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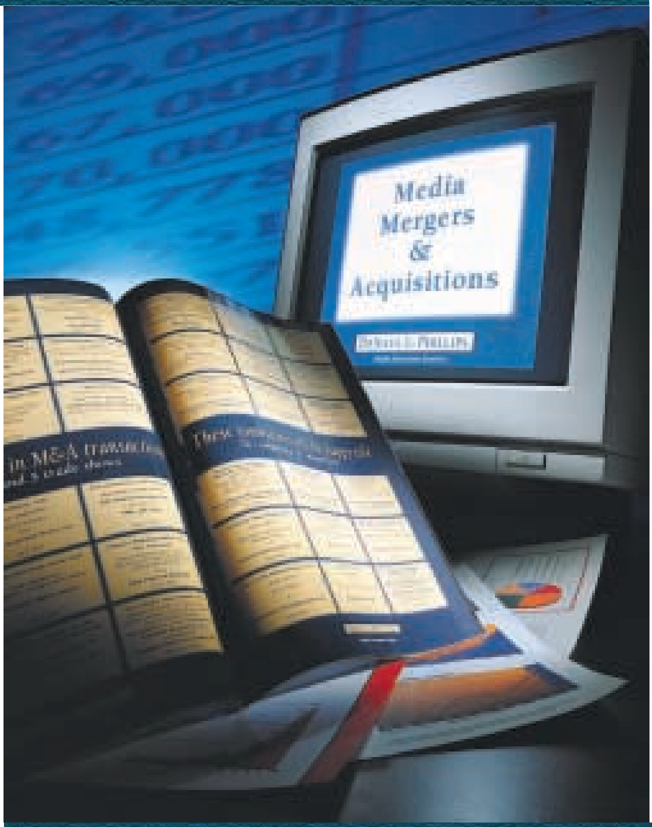
Mergers & Acquisitions

An analysis of the magazine marketplace



The DeSilva & Phillips Report – 2002

DeSilva & Phillips

Media Investment Bankers

Many in the media industry would like to forget the year 2001. Forget its tragic and triumphant events for our country and the world. Forget the economic downturn that began at the beginning of the year for most of the economy. Forget, most of all, how the media industry, with its vulnerability to the collapse of the Internet economy in April 2000, began a downturn whose suddenness and intensity reminded the silver-haired among us of 1991.

We say that 2001 is forgotten at our peril. The year in media was rich in educational experiences for those of us who make our living in the media and M&A businesses.

How bad was it? In 2001, there were more magazine industry deals than the year before – as many as in any of the last four years – but at a fraction of the value. The year's total deal volume was $4.7 billion – down from $25 billion in 2000 (a number which excludes the $165 billion Time Warner deal). The size of the average deal in 2000 was over $247 million – the size of the average deal in 2001 was $41 million.

Deal History 1998 - 2001	1998	1999	2000	2001
Total Deals	105	115	102	115
Total Deal Volume ($Billions)	6.9	14.0	25.0	4.7
Average Deal Size ($Millions)	65.7	121.7	247.5*	40.9

*Excluding value of the AOL Time Warner deal

The DeSilva & Phillips Top 25 declined along with every other sector of the U.S. M&A market. The dollar value of U.S. M&A (based on reports from Thomson Financial) was $796 billion versus $1.83 trillion in 2000; down 57%. The number of transactions declined 31%, with 7,385 in 2001 versus 10,754 in 2000.

The year in M&A was undoubtedly affected by the September 11 attacks. To give some idea of the magnitude of this change, look at fourth quarter deal volume compared to the fourth quarters of previous years.

4th Quarter Deal History 1998 - 2001	1998	1999	2000	2001
Total 4Q Deals	20	23	18	16
4Q Deal Volume ($Billions)	2.7	10.5	7.4	0.7
4Q Volume as % of Full Year	39%	75%	30%*	14%

*Excluding value of the AOL Time Warner deal

The number of deals taking place in the fourth quarter declined slightly, from 18 to 16, but they represented only 14% of the year's dollar volume. Previously, from 30% to 75% of each year's volume took place in the fourth quarter.

