

Sector Update

October 2009

Media & Technology

MOBILE SECTOR BUCKING THE M&A TREND – ACQUISITION VALUES UP 77% FROM 2008

After Numerous False Starts Mobile M&A Enters New Phase

2009 has seen a major turnaround in M&A activity in the mobile sector with YTD transaction value reaching \$603m vs. \$340m in 2008 – an increase of 77%. Sub-sectors that have received particular interest include Advertising, Payments and Entertainment as strategic players seek to fill gaps in their portfolio and lay foundations for new revenue streams.

Mobile Sector Overcoming Early Restraints and Entering Commercial Phase with Force

Initially, many mobile players faced difficulties scaling their businesses due to limited infrastructure technologies, including handsets and wireless broadband.

With the emergence of higher speed networks, intelligent (OS based) smartphones, and the iPhone in particular, consumers are using their mobile devices in a fundamentally different way – as extensions to their PCs. In parallel with this, operators have adapted their strategies to take advantage of the new data-usage revolution and are collaborating with device manufacturers, developers and mobile technology companies to create engaging services for consumers. These factors have fostered a mobile internet installed base of over 100m in 2009 and it is our belief that finally the mobile infrastructure and ecosystem are in place for the industry to enter a new level of monetisation with significant M&A activity as a consequence.

Several Categories of Acquirers Emerging

The industry is undergoing a process of vertical integration, with many network operators and device manufacturers looking to expand their portfolio of services towards an integrated mobile multimedia offering.

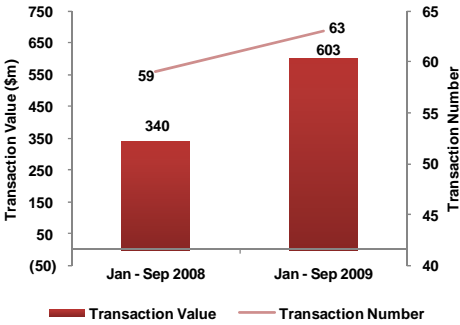
Media and advertising companies are also starting to make their bets on the mobile sector as they seek new growth areas to offset declining core revenue streams. Internet giants have also entered the fray with renewed interest from eBay, Amazon and Google.

The highly fragmented nature of the mobile industry has pushed the larger players in their sub sectors, such as Admob, Zed and Boku to acquire smaller companies to extend their services portfolio and diversify into new geographies.

Current Bite Size Transactions to Grow

Acquisitions have been relatively small in size, reflecting the macroeconomic environment, as well as the relatively early stages of monetisation in the sector.

It is our belief that over the next two years this will migrate to larger, fully fledged acquisitions. We note five recent transactions in excess of \$50m as an indicator of changing buyer behaviour.



Mobile Advertising



Mobile Payments and Billing



Mobile Entertainment



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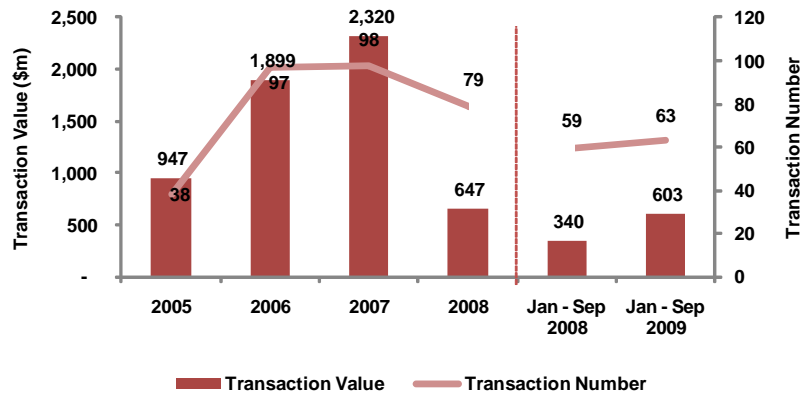
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RECENT TRENDS

2009 – Turning Point for Mobile M&A?

We see 2009 as an inflection point in M&A activity in the mobile sector: transaction value has grown by 77% to \$603m in 2009YTD from \$340m in the same period in 2008, with volume rising from 59 transactions to 63¹.

Exhibit 1 - M&A Activity in Mobile Media



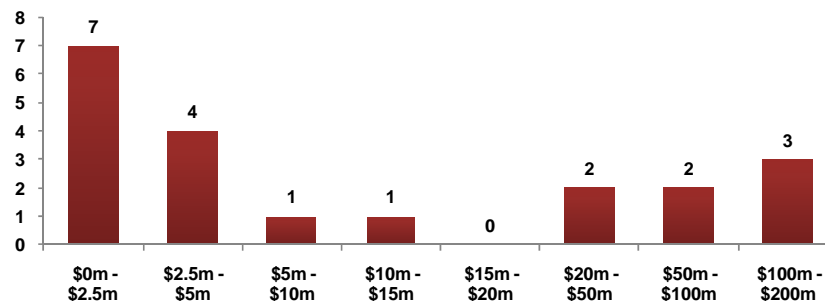
Source: Capital IQ / Note: transaction number includes deals with undisclosed valuation

Acquirers Laying Foundations for Mobile Strategy with Bite Size Acquisitions

The majority of recent deals (with announced deal values) have been below \$15m as we see strategic players being keen to lay the foundations for their mobile strategy. We see this as the first phase in an active mobile M&A market. It is noticeable that corporates with more advanced mobile strategies have recently completed 5 transactions which were valued at over \$50m in 2009.

It is our belief that as global markets and confidence continue to recover we will witness further large scale acquisitions announced with a number of reported deals in progress.

