

NEXIT MOBILE INSIGHTS



WHERE IS THE WIRELESS/MOBILITY MARKET GOING?

Two Perspectives

The mobile market has an activity peak every spring, when 3GSM and CTIA, the two largest tradeshows, take place. 3GSM has abandoned its former home in Cannes for Barcelona (good upgrade) and CTIA took place in Las Vegas – crazy and crowded as ever. The shows attracted a combined 100,000 people, a clear sign of a growing and healthy industry. Another sign of wellbeing was the marketing spend by the big players; Motorola covered Barcelona with their new image and Samsung and LG had a serious spending duel in Vegas.

Below are some of our main observations for this year.

Convergence and 3G are coming strong!

Convergence might have been the single most used word at both 3GSM and CTIA, but the theme includes several trends.

FMC (Fixed-Mobile Convergence) is the creation of a single telecom foundation. This disruptive movement is creating significant business opportunities. Another FMC activity is the emergence of mobile handsets that can be used on multiple networks (e.g. GSM and WiFi/fixedline). FMC is a global

phenomenon but more visible at CTIA. At 3GSM, convergence was more about 3G and IMS. Over one hundred 3G networks have been deployed globally, with about 50 million subscribers signed up. Half of the users are in Japan, and about 10 million in Italy – the second largest 3G market today!

With 3G becoming reality, both 3GSM and CTIA exhibitors were more focused on enhancements to the infrastructure, which will allow always-on and personalized services. Hot subjects discussed by vendors and in conference sessions include IMS, which will allow for a converged, Internet-like experience on the mobile phone. The new accelerator for this, HSDPA, was a popular topic specifically at the 3GSM show.

It's all about applications and services

Applications and services were prominent at both shows, as this is where much of the future business will be. This year's theme was "everything video". Mobile TV demos were displayed en masse. Most agree that mobile TV will be huge, even if standards and business models are far from established. Many operators are already trialing services on their networks. Communities, blogs and different interest sharing activities were everywhere at the shows (many of them using video), following the Internet success of user-generated content. ►►

Geographical Market Differences



CTIA WIRELESS 2006

Mobile Video and TV

3G

Convergence

MVNO

Municipal Wi-Fi

WiMAX

Industry marketing spend

● DVB-H

● HSDPA

● IMS

● Low cost

●

●

● Motorola

● MobiTV, MediaFLO

●

● Fixed-Mobile

● Value add

●

●

● Microsoft, LG, Samsung

Both events showed the next generation of professional content that will grow the already successful markets for ring tones, wallpaper and sports. Adult content was also present as a large, established category. Early deployments of mobile search are showing encouraging results but no clear winner has emerged yet.

3GSM vs. CTIA

One hot trend at CTIA was Mobile Virtual Network Operators, where established brands launch mobile services with proprietary content on an incumbent operator's infrastructure. This trend was almost not visible at 3GSM due to the fact that the European MVNOs are focused on low-cost voice, and they do not have a high profile in Europe. Notable was also that Microsoft had a very strong presence at CTIA, but was barely present at 3GSM this year.

A healthy industry

In general, both events were very active and upbeat, and left people feeling that they are part of a strongly growing, but also maturing industry. The amount of start-up companies present at both events was very positive after a few slower years.

Our conclusion is that the global leadership in the telecom universe will be exercised in North America, Europe and Asia – each with its particular twists – for a long time to come, and providing an excellent investment environment. ■

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Nexit Team

As a global, but tightly technology and market focused venture capital firm, Nexit has its finger on the pulse of innovation in mobile and wireless. Investments are made primarily in Nordic and US based early stage companies, with products and services for a global market.

Using its relevant operational experience, the Nexit team supports the growth and development of the portfolio companies with a pragmatic, hands-on approach. With knowledge and contacts across the wireless ecosystem, the Nexit team opens up and creates opportunities for its portfolio companies.

