

# Network Insight Institute Sponsors' workshop, 8-9 February 2008

## Investment

**Roger Buckeridge**, Partner, Allen & Buckeridge

**Richard Alcock** Vice Chairman, Merrill Lynch Australia

**Gerry Moriarty** Chairman, Macquarie Communications Infrastructure  
Group

Where is the long-term investment heading,?

What's happening globally; and where do we lag or exceed?

Venture capital for growing players, developing new services and  
software

# Venture capital for growing players

- Strong investor focus on wireless and mobile applications
  - US VC investment is running at ~US\$7b per quarter – 40% is in telecoms, media and entertainment, IT services, networking and equipment, and software ; with wireless amongst the hottest topics
- New media beats old media - Strong early stage and seed investing by NYC based firms with media/advertising connections (not just a Silicon Valley phenomenon)
- Agenda for Wireless Influencers Nov 2007 conference:
  - What consumers want
  - The convergence of industries
  - Mobile advertising
  - The economics of open networks
  - Networks, devices and solutions
- Looking for innovation to improve handheld device productivity and functionality
  - Better power, longer life, better visibility (anti-glare), touch
  - Anything to do with Internet video over handheld devices
- Rapid rollout of mobile TV services, especially in Asia-Pacific
  - ABI Research forecasts Asia-Pac subscribers from 24m in 2007 to >260m by 2012 (55% of world demand)
  - Mainly Japan and South Korea but strong numbers from China and India
  - Drivers are flat rate plans and 3G network rollouts

# The phone is THE device

- Mark Anderson (SNS)'s "modern definition of a phone": A phone is something the size of your hand, stuffed with all the technology that will fit at any given moment. Because it fits your hand, and not your desk, it is at once mobile and personal, available at any time to provide any kind of service. Because it connects to the Net, it brings global access everywhere: it is the first or second electronics device, now competing with the TV, to enter the home in emerging nations.
- In 2006 the industry shipped 1,017m units; in 2007 1,144m units. If you're wondering how the phone became the thing you stuff all the new tech into, there's the answer, coupled with a replacement cycle of 2-3 years.
- Nokia is dominant, Apple not even a blip: Nokia had dropped to 34% market share in 2006, but sold 40% of 334m units global shipments in Q4CY07; Samsung sold 46m units (14%) and Motorola sold 41m units (12%) last quarter.
- Today there are 2.6b cell "connections" globally; by 2008, there will be 3b. India's subscriber growth rate has hit 7m per month; China is showing 6m. Globally, there is a 41% penetration of the market; this should hit 50% by 2008.

# SNS's tech forecasts for 2008

- The Phone and Web Worlds Will Merge
  - Net Neutrality will prevail; carrier and ISP garden walls will fall. Box guys will win over Pipes guys. Handheld makers will win over carriers, a la Apple and Nokia. Samsung, Microsoft, and Google now join them in control. Tribes move from phones to the Web as part of this merger.
- Content Has No Boundaries
  - Or: By Expanding, the Web Disappears. Content will be provisioned to every device, making the “Web” seem an outdated idea, like “multimedia.” As it moves onto phones and TVs, it becomes invisible. I want the service; I don’t want its history. The separation between print and Web providers becomes outdated. Everyone distributes everywhere.
- CarryAlongPCs Become Commonplace
  - Small personal computers (UMPCs/micro notebooks) gain their own as a category as these new “CarryAlongs” are introduced by major players.
- The Users Revolt
  - As advertisers focus in on social networking sites, users revolt against this trend, and power shifts in the worlds of Social Networking from owner to user, on issues ranging from Second Life rules and Facebook privacy to cellphone billing. Users will gain new leverage.
- Serious Segmentation of Online Ad Monies Defines the Spend Trend
  - Start segmenting by user age: the young are surrounded; the older are less tolerant of

