DESILVA & PHILLIPS

Media Investment Bankers

Mergers & Acquisitions
An Insider's Guide to the Magazine Marketplace
The DeSilva & Phillips Report 2003

It began with brutal suddenness — and is ending with a long, whimpering sigh.

January 6, 2003 — We can finally follow the plot of the great media recession of 2001-2002. Although economists now see that the economy was moving into recession in the third quarter of 2000, the ad page count collapse began in January 2001 with what seemed like brutal suddenness after a record 2000. Nine months later the terrible attacks on New York and Washington showed us what real brutality looked like. And now, finally, the recession is ending, with a long, whimpering sigh. By the fourth quarter of 2002 observers discerned a few streaks of daylight on the consumer side, and on the B2B side, no light perhaps, but a distinct lessening of the gloom.

The M&A market followed the fortunes of the magazine industry. There were fewer transactions this year than in any of the last four years — just 90, compared to over a hundred in each of the last four years. The total value of magazine deals declined by 17%, from $4.7 billion to $3.9 billion. Quality — what there was of it — continued to sell.

DEAL HISTORY 1998-2002

	1998	1999	2000*	2001	2002
MegaDeals (over $1 billion)	2	1	5	1	1
Middle Market Deals	103	114	97	114	89
Total Deals	105	115	102	115	90
Total Deal Volume ($ in billions)	6.9	14.0	25.0	4.7	3.9

* *Excluding value of the AOL Time Warner deal*

The decline in the magazine industry's transactions reflected the entire U.S. M&A market. In 2002, the dollar value of total U.S. M&A deals (according to Thomson Financial) was $446.5 billion — a 41% drop from 2001's total — the lowest figure since 1994. Moveover, the U.S. total deal value was lower than the European total, which dropped by only 18% to $477.8 billion.

"Quality — what there was of it — continued to sell."

In the past year, good media properties continued to sell for excellent multiples — but there were simply not enough go around. Different kinds of buyers reacted to this situation in different ways. Various strategic considerations controlled the reaction of each type of buyers — strategics, financials and the emerging strategic/financial buyers that we call "mugwumps."

Mugwump: A Definition

Originally from the Massachuset Indian dialect of the Algonquian language, meaning "great man" (*mogki*, great; *omp*, man). In the 1870s journalists applied the term to Republican leaders who crossed party lines, and it came to mean anyone who cannot be pinned down to one category. We apply the term to financial buyers who cannot be pinned down to one category: their acquisition of substantial media assets enables them to act as "Great Men" — financial and strategic buyers at the same time. Examples include ABRY Partners (Cygnus), BG Media (Dolan Media and HMP), CSFB (Advanstar), Evercore Partners (American Media), Pfingsten Partners (Pfingsten Publishing), Providence Equity (Aurelian), TD Capital (Curtco/Robb Report), Willis Stein (Ziff Davis) and at least 50 others.

Many strategic buyers have been preoccupied with their own problems. This is particularly true of leveraged companies who are struggling to maintain their bank covenants. Rather than buy, strategic players have trimmed or readjusted their portfolios, cut overhead, reduced staff and reorganized. In such an environment, turnaround properties — available in great abundance — don't have much allure.

Nor have financial buyers been any more willing to acquire turnarounds. Most financial buyers are seeking to leverage the cash flow of a newly acquired company, and cash flow has been meager in this advertising recession.

But many of the most active buyers were "mugwumps." These buyers — such as ABRY Partners' Cygnus Business Media and Providence Equity's Aurelian Communications — were able to acquire opportunistically and often.

The various sectors of the magazine industry suffered disproportionately. Just as the consumer side of the media industry recovered more quickly, so did consumer magazine transactions surpass B2B magazine and trade show transactions in number and value. Consumer magazine deals increased 13.4% in total value — from $1.8 billion to $2.05 billion. This marks the first substantial turnaround in two years.

