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Each month we present data on transactions on one or both of those industries, and a short article on a topic of current interest.

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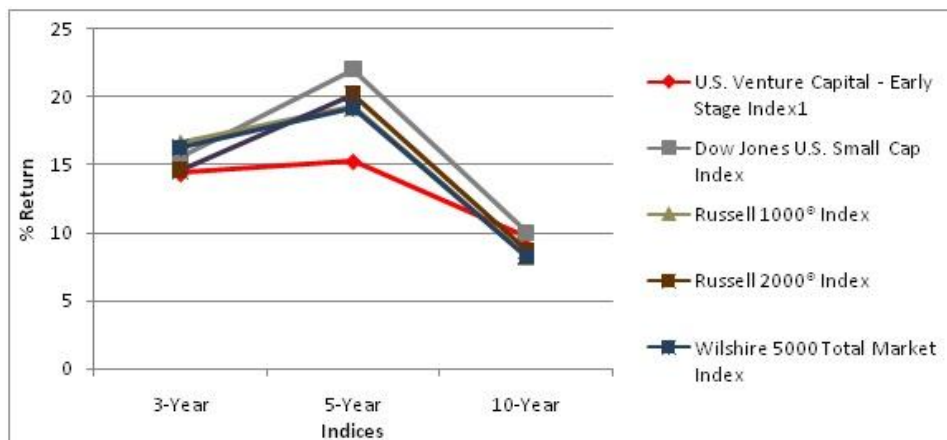
FEES IN THE VC INDUSTRY

Authors: [Steve Gaynor](#) & [Neeraj Baghel](#)

The Venture Capital ("VC") industry, no stranger to criticism, has lately come under more than the usual amount of disapproval from various commentators in the financial press. This is not a surprise; when public equity markets reach new highs, as they have today in many markets, it becomes difficult for a VC fund to achieve a "venture rate of return," generally defined as a minimum of three to five hundred basis points above a public market small capitalization index fund.

The chorus of critics has recently grown loud decrying what they describe as excessive compensation for poor performance. Are they right? If they are, is something happening about it?

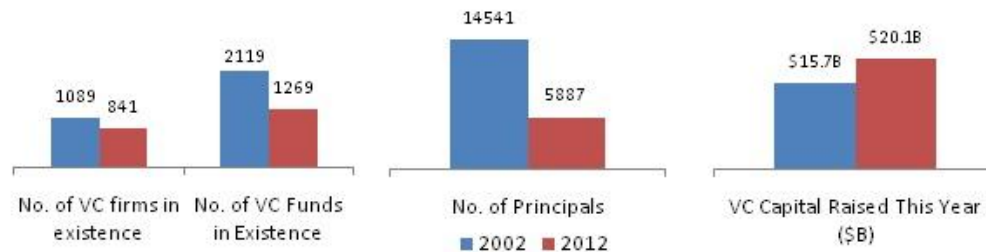
Let's look at public markets versus VC returns. The chart below compares a US early stage venture capital index (in red) with several well-known and followed indices of small capitalization stocks over the most recent three, five and ten year period. In all three periods, an investors would have done as well as or better holding the public market indices than investing in a VC fund, and enjoyed the additional benefit of liquidity:



Sources: Cambridge Associates LLC, Dow Jones Indexes, Frank Russell Company, and Wilshire Associates, Inc.

Note: (1) Pooled end-to-end return, net of fees, expenses, and carried interest.

In the wake of such performance, many funds and venture capitalists themselves have suffered the consequences. The National Venture Capital Association, the industry organization in the US, reports that in the last decade the number of VC firms has declined 23%, the number of funds has fallen 40%, and the number of VC professionals has dropped 60%:



Source: NVCA Yearbook 2013

Although such numbers indicate the industry is in some fashion responding to its poor performance by ridding itself of lower-performing participants, unexpectedly, the VC business model itself remains unchanged. This is especially surprising considering there have been significant structural changes in the VC industry - more capital, bigger funds -- and the companies they finance - internet-related, lower start-up costs - but yet there has been little widespread innovation in the structure of fees.

