

Comprehensive Industry Overview

Mobile Goes Mainstream: Consumers Lead the Way

*Key Trends and
Investment
Opportunities*

January 2014



Gridley & Company LLC

A Word from Gridley & Company, LLC

The number of smartphone users in the U.S. is consistently growing and the connected user is turning to mobile more and more frequently for everyday consumption. Global mobile data traffic is predicted to increase 26-fold between 2010 and 2015. Smartphone and tablet revenues overtook traditional desktop and laptop revenues in 2013. At the same time, the amount of time users are spending on mobile daily is increasing. Mobile commerce sales are reaching all-time highs, and now represent 12% of total digital commerce, while mobile traffic represent about 40% for major eCommerce retailers such as Amazon, eBay, Apple, and Walmart.

The mobile industry was unquestionably the most important growth channel across digital media. Some of the most important trends we've seen in the sector include:

- Average mobile (plus tablet) timespend now equal to desktop
- Mobile is no longer just a just for gaming. Growing number of use cases and apps hitting mass adoption— utilities, productivity, shopping, media & entertainment
- Total mobile ad revenue grew twofold in 2013, and still only represents 2% of total ad spend but 12% of total media time spend
- Strong M&A and funding environment – First \$1bn M&A deal in mobile. Q3'13 was record quarter for mobile
- Digital media leaders such as Facebook and Twitter realigned their organizations to mobile over the past two years and now see 40% plus of their revenue from the mobile channel

The evolution of mobile as the next computing platform is just beginning to take shape, bringing new billion market opportunities to the digital media ecosystem. We believe it is still early in this evolution and expect to see new technologies and innovative applications to fuel continued growth over the next five years

We hope you enjoy this overview and our perspectives. Please call us to discuss the content of this report.

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Source: Pew Research Center, ComScore, Equity Research.

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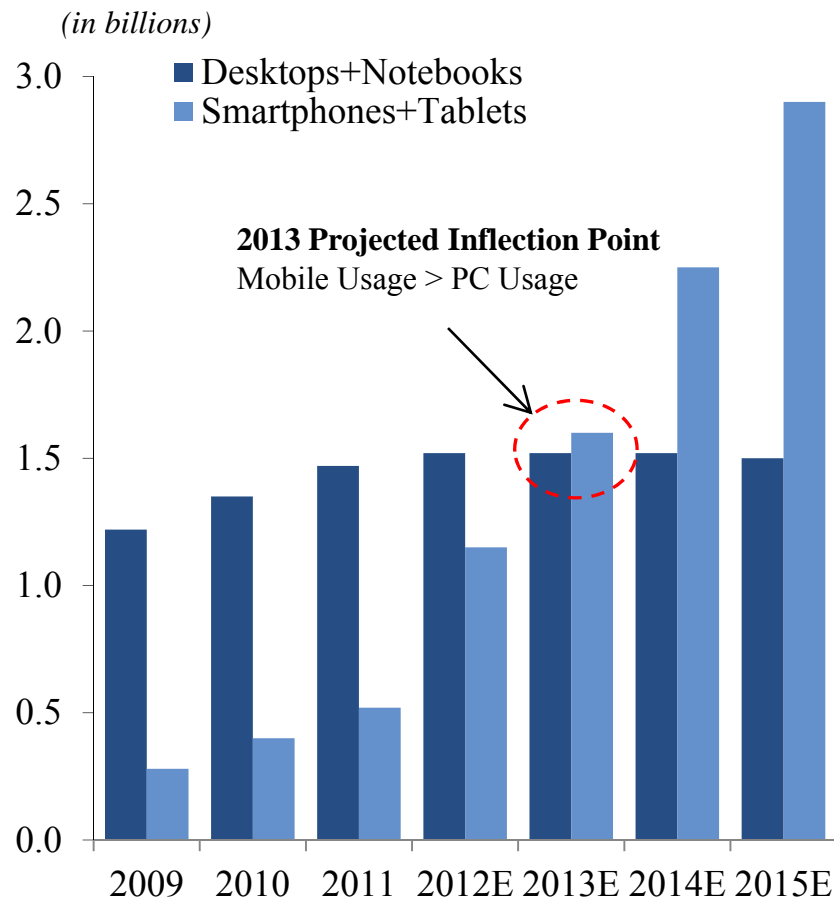
- **Advertising**
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I. Key Themes

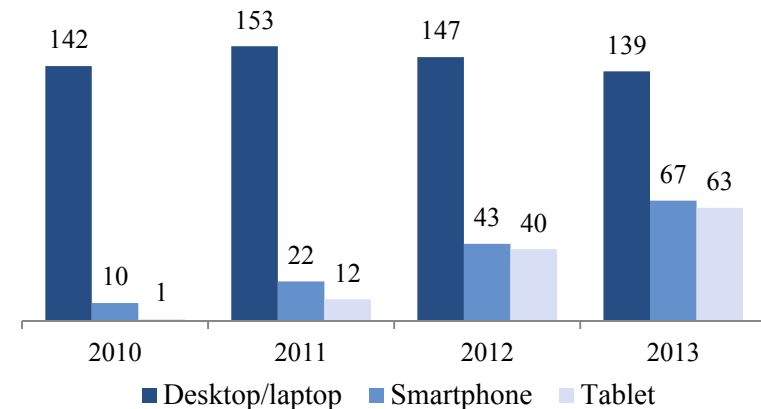
Mobile = Most Important Broad Theme in 2013

Global Installed Base



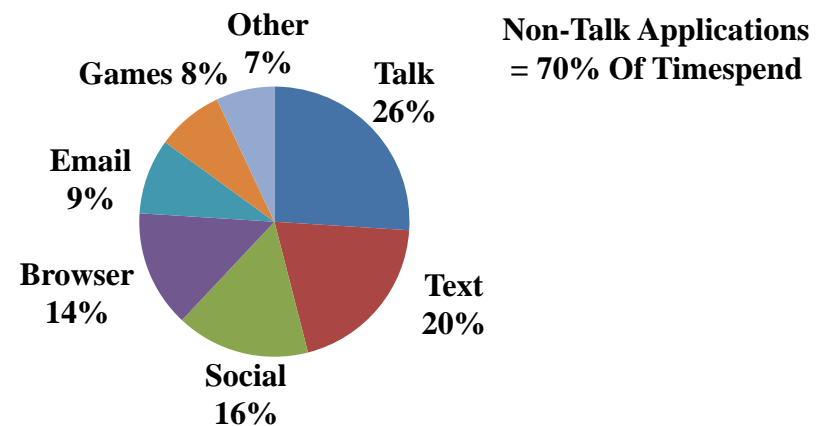
Note: Notebook PCs include Netbooks. Assumes the following lifecycles:
Desktop PCs – 5 years; Notebook PCs – 4 years; Smartphones – 2 years; Tablets – 2.5 years. Source: Equity Research, 2012. Global data.

Average Timespend Per Day (minutes)






Source: eMarketer, Jul. 2013. US Data

Mobile Timespend is Spread Broadly



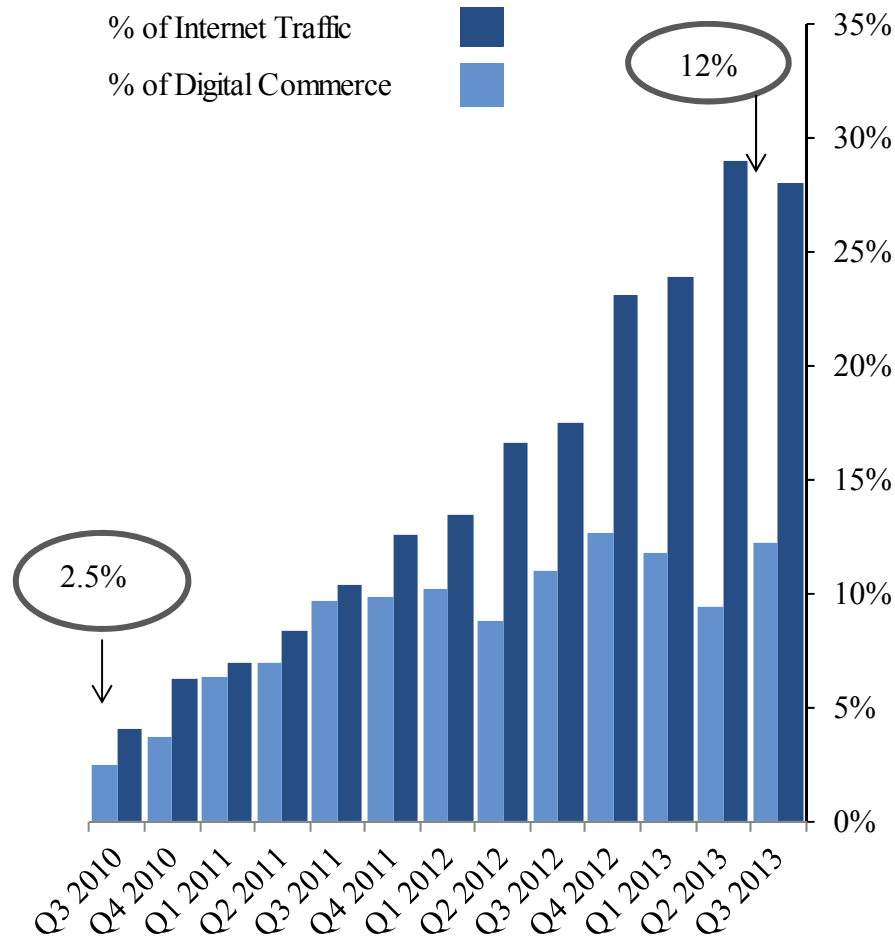
Source: Experian Marketing Services, May 2013. US Data