MIDDLE MARKET DEALS

		2001		2002		
Sector	Medium	TRANS-ACTIONS	TOTAL VALUE	TRANS-ACTIONS	TOTAL VALUE	CHANGE IN TOTAL VALUE
Consumer	Publishing	42	1,806	40	2,048	13.4%
B2B	Publishing	48	831	26	144	-82.7%
	Trade Show	18	100	9	39	-61.0%
	Medical Media	4	34	10	351	932.4%
Totals		**112**	**2,771**	**85**	**2,582**	**-6.8%**

Source: DeSilva & Phillips Deal Database

The market for B2B publishing and trade show deals plummeted. Trade magazine deals declined by 83% and trade show deals declined by 61%. The aggressive buyers of the last three years, Primedia, Penton and Key3Media, were busy fixing problems at home, attacking their cost structure, restructuring debt, or even (in the case of Key3Media) filing for bankruptcy.

The turnaround in consumer magazine deals was impressive, with growth of more than $200 million in total deal value. But the year's rising star was the medical media segment. This year, the total value of middle-market deals in medical media soared 932% — even without counting the huge Vivendi deal.

The rise in consumer-side deals, the collapse of traditional B2B media and the soaring fortunes of medical media reflect the performance of the media industry as a whole. In the first three quarters of 2002, there was a huge difference between the nearly flat performance of consumer magazines, with a 1.4% decline in revenue, and the continued decline of B2B magazines, with a 17.4% falloff. The strongest areas overall were local newspapers and the broadcast categories, each showing a greater than 7% increase over 2001. This is the classic pattern of a media industry recovery. Broadcast and newspapers lead the way; they are followed by consumer magazines; and B2B media follows — with trade shows bringing up the rear. We are two-thirds through the cycle and can look forward to a B2B recovery in 2003.

"Consumer-side deals soared and B2B deals collapsed — but the year's rising star was the medical media segment."

The pathetic performance of Internet advertising — declining 18% even as users increase — reminds us of the severe impact of the Internet bubble on the magazine industry.

DESILVA & PHILLIPS TOP 20 DEALS OF 2002

	PROPERTY	SELLER	BUYER	$ IN MILLIONS
1	**Vivendi Universal Publishing** medical media (49% of 2001 revenue), France-based trade magazines and trade shows (51% of 2001 revenue)	Vivendi Universal	Cinven, Carlyle Group, Apax Partners	1,340
2	**Reiman Publications** consumer magazines	Madison Dearborn	Reader's Digest Association	760
3	**Weider Publications** consumer magazines	Weider Publications	American Media/Evercore Partners	350
4	**Boron, LePore & Associates** medical media company	Boron, LePore & Associates	Cardinal Health	193
5*	**Network Communications, Inc.** consumer magazines, and **Black's Guides**, trade magazines	Network Communications, Inc.	Gallarus Media, ABRY Partners	150
Tie*	**F&W Publications** consumer magazines, books	Citicorp Venture Capital	Aurelian Communications/ Providence Equity	150
7	**Krause Publications, Inc.** consumer magazines	Krause Publications, Inc.	Aurelian Communications/ Providence Equity	120
8	**American Baby Group** consumer magazines	Primedia Inc.	Meredith Corporation	115
9	***Modern Bride*** consumer magazine	Primedia Inc.	Condé Nast Publications	52
10	**Gardiner-Caldwell** (UK-based) medical education company	Gardiner-Caldwell	Thomson Corp. (Scientific and Healthcare)	45
11	**Key Media** (Canada) consumer magazines	TD Capital	St. Joseph Corp.	40
Tie	***The Source*** consumer magazine	The Source Enterprises, Inc.	Black Enterprise/ Greenwich Street Partners	40
Tie	**TriGenesis Communications, *P&T Journal*** business magazine, medical education	Quadrant Healthcom, Inc.	MediMedia USA, Inc.	40
Tie	***Veranda*** consumer magazine	Veranda	Hearst Corporation	40
15*	**HCPro Corp.** medical newsletters and information	HCPro Corp.	The Riverside Company	35
Tie	***Chicago*** consumer magazine	Primedia Inc.	Tribune Co.	35
Tie	**Hemmings Motor News, Inc.** consumer magazines and annuals	Hemmings Motor News, Inc.	American City Business Journals, Advance Publications	32
18	**Wiesner Publishing** (80%) consumer and business magazines	Pat Wiesner	Dan Wiesner	30
19*	**Dover Commmunications** healthcare communications	Dover Communications	Boron, LePore & Associates	24
Tie	**ExitInfo** consumer guides	Primedia Inc.	Trader Publishing Company	24
			TOTAL VALUE OF DESILVA & PHILLIPS TOP 20 DEALS	3,615

** A DeSilva & Phillips Transaction*

Note: The DeSilva & Phillips Top 20 Deals list includes announced transactions for consumer and business magazines, trade shows and conferences, and closely related information, Internet, database and service companies. We cover U.S. activity primarily, and include important non-U.S. acquisitions if made by a U.S. company. We exclude media deals in other sectors, such as book and newspaper publishing, radio, TV, outdoor, film and music production and distribution, and Internet.

