The DeSilva & Phillips Report

Magazines, Trade Shows, Internet, Direct Marketing, Newsletters, Television

Mergers and Acquisitions 2001

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Media Investment Bankers

The Economy Took the Interest-Rate Cure

The U.S. economy –the great engine of M&A growth– struggled to maintain headway as it steamed into 2001. After six consecutive interest rate hikes by the Federal Reserve Board, economic growth slowed to 2.4% in the third quarter of 2000, less than half the second-quarter rate. And the year-end economic report card was not reassuring:

- The stock market was in a funk. The technology-heavy Nasdaq –down 40% since spring– had clearly crossed the line into bear-market territory.
- A rash of disappointing quarterly reports fueled recession talk.
- Consumer confidence was down, reflecting manufacturing layoffs, stock market shocks and high fuel prices. The 2000 holiday shopping season had been the worst in ten years.
- Squeezed by consumers' increasing reluctance to buy major appliances, cars and personal computers, manufacturing contracted more sharply in December than economists had forecast.
- Personal bankruptcies had increased nearly 10% during 2000 after a decline in 1999, and were trending upward.
- The credit window was virtually closed to companies with less than B investment ratings. And the volume of junk bonds declined to less than half of 1999 volume.
- The junk bond default rate was above 5%, the highest since the recession of the early 90s, and the incidence of distressed loans was sharply up over that of 1999.
- December saw advertising downturns in both consumer and b-to-b media.

The Federal Reserve came to the rescue with a munificent 0.5% interest rate reduction during the first week of 2001. Four weeks later, it mandated another 0.5% reduction.

It's too early to tell whether Fed Chairman Greenspan can, in fact, deliver a “soft landing,” but there are some encouraging signs. The stock markets are trending upwards, albeit gently, the Merrill Lynch high-yield bond index has been rising, inflation is in check, unemployment is still relatively low, and a tax cut is on the way.

Corporate profits are a question mark, and there are plenty of others. But one thing is certain: after a soft landing or hard, the economy will accelerate. And M&A activity will take off, as both strategic and financial buyers press forward on many deals sitting patiently in their sights or on the shelf awaiting completion.

2000: Year to Remember

2000, the Millennium Year. It was a year to remember for the media segments –magazines, trade shows, Internet, direct marketing, newsletters and television production– served by the DeSilva & Phillips investment banking group.

The volume of magazine-related mergers and acquisitions continued its years-long climb, reaching a combined total of $190 billion for the year. That, of course, includes the mammoth, $165 billion AOL-Time Warner deal –as much an Internet-driven deal as a magazine-related deal. Without AOL-Time Warner, 2000 magazine volume would still have been $11 billion, or 46%, more than the 1999 total.

Trade shows, at $2.7 billion and media-related Internet, at $87 billion (excluding AOL-Time Warner), also set new M&A volume records.

It was another energetic M&A year for business in general. Thomson Financial Securities Data reports that M&A transaction volume for all U.S. business and industry swelled to $1.83 trillion –16.5% higher than the 1999 total. Combined worldwide (including U.S.) transaction volume totaled $3.48 trillion, a year-to-year gain of 5.1%.

Impressive as they are, the numbers do not do justice to the forces and events that galvanized the media industries in 2000.

The most striking of these has to be the Internet stock market crash and investment drought that is still decimating the population of dot-coms and having repercussions across traditional as well as new media. Well over 200 Internet companies died in 2000 and perhaps another 900 were absorbed into mergers or acquisitions, wiping out hundreds of millions of dollars in advertising they were placing on Web sites or in print and broadcast media.

The dot-com consolidation continues (when buyers or merger partners can be found), swelling M&A activity, but taking a further toll of media advertising revenues in 2001.

Especially hard hit by the dot-com advertising retreat were the young and brash "new economy" magazines, which are staple reading for the Internet generation. Their second-half page losses have triggered retrenchments.

