

May 2007

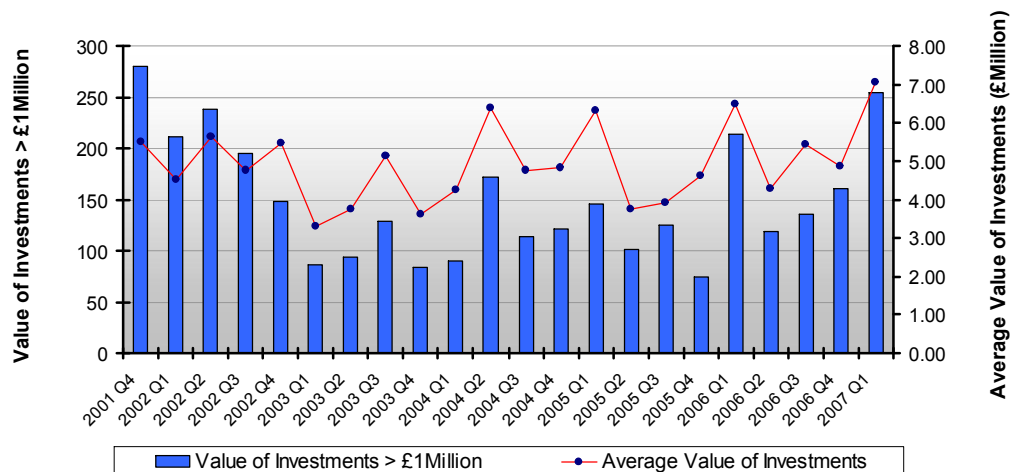
## Mobile Software and Advanced Semiconductor Applications Fuel Record Quarterly Investment

Cobalt Corporate Finance, a leading Technology, Media and Telecommunications advisory boutique, today released its 2007 Q1 funding analysis, which analyses technology funding investments of £1m or more made in the UK and Ireland.

### Headlines

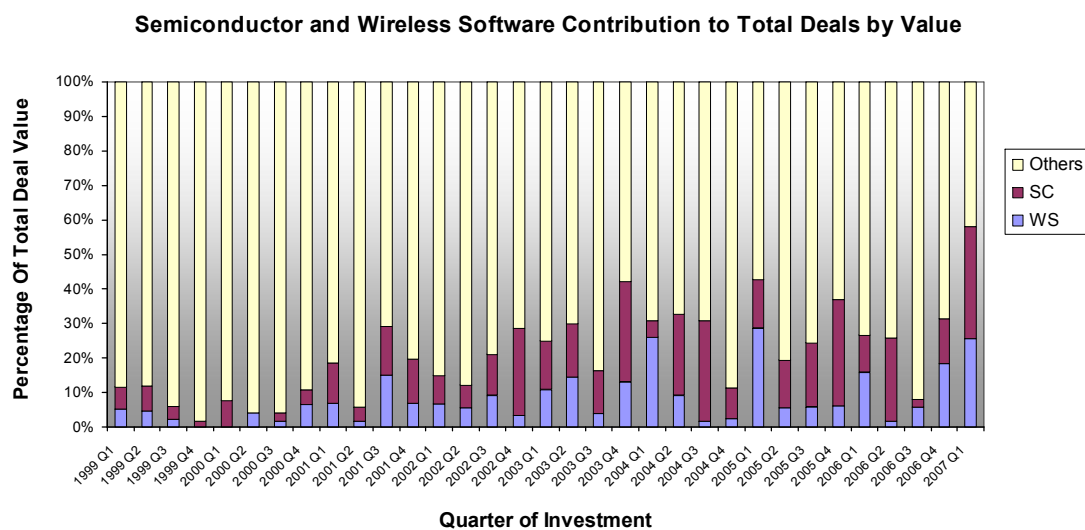
- The first quarter of 2007 yielded investments totalling £254m over 36 deals, which represents a high both in terms of average deal size and in terms of gross value since Q2 2001 and Q4 respectively. This compares to £629m invested across 133 investments in the **whole of 2006**.
- The increase in both deal size and number of investments can be attributed to a number of factors; a **marked increase** of investment in wireless software and semiconductors; a **few large individual** investments led by the £50.97m funding round into Plastic Logic; and **sustained activity** across the rest of the technology space.

Total Deals Investment to Adjusted Average Investment Size by Quarter



Paul Rivers-Latham, Partner at Cobalt Corporate Finance, said: “We have seen the investment climate steadily improve over the last few years and the high level of performance in Q1 comes as no surprise. For the first time, gross quarterly investments have shown four quarters of consecutive growth. The consolidation across digital mediums, especially in the mobile communications space, coupled with VCs’ appetite for later stage investments leads us to expect the current market trends to continue.”

