

**Sector Update**

**February 2010**

Digital Media

**DON'T JUDGE AN EBOOK BY ITS COVER**



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**The era for eBooks has arrived**

The history of eBooks is a slow and painful one. In fact the first eBook was launched via Project Gutenberg in 1971 and since then there has been a graveyard of dedicated eBook devices, known as eReaders, up until the launch of the Kindle in November 2007. Finally consumers had a device which delivered an excellent reading experience with the added convenience of purchasing and downloading new titles wirelessly. The result is that in 2009 eBooks were 2% of the US book market and are now, apparently, also consumed on mobile phones and PCs as well.

**Comparison with music industry is flawed**

The book industry is in a much stronger position to resist the digital demands faced by the music sector. Piracy had been a pervasive problem within music for many years even before the advent of Napster and illegal downloading. This is not the case with books where piracy has historically been a time consuming photocopying exercise and where the main buyers come from a much broader and wealthier consumer demographic than just "youth." The book industry needs to adapt but it does not need to relinquish control and allow an "iTunes" equivalent to dominate digital bookstores.

**Publishers can wrestle back control from Amazon**

As bookshop chains have consolidated or gone out of business under the competitive pressure from online distribution, so publishers have become increasingly dependent on Amazon as a source of sales. But eBooks are different. You no longer require sophisticated and expensive warehousing and logistics infrastructure in order to sell books online. Publishers and their authors should embrace this change and move quickly to "go direct" whilst collaborating extensively with one another to ensure that the 50% margin currently shared with the retailer is reduced. Instead it should be recycled back in to the creation of more interactive reading content and shared more generously with authors.

**Challenging ecosystem makes it difficult for new entrants**

The eBook ecosystem is dominated by big, global players such as publishers (e.g. Random House), bookshops (e.g. Barnes & Noble), online retailers (e.g. Amazon) and vendors of eReaders (e.g. Sony). Furthermore it has been an industry that has moved at a glacial pace. Both these factors have made it challenging for venture-backed businesses to make an impact. Plasticlogic (UK) is clearly one of those in the eReader market that has broken out as has Txtr (Germany) and Liquavista (Netherlands).

## **INDUSTRY BACKGROUND**

### **eBook Beginnings**

#### **Birth of a new industry**

Believe it or not, the eBooks industry started when Michael S. Hart launched Project Gutenberg in 1971 (see Exhibit 1). This was an electronic library designed to digitalize all of the out-of-copyright books in the world and make them available to the masses in plain text. Its stated aim of a catalogue of 1,000,000 eBooks has yet to be reached.

#### **First eReaders hit the shelves**

After this initial effort, the first eBook to be published was in 1993 and was accompanied by the first software to read digital books developed by Zahur Klemath Zapata called Digital Book V1. Not long afterwards several ventures started to publish and distribute books via Floppy Disk and CD-ROM. Finally in 1998 the first eReaders were launched with snappy names such as The Rocket and The Softbook. The devices however were poor and sales were low, if non-existent. At around the same time websites were also launched selling eBooks in English such as ereader.com and ereads.com. In 2002 Random House and Harper Collins began to sell digital versions of their books.

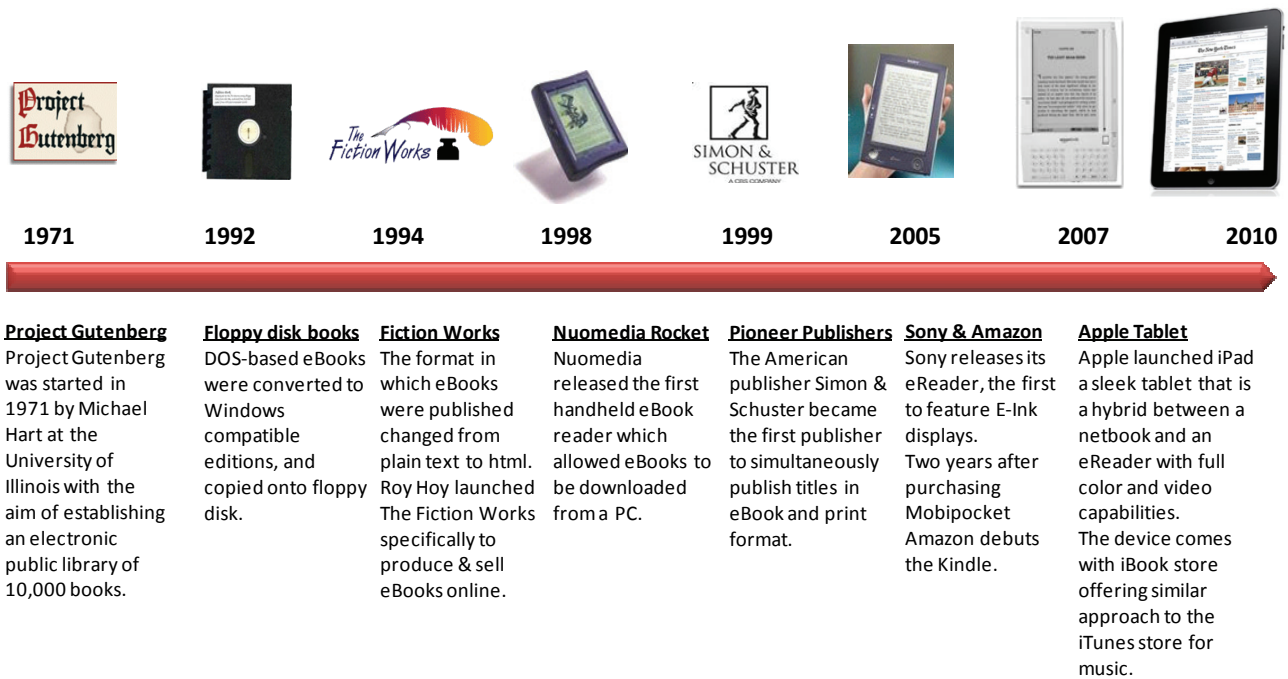
#### **But eReaders too expensive with limited book choice**