Despite the damage they suffered from dot-com advertising cutbacks, magazines had a smashing year. Both the consumer and business-to-business magazine segments posted out-sized page and revenue gains that have made 2000 a very tough year to follow –especially in light of fourth-quarter advertising page declines that are carrying over into the new year.

The late-year advertising slowdown reflected faltering business activity in the manufacturing and technology sectors and a concurrent slippage of consumer confidence. Concerned over the profit outlook, lenders and equity investors took a more conservative stance. Upshot: a decline in M&A transaction multiples from those prevailing during the first half of the year.

On a more positive note, 2000 also witnessed the acceleration of the convergence wave that is rapidly converting consumer and business-to-business publishers into multimedia information companies. The new, convergence-inspired ideal is the "integrated media company" that serves information customers and advertisers from multiple media platforms. Companies are filling the voids in their media line-ups by both acquisitions and startups.

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Convergence in 2000 went hand-in-hand with the "core property" imperative. It’s the doctrine that spurs media companies to shed businesses that are not part of their primary strategic interests, and acquire businesses that are.

Also stirring the M&A pot was the growing aggressiveness of bricks-and-mortar players in the business-to-business e-commerce space. In electronic products and automobile manufacturing, to cite two examples, major manufacturing companies have joined forces in establishing electronic marketplaces. Pure-play Internet companies are finding it increasingly difficult to compete with these clicks-and-mortar exchanges, and are looking to recoup their investments by being acquired or entering into alliances with them.

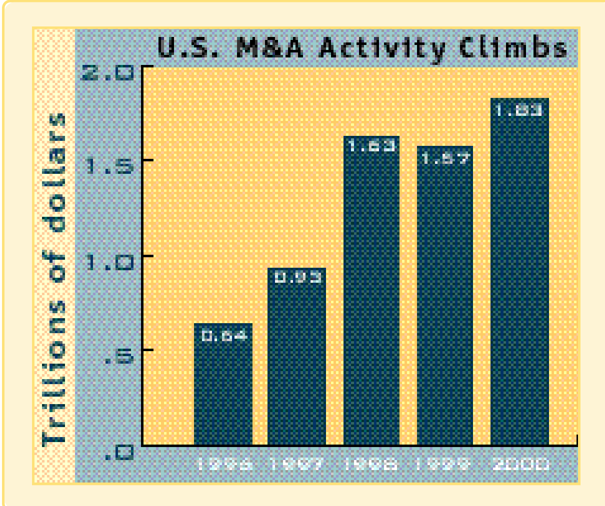
European buyers in 2000 again engineered major expansions of their U.S. holdings. Their taste for trans-Atlantic deals was whetted in no small measure by the higher PE multiples their stocks were enjoying vis-à-vis the stocks of their American counterparts.

Total value of mergers and acquisitions in the U.S. in 2000 by European companies of all stripes was in excess of $260 billion, a number that prompted New York Times to hail 2000 as "the peak of Europe's corporate invasion of the United States." Within this grand total were to be found a spate of large deals by European media companies, which see much, if not most, of their near-term growth coming from their American investments.

The new, convergence-inspired ideal is the "integrated media company," operating from multiple media platforms.

Fixtures on the media M&A scene, financial players were both buyers and sellers in some of the most prominent magazine-related deals of the past year. Private equity funds selling to other private equity funds was an increasingly common event.

Also something of an eyebrow raiser was the perseverance of the venture capitalists. The VCs poured more than $16 billion into U.S. companies during the depressing third quarter, a significant but not calamitous drop from the near $19 billion they committed during the upbeat first quarter.



However, even though VC money is still flowing, much of it is now going into second and third-round financings of profitable or near-profitable enterprises with proved business models.

Long gone are the easy-money days, when VC funding was chasing dot-com start-ups having little more than an enthusiastic concept statement and a one-page business plan.

