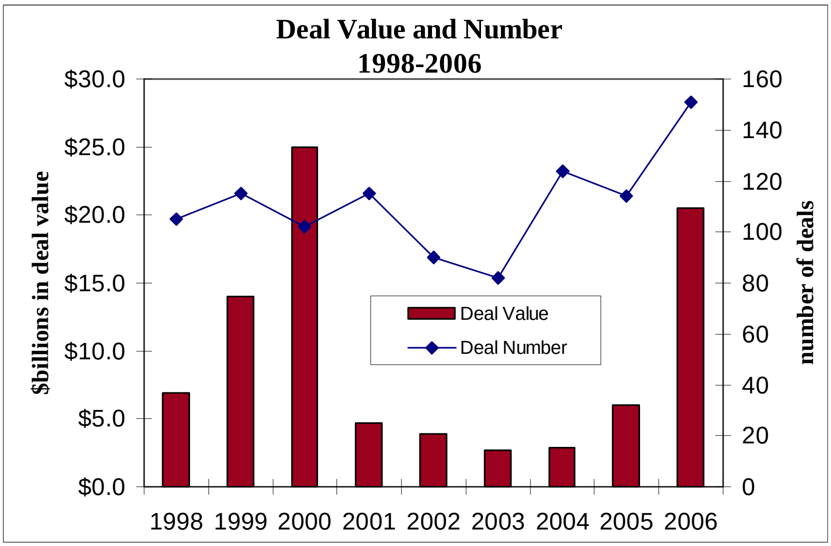
mergers & acquisitions
an insider's guide to the media marketplace
the desilva+phillips report 2007

As we rush toward the second decade of the 21st century, it's also a good time to take a look back. At the end of 2006, we stand at the very peak year of the new century (barring the year 2000, which really – in so many ways – belongs to the 1990s not the 2000s). Confounding our prediction at the end of 2005, the year 2006 has turned out to be not merely strong, but also a year of extraordinary deal-making in both quality and quantity. A dollar volume of $20.5 billion* in media transactions makes 2006 the strongest year since 2000, and close in volume to that year's total.

In the number of media deals in the sector, this year's total of 151 was 22% larger than 2004, in which a then-record 124 deals took place, and 36% larger than the average of the previous five years. In dollar volume of deals, the 2006 total of $20.5 billion was 242% greater than last year's considerable deal volume of $6.0 billion, and 413% higher than the average for the previous five years, 2001-2005.



Source: DeSilva+Phillips M&A Database. 2000 excludes the value of the AOL-Time Warner deal.

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* *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 pure Internet or online.*

A significant portion of the total value of the deals in 2006 was contributed by two deals – one B2B and one consumer – that earned high marks in the list of the new century's top ten deals. The sale of VNU for $11.1 billion was the biggest B2B deal in history – and, after the Time Warner-AOL deal, the second largest deal of the past ten years. The sale of The Reader's Digest Association for $2.4 billion made it the sixth largest deal of the past ten years.

In the perpetual seesaw between strategic and financial buyers, this was the year that financial buyers fought back from near parity in 2005, after having dominated the field for the two recession years before that.

$billions	All Deals		Top 15 Deals		
Year	Deals	Dollar Value	Dollar Value	Strategics %	Financials %
2006	151	20.5	18.9	33%	67%
2005	114	6.0	5.2	49%	51%
2004	124	2.9	2.1	4%	96%
2003	82	2.7	2.5	20%	80%
2002	90	3.9	3.6	36%	64%
2001	115	4.7	3.8	93%	7%
***2000**	102	25.0	23.6	95%	5%

*2000 excludes the value of the AOL-Time Warner deal

In the 1990s and through 2001, strategics did the vast majority of deals. We are now back to "situation normal," however, in which strategics and financials contend on a fairly even playing field, subject to the vagaries of the media business (which affect the buying power of strategics in downturns) and the debt market (which affects the buying power of financials when money rates tighten). The fact is, too, that the impact of Sarbanes-Oxley – a law which discourages companies from going public as never before – means that many business entities that operate as strategics are, strictly speaking, financials. This muddies the water and perhaps exaggerates the role that financials play in the market. It also, of course, encourages companies to go private – a trend exemplified by the number one and number two deals on our Top 15 Deals list, below, to give just a couple of examples.

Another trend we noted in 2006, and expect to see more of, is the movement away from broad-based auctions when selling a company. More significant transactions take place through negotiated transactions – VNU to name just one, the number one deal on the DeSilva+Phillips Top 15 list. What is more, a number of high-profile auctions have failed to be consummated in recent years (including some this year), and it may be that those results have made sellers more wary of the exposure their companies might suffer if the auction is not successful.