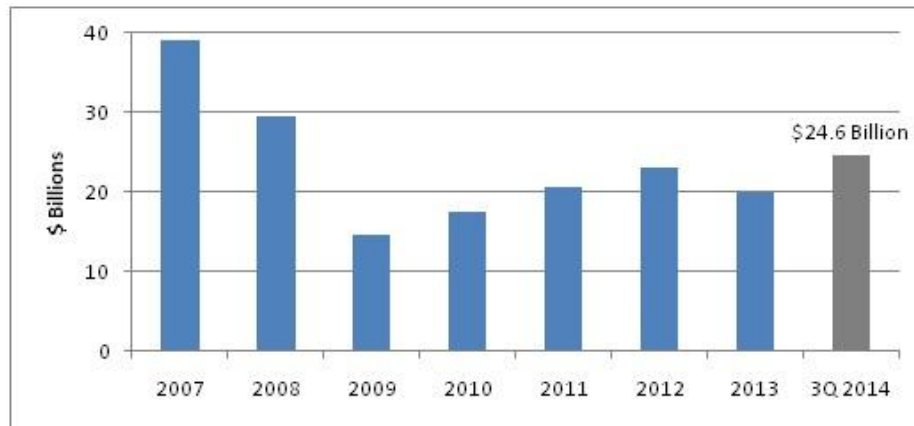
The current VC business model is predicated on treatment as an asset manager rather than as an investor. The traditional compensation model, which has seen limited variation over the decades is "2% plus 20%," that is, the Limited Partners ("LPs") invested in a fund pay the General Partner (the VCs managing the fund) a 2% annual cash fee on committed capital (which may decline gently after the end of a five-year investment period), and a 20% carry on any investment profits.

The 2% fee structure creates the incentive to accumulate and manage more assets, which is exactly what has occurred in the past two decades. The VCs who twenty years ago raised a \$200 Million fund today raise several funds over \$1 Billion each, an increase obviously not wholly accounted for by inflation. The cash compensation has thus become very large at the many billion-dollar-plus funds, yet remains divorced from performance.

In contrast, the 20% carry is paid sporadically, only if capital gains are produced, and not until investments are exited several years after the fund is raised. Thus it is entirely possible for a VC personally to do very well -- often over one million dollars annually in salary -- without making any money for limited partners.

It is completely understandable that VCs will not by themselves change this model; a seven figure yearly compensation locked in for a decade or more if more than one fund is raised as is often the case that is not based on performance is, well, a good deal.

But what of investors; will they force to change to a business model that does not serve their interests? And will they do so now, when most VCs are severely underperforming the public markets on a risk-adjusted basis? LPs have not forced change in the past couple of decades, and it is doubtful they will now as they pour new money into VC funds despite the drawbacks of the compensation arrangement:



Source: Dow Jones LP Source

Apparently change in the VC fee structure will come only from outside the traditional industry. Such change, though in its infancy, has clearly begun. It is born of the confluence of several events that has allowed new participants to enter the industry.

Ironically, the push to raise bigger funds came at a time when the capital needed by startups drastically declined. In the days when Silicon Valley was actually about silicon, a startup would take tens of millions of dollars to produce a chip. Today, an Internet-based company can build a business with just a couple million dollars, as:

- Servers and bandwidth are rented as a variable cost;
- Customers are inexpensively reached through online platforms like Facebook;
- Few employees are needed to run large and valuable online businesses; and
- Incubators offer services at cut rate prices

It is impossible for billion dollar VC funds to serve these new constituents and produce an adequate return for their investors. Today's "lean startups" simply do not consume enough capital during their growth phase, and do not produce enough of an absolute return as a result of their exit, to "move the needle" of a large fund.

This has enabled new entrants to move in and serve this market. Among them are:

- Crowdfunding websites such as such as Kickstarter and Bootstrap that allow startups to raise funds by pre-selling their products;
- Investment Platforms like Angel List, 500 Startups and Y Combinator that enable startups to reach hundreds of individual accredited investors and provide mentoring and others services once the province of VCs; and
- Micro-VCs such as Bullpen, Floodgate and SoftTech with funds of \$10-\$100 Million.