2000 brought consumer magazine publishers no relief from their long-standing circulation acquisition angst. Pressure continued unabated on single-copy and subscription procurement costs, although their excellent advertising revenues made it easier for publishers to pay the bill.

And hopes for the recovery of the ailing subscription direct-mail agents were effectively dashed with the exit of American Family Publishers from sweepstakes selling.

As they closed out 2000, media executives confronted a cooling business environment and an uncertain expense outlook. Their Christmas gift from the Postal Service was a rate increase that will be acutely felt by magazine publishers, catalog marketers and the entire population of media companies that make heavy use of the mail for promoting and distributing their products.

The Drivers of M&A

Driving media M&A in 2000 were familiar forces plus a few that were decidedly new. The following were the events and trends that energized or chilled dealmaking.

Convergence becomes the dominant driver

In one guise or another, convergence –the coming together of media- sparked much of 2000's M&A activity. Every strategically savvy media CEO was either thinking or acting on the premise that the future belongs to convergence's spawn –the "integrated media company" that delivers content, advertising and market services in magazines and newspapers, on the Internet and broadcast media, through trade shows, catalogs and, perhaps, media forms that have not yet been invented.

The idea, to paraphrase a comment in *Folio*: magazine by Meredith Magazine Group President Jerry Kaplan, is this: If you have enough assets, you can grow your business by putting together cross-media programs to satisfy clients' media and marketing needs.

Business Week provides a striking example of how that can work. *BW* offers advertisers any combination of *BW's* U.S. and international print editions; *Business Week* Online, including wireless; *BW's* Executive Conference sponsorships; and career management magazine, *LeadersOnline* (companion magazine to the Career channel on *BW's* Web site). In Asia, BW is testing a broadcast component to its package.

Advertisers are buying convergence. IBM, for example, advertises in five print editions, on the Palm hand-held edition, and on the *Business Week* Online Web site. IBM also is a sponsor of *BW's* Executive Conferences. Supported by the integrated media approach, *BW* Online advertising revenues hopped from $1 million to $9 million in three years.

Brand leveraging through cross-media deals has become the name of the game. It's why Times Mirror Magazines (now owned by Time Inc.) bought Warren Miller Studios, whose ski-related films and TV shows are a fit with Times Mirror's *Ski* and *Skiing* magazines.

And it explains why Hachette purchased RTM, which has been producing a TV-show offshoot of Hachette's *Car & Driver* magazine since 1999. By purchasing RTM, Hachette gained control of the studio's operations, which include five other automotive and outdoor-themed shows. And if Hachette should decide to make a TV version of one of its other magazine titles –which include *Elle* and *Travel Holiday* –RTM will be ready to do the job and Hachette will have the *Car & Driver* experience to rely on. Hachette is already making TV brand extensions in Europe of its *Paris Match* and *Elle* magazines.

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In a cross-media brand-building gambit analogous to Hachette's, Primedia is creating a "video magazine rack" for its titles, which include *Seventeen* and *New York*.

Primedia's Tom Rogers, Cahners' Marc Teren and Penton's Tom Kemp in 2000 all cited the strategic imperative of moving their companies closer to the fully integrated model.

All backed their words with deeds.

Rogers acquired About.com, the seventh most visited Web site, and triggered conjecture that the combination will be the next AOL-Time Warner. The acquisition of a 5% stake in Primedia by John Malone's TCI (now part of AT&T) only served to fuel speculation.

Teren announced the acquisition of CMD Group, Cahners' largest deal since the acquisition of Chilton Co. three years ago. Kemp forged a strategic alliance with Cayenta, Inc., a subsidiary of Titan Corp., which became a preferred provider of e-commerce solutions for Penton's vertical, industry Web sites.

AOL's CEO Steve Case sees convergence primarily as the integration of traditional media and new media (e.g., TV, computers, wireless and other Internet appliances) to allow consumers to get the same information from multiple platforms. Convergence between wireless and Internet will create an entirely new medium, he believes. He declared at Internet Summit 2000 that there would be more mergers as impressive as AOL-Time Warner, because "convergence will redefine the industry."