Early attempts to create eBook hardware met with failure. The main complaints focused on the expensive device price and the small selection of available books. On top of this the display was very grainy and difficult to read. The display technology of the time was not as advanced as consumers' expectations. But possibly the largest problem was the lack of infrastructure around the eReader. The eReaders of 1998 had no choice of content, no wireless downloading capability, required a PC connection and worst of all they had terrible battery life. The internet was also taking much of the attention; websites like Amazon.com were beginning to sell printed books online with a wide selection. The result was that for close to a decade the market stalled.

#### **Amazon gears up**

Amazon made its first move into the eBook market by purchasing Mobipocket in 2005, a provider of universal software for eBooks. This turned out to be an important strategic move when the company launched its own eReader, the Kindle, only 2 years later. The Kindle has become the defacto eReader in the market today despite launching three years after the first Sony device. Whilst no numbers have been released by Amazon, analysts estimate that there have been over 2m units sold worldwide to date. Combined with their dominance of online book retailing the Kindle has made Amazon the key eBook player today.

Exhibit 1 – The history of eBooks



Source: GP Bullhound

### Market ready to expand outside of hardcore book readers

The second generation of eReaders have now entered the market (e.g. Barnes & Noble's Nook and the Sony Daily Edition) with the third generation, such as the Apple iPad, following hard on their heels. Advances in display technology, expanded eBook catalogues and improvements in overall device quality have given the industry a new lease of life. The Sony eReader was the first to use the E-Ink display technology (currently used in 100% of all commercially available eReaders) and to provide an online eBookstore to go along with the device. eReaders now offer fast downloads, personal collections at your finger tips and lower book prices. This sector has only recently begun to show growth with the increased concentration on eBook distribution and more dedicated devices available on the high street. The market is now ready to target a new base of customers and step outside of the niche market of hardcore book readers.

### The eBook market

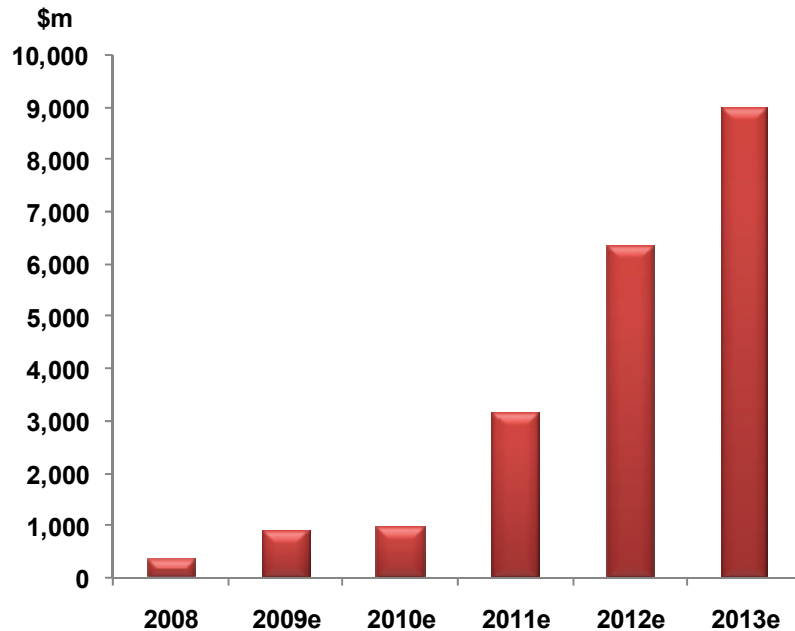
It is important in assessing the market to separate out the market for eBooks from the market for eReader devices. eBooks can be consumed on any number of devices from the dedicated ones described in this report to more mainstream devices such as mobile phones, PCs, laptops and netbooks.

### US dominates global eBook market

The US leads the global market for eBooks and in 2010 the US market is forecast to be worth \$500m (Source: Forrester) up from approximately \$300m in 2009 (see Exhibit 2). This is equivalent to less than 2% of the domestic book market

worth \$24bn. This has been due to the early availability of devices, the size of local eBookstores, attractive pricing, the evangelical behaviour of Amazon and the early-adopter nature of the US consumer.

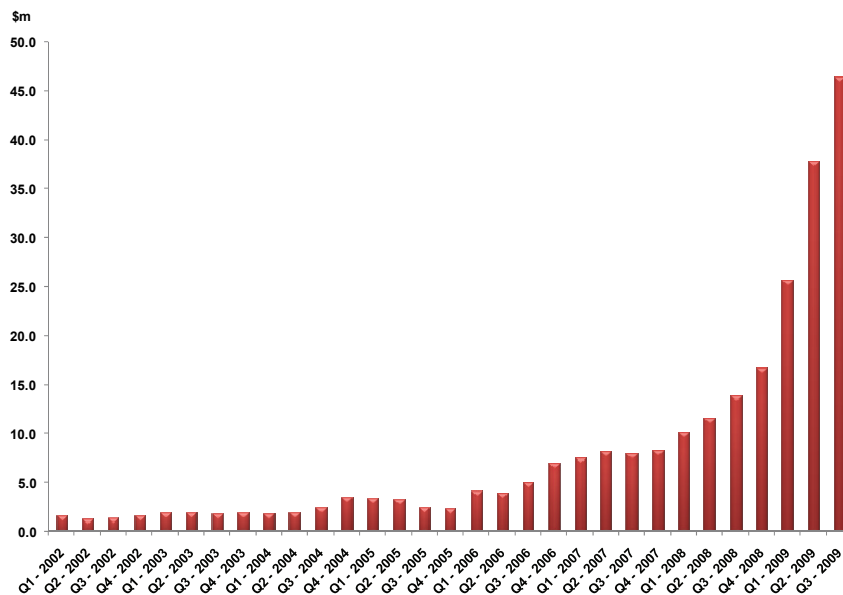
**Exhibit 2 – The global eBook market, 2008 – 2013e**