Nexit's transatlantic bridge is a significant value-add, linking together the technology hotbeds in Nordic and Silicon Valley. For Nordic companies, Nexit's network of business contacts in Silicon Valley provides a bridge to markets, partners, experienced management and investors at an early stage. US-based ventures get an opportunity to profit from Nordic's market-leading wireless network infrastructure, technology, insight, and advanced user base. Nexit has offices in Helsinki, Stockholm and Silicon Valley. For further information, please visit www.nexitventures.com.

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The Investment History of Hybrid Graphics

Hybrid Graphics develops and licenses software graphics technology for mobile phones and other consumer electronics devices.

The roots of the company are in the cooperative Hybrid Kulttuurituotanto Ok, in which the eight founders started working together in 1994 developing advanced 3D graphics engines for computer games.

Nexit as sole investor

In 1998, the company secured its first venture capital investment round from Investor Growth Capital of Sweden and PCA Infocom of Finland. Investors and management later bought the shares of PCA Infocom. Nexit Ventures led the second investment round and made its first investment in October 2002. Nexit made an add-on investment in February 2003 and later also purchased all of Investor's shares, ending as sole investor with approximately 50% ownership.

Deal screening and investment

Originally, Hybrid Graphics specialized in developing 3D visibility optimization and 3D software rasterizing tools running in a PC environment. The software was marketed and sold through external distribution channels. Significant part of the company's revenue came from 3D graphics modeling and image manipulation. The customers for these services consisted of advertising companies and film agencies in Finland.

Nexit had monitored Hybrid actively since the spring of 2000, and Nexit General Partner Artturi Tarjanne met with the company's management regularly since then. Nexit was greatly impressed by Hybrid's world-class 3D

graphics capability, primarily in the PC area. Nexit proposed an investment in Hybrid, as it was seen that the future breed of multimedia handsets with big color screens would provide excellent new growth opportunities for the company.

Company development

After the initial investment, Artturi Tarjanne was Nexit's representative on Hybrid's board. In the spring of 2003, Pekka Salonoja was brought onboard as a part-time management consultant to help Hybrid's management redefine their business for the mobile segment. The following year, he was nominated as Chairman of Hybrid.

According to the new strategy, Hybrid's graphics technology licensing business was shifted from PC applications to embedded 3D graphics software for mobile phones. The services for ad agencies were spun off into a company called Fake Graphics Oy through a management buy-out arrangement. A new VP of Sales was hired and a new distribution network for the mobile segment was established.

Into exit mode

In the beginning of 2005, Hybrid was in a strong position. The mobile 3D graphics segment was growing rapidly and Hybrid was clearly the world market leader. In fact, Hybrid was the only vendor that could offer a complete graphics software framework containing all relevant graphics components.



In the spring of 2005, Nexit began a project together with Hybrid management with a target to sell the company within a year. A new share option program was launched and shareholder agreements were updated.

The first discussions with potential buyers from US, Asia and Europe began in the summer of 2005. After many phases, Nexit had four seriously interested buyers in January 2006. The first concrete offers were received, and negotiations continued with two parties at the 3GSM 2006 conference in Barcelona.

After several busy weeks, the deal was finalized with nVidia. No investment bank participated in the acquisition. Nexit managed the negotiations with the potential buyers and orchestrated the entire exit process. ■

Next Partner Spotlight **Michael Mandahl**

Investing in Mobile Excellence



"In the early days, a company is shaped by its customers," says Michael Mandahl, Next Venture Partner.

Michael Mandahl joined Next as Venture Partner in June 2005. He is an experienced ICT entrepreneur and venture capital investor who has overseen the founding, internationalization and successful investor exits of numerous ICT companies during the last two decades. Mr. Mandahl has a strong background in M&A activity and the creation of partner networks for international technology companies.

Before joining Next, Mr. Mandahl worked as Venture Partner for Sweden-

bang is still to come. The Internet stealth comeback as the greatest thing on earth is creating a lot of new opportunities for startups also in the mobile industry.

What kind of company do you like to invest in?

MM: I dream about a company with an offering based on strong and sought-after "heavy weight lifting" technology that can serve global customers from the start with a small marketing and sales-oriented team.

US, you will find many seasoned professionals who are not entrepreneurs themselves, but have experience from multiple startups.