In our view, the fundamental economic condition of the media business is best judged by considering the world as it was in the first three quarters of 2001. In the fourth quarter, the effect of the WTC attack was so staggering that it brought business to a virtual standstill for many weeks after the dreadful event. In media dependent on financial, technology, and travel advertising, and in the trade show industry, things were even worse. For example, Penton issued an earnings guidance in early December 2001 (reaffirmed January 7, 2002), which suggested that its fourth quarter revenue may decline from earlier estimates by as much as 15%.

Even before September 11, every advertising medium experienced losses, with the exception of outdoor. At mid-year, year-to-date revenue had declined by almost $3.3 billion compared to 2000, a loss of 6.4%. Magazine industry revenue suffered least – only 4.1% – accounting for $372 million of the total decline. The magazine sector's woes pale in comparison with TV's 4.5% decline and the double-digit percentage declines in newspaper publishing, radio, and Internet.

Advertising Performance by Medium (First Half 2001)

($Millions)	YTD 2001	YTD 2000	Change	% Change
Magazines	8,639	9,011	-372	-4.1%
TV	24,745	25,912	-1,167	-4.5%
Newspaper	10,454	11,687	-1,233	-10.6%
Internet	1,500	1,666	-166	-10.0%
Radio	1,435	1,789	-354	-19.8%
Outdoor	1,220	1,184	36	3.0%
Total	47,993	51,249	-3,256	-6.4%

Source: CMR

The Magazine Industry

Both consumer and business-to-business sectors of the magazine industry experienced a dramatic fall-off in advertising pages. But in each case, a huge proportion of lost pages came from just a few categories of magazines. On the consumer side, almost 60% of the pages lost by the industry came from the business, computer and technology titles. On the business-to-business side, financial and technology titles accounted for nearly half of the pages lost.

Small Publication Categories – Big Ad Page Losses

Consumer Magazines				
3Q Year-to-Date	2001 Pages	2000 Pages	Change	% Change
Business/Tech Titles	36,702	54,032	(17,330)	-32.1%
All Other Titles	203,706	216,724	(13,018)	-6.0%
Total Pages	240,408	270,756	(30,348)	-11.1%

B2B Magazines				
3Q Year-to-Date	2001 Pages	2000 Pages	Change	% Change
Financial/Tech Titles	127,084	169,636	(42,552)	-25.1%
All Other Titles	331,245	381,480	(50,235)	-13.2%
Total Pages	458,329	551,116	(92,787)	-16.8%

Consumer Magazines

In the first three quarters of the year, major consumer magazines suffered a collective ad page decline of 11.1% (Source: *Advertising Age*). But the story is more complicated. The decline really took place at three different speeds.

Many magazine sectors declined moderately, or not at all – magazines in the youth, travel, men's and women's categories actually grew in pages. Eight other categories showed single-digit percentage declines. Regional magazines and weeklies declined more severely, in the 14% - 15% range (though several individual specialty titles resisted the decline). But business magazines and computer magazines were having a dismal year – national business magazine pages down 34.2%, regional business pages down 26.4%, and computer magazine pages down 31.5%.

Curiously, the publishing categories most affected in the recession of 1991 were very different. Then, the luxury categories suffered more than most. In 2001, magazines in the more upscale leisure categories held their own or even improved on their 2000 performance.

Change in Ad Page Count by Category 3Q YTD 2001 vs. 2000

Consumer Magazines: Publishing Category	Change	B2B Magazines: Publishing Category	Change
Youth	7.8%	Horticulture & Farming	-3.8%
Travel	2.6%	Travel	-5.3%
Men's	1.8%	Retail	-11.0%
Women's	0.7%	Home & Building	-11.2%
Boating	0.1%	Drugs & Toiletries/PERQ	-11.4%
Automotive	-4.2%	Manufacturing	-13.5%
National Sunday	-4.2%	Automotive	-14.4%
Home	-4.5%	Services, Direct Response, Classified	-20.4%
Music/Entertainment	-4.6%	Software	-21.5%
Parenthood	-4.9%	Computers	-21.8%
Outdoor/Sport	-5.6%	Telecommunications	-22.0%
General Interest	-6.5%	Finance, Business & Advertising	-27.6%
Photography	-9.3%		
Weeklies	-14.2%		
Science	-14.3%		
Metropolitan	-15.3%		
Inflight	-26.2%		
Business Regional	-26.4%		
Computers	-31.5%		
Business National	-34.2%		
Total	-11.1%	Total	-16.8%
Source: *Advertising Age*		Source: American Business Media	