The online Investment Platforms and the syndicates that operate on them relinquish fixed fees in favor of carried interest. This means the investment risks are shared by VCs and LPs alike, and the interests of the two are better aligned.

This is generally also the case with Micro VCs. The increasing prevalence of small VC funds significantly reduces, and may even eventually eradicate, the misaligning effect of the large fixed fees that dominate the big funds. It is very hard to be a \$100 Million fund and survive for long while underperforming.

It is too early to tell how much the new entrants will change the traditional parts of the VC industry. But they are already creating an expectation that investors will be better served where the VCs are investors alongside the LPs they serve. Whether this new approach eventually affects larger funds remains to be seen. No doubt investors will have to insist on change.

Sources: MobileSolve Research, Cambridge Associates, National Venture Capital Association Yearbook (2013), 500 Startups

Transactions

The following are notable M&A transactions, Capital Financings and IPO filings announced or completed in the last month.

M&A Transactions

Target	Target Industry	Acquirer	Transaction Value (in \$ millions)	Transactions Highlights
Alien Blue	Internet Software and Services	Reddit, Inc.	-	Reddit, Inc. acquired Alien Blue which is a mobile application allowing users to browse the link-sharing website
Amethon Solutions	Application Software	Invigor Group Limited (ASX:IVO)	9	Invigor Group Limited (ASX:IVO) signed a binding term sheet to acquire Amethon Solutions which provides mobile Web analytics and content tracking solutions.
Armor5, Inc.	Internet Software and Services	Digital Guardian, Inc.	-	Digital Guardian, Inc. acquired Armor5 which provides a cloud service that enables mobile workers to access enterprise content, data, and applications safely through various devices.
Arte Mobile Technology Pte Ltd.	Application Software	Iseentric Limited (ASX:ICU)	-	Iseentric Limited (ASX:ICU) signed a term sheet to acquire Arte Mobile Technology which distributes mobile content in Indonesia.
Bitcellar, Inc.	Application Software	KDDI Corporation	-	KDDI Corporation (TSE:9433) acquired Bitcellar which designs and develops mobile applications.
Club Apps, LLC	Application Software	Netpulse, Inc.	-	Netpulse, Inc. acquired the assets of Club Apps which provides mobile applications.
Cobboc Pvt. Ltd.	Internet Software and Services	PayU Payments Private Limited	-	Payu India Internet Private Limited acquired Cobboc which is a mobile payment system that enables users to make card payments
comScore, Inc., Mobile Operator BU	Internet Software and Services	-	-	An unknown buyer signed letter of intent to acquire mobile operator business unit of comScore, Inc. (NasdaqGS:SCOR)
CSR plc (LSE:CSR)	Semiconductors	Qualcomm Global Trading	2376	Qualcomm Global Trading Pte. Ltd made an offer to acquire CSR plc (LSE:CSR), a fabless semiconductor company, for £1.4 billion in cash
Dialogic, Inc. (OTCPK:DLGC)	Communications Equipment	Novacap	43	Novacap TMT entered into an agreement to acquire Dialogic, Inc. (OTCPK:DLGC) which provides various communication products and technologies to wireless and wireline service providers
Distinction Kft.	Internet Software and Services	Skyscanner Limited	-	Skyscanner Limited acquired Distinction which develops mobile applications.
FORii, Inc.	Application Software	eBOOK Initiative Japan	0	eBOOK Initiative Japan CO.,LTD. (TSE:3658) agreed to acquire 85% stake in FORii, Inc. which develops applications for mobile devices.
Helsinki GameWorks	Application Software	Next Games Oy	-	Next Games Oy acquired Helsinki GameWorks which develops mobile games