Exhibit 2 – Distribution of Deals in 2009 by Value



Source: Capital IQ / Note: does not include deals with undisclosed valuation

¹ Capital IQ, GP Bullhound

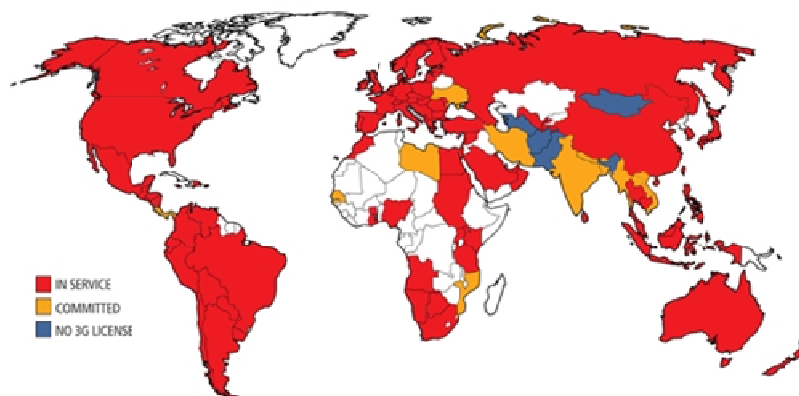
Key Drivers Behind M&A Growth

In the following section, we examine the key reasons why, after a number of false starts, the mobile sector is entering the next stage in its evolution and seeing substantial renewed interest in M&A.

3G Infrastructure Firmly Embedded

As Exhibit 3 shows, 3G technology has become widespread over the last few years: according to GSMA, there are 300 HSPA networks in 127 countries and about 1,500 HSPA devices, and there will be 200m HSPA connections in the first quarter of 2010.

Exhibit 3 – 3G Wireless Technology Availability Globally

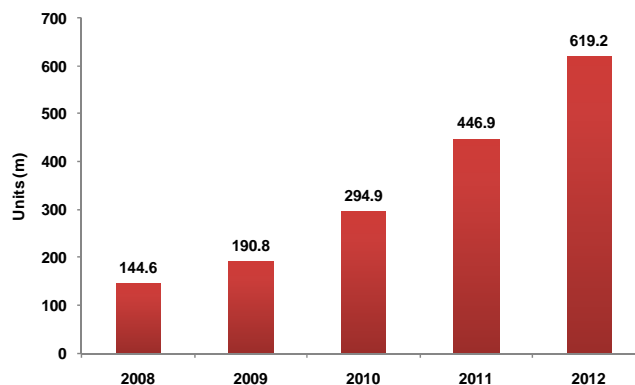


Source: GSM Association (GSMA)

Changing Functions of the Phone through the Popularity of Smartphones, in Particular the iPhone

The smartphone market is estimated to grow at 27% annually, with the iPhone commanding 13.7% of global market share at the end of H1 2009².

Exhibit 4 – Smartphone Shipments



Source: Gartner Research

² Bernstein Research

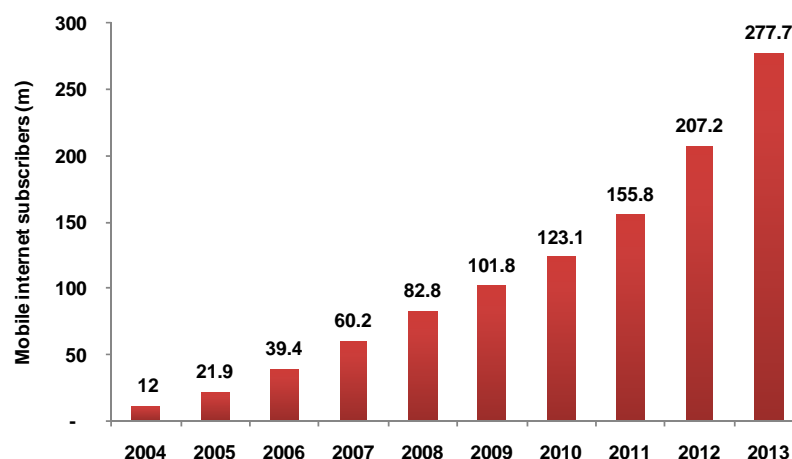
The emergence of improved smartphone technology has dramatically changed the way consumers interact with their mobile phones, notably through:

- Larger screens – enabling use of mobiles for functions such as m-commerce, video and image viewing, playing games, and other multimedia applications;
- Mobile Internet and extended memory capacity on the handset – access to content and applications other than those provided by handset manufacturers and network operators has had a dramatic impact on the quality and take up of such content;
- Increasing popularity and understanding of the smartphone through the widespread use of the iPhone
 - 81% of iPhone users browse daily news and information vs. 11% of other mobile users³;
- Convergence with other appliances such as TV and the PC - through the mobile Internet and platforms such as the App Store and iTunes, smartphones have taken an even more prominent role in general media consumption.

Continued Growth in Mobile Internet Subscribers

As Exhibit 5 shows, the number of mobile Internet subscribers is expected to rise to 278m by 2013, driven by increasing availability of 3G technology and smartphones globally. The installed base of over 100m in 2009 creates sufficient eyeballs and confidence for strategic acquirers to launch a number of viable commercial models.

Exhibit 5 – Mobile Internet Subscribers



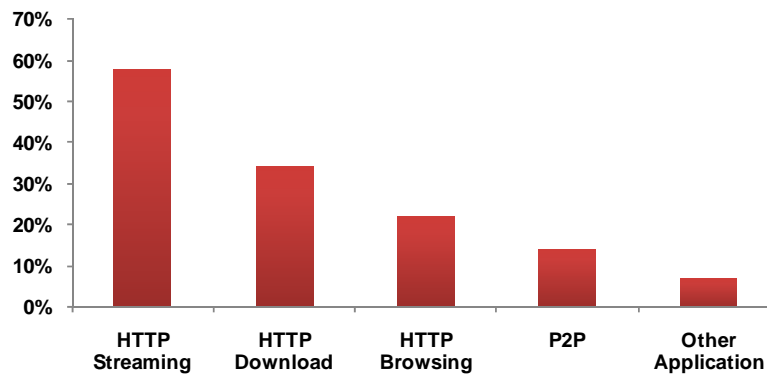
Source: PricewaterhouseCoopers, Wilkofsky Gruen Associates

³ ComScore

Rising Mobile Data Usage

Global data bandwidth usage has increased by approximately 30% in Q2 2009. The APAC region achieved growth of 36%, EMEA achieved growth of 28% and the Americas had growth of 25%⁴. Exhibit 6 shows a breakdown of the global growth by main application.