Another difference is that many of the larger companies in the Nordics are quite advanced in ICT use in comparison to the US, but they can be more reluctant to experiment with new offerings from startups.

Generally, the pace is faster in the US. In my opinion, the Americans are much

"Mobile entertainment is still like medicine was when it was practiced by barbers."

based BrainHeart Capital. He had a central role in bringing Mobeon AB, a developer of wireless messaging services, to a global leadership position in its field. Mobeon services currently have over 40 million subscribers worldwide. At BrainHeart Capital, Mr. Mandahl led Ericsson's M&A activities, which included the integration of Ericsson's product unit with Mobeon. He was also responsible for BrainHeart Capital's investments in the United States.

What is the most interesting thing happening in the mobile industry right now?

Michael Mandahl: I think that the convergence that is driven by mobile entertainment is very exciting. It is an area that is still at the same level as medicine was when it was practiced by barbers.

On the technology side, I still think that the IP-everything trend is one of the hottest games in town where the big

I am inspired by most of the entrepreneurs I meet. One of the benefits of being in the business of early-stage technology investments is that you get to meet people from all over the world with new ideas and a passion to do something with them.

Next has a strong presence in the world's three most important mobile technology hubs - the United States, the Nordic countries and South Korea. In my position as Venture Partner, I look forward to helping the company find and fund the most dynamic new companies in the mobile industry.

You have an extensive background in the global ICT sector. How does the industry climate differ between, for example, Scandinavia and the US?

MM: Firstly, the startup environment is different. We have great entrepreneurs in the Nordics but the support system is not as developed so it is tougher for them to build a complete team. In the

better at riding the horse the same day they put on the saddle.

What is the key to launching a successful startup?

MM: Focus on your core abilities; this is really an essential thing. Figure out a way to learn from the experience of others. This is done by both studying the market and by building a great network around you.

Then you start building the whole team and start performing like superstars. In the early days, a company is shaped by its customers, so it is really important to find the right lighthouse customers early on. ■

THE NEXIT PORTFOLIO



www.bitfone.com

Bitfone provides innovative software solutions for customer care automation and mobile device management to wireless operators and handset providers. Bitfone's products improve the usability of mobile devices by diagnosing and repairing software problems and by delivering updates and configuration settings over the air. Bitfone is headquartered in California, with offices in Canada, China, Korea and the UK.

Other investors: St. Paul Venture Capital, 3i US, Nokia VP, Prism Ventures, Orange Ventures, Motorola Ventures, KTB Ventures, CIR Ventures and Qualcomm.



www.conformiq.com

Conformiq Test Generator is a solution for dynamic model-based test generation and automatic test execution. The technology is based on test cases generated from high-level system models enabling automated, thorough and cost-effective testing of complex software systems. In addition to quality improvements and increased test case maintainability, this also results in direct savings in development costs. A special version has been released for Symbian environments.

Other investors: erVentures



www.ecrio.com

Headquartered in Cupertino, California, Ecrio is the leading vendor of next generation communication software for mobile phones. Ecrio provides interoperable and standards-compliant software to Mobile Phone Manufacturers and Mobile Operators. Ecrio offers solutions for Instant Messaging and Presence Services (IMPS), IP Multimedia Subsystem (IMS) and Push to Talk over Cellular (PoC). Ecrio's customers include mobile industry leaders such as Lucent, NEC, Panasonic and Siemens.

Other investors: CIR Ventures, CDB Webtech.



www.ekahau.com

Ekahau, Inc. is the industry leader in providing Wi-Fi based RTLS (Real Time Location System) solutions. Ekahau's customers, including several Fortune 500 companies worldwide, are realizing the benefits of Wi-Fi-based location services, and innovative Wi-Fi network planning and optimization tools. Ekahau partners include wireless software developers, leading system integrators and international OEM partners, who develop and market wireless enterprise applications. Ekahau is a US-based corporation, with its headquarters located in Saratoga, CA, and other offices in Reston, VA; Helsinki, Finland and Hong Kong, China.



www.exidio.com

Exidio Oy is dedicated to combining extensive, first-hand treasury expertise with enabling technologies to provide treasury service tools. Trezone is a web-based system that opens up treasury bottlenecks and ensures automatic information flow throughout corporations. It widens the reach of treasury management to give tools to internal customers, such as controllers and subsidiaries, with substantial cost savings and improved forecasting services.