To equip themselves for effective competition in the integrated media environment, media companies have actively gone out in pursuit of diversified media assets. For their part, players lacking the inclination or the financial resources to acquire the necessary assets are increasingly agreeable to selling their own assets. It's a meeting of the minds that encourages dealmaking.

The integrated media environment has sent media companies out in pursuit of diversified assets.

And companies are executing their integrated media strategies internally as well, as is evident from the migration of conferences and trade shows to the Internet. *Red Herring*, for example, has put portions of its seven conferences on its Web site. And Penton has launched a Web-only trade show (HvacRshowplace.com) for the heating, ventilation, air conditioning and refrigeration business.

Publishers are re-aligning their internal organizations to reap the full benefits of their media integration strategy.

In December, Primedia appointed an Internet executive to head its Intertec b-to-b publishing unit. He is Tim Andrews, CEO of IndustryClick, Primedia's b-to-b Internet company. Andrews will retain his IndustryClick post. David Ferm, Primedia's b-to-b chief, declared integration to be the motive for the move, calling integration "crucial in order to capitalize on the intellectual content of Intertec."

The integrated media model is endearing itself to business-to-business magazine publishers, in particular, because it is helping them achieve the earnings stability they have sought for so long. It dampens their cyclical earnings swings by reducing their dependence on advertising as a revenue source. Today, well over 50% of Advanstar revenue, for example, comes from trade shows, conferences and directories, as opposed to magazine advertising. Advanstar characterizes itself as, "a really integrated marketing communications company."

Convergence's Impact: Internet Revenue Growth by Company

	1999A	2000E		2001P		As % of Total Co. Rev.		
	$mil	$mil	%Ch	$mil	%Ch	'99	'00	'01
Martha Stewart Living	$36.0	$50.6	40.6	$73.4	45.1	15.5	17.8	22.1
Meredith	3.5	5.0	42.9	8.0	60.0	0.3	0.5	0.7
Primedia	22.4	46.6	108.0	197.8	324.5	1.4	2.7	10.2
McGraw-Hill	80.0	100.0	25.0	115.0	15.0	1.9	2.2	2.3
Reader's Digest	7.0	10.0	42.9	15.0	50.0	0.3	0.4	0.5

From Morgan Stanley Dean Witter media industry report of November 22

Core business strategy was in

While media companies were avidly courting convergence in 2000, they were also giving plenty of attention to portfolio management. Core business focus is definitely in; fragmentation is out. To that end, much portfolio pruning was evident, and acquisitions were increasingly being put to the core business test. Look for more of the same from the big players in 2001.

Advanstar, for example, will be prowling for acquisitions with renewed vigor now that it has a new owner, DLJ Merchant Banking Partners, with deep financial resources. Advanstar CEO Bob Krakoff has said that he will be targeting properties within core markets: hospitality, apparel, retail, healthcare, technology, manufacturing.

Likewise, the desire to grow one of its core business segments was the motivation for last year's acquisition by Primedia of Kagan World Media. With its magazines, conferences, newsletters and market research services, Kagan is a major addition to Primedia's media market segment. Cahners meanwhile bolstered its own presence in the media market in 2000 by acquiring Media Publishing International and MarketCast Inc., provider of online research services for film and TV production.

UK's DMG World Media, on the other hand, is looking to divest. It wants to shed its b-to-b unit, DMG Business Media, so that it can concentrate on what it regards as its core markets: home, gifts, art and antiques, sports, retailing. Its desire to exit b-to-b is something of a shocker, since DMG spent \$190 million during the last three years to acquire 22 media companies in the chemicals and pharmaceuticals, coatings and finishes, metals, fire fighting, power, glass, marine and electrical retailing markets. Its b-to-b properties include: 50 conferences and exhibitions, 50 magazines, 22 directories, 38 market reports and associated Web sites. DMG World Media has North American holdings of 130 trade shows. Most of these, such as the California Gift Show and the Long Island Home Shows, are not up for sale.