Source: In-Stat 2009

Furthermore, the market is accelerating very fast quarter on quarter, as demonstrated by data from the Association of American Publishers (see Exhibit 3). Note that this data is a subset of the total US eBook market and is just wholesale revenues.

**Exhibit 3 – US wholesale eBook sales; Q1 2002 – Q3 2009**



Source: Association of American Publishers

## Europe lagging behind but growth expected

Outside of the US, the market is still in its infancy but likely to grow quickly. We believe that the purchasing power of the European consumer and their appetite for books is just the same as those of US consumers. The topic is now on the strategic agenda of all major publishers across the globe and with the forthcoming launch of the Apple iPad has never received so much PR. The market in Europe has been held back by the lack of eReaders and in fact, in 2008 in Germany, the eBook market declined for the first time since records began. This is slowly but surely being put right as dedicated devices and content become more freely available.

## eLearning adoption driving digitization of textbooks

Within the eBook market, textbooks (a \$10bn annual market in the US) are going online and developing more quickly than the fiction and non-fiction sectors. The speed with which students of all ages are adopting eLearning as an accompaniment or alternative to traditional courses and books is forcing academic publishers to create more interactive digital content more quickly than the mainstream book publishers. It is of course easier to see how publishers could maintain the prices of digital textbooks using valuable and unique interactive content than they could with the plain text of a Charlotte Bronte novel where there is significant pressure to reduce prices below the printed version. Amazon has already signed up the publishers of 60% of the US textbook market and is launching a pilot programme with six US colleges including Princeton and Arizona State.

## KEY TRENDS IN THE INDUSTRY

### eReaders improving at speed

#### eReaders are not the only solution

There are currently many devices on the market that, with the addition of a simple and free application, can read eBooks. The majority of the western world already owns a mobile phone and many own a PC. We believe that this will prove to be the largest competition for the Kindle and other dedicated eReaders, particularly from the younger generation who are more comfortable reading from a backlit screen and who cannot afford eReaders. Furthermore, as more and more is demanded from eReader hardware, so the lines between an eReader and a Netbook will begin to blur. Furthermore access to eBooks is becoming easier every day. Many of the most downloaded iPhone apps are in fact eBook applications and the most popular one is called Stanza, developed by Lexcycle. This software enables users to view eBooks and digital newspapers in a wide range of formats including ePUB, Mobipocket, PDF, Word and also the Amazon Kindle format.

#### Competition is hotting up

Most of the leading consumer electronic vendors have launched or plan to launch dedicated eReaders in the coming 12 months. Today the market is dominated by

the Kindle (45% market share) with Sony in second place (30% market share) and other vendors sharing the remaining 25% of the market. Amazon stole a march on the competition by aligning the Kindle with such celebrities as Oprah for television exposure, and with Stephen King who released exclusive content. Analysts estimate that over 300,000 units were sold in 2008 growing to 1.5m units in 2009. With JP Morgan forecasting an eReader market of 100m units in Europe and the US, you can see why competition is fierce.

The key functionality differs between devices and a comparison of the main players can be seen in Exhibit 6.

### Vendors targeting niche markets

Many of the new entrants are launching devices tailored for specific markets. For example, the Skiff eReader from Hearst Corporation is going to be geared towards periodicals. Plasticlogic meanwhile are launching a larger format device, called the Que, for the business user. Last but not least is of course the Apple iPad with its colour screen and sleek design, it is a potential threat to the current black and white non-multimedia eReader devices. However, although the touch screen and the PC-like functionalities of the iPad are clearly a welcomed innovation for digital content consumption, we do not believe that this first version will necessarily be a competitive threat to the Kindle since the vast majority of eBook consumers will continue to prefer a simple, purpose-built device.

### Google's device strategy

Google is entering the eReader market from a software standpoint via its Android platform that was initially targeted for mobile phones. Launched in 2008, the Google Android operating system is open source and light weight making it an attractive proposition for eReader manufacturers. In the US, Spring Design is selling the Android-based Alex eReader whilst Barnes & Noble's Nook device also runs Google's OS (see Exhibit 4)