Business-to-Business Magazines

The business-led recession of 2001 hit the business-to-business publishers extremely hard. The figures are stark. Ad pages in the first three quarters were down 16.8% and revenue down 17.6%, from $7.1 billion in 2000 to $5.9 billion in 2001 (Source: CMR for American Business Media). No publishing sector was exempt from the decline, and the biggest categories were the worst hit. As with consumer magazines, declines in the technology and financial categories – Finance, Computers, Software and Telecom – accounted for 59% of the lost advertising revenue and 46% of the ad pages lost. In revenue, the non-tech and business categories declined 12.8%, while the tech/business categories declined 23.8%.

Huge declines in two small publishing sectors propelled a significant part of the industry's pre-9-11 losses.

Trade Shows and Conferences

In past recessions, the trade show industry provided a counterweight for publishing declines in business-to-business media companies. For example, in 1991, attendance and exhibitors declined – but by less than 1%. However in 2001, the trade show industry suffered alongside its magazine sisters. In the first three quarters, the industry's decline in attendance and the number of exhibitors was substantial by historical standards. The decline is certain to have grown worse in the fourth quarter: for example, the bellwether Comdex show had 76,000 fewer attendees - down 37% from the year before (Source: *The Wall Street Journal*).

Acquisition targets were smaller entities.... Portfolio trimming characterized the deal market of 2001

Trade Show Growth Rates

	1997	1998	1999	2000	YTD 3Q 2001
Exhibitors	5.1%	3.9%	2.6%	2.6%	-2.0%
Attendance	6.4%	2.3%	3.9%	4.0%	-3.1%

Source: *Tradeshow Week Quarterly Reports*

The Top Magazine Deals of 2001

The total value of the DeSilva & Phillips Top 25 Deals of 2001 was $4.019 billion – a stunning decline from $189 billion in 2000, and an equally stunning decline from the $24 billion 2000 total (which excludes that year's AOL – Time Warner megadeal). The number one transaction – AOL Time Warner's $1.64 billion acquisition of IPC Media – would have been only the fifth largest transaction of 2000.

The decline in the value of Top 25 Deals reaches all the way down the list. The number 10 deal was a $66 million transaction – the sale of pulver.com's VON and SIP trade shows to Key3Media. In 2000, a $475 million transaction was number 10 – Time Warner's purchase of the Times Mirror magazines from the Tribune Company. In 1999, the number 10 transaction was valued at $105 million. And even in 1998, number 10 was larger – News Corporation's acquisition of TVSM for $75 million.

One reason that deals were smaller in 2001 is that the acquisition targets were smaller entities. Contrast 2001 with 1999. Then, the sale of many large companies in their entirety drove the M&A market: TV Guide Inc., CMP, Ziff Davis, National Enquirer, Fairchild, Hanley-Wood and F&W. Seven of the top fifteen deals that year involved the acquisition of entire magazine companies of substantial size. In 2001, only one large company – IPC – was sold as a whole. The other 24 deals involved divisions of larger companies (such as EMAP USA and Thomson's Jane's), or companies less than $50 million in size (such as B.A.S.S. and Black's Guide).

Portfolio trimming characterized the deal market of 2001. Many companies – The New York Times, Meredith, Future Publishing, Cahners/Reed Elsevier, Reuters, Hearst, The Economist Group, Softbank, EMAP and Primedia – sold off divisions, individual properties, or pieces of properties. In fact, Portfolio-trimming deals accounted for 13 of the top 25 deals, and totaled almost $1.6 billion – 40% of the total value of the top 25 deals.

Many of these deals were driven by the need to raise cash and reduce risk. Primedia sold Bacon's and is reported to be considering selling its shooting,