Exhibit 6 – Quarterly Growth of Mobile Data in Q2 2009, Broken Down by Main Application



Source: Allot Communications, Global Mobile Broadband Traffic Report (July 2009)

Rapidly Evolving Mobile Landscape

Non-traditional entrants in the market, such as Apple with iPhone and Google with Android, have emphasized the importance of integrating multimedia services with the mobile phone handset. If before the mobile was seen as a voice / SMS communication device, as a result of the iPhone, it is now seen as an extension of the user's PC. This rapidly emerging competitive landscape has meant that incumbent players in the mobile sector such as Nokia and Vodafone have had to step up their M&A activity to be able to provide a more integrated mobile offering with multiple robust revenue streams.

Changing Views of Operators

The changing dynamics of the mobile industry have driven operators to adapt their strategies:

- Previously operators were able to select the devices they provided on their networks and heavily promote their brands. With the tremendous popularity of the iPhone, operators often deal with the customers only when they are paying the bill and have limited branding;
- The introduction of fixed rate data packages has had a dramatic impact on consumer behaviour. Vodafone's data service segment has been the fastest growing in the group with revenue rising 43.7% in 2009 to £3bn;

⁴ Allot Communications, Global Mobile Broadband Traffic Report (July 2009)

- Due to increasing competition in the sector, operators place greater importance on non-price differentiation and focus on providing more advanced media packages for the mobile and PC, such as Vodafone 360, a mobile platform, similar to iTunes, that synchronises the user's phone, social networks and PC and encompasses an address book, applications, games and music. Development of packages like this is facilitated by increased collaboration with device manufacturers;
- The emergence of off-deck search engines and app. stores has resulted in operators opening up to application developers, mobile advertising agencies and content aggregators, in order to gain back some control over the content that their users receive as well as share in the revenues;
- The increased flexibility of mobile operators over the past two years in terms of content and partnerships has also contributed to the rise in mobile business interest.

Increasing Investment in Mobile from the Venture Industry and Advertising Budgets

iPhone oriented businesses alone have drawn more than \$100m in venture capital in the two years since Apple released the first version of the iPhone.

Kleiner Perkins Caufield & Byers, for instance, have set up iFund, a \$100m investment initiative to fund products that extend the iPhone and iPod touch platform.

In addition, the mobile sector is increasingly recognised as a major channel to reach consumers: in 2009, 12% of advertisers increased their mobile budgets significantly⁵.

Experienced Web Entrepreneurs Moving into Mobile

We are witnessing a seasoned talent pool that has established successful monetisation models in the Internet and other sectors now moving into the mobile sector. A few select examples include:

- Andreas Bernstrom, who grew TradeDoubler to a company of 600 staff and revenues of \$450m, is now CEO of Rebtel, a service that enables users to make low-cost international calls on the mobile phone;
- Mike Beeston, Olof Schybergson and Mark Curtis all senior directors at Razorfish have created 2 fast growing mobile ventures with Fjord, one of the leading strategic cross platform agencies in Europe, and Handmade Mobile, one of the most heavily monetised entertainment mobile companies in Europe.

⁵ Research from the European Interactive Advertising Association (EIAA) (April 2009)

Geographic Expansion

The developing world is seen as a major growth opportunity by many mobile companies in the West: more than 4bn handsets are now in use worldwide, three-quarters of them in the developing world. In Africa, four in ten people now have a mobile phone⁶. From our interviews, however, we have found that there are major barriers to organic growth in these regions, such as cultural and demographic differences, regulation and local competition.

We envision acquisitions and joint ventures will play a key role in such expansion such as the case of Monitise, an AIM-listed company, who has set up a joint venture with Paynet to offer mobile banking services in Africa early in 2010⁷, demonstrates that bigger and more established players in the sector may favour this strategy.

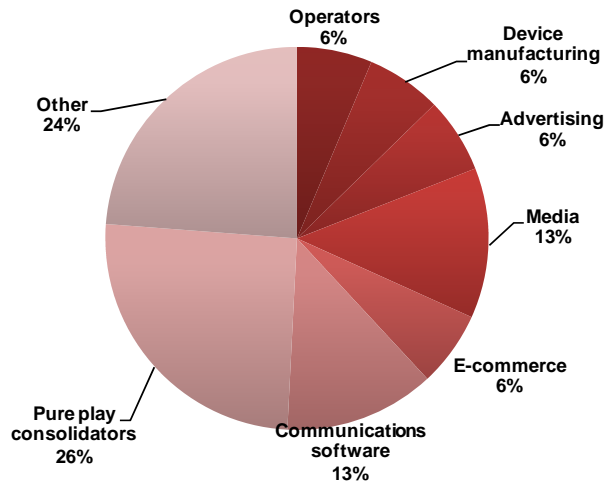
⁶ The Economist: Mobile marvels (Sep 24th 2009)

⁷ Guardian: Mobile-phone group seals deal to be bank for millions in Africa (13 August 2009)

Key Acquirer Categories

The exhibit below highlights the wide range of companies that been active in the mobile M&A market in 2009. We note activity from 8 categories of strategics with media, e-commerce, advertising and device manufacturers joining the traditional acquirer groups.

Exhibit 7 – Breakdown of M&A transactions in 2009 by acquirer sector



Source: Capital IQ, GP Bullhound

Carriers and Handset Manufacturers

Traditional network carrier and handset manufacturers have been acquisitive in order to expand their communications offerings as part of the new business strategies:

- In the last twelve months alone Nokia acquired Obopay, a mobile payments provider, for \$70m, Celllity (a mobile software developer), Dopplr (online and mobile social network for travellers) and Oz Communications (consumer messaging services);
- Vodafone acquired Zyb (a social networking tool enabling contact and calendar synchronisation) for \$49m; and Wayfinder (location and navigation based mobile services) for \$30m in 2008;
- NTT DoCoMo acquired a 35% stake in PacketVideo (advanced music and video services in Japan) for \$45m.

Advertising and Media Companies

Mobile marketing has for years been cited as the holy grail of advertising, after a number of false starts the global agencies and media groups are now embarking on a fresh round of strategic acquisitions:

- Publicis Groupe has made several acquisitions including the mobile marketing agencies Phonevalley for \$41m and Watisit, and a multimedia and flash programming agency Nemos;

- ComScore's acquired M:Metrics a mobile marketing analytics company, for \$44m;
- WPP recently acquired Schematic, a mobile marketing services company for a reported \$100m;
- Fox Mobile Entertainment, a subsidiary of Fox Entertainment Group, acquired Jamba!, a mobile content provider, in October 2008 for \$200m;
- We have also witnessed the Internet giants stepping up their mobile activity and expect further acquisitions from Google, eBay, Amazon, Yahoo and IAC.

