Mergers & Acquisitions

An Insider's Guide to the Media Marketplace

The DeSilva & Phillips Report 2006

desilva+phillips INVESTMENT BANKERS

A Nervous Splendor

Suddenly, the first decade of the young century is more than half over — and somehow, we've missed some important milestones. When, exactly, did we stop asking ourselves when the recession was going to be over? When did we start to wonder how long the boom could last? Why can't we remember a moment when we simply enjoyed it? Perhaps it took the shock of Hurricane Katrina — a catastrophe in human and economic terms — coupled with the oil price scare, to make us understand how well the economy has been doing in recent years. Before, during and after the hurricane, GDP continued to grow at a hot — but not overheated — rate. Yet, in our corner of the economy, many in the media business are worrying whether the boom will be over before — in our particular part of the economic forest — the boom begins.

DEAL HISTORY 2001–2005

	2001	2002	2003	2004	2005
Number of Deals	115	90	82	124	114
Deal Volume (in billions)	$4.7	$3.9	$2.7	$2.9	$6.0
Percent Change		-17%	-31%	7%	109%

Source: DeSilva & Phillips M&A Deal Database

This worry is not shared by those of us in the mergers and acquisitions world. The year 2005 was a continuation of the M&A explosion that began in the last quarter of 2004. The DeSilva & Phillips Media M&A database tracked 114 deals with a total value of $5.973 billion — an increase of 109% over 2004, and over a billion dollars bigger than any year since 2001, the year in which the recession joined the dot-com collapse and the terror attacks, and so many troubles began.

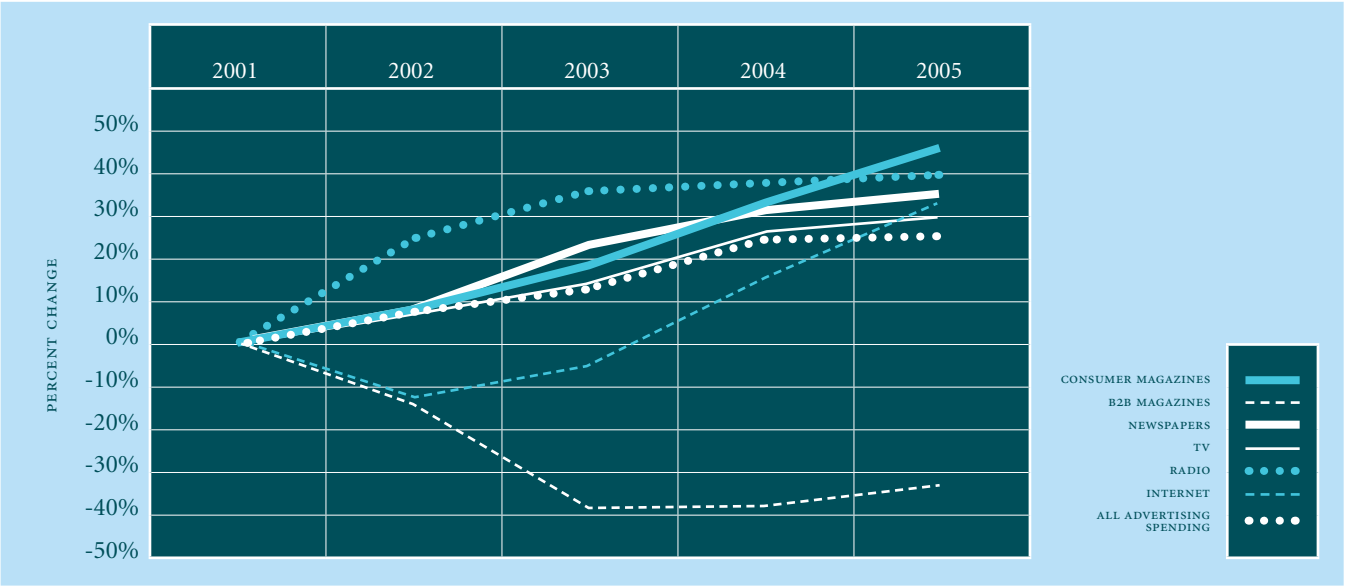
Many big media companies entered a state of siege, with layoffs and reorganizations at the same time they seized the strategic initiative, making major investments in online media.

The trend toward bigger deals which began in 2004 continued. While 2004's deals set a post-recession mark to shoot for in consumer and B2B publishing, the biggest deals of 2005 easily exceeded those of the year before. The purchase of F+W Publications by ABRY for $500 million is now the biggest consumer deal since the recession, beating the price Citigroup Venture Capital (CVC) paid for Network Communications (which ABRY sold in 2004). The previous post-recession high B2B price of $450 million for M/C Communications was beaten by Veronis Suhler Stevenson's (VSS) sale of Hanley Wood to JPMorgan Partners for $618 million. The B2B recovery in general which began in 2004 caught fire: there were 48 B2B deals in 2005, compared to 33 consumer deals. The B2B recovery even affected the trade show sector, which was reeling just a few years ago: the Number One deal in the DeSilva & Phillips Top 15 Deal List was the acquisition of IIR by T&F/Informa for $1.4 billion. (Trade shows were also an important component of the Number 2 deal, the sale of Hanley Wood by VSS.)