And Cahners Business Information signaled its intention of divesting its travel and automotive and trucking groups. Both are regarded as non-strategic assets that lack the growth potential of the company's core print and Internet franchises. Cahners is also selling selected titles in the building, food processing and manufacturing groups.

Shrunken dot-coms sought security in consolidations and acquisitions

2000 was the year the dot-coms came down with a crash. After years of waiting patiently for dot-com profits, investors suddenly monetized their paper gains and bailed out of companies that were still spending aggressively on attracting customers, but not showing much result on their bottom lines.

The dot-com-heavy Nasdaq Composite Index dropped more than 40% from its March peak, erasing the spectacular gains of the preceding two years.

Acquisitions were increasingly being put to the "core business" test. Look for more of the same from the big players.

Finally, even the profitable dot-coms were not immune. In December, stocks of Yahoo! Inc. and DoubleClick Inc. were battered after indications of a slowdown in growth of Web advertising. Yahoo's stock price was down 80%, and DoubleClick saw its stock price drop to \$11 from its 52-week high of \$153 after it stated that it would not achieve its fourth-quarter profit estimate.

Thomson Financial Securities reported in December that more than two-thirds of the 439 initial public offerings of 2000 were trading below their offering prices. They had given back all -and more- of their spectacular run-ups, leaving individual investors and venture capitalists in a state of shock.

Looking at a much more chancy future for their dot-com investments, the venture capitalists, for their part, were not long in tightening their purse strings.

Cut off to a large extent from their investment-based sources of operating capital, cash-strapped dot-coms slashed their advertising, much of which had been flowing to, and supporting, other dot-coms. Bricks-and-mortar advertisers, meanwhile, were increasing their Internet ad spending, but not enough to keep distressed dot-coms afloat.

First-quarter 2000 spending for advertising on the Internet tallied $1.953 billion, a 14.9% increase over fourth-quarter 1999, according to the Internet Advertising Bureau. The second quarter, at $2.1 billion, continued the unbroken string of quarterly gains stretching back to 1995. But events overtook the advertising spending curve, and the third quarter (at $1.986 billion) had the dubious distinction of showing the first-ever quarter-to-quarter Internet advertising decline (6.5%).

Fourth-quarter data are incomplete at this writing, but there's little doubt that the total will be a big comedown from the third quarter. Even so, 2000 was a big improvement over 1999, since the first-three-quarters total of $6.039 billion was 32.9% ahead of the full-year 1999 total of $4.544 billion.

Smaller dot-coms suffered more than their bigger brethren –e.g., AOL and Yahoo. The latter are stronger advertising media and derive some of their revenue from electronic commerce, providing Internet access, and hosting merchants' Web storefronts.

Contributing to the dot-coms' advertising debacle was online advertisers' growing disenchantment with banner ads. In 1995, when they made their debut on Yahoo, their enthusiastic proponents promised that they would drive hordes of eager consumers to advertisers' Web sites.

A strong attraction for advertisers was the technology that allowed them to count exposures.

The exposure numbers, indeed, were huge, but click-throughs to advertisers' Web sites were a small fraction (about 0.5%) of exposures, and sales impact was -and remains- minimal. Consequently, CPMs went down –to about $20 in 2000, versus a median of $28 in 1998. And more advertisers were buying on the basis of flat fees or sponsorships.

Present thinking is that banner ads can create awareness, which makes them useful for branding purposes, but not for much else. Thus, it's no surprise that brand-building dot-com startups account for most of the online ad spending.

More than 200 Internet companies shut down in 2000, nearly 60% in the fourth quarter, according to a report from Webmergers.com. A University of Texas/Cisco Systems study estimates that the Internet created some 2.3 million jobs during 1993-2000. More than 31,000 of these jobs were lost in 2000, according to a study by consulting group Challenger, Gray & Christmas.