Key Trends in Mobile

- 2013 was the year of mobile from many perspectives
 - Positive mobile consumption trends, overtaking desktop
 - Internet leaders executed multiple large scale M&A deals
 - Scaled consumer adoption of vertical specific applications such as  U B E R and  waze
- **facebook** and **twitter**  are educating the broader market on value of mobile marketing
- Mobile driving much of the innovation in the payments sector today
 - Exciting opportunity in the convergence between marketing and payments

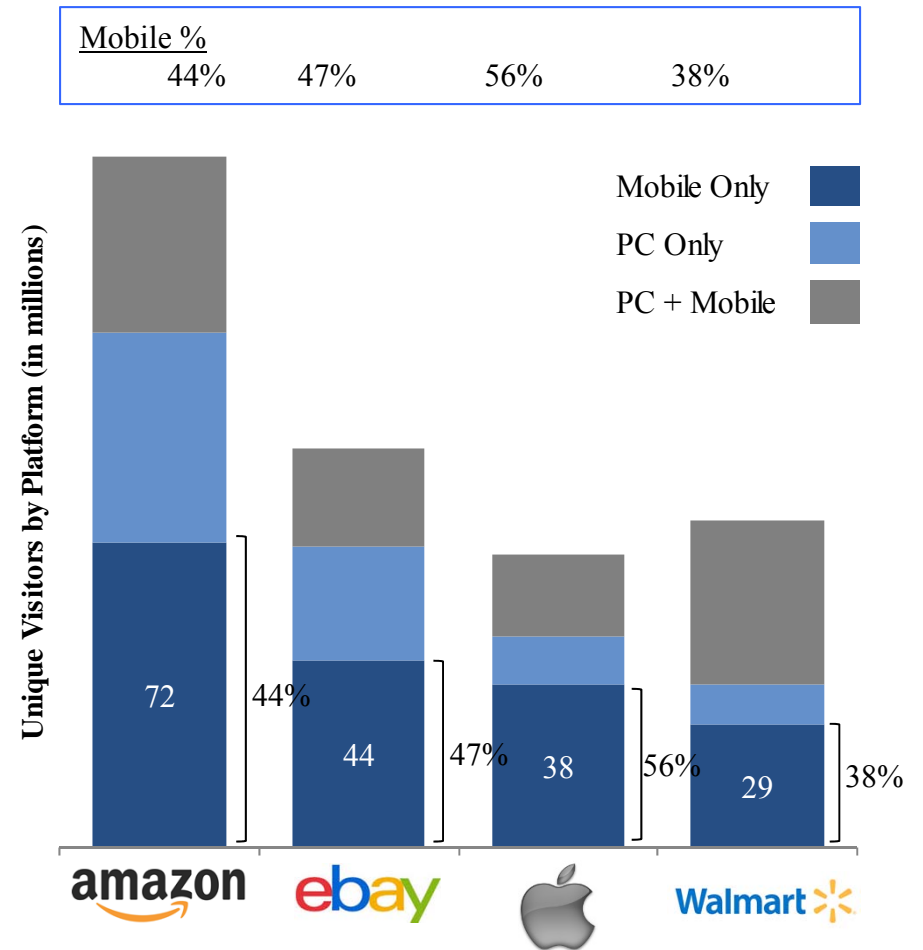
Mobile Commerce is Rapidly Growing

Mobile Share Of Traffic & Commerce



Source: Walker Sands Digital, comScore. Based on US based firms, measuring traffic from US and non-US users

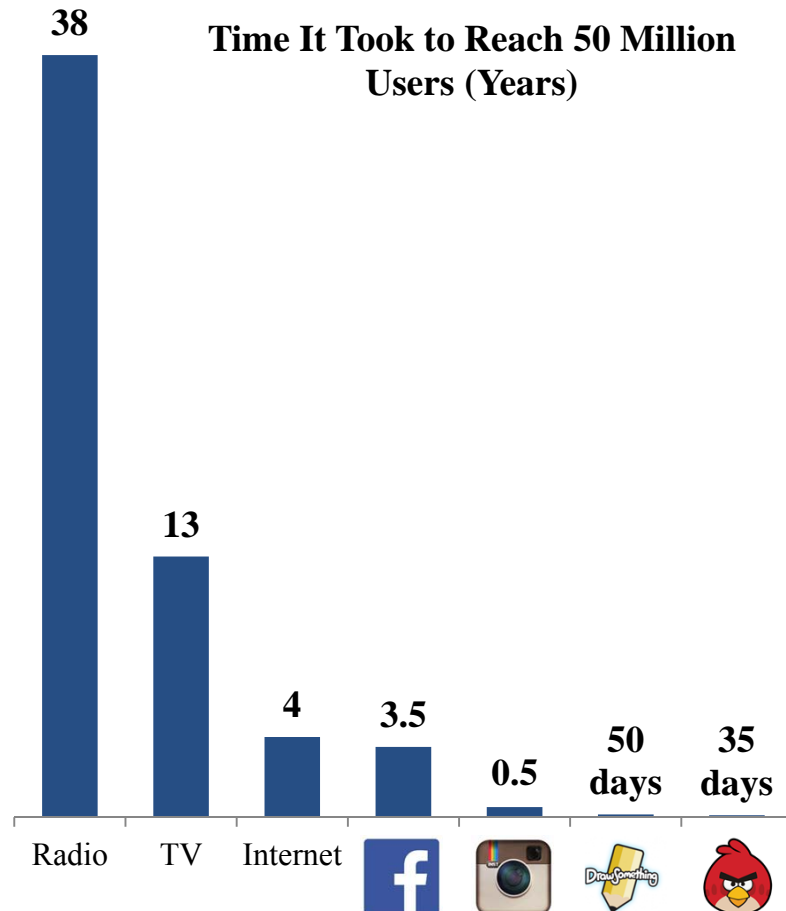
Traffic Split for Notable Commerce Companies



Source: comScore, Dec. 2013. US Data

Rapid Scalability Drives Investment in Mobile

Unprecedented Mobile Adoption Cycle



Source: Digital Buzz Blog, Extreme Networks

VC Investment Commentary

- Mobile funding and deals have grown steadily over the past eight quarters
- Q3 2013 was the biggest VC financing quarter in the history of mobile, crossing the \$1B mark
- Q3 2013 also saw the highest number of deals in mobile ever, the first time mobile VC deal share surpassed the healthcare sector