**Exhibit 4 – Android based eReaders**



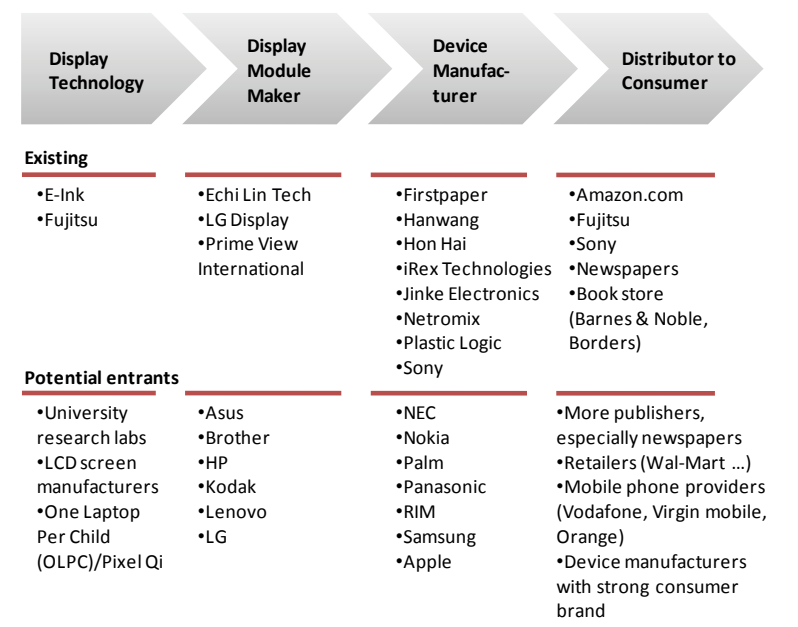
Source: [www.springdesign.com](http://www.springdesign.com), [www.barnesandnoble.com](http://www.barnesandnoble.com)

### Pricing remains a limiting factor

For all of the praise, there are some significant hurdles that must be overcome for these devices to become a mass market success. The most important of these is price. At well over \$250, an eReader is not priced to ship in typical consumer electronic volumes and a large part of the reason for this is the cost of the display technology, in most cases E-Ink. For the Kindle, it is estimated that this represents up to 30% of the total bill of material costs or \$60 (Source: iSuppli). With E-Ink's dominance, LCD technology has taken a backseat but it may soon emerge as a more cost-effective alternative and Phillips has already created a spin-off that specializes in the next generation electrowetting displays called Liquavista.

Display technology has and will continue to be a dominant factor in the success of eBooks (see Exhibit 5). However this Exhibit belies a much more confused landscape with players such as Amazon and Barnes & Noble selling both devices as well as distributing content through their own dedicated eBookstores.

**Exhibit 5 – Device value chain**



Source: Forrester Research

DON'T JUDGE AN EBOOK BY ITS COVER

Exhibit 6 – Summary of key eReader features by vendor

	Apple iPad	Amazon Kindle 2	Amazon Kindle DX	Barnes & Noble Nook	Sony Daily Edition	Plastic Logic Que proReader
Name	iPad	Kindle 2	Kindle DX	Nook	Reader Daily Edition	Que
Available	March (WiFi only) April (WiFi/3G)	Now	Now	Now	Now	Mid-April
Price	WiFi: \$499-699 3G/WiFi: \$629-829	\$259	\$489	\$259	\$399	WiFi/4GB: \$649 WiFi/3G/8GB: \$799
Size	.5 inches thick	8 x 5.3 x 0.36 inches	10.4 x 7.2 x 0.38 inches	7.7 x 4.9 x 0.5 inches	8.13 x 4 x 19/32 inches	8.5 x 11x .33 inches
Weight	1.5 lbs.	10.2 oz.	18.9 oz.	12.1 oz.	12.75 oz.	17 oz.
Screen Size	9.7 inches	6 inches	9.7 inches	6 inches	7.1 inches	10.5 inches
Display	Backlit IPS Color	Grayscale	Grayscale	Grayscale reading, color nav	Grayscale	Grayscale
Touchscreen / Rotate	Yes/Yes	No/Manual	No/Yes	Yes/No	Yes/Yes	Yes
Battery Life	11 hours	7 days with wireless Whispersync on	7 days with wireless Whispersync on	10 days	7 days with wireless on	N/A
Storage / Expandable	16GB; 32GB; 64GB/No	2GB/No	4GB/No	2GB/Yes (microSD)	1.6GB/Yes (Memory Stick Duo/SD)	4GB; 8GB/No
Input	Touchscreen/Soft keyboard (wireless keyboard available)	Keyboard	Keyboard	Virtual keyboard	Stylus/virtual keyboard	Touchscreen/Virtual Keyboard
Wireless / Bluetooth	3G through AT&T/WiFi3G plans: up to 250MB, \$15; unlimited \$30. No contract.	Units sold through Oct. 22, Sprint 3G; Now 3G/roaming through AT&T/NO	3G (Whispernet/Sprint)	3G (AT&T)/WiFi	3G (AT&T)/WiFi	3G (AT&T)/WiFi/Bluetooth
International	No deals yet; 3G unlocked	3G Roaming (AT&T)	3G Roaming (AT&T)	No	No	N/A
Native Formats	EPUB; Audible; Kindle (through app); iTunes; additional formats NA	Kindle (AZW), TXT, Audible (formats 4, Audible Enhanced (AAX), MP3, unprotected MOBI, PRC;	Kindle (AZW), Native PDF, TXT, Audible (formats 4, Audible Enhanced (AAX), MP3, unprotected MOBI,	EPUB, eReader, PDFs, MP3s, JPEG, GIF, PNG and BMP.	EPUB, PDF, JPEG, BBeB, TXT, RTF, JPEG, PNG, GIF, BMP, MP3, AAC	Native PDF, GIF, JPEG, PNG, BMP, ePub, and TXT; Will work with Office, HTML via Que software
Platform	Open to approved third-party developers	Closed now but SDK has been released for upcoming beta and store with approved third-party	Closed now but SDK has been released for upcoming beta and store with approved third-party	Closed	Closed to developers; open in terms of multi-format, non-DRM use.	Closed
Browser	Safari	Yes in U.S., Japan. NA in most countries.	Yes	No	No	No
Available Content	Number of iBookstore titles N/A; Kindle Store; iPhone apps	400,000-plus books, more than 130 newspapers & magazines, 8,000 blogs (Numbers vary internationally)	400,000-plus books, more than 130 newspapers & magazines, 8,000 blogs (Numbers vary internationally)	350,000 books for sale, public domain; about 30 newspapers, magazines. Google Books brings titles to 1 million	Includes public domain, access to public libraries through OverDrive	350,000 books for sale, public domain
Bookstore	iBookstore	The Kindle Store	The Kindle Store	Barnes & Noble eBookstore, Google Books	Sony eBook Store (converting to EPUB this year), Google Books	QUEreader.com (powered by Barnes & Noble); periodicals from Dow Jones, others.
Book Sharing	N/A	Between devices, Kindle apps on same acct.	Between devices on same acct.	14 days on many titles	No	No
Microphone / Speakers	Yes/Yes	No/Yes	No/Yes	No/Yes	No/Yes	No/No
Brand	Apple	Amazon	Amazon	Barnes & Noble	Sony	Plastic Logic