It is our belief that further traditional media companies and agencies will start eyeing mobile players more intently as they scramble to fill important gaps in their expertise.

Mobile Pure Play Consolidators

The mobile market has been highly fragmented, particularly on a global scale. Larger mobile companies are looking to acquire in order to:

- Consolidate the industry;
- Expand geographic presence to other countries;
- Develop their product and services portfolio.

Examples of these strategies include:

- Acquisition of Player X a mobile entertainment content company by Zed in May 2009;
- Acquisitions by Buongiorno of iTouch the leading mobile entertainment company for \$194m and Axis Mundi, a digital entertainment market and mobile marketing company, in Argentina for \$10m;
- 2 ergo Group the AIM listed mobile technology provider, has been highly acquisitive in 2009 with deals including Activemedia Technology (mobile marketing company), Wapfly Technologies (mobile marketing services) and Broca (advanced messaging technology for mobile marketing).

Consolidators Targeting M-Commerce

As m-commerce is gaining traction with consumers, the mobile payments segment has started to receive significant interest. Recent deals include Sybase's acquisition of Paybox Solutions (mobile payments software) in January 2009 and Roamware (mobile voice and data roaming solutions) takeover of Macalla Software (financial and payment software solutions) in September 2009. Similarly the acquisition of Paymo by Boku in June 2009 and Aepona acquiring Valista in July 2009 demonstrates that mobile payments, particularly for online content, is seen as a huge opportunity amongst mobile companies. We envision certain e-commerce companies and service providers also acquiring in this space, as evidenced by eBay acquiring payments provider Bill Me Later from Amazon for \$905m in October 2008.

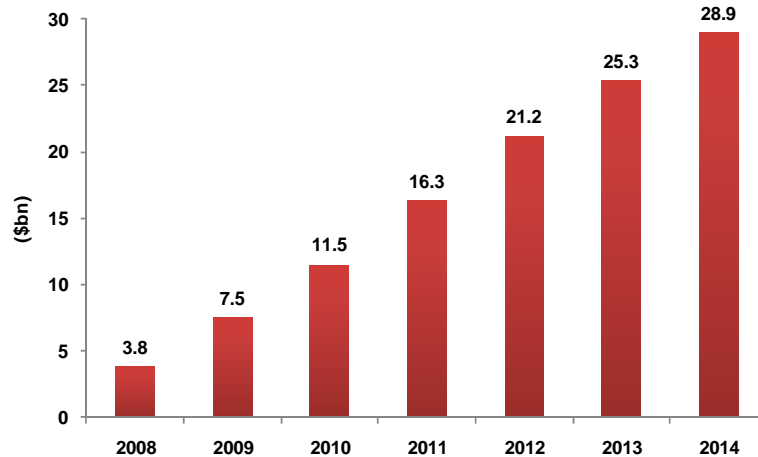
KEY SECTORS WHERE WE ENVISAGE FURTHER CONSOLIDATION

In this section we discuss the sectors where we have witnessed strong recent activity and highlight some of the key players.

Mobile Advertising

Growth to Outstrip Internet Advertising

Exhibit 8 - Global Mobile Marketing and Advertising Spend



Source: ABI Research

The mobile advertising market is forecast to grow at 36% CAGR⁸, compared to 6.7% for wired Internet advertising between 2009 and 2013⁹.

With almost a third of all advertisers (30%) stating they use mobile within their advertising strategy and mass market user penetration of 87% across Europe mobile advertising is set to become a much more widely used platform¹⁰.

Engagement Rates on the Rise

Mobile can be highly effective in engaging users as it is perceived to be highly personalised as well as an interactive media form. Its potential effectiveness in engaging users is evident through the 25% response rate, with clients such as L'Oreal and Penguin, as achieved by Blyk, versus the typical 1% for traditional media¹¹.

⁸ ABI Research

⁹ Price WaterhouseCoppers: Global entertainment and media outlook: 2009–2013 (June 2009)

¹⁰ EIAA Mediascope Europe 2008 study

¹¹ Financial Times

SMS-Based Advertising Still Dominant

The more established form of mobile advertising has been SMS, MMS and VMS advertising, where messages are sent to a database of users to promote a brand. This is estimated to account for over 90% of mobile marketing revenue worldwide¹².

Mobile Internet Driving New Methods of Mobile Advertising

With the rise in mobile Internet, other methods of mobile advertising are emerging, such as text-links, banners and video clips.

Ad-funded content, such as sponsored games, videos and screensavers are now feasible as a result of more sophisticated handset technology. 56% of consumers surveyed by KPMG were willing to accept advertising in exchange for mobile content¹³. Orange's Exposure 2 study on mobile media found that 70% of users find "beyond the banner" formats appealing with the five most popular being: coupons; sponsored games; local information; SMS sales alerts and SMS push to websites¹⁴.

But These Will Take Time to Develop

Due to the increasing complexity of mobile advertising options, some brands perceive mobile Internet to be an extension of wired Internet and do not see the need to spend additional funds on it, particularly if SMS campaigns have been successful in the past. For instance, Prinz Pinakatt, European group interactive marketing manager at Coca Cola, highlights the difficulty in allocating funds to mobile Internet, particularly as the most successful mobile campaigns have been built on SMS with average response rates of 4%, or 6m entries per campaign¹⁵.

Although it is growing rapidly, Blyk states that in the 15 European markets where it conducts research, typically two-thirds of 16-24 year olds have not been on the mobile Internet¹⁵.