Yet, for all this good news, a gap opened up between the market's view of the media business and the industry's self-confidence. Although M&A valuations and activity surged, and so did revenues, a number of problems beset the minds and depressed the spirits of media executives and owners. Across all print media, circulation problems caused great anguish. Consumer magazines saw paid circulation cut after auditing authorities made sudden rule changes, in response to the perception of laxness following circulation scandals at a few publishers. Newspapers saw readership decline significantly, with readers deserting print for online, particularly among the young. Newspaper executives wrung their hands as they saw their vital classified business start draining away toward free and paid Web services.

The consumer audience spent dramatically more time online than it did with TV, and TV advertising suffered the consequences. For the first time in years, consumer magazines — and trade magazines — enjoyed bigger year-to-year advertising gains than any other medium. In fact, looking back over the last five years, consumer magazines saw advertising revenues rise more quickly than any other medium.

FIVE YEAR CHANGE IN AD SPENDING BY CATEGORY



Source: TNS Media Intelligence/CMR

CHANGE IN ADVERTISING REVENUE 2001-2005

	2001	2002	2003	2004	2005	CAGR
Consumer Magazines	17,646	18,829	20,855	23,149	25,624	9.8%
B2B Magazines	8,398	7,227	5,214	5,214	5,511	-10.0%
Newspapers	21,377	22,906	26,072	27,811	28,750	7.7%
TV	47,174	50,719	52,298	58,007	58,187	5.4%
Radio	8,062	9,993	10,886	10,975	11,169	8.5%
Internet	6,518	5,613	6,132	7,442	8,553	7.0%
Other	3,373	5,662	7,076	8,494	7,391	NA
Total	112,548	120,949	128,533	141,092	145,185	6.6%

Source: TNS Media Intelligence/CMR

The big problem for media company owners is the perception that online media is surging ahead — even though in absolute size it still had not overtaken any of the other major media sectors in 2005. In fact, Internet advertising revenue grew only slightly faster than ad revenues as a whole — while consumer magazines smartly outgrew both.

The result of all this is that many big media companies entered a state of siege, and instituted layoffs, major shifts in management, or even announcements of sales. McGraw-Hill, The New York Times Company and Time Inc. announced major layoffs. Knight Ridder and VNU put themselves on the block. After having flirted (according to rumor) with the idea of selling out, the owners of Dow Jones made a dramatic shift in management. Bertelsmann's Gruner+Jahr, after denying it for months, suddenly exited the U.S. magazine business. Viacom has split itself in two.

At the same time, major media companies — sometimes the very same ones we mentioned — are seizing the strategic initiative and making major investments in online media or forming bold partnerships with them. An example of the latter is the dramatic AOL-Google deal. And several transactions in the DeSilva & Phillips Top 15 Deals of 2005 are examples of the former: dramatic acquisitions of online businesses.

Nevertheless, investors were wary in 2005, holding back from the public media companies we track. In 2004, the media sector outperformed a growing stock market. In 2005, the market, simply by standing in place, beat the media sector by nine points — and the broad market, as expressed by the Wilshire 5000, beat it by 14 points.

PUBLISHING COMPANY STOCK PRICE CHANGE

	2004	CHANGE VS. 2003	2005	CHANGE VS 2004
Dow Jones	43.06	-14%	35.49	-18%
Gemstar-TV Guide International	5.92	17%	2.61	-56%
Martha Stewart Living Omnimedia	29.02	195%	17.43	-40%
McGraw-Hill, Inc.	45.77	31%	51.63	13%
Meredith	54.20	11%	52.34	-3%
Playboy Enterprises	12.29	-24%	13.89	13%
Primedia	3.80	34%	1.61	-58%
Reader's Digest Association	13.91	-5%	15.22	9%
Reed Elsevier PLC	37.10	10%	37.51	1%
Scholastic	36.96	9%	28.51	-23%
Time Warner	19.45	8%	17.44	-16%
Totals	301.48	13%	273.68	-9%
Dow	10,783.01	3%	10,800	0%
Wilshire 5000	11,968.1	11.00%	12,608.49	5%

Compared to the investing public, strategic and financial acquirers judged the media market relative to the general market in precisely the opposite way. In 2004, growth in the general M&A market (about 50%) far outpaced the growth in media M&A (7%). But in 2005, the media M&A market beat the total U.S. M&A market, growing more than 3.6 times faster (at 109%) than the general market, which grew by only 30% (according to data tracker Dealogic's estimates).

Part of what made the 2005 M&A market so different is that strategic buyers put their troubles aside and stormed back into the M&A market. In 2004, strategic acquisitions accounted for only 4% of the DeSilva & Phillips Top 15 Deals. In 2005, strategics made 49% of the acquisitions. Many of the companies we've mentioned as having made defensive moves — Time Inc., The New York Times Company and Primedia — all made substantial acquisitions at the same time that they were undergoing wrenching internal changes or — in the case of Primedia — divesting themselves of major parts of their publishing assets.

