



GERBSMAN PARTNERS

US Wireless Market Outlook - 2006

As US mobile operators re-vamp their networks and service offerings, 3G is slowly becoming a reality for American mobile consumers. We are entering a brave new mobile world where Mobile TV, streaming video and multiplayer games are just a few rich media services that serve to bring higher average revenue per user (ARPU). In addition, Dual mode phones enabling cellular and WiFi seamless switching, high capacity storage devices such as camera, MP3 and video phones are today dominating wireless marketing. With consumers are growing increasingly accustomed to digital infrastructure and devices, encouraging a mobile lifestyle, large service and product opportunities are emerging for investors and entrepreneurs.

As the US market enters its second year of premium billing in 2006, mobile markets will see exponential growth in wireless entertainment revenues. End-user uptake, premium SMS service installations, as well as an increasing number of mass-media advertising partnerships will serve as indicators of a rapidly growing US mobile service and entertainment market.

The media industry's continued adoption of mobile distribution channels also indicates growing support for cross-media promotional services and campaign installations. Branded mobile storefront installations have been dominating business revenues in 2005, companies like mqube are increasingly moving into a dominant position in this market segment. Despite, this trend, US mobile content and application distribution will continue to grow, following a pattern similar to mobile application service provider markets in Western Europe.

From a corporate finance point-of-view, mergers and acquisitions within the mobile content sector will continue. Appealing mobile content offerings, including those filling a niche market, remain attractive for M&A. However, whereas advertising investment previously defined the dominant strategy, focus has shifted towards media advertising partnerships and revenue-share business models for larger mass-media companies. As content consolidations have centralized the access of mobile content, and the launch of branded mobile content portals requires a large marketing investment, mobile service companies with mass-media partnership strategies are increasingly attracting the attention of larger, international media companies.

Over the past two years, MTV has led the way by acquiring the rights for an in-house mobile service platform. The US-based MVNO, AMP'ed, has made a similar move, highlighting the trend towards an in-house mobile campaign and content management program. Other followers of this trend include CBS and Fox Studios. All major Mobile Operators have effectively and aggressively moved towards video, TV and full length MP3 offerings, tailoring content for use on new handsets and new networks.

Key short terms mobile technology opportunities

- **Streaming Media** – As an intensely media-centric market, US consumers might adopt mobile TV and on-demand services such as music and video more strongly than European equivalents. Businesses targeting media companies as their core-customer, circumventing mobile operator dependence and relying on media for promotion, will enjoy strong market traction over the next 12 months.
- **Mobile text, photo and video blogging** – Recent explosive growth by companies like Myspace.com and others, brings about a powerful, American-born technology trend: blogging. Millions of Americans have their own blog sites, personal or professional. In addition, the notion of a mobile inbox that lets the user direct traffic into a personal online environment from their phone will find commercial traction over the next 12 months.
- **RSS (Real Simple Syndication)** – Mostly considered a grassroots technology where users can (and do) organize news and content feeds into one domain, RSS is a current must-have on most news sites. Where technology-savvy analysts and journalists use blogging to share personal opinion, RSS represents the gathering and publication of relevant data. While RSS is emerging on the web, its mobile applications have yet to trickle out to the commercial marketplace, but many information providers are planning to launch something soon.
- **Mobile Flash** – As handset screen technologies and network bandwidth are increasing, and as Macromedia's Flash moves further into the installed base of mobile handsets around the world, the mobile industry will experience some positive changes. From a decoration-centric, individual entertainment experience focused on personal play, emerging consumer demand will generate combined mobile offerings. Successes such as mobile community and game play will be offered with mobile content commerce and rich media streaming to create mobile companion-like portals. As flash can reside on the phone and easily connect to online synchronization services, users can easily stay entertained and exposed to premium services for longer periods of time.

US market analysis

While still generally perceived as a market in its infancy, the US market has leaped ahead with mobile TV and music services. As media companies force Mobile Operators to continuously innovate, and capital rich investors keep forcing companies to think big, the US market still lacks the experience to build "Bread and Butter" services that over time will earn sizable revenues. The expectation to grow at impossible speed, will force many of today's market leaders to seek real-world experience in service packaging and design. As MMS and ring-back tones are pioneering technologies, premium SMS driven polyphonic ring tones and wallpaper "stores" are proven business models in Europe with sizable revenues. The US market has yet to understand the potential of print and TV advertising.

Mature technology offerings enabling broad data mining and service customization in combination with proven traffic capacity and real life service deployment experience remain valuable selling points, bringing new companies on par with local, better-known competing companies.

Opportunity ahead and some keys to success

- The team and its track record will create the success. Nevertheless, success still relies on a business team with deep industry knowledge, as well as a real ability to drive customer growth.
- Companies that combine contributions of the telecom and media industries will be of great interest as the TV, Music and Movie industries look towards mobile solutions to generate new revenues on existing content. As national TV is incorporating “premium” voting for its reality shows (Big Brother 6, Americas Choice 08/05), platform providers offering total “white label” solutions for media companies will increasingly attract the attention of the investment community.
- Long-term technology strategies are needed to show direction in a rapidly changing market place. With so much money at stake, a company’s ability to innovate and foresee emerging markets will attract larger M&A investors, producing a global strategy.

About Gerbsman Partners

Gerbsman Partners has, for the last 3 years, analyzed and observed the US market and has continuously perceived the US market as trailing the European market by 16-18 months. As market conditions are rapidly changing with the incremental resolution of network compatibility issues, the European advantage still remains. What had been 16-18 months ahead just one year ago has now seen development times cut in half to perhaps nine months today. If you, as a European mobile service company, maintain a strategy to enter the US market, the window of opportunity still remains and might do so for another 6-9 months.

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Gerbsman Partners is a financial restructuring and private investment banking firm specializing in assisting emerging growth, middle market, under-capitalized, under-valued, and under-performing companies and their Intellectual Property maximize enterprise value.

Gerbsman Partners has developed significant domain expertise in the wireless and mobile content area and has assisted numerous companies develop and execute their strategic, operational, financial and financing strategy action plans.

Gerbsman Partners, founded in 1980, has been involved in over \$ 1.9 billion of financings, M&A transactions and balance sheet and financial restructurings. Gerbsman Partners has offices and strategic alliances in North America, Europe and Israel.
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