Source: CB Insights, 2013

Top 2013 Mobile M&A and Private Financings

Notable M&A

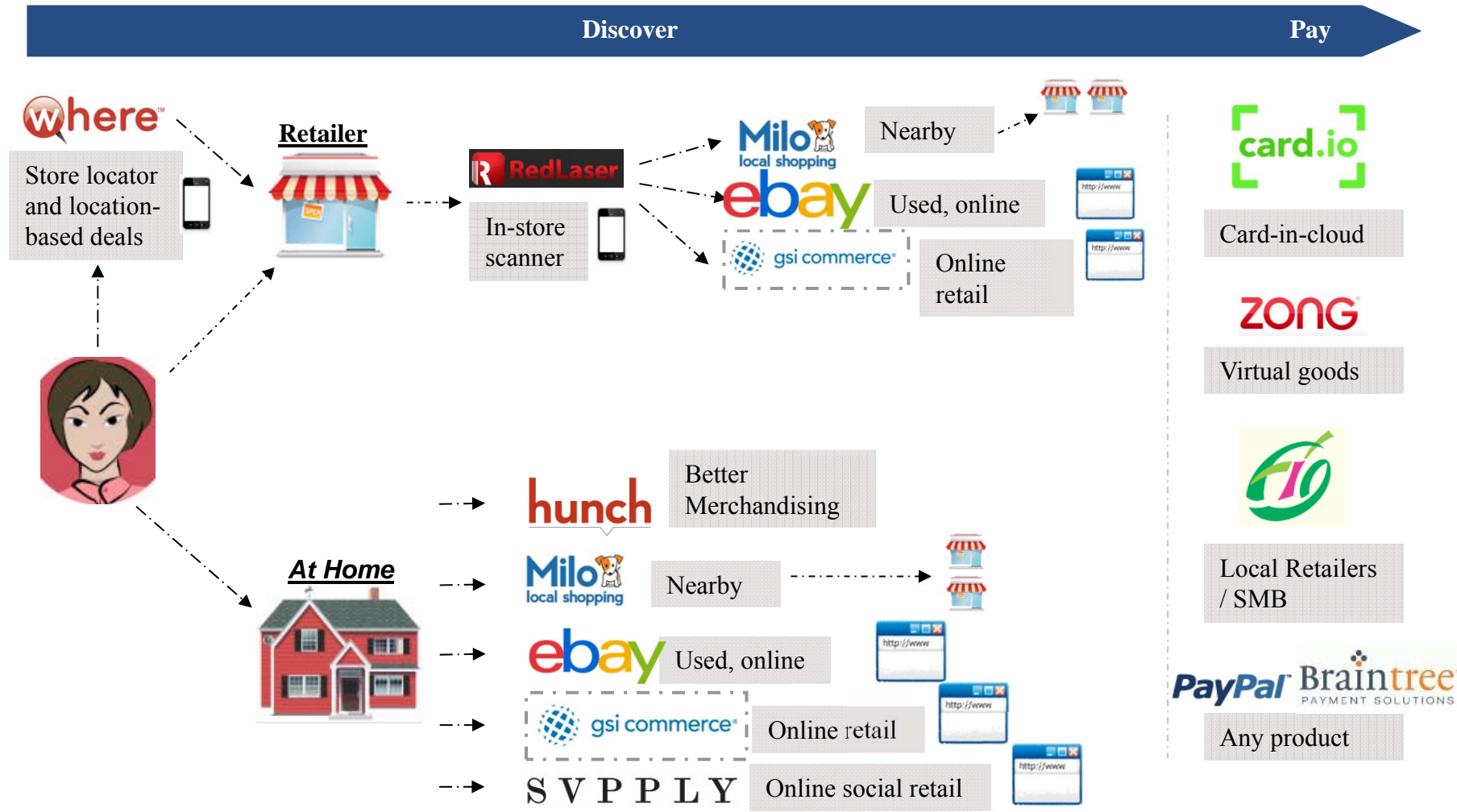
<u>Acquirer</u>		<u>Target</u>
Jun. 2013	Google	\$966MM → waze
Sep. 2013	twitter	\$350MM → mopub
Aug. 2013	millennialmedia	\$261MM → Jumptap
Feb. 2013	OPERA software	\$155MM → skyfire
Apr. 2013	LinkedIn	\$100MM → pulse alphonso labs
2013	YAHOO! Acquiring mobile teams	admobvate
		Qwiki
		GoPollGo
		Mile Wise Travel like a genius
		ON the AIR
		Summly
		h

Notable Private Financings

		<u>Company</u>
Aug. 2013	\$361MM →	U B E R
May 2013	\$225MM →	airwatch™
Dec. 2013	\$100MM →	Flipboard your social magazine
Sep. 2013	\$50MM →	
Nov. 2013	\$70MM →	Mozido®
Jul. 2013	\$66MM →	TOA TECHNOLOGIES
May 2013	\$60MM →	lyft

Using M&A to Build out Multi-Channel Capabilities

eBay made a series of mobile related acquisitions to become the early leader in omnichannel/next generation retailing