Source: Paidcontent.org

## eBook pricing

### Debate rages on cost of eBook development

The book publishing industry has historically been one where the direct costs of commissioning, publishing and marketing a book are relatively opaque. Authors and consumers alike have consistently clamored for either greater royalty payments or cheaper retail prices. The advent of the eBook pours more fuel on the fire since it is clear that publishers should be able to make significant cost savings versus traditional book publishing. Whilst publishers must still pay for the author advance, the editing, proofreading and marketing efforts, there is:

- No physical manufacturing cost
- No physical distribution cost (packing, picking and shipping)
- No risk of return, the sale is guaranteed

### Amazon fighting the consumers' corner

Amazon has consistently been fighting for eBook prices to be significantly cheaper than their printed counterpart. However, at \$9.99 even Amazon were losing money on many of their eBook sales. Amazon has consistently championed for the rights of the consumer to have the widest possible choice, in one place at the cheapest possible price. Consumer surveys also reveal a strong feeling that an eBook should be better value than a book, particularly a hardback.

### Macmillan fights back and wins

The issue of pricing finally bubbled over in February 2010 when Macmillan met with Amazon and stated that the prices for their bestsellers could no longer be at \$9.99 but had to be in the \$12.99 to \$14.99 range – in line with those pre-agreed for the Apple iPad. Amazon responded by removing the “buy buttons” of Macmillan books from its website. This appears to have been a PR disaster for Amazon since not only have they had to back track from this position but they have also capitulated to Macmillan’s request and also reminded everyone of their monopolistic position in the book market.

### Wholesale pricing replaced by agency model

From Amazon’s perspective they no longer buy digital books at fixed wholesale prices with control over the ultimate retail price but will transition to an agency model where they receive a 30% cut on sales but crucially with the publisher able to set the retail price. This results in most bestsellers rising from \$9.99 to \$14.99 on the Kindle from March 2010. At this pricing point, so publishers argue, the gross margin for an eBook and a hardback is approximately the same. Publishers then cease to worry about cannibalisation of simultaneous ebook and printed book releases and it should give them enough margin to still invest in the new format.

### Authors pushing for increased royalties

Today, an author will receive approximately £1 for every £10 paperback book sold in the retail channel. Now, for the first time, authors have the option of self-

publishing or of selling their digital rights separately from their printed media rights directly to Amazon or Sony. Websites like Scribd.com for example offer authors 80% of revenues for publishing their books into eBook format and Google's Book Registry allows authors to set their own prices. Whilst the reality is that only the most well-known authors will ever make this a financial success, it has provided the necessary leverage to push royalty rates up towards 25% of net sales. Many in the industry believe this should go up as high as 50% given the lower publishing costs associated with eBooks.

### **Publishers sit in the box seat**

We believe that as long as publishers operate a more transparent *modus operandi* and embrace the eBook revolution then they stand to benefit hugely from the new digital world. If executed correctly, publishers should maintain their control over content rights and best-selling authors whilst increasing convenience and reducing cost for the public should mean higher sales.

## **Content Distribution Network**

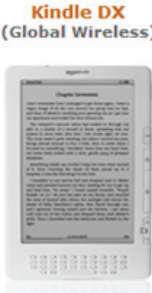
### **Kindle's success due to distribution and delivery**

The distribution and availability of eBooks will probably be one of the most crucial aspects to the continued rapid growth of the industry. With proper distribution, sensible pricing and expanded catalogues more consumers will feel as if they have a need for the product or can benefit from it in some way. Whilst the Kindle was a revolutionary product, it was Amazon's website where users are able to download a large selection of books, subscribe to newspapers and even purchase their favourite blogs that really caught the consumers' imagination.

### **Wireless delivery increased convenience**

In addition, Amazon made significant and innovative changes to the delivery system. Its Whispernet client allows Kindle owners to wirelessly connect to the online store making it suitable for consumers to search and purchase content over the air in any location with 3G network coverage. The wireless access service is available for the new "global wireless Kindle" and "global wireless Kindle DX" users (see Exhibit 7). There is no charge for the connectivity as Amazon pays for Kindle's connectivity and as the average eBook file size is 1.2MB, the bandwidth cost is equal to 14.4 cents per eBook.