The DeSilva & Phillips Top 25 Deals of 2001

	Property & Description	Seller	Buyer	$Millions
1	IPC Media 79 UK Consumer Magazines	IPC Group, Ltd.	AOL Time Warner	1,640
2	EMAP USA 60 Consumer Magazines	EMAP PLC	Primedia Inc.	515
3	Synapse Group, Inc. (majority stake) Subscription Agent	Synapse Group, Inc.	AOL Time Warner	500
4	*Golf Digest* 4 Consumer/Business Magazines	The New York Times Co.	Condé Nast Publications	375
5	Jane's Information Group Business Information Service	Thomson Corp.	Woodbridge Co.	110
6	Financial Times Energy Business Newsletters, Databases, Shows	Pearson plc	McGraw-Hill Companies	95
7	Bacon's Business Directories	Primedia Inc.	Observer AB (Stockholm)	90
8	*BCR*, Next Generation Networks, VoiceCon Business Magazine, 4 trade show/conferences	BCR Enterprises, McQuillan Ventures	Key3Media Group, Inc.	70
9	*Business 2.0* Business Magazine	Future Network	AOL Time Warner	68
10	Voice on the Net and SIP Show 2 Trade Shows	pulver.com	Key3Media Group, Inc.	66
11	Cahners Travel Group 13 Business Magazines, Directories	Reed Elsevier/Cahners Business Info.	Boston Ventures	65
12	Media Central (minority stake) 172 Newsletters, Magazines, Websites, Conferences, Databases	Primedia Inc.	Brill Media Holdings	50
13	Women.com Specialty Internet Portal	Hearst Corporation	iVillage Inc.	47
14	Ideas Publishing Group (majority stake) 9 Consumer Magazines, Spanish-language Editions	Ideas Publishing Group	Condé Nast Publications	35
15	B.A.S.S. Inc. Consumer Magazine, Membership Organization, TV Show	B.A.S.S. Inc.	ESPN Inc.	35
16	World Publications (minority stake) 12 Consumer Magazines	World Publications	Boston Ventures	35
17	VentureOne Data Service	Reuters Group plc	Wicks Business Information	31
18	Us Magazine (50%) Consumer Magazine	Wenner Media	Walt Disney Company	30
19	Softbank Forums, Japan Trade Shows	Softbank America Inc.	Key3Media Group, Inc.	28
20	*Robb Report, Showcase* 2 Consumer Magazines	Luxury Media Corporation	CurtCo Robb Media, LLC	25
21	*Golf for Women* Consumer Magazine	Meredith Corporation	Condé Nast Publications	24
22	The Journal of Commerce 6 Business Magazines, Newspaper, Database	The Economist Group	Commonwealth Business Media Inc.	24
23	Black's Guide, Inc. Business Directories	Black's Guide, Inc.	ABRY Partners, LLC	21
24	Hillgate Communications Ltd. 5 Business Magazines (UK)	Hillgate Communications Ltd.	Penton Media	20
25	International Fine Art Expositions 4 Trade Shows	International Fine Art Expositions	dmg world media	20
	Total Volume			**4,019**

Note: The DeSilva & Phillips Top 25 Deals *includes announced transactions for consumer and business magazines, trade shows and conferences, and closely-related information, database and service companies. We cover U.S. activity primarily, but will include an important non-U.S. acquisition made by a U.S. company. We also include non-media companies that are bought by media companies (Synapse) and which represent a significant statement by the acquiring company. We exclude media deals outside these sectors, such as books, radio, TV, cable, and non-content Internet.*

photography and bridal titles. Meredith sold *Golf for Women* and American Park Network, and Cahners Business Information sold its travel, automotive, construction, metal, and packaging groups. Wenner Media brought in Disney Publishing as a 50/50 partner to share the risk of the weekly *Us*.

With large companies selling, it was a good market for buyers, both strategic and financial. Deals had much more significance for buyers than for sellers. Condé Nast constructed an entire dual-audience golf division assembled from properties shed by The New York Times and Meredith. Business-to-business sector companies – including Observer AB of Sweden (in the public relations sector), Wicks Business Information (financial services) and Commonwealth Business Media (shipping) – added substantially to their strategic assets by acquiring small units of Primedia, Reuters and The Economist Group. Financial buyers ABRY Partners and Boston Ventures gained significant new footholds in business-to-business sectors.

For the first time in many years, it was U.S. companies buying what European and Asian companies were selling

Nor should we forget the major properties that were closed down entirely – some of them by large companies – some young, some venerable. Let us remember the passing of *The Industry Standard* (IDG), *Working Woman, Mademoiselle* (Condé Nast), *George* (Hachette), *Mode* (Freedom), *Expedia Travel* (Ziff-Davis), *Individual Investor, Brill's Content, Maximum Golf* (News Corporation), and *Consumers Digest*.