2002 ADVERTISING REVENUE BY MEDIUM

($ IN BILLIONS) Medium	YTD Q3 2001	YTD Q3 2002	Change
Newspapers (local)	$13.4	$14.4	7.6%
National Newspapers	$2.2	$2.1	-3.4%
Consumer Magazines	$11.9	$11.8	-1.4%
B2B Magazines	$6.4	$5.3	-17.4%
Sunday Magazines	$0.8	$0.9	10.0%
Total Print	**$34.7**	**$34.5**	**-0.8%**
Total TV/Radio	**$37.5**	**$40.1**	**7.0%**
Internet	**$4.6**	**$3.8**	**-18.2%**
Outdoor	**$1.9**	**$1.8**	**-3.8%**
Totals	**$78.6**	**$80.1**	**1.8%**

Source: CMR/TNS Media Intelligence

Internet companies were heavy advertisers in magazines. Their demise caused a sizeable decline in ad pages and ad revenue — affecting not just the bottom line, but driving entire magazines out of business. Remember too that magazine values were pushed higher during the Internet bubble because there was no conceptual difficulty in attaching an Internet component to an existing title as part of a "convergence" strategy. As a result, investors associated the anticipated growth rates of Internet media with the ink-on-paper medium, and pushed values — and expectations — to empyrean levels.

The DeSilva & Phillips Top Magazine and Trade Show Deals of 2002

Acquirers looked for transactions in the strongest sectors of the magazine business — with the result that consumer magazines and medical media dominate this year's DeSilva & Phillips Top 20. In eloquent testimony to the dismal year in B2B media, not a single traditional trade magazine or trade show transaction appears on the list. In 2001 there were 8 trade magazine and trade show transactions in the top 25 — this year, none.

The biggest deal of the year by far was prompted by corporate hubris: the collapse of Jean-Marie Messier's empire at Vivendi. This led to the $1.34 billion sale of Vivendi's healthcare division (now called MediMedia International) and its French trade publishing division (with 2001 revenue of €482 million and €499 million respectively). The buyers were Cinven (which sold IPC to AOL Time Warner last year), Carlyle Group and Apax Partners — Vivendi retains a 25% interest.* This is the first year ever that the largest transaction of the year was not a billion-dollar-plus consumer publishing deal.

But 2002 will be best remembered as the year dominated by consumer magazine deals in which privately owned consumer publishers cashed out. In 2001, the consumer transactions were largely corporate acquisitions of major corporate assets, such as Primedia's acquisition of EMAP's consumer titles and Condé Nast's acquisition of the New York Times' and Meredith's golf titles. Few entire companies changed hands. In 2002, family and individual owners sold an astonishing number of trophy consumer companies and titles. Strong companies lovingly built — the eponymous companies owned by the Reimans, the Weiders and the Krauses, Dick Rosenthal's F&W, the Hughes brothers' Network Communications, the Ehrich brothers' Hemmings Motor News, Lisa Newsom's *Veranda* — attracted excellent prices in spirited auctions from prominent buyers.

> "Family and individual owners sold an astonishing number of trophy consumer companies and titles."

Primedia was a prolific seller of consumer titles, sending *Chicago, American Baby, Modern Bride* and *Exit Information* to new homes at Tribune Company, Meredith, Condé Nast and Trader Publishing. Primedia also completed six other sales, including five consumer magazines: *Horticulture* (to Primedia's former Chairman, Bill Reilly of Aurelian), *Dog World* (to Fancy Publications), *Volleyball, Teddy Bear* and *Doll Reader* (to Ashton International, in two transactions) and its stake in *In New York* (to Morris Communications). These transactions (together with a trade show sale to Cornerstone

* *Since our report deals only with the U.S. market and major moves by U.S. companies, we do not count Vivendi's entirely French professional information division in our count of U.S. B2B publishing deals.*

Exhibitions) totaled an estimated $244 million, and with the late 2001 sale of *Bacon's* for $90 million, enabled CEO Tom Rogers to over-deliver on his promise last year to sell $250 million worth of assets to reduce debt.

