HEADWATERS TMT MUST READ LIST

BEST ARTICLES FROM THE WEEK OF

AUGUST 4TH, 2014

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Deal News

Telefonica / Global Village Telecom – Telefónica of Spain said that it had offered about $8.9 billion in cash and shares for Global Village Telecom, a Brazilian company controlled by Vivendi of France. The deal would combine Telefónica's mobile and broadband operations in Brazil, which operate under the Vivo brand, with those of Global Village Telecom, creating the largest telecommunications provider in Brazil. Telefónica, based in Madrid, has offered to pay 11.9 billion Brazilian reais, or about $5.3 billion, in cash, and shares equivalent to 12 percent of the combined companies. The total offer is the equivalent of 20.1 billion Brazilian reais, or about $8.9 billion. Telefónica has also said it is willing to offer Vivendi a stake worth up to 8.3 percent in Telecom Italia as part of the deal. Telefónica's Brazilian operations are a main driver of its business in Latin America, accounting for 42 percent of its revenue in the region last year. (DealBook)

Gannett / Cars.com – Gannett plans to split into two publicly traded companies by spinning off its publishing business, including USA Today, and also said it has agreed to buy full ownership of Cars.com. Gannett will separate the publishing business through a tax-free distribution to shareholders, leaving behind a company focused exclusively on broadcasting and digital assets, including Cars.com and CareerBuilder, according to a statement today. Gannett also agreed to buy the 73 percent interest it doesn't already own in Classified Ventures LLC, the parent company of Cars.com, for $1.8 billion in cash. The purchase price implies a multiple of 11.7 times estimated 2014 earnings, Gannett said. Gannett already owned 27 percent of the auto-sales website. (Bloomberg)

Gemalto / SafeNet – Amsterdam-based digital security firm Gemalto says it will close on an $890 million deal to buy SafeNet later this year. The company claims more than 400 million digital data records have been lost or stolen so far in 2014. There's no doubt that big business (and the Internet at large) has a security problem. The company is looking to expand its enterprise product offerings and to give more Internet access to its products. SafeNet protects over 80% of global intra-bank fund transfers and serves over 25,000 corporations and government agencies with its cryptographic key management systems and authentication services. Clients include Bank of America, Cisco, Dell, Kaiser Permanente, and Netflix. SafeNet will filter into Gemalto's payment and identity team as well as its platforms and services section. Gemalto will finance the deal with $440 million in cash and an additional $450 million in credit. (VentureBeat)

Rocket Fuel / [x+1] – Programmatic ad network Rocket Fuel will acquire [x+1], an older ad tech company with a dual demand-side platform (DSP) and data-management platform (DMP) offering. The estimated value of the deal is $230 million. The acquisition brings Rocket Fuel a strong direct-to-advertiser capability – an area where it is seen as lacking and where [x+1] has strength through client relationships with major marketers such as Volkswagen, Lionsgate and Intuit. [X+1] is also known for a first-party data-centric approach that leverages site optimization and audience targeting. Under the deal's terms, Rocket Fuel will pay $100 million in cash and another approximately $130 million (5.4 million shares) of Rocket Fuel common stock. The transaction will close in Q4. Rocket Fuel had $218 million on hand as of the end of Q1 2014, along with about 800 employees. To these will be added [x+1]'s 160 staff. (AdExchanger)

Square / Caviar – Square has acquired curated food delivery service Caviar, confirming earlier reports that the companies had been in serious talks. Both Re/Code and The New York Times reported the deal would take place this week, but the reported price now is for $90 million in stock. Caviar is one of many new startups that seeks to enable customers to order meals online and have them delivered in a short period of time. The difference is most other food-delivery services tap into an already built-in delivery infrastructure. Caviar provides delivery to restaurants that don't already offer such a service. Caviar would be able to provide Square, which launched food ordering service Square Order earlier this year, with a way to deliver food from restaurants that don't already offer the service. The acquisition also fits neatly into Square's recently -released inventory tracking, an invoicing service and point-of-sale software to its 50,000 restaurants that already use its register service. This comes shortly after Caviar raised a $13 million round only this April. (TechCrunch)