## Sector analysis



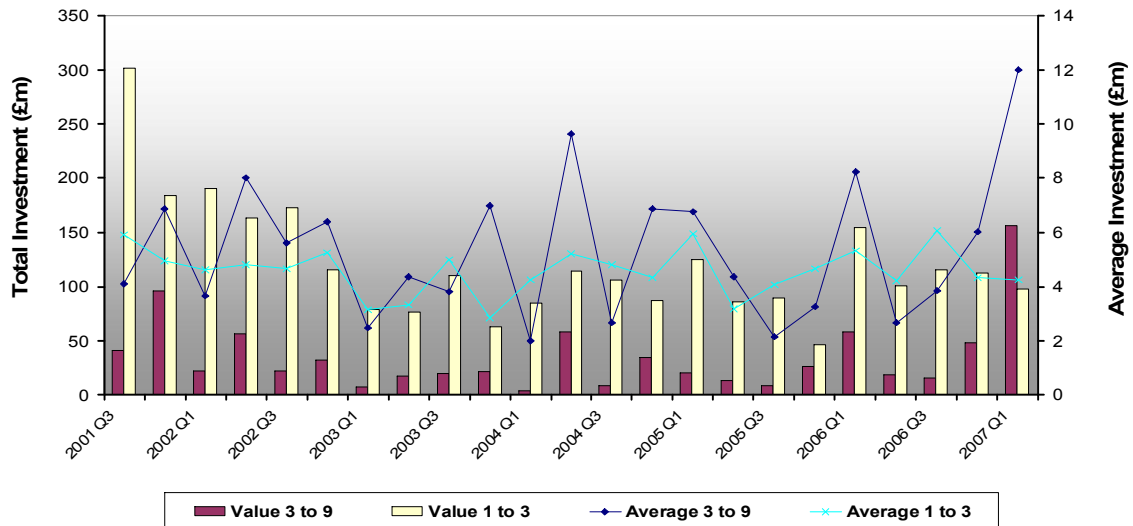
- **Semiconductor** deals in the sector represented £83.3m in Q1 2007, which is the **highest for the sub-sector since Cobalt’s records began in 1999**. There were five deals completed within the quarter, a record figure since Q3 2004.
- VC investment has also been focused on **wireless software**. There have been 9 investments in Q1 2007, which is only two less than the total deals in the sub-sector for the 2006 as a whole. By value, the total funds raised in wireless software for the quarter, stands at £64.62m, which is the **largest accumulation since Q4 2000**. The average total investment in the sub-sector for the 24 quarterlies between these benchmarks is £16.2m
- The semiconductor and wireless software sub-sectors together received a greater number of investments than any other sub-sector, with 58% of all the investments.

- As reported in the previous Cobalt CF VC report, investor sentiment towards the semiconductor space has become more favourable, which is demonstrated in Q1 2007 by the investments into electronic display companies.
- Plastic Logic, a is part of an **emerging market** in plastic electronics technology that has the potential to transform the economics of key segments of the electronics industry through printing electronics on thin and flexible plastic substrates using a process scaleable for high volumes and low cost.
- ZBD Displays is **leveraging its expertise** in the LCD market to continually refine their zero power graphical display solutions for electronic signage, labels and portable electronic devices, for which they received a £10.5m investment in Q1, bringing the total disclosed fundraisings for the company to £25m.
- **Convergence** across digital applications, software and hardware has been a **key driver** in a wireless software market that has been prominent in Q1 both in terms of deal value and volume. **Mobile software** in particular has shown marked growth due to the increased demand for the mobile-enablement of enterprise and consumer service applications. Pisces, a mobile content software solution provider closed its' second £20m+ round in February, while Truephone, a VoiP mobile software developer raised £12.5m, the fourth largest deal in Q1.

## Round Analysis

- There were 9 first round investments in Q1 2007, which although considerably lower than the average of 16 per quarter throughout 2006, is marginally higher than the average of 8.4 over the last 4 years.
- By value, the £21.8m of first round investments is 35% lower than the quarterlies over the previous four years and is less than half of the average figure of £46.8m for the quarterly first round investments in 2006. Smaller aggregate first round funding for a similar volume of deals demonstrates investor prudence and indicates a thrust for more organic growth.
- **Post 3<sup>rd</sup> rounding for Q1 2007 is a record** by total investment since Cobalt's records began in 1999. Average investment for post 3<sup>rd</sup> round funding is at £12m, the highest since Q4 2004 and is almost **3 times greater** than the average for rounds 1 through 3.