Two historically dormant companies, both with relatively new management, came to life this year. Tom Ryder's Reader's Digest Association and David Pecker's American Media (supported by Evercore Partners) were the buyers of the two largest private companies to go on the block this year, Reiman and Weider. For both Reader's Digest and American Media, these deals will transform the acquiring companies and enable them to move in exciting new directions, while building on their core assets.

"Babies born when Hearst last made a big acquisition are now studying for their SATs."

Condé Nast continued to be an active buyer, and Meredith and Tribune Company moved from the seller to the buyer column. Another big consumer publisher made a substantial purchase for the first time in a long while — Hearst Magazines bought the much-coveted magazine *Veranda*. How long has it been between major Hearst acquisitions? Well, at this moment, the generation of "*Esquire* babies," born in the flush of excitement over Hearst's acquisition of that magazine from Chris Whittle and Phil Moffett, are preparing to take their SATs.

In a slow market, the non-buyers can be more interesting than the buyers. Major past buyers who were relatively inactive in 2002 include AOL Time Warner (whose only activity this year was to acquire subscription lists from defunct magazines), Gruner+Jahr USA Publishing and Emmis Communications.

On the trade media side, Advanstar, Reed Elsevier and Cygnus showed themselves to be discerning buyers in a down market. The big buyers of the recent past absented themselves — Primedia, VNU, Penton, Ziff and Key3Media made few or no purchases.

For the first time, medical media deals dominated the DeSilva & Phillips Top 20 Deals, with 6 deals on the list, including number 1. The medical deals represented over 27% of the total value of the Top 20 (including 49% of the value of the Vivendi transaction). Vivendi's MediMedia division was itself the buyer in the number 11 transaction, the acquisition of 2 properties from Quadrant Healthcare for $40 million. Boron LePore acquired Dover Communications (tied for number 19 on the Top 20 list) and was itself acquired by Cardinal Health in the number 4 transaction for $193 million.

Private Equity (PE) firms played a key role in the Top 20. Cinven, Carlyle Group and Apax Partners combined to buy Vivendi's business — the number 1 deal. Evercore Partners backed American Media's Weider purchase — the number 3 deal. Two PE firms tied for the number 5 deal: ABRY backed Dan McCarthy's Gallarus in its purchase of Network Communications, a publisher of local residential real estate guides, and Black's Guides, a publisher of regional commercial real estate listing publications, for a combined $150 million. Providence Equity backed Aurelian's purchase of F&W Publications. Aurelian also bought Krause Publications for $120 million.

Consumer Transactions

Consumer publishing M&A had a renaissance this year, led by entrepreneurs. Of the 14 consumer companies acquired in 2002 Top 20 list transactions, 9 had been built by individuals or families. On the other hand, it was a tough year for corporate publishers. Many major consumer publishers had to shut down established titles. The casualties included *Mademoiselle* at Condé Nast, *SI for Women* and *Mutual Funds* at Time Inc., *Rosie* (the former *McCall's*) at Gruner+Jahr, *Yahoo! Internet Life* at Ziff Davis, and *Talk*, Hearst's joint venture with Miramax/Disney. And of course Primedia sold off a number of titles in nine transactions.

"Consumer entrepreneurs had an M&A renaissance, but many major consumer publishers had to shut down established titles."

The exceptions were Meredith, Condé Nast and Hachette Filipacchi (which stood pat). Meredith — a seller in 2001 — bought Primedia's *American Baby*. Condé Nast purchased Primedia's *Modern Bride* for $52 million, and its American City Business Journals subsidiary acquired Hemmings Motor News, Inc. for $32 million. Condé Nast has been more active than many realize, having acquired American City Business Journals in 1995-96 for $269 million, *Wired* in 1998 for $85 million, Fairchild Publications in 1999 for $650 million, and *Golf Digest* and *Golf for Women* in 2001 for $399 million.

A number of buyers made purchases in the enthusiast area, continuing the prior year's trend. Aurelian acquired dozens of enthusiast magazines with its acquisitions of F&W and Krause (as well as *Horticulture* and *Print*). Ashton International added three titles to its portfolio. Morris Communications acquired an enthusiast publisher, Abenaki, and a majority stake in an entertainment magazine, *In New York*.