**Exhibit 7 – Kindle DX global wireless specifications**

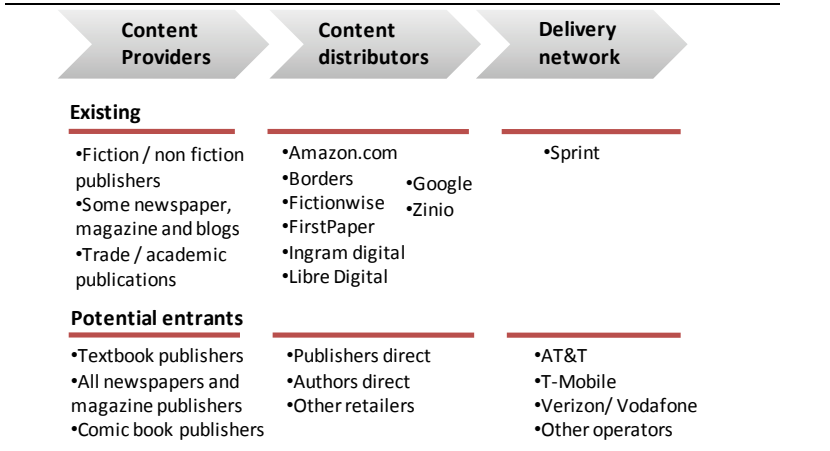
Display	9.7" diagonal E Ink®	
Size	10.4" x 7.2" x 0.38"	
Storage	3,500 books	
Books in Under 60 Seconds	✓	
3G Wireless	✓	
Native PDF Support	✓	
Text-to-Speech	✓	
Whispersync	✓	
Rotating Display	Auto-Rotation	

Source: www.amazon.com

**Publishers pushing for multiple online stores**

Publishers are wary of the dominance which Apple has in the digital music space via iTunes. And so they are working hard to ensure that Amazon does not become the next iTunes by supporting multiple distributors such as iBooks, Barnes & Noble's Fictionwise platform, Google and many others (see Exhibit 8). Whilst this does create some challenges when it comes to digital publishing standards – with different online stores and eReaders supporting different formats – it does provide for a more competitive environment for distributors which must be good in the long term for publishers, authors and consumers.

**Exhibit 8 – Content distribution chain**



Source: Forrester Research

**Google has largest eBook catalogue**

Google is already sitting on a huge catalogue of “scanned books” as it started the service in 2004 on out-of-copyright books. In fact, only recently, the company entered into agreement with 20,000 intellectual property owners to digitalise their written content and make it available online. The agreement framework is called “Partner Program and Library Project” and allows each copyright holder to define the way the content can be searched, priced and distributed on the platform.

In a mixed format world where books and eBooks go hand-in-hand, the publishers will still have a strong role to play in bringing copyrighted content to the

digital market – both in spotting talent as well as in financing and marketing it appropriately. The market will continue to push for improved eReaders, lower pricing as well as increased competition in distribution.

## **Piracy – will it go the same way as music?**

### **Comparison with music industry is flawed**

The book industry is in a much stronger position to resist the digital demands faced by the music sector. Today only 2% of US book sales are digital versus 36% of music sales. Piracy had been a pervasive problem within music for many years even before the advent of Napster and illegal downloading. This is not the case with books where piracy has historically been a time consuming photocopying exercise and where the main buyers come from a much broader, wealthier consumer demographic than just “youth.” The book industry needs to adapt but it does not need to respond to piracy by relinquishing control and allowing an “iTunes” equivalent to dominate digital bookstores.

### **Access to pirated book content is limited**

Unlike the music industry, we believe that the availability of high quality pirated digital books is limited. Whilst it is possible to find eBooks for free at filestube.com or search.4shared.com, the process for downloading them and then ultimately consuming them on a PC is far from satisfying. This is in contrast to a statement from Attributor who claim that 10% of all books read in the US are pirated. But then, as a vendor of piracy software, they have a certain ulterior motive. Furthermore, high priced books are unlikely to spawn pirated copies (at least in fiction but perhaps not the case in textbooks) but cause readers to purchase cheaper books by a different author and publisher. The fact that in 2009 the two most downloaded eBooks on BitTorrent were the Kamasutra and Adobe Photoshop Secrets says it all (see Exhibit 9)!

#### **Exhibit 9 – Top 10 pirated eBooks on Bit Torrent**

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- 1. Kamasutra**
- 2. Adobe Photoshop Secrets**
- 3. The Complete Idiot's Guide to Amazing Sex**
- 4. The Lost Notebooks of Leonardo da Vinci**
- 5. Solar House – A Guide for the Solar Designer**
- 6. Before Pornography – Erotic Writing In Early Modern England**
- 7. Twilight – Complete Series**
- 8. How To Get Anyone To Say YES – The Science Of Influence**
- 9. Nude Photography – The Art And The Craft**
- 10. Fix It – How To Do All Those Little Repair Jobs Around The Home**



**Downloaded 100.000 and 250.000 times.**

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Source: Freakbits.com

## But DRM remains important for publishers

DRM allows an orderly digitisation of the industry where both content creators and distributors can make money from content. There remains a need for a more universal form of DRM or format that will be easily handled by publishers, distributors and consumers because the deep fear is that by allowing for the digital rights of these works to be easily accessible, it will lead to the mass pirating that the music industry faced – we do not believe this to be the case but sometimes fear can be an irrational motivator. Watermarking is also being pursued in which distributors and sellers watermark eBooks so they can later be traced through the pirating route and disabled. Digital distributors like Ingram Digital offer solutions for such problems.

## eBooks in the “cloud”

The latest agreement signed with Google has a framework for providing users with the ability to download or just stream / access eBook content. The industry is pushing for a cloud computing solution that would allow consumers to access their book library anytime anywhere with a login and only view a couple of pages at a time but never really storing the content.

