with Single Touch.

Rapid technological change – It is likely that SITO's industry will be subject to rapid technological changes. The company's competitors may have more resources to react to such changes than Single Touch.

Liquidity risk - Shares of SITO have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 114 million shares in the float and the average daily volume is approximately 153,000 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands $)

	FY12A	FY13A	FY14A	FY15E	FY16E
Cash and cash equivalents	2,158	1,147	620	5,747	2,361
Accounts receivable	1,086	1,348	2,443	3,026	3,409
Prepaid consulting	-	1,082	82	82	82
Other prepaid expenses	129	150	152	152	152
Total current assets	3,373	3,727	3,297	9,007	6,005
Net property, plant and equipment	229	239	237	240	242
Accounts receivable	-	-	450	250	250
Prepaid consulting - long-term portion	-	82	-	-	-
Capitalized software development costs	383	343	639	325	64
Intangible assets	1,346	2,067	5,371	5,209	5,050
Deposit - related party	155	-	-	-	-
Other assets	84	65	113	113	113
Total assets	**5,570**	**6,523**	**10,107**	**15,144**	**11,724**
Accounts payable	768	1,352	1,652	2,025	2,282
Accrued expenses	200	209	671	831	936
Accrued compensation - related party	73	73	598	598	598
Deferred licensing revenue	-	-	208	208	208
Current obligation under capital lease	-	16	17	17	17
Current obligation under patent acquisitions	88	-	-	-	-
Convertible debentures	294	3,279	4,291	-	-
Total current liabilities	1,423	4,929	7,437	3,679	4,042
Deferred revenue	25	-	-	-	-
Obligation under capital lease	-	29	13	13	13
Long-term debt	-	-	-	8,850	5,850
Convertible debentures	3,213	441	-	-	-
Total liabilities	**4,661**	**5,399**	**7,450**	**12,542**	**9,905**
Total stockholders' equity	**909**	**1,124**	**2,657**	**2,602**	**1,819**
Total liabilities & stockholders' equity	**5,570**	**6,523**	**10,107**	**15,144**	**11,724**

Source: Company filings and Taglich Brothers' estimates

Income Statements for the Fiscal Years Ended
(in thousands $)

	FY12A	FY13A	FY14A	FY15E	FY16E
Wireless applications	6,347	7,784	8,196	8,450	8,700
Licensing and royalties	-	-	916	376	376
Media placement	-	-	759	3,400	4,700
Total revenue	6,347	7,784	9,871	12,226	13,776
Royalties and application costs	2,907	3,329	3,590	4,401	4,959
Research and development	85	66	59	80	100
Compensation expense	3,044	3,808	4,213	3,900	4,200
Depreciation and amortization	690	662	729	400	400
G&A	2,387	3,898	5,041	5,500	5,900
Operating income (loss)	(2,766)	(3,979)	(3,761)	(2,055)	(1,783)
Interest and other expense	(488)	(1,271)	(749)	(900)	(900)
Income (loss) before taxes	(3,254)	(5,250)	(4,510)	(2,955)	(2,683)
Income tax	(1)	-	-	-	-
Net Income / (Loss)	(3,255)	(5,250)	(4,510)	(2,955)	(2,683)
EPS	(0.02)	(0.04)	(0.03)	(0.02)	(0.02)
Shares Outstanding	131,193	133,296	143,750	153,350	153,350
Margin Analysis					
Gross margin	54.2%	57.2%	63.6%	64.0%	64.0%
Royalties and application costs	45.8%	42.8%	36.4%	36.0%	36.0%
Compensation expense	48.0%	48.9%	42.7%	31.9%	30.5%
G&A	37.6%	50.1%	51.1%	45.0%	42.8%
Operating margin	(43.6)%	(51.1)%	(38.1)%	(16.8)%	(12.9)%
Net margin	(51.3)%	(67.4)%	(45.7)%	(24.2)%	(19.5)%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%
Year / Year Growth					
Total Revenues	38.6%	22.6%	26.8%	23.9%	12.7%
Net Income	NMF	NMF	NMF	NMF	NMF
EPS	NMF	NMF	NMF	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements FY14A - FY16E
(in thousands $)