IBM	Semiconductors	GLOBALFOUNDRIES Inc.	-	GLOBALFOUNDRIES Inc. entered into a definitive agreement to acquire microelectronics business of IBM (NYSE:IBM) IBM will pay GLOBALFOUNDRIES \$1.5 billion over the next three years as consideration.
I-Freek Mobile Inc., Educational Application Business	Home Entertainment Software	Cookpad Inc. (TSE:2193)	1	Cookpad Inc. (TSE:2193) agreed to acquire educational application business from I-Freek Mobile Inc. for ¥80 million.
InstantCEM Ltd	Internet Software and Services	Accanto Systems Oy	-	Accanto Systems Oy entered into a definitive agreement to acquire InstantCEM which develops a mobile application enabling device-based customer experience feedback
kunst-stoff GmbH	Home Entertainment Software	Catalyst Qatar	-	Catalyst Qatar acquired Kunst Stoff which operates as a game developer and producer.
Leap Ahead Solutions Limited	Application Software	TradeStone Software, Inc.	-	TradeStone Software, Inc. acquired Leap Ahead Solutions which develops mobile application to pictorially track samples, manage ranges and calculate landed costs during buying trips
LittleInc Labs, Inc.	Internet Software and Services	Yahoo! Inc. (NasdaqGS:YHOO)	-	Yahoo! Inc. (NasdaqGS:YHOO) acquired LittleInc Labs which develops and offers a multimedia messaging application for mobile devices.
LoveByte Pte. Ltd.	Internet Software and Services	migme Limited (ASX:MIG)	-	migme Limited (ASX:MIG) acquired LoveByte Pte. Which develops a mobile application that provides a private space for people to communicate and share things.
MobFox Mobile Advertising GmbH	Internet Software and Services	Matomy Media Group Ltd. (LSE:MTMY)	17.61	Matomy Media Group Ltd. (LSE:MTMY) acquired Mobfox Mobile Advertising GmbH which develops and provides a mobile advertising platform.
Mobi724 Solutions Inc.	Internet Software and Services	Hybrid PayTech World Inc.	1	Hybrid PayTech World Inc. (OTCPK:FPOT.F) signed an agreement in principal to acquire the remaining 49% stake in Mobi724 Solutions Inc. which develops a platform to create, launch, and process mobile couponing campaigns.
MobileSpaces. Inc	Internet Software and Services	Pulse Secure, LLC	100	Pulse Secure, LLC acquired MobileSpaces which helps enterprises to mobilize their applications, govern their data, and respect the privacy of their employees.
moboqo GmbH	Internet Software and Services	AppLovin Corporation	-	AppLovin Corporation acquired Moboqo which develops mobile advertising services to mobile game developers.
Mojave Networks, Inc.	Internet Software and Services	Sophos Ltd.	-	Sophos Ltd. acquired Mojave Networks, Inc. which develops and delivers cloud-based network-level mobile security solution
Nimbuzz B.V.	Application Software	New Call Telecom Ltd	175	New Call Telecom Ltd acquired 70% stake in Nimbuzz B.V. Which provides call, chat, and messaging applications for mobile phones and Internet.
PhoneDog, LLC	Internet Software and Services	BIZX, LLC	-	BIZX, LLC acquired PhoneDog which provides interactive news and reviews on telecommunication carriers and platforms.
PlayPhone, Inc.	Internet Software and Services	GungHo Online Entertainment America, Inc.	-	Gungho Online Entertainment America, Inc. agreed to acquire 70% stake of PlayPhone which develops and distributes mobile entertainment content for gamers worldwide.