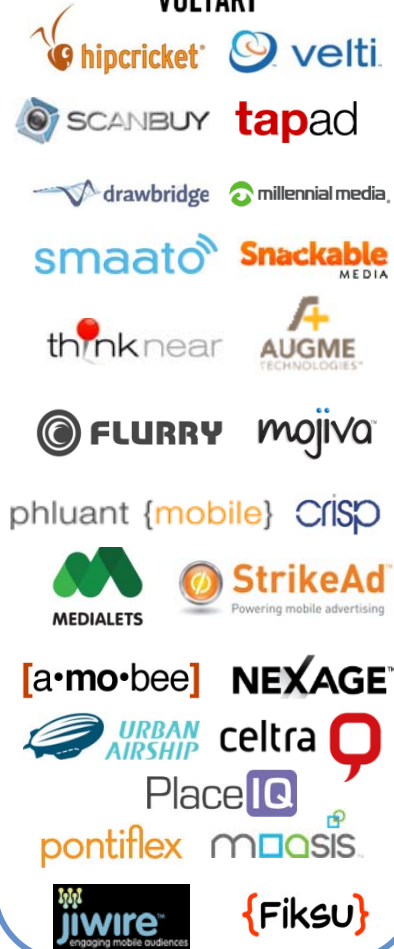


The Mobile Universe

Select Leading Independent Players

Advertising

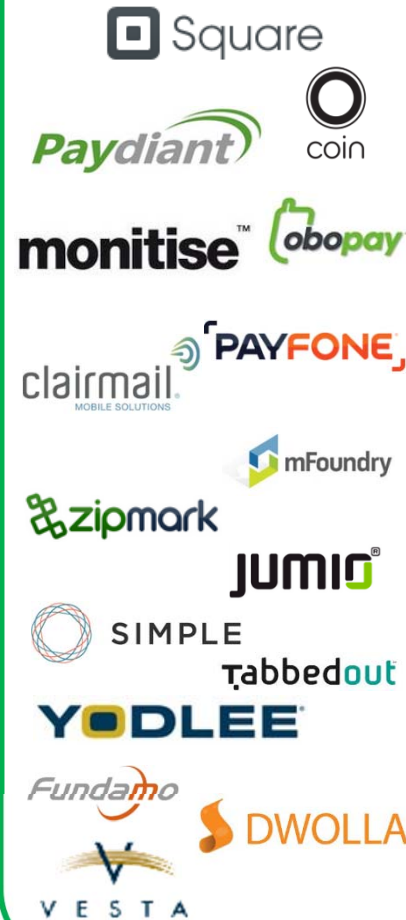
VOLTARI



Location Based Marketing



Payments



Vertical Apps

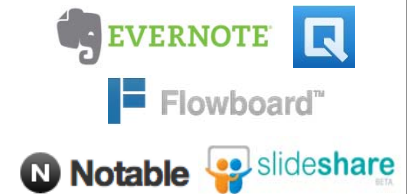
Messaging



Gaming



Productivity



Media & Entertainment



Sector

Advertising

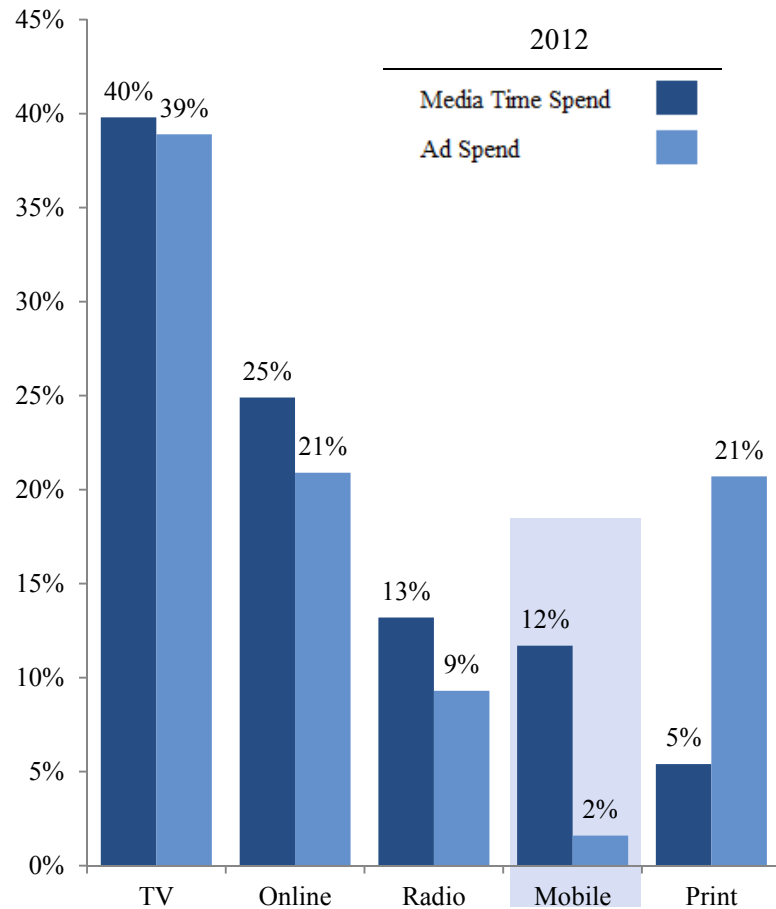
Location Based Marketing

Payments

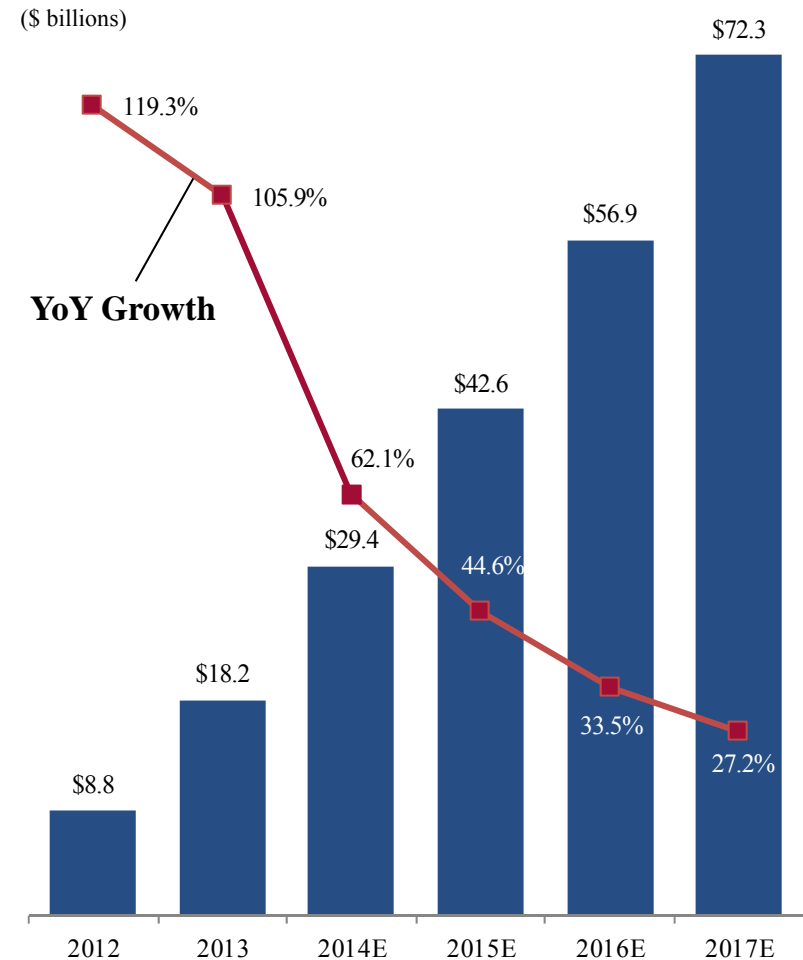
Vertical Apps

CMO's Are Recognizing the Opportunity in Mobile

Gap in Media Exposure vs Ad Spend



Mobile Internet Ad Spending Worldwide

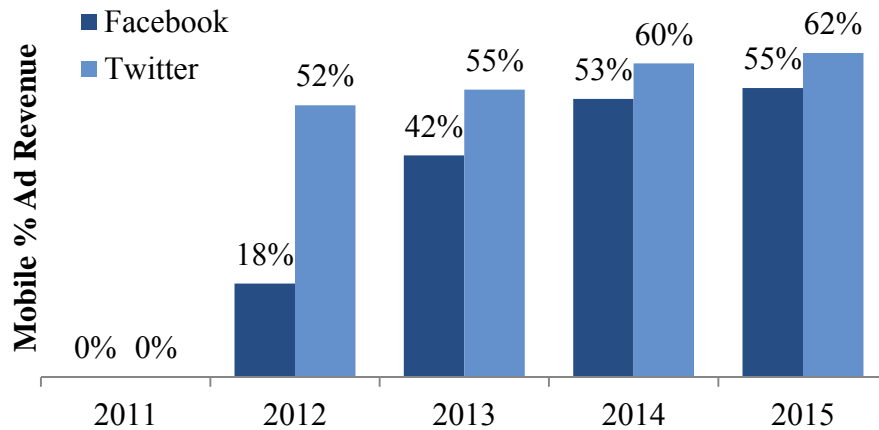


Source: eMarketer, Oct. 2012 (left), Jan. 2014 (right)

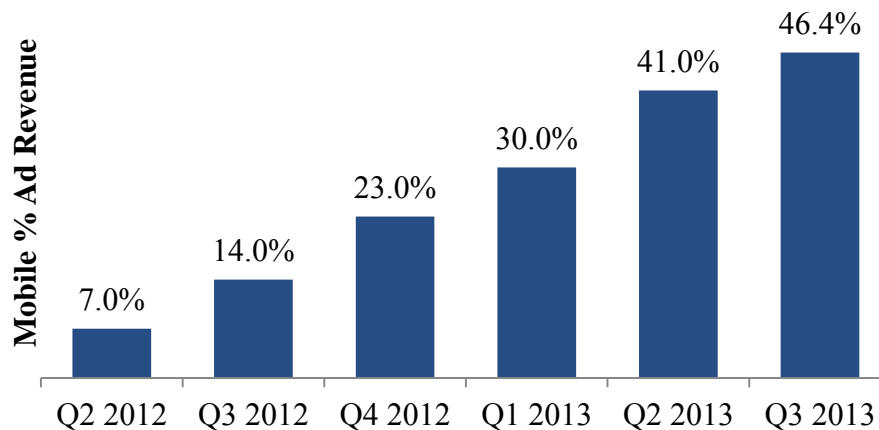
Internet Leaders See Significant Growth in Mobile

Market Leaders Turn To Mobile

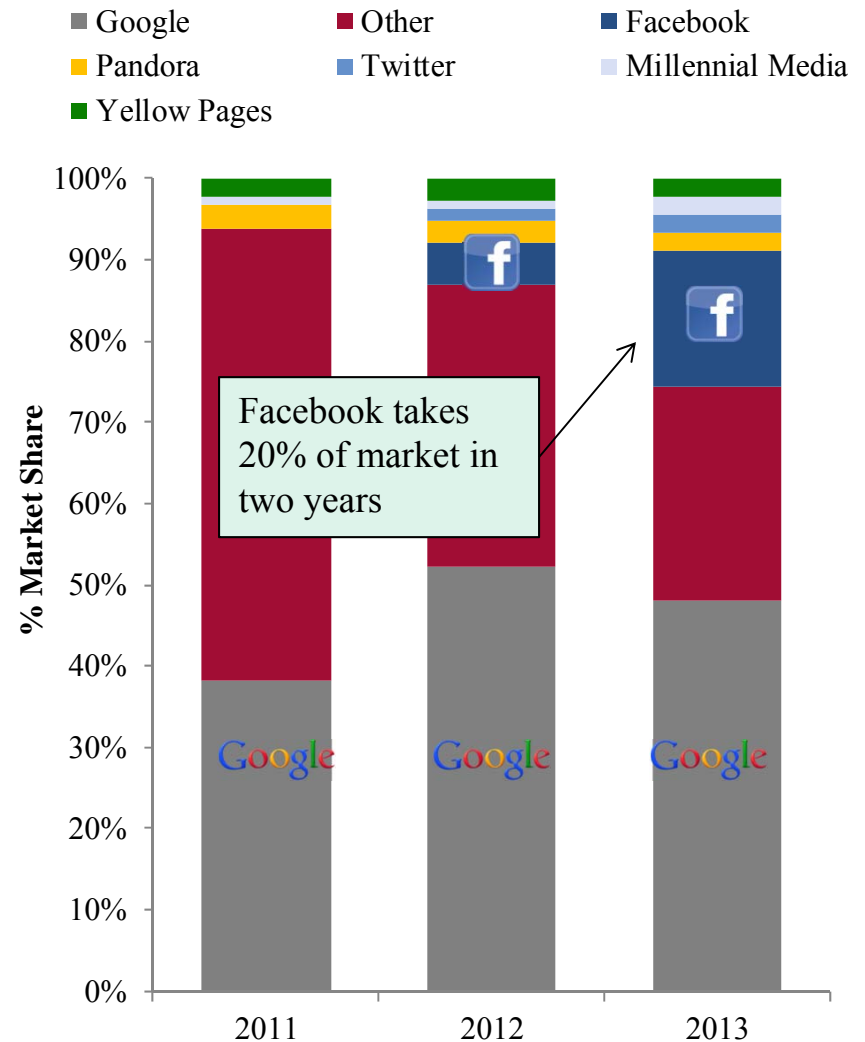
Facebook and Twitter Ad Revenue Mix



Facebook Has Scaled Mobile in 2013



Rapid Market Shift in 2013 ⁽¹⁾



Source: Company reports and filings, 2012 & 2013; eMarketer, Dec 2013.

The Mobile Advertising Universe

Advertising































Notable Themes

- Considerable increase in available budgets over past three years and brands/agencies follow their targeted audience onto mobile
- Many companies moving across channels to include traditional display and leveraging location based data in varying degrees to effect a media buy
- 2013 was an important year for mobile RTB with many key players building or acquiring technologies to enhance programmatic buying
- Mobile is increasingly dominated by apps, with 80% of consumer time spent vs. browser
 - Different technical requirements to drive performance in app environment given different data sets creating clear differentiation in the market

Select independent companies.

Source: IAB Mobile.