Beset by shrunken market caps and evaporated VC funds, dot-coms had to find buyers or perish.

A sign of the times: Internet companies constituted only about 10% of the sponsors of the CBS Super Bowl television broadcast on January 28, 2001. (A 30-second ad in the 2001 program costs an average of $2.4 million.) Last year, dot-coms represented roughly half of the sponsors of ABC's Super Bowl television broadcast.

The dot-com stock market debacle is having a mixed effect on M&A activity.

According to Thomson Financial Securities Data, 1,653 Internet-related mergers and acquisitions worth a total of $145 billion were completed between January 1 and September 10, 2000, versus 920 Internet-related deals worth $48 billion during the same period of 1999.

Driving the increase was the urgent need of sellers, beset by shrunken market caps and evaporated VC funds, to do deals or go out of business. Buyers, when they can be found, are gambling that the bargains they are acquiring will live up to their earlier promise when the Internet shake-out is over.

Content Web sites -beset by too many competitors with overly narrow products and weak brands- are showing a zest for consolidating or simply being acquired. CNET did a $1.5 billion merger with rival ZDNet -between them CNET and ZDNet have bought a dozen companies during the past year. *Red Herring* bought StockMaster.com. And TheStreet.com's CEO Thomas Clarke, while making drastic expense reductions, has declared his willingness to consider buying, or merging with, competitors.

Most likely to survive in the perilous world of e-content will be the players who can move decisively to acquire or merge with the best of the home seekers during the present period of consolidation.

Traditional publishers increasingly are buying dot-coms, rather than being acquired by them, as the conventional wisdom dictated just a year ago. Traditional publishers, especially b-to-b publishers have content and community, two of the three elements deemed essential for successful Web businesses. The third is commerce, a capability that they are acquiring with their dot-com purchases.

Dot-com acquisitions by b-to-b media companies in 2000: Penton acquired BakeryNet.com…Primedia acquired a stake in PrintCafe.com (online products for printing and publishing)…PennWell partnered with Net 32 Inc (dental supply e-commerce company), acquired controlling interest in EBCO USA to create *Oil & Gas Journal* Exchange (online auction site for oil and gas leases), and bought Global Logistics Partners (broker of used equipment in oil, gas and electric power industries).

In the consumer sector, the standout example was Primedia's acquistion of About.com.

At the same time, the dot-coms' malaise is also having a depressing effect on media M&A outside of the Internet space as traditional media companies find themselves in possession of deflated dot-com "currency" that won't buy very much.

Penton, for example, planned to use its investment in Internet.com as currency for acquisitions. In January of 2000, it sold 2 million shares, realizing $113 million. In mid-January 2001 (January 16 market close), by contrast, 2 million shares of Internet.com would have fetched only $17.5 million.

Primedia, for its part, shelved its plans for spinning off IndustryClick.com (the b-to-b portal it launched in 1999) by taking it public in partnership with Internet investment firm CMGI (which owns a 5% stake in Primedia).

The deflation of dot-com currency likewise has caused Advanstar and Cahners to reconsider spinning off their e-commerce portals in public offerings. And magazine subscription marketer, Synapse Group, withdrew its planned $50 million initial public offering in December 2000.

Second and third-round venture money is still flowing to dot-coms with assets and viable business models.

Even though public markets are no longer providing copious streams of early-stage capital for Internet companies, plenty of venture money is still flowing into them.

Most of it, however, is earmarked for second and third investment rounds, when money seekers can show that they have a viable business model and significant assets.

It's doubtful, however, that Internet companies in 2001 will attract the more than $40 billion in venture capital that they did in 2000.