## COMPANY PROFILES



**Business description** : Bebook offers Wifi eReader devices and an eBook store. It sells 6" BeBook One, the 5" BeBook Mini and the BeBook Neo with Wacom touch screen. In the book store you can find all current popular books titles from major online bookstores like Barnes & Noble, Booksonboard, Ebooks.com, Ebookmall.com, Borders, WHSmith and Waterstone.

**Status** : Private

**Ownership** : Founders

**Headquarters** : Netherlands

**eReader segment** : Device

**Website** : [www.mybebook.com](http://www.mybebook.com)



**Business description** : Bookeen develops and manufactures electronic reading devices. Its products are used to download, store, and read e-dictionaries, e-books, and e-news. The company sells its products through a network of resellers, as well as online in France and internationally. Bookeen was founded in 2003.

**Status** : Private

**Ownership** : Founders

**Headquarters** : France

**eReader segment** : Device

**Website** : [www.bookeen.com](http://www.bookeen.com)



**Business description** : Txtr offers a complete solution for digital reading. Its offering includes a cloud based platform for digital content management and billing as well as a txtr Reader client (software and device). The txtr software is available for desktop, smartphone and various bespoke ereader devices.

**Status** : Private

**Ownership** : Founders

**Headquarters** : Germany

**eReader segment** : Software & device

**Website** : [www.txtr.com](http://www.txtr.com)



**Business description** : iRex Technologies provides solutions for portable electronic reading and writing to improve electronic paper applications. It offers iLiad, an electronic reader, which is used in various application areas, such as educational, newspaper publishing and e-book publishing applications; and a touch screen e-Reader with 3G wireless capabilities that supports multiple formats, including the e-Pub format and multiple DRM solutions. The company was founded in 2001 and is based in Eindhoven.

**Status** : Private  
Ventures, Main Capital Partners

**Ownership** : AAC Capital Partners, Favonius

**Headquarters** : Netherlands

**eReader segment** : Device

**Website** : [www.irextechnologies.com](http://www.irextechnologies.com)





**Business description** : eBooks.com distributes commercial ebooks from book publishers. It operates an e-book store and sells popular, professional, and academic digital books from various publishers. The company also provides a growing collection of scholarly and professional texts to institutions and companies internationally. In addition, the company provides marketing and fulfillment services to book publishers and retailers. The company was founded in 1997 and is based in Claremont, Australia.

**Status** : Private

**Ownership** : Founders

**Headquarters** : Australia

**eReader segment** : Publishing

**Website** : [www.ebooks.com](http://www.ebooks.com)



**Business description** : Feedbooks publishes and distributes high quality free e-books in a large number of formats. The Company promotes public domain books and original books from new authors that can be read on mobile devices including mobile phones, tablets and eReaders. Feedbooks offers the whole eBook publishing and distribution ecosystem with a reading platform that can reach a global audience of millions of users.

**Status** : Private

**Ownership** : Founders

**Headquarters** : France

**eReader segment** : Publishing

**Website** : [www.feedbooks.com](http://www.feedbooks.com)



**Business description** : Publicaciones Digitales engages in the digital book manufacturing, conversion, eBook file generation, eCommerce outsourcing, and sale of ebooks for the publishing industry. The Company offers a Publidisa Affiliate Bookshop service that sells eBooks to final customers from an electronic publications catalogue. The company also owns and operates an eBook site, which allows publishers to include their publications converted to ebook format for selling them on the Internet. Publicaciones Digitales was founded in 2000 and is based in Seville, Spain with locations in México DF, Mexico; Lisboa, Portugal; Buenos Aires, Argentina; and Barcelona, Spain.

**Status** : Private

**Ownership** : Founders

**Headquarters** : Spain

**eReader segment** : Publishing

**Website** : [www.publidisa.com](http://www.publidisa.com)



**Business description**: Smashwords operates as an ebook publishing and distribution platform for ebook authors, publishers, and readers. It enables independent authors and publishers to publish and distribute their novels, short fiction, poetry or other written forms. The company provides author pages with

bios, headshots, and lists of works; embedded YouTube videos for video book trailers and virtual author events. It enables authors and publishers to publish, distribute, and sell their ebooks online to various audiences in the United States and internationally. The company distributes its products through online retailers and mobile e-reading apps. Smashwords was founded in 2008 and is based in Los Gatos, California.

**Status** : Private

**Ownership** : Founders

**Headquarters** : United States

**eReader segment** : Publishing

**Website** : [www.smashwords.com](http://www.smashwords.com)



**Business description:** Scribd is a social publishing company for readers, authors, and publishers. It enables users to publish, discover, and discuss original writings and documents. The company provides iPaper, a document reader solution that enables users to upload and share their original works on the web and mobile devices. Scribd was founded in 2007 and is headquartered in San Francisco, California.

**Status** : Private

**Ownership** : Founders

**Headquarters** : United States

**eReader segment** : Publishing

**Website** : [www.scribd.com](http://www.scribd.com)



**Business description:** OverDrive provides technology infrastructure for distributing premium digital content. The company delivers secure management, protection, and downloading services for publishers and enterprises. It provides download media with various titles, including eBooks, audio books, music and video. The company's software products include ReaderWorks a suite of eBook authoring and conversion tools. OverDrive was founded in 1986 and is based in Cleveland, Ohio.