Proximity Communications plc	IT Consulting and Other Services	Maintel Holdings Plc (AIM:MAI)	19	Maintel Holdings Plc (AIM:MAI) acquired Proximity Communications which provides unified communication solutions
PSWinCom AS	Internet Software and Services	Link Mobility Group ASA (OB:LINK)	12	Link Mobility Group ASA signed a term sheet to acquire PSWinCom AS which offers Web based mobile and software solutions for sending and receiving SMS and MMS
RecargasACuba.com	Internet Software and Services	ezetop Ltd.	-	Ding acquired RecargasACuba.com which develops and operates a website which offers mobile top-up recharge services in Cuba.
Revolv Inc.	Application Software	Nest Labs, Inc.	-	Nest Labs, Inc. acquired Revolv Inc. which provides a home monitoring and control solution that connects various wirelessly-enabled household items.
RUN, Inc.	Internet Software and Services	Starcom MediaVest Group, Inc.	-	Starcom MediaVest Group, Inc. acquired RUN which develops and provides applications for mobile devices.
Shanghai WWT IOT technology	Internet Software and Services	Teletronics International, Inc.	-	Teletronics International acquired WWT IOT Company which develops Internet of Things (IOT) technology based products.
ShoreTel (NasdaqGS:SHOR)	Communications Equipment	Mitel Networks (NasdaqGS:MITL)	511	Mitel Networks Corporation (NasdaqGM:MITL) made an offer to acquire ShoreTel, Inc. (NasdaqGS:SHOR) for approximately \$510 million in cash
SiTime Corporation	Semiconductors	MegaChips Corporation (TSE:6875)	200	MegaChips Corporation (TSE:6875) entered into a definitive agreement to acquire SiTime Corporation, an analog semiconductor company, for \$200 million in cash.
Smart Toy	Application Software	Cartwheel Kids LLC	-	Cartwheel Kids LLC acquired Smart Toy, a toy application for mobile phones which acts as an interactive educational tool for children
Smart-Use Software Inc.	Application Software	Newforma, Inc.	-	Newforma, Inc. acquired SmartUse which develops a touch-friendly mobile platform for handling construction projects.
Stitcher, Inc.	Application Software	Odyssey Music Group	-	Deezer acquired Stitchera, a mobile application for portable and personalized news and talk Internet radio.
Talkatone, Inc.	Application Software	Ooma, Inc.	-	Ooma, Inc. acquired Talkatone which develops a mobile communication application.
Tap for Tap	Internet Software and Services	Pretio Interactive, Inc.	-	Pretio Interactive acquired Tap for Tap which provides platform for mobile application developers that helps them to grow their business.
Tiny Piece Co., Ltd.	Application Software	XPEC Entertainment	472	XPEC Entertainment Inc. (GTSM:3662) acquired 90% stake in Tiny Piece which operates a mobile casual game platform.
Txtlocal Ltd.	Internet Software and Services	IMImobile Limited (AIM:IMO)	21	IMImobile Limited agreed to acquire TxtLocal which provides business mobile messaging services
Xceed Technologies, Inc.	Internet Software and Services	Anite plc (LSE:AIE)	35	Anite plc. (LSE:AIE) acquired Xceed Technologies Inc. which provides wireless network optimization and rules-based performance management solutions for the wireless industry.
Xyologic Mobile Analysis	Internet Software and Services	Digital Turbine, Inc.	3	Digital Turbine, Inc. entered into asset purchase agreement to acquire Xyologic Mobile Analysis GmbH which operates a platform through which it provides mobile applications and games.

Yamei Electronics Technology	Communications Equipment	Astrata (Group) Pte Ltd.	-	Astrata acquired Yamei Electronics Technology, Co., Ltd. Which designs and manufactures automotive remote control solutions from Trimble Navigation
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Equity Financings

Company Name	Industry	Amount Raised (in \$ millions)	Total Amount Raised (in \$ millions)	Business Description
AdNear Pte Ltd.	Packaged Software	14.93	21.23	AdNear Pte Ltd. provides a platform for location-based mobile advertising.
adsquare GmbH	Internet Software	4.34	4.34	adsquare GmbH operates as a mobile advertising portal.
Appboy, Inc.	Internet Software	15.00	25.10	Appboy, Inc. operates as a customer engagement platform for mobile applications.
Avaamo, Inc.	Packaged Software	6.30	6.30	Provides mobile software
Beijing Pocket Fashion Technology	Commercial Printing/Forms	350.00	362.00	Provides lead-generation platform focused on mobile e-commerce
Benu Networks, Inc.	Packaged Software	27.70	59.30	Benu Networks, Inc. is engaged in the provision of software products for mobile operators.
Blu Wireless Technology Ltd.	Semiconductors	3.80	6.90	Blu Wireless Technology Ltd. is a silicon IP company developing flexible high throughput and low latency digital baseband technology to meet the needs of the WiGig standard and low cost 4G backhaul markets.
BOKU, Inc.	Mobile Payments	13.59	86.59	BOKU, Inc. provides online mobile payment services.
Capriza, Inc.	Packaged Software	27.00	50.50	Develops mobile application services
CrowdCare Corp.	Packaged Software	3.12	6.04	CrowdCare Corp. develops applications for mobiles.
Dormchat, Inc.	Packaged Software	-	0.00	Provides mobile application.
Flint Mobile, Inc.	Packaged Software	9.40	20.40	Flint Mobile, Inc. provides mobile payments solution for micro merchants.
Fresvii, Inc.	Mobile Gaming	0.70	1.70	Develops mobile gaming software
Hardscore Games GmbH	Mobile Gaming	-	0.00	Develops mobile games
HMicro, Inc.	Semiconductors	5.50	5.50	HMicro is pioneering the application of wireless technology in the health care market.
Indicative, Inc.	Miscellaneous	2.00	2.00	Operates as web and mobile analytics platform
Instabridge AB	Packaged Software	1.00	1.00	Develops a mobile application that manages WiFi information and gives access to shared hotspots
Jongla Oy	Packaged Software	4.29	5.86	Jongla Oy operates as an independent mobile messaging platform.
MobileWorks, Inc.	Packaged Software	6.00	6.00	MobileWorks, Inc. provides next-generation crowdsourcing platform services.
Mobo Systems, Inc.	Internet Software	-	12.00	Mobo Systems, Inc. provides mobile and online ordering software solutions.
Mozido, Inc.	Packaged Software	185.00	275.00	Mozido, Inc. provides cloud-based white label integrated mobile solutions.