Targeting is Paramount

Appropriate audience targeting is critical to maximise effectiveness of advertising campaigns. Sophisticated technology and creative design that engages and interacts with the consumer, as well as marketing data analytics to establish the target group play important roles:

- Prinz Pinakatt: "Mobile has the highest potential, but it's very difficult to leverage. We always try to include it in our digital marketing, but certain target groups are not yet responding to mobile."
- David Jones, global chief executive of Havas Worldwide and Euro RSCG Worldwide: "If you are interrupted every two minutes by

¹² Mobile Advertising Handbook, IAB

¹³ KPMG International, 2009

¹⁴ Orange Exposure 2 Study (March 2009)

¹⁵ Financial Times

advertising, not many people want that. The industry needs to work out smart and clever ways to engage people on mobiles."¹⁶

Mobile Analytics Infrastructure Needs to Mature

For the industry to enter its next phase advertising agencies require sophisticated usage and response data in order to drive mobile advertising as a reliable channel:

- Theo Theodorou, EMEA region sales manager for ScreenTonic, the mobile advertising company owned by Microsoft: "We can provide third party research around consumer response, we can measure ad delivery, but frankly there isn't one standardised way of doing this. It's a barrier to overcome to get mobile on to that next level."¹⁶

Select Company Profiles



4th Screen Advertising, a sister company to Mobile Interactive Group, is an independent mobile advertising agency in the UK. The company focuses on delivering advertising solutions via banners and branded WAP sites. 4th Screen also offers media planning and placement, online reporting to monitor campaign success and post campaign analysis. Publishers are also offered a mobile advertising platform, Mpression, as a license only option, which enables them to integrate advertising into WAP sites and bill and collect payments from advertisers. Current clients include Pathe, Canon, Ministry of Sound, X-Box, McDonalds, Scottish Widows and Fitness First.

Mobile Interactive Group provides multimedia mobile interactive services, including mobile billing, mobile application, interactive events, marketing services, mobile video, and mobile advertising solutions. The company is headquartered in London, UK and has operations in Ireland and Asia.



AdMob claims to be the world's largest market advertising place, allowing advertisers to reach customers on the mobile web and publishers to monetise their sites. The company offers advertising across a number of mobile channels, including contextual search, downloads, entertainment and portals, as well as sports, news and information. AdMob also offers services and tools such as mobile analytics and a monthly mobile metrics report that shows traffic data in the network. Clients include a diverse range of Fortune 500 brands such as Ford, Coca-Cola, EA, P&G, Land Rover, MTV Europe, Adidas, and Paramount Pictures, as well as publishers that are pushing

¹⁶ Financial Times

the boundaries of the mobile web like AccuWeather, BluePulse, CBS Mobile, EA, Flirtomatic and Hollywood.com. The company is based in San Mateo, California.

In August 2009, AdMob acquired AdWhirl for an undisclosed amount. The company is backed by Sequoia Capital, Accel, Draper Fisher Jurvetson and Northgate. Total amount invested to date is c.\$45m, with \$28m in the latest round¹⁷.



Blyk initially was a free mobile network in the UK, funded by advertising and targeted at 16-24 year olds. Users signed up to the network and received advertising messages on their mobiles in return for a monthly spending allowance on their phones. Blyk attracted 250 thousand members in the UK, with 6 members out of 10 joining out of recommendation. Blyk worked with 200 advertisers in total, including L'Oreal, Brlycreem, Sky and Natwest and deployed more than 2,600 ad campaigns. The company achieved average response rates to campaigns of 25%. Having established the model, Blyk decided to cease its MVNO business, and partner with MNOs to offer a hosted mobile advertising solution. The company has already signed deals with Orange U.K. and Vodafone Netherlands.

Blyk has reported raising three rounds of financing, with c.\$51m raised in its last round from Goldman Sachs Group (Merchant Banking Division), Industrial & Financial Investments Company and Sofinnova Partners in November 2008¹⁷.



Netsize, founded in 1998, provides mobile entertainment, marketing and business solutions using a range of channels including SMS, MMS, WAP, GRPS, 3G. The company has established revenue sharing deals with more than 100 mobile operators around the world to cover 1.1bn mobile users. Netsize products and services include a Global Mobile Billing Service, Messaging Platforms, Mobile Marketing Solutions, Content Management Platforms, Mobile Portal Design, Machine2Machine Messaging Solutions, Wireless Telematics Platforms, Mobile CRM Solutions, Hosting, Service Management, Professional Services and Technical Consulting. The company is based in Paris and has local presence in over 23 countries.

Netsize has raised a total of c.\$42m from 5 rounds of financing, with approximately \$17m raised in the last round from GemVentures, GRP Partners, Partech International and Rothschild Gestion in November 2006¹⁷.

SAFFRONDIGITAL Saffron Digital provides managed platform and content services to network operators, media owners, and content owners to deliver mobile services. It offers mobile content strategy and planning, content creation,

¹⁷ Capital IQ

packaging content and services, content hosting, distribution, video encoding and rendering, and billing and reporting services for content owners. In addition, Saffron Digital offers personalised advertising solutions, including banner advertising, media buying and campaign management and other related advertising management services. The company, a subsidiary of Saffron Media Group, was incorporated in 2002 and is based in London, the United Kingdom.



Velti, founded in 2001, is a technology orientated mobile agency, with a focus on mobile advertising such as mobile TV and video advertising, WAP banner ads, ad-funded services and marketing such as SMS and MMS campaigns, mobile CRM, and m-Commerce for mobile ticketing. The company provides a platform that enables planning, execution and monitoring of multi-level mobile marketing and advertising campaigns, with access to 2bn people. In May 2009, the company acquired Ad Infuse, a personalised mobile advertising solution, with a platform that delivers relevant advertising experience targeted to each mobile subscriber. The company has been listed on the London Stock Exchange since 2006 and has presence in 35 countries. In 2008, Velti generated revenues of €52.4m. 76% of the company's revenues came from mobile marketing and advertising. The company achieved net profits of €4.2m.

Mobile Payments

Mobile Rapidly Emerging as a New Payment Channel

The mobile payments market is expected to grow significantly over the next few years:

- It is estimated that in 2013 there will be 300bn mobile payment transactions, totalling \$800bn¹⁸;
- Revenue from mobile payments in 2013 to reach \$10bn, a twelve-fold increase on current figures¹⁸;
- Mobile banking to grow at 89% a year; peaking in 2014 with 913m global users¹⁹;
- Up to 20% of international money transfers will be carried out via the mobile generating a further \$170–680m in service revenues¹⁹.

The industry has been powered by:

- The emergence of e-commerce has demonstrated consumers are ready to shop off-site, making m-commerce feasible;
- Improving smartphones, in particular larger screen size and access to the Internet to browse products;
- Mobile payments as an alternative to plastic for users who do not have credit cards – 70% of the global online audience do not have a credit card, however most of them have a mobile phone²⁰;
- Increasing popularity of digital content such as virtual goods in social networks and online games that require smaller-sized payments.