Overall, the mixture of buyers and sellers in the DeSilva & Phillips Top 15 Deals of 2005 was well balanced. Five deals were by strategics to strategics — six were by financials to financials. Three were financials buying from strategics, and only one was a strategic buying from a financial.

The conclusion: this is a market with legs. When financials are selling to other financials and buying from strategics, and only one deal of the Top 15 is an "end-point deal" — a financial passing off a fully mature company to a strategic buyer — investment bankers smile.

DESILVA & PHILLIPS TOP 15 DEALS OF 2005

RANK	DATE	PROPERTY	SELLER	BUYER	$ IN MILLIONS
1	Jun-05	**IIR Holdings** Conferences	IIR Holdings	T&F/Informa	1,400
2*	May-05	**Hanley Wood** 33 B2B and 10 consumer magazines, 15 events	Veronis Suhler Stevenson	JPMorgan Partners	618
3*	Jun-05	**F+W Publications** 59 consumer magazines, 3,000 books in print, book clubs	Aurelian/Providence Equity	ABRY Partners	500
4	Feb-05	**About.com** 500 specialty consumer Web sites	PRIMEDIA Inc.	The New York Times Co.	410
5	Oct-05	**Village Voice Media (merger)** Alternative weeklies	Village Voice Media	New Times Media	400
6	Aug-05	**Primedia business information** 70 B2B magazines, 100 Web sites	PRIMEDIA Inc.	Wasserstein & Co.	385
7	May-05	**Gruner+Jahr USA — women's titles** 4 consumer magazines	Bertelsmann/Gruner+Jahr AG	Meredith Corporation	350
8	Jul-05	**MediMedia MAP (Europe, US)** Medical publishing	MediMedia	Reed Elsevier	339
9	Apr-05	**Canon Communications** 15 B2B magazines, 15 tradeshows	Veronis Suhler Stevenson	Apprise Media/Spectrum Equity Partners	200
10	Apr-05	**Advanstar's IT & Communications group, etc.** B2B magazines, trade shows	Advanstar Communications/ DLJ	Questex Media/Audax	185
11	Apr-05	**Jobson Publishing** B2B/healthcare magazines	Jobson/Boston Ventures	Wicks Medical Information/Wicks Group	105
12	Aug-05	**Naylor Publications** B2B magazines	Naylor Publications	Clarity Partners, Zelnick Media	85
13*	Nov-05	**Randall Publishing Company** 7 B2B magazines, trade show	Randall Publishing Company	Wachovia Capital Partners	75
14	Nov-05	**Automotive.com (80%)** Web site	Automotive.com	PRIMEDIA Inc.	72.5
15	Aug-05	**Grupo Editorial Expansión (Mexico)** 15 consumer magazines	Editorial Medcom	Time Inc.	60
TOTAL					**5,184.5**

** A DeSilva & Phillips transaction*

Note: The DeSilva & Phillips Top 15 Deals list includes announced transactions for consumer and business magazines, medical media, trade shows and conferences, and closely related information, Internet, database and marketing 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 and non-media Internet.

With a total value of $5.2 billion, the volume of the Top 15 Deal List is almost twice as large as last year's and is the largest in five years, beating 2001's total by almost $1.5 billion. How did it happen? Two years ago we wrote that the absence of strategics in the market caused a lull in 2003's M&A market. In 2004, financials alone produced some growth in the market — producing 96% of the volume of the entire year. But in 2005, the strategics came back, producing over half the volume of the year — and the Top 15 Deal List volume almost doubled in size.

$ MILLIONS	2001	2002	2003	2004	2005
Top 15 Deals Value	3,761	3,470	2,465.5	2,865	5,184.5
Change	-84%	-8%	-29%	16%	81%
Strategics' share of top deals	93%	36%	20%	4%	49%
Financials' share of top deals	7%	64%	80%	96%	51%

Source: DeSilva & Phillips M&A Deal Database

Of course, had DLJ's attempt to sell the whole of Advanstar for $1 billion been successful, the year would have been even more splendid.

MVPs

The most active player in the 2005 deal market was **Primedia.** It was versatile, too, playing on the buying and selling sides. As a buyer, Primedia acquired eight businesses, primarily consumer guides and enthusiast magazines. As a seller, it was responsible for two of the Top 15 Deals: About.com for $410 million and Primedia Business Information for $385 million. In a smaller deal, it also sold parts of Workplace Learning.

The second-most-active player was **United Business Media,** owner of CMP Media. The British company completed seven acquisitions in the U.S., mostly Internet- and conference-related businesses. Like Primedia, UBM was also a very active seller. They sold NOP World for £383 million, their UK automotive titles for £50.25 million and several other businesses for £58 million.

Other candidates: **Advanstar** acquired four businesses and was also an active seller, selling part of itself to Audax for $185 million. **HCPro,** the Massachusetts healthcare media company, made six acquisitions and **Apprise Media** made four.

