

Venture Capital Funding and M&A Quarterly

Internet • Digital Media eCommerce • Software

1st Quarter, 2008 – United States

Publisher
VentureDeal

Contributors

Internet • Digital Media: [Jackson West](#)
eCommerce • Software: [Dennis Howlett](#)

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Summary

During the first quarter of 2008, the Internet and Digital Media sectors raised more than \$1.8 billion in new venture capital investment between 216 companies. That represents a 22% increase in total investment over the previous quarter. The number of companies funded also increased, by 28%. These numbers reflect significantly greater activity versus the previous quarter. M&A transaction activity was up 907% over the previous quarter, with 8 companies receiving at least \$934 million in disclosed consideration, though the total amount was skewed by a single large transaction.

The eCommerce sector saw only four deals totaling \$17 million, down 70% from the last quarter. Software financing remained healthy, with 191 transactions totaling \$1.27 billion, up 32% on the previous quarter and spread across a variety of market segments, with bigger deals going to emerging markets like Enterprise 2.0 companies and those providing analysis services to advertising. Open source received a further boost from SugarCRM's two financing rounds totaling \$34.5 million.

There was no eCommerce M&A activity this quarter, while the Software sector reported \$2.18 billion in 34 transactions, dominated by Sun's \$1 billion acquisition of MySQL, the world leading open source database used by many websites. In the Software sector, the M&A totals achieved represent a further decline of 24% in the number of transactions compared to the previous quarter. While the absolute value of deals closed represents a rise of 29% compared to the previous quarter, when we strip out the MySQL deal, the decline in deal value compared with the previous quarter is 30%.

Funding Activity

Internet Once again, the Internet sector accounted for a large portion of funding activity, with 187 companies sharing in nearly \$1.5 billion in venture financing. Deals ranged from widget developers like [SplashCast](#) receiving \$4 million in Series A funding led by [Emergent Growth Fund](#), to [Chumby](#), which makes a small, playful Internet-connected device which runs widgets and received \$12.5 million in Series B financing led by [JK&B Capital](#) in order to expand to 3rd party hardware.

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The largest funding event was for [Oversee](#), which received \$150 million from [Oak Hill Capital Partners](#). The online marketing and domain name company will use the money to augment growth and to purchase technology (likely through acquisitions such as the purchases of [SnapNames](#) and [LowFares.com](#) last year). The company had previously secured a \$60 million line of credit in Q1 of 2007.

Lifestyle- and fashion-focused [Glam Media](#) raised \$85 million in a Series D round led by [Hubert Burda Media](#). The company aggregates content from over 450 online publishers and communities in order to sell advertising, marketing and sponsorship packages to premium consumer brands looking to reach an upscale, predominantly female market that includes 25 million users in the U.S. market alone.

[Etsy](#), which provides online storefronts and billing services to small craftspeople, raised \$27 million from [Benchmark Capital](#) and [Union Square Ventures](#). The company will use the funds to work on expansion into new markets worldwide, with plans to eventually become public through an IPO.

[Automattic](#), which provides support, hosting and premium services for open-source content management and publishing systems such as WordPress and bbPress, received \$29.5 million in Series B funding. The round was led by [Polaris Venture Partners](#), with [True Ventures](#) and the [New York Times Company](#) also participating. The company has said it would use the money for growth and product development.

A number of companies producing content management and distribution tools used by individuals and small businesses to publish video and multimedia received funding. These include:

Ooyala	\$8.5 million
Howcast	\$8 million
Seismic	\$6 million
TubeMogul	\$1.5 million
Mogulus LLC	\$1.5 million

Digital Media

The amount of funding and number of companies funded dropped off slightly for the Digital Media sector, with total funding down 18% to \$329 million with the number of companies closing deals up slightly from 27 to 29.

Leading the way was [Adconion Media Group](#) with an \$80 million round lead by [Index Ventures](#) and [Wellington Partners](#). The company is ranked tenth in total reach by comScore, serving 8.8 billion advertising impressions worldwide and 2.1 billion in the United States.

The company plans to use the money to expand operations in the U.S., which is reflected by job openings listed primarily in the company's Santa Monica, CA and New York, NY offices.

Only three companies are on the record as receiving Series A funding, possibly signaling a slow down in early-stage investment in digital media startups. [Big Bear Entertainment](#), which creates music video software, landed \$550,000 led by an investment from [El Dorado Ventures](#); [GoldSpot Media](#), which powers dynamic advertising insertion for mobile media, secured \$3 million from Exa Ventures; [Sparkplay Media](#), which is developing browser-based multiplayer game [Earth Eternal](#), received \$4.25 million from [Redpoint Ventures](#) and [Prism VentureWorks](#).

[IGA Worldwide](#), an early entrant in the nascent in-game advertising market, secured \$5 million in Series B funding from [Translink Capital](#), [Presidio Venture Partners](#) and [Itochu Corporation](#). The market potential is considerable, with Nielsen having reported in 2004 that males 18-34 are now spending more time playing video games than watching television, on average.

eCommerce

eCommerce funding remains in the doldrums where only the very best opportunities are financed. [Arcot Systems Inc](#), a 3D security software and services company, was the stand out investment. A round totaling \$7.3 million led by [Accel Partners](#) brings Arcot's total funding to \$26.3 million since its Series A in October 2005.

One surprise was the \$5.34 million Series A round secured by [Wigix Inc](#), a community based eCommerce service, led by [Draper Fisher Jurvetson](#). Community services are a dime a dozen so it will be interesting to follow Wigix progress in this highly competitive market.