And the Internet stock dive put an interesting gloss on the AOL-Time Warner deal after AOL's market capitalization was reduced by more than 40% during the 11 months between the date that the deal was announced and the date it was approved by the government. During the same period, Time Warner declined approximately 5%.

Thus, if the AOL-Time Warner deal had been done at year-end 2000 capitalizations, Time Warner would likely have been the acquirer of AOL and not vice versa. Many market observers feel that AOL shares would have taken an even steeper dive absent the deal, while Time Warner shares would likely have remained about level.

New field of action: high-flying "new economy" magazines

One big media success story of 2000 was the Internet-based "new economy" magazines, which blithely maintained their hyper-growth pace through most of the year, even as the dot-coms that provided their advertising were sinking fast.

Heading this precocious media group are a flock of titles that either speak directly to the cyber crowd or cover the Internet scene for business readers and investors, They include *Red Herring, Business 2.0, The Industry Standard, Fast Company, Upside, Wired, Forbes ASAP, Fortune's eCompany Now.*

If AOL-Time Warner had been done at year-end capitalizations, Time Warner could have been the acquirer of AOL.

As advertising vehicles, they profited handsomely from every neophyte Internet player's urgent need to build a brand. Backed by millions in venture capital and later by billion-dollar IPOs, dot-com people did not stint on their ad spending. And they spent their money in the "new economy" magazines that they all read, although *Forbes*, *Fortune* and *Business Week*, which provide plenty of Internet coverage, also garnered a share.

In April, the peak month for advertising revenue among the "new economy" titles, *Industry Standard* enjoyed a 973% increase over April 1999, *Business 2.0* was up 714%, *Red Herring* was up 514%. Even after the first severe stock market shocks, the dot-com momentum remained strong. *Business 2.0* published a 408-page issue in June. *Red Herring* put out a 608-page blockbuster.

During the first half of the year, the "new economy" group gained 290% in advertising pages vs the same period of 1999. By contrast, the consumer computer titles suffered a nearly 34% drop.

Even as the "new economy" publishers were basking in their prosperity, however, the great dot-com stock market massacre was shrinking the ranks of their advertising clients.

Some died after consuming all their capital while others lost their identities in desperation acquisitions and mergers. That still left thousands of dot.coms in place, of course, although many of them slashed advertising spending drastically to slow their mega burn rates.

The net effect was a body blow to the advertising revenue streams of the "new economy" magazines. Strong showings by other major advertisers –chip-makers and software companies– softened the impact, but the category's ad pages nevertheless were decisively down during the fourth quarter.

The "new economy" publishers retrenched. Red Herring Communications in October announced a 7% reduction of its 350-member work force. And *The Industry Standard* and *Business 2.0* folded their splinter titles, *Grok* and *Fuse*. *Grok* will live on as a special section in the parent publication.

Despite these setbacks, the "new economy" publications were drawing covetous glances from would-be buyers. In a ringing vote of confidence in the category, G+J USA late in the year agreed to acquire *Fast Company* from Mortimer Zuckerman for an impressive $340 million and an earn-out. It closed the deal in January 2001 *(See Page 14)*.

And their advertising travails did not keep the "new economy" publishers themselves from doing some deals. *Red Herring* stepped up to buy Stockmaster.com, an online investment information firm; and *The Industry Standard* entered into a partnership to publish *Inside* magazine for media site Inside.com.

B-to-B internet companies –plenty of deals to be made

The b-to-b Internet shakeout has begun. Deloitte Consulting in October put the number of b-to-b sites at 1,448 –and falling. Dozens of startups have shut down, and many more are being swallowed up by the strongest competitors in their respective markets. Shutdowns and consolidation could result in the disappearance of most of today's online exchanges.

B-to-b online exchanges are having a hard time for reasons that go beyond the cutoff of new financing. They have serious problems in the marketplace, starting with the reluctance of industrial companies to break long-standing relationships with their suppliers to take up with a still unproved medium. Sound b-to-b purchasing goes considerably beyond price.