Private Equity

The PE community was equally active as buyers and sellers, and often found that the best buyers for properties released into the market were other private equity firms. Taking advantage of the strong M&A market, VSS, Providence Equity, VSS again, DLJ and Boston Ventures sold major properties to other PEs: JPMorgan Partners, ABRY Partners, Spectrum Equity, Audax and Wicks Group, respectively (Deals 2, 3, 9, 10 and 11). Deal Number 5, the merger of Village Voice Media into New Times, also involved a deal between private equity firms (Weiss, Peck & Greer to Alta Communications, partial owner of New Times). Only two Top 15 Deals were similar to the "bread & butter" deals of the early 2000s — the sale of a sizeable family-owned business to a private equity firm (Deals 13 and 14, with the Naylor and Randall companies going to Zelnick Media/Clarity Partners and Wachovia Capital Partners, respectively).

Thanks to the activity of private equity buyers and sellers, this was the year in which that shy beast, the platform company, came into the open — not in ones and twos, but as part of a herd. Now that so many platforms are owned by private equity firms, they are sold on opportunity rather than sentiment. As a result, platforms like Hanley Wood (Veronis Suhler Stevenson), F+W Publications (Providence Equity), Village Voice Media (Weiss, Peck & Greer), Canon Communications (Veronis Suhler Stevenson), Advanstar's IT and Communications groups (DLJ), and Jobson Publishing (Boston Ventures) all changed hands this year — most of them to other PE owners.

A herd of the notoriously shy species, the platform company, came up for sale in 2005, thanks to private equity owners.

Speaking of herds: Another trend that began to make itself felt in 2005 and that we expect to see more of in 2006 — the "club" deals, where private equity funds form consortia to go after bigger prey. In the wider M&A market, such clubs bought Hertz, Neiman Marcus, SunGard and Toys'R'Us. In the media world, PE funds formed consortia to buy a number of companies: Clarity Partners and Zelnick Media clubbed together to buy Naylor, JPMorgan Partners brought Wasserstein & Co. into the group that bought Hanley Wood, and Sandler Capital and WS Capital cooperated to buy *Discover*. We expect to see more of this kind of pack formation.

Consumer Deals

There were as many consumer deals as B2B publishing deals in the Top 15 list this year (despite the fact that there were 50% more B2B deals in the year's media M&A activity than consumer deals — 48 versus 33). And the total value of the six Top 15 consumer deals — Numbers 3, 4, 5, 7, 14, and 15) was $1.81 billion, compared to a total value of $1.54 billion for the six B2B deals. Moreover, only the biggest consumer deal — the Number 3 sale of F+W Publications to ABRY Partners — involved a company in the most popular consumer sector of the past five years, the special-interest or enthusiast magazine publisher.

Instead, consumer deals offered some novel themes in 2005. Two of them, Numbers 4 and 14, involved publishers' acquisitions of Internet properties — The New York Times Company's acquisition of About.com and Primedia's purchase of Automobile.com. Of course, these purchases served to develop or augment the special-interest capabilities of the acquiring company. New Times' acquisition of Village Voice Media had long been anticipated by both companies. But a fairly rare event took place in 2005 as well — the transfer of a large group of category-leading blockbuster magazines from one pair of hands to another. Meredith's acquisition of *Parents, YM, Fitness* and *Family Circle* from Gruner+Jahr came about because of a celebrity-studded, scandal-ridden, implosion of a once-dominant consumer publisher — and the hasty decision of its German owner, Bertelsmann, to exit the U.S. publishing business entirely. Many thought that Meredith got a wonderful bargain for its $350 million price.

It's easier to calculate the deal that Chicago's Joseph Mansueto got for a smaller price for another major piece of the former Gruner+Jahr empire, its two business magazines *Inc.* and *Fast Company*. In 2000, G+J CEO Dan Brewster bested his rivals for the titles in two hard-fought auctions, paying collectively $560 million, about 17 times earnings and 3.4 times revenue. In 2005, Mansueto paid $35 million for the same two titles from G+J.

Finally, the Number 15 Deal was another unusual consumer deal — a cross-border transaction: Time Inc. bought the consumer magazine company Grupo Editorial Expansión in Mexico. The company, Mexico's leading publisher of upscale magazines, brings Time Inc. the Mexican equivalents of *Fortune (Expansión), People (Quién), Architectural Digest (Obras), Esquire (Life and Style)* and *Self (Balance)*. Time Inc. can enter the burgeoning Mexican market and perhaps use these titles to expand into U.S. Spanish-speaking communities as well. It will have in its stable not only Time Inc.-like titles but also be able to compete in categories dominated by Hearst and Condé Nast.

Gruner+Jahr's problems created the opportunity for two major consumer deals — while others were driven by the need for ad revenue diversification.

Other significant consumer transactions in 2005 include the sale of a science title, *Discover*, with a long history of editorial distinction and disappointing financial results to its various corporate owners, first Time Inc. and then its current seller, Disney Publishing. The buyer was the swashbuckling publisher Bob Guccione, Jr., founder of *Spin*, backed by Sandler Capital and WS Capital. Apprise Media, backed by Spectrum Equity Partners, the buyer in the Number 9 Deal — the $200 million purchase of Canon Communications — made three smaller but interesting purchases on the consumer side: Beckett Publications, the largest company serving the sports card collecting community, Y-Visionary and CFW Enterprises. Primedia accumulated four smaller consumer properties, both print and online, and active buyers from past years CurtCo Robb and NCI Communications both continued to make smaller acquisitions.