Financing / IPO News

iDreamSky – Chinese mobile game publishing platform iDreamSky pulled off a successful IPO on NASDAQ by leveraging its relationship with Tencent. Investors bought into the Fruit Ninja gamemaker partly because of its cooperation with Tencent for WeChat payment of its games and use of Tencent's Red Pocket Service for promotion. iDreamSky has achieved fast growth — it counts nearly 26 million daily active users in China – by redesigning third-party western games such as those from Disney and customizing them for the local culture. The IPO raised $116 million at $15 per share, above the target range of $12 to $14. International expansion is very much part of the strategy for iDreamSky, the CFO said. Plans are to target Japan, Korean and Taiwan markets and possibly the U.S. The startup, formed in 2009 in Shenzhen, has Tencent as a backer in addition to Redpoint Ventures and Legend Capital, which invested $10 million in iDreamSky in 2012. (Forbes)

TransFirst – TransFirst Inc., a Hauppauge-based credit card processor, has filed for an initial public offering that could raise as much as $100 million, according to a government filing. TransFirst, which processed more than $48 billion in transactions from about 200,000 merchants in 2013, according to the filing, is owned by Welsh, Carson, Anderson & Stowe, a Manhattan private equity firm. Welsh, Carson, which acquired TransFirst for $683 million in 2007, would retain a controlling interest after an IPO. TransFirst reported net income of $2.3 million on revenue of $280.6 million in the quarter ended March 31, versus a net of $613,000 on $248.3 million in revenue in the year-earlier period. (NewsDay)

Rocket Internet – Rocket Internet and Philippine Long Distance Telephone Company (PLDT), a telecom operator, announced that they have entered into a strategic partnership to develop online and mobile payment products. PLDT will invest €333 million (about $445 million) for a 10 percent stake in Rocket Internet, putting Rocket Internet's valuation at about $4.5 billion. The companies said that they will "jointly develop mobile and online payment technologies and services" for "the 'unbanked, uncarded, and unconnected' population in emerging markets. Rocket Internet says that it had aggregated revenues in 2013 of more than €700 million (about $936 million). Rocket Internet's deal with PLDT should help support its e-commerce businesses in Southeast Asia, where mobile penetration rates far outstrip the use of credit cards, creating a quandary for online vendors. The partnership could also support Rocket Internet's other investments in emerging markets. (TechCrunch)

Womai – A craving for imported food bodes well for Chinese online food retailer Womai.com, which just raised a $100 million Series B round from lead investor IDG Capital Partners, alongside SAIF Partners. SAIF previously invested in an undisclosed Series A round for Womai.com two years ago. Beijing-based Womai.com plans to use some of the new funding to import more food from outside of the mainland. The nod toward more imported food will cater to an increasing number of Chinese consumers cautious about homegrown food and general food safety in the country. For Womai.com, this is a potentially an opportune time to garner more customers seeking safer food products. It currently has around 1.5 million users, and according to Mr. Shong is near break-even. The $100 million Series B round will likely last the company for up to two years. After that it may either tap investors for more money or consider exit options including an initial public offering. (WSJ)

Movile – The on-demand economy is not just a thing in the U.S. Brazil has apparently been really getting into the trend with various apps and services becoming available online. Brazil's Movile, the mobile commerce company behind food deliver app iFood, announced that it has raised $55 million in new funding to continue expanding its online-to-offline (O2O) business. In February 2013, Movile invested $2.6 million into iFood, an existing GrubHub-like service popular in Brazil, which acquired a similar service, Central do Delivery, in early 2014. Since its investment from Movile, 60 percent of iFood's orders now come from smartphones, up from 7 percent prior to that. iFood is now on track to deliver 3.5 million meals in 2014. Innova Capital led the $35 million fourth round of funding, with additional participation from current investor Naspers, and the company has also secured $20 million in long-term financing through FINEP, Brazil's Funding Authority for Studies and Projects within the Ministry of Technology. (VentureBeat)