**Status** : Private

**Ownership** : Founders

**Headquarters** : United States

**eReader segment** : Publishing

**Website** : [www.OverDrive.com](http://www.OverDrive.com)

## SECTOR VALUATIONS

### Private placements

Date	Target/Issuer	Investors	Deal Size (\$m)	Business Description
26-Oct-09	Liquavista B.V.	Applied Ventures, LLC	na	Low power video electro-wetting display
28-Jul-09	LibreDigital, Inc.	Adams Capital Management, Inc.; Noro-Moseley Partners; The New York Times Company (NYSE:NYT); HarperCollins Publishers L.L.C.; Triangle Peak Partners, Inc.	15.0	Interactive digital technology for book publishers
27-May-09	Liquavista B.V.	Amadeus Capital Partners Limited; GIMV NV (ENXTBR:GIMB); Prime Technology Ventures N.V.	6.96	Low power video electro-wetting display
22-Oct-08	SiliconBlue Technologies	BlueRun Ventures; CrossLink Capital, Inc.; New Enterprise Associates	24.0	Low power SRAM FPGA for portable media players
29-Sep-08	eBOOK Initiative Japan Co., Ltd.	Mobile Internet Capital Inc.	na	Online production and distribution of eBooks
17-Mar-08	Liquavista B.V.	Amadeus Capital Partners Limited; GIMV NV (ENXTBR:GIMB); New Venture Partners LLC	12.61	Low power video electro-wetting display
15-Oct-07	Zipidee, Inc.	Novus Ventures; The Individuals' Venture Fund; Khaida Development, Inc.	na	Internet digital marketplace with eBook offering
08-Oct-07	E Ink Corporation	KPS Capital Partners, LP; FA Technology Ventures; Hearst Corporation; Intel Capital; Motorola Ventures; Toppan Printing Ltd. (TSE:7911)	16.0	Electronic paper display solutions for eReaders and phones
24-Sep-07	iRex Technologies BV	AAC Capital Partners; Main Capital Partners BV	na	eReader manufacturer
11-Jan-07	LibreDigital, Inc.	HarperCollins Publishers L.L.C.	na	Interactive digital technology for book publishers
06-Dec-06	Liquavista B.V.	Amadeus Capital Partners Limited; GIMV NV (ENXTBR:GIMB); New Venture Partners LLC	15.97	Low power video electro-wetting display
06-Dec-06	Polymer Vision (Radius)	Technology Capital SA	28.35	Develops rollable displays for eContent
20-Apr-06	Liquavista B.V.	New Venture Partners LLC; Phillips Research	10.0	Low power video electro-wetting display
06-Feb-06	LibreDigital, Inc.	Adams Capital Management, Inc.; Noro-Moseley Partners; SSM Partners	4.0	Interactive digital technology for book publishers
22-Mar-05	E Ink Corporation	Intel Capital	na	Electronic paper display solutions for eReaders and phones
22-Jun-04	LibreDigital, Inc.	Adams Capital Management, Inc.; Noro-Moseley Partners; SSM Partners; The New York Times Company (NYSE:NYT)	7.2	Interactive digital technology for book publishers
04-Feb-02	E Ink Corporation	Toppan Printing Ltd. (TSE:7911)	25.0	Electronic paper display solutions for eReaders and phones

Source : Capital IQ

## M&A transactions

Date	Target	Buyers	Deal Size (\$m)	Business Description
04-Feb-10	Touchco	Amazon.com Inc. (NasdaqGS:AMZN)	na	Multitouch technology for flexible screens
22-Oct-09	Yudu Media Limited	Quad/Graphics, Inc.	na	ePublishing library and marketplace for digital content
06-May-09	Numilog	Hachette Livre SA	na	Numilog operates as an ebookstore and aggregator
04-Mar-09	Fictionwise, Inc.	Barnes & Noble, Inc. (NYSE:BKS)	15.73	Publishing and distributing eBooks.
06-Feb-09	E Ink Corporation	Prime View International Co. Ltd. (GTSM:8069)	215.0	Electronic paper display solutions for eReaders and phones
09-Jan-08	eReader.com, Inc.	Fictionwise, Inc.	na	Electronic book and magazine publishing
19-Dec-06	Coutts Information Services Limited	Ingram Industries, Inc.	na	Digital services including eBook production
30-Mar-05	MobiPocket.com SA	Amazon.com Inc. (NasdaqGS:AMZN)	2.5	Online eBooks distribution for mobile devices
03-Sep-03	eReader.com, Inc.	PalmGear, Inc.	na	Electronic book and magazine publishing
16-Apr-03	MobiPocket.com SA	Franklin Electronic Publishers Inc. (AMEX:FEP)	na	Online eBooks distribution for mobile devices
24-Jan-02	Netlibrary Inc.	OCLC Online Computer Library Center, Inc.	10.0	Solution for digital publishing including eBooks
19-Mar-01	eReader.com, Inc.	Palm, Inc. (NasdaqGS:PALM)	5.0	Electronic book and magazine publishing
22-Feb-00	eReader.com, Inc.	Netlibrary Inc.	24.8	Electronic book and magazine publishing

Source : Capital IQ

## Analyst Profiles

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



**Hugh Campbell** – Hugh is a co-founder of GP Bullhound. He previously worked at Goldman Sachs as an equity research analyst and prior to that in corporate finance at Citibank. He graduated from Pembroke College, Oxford University.



**Remy Valette** – Prior to GP Bullhound, Remy worked as an M&A analyst at Societe Generale covering a number of industrial sectors. He holds a Masters in Corporate Finance from EM Lyon Business School and also a Master in Applied Physics from Paris VII University.



**Raul Alvarez** - Raul joined GP Bullhound in 2009 as a Summer Analyst. He is currently entering his final year at Fordham University where he is pursuing his Bachelors Degree in Economics. During his time at GP Bullhound he assisted with several projects, the concentration of his work involving eBook Market Research.

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