B2B Deals

The B2B recovery continued in 2005, with six deals in the Top 15 (Numbers 2, 6, 9, 10, 12, and 13) and 48 deals overall. Deals 2 and 9 were for VSS properties Hanley Wood and Canon Communications, both of them substantial companies dominant in their respective fields — Hanley Wood in construction and Canon in packaging and plastics. Another premier company was sold by its longtime owner: Primedia divested its B2B business — once known as Intertec — in a single transaction to Wasserstein & Company, which has been acquiring aggressively since 2003 (Deal 6). That such a trio of major B2B publishers should change hands in a single year was significant. Had the trio been a quartet, as it would have been if Advanstar had succeeded in selling, it would have been an astonishing vote of confidence in the recovery of this battered media sector. Instead, the Advanstar sale languished. Perhaps because of the number of premier properties coming on the market at the same time, DLJ could not get the $1 billion price it was thought to require, and the company was withdrawn. DLJ had acquired Advanstar in 2000, at the very top of the B2B market. Instead, DLJ had to content itself with selling a smaller part of the company to Audax, which owns various media properties, including the *Boston Herald*.

The sale of three major B2B platforms, on top of heavy volume in B2B transactions, was a big show of confidence that this media sector has found a way to prosper.

The smallest two B2B transactions in the Top 15 were more typical of the B2B transactions of the past five years, in which fine, long-established family-owned companies were sold to new owners as they grew past a single family's financial ability or desire to continue their growth. Brent Naylor sold his innovative third-party publishing company to Clarity Partners and Zelnick Media. The Randall family of Tuscaloosa, Alabama, sold its 40-year old trucking-sector publishing company to its CEO, Mike Reilly, backed by Wachovia Capital Partners.

Trade Show Deals

2005 was a great year for the Trade Show sector, which was punished more severely than any other part of the media business by the combination of a business downturn and the travel disruptions that began with the 9/11 attacks and have continued to aggravate business travel ever since. Nevertheless, trade shows made a strong comeback, both in business terms and in the M&A market. The Number One deal was a trade show deal: a cross-border transaction in which the transatlantic business information and education powerhouse T&F/Informa acquired IIR Holdings, a $572.6 million (revenue) conference business with offices worldwide.

A Growing Power

T&F/Informa is a company that has taken its time to become known. It originated in 1798 as the British publisher Taylor & Francis. Two centuries passed. It went public. In 2003 it was the buyer in Deals 3 and 5 on the Top 15 List of that year, buying STP publishers Marcel Dekker in New York and Philadelphia's century-old CRC Publishing, once known as Chemical Rubber Corporation to generations of science students. At a time when cross-border deals remain astonishingly rare, in view of the cheap dollar of recent years, T&F/Informa is an exceptional player.

In addition, trade shows form a significant part of the businesses in the B2B sector already described: Hanley Wood (Deal 2), Primedia B2B (Deal 5), Canon Communications; Advanstar, and Randall. Altogether there were 23 Trade Show deals in 2005 — a very strong showing.

Medical Media Deals

The recovery in consumer and B2B M&A means that healthcare media deals are less prominent this year than they were in the early 2000s. This is not to say that they were not important. In 2003 and 2004 there were four healthcare deals on the Top 15 List — this year there are two — and a total of eleven healthcare media deals this year. Deal 8 was Reed Elsevier's acquisition of MediMedia MAP, a collection of medical publications in the U.S., France, Spain and elsewhere in Europe, and the Netter collection of medical illustrations sold worldwide, for a price of $339 million. Deal Number 11 was Wicks Medical Information's purchase of Jobson Publishing, a family-owned medical publishing and education business, for $105 million. The year's other medical media deal of substance was a transaction between two substantial family-owned firms: Lebhar-Friedman acquired Dowden Health Media Publishing.

The Online World on the March

The Internet was a dominant factor in M&A decision-making in 2005. As *BusinessWeek's* Timothy Mullaney said (12/26/2005): "More than 220 years ago, when the British surrendered to the colonials at Yorktown, Va., legend says Lord Cornwallis marched out to a tune called 'The World Turned Upside Down.' Today, a media investor knows just how the defeated commander must have felt. Media's collisions and revolutions are upending our notions about which companies and technologies matter in the $1.3 trillion industry. The media pie is growing faster than the economy, about 7% a year, according to PricewaterhouseCoopers' most recent forecast. But what we spend the money on, and who gets it, is changing enormously. The market is betting hard on Internet companies such as Google and Yahoo at the expense of big conglomerates because New Media are where the growth is."

Magazine companies, particularly in the B2B sector, behaved differently in 2005 as a result of the sudden reemergence of strong online valuations. As a matter of financial strategy, companies are eager to capture some of the tremendous online growth through acquisitions. This is understandable. On the other hand, it also means that they aren't as active in buying magazines. They're looking for high growth properties.

Rupert Murdoch made the most dramatic statement with his two acquisitions: Intermix Media, better known as the owner of the personal networking portal MySpace.com, and IGN Entertainment, with its popular GameWeb Properties.