Technology and business magazines continued to struggle. Ziff Davis was successful in reorganizing, as was *Red Herring*, which — thanks to a restructuring deal — has staggered back alive from the New Economy battlefield where its peers *The Industry Standard* and *Upside* have fallen.

B2B Transactions — and the Transactions That Didn't Happen

Very few sizeable transactions took place in traditional (non-medical) B2B. The biggest transaction was Reed's $21 million purchase of the legal specialist Anderson Publishing. The 83% drop in the value of B2B publishing deals was due primarily to a lack of large quality properties for sale. Why? We believe that by not selling in 2002, B2B publishers made a huge insider bet on an impending turnaround. We judge this to be the most reliable sign of better business prospects. We shall soon see if owners made the right choice when they decided to manage their way through the recession.

> "By not selling in 2002, B2B publishers made a huge insider bet on an impending turnaround."

Nevertheless, many strategic buyers and "mugwumps" took advantage of a fragmented market — and made use of their strategic platforms, if they had one — to buy excellent smaller properties on which pure financial buyers

MAJOR B2B BUYERS' ACQUISITION ACTIVITY PRE-2002

Penton Media	$ IN MILLIONS	Primedia	$ IN MILLIONS	VNU	$ IN MILLIONS
Mecklermedia (1998)	274	Cowles (including consumer division) (1998)	200	Miller Freeman (2000)	650
Duke Communications (2000)	90	American Trucker Group (1998)	75	Macfadden Business (1999)	80
New Hope Communications (1999)	82	Cardinal Business Media (1997)	40	SRDS (1995 - 1996)	75
Donohue-Meehan (1998)	37	Adams Meetings/Power Groups (2000)	40		
Hillgate Communications(2001)	20	Kagan	25		
Totals	**503**		**380**		**805**

The most aggressive B2B strategic buyers of the past were inactive this year, which had an enormous impact on the market. Consider just three of the major buyers of the last few years: Penton, Primedia and VNU. These companies made almost $1.7 billion in acquisitions in the years through 2001 — but in 2002, their internal problems (such as the AMEX's threat to delist Penton) prevented them from making any substantial purchases.

"Consumer magazine M&A recovered in 2002 — and B2B magazine M&A will recover in 2003."

— lacking a platform — could not bid. Advanstar made five smaller acquisitions. ABRY's Cygnus platform made four acquisitions, including Vulcan's construction properties for an estimated $14 million. And an infrequent buyer, Crain Communications, made a carefully targeted acquisition of *Workforce* magazine.

Some of the most significant B2B deals of the year were the ones that *didn't* happen. Both Thomson Financial and Wicks Business Information took themselves off the market after it became apparent that there was a dearth of strategic buyers and that the state of the debt market would not permit PE bidders to meet the sellers' price expectations. Had these deals been completed at their desired prices, they would have been among the year's top 5 or 6 deals. There were also a number of smaller deals that didn't happen because of the tight debt market.

We expect that the M&A market for B2B will follow the classic media recovery cycle. Consumer magazine M&A recovered in 2002, and B2B magazine M&A will recover in 2003.

Medical Media

The explosion in medical media transactions is driven by the strength of pharmaceutical marketing spending, which has risen in each of the last three years. Pharmaceutical spending — on meetings and events, journal advertising and detailing — grew 11% in 2000, 6% in 2001, and is expected to increase another 5% in 2002, to $2.2 billion (Quintiles Informatics).

To capture this spending, several buyers have quietly been assembling cross-platform medical media companies, pursuing both vertical and horizontal strategies. They have taken advantage of the highly fragmented state of the medical media world.

Boron LePore has been among the most aggressive and intelligent of these buyers, making 8 significant acquisitions in the last 3 years, including Dover Communications in 2002. Cardinal Health, the $48 billion (revenue) medical distribution company, endorsed Boron LePore's consolidation strategy by acquiring it later in 2002. Other companies actively pursuing this strategy include MediMedia USA (itself part of the year's biggest deal, Vivendi Publishing), which acquired TriGenesis Communications, and The Riverside Company, which acquired HCPro, the industry's leading provider of healthcare institutional compliance and accreditation information.