	12/13A	3/14A	6/14A	9/14A	FY14A	12/14E	3/15E	6/15E	9/15E	FY15E	12/15E	3/16E	6/16E	9/16E	FY16E
Wireless applications	2,147	1,757	1,940	2,352	8,196	2,300	1,850	2,050	2,250	8,450	2,350	1,900	2,100	2,350	8,700
Licensing and royalties	750	-	72	94	916	94	94	94	94	376	94	94	94	94	376
Media placement	10	60	132	557	759	700	800	900	1,000	3,400	1,100	1,150	1,200	1,250	4,700
Total revenue	2,907	1,817	2,144	3,003	9,871	3,094	2,744	3,044	3,344	12,226	3,544	3,144	3,394	3,694	13,776
Royalties and application costs	868	768	818	1,136	3,590	1,114	988	1,096	1,204	4,401	1,276	1,132	1,222	1,330	4,959
Research and development	24	11	13	11	59	20	20	20	20	80	25	25	25	25	100
Compensation expense	1,381	811	695	1,326	4,213	990	870	970	1,070	3,900	1,080	960	1,040	1,120	4,200
Depreciation and amortization	150	152	152	275	729	100	100	100	100	400	100	100	100	100	400
G&A	1,343	993	1,033	1,672	5,041	1,390	1,240	1,370	1,500	5,500	1,520	1,350	1,450	1,580	5,900
Operating income (loss)	(859)	(918)	(567)	(1,417)	(3,761)	(520)	(474)	(512)	(550)	(2,055)	(457)	(423)	(443)	(461)	(1,783)
Interest and other expense	(193)	(191)	(185)	(180)	(749)	(225)	(225)	(225)	(225)	(900)	(225)	(225)	(225)	(225)	(900)
Income (loss) before taxes	(1,052)	(1,109)	(752)	(1,597)	(4,510)	(745)	(699)	(737)	(775)	(2,955)	(682)	(648)	(668)	(686)	(2,683)
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income / (Loss)	(1,052)	(1,109)	(752)	(1,597)	(4,510)	(745)	(699)	(737)	(775)	(2,955)	(682)	(648)	(668)	(686)	(2,683)
EPS	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)	(0.00)	(0.00)	(0.00)	(0.01)	(0.02)	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)
Shares Outstanding	140,816	142,706	142,729	148,642	143,750	153,350	153,350	153,350	153,350	153,350	153,350	153,350	153,350	153,350	153,350
<u>Margin Analysis</u>															
Gross margin	70.1%	57.7%	61.8%	62.2%	63.6%	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%	64.0%
Royalties and application costs	29.9%	42.3%	38.2%	37.8%	36.4%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
Compensation expense	47.5%	44.6%	32.4%	44.2%	42.7%	32.0%	31.7%	31.9%	32.0%	31.9%	30.5%	30.5%	30.6%	30.3%	30.5%
G&A	46.2%	54.7%	48.2%	55.7%	51.1%	44.9%	45.2%	45.0%	44.9%	45.0%	42.9%	42.9%	42.7%	42.8%	42.8%
Operating margin	(29.5)%	(50.5)%	(26.4)%	(47.2)%	(38.1)%	(16.8)%	(17.3)%	(16.8)%	(16.4)%	(16.8)%	(12.9)%	(13.4)%	(13.0)%	(12.5)%	(12.9)%
Net margin	(36.2)%	(61.0)%	(35.1)%	(53.2)%	(45.7)%	(24.1)%	(25.5)%	(24.2)%	(23.2)%	(24.2)%	(19.2)%	(20.6)%	(19.7)%	(18.6)%	(19.5)%
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Year / Year Growth</u>															
Total Revenues	49.3%	0.4%	11.4%	42.7%	26.8%	6.4%	51.0%	42.0%	11.4%	23.9%	14.5%	14.6%	11.5%	10.5%	12.7%
Net Income	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF
EPS	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

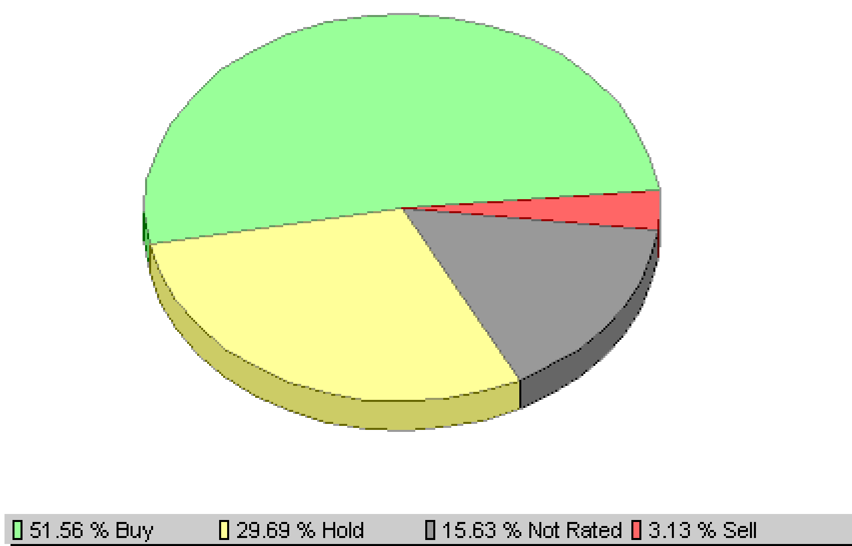
Statement of Cash Flows for the Periods Ended
(in thousands $)