Many hoped that 2005 would be the year that Internet companies would begin to acquire traditional media companies. The trend did not materialize — and we don't think that it will emerge in 2006 either. Key executives running Internet businesses often have no affinity for media. Acquiring a media business would put them into a business they don't understand and it would probably diminish their own attractiveness as an acquisition target. Instead, we see media companies trying to acquire Internet businesses, only to be deterred by the stratospheric valuation multiples — but encouraged when they see the financial benefit of an Internet company to a traditional media company. The New York Times Company demonstrated this benefit in its third quarter results when its About.com advertising revenue growth brightened an otherwise gloomy quarter for the parent company.

Some Internet companies don't feel they need to acquire media companies to begin acting like media companies. Yahoo, in particular, has increasingly started to position itself as a media company. Terry Semel, chairman and CEO of Yahoo, says, "Everywhere you go in Yahoo, whether it's autos or sport, it's all content." Delivering more and better content is central to his goal of persuading users to return more often and stay longer. Google too is moving into position as a total media company, with the ability to sell advertising in a variety of media besides online.

The cleverest media companies are moving strategically to bolster their print products with online properties that enhance their value proposition to consumers. The perfect example is Primedia's purchase of Automobile.com, an online automotive portal that is focused on enthusiasts — replacing About.com which aspired to be the complete generalist's guide to everything that exists. We expect that in 2006, media companies will turn the heat on in search of online properties that augment their brand, offer new distribution channels or content generation, or new revenue for their advertisers.

The Internet doesn't merely present an opportunity to media companies — it also makes it harder to execute the basic good practices of running a media property. Advertisers are distracted, prone to move budgets away from print into online, demanding more from magazines about delivering the readers they promise. For media executives charged with growing their top line, running their business efficiently, and — in their spare time — reinventing their business model, 2006 will be a long year.

Leverage

In general, debt markets remained deal-friendly during 2005, despite upward pressure on interest rates. A device came widely into play during the year: "staple financing." Sellers found it useful to present not only the company, but a financing term sheet for the deal (the two offerings, for acquisition and financing, figuratively "stapled" together). The aim is to give prospective buyers — particularly private equity buyers — the ability to understand immediately the leverage on the deal without needing to canvass their own lenders. The hope is that this knowledge will help purchasers push up the value of their bid — and the hope may have been fulfilled in several 2005 transactions.

Even when the buyer concludes by not taking advantage of the pre-packaged financing deal, the process goes more quickly, and the device shows the willingness of lenders to become collaborators in deals, rather than standing aloof. Staple deals were available in several of the Top 15 Deals, including Hanley Wood and F+W.

DEALS IN OTHER MEDIA SECTORS

For some sectors, it was a staggeringly big year in media acquisitions. Traditional media companies and Internet giants acquired agressively.

Newspapers — Newspaper mergers had their biggest year by far since 2000.

- Lee Enterprises Inc. bought Pulitzer Inc. for $1.46 billion. Pulitzer publishes the *St. Louis Post-Dispatch,* the *Arizona Daily Star* and a dozen other daily newspapers.
- Knight Ridder sold its newspaper interests in Detroit to Gannett Co., Inc. and MediaNews Group. Gannett now owns the *Detroit Free Press;* MediaNews Group has acquired *The Detroit News* from Gannett. Gannett is now the general partner in the Detroit newspaper partnership and MediaNews the limited partner.

Entertainment

- The biggest story in entertainment is the entry of private equity into film production in deals that commit to a slate of several pictures. The most notable is Legendary Pictures, which venture capitalist Thomas Tull set up with $500 million, committed to co-produce and co-finance 25 films at Warner Bros. over five years.

Internet

The year's most significant Internet deals involved big mainline media companies and Internet giants purchasing niche services, mobile services, advertising/marketing companies and lead generation companies. The resemblances between many of the deals are dizzying.

- Google bought 5% of AOL for $1 billion, and Urchin Software for its Web analysis tools, and Dodgeball, a mobile social networking company.
- AOL in its turn bought Wildseed Ltd., another wireless services company.
- Yahoo bought Flickr (Ludicorp), the photo blogging services company.
- News Corp bought Intermix, owner of the MySpace social-networking site, for $580 million; online videogame company IGN for $655 million, and online sports company Scout Media.
- Barry Diller's InterActive Corporation (IAC) bought the Ask Jeeves search company for $1.85 billion.
- eBay bought Skype, the European voice-over-Internet company, for $2.6 billion and online comparison shopping site Shopping.com for $620 million.
- The UK's GUS, through its Experian unit, bought LowerMyBills, the home mortgage lead generation company, for $330 million and PriceGrabber, another comparison shopping engine, for $485 million.
- Scripps bought Shopzilla, yet another comparison shopping engine, for $525 million.
- Gannett bought PointRoll, the rich media marketer, for a price estimated at over $100 million.
- Electronic Arts bought Jamdat Mobile, publisher of mobile versions of Tetris and other hit games, for about $680 million.

