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Mercury Mobility and m.Net to merge

By Stuart Corner
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IT Industry - Strategy

ASX listed mobile content specialist, Mercury Mobility (ASX: MMY) is to merge with m.Net Corporation to produce "a new generation of mobile expertise and capabilities, targeting global mobile carriers, media companies and content and brand owners," and with their respective shareholders each holding about 50 percent of the merged entity.

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m.Net will bring a bunch of significant shareholders to the merged entity. Its shareholders are Yahoo!7, through its wholly-owned subsidiary Yahoo Digital Media (Content), Alcatel-Lucent Australia, Telstra and CVC Limited. The three major shareholders have agreed not to sell their shares on market for a six month voluntary escrow period from completion.

Horden Wiltshire, currently CEO of m.Net, will become the CEO of the combined company and Mercury Mobility's founder and managing director, Ben Grootemaat, will become an executive director of the merged entity.

"The mobile market is growing very quickly and the merger positions us to take advantage of the rapidly emerging opportunities in the industry. Combined we have an enviable client list and our two workforces now become part of a larger, stronger organisation", said Wiltshire.

Grootemaat said the combined businesses would capture a clear leadership position in the Australasian digital media market by leveraging competitive competencies between the mobile entertainment market and the mobile advertising market. "The combination of Mercury's existing business in Canada combined with m.Net's work with Yahoo! in North America will provide us with a strong foothold to further expand in the North American marketplace."

The agreement was signed by the three major shareholders of m.Net (Yahoo!7, Alcatel-Lucent and Telstra), but is conditional upon m.Net's minority shareholders agreeing to sell their m.Net shares to Mercury at completion.

The merger will be effected through Mercury's acquisition of all of the shares in m.Net and is conditional upon Mercury's shareholders. approving the deal at a general meeting to be held in October 2009. Mercury expects to issue the m.Net shareholders with a total of approximately 105 million fully paid ordinary shares. Following completion of the acquisition, Mercury's current shareholders and m.Net's current shareholders are expected each to hold approximately 50 percent of Mercury's issued capital.

m.Net claims to be Australia's leading full service mobile marketing solutions company. It designs, builds and manages mobile destinations, provides content aggregation services, and delivers end-to-end mobile marketing campaigns to drive traffic to customers mobile sites.

In 2008 it was ranked by Business Review Weekly as the fifth fastest growing company in Australia and the fastest growing technology company. In the past five years m.Net has grown revenues from $525,000 to in excess of $7.8m.

Mercury Mobility has operations in Brisbane, Canada and New Zealand. It uses its own technology to manage content and optimise carrier content sales via its Media Retail Platform. The company claims to produce high margin content and to manage content for all major record labels, independent record labels and some of the world's largest entertainment brands. It claims to have digital assets under management comprising 0.75 million audio tracks, 50,000 ringtones, 5000 videos and 1500 video ringtones.

During the FY09 year it claims to have won a major contract to manage and distribute digital content for Bell Canada.

However its recent financial performance has been less than spectacular. For the year to 30 June 2009, revenue was down 14 percent to $5.5m, and net loss after tax up 68 percent to $2.7m. Despite this it was able to improve EBITDA significantly, from negative $1.6m in FY08 to negative $0.21m in FYO9. It said that the full year loss was mainly due to non-cash impairment of intangible assets and write off of deferred tax assets. The company ended the year with $1.2m in cash, down from $1.5m a year earlier.

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