One of the more unusual deals in 2001 – and the third largest – was AOL Time Warner's acquisition of a majority stake in Synapse Group, the subscription marketing agency founded by Michael Loeb and Jay Walker (better known as the founder of Priceline.com). This deal earns its place on the DeSilva & Phillips Top 25 not just because of its size, but because the future of the consumer publishing industry partly depends on the need to innovate in subscription acquisition methods. AOL Time Warner's investment has profound strategic consequences for Time Inc.'s basic publishing business – and perhaps for AOL's subscription-driven ISP business as well.

Cross-Border Transactions

The two biggest deals in 2001 involved cross-border transactions, but with a difference. For the first time in many years, it was U.S. companies buying what European and Asian companies were selling. AOL Time Warner purchased IPC, one of the UK's largest publishers of consumer magazines, in a $1.64 billion deal. EMAP washed its hands of the Petersen group of magazines, and Primedia obliged, paying only $515 million for properties which had cost EMAP over $1.5 billion to acquire. AOL Time Warner also acquired *Business 2.0* from its UK owner Future Publishing, which it used to give a transfusion to its faltering *eCompanyNow* new-economy magazine.

On the business-to-business side, there were five substantial cross-border transactions following the same pattern – U.S. companies buying abroad, mostly UK-owned properties. McGraw-Hill's Platts Global Energy secured its hold on the energy information market by acquiring Financial Times Energy from Pearson, which has been looking to shift the bulk of its revenue away from ad-supported media. The Economist Group decided the time was right to sell its *Journal of Commerce* franchise to an American company – formed by a management buyout group from Primedia – Commonwealth Business Media. Wicks Business Information acquired the VentureOne information service from Reuters, adding its coverage of the venture capital industry to Wicks' portfolio of financial services media. And Key3Media, by far the year's biggest trade show buyer, added Softbank's Japan trade shows to its growing list of properties. Penton acquired its biggest licensee in Europe, Hillgate Communications, which will become Penton's European headquarters.

Only two European companies made American acquisitions big enough to make the top 25. Sweden's Observer AB purchased the *Bacon's* Publicity Guides business from Primedia. Observer is not a media company, but an advertising and marketing measurement company with major operations in Germany, the UK and the Nordic countries. The Daily Mail & General Trust's dmg world media unit acquired Florida's International Fine Art Expositions. In smaller deals, Haymarket, a leading UK publisher, made two acquisitions – The Cortlandt Group and Racer Communications.

Big Moves in Specialty Consumer Publishing

Condé Nast built itself a golf franchise – and moved quickly to install its own managerial team to run it – with properties acquired from The New York Times and Meredith. Condé Nast also bought a majority interest in Ideas Publishing, a Miami-based publisher of Spanish language editions of major American magazines for the Latin American market. Ideas Publishing's current titles include Spanish editions of *Vogue, Glamour* and *Architectural Digest*, as well as *Newsweek en Español*, *Discover en Español, Teen en Español, Prevention en Español, Motor Trend en Español* and *Men's Fitness en Español.*

The year's number one deal – AOL Time Warner's acquisition of IPC – was a major investment in specialty consumer publishing. By purchasing IPC – Britain's largest publisher of specialty consumer titles – AOL Time Warner corrected a long-standing imbalance in the European magazine market. Brands published by Time Inc.'s smaller privately-held U.S. competitors Hearst and Condé Nast from bases in London and Paris, had long come to dominate the international magazine market. Hearst's National Magazine Company and Condé Nast Europe had far higher profiles abroad than Time's European editions of its U.S. weeklies. Buying IPC brings AOL Time Warner shoulder to shoulder with Hearst and Condé Nast in Europe – in fact gives it 79 well-known UK magazine brands, including such esteemed titles as *Country Life, Woman's Own, The Field, Golf Monthly* and *Motor Boat & Yachting*. The purchase also gives an international dimension to Time Inc.'s new focus on specialty consumer magazines in the U.S. – cemented by its purchase of the Times Mirror titles from the Tribune Company last year.

Overall, AOL Time Warner was one of the most aggressive buyers of the year, with two of the top three deals. In addition, they bought the "This Old House" television show from WGBH-TV and the subscription lists from *George, Maximum Golf* and *Consumers Digest*.