Mobile Advertising M&A and Financings

Notable M&A			Notable Private Financings		
	<u>Acquirer</u>				<u>Company</u>
Sep. 2013		\$350MM →		Jul. 2013	\$36MM → 
Jul. 2013		\$316MM →		Feb. 2013	\$25MM → 
Aug. 2013		\$261MM →		Apr. 2013	\$16MM → 
Feb. 2013		\$155MM →		Jul. 2013	\$16MM → 
Feb. 2013		\$16MM →		Feb. 2013	\$14MM → 
Nov. 2013		undisclosed →		May 2013	\$14MM → 
Jul. 2013		undisclosed →		Dec. 2013	\$13MM → 
Jul. 2013		undisclosed →		May 2013	\$7MM → 
May 2013		undisclosed →			
May 2013		undisclosed →			

Sector

Advertising

Location Based Marketing

Payments

Vertical Apps

Consumers Use Mobile Phones to Evaluate Real-World Purchases, Creating New Marketing Opportunities

Mobile Influences Path To Purchase

90%

Of smartphone shoppers use their phone for pre-shopping activities

84%

Of smartphone shoppers use their devices to help shop while in a store

1 in 3

Shoppers use their smartphones to find information instead of asking store employees

Mobile Increases Median Basket Sizes

50%

Increase in *Health & Beauty*



34%

Increase in *Electronics*



40%

Increase in *Appliances*



25%

Increase in *Household Care*



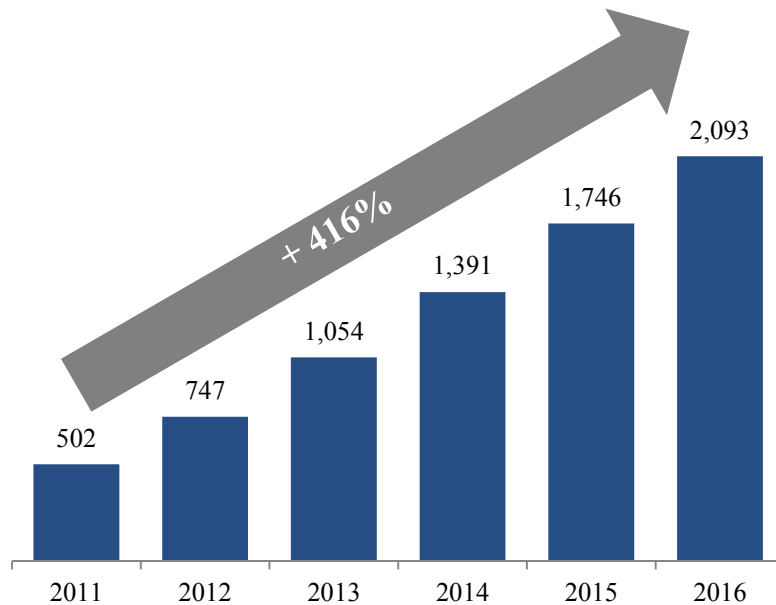
Source: "Mobile In-Store Research," Google and Shopper Marketing Council (Apr. 2013)

Massive Strategic Opportunity with Mobile + Local

Nearly 20% of the world population is using LBS

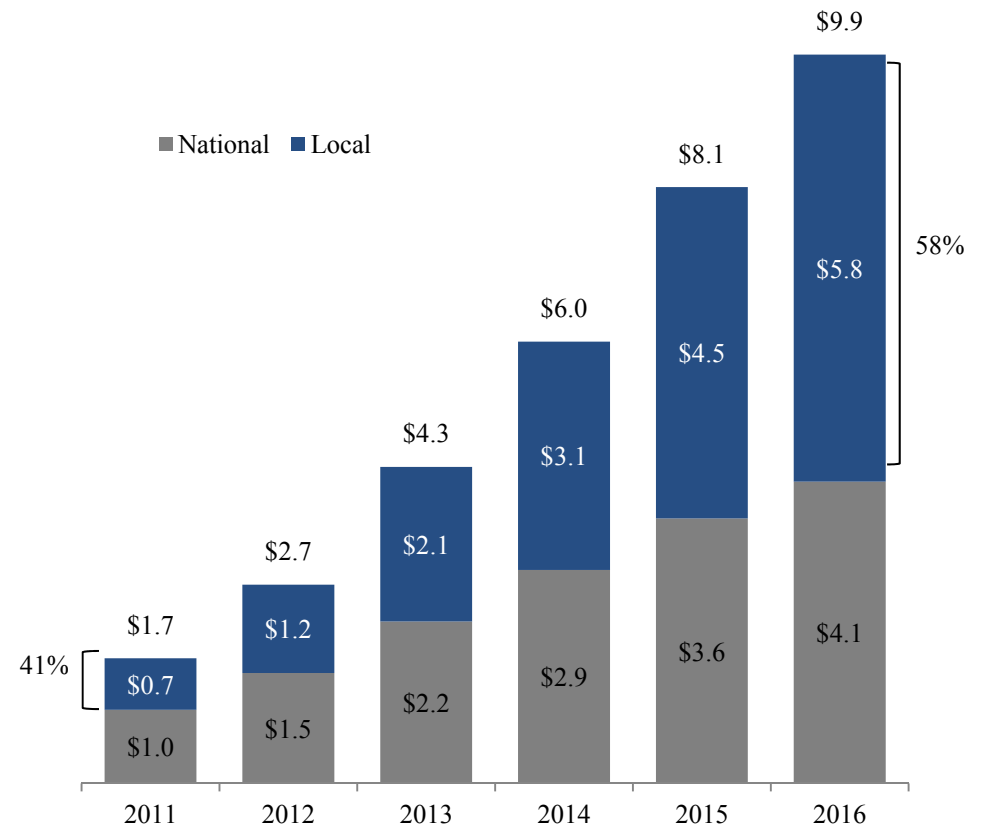
Worldwide Users: 2011-2016 (in millions)

LBS expected to bring in **\$10 billion in revenue** from consumers and advertisers by 2016. Over **50%** will come from **location based search advertising**



Rise of Localized Mobile Marketing

Local vs. National Mobile Ad Spend (\$ billions)



Sources: BIA Kelsey, (Jan. 2013); BI Intelligence; Baliho (Oct 2012)

Location Based Marketing Mobile Leaders



- Over 90% of US consumers make local purchase after using Yelp app
- **Qype** acquisition to accelerate in Europe
- Launched a **Nearby** feature in mid 2013 for local business discovery



- Largest network of local advertisers of any digital company
- **Waze** acquisition to improve real-time updates on **Maps**
- **Zagat** acquisition provided credibility in local content



- Considerable clout in retail vertical with various retailer solutions plus Paypal
- Various acquisitions (Milo, Where, Red Laser) to connect online/offline commerce
- Experimenting with **eBay Now** offers one-hour delivery for a flat rate of \$5



- Testing a feature called **Nearby** that shows recent **local** tweets and whether you follow the tweeter
- **Trends** services **hundreds of cities**, allowing users to see what tweeters in other locations are talking about



- **Merchant Platform** helps developers build mobile experiences for customers that respond to check-ins
- **Venue Push API** gives real-time view of activity at venues
- All user check-ins are now **public**



- **Nearby Places** combines local location discovery and friend recommendations
- **Places** directory allows tagging, commenting, posting and social mapping by location

The Location Based Marketing Mobile Universe

Location Based Marketing

foursquare

indooratlas

digby

aisle411

Nomi

pathintelligence

nearbuy

Sense Networks

SWIRL

SKYHOOK

airsage

WiFiSLAM

shopkick

Jumptap

LOCAID

Point Inside

GPShopper

RETAILNEXT

VERVE

estimote

PLACECAST

Select independent companies.

Notable Themes

- Location based marketing quickly become a battleground among technology incumbents
 - eBay with Paypal
 - Google with maps, payments, search, O/S and commerce capabilities
 - Apple with Passbook and recent location based M&A deals
- Near-store and in-store solutions currently served by different companies as location technologies develop
 - Near-store solutions leveraging geofencing technologies to drive marketing campaign
 - In-store location technologies vary based on approach and radio protocol and is still early in retail adoption

Location Based Marketing M&A and Financings

Notable M&A

	<u>Acquirer</u>		<u>Target</u>
Dec. 2013		\$30MM	
Mar. 2013		\$20MM	
May 2013		\$16MM	
Mar. 2013		\$11MM	
Nov. 2013		undisclosed	
Oct. 2013		undisclosed	
Jul. 2013		undisclosed	
Jan. 2013		undisclosed	

Notable Private Financings

		<u>Company</u>
Apr. 2013	\$41MM	
Apr. 2013	\$13MM	
Sep. 2013	\$10MM	
Oct. 2013	\$10MM	
May 2013	\$8MM	
Sep. 2013	\$6MM	
Sep. 2013	\$3MM	
Dec. 2013	\$3MM	
Feb. 2013	\$3MM	

Sector

Advertising

Location Based Marketing

Payments

Vertical Apps

Considerable Excitement for Mobile Payments Globally, Early Stage in Consumer Adoption