### Pre and Post 3rd Round Funding Comparison by Total and Average Investment



- The relative decrease in early stage investment for the quarter, coupled with higher total and average post 3<sup>rd</sup>-round funding suggests that VCs are approaching early stage growth companies with prudence but that they are prepared to invest generously **once commercial viability has been established**.

### Syndication:

- In Q1 2007 72% of the deals by volume were syndicated which is marginally higher than the 70% average for 2006.
- By value, 89% of deals were syndicated in Q1 2007. The average for 2005 and 2006 was 86% and 84% respectively so Q1 is fairly typical of the sector.

## Who are the biggest investors of Q1 2007?

The table below shows the five most active VCs by value invested. The table excludes investments where the amount invested was undisclosed as well as investors who made only one investment and did not lead the round.

VC	Value invested	Number of investments	Average value of investment
Amadeus	£78.1m	5	£15.6m
Tudor	£59.5m	3	£19.8m
Intel Capital	£59.17m	5	£14.8m
BASF VC	£56.5m	2	£28.3m
Quester	£29.6m	4	£7.4m

- Plastic Logic received a large investment in January 2007: £50.96m from a syndicate of 9 VCs. All of the top four VCs by value participated in this round, which accounts for the high average value per investment, especially true in the case of BASF Venture Capital.
- Following on from 2006, while the semiconductor sub-sector only accounted for 6% of investments in Q1 2007, investments such as Plastic Logic are an indication that VCs are willing to invest substantial sums for the **right opportunity**.

The table below shows the five largest investments of the quarter:

Company	Investment	Company's activity	VCs investing
Plastic Logic	£51.0m	Plastic electronics	Amadeus CP, BASF VC, Bank of America CP, Intel Capital, Merfin Capital, Oak Investment, Quest for Growth, Tudor Investment Corp
Picstel Technologies	£23.3m	Embedded software in mobile phones	Capital International, DCM-Soll CM, NIF SMBC Ventures, NTT DoCoMo, SBI Investments
Frontier Silicon	£16.0m	System-on-chip solutions for consumer electronics	ACT VC, Alta Berkley VP, Apax Partners, BlueRun Ventures, Cheyne CM, Garrigan Lyman Group, Mitsui PE, Plutus CM
Truephone	£12.5m	Mobile VoiP and wi-fi software	Burda Digital Ventures, Eden Ventures, Independent New and Media, Wellington Partners VC
Workshare	£11.7m	Information security software	Intel Capital, Quester CM, Steelpoint CP

- Of the five largest transactions, only two were backed by the five largest investors; Plastic Logic – Amadeus, Intel, BASF and Tudor, and Workshare, Intel and Quester.
- The largest and third largest deals represent investment into **semiconductors**, with the Plastic Logic Deal fundraising being the largest across the tech space since the £76m Pretel investment in November 2000. Analysts at IDTechEx forecast plastic electronics to be a \$30 billion industry by 2015, and could reach as much as \$250 billion by 2025 and at Cobalt we will be monitoring this developing sub sector closely.
- The **largest deal** in wireless software was for Picstel, where a £23m investment in February follows on from the £25m fourth round investment in Q4 2006. Picstel produces embedded software in mobile phones that enables the delivery of all documents and formats. The user can edit, mix, print or otherwise alter the presented information with no need to re-cast or re-engineer the content.

## About Cobalt Corporate Finance Limited

Cobalt is one of the most active TMT specialist advisors in the UK specialising in M&A and fundraising.

Formed in 1996, Cobalt Corporate Finance is London based and specialises in providing corporate finance advice to Technology, Media and Telecoms companies on:

- M&A – both sell side and buy side;
- Fund raising – from venture capital, private equity, corporate and institutional investors;
- MBOs/BIMBOs – combines both M&A and fund raising; and
- Advisory services – go-to-market strategy; strategic reviews; pre-sale planning, etc.

For further details contact:

### **Paddy MccGwire, Managing Partner**

Tel: +44(0)20 7659 0310

[pmccgwire@cobaltcf.com](mailto:pmccgwire@cobaltcf.com)

### **Paul Rivers-Latham, Partner**

Tel: +44(0)20 7659 0312

[prl@cobaltcf.com](mailto:prl@cobaltcf.com)

### **Chris Williams, Partner**

Tel: +44(0)20 7659 0318

[cwilliams@cobaltcf.com](mailto:cwilliams@cobaltcf.com)