Some have observed that ESPN's acquisition of B.A.S.S. should be regarded as a cross-border transaction as well: ESPN invaded Time Inc./Southern Progress' native Alabama to buy it. And with its estimated $35 million purchase, ESPN bought more than *BASSMASTERS* magazine – it bought an audience of enthusiasts, 250,000 strong, who are members of an organization, not merely subscribers or viewers.

In 1999, Terry Snow's World Publications acquired cooking and gardening magazines from the former Meigher Publications, complementing its fishing and water-sports portfolio. In 2001, the company attracted a minority investment from Boston Ventures, seeming to confirm the strength of the luxury market.

Finally, Bill Curtis of CurtCo also bet that the luxury category would easily survive in this recession and bought the *Robb Report* and *Showcase* from Luxury Media of Boston.

Action from New Players – Silence from Big Players of the Recent Past

The most aggressive buyers were Condé Nast and AOL Time Warner, who have been relatively inactive in the past. But just as interesting was the inactivity of many of the more active dealmakers of recent years – including G+J USA, Ziff Davis, Advanstar, VNU and Hachette Filipacchi. Other big buyers of recent years, such as Cahners Business Information/Reed Elsevier, were sellers in 2001. Although Primedia and Penton made acquisitions, they showed far less activity than they had in earlier years.

Business-to-business strategic buyers were extremely scarce.... financial buyers active in recent years have almost entirely dominated the acquisitions market

Business-to-Business Magazines

The biggest business-to-business deal of the year – number 5 on the Top 25 Deals list – was Thomson Corporation's $110 million sale of Jane's Information Group. The deal was a curious example of an original family owner resuming control of what new management regarded as a supernumerary asset. Thomson declared that the Jane's unit, with its focus on the defense industry, did not fit with Thomson's strategic emphasis on the financial, legal, learning and healthcare markets. No problem: the Thomsons bought what Thomson sold – in the form of their family ownership entity, the Woodbridge Company, Ltd. The purchase, made in April, looks even wiser now that defense budgets in the UK and the U.S. are going to swell in 2003.

Major business-to-business strategic buyers were extremely scarce. Penton's acquisition of Hillgate Communications, its European licensee, for $20 million, was the only instance in which a major U.S. business-to-business publisher made a magazine acquisition in 2001. And McGraw-Hill acquired the Financial Times Energy group of newsletters, databases, and trade shows for $95 million.

And we do not forget the complicated and eventually futile series of transactions conducted by Primedia with Brill Media Holdings and Inside.com, none of which could prevent the closing of *Brill's Content*, Inside.com, and Contentville.com.

In smaller transactions, Randall Publishing was active, buying the Cahners automotive magazines and PNV.com. However the big buyers of recent years sat this year out.

A single company, Key3Media, dominated transaction activity in the battered trade show industry

Companies backed by private equity sponsors were very aggressive in 2001:

- ABRY Partners completed four acquisitions (including Black's Guide, and three other properties for Cygnus Business Media)
- Wicks Group's Wicks Business Information completed four acquisitions (including its acquisition of VentureOne)
- VS&A's Canon Communications completed four acquisitions
- VS&A's Hanley-Wood completed three acquisitions
- Warburg Pincus' Imark completed three acquisitions
- TD Capital bought *Robb Report* with CurtCo Media
- Woodbridge Company bought Jane's Information Group
- H.I.G. Capital bought Sunshine Media
- HPJ Media Ventures bought Meredith's American Park Network
- Bariston Partners, through Commonwealth Business Media, bought The Journal of Commerce
- Cardinal Growth bought *CE News* and *Structured Engineering*

Financial buyers active in recent years have almost entirely dominated the acquisitions market in the business-to-business sector. ABRY Partners added to its portfolio by acquiring Black's Guide, Inc., a group of local commercial real estate directories. Wicks Business Information added VentureOne – an information service covering the venture capital industry – to its portfolio of financial magazines. And newly aggressive Boston Ventures acquired Cahners/Reed Elsevier's group of travel magazines as a new business platform.