Compelling, High Growth Category Globally

Mobile Payment

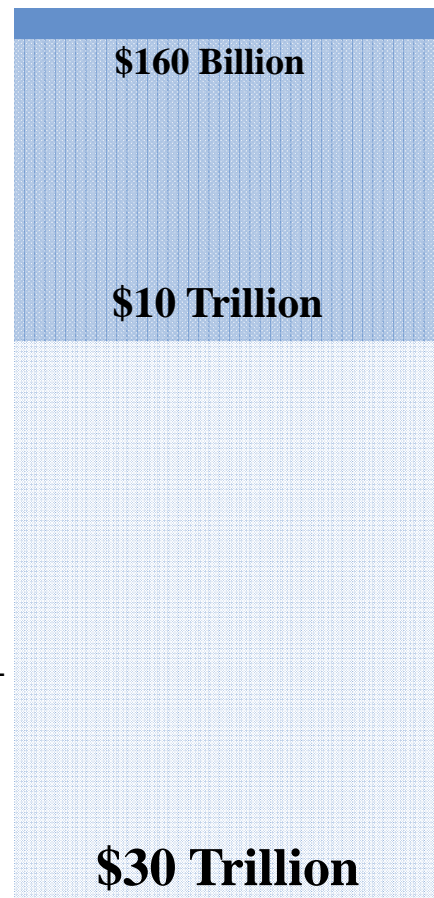
Growing **12x** faster than card payment from 2008 - 2012

Card Payment

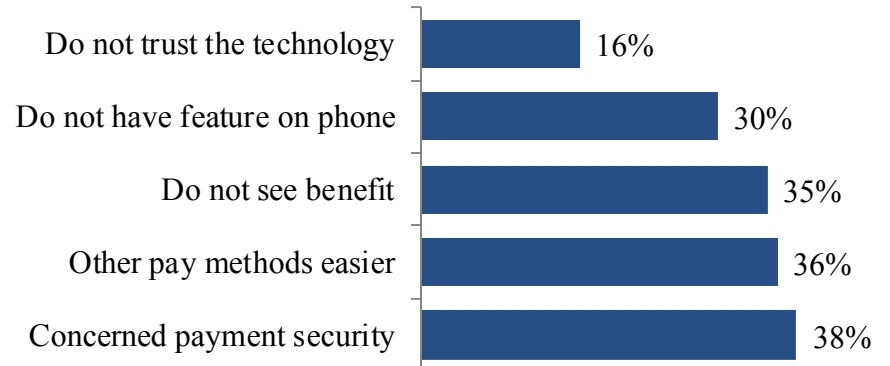
Growing **3x** faster than total consumer spending from 2003- 2012

Retail Purchases

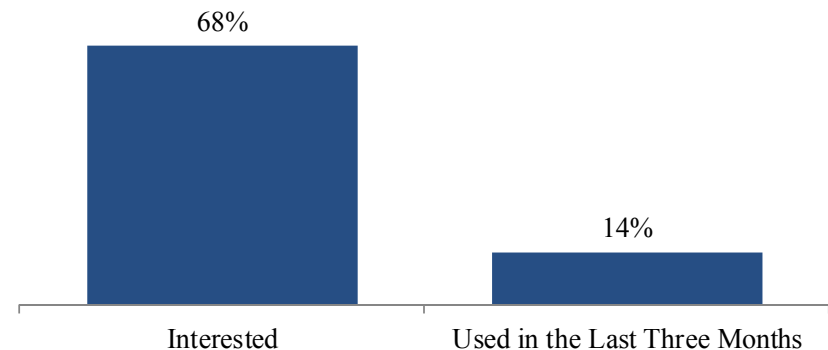
Growing **3x** faster than total consumer spending from 2003- 2012