Company Valuations

Even though the market grew phenomenally, the upper range of multiples moved higher while the lower range stayed firm — and sometimes drifted downward a bit. Quality and growth expectations determined the multiples, and accurately adapted themselves to the particular transaction. The range of multiples was flexible enough to make some sellers reluctant, and others unhappy enough to cancel their sales.

EBITDA MULTIPLES

SECTOR	EBITDA MULTIPLES 2005
Consumer Magazines:	
Under $75 million	7–9x
Over $75 million	10–12x
B2B magazines:	
Under $75 million	6–9x
Over $75 million	9–12x

Source: DeSilva & Phillips M&A Database

Shareholder Activism

2005 was the year of investor activism. It has affected numerous deals. Carl Icahn is hounding Time Warner and tried to bully them into not selling 5% of AOL to Google for $1 billion. His activities also may have helped stimulate Time Inc. to lay off 105 people, many of whom were at senior levels. A larger set of disgruntled shareholders forced VNU to abandon its merger with IMS, pressuring the company to pay a dividend rather than make that acquisition.

In some ways, the media industry created this phase of the shareholder revolt. The latest stage in the movement began with a media company — Disney. Former board members Roy Disney and Stanley Gold aimed their wrath at Disney CEO Michael Eisner, and their campaign eventually resulted in his retirement. Roy Disney and Stanley Gold are now considered "pioneers of shareholder activism."

The Primedia Saga

Primedia continued to slim down in public — it would have been wise of Jenny Craig to choose it as its spokesmodel rather than Kirstie Alley. First it sold its Business Information unit (generally known as Intertec) for $385 million and its About.com property for $410 million. Then it announced that it would divide the company into two parts: consumer guides (29% of revenues) and enthusiast media (65% of revenues). A small, third division would also remain, focused on education and representing just 6% of revenues. And yet at the same time they made a substantial purchase of Internet assets. As we've said, Primedia sells the general and buys the particular — using Automotive.com to make up a part of its enthusiast media. And, as always in the 21st Century, Primedia has been a marvelously skillful seller, getting good prices and top multiples for its properties. A glance at its history of sales is instructive.

DATE	PROPERTY	BUYER	PRICE	REVENUE	EBITDA	REVENUE MULTIPLE	EBITDA MULTIPLE
2002	*Modern Bride*	Condé Nast	52.0	55.0	2.9	0.9	18.0
2002	*Chicago*	Tribune Company	35.0	18.0	2.0	1.9	17.5
2002	*American Baby*	Meredith Corporation	115.0	54.8	9.3	2.1	12.4
2003	*Seventeen*	Hearst Corporation	182.4	78.8	15.1	2.3	12.1
2003	*New York Magazine*	New York Media Holdings	55.0	43.0	2.0	1.3	27.5
2005	About.com	The New York Times Co.	410.0	35.8	12.3	11.5	33.3
2005	Business Info. Unit	Wasserstein & Co.	385.0	224.8	37.4	1.7	10.3

Source: DeSilva & Phillips M&A Database

Outlook for 2006

We expect 2006 will be just as active as 2005, but not sustain last year's record of year-to-year growth. The fourth quarter of 2005 was strong, but displayed no particular momentum for a significant increase of volume — the biggest month for deals was August 2005. The burdens of doing ordinary business and trying to figure out radical changes in the online world are going to produce important deals, but not in huge quantity.

The euphoric feeling produced by an economic boom is muted this year. The reason is not, we think, because of political bias, but because the country's most advanced ganglia — New York City and the media industry — are simply not feeling it. The boom has not really spread to the media industry and to the nation's largest city. Everywhere else in the country, in every other industry, productivity is up, workers are scarce, jobs are abundant, growth is running over 3.5% for the second year in a row, demography conspires with the economy so that a huge company like GM can announce that it will shed thousands of workers — without any layoffs. But in the media industry, particularly its old-line components, the nation's eyes and voice are gripped by nerves. Media stocks lag the stock market. Good news now is discounted.

It's not that consumers or businesses have chosen not to spend money on advertising or media. Far from it. But for the first time, spending on new media — online advertising and promotion — is beginning to take substantial dollars away from old media. The Internet advertising boom of the 1990s was fueled by Internet companies themselves, trading their capitalizations around in a circular game of musical chairs. Now, for the first time, substantial volumes of dollars that would in any earlier recovery have been captured by traditional media are moving elsewhere. In the economic recovery cycles of the 1980s and 1990s, burgeoning home sales and new-job creation led to huge increases in classified revenues for newspapers as house-for-sale and help-wanted pages multiplied. But in this decade, newspapers have not been able to capture this surging-back of economic activity, and the movement of consumers and advertisers to online meeting places for advertising houses and jobs has made it a pallid recovery for the medium that is, despite all recent media transformations, still in charge of reflecting the national mood to itself.

The same pattern is true for the B2B media. In earlier decades, business spending growth led to increases in trade advertising and trade show attendance. In this recovery cycle, the convenience of getting information over the Internet for employees has meant that B2B print publishing has suffered a decline of historic proportions — initially fueled by a recession, but continuing because of technology — despite a business production recovery that is wide and deep, with new records in corporate profits set year after year.