Trade Shows and Conferences

A single company, Key3Media, dominated transaction activity in the battered trade show industry with four transactions, three of them making the DeSilva & Phillips Top 25 Deals list. It expanded its domination of the technology market by acquiring Softbank's Japan forums for an estimated $28 million. It then acquired *Business Communications Review* magazine and its trade shows and seminar businesses, including VoiceCon, together with its joint venture in McQuillan Ventures' Next Generation Networks conferences – in all an estimated $70 million transaction. At the same time, for an estimated $66 million, it added pulver.com's VON and SIP Summit events (Voice on the Net and Session Initiation Protocol). Finally, in December, it acquired ExpoNova Events & Exhibitions AB for an estimated $4.2 million.

Another active buyer was Britain's dmg world media (a subsidiary of Daily Mail & General Trust), which acquired International Fine Art Expositions for an estimated $20 million, number 25 on the Top 25. dmg plans to use IFAE as its platform on which to build an international division for its UK art and antiques business. It also acquired 25% of Western Exhibitions.

Internet

In the overall Internet M&A market, 1,100 companies were acquired in 2001, at an average price of $3.1 million - down from 2000's average price of $95.6 million per deal (Source: Webmergers). An exception was iVillage's $47 million acquisition of Hearst's Women.com, number 13 on the DeSilva & Phillips Top 25 Deals list – the only pure Internet deal to make the cut. The deal combines two powerful brands. Previously, Hearst had consolidated all its women's magazines' Web sites under the Women.com brand, and iVillage had become the largest women's Internet portal. Since the acquisition, iVillage has apparently succeeded in combining the Women.com and iVillage audiences while achieving substantial reductions in overhead – some sources reporting that the pre-acquisition joint head count of 1,200 has been reduced to 400. The lesson: there is still opportunity to consolidate major Internet content brands – and if done correctly, it works.

Also notable this year was a transaction between the spirituality Web site Beliefnet.com and Rodale Press, in which Rodale has undertaken to publish a series of Beliefnet-edited and branded books. The significance here is not the size of the deal, but its demonstration of Beliefnet's survival strategy as a standalone specialized content site in an unfriendly Internet world. Beliefnet's judicious and bold series of content/distribution alliances, such as that with Rodale and also with ABC News, has sustained it in an environment which has been extremely harsh for pure content Internet companies – some would say an atmosphere not sufficient to maintain life.

It's a heartening story in an environment that has not been kind to Internet content companies. The only content site among the top ten Web sites measured by advertising revenue – ESPN.com – produced a paltry 3.25% of the ten sites' total revenue (including Yahoo, AOL, Excite, Lycos, and a number of other portals and search engines) (Source: CMRi's AdNetTrackUS).

Other Significant Media Deals

- Outside the DeSilva & Phillips beat, the top media deal of 2001 was the $47 billion acquisition of AT&T's cable business by Comcast, which was announced on December 19. The deal combines the largest and third-largest cable companies. The new entity will have 22 million subscribers – almost twice the number of the second-largest cable operator, AOL Time Warner.
- Vivendi ended the year with its announcement of a $10.3 billion acquisition of USA Networks.
- In book publishing the most significant deal was the $2.2 billion acquisition of Houghton Mifflin by Vivendi Universal.
- Major European publishing deals included the sale of VNU's consumer magazines to Sanoma for $1.14 billion and the sale of Vivendi's business and health publications to Cinven for $1.8 billion.
- Another big European deal was the year's largest LBO – the acquisition of Yell Group, the directories business of British Telecom, by Hicks, Muse for $3 billion.

Company Valuations in 2001

The M&A market was ruled by the iron law of supply and demand. With most media revenue substantially reduced, buyers found an inventory glut of under-performing companies on the market, and a shortage of well-performing companies. The gap between low and high multiples of EBITDA widened. Magnitude was also a factor – whatever a company's EBITDA, buyers found it hard to pay more than 1 times revenue for smaller companies.

Banks are lending at substantially lower multiples than eighteen months ago

The 2001 market viewed properties very differently depending on their desirability, when measured by the key value drivers. In our practice, the most desirable businesses in the magazine sector still can sell for premium multiples of 7-10 times EBITDA.

Again, in our practice, average properties are selling for 4-7 times EBITDA. Unattractive properties – because they are losing money, market share, or absolute size – are currently very difficult to sell at all.

The credit markets have a huge effect on the cost of making acquisitions. In 2001, private equity firms used 40% equity for their deals and were able to borrow at only 3.8 times EBITDA – an all-time low. In the last recession, in 1990-91, borrowers could get bank debt at the rate of 5.3 times EBITDA (Source: Thomson Financial).