In U.S. a Number of Reasons for Slower Adoption



Consumers are Interested but Uptake is Slow

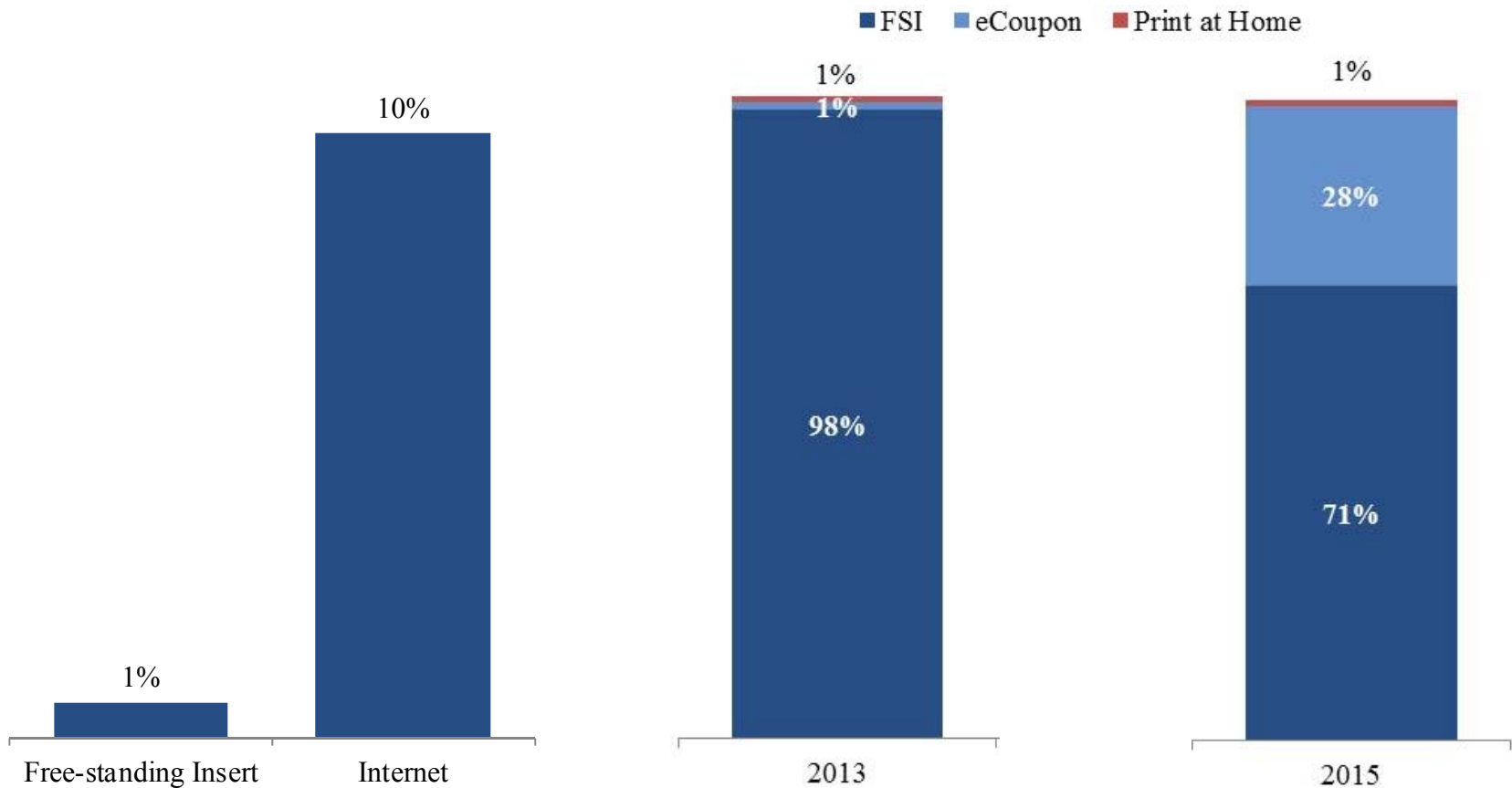


Targeted Marketing is a Very Important Use Case for Consumer Adoption

Internet Coupons Drive Significantly Higher Redemption Rates

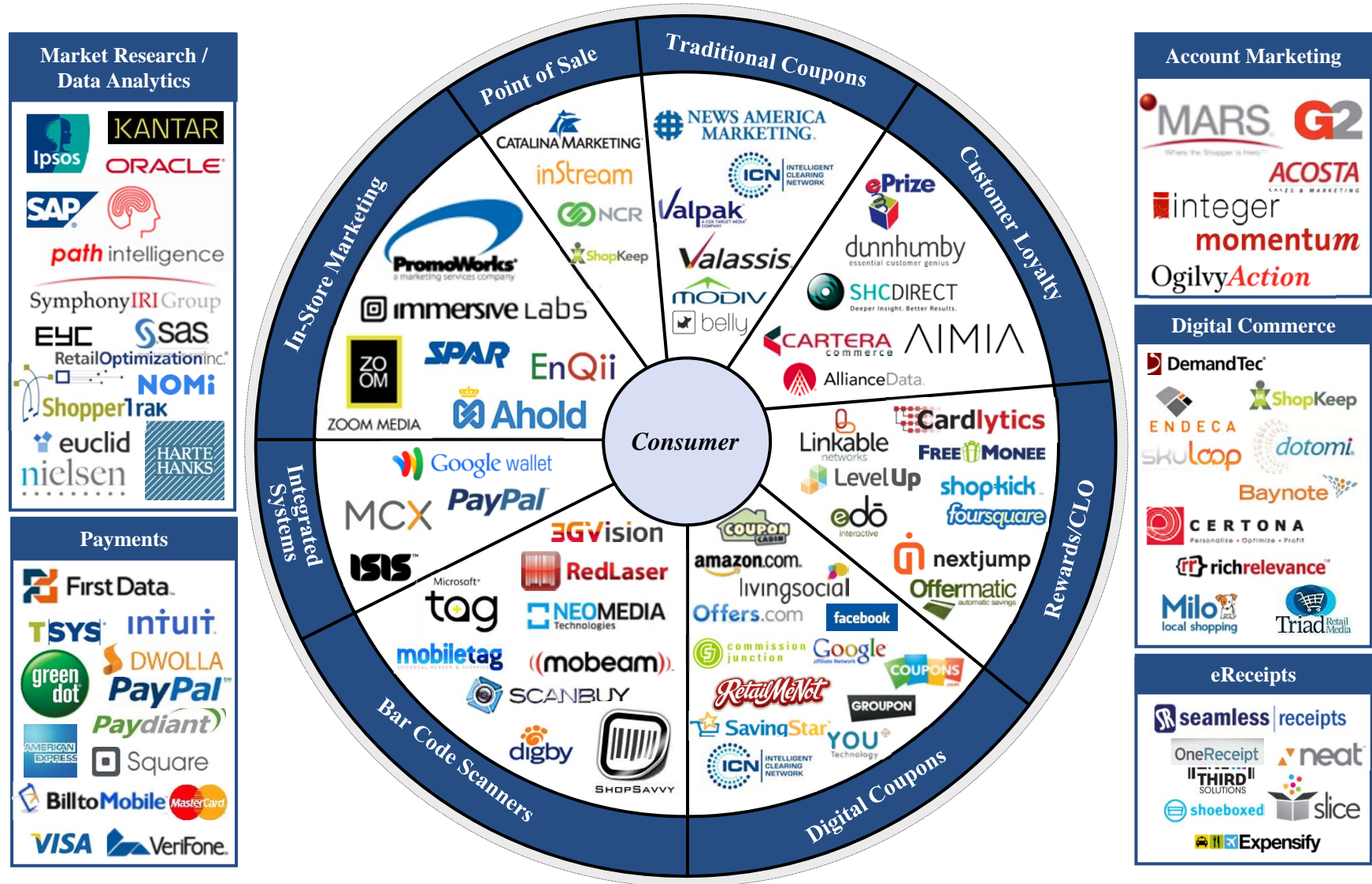
Although Vast Majority of Coupons Are Still FSIs

That Should Change in Two Years



Source: Inmar, Morgan Stanley Research

POS – A Major Battleground in Mobile



The Independent Mobile Payments Startup Universe



Notable Themes

- Multiple players going after in-store for mobile payments, with mixed results
- For consumers, overcrowded and confusing digital wallet market
 - Host of overlapping products and services
 - Lack of standards for technology used in mobile wallets
 - Environment ripe for further consolidation via M&A
- Healthy M&A environment for emerging players

Select independent companies.

Mobile Payments: Successful Brands



Starbucks

- Rewards mobile app users with “Stars” in the Starbucks Rewards program
- Mobile app is compatible with **Square**
- Square’s mobile credit card readers are sold at Starbucks cafes



Home Depot

- Teamed up with **PayPal** to allow customers to pay in-store by typing in their phone number
- Launched in January 2012, slowly catching up to the “swipe” method of payment

Current State of Key Mobile Payments Players

Traditional Networks



- All major network players have released competitive mobile products in the past year
 - Visa's V.me, MasterCard's MasterPass—geared at competing with Square
- Mobile wallets have near-term positive impact for networks
 - Accelerate the shift away from cash/checks, especially in emerging markets
- Long term disintermediation risk = adoption of mobile wallets that bypass traditional payments networks

Emerging Digital Networks / mWallets



- Selectively successful in gaining adoption based on
 - Go to market strategy
 - Partner ecosystem
 - Solving real pain points for consumers and merchants
- Revenue models and technology choices still vary widely
 - Revenue model
 - Issuer fees
 - Marketing driven
 - Software
 - Lower acceptance costs
 - Technologies
 - NFC
 - QR Code
 - Pin based
 - Dongles

Mobile Payments M&A and Financings

Notable M&A

<u>Acquirer</u>		<u>Target</u>
Dec. 2013	PayPal™	\$800MM → BrainTree
Jan. 2013	FIS	\$115MM → mFoundry
Dec. 2013	LifeLock	\$43MM → Lemon
Jun. 2013	OpenTable	\$11MM → Chalo
Dec. 2013	amazon.com.	undisclosed → GOPAGO

Notable Private Financings

	<u>Company</u>
Nov. 2013 \$70MM →	Mozido MOBILIZING A BETTER FUTURE™
Jun. 2013 \$25MM →	CLINKLE
Apr. 2013 \$22MM →	
Aug. 2013 \$24MM →	Check
Aug. 2013 \$20MM →	Paydiant MOBILE PAYMENTS
Sep. 2013 \$20MM →	Leaf
Jul. 2013 \$12MM →	sequent
Dec. 2013 \$10MM →	Loop
Sep. 2013 \$7.5MM →	LevelUp