"Buyers have quietly been assembling cross-platform medical media companies."

Trade Shows

The trade show sector suffered the same collapse in M&A deal volume as the trade magazine sector. There wasn't a single trade show deal on the 2002 Top 20 list, compared to 3 in 2001. The 12 transactions that did take place include two acquisitions by Cornerstone Expositions — Primedia's International Cement show and Key Productions (owner of 9 regional construction shows). Other significant buyers included Hanley-Wood (2 transactions) and Advanstar. As in trade publishing, 2002's notable sellers had been big buyers in 1999-2001: Penton, Primedia, Reed and CMP.

The trade show industry's problems are profound. Exhibitor spending has not yet recovered. Attendance has suffered from the huge post-September 11 collapse of business travel, and will continue to be affected by homeland defense measures. The industry's second biggest category, IT, has had a colossal implosion. And strategic players have even greater balance sheet problems than other media companies.

Two segments of the industry stand out: the medical meetings segment — benefiting from strong pharmaceutical spending trends — and the regional/local trade show segment, whose modest growth comes at the expense of the big national shows. We believe that the trade show industry's recovery will continue to lag behind the other B2B media.

Private Equity Buyers — and Sellers

The year's collapse in M&A came despite a huge pile of cash raised by an astonishing number of Private Equity firms targeting every sector of the magazine industry — consumer, B2B, medical and trade shows. Many PE firms have turned to the media industries after abandoning the technology and telecommunications industries in the last two years. We count over 85 firms that are "mugwumps," who currently own or have recently owned magazine properties. In addition, another 70 firms have declared their interest in becoming first-time owners of magazine properties.

PE firms were on the sell side of the number 2 and number 5 magazine deals of the year: Madison Dearborn divested its investment in Reiman Publications and Citicorp Venture Capital sold its ownership in F&W Publications to Providence Equity's Aurelian. In the past, notable fund-to-fund transactions have taken place — Advanstar was bought by DLJ (now CSFB) from Hellman & Friedman, and ABRY bought Cygnus from Kelso & Co. (which bought it from GTCR). This kind of transaction will become more frequent.

A key factor in the funds' success has been matching talented industry executives with their buying strategies. The key Private Equity transactions of 2002 involved Bill Reilly (Aurelian/Providence Equity) and Dan McCarthy (Gallarus/ABRY). Other CEOs actively looking for properties with PE backing include Cam Bishop (former CEO of Primedia's B2B unit), Neal Vitale (former President of Petersen Publishing), Skip Zimbalist (former CEO of Times Mirror Magazines/CFO of Times Mirror), Jason Klein (former CEO of Times Mirror Magazines), Andy Goodenough (former President of a Thomson Publishing division) and James Pfister (former President/COO of Pennwell's Business and Industrial Division).

The Role of Lenders

Senior debt lenders had a big impact on the M&A market in 2002. Credit tightened as bankers were busy writing down bad loans in the telecommunications and technology sectors, with some spillover in media and publishing. A few years ago, banks were routinely lending 5-6x EBITDA. Now, many deals are in the 3-3.5x range, and we've seen several loans as low as 2.5x. On the upper end of the scale a very few deals are being done at 5x leverage. One of the creative ways buyers are bridging the gap is through the use of mezzanine debt.

As *The Wall Street Journal* reported, lenders have gone out of their way to support acquisitions of cash-generating companies such as phone-directories businesses. Carlyle Group and Welsh, Carson financed their acquisition of Qwest's phone-directories unit with almost $1 billion in junk bonds. R.H. Donnelley discovered that it could raise $925 million in bonds in order to finance its purchase of Sprint's directory business for $750 million, more than it needed for the acquisition, and at a lower interest rate than it marketed.