Other investors: CapMan, Metso Corporation.



www.fathammer.com

Fathammer is a pioneering leader in advanced mobile gaming, providing high-quality 3D games and development tools for mobile platforms. Fathammer provides its industry-leading X-Forge 2 Game Development System to game developers. X-Forge Powered games bring console-quality 3D gaming to a wide range of mobile devices. Fathammer Ltd has offices in Helsinki (Finland) and Seoul (Korea).

Other investors: 3i, Sitra and angel investors.



FUTUREMARK CORPORATION

www.futuremark.com

Futuremark is known around the world for its PC and smart phone benchmark products and value-added services. The 3Dmark benchmark is used by more than 250 computer magazines and major PC hardware manufacturers (including AMD, ATI, Intel, nVidia) and recognized as the world de-facto standard.

SPMark has become the industry's most widely used benchmark for Symbian OS based smart phones and is rapidly becoming the de facto performance measurement standard for mobile platforms.

Other investors: Conventum Oyj.



www.hantro.com

Hantro is the leading provider of hardware and software based MPEG4, H.263, H.264 and VC-1 video solutions specifically tailored for handheld devices. The product portfolio also includes video applications for video capturing, playback, messaging, streaming and telephony. By combining these offerings, Hantro is uniquely positioned to provide complete solutions for silicon providers, device manufacturers and network operators.

Other investors: CapMan, Atine Group, 2M Invest.

THE NEXIT PORTFOLIO



www.hybrid.fi

Hybrid develops graphics technology solutions for consumer devices and is the leader in embedded graphics standards. The new 3D API's such as OpenGL ES and M3G are bringing advanced visual capabilities enabling even more compelling games, entertainment and other content. Hybrid's clients include Acrodea, Bitboys, Ericsson, Mtekvision, Samsung, Symbian, ACT Software, Aplix, Esmertec, Pathway, Philips, Renesas, Tao, TTPcom and Nokia.

Nvidia Corporation (Nasdaq: NVDA) acquired Hybrid Graphics on March 2006.



www.mobile365.com

Mobile 365 is the global leader in the delivery, billing, and settlement of mobile messaging services delivering reliably messages, premium content, and value-added services for the leading mobile operators, content providers, brands, and media companies. Headquartered in Virginia, USA, Mobile 365 has offices in a dozen countries and more than 300 employees worldwide. Nexit Ventures invested in the first institutional round of the company.

Other investors: 3i, Draper Atlantic, Draper Fisher Jurvetson, IVP, Mayfield, Vertex, InvestCorp and strategic investments from Citigroup, Intel, and Visa International.



www.skypilot.com

SkyPilot is a broadband wireless last mile access solution for ISPs serving suburban consumers. Using a patent-pending architecture operating in the 5 GHz band, SkyPilot's mesh network approach results in a self-installing home unit, creating a self-managed and fast-penetrating network. It will enable multiple ISPs to provide cost-effective broadband services, including wireless T1 access and video on demand.

Other investors: Mobius Venture Capital, Invesco Private Capital, AOL Time Warner Ventures, Softbank Asia, Selby Venture Partners, Palo Alto Investors.



www.thetamicro.com

Theta is a fabless RF semiconductor company focusing on the next generation of cost-effective multi-band and multi-mode wireless systems. The products will facilitate cost-effective, high-performance Wi-Fi implementations for customers worldwide. Theta is deploying its unique design IP and specialized local knowledge of the diverse requirements of US and European markets, to provide products for emerging volume wireless applications.

Other investors: Telos Venture Partners, NBG Technology Fund, Cadence Design Systems, Commercial Capital Group.