The Economy

More important than any changes encouraged by new laws, new technologies and new media consumption habits was the M&A climate created by the "Goldilocks economy" – in which everything, for once, seems to be going right. The trends in the last quarter of 2006 indicate, if anything, an improvement. Manufacturing is up – the latest consumer inflation indicators are down – energy costs are on a downward trend – the housing market seems to have leveled off – and employment is as close to full as can be measured. John Ryding, Bear Stearns' chief U.S. economist, is predicting 2.75% real growth in the U.S. GDP in the fourth quarter. And not even the U.S. government can be wrong all the time. In general, even with the new congress, we see only a marginal change in the overall sentiment in favor of low tax rates, low trade barriers, and no re-regulation of business.

The Advertising Economy

In our own sectors of the advertising-supported media economy, magazine publishing and Internet, the year has not been bad. Consumer magazines have shown the greatest growth in ad spending (in the first three quarters of the year) than any sector of the traditional media except for outdoor – better than TV, radio, and newspapers – at 5.8% (as measured by TNS Media Intelligence). This rate of growth was 45% higher than the total growth of advertising spending for the same period. The B2B magazine segment declined 2%, but the number is less meaningful, because B2B advertising has migrated to the Internet more substantially than has consumer advertising. As for consumer magazines – another two years of relatively strong growth like this one would bring them to dollar parity with newspapers whose advertising revenues continue to fall.

Advertising Spending by Sector – 3Q YTD

			% Change	
Media Sector	**2005**	**2006**	**'06 vs. '05**	**'05 vs. '04**
Internet	6,066.8	7,151.7	*17.9%*	*21.4%*
Consumer Mags.	17,260.0	18,259.3	*5.8%*	*11.0%*
Television	44,831.0	47,161.3	*5.2%*	*10.5%*
Radio	8,179.1	8,091.5	*-1.1%*	*0.8%*
B2B Mags.	3,254.8	3,188.2	*-2.0%*	*0.0%*
Newspaper	20,848.8	20,292.9	*-2.7%*	*6.7%*
FSI's	1,116.3	1,386.3	*24.2%*	*5.7%*
Outdoor	2,617.7	2,828.4	*8.0%*	*20.2%*
TOTAL	**104,174.7**	**108,359.5**	***4.0%***	***9.2%***

Source: TMS Media Intelligence

Public Media Companies

In general, public media companies had a good year, compared to last year and in keeping with the overall media markets. Our basket of eleven public companies showed a rise of 17% – beating the Dow's 15% and approaching the broad-based Wilshire 5000's 21% for the year. Even more significant was the year's consistency. Ten out of the eleven companies increased in value, and the unweighted average of the increases (including Playboy's decrease) was very similar to the overall average: 17.4%.

	2005	2006	Change
Dow Jones	35.5	38.4	*8.10%*
Gemstar-TV Guide International	2.6	4.0	*53.60%*
Martha Stewart Living Omnimedia	17.4	21.9	*25.60%*
McGraw-Hill Inc.	51.6	68.0	*31.70%*
Meredith	52.3	56.4	*7.70%*
Playboy Enterprises	13.9	11.5	*-17.50%*
Primedia	1.6	1.7	*5.00%*
Reader's Digest Association	15.2	16.7	*9.70%*
Reed Elsevier PLC	37.5	44.0	*17.40%*
Scholastic	28.5	35.8	*25.70%*
Time Warner	17.4	21.8	*24.90%*
Totals	**273.7**	**320.2**	***17.00%***

The DeSilva+Phillips Top 15 Deals of 2006

This year, the list of the Top 15 Deals was interestingly balanced among B2B, consumer and medical/scientific transactions. The dominant force was the B2B company – but consumer transactions represented more than a third of the top 15 deals.

The Top 15 Deals of 2006

Deal	Property	Description	Seller	Buyer	Price ($millions)
1	**VNU NV**	AC Nielsen, Nielsen Media Research, B2B media company	**VNU NV**	**Valcon Acquisition BV(AlpInvest Partners, Blackstone Group, Carlyle Group, Hellman & Friedman, KKR, TH Lee)**	11,100
2	**The Reader's Digest Association**	20 consumer magazines, books	**The Reader's Digest Association**	**Ripplewood Holdings, Merrill Lynch Capital, J. Rothschild Group**	2,400
3	**Blackwell Publishing Ltd.**	STM B2B journals	**Blackwell Publishing Ltd.**	**John Wiley & Sons Inc.**	1,080
4*	**MediMedia**	Healthcare information	**Carlyle Group, Apax Partners, Cinven**	**Vestar Capital Partners**	650
5	**iVillage**	consumer Internet, magazines	**iVillage**	**NBC Universal**	600
6	**Prism/Penton (50%)**	B2B media	**Wasserstein & Co., Highfields Capital, Lexington Partners**	**MidOcean Partners**	550
7*	**Penton Media**	B2B media company	**Penton Media**	**Prism Business Media (Wasserstein & Co.)**	530
8	**Incisive Media**	42 B2B magazines, 249 events, online	**Incisive Media**	**Apax Partners**	453
9	**Metal Bulletin**	B2B magazines, books, events, research	**Metal Bulletin plc**	**Euromoney Institutional Investor PLC**	408
10	***US Weekly* (50%)**	consumer magazine	**The Walt Disney Company**	**Wenner Media**	300
11	**Forbes Media (40%)**	consumer magazines, Web site	**Forbes family**	**Elevation Partners**	275
12	**Primedia's Outdoor Group**	17 consumer magazines	**Primedia Inc.**	**InterMedia Partners**	170
13	**Thompson Publishing Group**	B2B media	**DLJ Merchant Banking Partners, MidOcean Partners**	**Avista Capital Partners**	165
14	**Commonwealth Business Media**	B2B magazines, information	**RFE Investment Partners, Bariston Partners, ABRY Partners, The Economist**	**United Business Media plc**	152
15	**Primedia's Crafts Group**	consumer magazines	**Primedia Inc.**	**Sandler Capital Management**	132
Total					18,965

