Newsletter
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MobileSolve is a boutique investment bank providing M&A, capital raising and financial advisory services to companies in the wireless and semiconductor industries.*

Each month we present a short article on an industry or transaction topic of current interest, and notable transactions in the wireless and semiconductor industries completed during the prior month.

This month's newsletter explains why the VC industry has reached its current high point, and whether current trends will continue in 2015. We welcome your questions or comments.

See you next month in Barcelona!
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LOVE AND VENTURE CAPITAL

*By **Steve Gaynor*** and ***Neeraj Baghel***

You may have heard the expression "*timing is everything in love.*" Whether it is true or not in love, it certainly appears to be the case in venture capital ("VC"). The 2014 results for the VC industry in most countries were nothing short of spectacular. If your company is backed by VCs or is considering raising a round, it's worth taking the time to understand what is happening.

Venture Capital in 2014

2014 was a superlative year for VC by any measure, including funds raised, amounts invested, the number of exits, and both investment and exit valuations. While not at the levels seen in the late 1990's, 2014 was lucrative by any standard, and especially when compared with the last few years following the global financial crisis.

Funds Raised

$44.7 billion was raised globally by 308 funds in 2014, the highest amount since 2007, and over 1.5 times the amount raised in 2013. It is a surprising total since large institutional investors continue to limit their allocations to VC in favor of private equity.

The strongest region was North America, where nearly three-quarters of the total, $32.6 billion, was raised. Year-over-year fundraising in Europe was flat.

It is questionable, however, whether much of the amount raised may truly be considered VC in the traditional sense of equity funding for startups. Of the global total, more than a quarter was raised by just eight U.S.-based late stage funds, sometimes known as "crossover" funds. Their aim is to invest in the global superstars like Xiaomi and Uber, which have each achieved a valuation of over $40 billion while still private.

The largest such funds were Tiger Global Private Investment Partners IX ($2.5 billion), Technology Crossover Ventures VIII LP ($2.23 billion) and Andreessen Horowitz Fund IV ($1.7 billion). They are capitalizing on the trend of the last few years for companies to stay private much longer than in the past.

Investments

Total capital invested in 2014 was $88 billion; an over sixty percent increase over 2013, and akin to levels prevailing in the late 1990's. The global allocations were similar to the funds raised, with North America accounting for two-thirds of the total. Europe attained the highest level in ten years with $11.3 billion invested.

As noted above, late stage capital rounds largely drove the investment totals. In the U.S., for example, of the $52.12 billion that went to private companies, $31.35 billion went to mature firms that twenty years ago would have gone public instead. That amount actually exceeds the previous record for late stage investment of $28.45 billion set in 2000. Examples of late stage investments include AirBnB, Cloudera and Uber. Evidencing the outsize role played by late stage deals, the number of VC financings in the U.S. actually fell from 3,837 in 2013 to 3,682 in 2014.

Exits

Both the number and total value of global exits (sales and public offerings) of VC backed companies were higher in 2014 than in the previous few years. 2014's $95.4 billion in 1,295 exits exceeded 2013's $56.5 billion in 1,283 exits by a wide margin. Note the much greater average valuation in 2014 ($74M vs. $44M) is in line with the trend to later and larger exits.

Once again North America accounted for the lion's share of exits, nearly 83% of global activity. Europe accounted for 12%.

The largest exits occurred through a sale to a strategic buyer. Facebook's acquisition of WhatsApp's ($22 billion) was by far the largest. Other notable transactions were Nest Labs (acquired by Google, $3.2 billion), and Oculus VR (acquired by Facebook, $2 billion).

There were 105 IPOs by venture-backed companies in 2014, the most since 2000, but still substantially below 1999's record of 256 IPOs. 2015 may also be a good year for exits by IPO; in October, The Wall Street Journal reported there were 49 venture-capital-backed companies in the U.S. with a valuation of $1 billion or more, good candidates for an eventual IPO.

The largest IPOs in 2014 were China's JD.com (NASDAQ: JD; online shopping platform that raised $1.78 billion); Germany's Rocket Internet (FRA: RKET; startup incubator that raised €1.4 billion); and the U.S.-based Lending Club (NYSE: LC; peer-to-peer lending platform that raised $870 million).

Valuations

It's no surprise that the large amounts of capital available and record prices for equities on major stock exchanges, particularly in the U.S., have driven valuations of private companies to records surpassing even the "dot com" era. The median valuation for all venture financings in 2014, including late stage deals, was $40 million, up from $20 million in 2013 and higher than the $25 million for 2000.

Little wonder well-known venture capitalist Marc Andreessen, the Netscape co-founder who has become one of the most prominent investors in Silicon Valley, recently warned valuations are "*running a little warm*" and called for "*discipline*" on the part of investors and companies. The structure of today's VC industry, however, is such that it will be difficult for such discipline to develop.

That is because for the big funds that dominate the industry, the overwhelming portion of the returns by which they are measured are achieved through the few portfolio companies that are spectacularly successful, such as those companies today known as "unicorns;" i.e., private companies that have attained valuations of $1 billion or more.

The past few years have seen about fifteen companies a year achieve unicorn status. Predictably, VC funds rush to invest in those companies, and are willing to do so at valuations that in the recent past would have been considered exorbitant. This has the effect of raising valuations for all investments in growth companies, particularly in the rather insular world that is Silicon Valley.

So What?

While VC has always been cyclical, and the results for 2014 are arguably indicative of being near or at a high point in the current cycle, the results are still astounding for an industry that has been shrinking for years as it produced lackluster risk-adjusted returns, and in response limited partners have been reducing their allocations to VC. A structural shift has occurred because of a variety of factors that will continue through 2015.