RECENT NEWS FROM NEXIT PORTFOLIO COMPANIES

SkyPilot has been ranked by Yankee Group as the leader in Technical Versatility among Wi-Fi mesh vendors. In its report, Yankee Group places SkyPilot in the technology leadership position ahead of all other mesh networking vendors, including Tropos, Cisco, Motorola, Nortel, Strix, and BelAir.

Ekahau announced that the Dwight David Eisenhower Army Medical Center at Fort Gordon, Ga. will deploy the Ekahau Real-Time Location System (RTLs) to wirelessly track and manage medical assets at the 500,000 square foot, 750-bed health-care facility.

Futuremark announced the SPMarkJava06 handheld device benchmark, developed in close cooperation with such industry leading companies as ARM, ATI, Intel, Khronos Group, NVIDIA and Symbian. The SPMarkJava06 benchmark provides reliable, unbiased Java performance results across different architectures and environments.

StarCore, a leading provider of processor intellectual property (IP) and **Hantro** announced the immediate availability of an optimized H.264 software video decoder for the StarCore SC2400 processor.

Exidio has rolled out a corporate treasury solution offering deeper integration between banks and corporate clients. In 2005, Exidio grew strongly as revenue doubled through channel partners including two leading global financial institutions. The company also turned profitable after many years of focusing on research and design.

MSN and **Mobile 365** extend their relationship in India by forging strategic alliances with several mobile operators: Reliance Infocomm with a total of over 15 million subscribers; Tata Teleservices with over 7 million subscribers; and Spice Telecom with more than 1.5 million subscribers.

Ecrio's Embedded Push-to-Talk solution has been licensed by NTT DoCoMo to be deployed on the new 902i series 3G FOMA handsets. More recently, Ecrio became the first vendor worldwide to have SIP-based PTT client software shipped in several million mobile phones.

Hantro has announced high-resolution video 6170 decoder and 6270 encoder products supporting MPEG-4 simple profile, H.263 profile 0 and H.264 / AVC baseline as well as JPEG still images up to 16Mpix, delivering up to a 97% CPU load reduction and 50% power savings compared to an ARM9 based software solution.

SkyPilot announced that Costa del Sol Online (CDSO), a system integrator and network operator based in Malaga, Spain, has selected SkyPilot equipment to roll out advanced wireless voice, data and Internet access services across Western Europe.

Marubeni Corporation (Japan) has signed a distribution agreement with leading location tracking solutions supplier **Ekahau**, and starts reselling Ekahau's wireless LAN-based Real-Time Location System (RTLS) and site survey tools.

The GSM Association has selected **Bitfone's** SmartCare as a finalist for the 2006 GSM Association Awards. SmartCare offers real-time assistance to Tier 1 customer service representatives, allowing them to profile, diagnose and resolve a significant percentage of mobile data-related problems on the first call.

HiSilicon, the former ASIC design center of Huawei (China), integrates **Hantro's** video decoder and encoder into their new single chip design. By integrating Hantro's hardware video technology, HiSilicon deliver high performance video with nominal processor load and power consumption, bringing compelling multimedia to mainstream handsets.

Futuremark has released 3DMark06, including an array of 3D graphics, CPU and 3D feature tests for overall performance measurement of current and future PC gaming systems. With this broader design approach, 3DMark06 will be the benchmark of choice for all PCs with top-of-the-line graphics hardware and CPUs.

The City of Portland, Or., has selected MetroFi to build a wireless network powered by **SkyPilot** equipment. The mixed-use network will provide citywide public Internet access and new enhanced services for the City of Portland's public safety, public works, property inspectors and other field-based employees.

Mobile 365 has joined forces with three additional operators in the Latin American market, increasing its reach into Venezuela, El Salvador and Honduras. Mobile 365 handles an average of nearly 50 million messages in Latin America every month, connecting to 25 operators in 15 countries reaching over 111 million subscribers.

Amoi Electronics, one of the largest Chinese mobile phone manufacturers, has selected **Bitfone's** device management and remote diagnostics for their mobile devices. mProve will be used to update the firmware and file systems over the air and Mobile Variance Agent will provide device configuration, management and remote troubleshooting.