Company Valuations in 2002

When lenders force buyers to reach into their pockets to fund 1x to 2x EBITDA which, two years earlier, they easily could have borrowed, multiples suffer. In general, multiples were down about 20%, although some deals were made for very healthy multiples. In particular, Primedia got excellent prices for *Modern Bride, Chicago* and *American Baby*. But most sellers had to live in the world depicted in the following chart:

RECENT EBITDA MULTIPLES

	EBITDA MULTIPLES		DIFFERENCE	
Sector	1996-2000	2001-2002	Multiples	Percent
CONSUMER MAGAZINES:				
Under $25 Million	8.8x	6.9x	(1.9x)	-22%
Over $25 Million	12.4x	10.0x	(2.4x)	-19%
BUSINESS MAGAZINES:				
Under $25 Million	6.6x	5.1x	(1.4x)	-23%
Over $25 Million	11.8x	9.2x	(2.6x)	-22%
TRADE SHOWS:				
Over $25 Million	12.2x	9.5x	(2.7x)	-22%

Source: DeSilva & Phillips M&A database (excluding extraordinary transactions)

OTHER NOTABLE MEDIA DEALS

Phone Directories

This sector thrived because hard-pressed telecom companies needed to raise cash. Directories' predictable revenue stream attracted senior lenders, who wrote loans at the high end of their scale (often at 5x EBITDA). The resulting deals include **Qwest's directories**, sold to Carlyle Group and Welsh, Carson for $7.05 billion (7.7x EBITDA), **Sprint's directories**, sold to R.H. Donnelley for $2.23 billion, and **McLeod USA's directories** to Apax Partners/Hicks, Muse for $600 million.

Book Publishing

- Vivendi sold **Houghton Mifflin** for $1.66 billion to Thomas H. Lee Partners and Bain Capital. Vivendi purchased Houghton Mifflin in 2001 for $2.2 billion.
- Barnes & Noble bought **Sterling Publishing** (how-to books in gardening, cooking and health) for an estimated $100 million.

Newspaper Publishing

In a bitter transaction, The New York Times Co. bought out its 50% partner, The Washington Post, in the ***International Herald Tribune*** for $65 million.

Direct Marketing/Marketing Services

- Tinicum Capital Partners acquired **Palm Coast Data**, a major magazine fulfillment supplier, for $30 million.
- USA Interactive acquired **Entertainment Publications** — a discount-coupon book for dining, travel and shopping which was once part of CUC — from Carlyle Group for $370 million.
- iVillage acquired **Promotions.com**, the leading online promotion and direct marketing company.

Internet

- **Northern Light**, a well-regarded search and content technology company, was acquired by divine, an "extended enterprise company," in an all-stock deal.
- Liberty Media went on an interactive-TV buying spree, purchasing **OpenTV Corp.** for $185 million and then combining it with **Wink Communications** for $100 million and **ACTV** in an all-stock deal.
- Internet.com, the news and information service for IT and Internet professionals, acquired the former high-flyer **Jupiter Research** for a mere $285,000. The acquirer immediately changed its corporate name to Jupitermedia.
- D&B acquired **Hoovers.com**, the company information provider, for $117 million (81x earnings).
- Yahoo! acquired **Inktomi**, the search technology company, for $235 million.

In 2002, sellers had to sacrifice 1.5x to 2.5x EBITDA to find a buyer. Those who waited out 2000 and 2001 in search of better results took a terrible risk — and in 2002 have had to accept a smaller multiple of what is almost certainly a smaller EBITDA figure.

On the other hand, the EBITDA multiples for magazine deals performed well compared to other industries in the last two years. Looking at all deals, magazines sold for 1.5x to 2.5x more than the average company:

MAGAZINE EBITDA MULTIPLES COMPARED TO OTHER INDUSTRIES

TRANSACTION SIZE	EBITDA MULTIPLES		DIFFERENCE	
	MAGAZINES*	ALL INDUSTRIES**	MULTIPLES	PERCENT
Under $25 Million	6.4x	4.9x	1.5x	31%
$25 - $100 Million	9.1x	6.4x	2.7x	42%
$100 Million plus	10.3x	7.9x	2.4x	30%

** Source: DeSilva & Phillips M&A database (excluding extraordinary transactions)*
*** Source: U.S. Bancorp Piper Jaffray*

Looking Ahead to 2003

Uncertainty about war obscures our view of the year to come. If 1991-92 is any guide, American business may freeze in the run-up to war, but then recovers remarkably quickly. The new Republican majority seems to be gearing up to favor business investments with tax relief — a boon both to sellers and buyers. Many economists predict a return to near 4% growth by the second half of 2003.

Our segment of the market, however, is unusually exposed to sentiment and morale. We need not just a recovery, but a recovery of optimism on the part of advertisers as well as banks. Without a turnaround in perception as well as in fact, many strategics will bide their time and banks will not loosen up as much as they need to.