# Solving the “Discovery Dilemma”

- For the cellphone to emerge as a viable third screen, the consumer problem of discovery must be solved, as the availability of content and variety of content sources far exceed the ability of users to navigate and interact with that content
- McKinsey report (Nov 2007) “Mobile Search – The On-Ramp to Mobile Advertising”
  - Search behaviour is rapidly shifting towards forms that are suitable for advertising
    - Mobile storefront search 85% today, 35% by 2011
    - Local search 10% to 40%
    - Vertical search (specific content e.g. sports, weather) 3% to 20%
  - Online advertising has reached US\$25b worldwide, with search accounting for most revenues
  - Mobile advertising spend is negligible today but is projected to be a US\$28b industry by 2013 - \$11b of it driven by mobile search
  - Investors are interested in building advantage in each of 4 steps in process: initiating the search, conducting the search, displaying the results, monetizing the results
  - Wireless carriers today exercise considerable control (especially in US walled garden environment) but handset manufacturers are embedding applications that run over the top of the operator’s network, thus bypassing the operator’s search offering entirely
- VCs love selling start-ups with an application or a widget to Google or Yahoo/Microsoft

# Abundance of niche applications

An A&B example is eKit.com - it has special competencies to serve international travelers

- Travel industry channels, relationships, knowledge, and applications (>\$25m revenue and profitable)
- Mobile cell location of travelling mobile customers – can do now, linking database of mobile cell IDs to GPS co-ordinates. This is a global mobile location solution: 100 countries with uniform user experience, utilizing standard mobile technology [eKit roaming SIM card] – can use in low level 2G handsets, with java interface for higher level handsets
- Travel journal with automatic location presentation globally for all eKit customers feeds to 3<sup>rd</sup> party blogs and communication widgets
- Prepaid roaming data for email, applications and mobile search [Google and Yahoo! interested]
- Many growth opportunities: online viral potential of applications, global location based advertising (audio & mobile), social networks, content
- BTW, Jajah (a low cost global callback solution for voice) cannot compete today with this value proposition

# Typical vendor vision statement

- Our vision of next generation mobility is about an audio-visual communication and entertainment network that will allow people around the world to connect visually with the same simplicity and effectiveness experienced by everyone today with existing Internet services, such as email, blogs, chats, voice, and social networking – but all of them radically enhanced with superb video.
- Such access requires a wireless device capable of receiving and transmitting video for single party or multi-party person-to-person video conferencing for the consumer market: affordable, with universal access, supporting embedded applications. While partially achieving this for the home via STB devices or in specialized commercial applications via other devices, *fully achieving this vision for the general consumer market depends on new software and enhancements to smartphones*. Where computing power, bandwidth, low-cost and mobility are aligned, it is possible to bring high quality person to person live video to the broad consumer market – when combined with the essential ingredient of powerful video technology software.
- The possibilities are immense for this combination of the right device, the right environment and the right video codec. *The most differentiating service with ARPU would be person-to-person video, with revenue from advertising and subscriptions*. With more powerful mobile devices, advanced applications are deploying early this year on PCs and UMPC for enterprise collaboration and social networking. These capabilities are very compelling today over existing 3G networks like EVDO. WiMax will add global reach and by more than doubling the bandwidth will suit any video application.

# Mobile WiMAX?

- Recent news releases (India's Bharat Sanchar Nigam, Ltd [BSNL], Sprint in US) indicate that Mobile WiMAX deployment is starting.
- Juniper Research (Jan 2008) says: "Mobile WiMAX, a long-range networking technology, could reach a global subscriber base of 80 million sometime in 2013, but only if it successfully hooks the YouTube generation". WiMAX will still be dwarfed by HSPDA, a 3G data standard set to dominate the mobile broadband market in the years to come, but will have made impressive inroads for such a new technology. Juniper predicts annual Mobile WiMAX revenues of more than \$23 billion by 2013, with the United States, Japan, and South Korea forming the largest markets for the technology.
- One blogger (a vendor advocate) says: "2008 will be the year that Mobile WiMAX will start to deliver the next great leap in wireless network evolution, allowing people to stay fully connected, even when they are far from the nearest Wi-Fi hotspot. Mobile WiMAX will allow users to have on-the-go access to data-intensive applications, such as broadband Internet, online multimedia, live video conferencing, mobile TV and music downloads. Most of the experts do agree the number of global subscribers will exceed 50 million by 2012, I predict we will hit that number by the end of 2010. "