Fluke Networks is incorporating **Ekahau's** Wi-Fi site survey technology to create planning and measurement tools for testing 802.11 coverage and performance. The first jointly developed product will assist in designing and optimizing networks for VoWLAN and other high-performance uses.

Hantro has licensed video and audio coding technology to Skyworks Solutions. This agreement, which covers the 4100 and 4200 MPEG-4 / H.263 video codecs, enables Skyworks' Lynx™aa EDGE multimedia mobile platform to benefit from the additional performance delivered by Hantro's highly optimized multimedia components.

Conformiq has announced QTRONIC, a groundbreaking Model Driven Quality Assurance technology automating test case generation directly from design models. It integrates with major model-driven CASE tools such as Borland Together Architect, Rational Software Architect, Telelogic TAU, I-Logix Rhapsody or Artisan Studio, or with DSM tools such as MetaEdit+ or XMF/Mosaic.

Ekahau announced that its Real Time Location System (RTLS) has been deployed in several mining sites worldwide to track the location and movement of miners in real time. The unique technology can leverage any brand of Wi-Fi networks to locate persons and emergency equipment without any proprietary hardware.

Futuremark announced that Texas Instruments Incorporated (TI) is joining its handheld benchmark development program. In addition, TI is licensing the source code for Futuremark's 3DMarkMobile06, SPMarkJava06 and SPMark04 products.

Triad has selected **SkyPilot** products to deliver the 4.9 GHz public safety mesh and 5.8 GHz mesh backhaul portions of Boulder City's (Nevada) municipal wireless network due to its unique high-power capabilities, which allow the mesh to be miles apart, and its carrier-class synchronous protocol for VoIP capabilities.

The Finnish Software Entrepreneurs' Association has chosen **Mikael Honkavaara** as the Software Entrepreneur of the Year 2005. Honkavaara is the CEO and co-owner of the Helsinki-based company Hybrid Graphics. The award was presented at the annual general meeting of the Software Entrepreneurs' Association in Helsinki.

Mobile 365 announced it will collaborate with Responsys - the company behind marketing campaigns for salesforce.com, Ford, and Lufthansa - to launch "Mobile Gateway", a dedicated SMS and WAP messaging platform that enables its customers to deliver relevant, personalized messages via mobile devices.

Hantro announced that Spreadtrum Communications Inc. have integrated the 4550 encoder and 5550 decoder into their SC6800 2.5G GSM/GPRS baseband chip, enabling encoding of MPEG-4 and H.263 format CIF video at 30fps, decoding up to VGA at 30fps and capture of up to 8 MPixel JPEG images.

Ekahau and Symbol (NYSE:SBL) announced a solution to track the location of inventory and assets with RFID. The first implementation will use Symbol's MC9000 mobile computing RFID reader, which incorporates Ekahau location-enabling software designed to locate where RFID tags are being read.

SkyPilot has shipped its 10,000th unit, securing its 200th customer across 40 countries worldwide. Soaring demand for SkyPilot solutions is being driven by a combination of service providers, municipalities and public safety delivering broadband data, voice over IP, public Internet access and video surveillance applications.

Futuremark announced they have established an open development program to define and create VGMark07, the OpenVG Benchmark. This new benchmark will provide handheld industry companies developing OpenVG API enabled hardware with objective and accurate cross-platform comparisons of OpenVG performance.

Digi International (NASDAQ: DGII) embeds **Ekahau's** location-enabling technology into the Digi Connect 802.11 WLAN products, providing wireless connectivity to a wide range of devices, such as medical equipment in healthcare facilities.

S3 Ltd and **Hantro** have demonstrated a DVB-H software platform running on Windows Mobile powered PDAs and smartphones. The platform receives CBMS-compliant streams delivered to the handhelds over either a standard Wi-Fi or DVB-H air interface.

Nvidia Corporation (Nasdaq: NVDA) has acquired **Nexit** portfolio company **Hybrid Graphics**. "Hybrid is a prime example of how a Nordic high technology company has developed from a combination of strong elements into a successful international company in its niche," said **Pekka Salonoja**, Nexit General Partner and Chairman of Hybrid. ■