mParticle, Inc.	Packaged Software	1.50	4.50	mParticle, Inc. operates a cloud-based platform that puts applications and mobile web owners in control of their data assets.
NinthDecimal, Inc.	Packaged Software	4.39	47.81	NinthDecimal, Inc. provides mobile advertising and data platform.
Peraso Technologies, Inc.	Semiconductors	17.96	35.71	Peraso is a fabless semiconductor company specializing in the development of single-chip mmwave transceivers
Protean Payment, Inc.	Mobile Payments	5.80	6.63	Protean Payment, Inc. provides mobile payment services.
Quantance, Inc.	Semiconductors	6.00	47.50	Quantance, Inc. is a holding company, which is engaged in the development of network technology products.
Rêve AB	Packaged Software	-	0.00	Develops a mobile application use for shopping clothes, shoes, and accessories
Small Giant Games Oy	Packaged Software	3.10	3.10	Develops and designs computer, mobile, and online games
Sneeky, Inc.	Packaged Software	-	0.00	Provides mobile application
Square, Inc.	Packaged Software	150.00	512.50	Square, Inc. provides credit card reader solutions for mobile devices.
Telogis, Inc.	Packaged Software	-	101.29	Telogis, Inc. is engaged in the development of location intelligence applications used to manage mobile workers and assets.
Thrive Network, Inc.	Miscellaneous	4.40	4.40	Offers online and mobile coaching programs
TicToc Planet, Inc.	Packaged Software	12.80	18.80	Develops a cross-platform mobile messaging application which allows to exchange messages
Traplight Oy	Packaged Software	0.50	0.50	Develops online and mobile games
True Software	Packaged Software	60.00	78.95	True Software Scandinavia AB develops mobile applications to search and find people.
Urban Airship, Inc.	Packaged Software	12.10	58.87	Urban Airship, Inc. provides mobile marketing solutions.
Urgently, Inc.	Packaged Software	1.20	1.71	Provides mobile services
Willile Mobile Co., Ltd.	Computer Communications	3.70	4.33	Willile Mobile Co., Ltd. is a holding company that develops search engine optimization (SEO) solutions for computers and mobile devices.
YieldMo, Inc.	Mobile Advertising	10.00	18.00	YieldMo, Inc. engages in the provision of mobile advertising services.

IPOs

Company Name	Industry	Stock Exchange	Gross Proceeds (Inc. Over-allotment) in \$ millions	Business Description
OPTiM Corp.	Computer Communications	Tokyo	9.88	OPTiM Corp. is a holding company that provides enterprise mobile device management solutions.
Hua Hong Semiconductor Ltd.	Semiconductors	Hong Kong	331.72	Hua Hong Semiconductor is an investment holding company. It engages in the research, development, and manufacture of semiconductors.

Gamma Communications Plc	Specialty Telecommunications	London Alternative	132.83	Gamma is a rapidly growing, technology based, provider of communications services to the UK business market.
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