Software

Software financing was healthy with 44 transactions at \$10 million or above out of a total 191 transactions. [nGenera Corp](#), which received \$20 million in July 2007 took a further \$43 million this quarter, led by [Oak Investment Partners](#). NGenera, which changed its name from BSG Alliance, is active in the so-called Enterprise 2.0 market, helping companies transition from functionally siloed operations to collaborative units through a combination of software and services. [Mzinga](#), a business social media company, secured \$32.5 million led by [W Capital Partners](#).

In a transaction for an undisclosed amount, Mzinga acquired Prospero Technologies, a social media provider with a strong client base in the media, entertainment, and publishing sectors. [ABS Capital Partners](#) led a \$30 million Series A for [Invision Inc](#), a provider of advertising systems to the media marketplace. This transaction was unusual in that it is being provided for working capital and dividend purposes to a company that's been established since 1993. [BackOffice Associates](#), a company that specializes in data quality solutions in SAP environments, received \$30 million from a round led by [Goldman Sachs](#). The funds will be used for product and geographical expansion.

[Integrated Media Measurement](#), which provides software that measures advertising effectiveness as measured by consumer action raised \$25 million led by WPP, bringing total funding to \$37 million. Open source style businesses will see the \$14.5 million Series D received by SugarCRM and led by [Draper Fisher Jurvetson](#) in January closely followed by an additional round of \$20 million led by [New Enterprise Associates](#) as a further validation of the commercial open source business model.

Software
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[Hillcrest Labs](#) secured \$25 million in a Series D round led by [Alliance Bernstein](#). Hillcrest is addressing the problem of giving consumers an easy way to navigate and control the delivery of any kind of video content to television sets. In the business analytics segments, [Palantir Technologies](#) received \$36.7 million, led by In-Q-Tel while [Endeca Technologies Inc](#) received \$25 million led by [Bessemer Venture Partners](#).

Table 1

Venture Funding Activity – 1st Quarter 2008

Industry	Total Amount Funded	% Change Vs. Prior Quarter	Number of Companies Funded	% Change vs. Prior Quarter
Internet	\$1.48 Billion	+ 38 %	187	+ 34
Digital Media	\$329 Million	- 18 %	29	+ 7 %
eCommerce	\$17 Million	- 70 %	4	- 20 %
Software	\$1.27 Billion	+ 32 %	191	+ 29 %
Total	\$3.25 Billion	+ 31 %	411	+ 28 %

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M&A Activity

Internet Internet sector M&A activity stayed level, with eight companies purchased since the start of the year, the same as in the previous quarter. The disclosed amounts for transactions increased markedly, with \$934 million in reported deals for this quarter compared to \$84 million for two deals last quarter, although one large transaction accounted the entire change in aggregate transaction amount.

The largest deal in the Internet sector was the sale of social network [Bebo](#) to [AOL](#) for an estimated \$850 million. The all-cash deal is presumed to be part of AOL's strategy to grow a once-strong user base that has been diminished by the loss of dial-up subscribers and users of the now-defunct AOL browser. Bebo's largest user base is in the United Kingdom, and AOL is in a good position to grow the audience further by leveraging the company's considerable access to professionally produced content from partners.

Popular multimedia sharing site and social network [imeem](#) purchased [Anywhere.FM](#), which allows users to upload and manage a music library online. Event ticket reseller [TicketsNow](#) was acquired by [Ticketmaster](#), which has long dominated the online tickets market.

Digital Media Only two digital media companies changed hands this quarter, no change since last quarter. Internet ad agency [Weblistic](#), which specializes in local-focused Internet networks, was acquired for an undisclosed sum by [Spot Runner](#), a well-funded startup focused on the same market. The acquisition was primarily a market share addition.

Software [Sun](#)'s acquisition of [MySQL](#) for \$1 billion was the stand out transaction of the quarter. Viewed as a bold positioning move by Sun, the deal goes a long way to validating the commercial open source service business as one with a long term future. [HP](#)'s acquisition of [Exstream Software](#) for \$371 million was seen as a market consolidation play, giving HP access to technology delivering enterprise-level applications that manage the printing of documents and marketing materials for specific audiences.

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[Maven Networks](#), the online video platform provider, which had previously recorded venture investment of \$23 million, cashed out to [Yahoo!](#) in a deal worth \$160 million. In what some saw as an odd deal, [Dell](#) acquired [MessageOne](#), an email as a service provider for \$155 million. Finally, in a deal that underscores the continuing importance of bank trading platforms, [Wombat Financial Software Inc](#) was acquired by [NYSE/Euronext](#) in a deal worth \$200 million.

eCommerce There were no disclosed eCommerce M&A transactions during the quarter. The previous quarter showed only 2 transactions, for undisclosed amounts, so M&A activity in the sector remains at a low ebb.

Table 2

Venture M&A Activity – 1st Quarter 2008

Industry	M&A Transaction Amounts	% Change Vs. Prior Quarter	M&A Number of Transactions	% Change vs. Prior Quarter
Internet	\$934 Million	+ 800 %	8	- 38 %
Digital Media	Undisclosed	N/A	2	0 %
eCommerce	Undisclosed	N/A	0	--
Software	\$2.18 Billion	+ 29 %	34	- 24 %
Total	\$3.11 Billion	+ 74 %	44	- 29 %

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Notes

This report was prepared by [Jackson West](#), [Dennis Howlett](#) and the staff of [VentureDeal](#).

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The database obtains transaction and company information from a wide variety of reputable public and private sources. While this report is free of charge, users may view the individual transactions supporting the totals herein by subscribing to VentureDeal for \$25.

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