In our practice, banks are lending at substantially lower multiples than eighteen months ago. Now they might lend senior debt at 2.5-4.5 times EBITDA compared with 4-6 times EBITDA previously. A blended rate of senior debt and mezzanine financing would have been 5-8 times eighteen months ago; today it is

3.5-5 times. This reduction has had a direct impact on how much financial buyers can pay for a property. Bank lending has also affected industry buyers, though not to the same degree, because they typically have a longer investment horizon and can use more equity in a purchase. Multiples are also down because the growth expectations for most media businesses are down sharply.

The Petersen Publishing saga is a good example. When Jim Dunning and Willis Stein sold Petersen Publishing at the end of 1998, it sold for 17 times EBITDA; they had bought the business for $450 million in late 1996 at a similar EBITDA multiple of 18 times. But when EMAP sold it to Primedia in mid-2001 for $515 million, the price was 9.5 times EBITDA.

Only two 2001 deals took place at substantial multiples: *Golf Digest* for 15.9 times EBITDA (sold by The New York Times to Condé Nast) and IPC Media for 13.0x EBITDA (sold by Cinven to AOL Time Warner).

Looking Ahead to 2002

Publishing industry leaders are determined not to foresee recovery in the magazine advertising markets and the trade show industry until late in the year – at the earliest. While their caution is understandable, we see many very positive signs that deal flow will increase. We believe that the pace of deal making will step up well before the actual business recovery begins. If buyers can discern the early glimmerings of an advertising rebound, and act quickly, they can expect a substantial return on their investment.

Five reasons to expect a real improvement

1. Interest rates are at historic lows
2. There are hundreds of billions of dollars looking for investment
3. Most economic prognosticators agree that the brunt of the downturn is behind us
4. There are more strong properties in inventory than many realize
5. When the banks' knees stop wobbling, they will ease lending restrictions

As a result, both buyers and sellers will find a more positive market in 2002 than they expect.

Nevertheless, the deal market of 2002 will be unusual. Last year's buyer's market will continue, but strong properties coming on the market will be in great demand. Buyers will be picky about properties that don't show strong fundamentals. And they will benefit from lack of competition, with many strategic players too worried about their own low valuations to pay attention to the relatively low prices for properties that might benefit their business in the medium term.

Nothing has changed to invalidate good business strategies. The roll-up and platform-building strategies popular in the last decade – when executed sensibly – are as likely to succeed as ever; perhaps more likely now that overpaying is rare and the market is not crowded with overanxious buyers. Intelligent strategists will improve their market positioning for economic recovery by acting in the next nine months – when prices are low and the competition is distracted by its own operating challenges.

On the supply side, there is a pent-up inventory of properties whose owners have delayed selling for the last 18 months. Those who sell early into this market will benefit from the upsurge in values.

We firmly believe that the deal market has turned and will be in full bloom before the end of the year – and will leave in its wake a number of strategic and financial players unhappy at having missed a substantial – perhaps historic – buying opportunity.

The Real Value Drivers

In 2001, the M&A markets saw a return to basics. The market discounted "vision" – it looked for results. Accordingly, the value drivers of 2001's biggest deals differed significantly from those of the Internet era. For the first time in years, it was not grand strategy and wishful thinking that guided acquirers of media companies – but carefully reasoned decisions based on financial and marketing rationales. The value drivers we list here were all crucial in establishing the year's most significant acquisitions. We predict that more buyers will be looking for these ten qualities in evaluating 2002 acquisition targets.

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1. **The Market Served**
   Size, Growth, and Characteristics
2. **Share of Market and Competing Companies**
   Resources and Capabilities
3. **Growth Prospects**
   In Existing and New Properties, Markets, and Media – Including Online
4. **Company Revenue**
   Size, Stability, Diversification, Growth
5. **Profitability**
   EBITDA, Return on Revenue, and Growth
6. **Positive Operating Cash Flows**
   Growth and Stability
7. **Replicability**
   Expanding the New Entity's Profit Model to New Markets and Media
8. **Realistic Required Investment**
   Hard and Soft Assets, Time and Personnel
9. **Management**
   Experience, Capability and Depth
10. **Organizational Efficiency and Adaptability**
    Ability to Handle Endemic Growth and the Addition of New Products and Markets

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