Expansionary Macroeconomic Policies

Major economies around the world continue to pursue expansionary policies in various combinations of fiscal stimulus, low interest rates and monetization of debt (of which so-called "Quantitative Easing" is an example). One effect has been to drive down returns from debt and increase returns from equities. That has compelled large pools of capital, such as hedge funds, mutual funds and sovereign-wealth funds, to invest in private as well as public equities in search of higher returns. As noted above, the biggest "venture capital" fund raised in 2014 was not a traditional VC, but an asset manager, Tiger Global Management.

In addition, high equity valuations have made life difficult for private equity firms who have had to buy at those lofty valuations. While they are benefiting from some advantages such as low interest rates and the valuations of portfolio company exits, it remains hard for them to put their substantial amount of cash to work. This is forcing them to look at smaller private companies, traditionally the province of VC firms.

Application of New Technology-Based Business Models

The growing ubiquity of smartphones and applications has enabled disruption in mature and complacent industries, and spawned unicorns in transportation (Uber and Lyft), real-estate (Airbnb) and elsewhere. As other industries fall in increasing numbers, VC funds will be able to attract large amounts of investment funds, and will be aggressive in getting into the most promising new potential unicorns.

Crowdfunding

While much smaller than the huge pools of capital discussed above, crowdfunding is an important development seen primarily in Western Europe and North America, but spreading elsewhere. It enables individual investors to make seed-stage investments where securities laws meant to protect individuals have been deregulated, or to make advanced purchases of products. By making more equity funding available, crowdfunding will provide support for the availability of financing and higher valuations at the earliest stages of financings.

Maturing of Emerging Markets

The availability of VC in emerging markets, particularly China and India, has substantially grown in the past few years. Companies in those two countries raised $12.2 billion in 2014, more than in Europe. Financings have been concentrated in the B2C and IT sectors. The world's most valuable private company is Chinese, smartphone maker Xiaomi at $45 billion. Other notable companies are Flipkart (e-commerce, India), Didi Dache (transport, China) and Snapdeal (e-commerce, India).

Let poets and matchmakers assess the timing for love to strike; but for those of us who must assess the proper timing to raise VC, that time appears to be now. Cash has flooded the market from traditional and non-traditional sources, valuations are high, and there remains a healthy appetite for exits by sale or IPO.

Sources: *Wall Street Journal, Pitchbook, VentureSource and the National Venture Capital Association*

More Articles

In case you missed any of our previous articles, below are the links to them.

Don't Sign that NDA!

Fees in the VC Industry

Foreign Issuers in the US Capital Markets

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Strategies to create value from IP

US Public Capital Markets - 2014 First Half Review

Comments and Questions on the above articles are welcome.
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Transactions

The following are the most notable M&A transactions and capital financings announced or completed in the last month.

Most Notable **M&A Transactions**

Target	Target Industry	Acquirer	Transaction Value (in $ millions)	Transactions Highlights
AdChina	Mobile Advertising	Alibaba Group	-	Alibaba Group acquired majority stake in AdChina, which operates a technology platform for online and mobile advertising services.
AdMoove	Mobile Advertising	Hi-Media SA	2	Hi-Media SA acquired AdMoove provides location-based mobile advertising solutions. AdMoove had revenues of US$2 million in 2014.

Birdstep Technology	Mobile Security	Elektrobit Technologies	2	Elektrobit Technologies acquired Birdstep Technology which provides security solutions for mobile devices and portable computers.
CloudOn	Mobile Apps	Dropbox	-	Dropbox Inc acquired CloudOn which provides a cloud-based mobile workspace.
DivX	Mobile Video	NeuLion	68	NeuLion Inc acquired DivX which provides next-generation digital video technologies for OTT services across electronic devices and mobile platforms.
Palm (HP)	Hardware	TCL Communication	-	TCL Communication acquired Palm from Hewlett-Packard. Palm is located in California and manufactures handheld computing device products.
SDP Telecom	Telecom Equipment	Molex	-	Molex Inc, a subsidiary of Koch Industries Inc, acquired SDP Telecom to broaden its RF/Microwave product capabilities.
TapZen	Mobile Gaming	Kabam	-	Kabam Inc acquired TapZen, a mobile gaming company.
Ulticom	Mobile Software	Mavenir Systems	20	Mavenir Systems Inc acquired Ulticom which provides service enabling signaling software for fixed, mobile, and Internet communications.
ZipDial Mobile Solutions	Mobile Marketing	Twitter	40	Twitter acquired ZipDial Mobile Solutions which operates a marketing and analytics platform for mobile marketing via missed calls.

Most Notable **Capital Financings**

Company Name	Industry	Amount Raised (in $ millions)	Total Amount Raised (in $ millions)	Business Description
App Annie	Mobile Apps	55	93	App Annie provides app store analytics and market intelligence solutions.
Appconomy	Mobile Apps	9	27	Appconomy designs, develops and sells mobile applications and application components for businesses and enterprises.
Aria Networks	Network Software	-	-	Aria Networks provides capacity management and network planning software solutions.
Benu Networks	Network Software	-	-	Benu Networks provides networking and software solutions for network operators deploying Wi-Fi and cloud services.
Future Dial	Mobile Device Management	1	7	Future Dial develops mobile device management software and solutions.
Ionic Security	Mobile Security	40	77	Ionic Security provides a unified data and mobility security platform.
SpiderCloud Wireless	Network Software	15	106	SpiderCloud Wireless operates as a platform that allows mobile operators to deliver scalable and unprecedented coverage.
Zipwhip	Mobile Advertising	5	8	Zipwhip allows both mobile and landline subscribers to text message.

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