M-commerce Does Not Suit All Products

The limitations to the use of mobile phones to acquire goods that are more expensive or less commoditised than ones like virtual goods are:

- Screen size constrains the extent to which non-homogenous products can be examined;
- Security – concerns over fraud are still prevalent, particularly as mobile phone theft is common.

Select Company Profiles



Bango provides billing services via the mobile web as well as mobile web analytics. Bango has enabled 30m users to transact over thousands of content providers of games, music, videos and applications. The company was

¹⁸ Informa Telecoms & Media

¹⁹ Berg Insight

²⁰ <http://www.zong.com/zong>

founded in 2005 and listed on the London Stock Exchange in June 2005. In 2009 the company generated revenues of £17.6m with 38% from the UK and 56% from USA and Canada. The gross profits of £2.7m were predominantly from content-provider fees (62%) and the rest from end-user activity (38%).



BOKU's goal is to bring bank-grade payments technology and mobile users together on the web, creating a trusted, viable and accessible market for consumers, publishers and carriers alike. Based in San Francisco with offices in Europe, Asia and Latin America, BOKU reaches over 1.6bn consumers worldwide. The company makes money by taking a fee on the net of the carrier fees of about 5 percent to 10 percent, with the average transaction value being \$11.

BOKU has announced acquisitions of start-ups Mobillcash and Paymo in June 2009. The combined companies now handle mobile payments for online transactions with 1,000 merchants and online publishers in 56 countries. In June, Boku also announced expansion plans to four new countries: Finland, Indonesia, Slovenia and Taiwan.

BOKU has had 3 financing rounds, with c.\$10m raised in June 2009 from Benchmark Capital, Index Ventures and Khosla Ventures to acquire Mobillcash and Paymo²¹. The company has about 50 employees.



Echovox, founded in 2000, has a unique infrastructure connecting to over 100 mobile carriers worldwide, enabling leading web, media and mobile content groups to monetise their captive audience through mobile. The company's platform, Zong is live in 23 countries across over 110 carriers, with access to over 1.1bn mobile users worldwide in various sectors including Social Media, Gaming, Classifieds and Dating.

The company is headquartered in Geneva, Switzerland (European HQ) and in Palo Alto, California (US HQ). Additionally, Echovox has offices in Paris and London. The company has raised two rounds of financing, amounting to c.\$13m with the last round of c.\$8m from Advent Venture Partners in February 2007²¹.



mBlox is one of the world's largest mobile transaction network specialising in providing operator connectivity and mobile billing capabilities to businesses around the globe. The company reaches more than 500 operators in over 180 countries and processes over 2.5bn messages per year, providing a range of mobile marketing, mobile entertainment, and mobile business services for leading content providers and brands. Founded in 1999 in London, UK, mBlox's global headquarters are in Sunnyvale, California, and European headquarters are in London. mBlox also serves clients from offices in Düsseldorf, Madrid, Paris, Singapore, Stockholm and Sydney.

²¹ Capital IQ

The company has raised over \$20m in 11 rounds of financing, with the latest in January 2008 of \$22m from Avanti Capital, DAG Private Equity, Entrepreneur Growth Fund, Norwest Venture Partners, Novus Ventures, Scale Venture Partners, Trident Capital and the Entrepreneurs' Fund²².



Mindmatics is the biggest provider of mobile messaging and payment services in Germany. The company offers mobile payment solutions to over 60 countries, with over 40% of transactions being international. Mindmatics services the mobile messaging and payment projects of high profile projects such as "Deal or no Deal" (US), "1 vs. 100" (US), Eurovision Song Contest (EU), and MTV European Music Awards (EU). The company also provide mopay, a simple payment process for paying up to €10 bills such as News, pay-tv, and subscription services, downloads and membership fees, which retailers can integrate in to their web and WAP sites. Clients include playfish, EA, fon and Konami. Additionally, the company offers tools for mobile management, such as M3, Dialogue Manager, and Content Manager. Mindmatics has offices in Munich, Cologne, London and Vienna, and has over 90 employees.

²² Capital IQ

Mobile Entertainment

In 2008, the global market for mobile entertainment revenue was estimated at \$20bn²³.

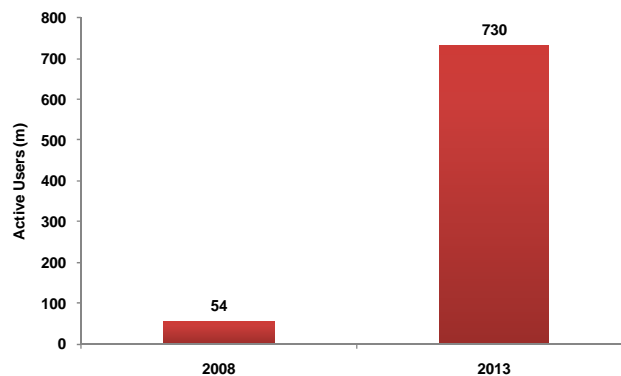
With the growth in the mobile Internet market, the worldwide mobile content market is expected to surpass \$64bn by 2012²⁴.

Cultural Differences Drive Usage

There are substantial differences between the types of entertainment preferred globally:

- Asian markets favour gaming and premium content;
- Western markets prefer user generated content such as social networks.

Exhibit 9 – Growth of Mobile Social Networks



Source: Juniper Research

Range of Monetisation Models

Mobile entertainment is easier to monetise than consumption on the Internet, with many used to the pay-as-you-go billing structure. While with the Internet, users believe that their presence alone on a site should generate enough revenues from advertising, in the case of mobile content, companies are increasingly experimenting with new revenue sources. We envisage the following monetisation methods to dominate in the market:

- Premium: subscription fees for the prized service / content;
- “Freemium”: service offered for free, with certain elements sold such as levels of a game or virtual goods - virtual goods market is expected to grow to \$2.5bn market in 2010²⁵;
- Ad-based: content provided with advertising.