Nevertheless, if the question of war is resolved fairly early in the year, we expect a gradual improvement in the deal market, picking up steam in the second half. Last year marked the stealthy recovery of the consumer magazine segment — 2003 will see a quiet recovery in trade magazines. The trade show sector will lag behind.

> "EBITDA multiples will not substantially improve for 18 months or more."

Strategic buyers will be cautious but opportunistic, taking advantage of incremental ways to improve market share. PE money will remain abundant — but abundance will not change the fact that these funds are highly disciplined and inclined to be cautious about over-paying. In addition, tight credit from senior lenders will continue to constrain buyers' ability to pay aggressive prices.

Other prognostications:

- There will be major consolidation in the remarkably fragmented medical media sector.
- EBITDA multiples will not substantially improve for 18 months or more.
- The Internet will re-emerge as a limited but important component of the magazine industry.

We see modest improvement in the senior debt market, although this is not the consensus view among our clients. If the market improves, it will increase the number of transactions — but at multiple ranges only slightly higher than current levels.

Overall, we are optimistic. The crises of the last 2 years have brought a new realism and discipline to the industry. Media companies are finally making the necessary adjustments in their expense structure and balance sheets — or have done so already. The industry is substantially better prepared to make progress, whatever the economic weather ahead. Dealmaking will be a vital component of the industry's recovery.

Design: Ideas on Purpose, NYC www.ideasonpurpose.com
Cover photo: Berenice Abbott 1935, © Museum of the City of New York

#5 ON THE 2002 TOP 20 DEALS LIST

1 JUNE 2002

$150,000,000

GALLARUS MEDIA HOLDINGS, INC.

Gallarus Media Holdings, Inc., a company formed by ABRY Partners IV, LP, has acquired Network Communications, Inc., the world's largest provider of local residential real estate advertising, and Black's Guide, the nation's leading commercial real estate directory publisher.

#5 (TIE) ON THE 2002 TOP 20 DEALS LIST

2 FEBRUARY 2002

$150,000,000

Citicorp Venture Capital, Ltd. has sold F&W Publications, Inc., the leading publisher of magazines and books aimed at artists, writers, photographers, graphic designers and woodworkers, to Aurelian Communications and Providence Equity Partners.

#15 ON THE 2002 TOP 20 DEALS LIST

3 DECEMBER 2002

$35,000,000

HCPro has been acquired by The Riverside Company and the HCPro management team. DeSilva & Phillips acted as advisor to HCPro.

#19 ON THE 2002 TOP 20 DEALS LIST

4 APRIL 2002

$24,000,000

Dover Communications, Inc., a healthcare communications company, has been acquired by Boron, LePore & Associates.

5 DECEMBER 2002

Medquest Communications has sold *Menopause Management* to Health Affinities.

6 NOVEMBER 2002

Ehlert, a subsidiary of Affinity Group, Inc., has acquired *Boating Industry International* from National Trade Publications.

7 SEPTEMBER 2002

Red Herring has been acquired by RHC Media, Inc., majority-owned by Broadview Capital Partners.

8 AUGUST 2002

Home & Design, published by Maryland Homes Publishers, Inc., has been acquired by Homestyles Media, Inc.

9 JULY 2002

Workforce, published by ACC Communications, Inc., has been acquired by Crain Communications Inc.

10 JUNE 2002

The American Spectator has been acquired by the American Alternative Foundation.

11 JUNE 2002

MCA COMMUNICATIONS, LLC

MCA Communications, LLC has sold *Motor Service* magazine to Advanstar Communications, Inc.

12 JUNE 2002

MCA COMMUNICATIONS, LLC

MCA Communications, LLC has acquired the assets of Adams Business Media.

13 MAY 2002

Cygnus Business Media, a leading diversified B2B media company, has acquired *Frozen Food Age* and *Food Logistics* from VNU Business Media.

14 MAY 2002

Online Inc., publisher of *EContent* and *EMedia* magazines and operator of several trade shows, has been acquired by Information Today, Inc.

15 MARCH 2002

DevCom, a healthcare communications company, has been sold to Princeton Partners, Inc.

Fifteen deals completed in 2002…
… 111 transactions since 1996
… over $2.5 billion in value

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