*** Indicates a transaction in which DeSilva+Phillips was an advisor**

With nine transactions, the B2B sector not only dominated the top 15 deals list, but also represented 101 of the 151 total deals of 2006 (including magazines, trade shows and conferences, Internet acquisitions and medical media deals). The biggest transaction of the year was, of course, the VNU deal, but another interesting pair of deals represent numbers 6 and 7: Wasserstein acquired Penton Media for $530 million, combined it with Prism (Wasserstein's re-branding of Primedia's B2B business) and sold half of the combined company to MidOcean Partners. The estimated value of MidOcean's acquisition was $550 million for 50% of Prism/Penton. In late November, just two days before MidOcean's deal with Wasserstein, MidOcean sold its 50% interest in Thompson Publishing to Avista Capital at an enterprise value of approximately $200 million. Four months earlier, Avista had acquired the other 50% of Thompson from DLJ Merchant Banking Partners at an enterprise value of $130 million. The average of the two transactions – $165 million – makes Thompson the 13th largest deal of 2006.

Two of the bigger deals were the kind of negotiated transactions we mentioned earlier. VNU was wrestled away from its public owners (unhappy owners, to be sure) by a consortium of private equity buyers in an extremely complex negotiated transaction that succeeded in spite of its complexities. And in the biggest medical media deal in some time, Vestar Capital reached agreement with a consortium of private equity sellers. These two deals suggest that even teams of giant funds can be nimble when opportunity arises (Cinven, Apax Partners and The Carlyle Group selling MediMedia; TH Lee, KKR, AlpInvest, Hellman & Friedman, The Carlyle Group and Blackstone acquiring VNU).

The most interesting B2B deal between strategics was John Wiley's acquisition of Blackwell Publishing, the venerable British publisher of scientific, technical and medical journals – a marvelous example of a perfect fit between acquirer and target and a refreshing instance of an "eastbound" cross-border transaction.

Consumer magazine deals represented a not inconsiderable 33% of the total M&A media market. The largest was the number 2 deal of 2006, the sale of The Reader's Digest Association to Ripplewood Holdings. Just a few months before its sale, the Digest had acquired AllRecipes.com for $66 million and was riding the Rachael Ray wave with its hugely successful new magazine, *Every Day With Rachael Ray*. Consumer magazines also represented the number 5, 10, 11, 12 and 15 deals. Some of the most interesting consumer deals of the year were Jann Wenner's acquisition of the 50% of *US Weekly* owned by his partner, The Walt Disney Company, for $300 million (the 10th largest deal), the acquisition of 40% of Forbes for $275 million by Elevation Partners (with U2 front-man and charity kingpin Bono as one of the partners), and Bonnier Group's acquisition of 49% of World Publications for $81.5 million. Primedia – a perennial on the Top 15 list in the last decade – appeared twice as a seller. It sold its Outdoor Group to Leo Hindery's InterMedia Partners for $170 million and its Crafts Group to Sandler Capital for $132 million.

Despite all the private equity activity, the year's most active individual deal makers – as both buyers and sellers – were strategics: Reed Elsevier/Reed Business Media and United Business Media/CMP. They were followed by two active buyers, Prism Business Media and Hanley Wood. In fact, Prism Business Media's pending acquisition of Penton Media for $530 million was one of the year's largest deals (after the acquisition, Prism Business Media will assume the name of its target: Penton Media). Prism also acquired *Supermarket News* from the Fairchild unit of Condé Nast.

Among private equity buyers, Wicks Group of Companies was one of the most active buyers, acquiring both Vibe Ventures and CMP's music magazines, in addition to acquisitions by its other platform companies, Wicks Business Information and Wicks Sports Information.