²³ Informa Telecoms & Media

²⁴ Juniper Research

²⁵ Piper Jaffray

Entertainment Available through Multiple Channels

With the Internet a key inflection point in it achieving critical mass was the organisation of the information and choices available through search engines. Similarly, app. stores have gained strong consumer and developer interest, as they continue to build on the convergence of mobile and Internet, and can bypass restrictions imposed by network operators:

- Michael Gartenberg, technology strategist of Interpret, noted that Apple's App Store serves 65,000 third-party apps and has attracted over 1.5bn downloads and 100,000 developers²⁶;
- Other app. stores are also gaining momentum: GetJar reports that one in three of the independent app. store's users are downloading an application;
- GetJar exceeded half a billion application downloads in mid-July, and founder and CEO Ilja Laurs recently told the Guardian that the store witnesses 55m downloads per month, up from 18m in January 2009²⁷.

It is our belief that the leading app. store players have now cemented a core position in the mobile value chain and will start receiving interest from the large acquirers.

Select Company Profiles



Aspiro is a leader in the northern European market in mobile entertainment. The company provides services such as mobile TV, music and games. Its subsidiary Rubberduck offers a mobile TV solution, which enables operators and broadcasters to distribute their TV channel, news, marketing, pay-per-view based video services and other materials. Amongst its customers from 14 different countries are Telenor, Hutchinson3 and MTV Networks. Other entertainment services include music (nearly 2.5m tracks), ringtones, games (1,500 titles from 100 publishers) and graphics (200 thousand SKUs). Aspiro also provides mobile payment, advertising and marketing services, including CRM solutions, banner advertising, couponing, billing using SMS, MMS and WAP. The head office is in Sweden with a local presence in Norway, Sweden, Finland, Denmark, Estonia, Latvia, Lithuania and the US.

Aspiro is listed on the Nasdaq OMX Nordic Stock Exchange in Stockholm, Sweden.

²⁶ <http://www.wired.com/gadgetlab/2009/07/google-app-store/>

²⁷ Social Media Portal



Operated by Handmade Mobile Entertainment, Flirtomatic is Europe's leading flirting service for people connected to the Internet via PC or mobile phone. The service allows registered members to discover new people on the basis of the preferences, interests, location, photographs and other information stored in their profile, to chat with other users, send rapid messages with graphics, to rate other members and find user generated editorial content on matters of flirting and dating. Flirtomatic appeals to a generation of young adults (75% of its users are 18-30) that has grown up with instant messaging (IM) and SMS on mobile phones and expects to be entertained through digital media – on both their phones and their PCs. The popularity of the concept has been driven by its suitability to mobile use and the high-standard user interface. Primarily, the "Freemium" business model is utilised where the main service is for free, while users purchase things, such as virtual flowers and other gifts. The company also receives revenues from display and mobile advertising and sponsorship from various brands.

Handmade Mobile Entertainment has raised two rounds of financing, with the last of c.\$4m from Doughty Hanson Technology Ventures and Seraphim Capital in June 2007²⁸.



eBuddy is the leading global free web-based and mobile messenger platform that enables users to chat with MSN, Yahoo, Google Talk, MySpace, Facebook, ICQ and AIM users. The web-based version has over 65m users in its database with 17.5m unique visitors per month, and 4.5m unique visitors per month on the mobile platform. Furthermore, the company takes full advantage of the mobile-web convergence and provides various applications for different mobile handsets. eBuddy generates revenues through online advertising, subscription-based platforms and sales of virtual merchandise. Another revenue stream is the white-label platform. The company is based in Amsterdam and has local offices in London and San Francisco.

eBuddy has raised two rounds of financing, totalling over \$16m, with \$10m raised in February 2008 from Prime Technology Ventures²⁸.



Fjord provides digital design consultancy services in mobile and media sectors. Its services allow companies to improve brands awareness and develop interactive relationships with users who access content through the internet and mobile. The company was founded in 2001 and is based in London, UK, with additional offices in Berlin, New York, Madrid and Helsinki.

The company raised \$4m from Beringea Private Equity and GP Bullhound Limited, Investment Arm in March 2009²⁸.

²⁸ Capital IQ



GetJar is a mobile applications distributor and developer community, with over 200k beta and beta-tester accounts. GetJar connects mobile consumers, developers, publishers, and advertisers in an interactive environment, and gives users a unique and active role in product development. GetJar recently closed a Series A investment of \$6m from Accel Partners. The company is based in the UK, Silicon Valley, and in Lithuania.



Newbay provides LifeCache, a platform suite built for operators to deliver an integrated set of rich-media services including photo and video albums/blogs, social networking, digital vault, handset and desktop clients, messaging and contact synchronisation services. The company's major customers include T-Mobile (USA and International), Telefonica O2, Alltel Wireless, Vodafone, Orange, France Telecom, Swisscom, U.S. Cellular, SETAR NV in Aruba and Maxis in Malaysia. The company is headquartered in Dublin.

Newbay has raised c.\$15m from three rounds of financing, with \$9m raised at last round from Balderton Capital and Fidelity Ventures in December 2007²⁹.



Nimbuzz is an online and mobile-based site that enables users to make calls, chat and interact with others on various instant messaging and 23 social networks, including Windows Live Messenger (MSN), Yahoo, ICQ, AIM, Google Talk, Facebook and MySpace. The company has a presence in the Americas (Argentina, Brazil and USA), Europe (Germany, Italy, Netherlands, Russia, Spain, UK) and Asia (India, Indonesia). Nimbuzz, founded in 2006 and officially launched in May 2008, is headquartered in the Netherlands, with offices in Argentina and Brazil.

Nimbuzz has raised over \$15m from four rounds of financing, including \$15m from Mangrove Capital Partners and MIH Holdings in July 2008²⁹.



Taptu is a mobile-only search engine, launched in October 2007, which focuses on a range of content including websites, video, images, news, blogs, music lyrics and wikis, and tailors the results for various devices, giving "richer" results on high-end devices like the iPhone and Nokia N95, and simpler results for phones like the RAZR format. Taptu uses a range of approaches to rank content not just page rank / links, for instance "socially assisted scoring" to decide which is most popular, and "human assisted scoring" – human intervention to deliver search results in popular categories. In 2009, Taptu launched its iPhone and iPod Touch application. Taptu has 4m unique visitors per month, with volumes growing from 200k searches per day in September 2008 to 1.3m in June 2009. 60% of the company's audience is based in the US. The company was founded in 2005 and is based in Cambridge, UK.

Taptu raised \$10m in December 2008 from 3i Group and Sofinnova Partners²⁹.