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Industry News

Web Conglomerates – Facebook, Google and other Internet titans have been busy transforming themselves into web conglomerates, making fortunes for the venture capital industry. But is it good for everyone else? The stream of acquisitions has been head-shaking. Facebook's WhatsApp and Instagram acquisitions, Google's Nest and Waze acquisitions, and Apple's Beats Electronics acquisitions are prime examples. The titans' buying spree has revolutionized the venture capital business model. Now, the idea is to move into a hot space — social media! — and develop a product that the web conglomerates will buy at prices never before seen in private deals. The Internet giants are not just conglomerates but also the largest venture capitalists on the block. The Internet giants, after all, have core products that mint billions of dollars, if not tens of billions of dollars a year. And that cash needs to go somewhere. But cash is not the only factor driving the conglomerate wave. Fear is, too. The Internet giants do not want to face obsolescence because of new disruptive technology. The competition to stay on top and ahead of each other has led the tech conglomerates to drive valuations sky high as they battle for start-ups. (DealBook)

M&A Surge – A boom in mergers and acquisitions is taking place, and the stampede is expected to continue even after two headline-grabbing deals — Rupert Murdoch's bid for Time Warner and Sprint's attempt to buy T-Mobile — crumbled this week. A sharp upturn in deal activity is often thought to herald a stronger economy and a buoyant stock market. The theory: Corporate chieftains see strength building in their business lines, which gives them the confidence to pursue ambitious acquisitions of other companies. So far this year, $2.2 trillion in deals has been announced globally, according to data from Thomson Reuters. That total represents a 67 percent increase from the same period last year, and it is setting up 2014 to be a robust year for deal makers. And on Wall Street, a desire to strike while the iron is hot always plays a role in any boom. In this case, companies may be forging a lot more deals because the debt used to help finance many of the transactions could soon cost more, particularly if the Federal Reserve raises interest rates next year. (DealBook)

FinTech Gold Rush – CrunchBase gathered all tech-related venture rounds from July and found that financial services was the category with the biggest boost in activity, recording a 30% increase in the six month moving average. There were 16 financial services funding rounds in July, a 60% increasing on the average of the previous six months, bumping the moving average from 10 to 13 a month. It is not just the number of rounds that is impressive, but also the size of some. AvantCredit, a Chicago-based online consumer lender, raised $75 million in a series C funding round led by Tiger Global Management. Meanwhile, UK-based online marketplace for business loans, Funding Circle, picked up $65 million. That lenders are attracting so much money suggests a shift may be under way in the type of fintech firms VCs are going after. Recent CrunchBase data shows that the number of venture-backed payments companies declining from a high of 59 startups in the third quarter of 2013 to just 41 in the second quarter of 2014, showing that a "new market is starting to emerge: FinTech". According to Accenture, overall global fintech investment tripled between 2008 and 2013 from $928 million to $2.97 billion and is expected to double again to between $6 billion and $8 billion by 2018. (FinExtra)

And on a lighter note…

AOL's Inexplicable Money Factory – AOL beat Wall Street's Q2 revenue and profit numbers. And, like the last few quarters, the company says that its content business — sites like Huffington Post and TechCrunch — was profitable. But as always, the most amazing thing about AOL's business is the thing that drives AOL's business: Millions of people, who started paying the company a monthly fee for Internet access more than a decade ago, who continue to pay the company a monthly fee for Internet access, even though they likely aren't getting Internet access from AOL anymore. Tim Armstrong's company says its subscription business generated $143 million in "Adjusted OIBDA" – its proxy for operating income — last quarter. That's more than the $121 million in Adjusted OIBDA that the entire company generated. Here's how it makes that money: Getting a shrinking number of subscribers — 2.34 million this quarter, down from 3.62 million at the beginning of 2011 — to pay an increasing amount — the average AOL subscriber now pays $20.86 per month, up from around $18 a few years ago. (Re/code)