Sector

Advertising

Location Based Marketing

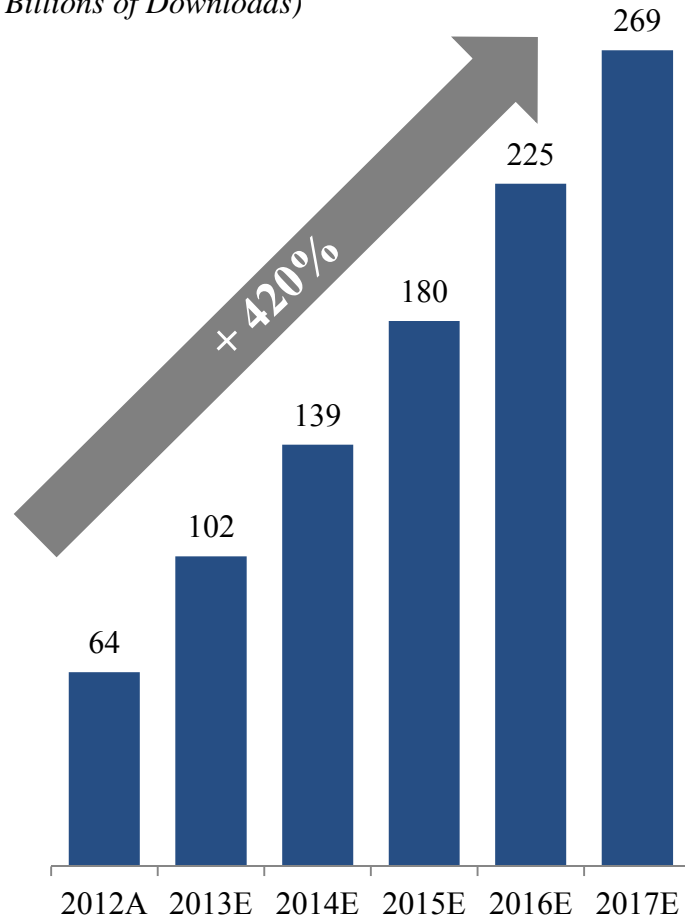
Payments

Vertical Apps

App Usage Dominates Mobile Consumption

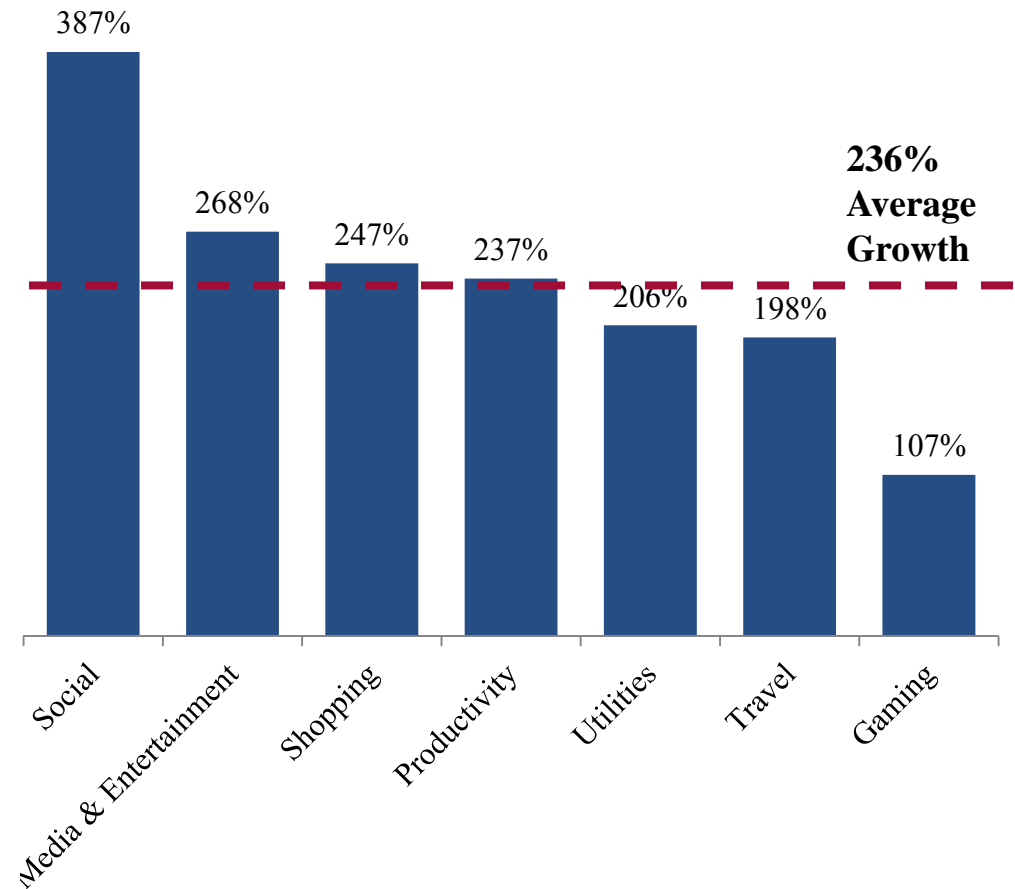
Global Mobile App Store Downloads

(Billions of Downloads)



































Source: Gartner (Sep. 2013)

Fastest Growing App Categories By Sessions



Source: Flurry (Oct. 2013)

Vertical Based Mobile Leaders

Section/Leader	Competitors	Adjacent Verticals	\$BN Category	2013 Highlights
<u>Utilities</u>  UBER	  	 		<ul style="list-style-type: none"> Proliferation of the “Uber model” into other transportation-related verticals
<u>Media & Entertainment</u>  PANDORA [®] <small>internet radio</small>	 	 		<ul style="list-style-type: none"> Pandora only non-game top 10 iPhone app of 2013 “Pandora model” replicated in other content verticals
<u>Messaging</u>  WhatsApp	  	 		<ul style="list-style-type: none"> Other privacy apps compete and specialty messaging apps gain traction WhatsApp has 400mm active users
<u>Health & Wellness</u>  mapmyfitness	 	 		<ul style="list-style-type: none"> Exercise gamification Convergence of mobile & wearables
<u>Gaming</u> 	  			<ul style="list-style-type: none"> Top iOS app of 2013 9 of top 10 most downloaded apps are in gaming

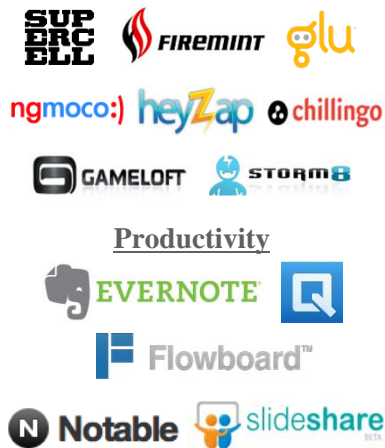
The Vertical Apps Mobile Universe

Vertical Apps

Messaging



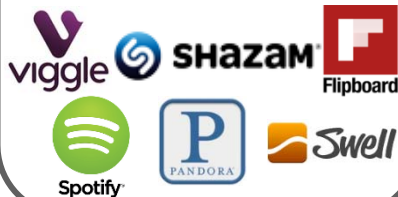
Gaming



Productivity



Media & Entertainment































Select independent companies.

Notable Themes

- Multiple billion dollar categories in mobile
 - Much deeper than two years ago and much broader than gaming
- Gaming apps continue to be most downloaded, but gaming share of total usage declines
- Messaging remains a stubbornly fragmented category
 - Leadership varies with geography
- Productivity applications deeper integrated into enterprise work flows, fueling mass adoption
- Personalized content becomes the new norm for Media & Entertainment apps

Vertical Apps Mobile M&A and Financings

Notable M&A			Notable Private Financings	
	<u>Acquirer</u>	<u>Target</u>		<u>Company</u>
Nov. 2013		\$150MM → 	Aug. 2013	\$361MM →  U B E R
Jun. 2013		\$16MM → 	Dec. 2013	\$100MM → 
Jan. 2013		\$10MM → 	Sep. 2013	\$50MM → 
Aug. 2013		\$10MM → 	Jul. 2013	\$66MM → 
May 2013		Undisclosed → 	Nov. 2013	\$50MM → 
May 2013		Undisclosed → 	Aug. 2013	\$50MM → 
Dec. 2013		Undisclosed → 	Jan. 2013	\$25MM → 
Jun. 2013		Undisclosed → 	Nov. 2013	\$20MM → 
Feb. 2013		Undisclosed → 	Aug. 2013	\$18MM → 
			Mar. 2013	\$16MM → 

III. Summary Thoughts

Summary Thoughts

Advertising

- Market at point of rapid growth
- Facebook and Twitter transformed businesses to become mobile focused on 2013

Location Based

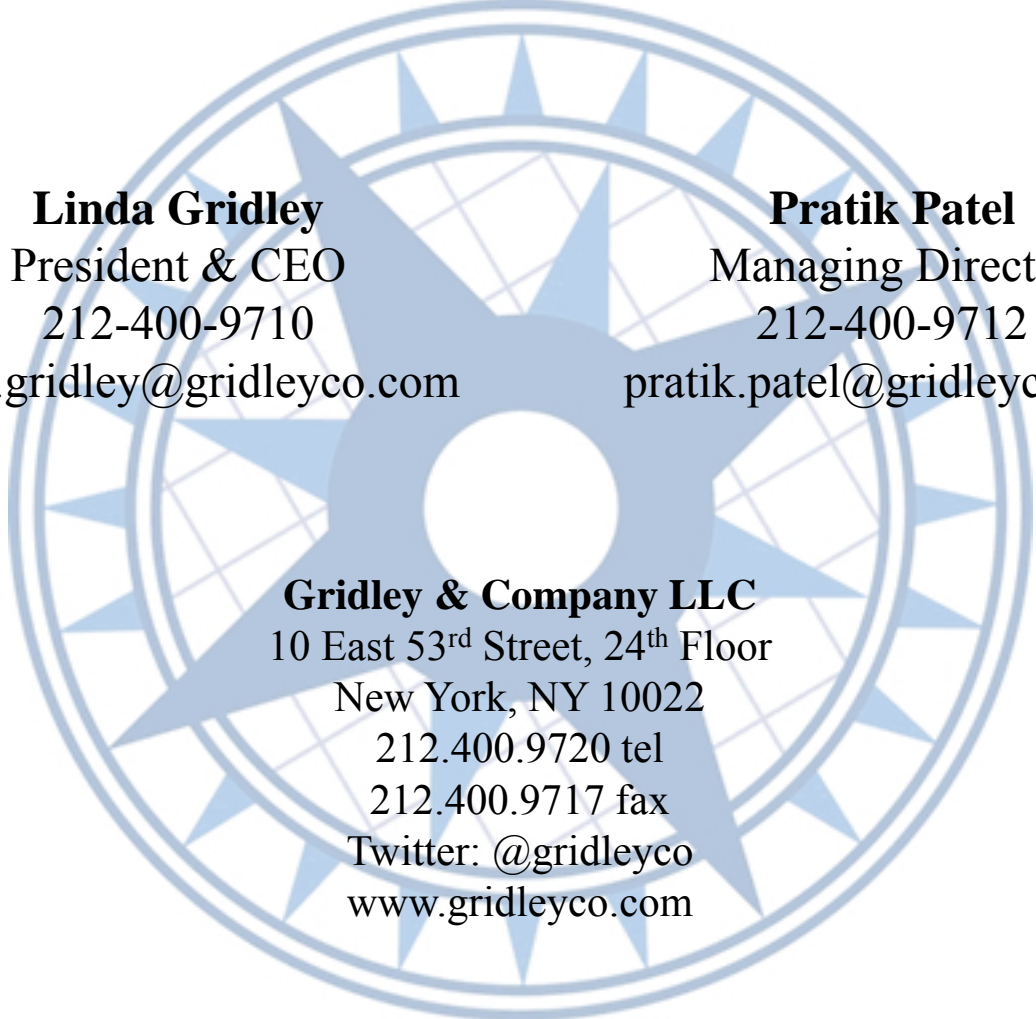
- In-store mobile usage hitting mass adoption, market looking for a killer app
- Google and Apple investing heavily in local tech capabilities

Payments

- Tremendous opportunity, however consumer adoption still in early stages
- Traditional network players building mobile capabilities to compete with emerging players such as Square and Paypal

Vertical Apps

- Multiple billion dollar categories formed in 2013
- Scaled usage into multiple verticals such as productivity, entertainment, and travel



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