²⁹ Capital IQ



United Fun Traders is a producer and distributor of innovative, quality content for mobile and smart phones in the Russia and CIS markets. UFT is an alliance established in 2005 by Herocraft, an advanced developer and publisher of mobile phone games, FounDreams, a multimedia content specialist, and i-Free, a market leader in content distribution and community services. Herocraft currently has 25 mobile games, fully compatible with more than 400 handsets, and will be launching BREW, Symbian, WAP, and SMS/MMS entertainment services. FounDreams targets the 3G mobile technology market to provide pictures, ringtones and video clips in the entertainment and sports sector.. i-Free provides Jamango, a community-based communication service for mobile phone users. The business model is to distribute some levels in the game for free and sell some elements of the game to complete. The alliance is based in St. Petersburg, Russia, and currently employs around 300 people.



Zed develops and markets entertainment and community products and services for the mobile and web with over 45m users participating. It has 130 agreements with mobile network operators worldwide and operations in 54 countries. The Zed Group also holds Ilion Animation Studios, creating computer animation, and Pyro Studios the leading video game developer in Europe.

SECTOR VALUATIONS

Select M&A transactions

Date	Target	Acquiror	Sector				Country	Transaction Value (\$m)	Description
			Advertising	Payments	Entertainment	Other			
Sep-09	Dopplr	Nokia			✓		Finland	n.a.	Social network for travellers including mobile application
Sep-09	net mobile	NTT DoCoMo			✓		Germany	60.8	Mobile content company
Sep-09	Macalla Software	Roamware		✓			UK	n.a.	Designs and develops mobile, financial, and payment software solutions
Aug-09	Torch Mobile	Research In Motion			✓	✓	Canada	n.a.	Develops software applications, including The Iris Browser
Aug-09	AdWhirl	AdMob	✓				USA	n.a.	Advertising platform for iPhone applications that allows developers to switch between ad networks
Jul-09	Activemedia Technology Group	2ergo	✓	✓			UK	0.3	Mobile ticketing and couponing
Jul-09	cellity	Nokia Corp				✓	Germany	n.a.	Mobile phone software provider
Jul-09	Valista	Aepona		✓			Ireland	n.a.	Multi-channel merchandizing, payments, and settlement solutions
Jul-09	PacketVideo	NTT DoCoMo				✓	USA	45.5	Mobilemedia software
Jul-09	Virgin Mobile Canada	Bell Mobility			✓		Canada	120.9	Mobile operator / content provider
Jun-09	SnapTell	A9.com (Amazon)	✓				USA	n.a.	Image recognition-based mobile marketing solutions
Jun-09	Paymo, Inc. and Vidicom Limited	BOKU		✓			USA / UK	n.a.	Operate mobile payment networks
Jun-09	Ternafon	Zed Worldwide			✓		Russia	n.a.	Mobile content aggregation
May-09	Wapfly Technologies	2 ergo Group	✓				Australia	n.a.	Mobile marketing services
May-09	Ad Infuse	Velti Plc	✓				USA	3.0	Mobile advertising solutions
May-09	Player X	Zed Worldwide			✓		UK	n.a.	Mobile content developer and distributor
Apr-09	Purple Labs	Myriad Group				✓	France	100.6	Mobile software solutions
Apr-09	Broca	2 ergo Group				✓	UK	8.5	Messaging technology
Apr-09	Nemos	Publicis Groupe	✓				Switzerland	n.a.	Multimedia and flash programming for web site, social network and media and mobile marketing
Mar-09	Obopay	Nokia		✓			USA	70.0	Payment through mobile application, text message, mobile Web, widget, or Obopay.com.
Mar-09	mSnap	SmartReply	✓				USA	n.a.	Ad delivery and management platforms
Jan-09	Paybox Solutions	Sybase		✓			Germany	n.a.	Mobile payment software solutions
Jan-09	Bamboo MediaCasting	Runcom Technologies				✓	USA	n.a.	Solutions for mobile content delivery
Dec-08	Me2day	NHN			✓		S. Korea	1.7	Web based mobile blog services
Nov-08	Augme	Modavox	✓				USA	5.3	Mobile marketing solutions
Oct-08	Jamba!	Fox Mobile Entertainment			✓		Germany	200.0	Content mediation company
Jun-08	Ringtone.com	Atrinsic			✓		USA	7.0	Subscription-based mobile entertainment
Jun-08	Mobile Trend	Hi-Media	✓				France	10.9	Mobile marketing services
May-08	MtMetrics	comScore	✓				USA	44.3	Measures marketing data
May-08	ZYB Technologies	Vodafone Europe			✓		Denmark	49.1	Online backup for mobile content
Mar-08	Superscape Group	Glu Mobile			✓		UK	35.7	Development and publishing of mobile games
Mar-08	Groove Mobile	LiveWire Mobile			✓		USA	48.0	Mobile music entertainment
Dec-07	Firethorn Holdings	QUALCOMM		✓			USA	210.0	Mobile financial services
Dec-07	Musiwave	Microsoft Corporation			✓		France	51.9	Mobile music entertainment
Dec-07	iTouch	Buongiorno			✓		UK	193.9	Mobile entertainment services
Oct-07	Axis Mundi	Buongiorno	✓				Argentina	10.0	Mobile marketing company
Oct-07	Zimbra	Yahoo!	✓				USA	300.9	Messaging services to advertising and media
Sep-07	Phonevalley	Publicis Groupe	✓				France	41.1	Mobile marketing agency

Source: Capital IQ

Analyst Profiles

GP Bullhound is a research centric investment bank headquartered in London with offices in San Francisco.



Manish Madhvani – Manish is a co-founder of GP Bullhound. He previously worked in London and Asia for Barclays Capital's Technology & Media Private Equity team and for the Leveraged Finance team that focussed on Management Buyouts and M&A. Manish graduated from Southampton University with an LLB in Law and MA in Marketing. He is a regular speaker on topics relating to digital media.



Sasha Afanasieva – Sasha is an Analyst. She joined GP Bullhound in 2009. Prior, she worked as an Analyst in the UK Investment Banking team at Merrill Lynch. There she gained exposure to a broad range of sectors, including TMT, Consumer Retail and Metals & Mining. Sasha holds a B.A. in Economics and Management from Oxford University (Exeter College).

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