> In 2006, technological innovation may become a more significant factor for the media markets than the business cycle — a true sea change.

In other words, technological innovation — and more, the mass market's adoption of technological innovation in the form of broadband online access — has overtaken the business cycle in its impact on some (but not all) forms of media. This is a true sea change. No longer are the fortunes of media driven by the economy — by how much businesses and consumers have to spend, by what their appetite is, and by what kind of wares businesses have to advertise. The economy is still the major factor in the fortunes of the media business, but it is no longer the only factor.

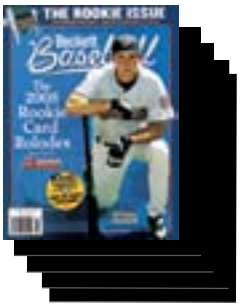
The pressure of innovation — rather than the state of the economy — will drive the M&A market in important ways. The result? We think not a buying and selling frenzy, but some of the most interesting and significant deals in years.

Design: Ideas on Purpose, NYC www.ideasonpurpose.com

We sold more magazines (plus associated trade shows and Web sites) in 2005 than anyone.

F+W Publications
59 magazines
3,000 books
14 clubs

Hanley Wood LLC
33 magazines
(23 B2B, 10 consumer)
15 trade shows
17 Web sites



Beckett Publications
9 magazines
9 Web sites

Dowden Health Media
More than 7 magazines
Scores of custom publications

Randall Publishing Company
6 magazines
3 Web sites
Trade shows

Network Communications, Inc.
9 publications in
550 markets

Summer Communications
3 magazines
3 Web sites
1 trade show

Corporate Legal Times
1 magazine
1 Web site
1 Conference

desilva+phillips INVESTMENT BANKERS

Know when to remain silent.

Our deals speak for themselves.

1 DECEMBER 2005

Boston Aviation Services

Boston Aviation Services, Inc., publisher of *The Air Charter Guide* and *The Cellular Pilot*, has been acquired by Prism Business Media Inc.

2 NOVEMBER 2005

Millard Group Inc., a premier brand in the list brokerage and management business, has been acquired by infoUSA.

3 OCTOBER 2005

Randall Publishing Company, a leading B2B media company serving the trucking, construction and woodworking industries, has been acquired by Wachovia Capital Partners.

4 SEPTEMBER 2005

Global Investment Systems, a leading supplier of investment, shareholder and partnership accounting software, has been acquired by Linedata Services.

5 AUGUST 2005

ABRY Partners has acquired F+W Publications, a leading special interest publisher and marketer of magazines, books, book clubs and conferences, from Providence Equity Partners Inc.

6 AUGUST 2005

JPMorgan Partners has acquired Hanley Wood, LLC, the leading media company serving the residential and commercial construction industries, from Veronis Suhler Stevenson.

7 AUGUST 2005

Inside Higher Ed has received equity financing from Grosvenor Special Ventures IV, L.P.

8 JULY 2005

Summer Communications

Summer Communications and Expo Productions, including *EMS Magazine* and the EMS Expo, have been acquired by Cygnus Business Media.

9 JUNE 2005

CMEInfo.com, the leading producer of CME courses from top medical schools marketed directly to physicians, has been acquired by Haights Cross Communications.

10 APRIL 2005

Eating Well, Inc., publishers of *Eating Well: The Magazine of Food & Health*, received financing from various investors.

DeSilva & Phillips Corporate Finance LLC

11 MARCH 2005

$35,000,000

Lebhar-Friedman, Inc. received $35,000,000 in acquisition financing from GE Commercial Finance Global Media & Communications.

DeSilva & Phillips Corporate Finance LLC

12 MARCH 2005

Dowden Health Media, a producer of medical journals, consumer magazines and physician education programs, has been acquired by Lebhar-Friedman, Inc.

13 FEBRUARY 2005

Corporate Legal Times, publisher of the magazine for General Counsel and producer of the SuperConference, has been acquired by Wicks Business Information.

14 JANUARY 2005

Beckett Publications, the world's leading publisher of sports and entertainment market collectible products, has been acquired by Apprise Media LLC.

15 JANUARY 2005

Citigroup Venture Capital has acquired Network Communications, Inc., America's leading provider of real estate information, from ABRY Partners IV, LP.

16 NOVEMBER 2004

Modern Luxury Media, LLC has been recapitalized through an equity investment from Shamrock Capital Growth Fund, L.P.

17 NOVEMBER 2004

Virgo Publishing, Inc., with 16 magazines and 7 trade shows and events in a diverse range of industries, has been sold to Seaport Capital.

18 AUGUST 2004

ABARTA Media Group has sold *Orlando, Charlotte, Dallas Home Design, Discover Utah* and *Discover Amelia Island* to Morris Communications Company, LLC.

19 AUGUST 2004

Ehlert Publishing Group, Inc., a subsidiary of Affinity Group, Inc., has sold its Sportsmen's Group to Grand View Media Group, Inc.

20 JULY 2004

Press News BVBA

Press News BVBA, the Belgian publisher of *Royals, Dynasty, Hors Série* and *Ace* magazines, has been sold to Roularta Media Group.

Over 150 transactions since 1996, over $5 billion in value.

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