Other private-equity-backed platforms who were active acquirers included Charlie McCurdy's Apprise Media (backed by Spectrum Equity), Skip Zimbalist's Active Interest Media (backed by Wind Point Partners), Neal Vitale's 1105 Media (backed by Nautic Partners and Alta Communications) and Bill Reilly's Summit Business Media (also backed by Wind Point Partners).

Old Media + New Media = All Media

The acquisition behavior of traditional and digital media companies in 2006 both fulfilled and disappointed expectations – expectations which are several years old. One the one hand, traditional media companies have begun to acquire digital media companies in substantial numbers. On the other, most of these transactions were smaller deals, a matter of dipping corporate toes into icy waters, and thus do not show up on our Top 15 Deal list. Nor have the cash-rich or high-priced new media companies shown much of an appetite for snapping up traditional media companies. There are exceptions to this pattern, notably News Corporation on the traditional media side and Google on the new media side. In general, these deals were more common in the entertainment side of media than on the consumer/B2B publishing side.

Only one new media deal (versus two in 2005) was big enough to earn a listing on the Top 15 Deal list: iVillage's acquisition by NBC Universal for $600 million. It was unusual in that it unwound an alliance between traditional media and new media. One of iVillage's largest owners was the Hearst Corporation, a traditional media company, which decided that an important women's Internet portal did not add value to its own key portfolio of major women's magazines. Another major deal in our purview was Reader's Digest's $66 million acquisition of AllRecipes.com.

The philosophy driving media executives' forays into digital media is based principally on brand management. Media companies are looking to expand revenues by owning the brand, owning the audience, and delivering content to them in all formats. It's easier to state the philosophy than to put it to work – and certainly many recent mergers show how it can fail if not implemented properly, as McClatchy failed to do after its acquisition of Knight Ridder, according to important recent articles in *The Financial Times* by James Politi and Aline van Duyn. In 2006, media executives were still worried that getting it wrong would be more harmful than not acting at all. Yet if there was ever a case of pent-up demand – and a growing recognition that now is the time to act decisively – look at your watch. It's time.

Cross Border Transactions – and a Problem of Definition

It has become increasingly difficult to determine if a company is a U.S. media company or an international media company. A number of the top 2006 transactions involved buyers or sellers with geographically diverse businesses that include significant U.S. operations. VNU is a Dutch company, but it derives over 75% of its revenues from the U.S. Reader's Digest is a U.S. company, but its flagship magazine is published in over 50 countries. Blackwell, Metal Bulletin and Incisive Media are all UK companies with significant operations in the U.S. And, in the number 14 deal on our list, Commonwealth Business Media, a U.S. company acquired from The Economist (a UK company) several years ago, was this year acquired by a UK media company: United Business Media.

Company Valuations

Even though the market grew phenomenally in 2006, the upper range of multiples moved only moderately higher. Moreover, the spread between the upper and the lower ends of the range stayed just as wide. Quality and growth expectations determined the multiples, and accurately adapted themselves to the particular transaction. For the first time, too, we saw the market begin to "discipline" traditional media companies without acceptable levels of digital activity by reducing their valuations. We expect this trend to become even more prevalent in 2007.

The table below gives the general range of multiples for recent deals, but they are not without exceptions on the high side for extraordinary companies with high growth, unusually high margins, strong management, dominant SOM, and substantial barriers to entry.

EBITDA MULTIPLES IN 2006 TRANSACTIONS

Sector	EBITDA Multiples
Consumer Magazine	
Over $100 million	*10.0 – 13.0x*
Under $100 million	*7.5 – 9.5x*
B2B Magazines	
Over $100 million	*9.5 – 12.5x*
Under $100 million	*7.0 – 9.0x*

Source: DeSilva+Phillips M&A database

Looking Ahead

Just as the economic outlook continues – even improves – in 2007, we see a continuation of a great deal market. We expect the number of deals and the dollar volume to continue – at least – at the record level of 2006. We are also aware of a very full deal pipeline. We expect to see more public companies going private, just as Reader's Digest did – and it's not just Sarbanes-Oxley. As we've seen, media executives now know that they need to transform their companies into platform-neutral content enterprises combining strong traditional and new-media distribution channels. But to do this makes it even more difficult to manage earnings from one quarter to the next, as the public markets demand. One result: the solution offered by buyout firms looks ever more attractive.

The outlook for M&A in 2007 is as good as we've ever seen. All the pieces are in place: availability of funds, favorable interest rates, eager buyers without the time to build rather than buy, brands that need to find new delivery platforms, and a regulatory climate that all but deliberately discourages new companies from going public and existing public companies from controlling their own fates. There is yet another population of buyers perhaps waiting in the wings – European media businesses newly flush with a strong Euro and, finally, thriving domestic markets. To say we're looking forward to the excitement is an understatement.