	FY12A	FY13A	FY14A	FY15E	FY16E
Net income (loss)	(3,255)	(5,250)	(4,511)	(2,955)	(2,683)
Depreciation & amortization	1,001	1,488	1,106	574	518
Stock-based compensation	503	2,243	2,095	1,900	1,900
Write off of capitalized patent application costs	-	-	299	-	-
Bad debts	18	-	-	-	-
Loss on settlement of debt	-	-	-	-	-
Cash earnings (loss)	(1,733)	(1,519)	(1,011)	(481)	(265)
Changes in assets and liabilities					
Accounts receivable	(197)	(262)	(1,539)	(583)	(384)
Prepaid expenses	8	(21)	(5)	-	-
Other assets	(4)	-	(38)	38	90
Accounts payable	(410)	584	196	373	257
Accrued expenses	61	9	804	160	105
Deferred revenue	25	(25)	378	-	-
Accrued interest	166	182	245	366	699
(Increase) decrease in working capital	(351)	467	41	355	768
Net cash provided by (used in) operations	**(2,084)**	**(1,052)**	**(970)**	**(127)**	**502**
Option paid to related party regarding Soapbox Mobil	-	-	-	-	-
Investment in certificate of deposit	-	-	-	-	-
Redemption of certificate of deposits	19	19	-	-	-
Patents and patent application costs	(147)	(101)	(336)	(336)	(336)
Purchase of property and equipment	(33)	(46)	(72)	(100)	(100)
Capitalized software development costs	(435)	(400)	(452)	(452)	(452)
Note receivable - discontinued operations			10		
Acquisition of subsidiary - net	-	-	(390)	-	-
Payment on settlement regarding Anywhere software license	(30)	(600)	-	-	-
Net cash provided by (used in) investing	**(626)**	**(1,128)**	**(1,240)**	**(888)**	**(888)**
Proceeds from issuance of common stock	318	824	1,901	1,000	-
Purchase of company's common stock	-	-	(202)	-	-
Proceeds (principal payments) from issuance of debt	4,312	688	-	8,850	(3,000)
Loan advances received from related parties	-	-	-	-	-
Repayments on related party loans	-	-	-	-	-
Principal reduction on obligation under capital lease	-	(7)	(16)	-	-
Principle reduction on convertible debt	-	(200)	-	(3,708)	-
Expenditures relating to private offerings	(210)	(48)	-	-	-
Principal reduction on obligation on patent purchases	(76)	(88)	-	-	-
Net cash provided by (used in) financing	**4,344**	**1,169**	**1,683**	**6,142**	**(3,000)**
Net change in cash	**1,634**	**(1,011)**	**(527)**	**5,127**	**(3,386)**
Cash - beginning of period	**524**	**2,158**	**1,147**	**620**	**5,747**
Cash - end of period	**2,158**	**1,147**	**620**	**5,747**	**2,361**

Source: Company filings and Taglich Brothers' estimates

Price Chart

Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**2**	**7**
Hold		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, Michael Taglich, President of Taglich Brothers, Inc. owns or has a controlling interest in 359,100 SITO warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc. owns or has a controlling interest in 115,500 shares of SITO common stock and 359,100 SITO warrants. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 45,000 SITO warrants. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. owns or has a controlling interest in 137,800 SITO warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 30,000 SITO warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 70,000 SITO warrants. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In September 2012 and October 2012, Taglich Brothers Inc. served as the exclusive placement agent in private placements of SITO convertible debt and warrants.

All research issued by Taglich Brothers, Inc. is based on public information. SITO Mobile Ltd. is not paying Taglich Brothers, Inc. for the creation and dissemination of research reports.

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Analyst Certification

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

AT&T (NYSE: T)
Hipcricket (OTC: HIPP)
Mobivity (OTC: MFON)
Voltari (NASDAQ: VLTC)
Walmart (NYSE: WMT)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.