Market participants are also loath to abandon EDI (Electronic Data Interchange), the widely accepted system of conducting online b-to-b commerce. And buyers, for their part, are resisting high fees (up to 20% of transaction prices) that they feel are unjustified by the magnitude of their savings.

Even more threatening for the exchanges of both pure-play Internet companies and b-to-b media companies is the competition from their intended clients, bricks-and-mortar businesses that are setting up their own electronic marketplaces.

Procter & Gamble, for example, has founded an exchange. The Big Three auto makers have teamed up in an online exchange, as have five of the largest drug and medical supply companies. And nearly all of the larger airlines are joining one or the other of two new exchanges organized by the industry leaders. The most successful online players are turning out to be traditional bricks-and-mortar players that have moved online.

Mirroring these marketplace realities –and neatly finessing them– was the recent $60 million cash sale by VerticalNet Inc. of NECX, its electronic components/computer systems exchange.

(For details, see Deals, Page 13)

VerticalNet is an Internet player. The purchaser is Converge, a bricks-and-mortar business-to-business consortium formed by technology market participants, including Compaq Computer, Hewlett-Packard and Samsung. VerticalNet comes away with a near-20% stake in Converge. The latter, for its part, has committed to buy lots of VerticalNet software, thereby supporting VerticalNet's plan to transform itself from an "infomediary" into more of a market software company and ease out of competition with powerful clicks-and-mortar exchanges.

A timely question is whether VerticalNet may replicate its technology market pull-back in the automotive market, where its AutoCentral exchange will be competing with the Big Three automakers' Covisint exchange.

Meanwhile other pure-play Internet exchanges, including e-Steel, DoveBid (used equipment), FreeMarkets, to name a few, are thriving -by serving niches as well as diversified markets, or by offering superior purchasing management and transaction tools.

The slow growth of b-to-b exchanges could discourage investment capital. It happened to the b-to-c dot-coms.

And business-to-business media with powerful positions in their specialized markets are not intimidated. Advanstar, for one, is rolling out its Hive4.com e-commerce portals according to plan. A b-to-b magazine's strong bond with its audience is a huge asset for an e-commerce venture -which is why b-to-b magazines and exchanges look more and more like a winning combination.

If the marketplace is sending some kind of message, it is that the future will not be the one we envisaged. Plenty of deals remain to be made in the b-to-b e-commerce space before the business models and dominant players sort themselves out.

Yet, because of its many inherent efficiencies, online markets will inevitably go on to win the business of companies large and small, and capture a major share of b-to-b commerce.

Jupiter Research (New York) estimates 2000 business-to-business e-commerce at $336 billion. Gartner Group is predicting $4 trillion of global e-commerce by 2003, while Jupiter is forecasting $6.3 trillion of e-commerce in 2005. That would equate to 42% of total b-to-b commerce that is forecast for 2005.

The slow growth of b-to-b exchanges could set these mind-numbing growth forecasts back by discouraging the flow of investment capital, much the way the business-to-consumer dot-coms have been hobbled.

Doomsayers, in fact, are predicting a domino effect from b-to-c to b-to-b with catastrophic results for the latter. However, that's definitely a minority scenario.

Europeans maintain high profile in U.S. publishing M&A market

European companies appeared as buyers or sellers in five of the top 20 magazine-related deals of 2000 (See Table, Page 16). An interesting twist was the two U.S. market transactions, Miller Freeman US and Springhouse, in which both buyers and sellers were European –VNU and United News and Media in the former case, and Wolters Kluwer and Reed Elsevier in the latter.

G+J USA, the U.S. magazine subsidiary of German media powerhouse Bertelsmann, also made its presence felt in 2000 by acquiring *Fast Company* magazine from publisher/real estate developer Mortimer B. Zuckerman for $340 million cash and an earn-out.

But Dutch media conglomerate VNU made by far the biggest impact in the U.S. in 2000 of any of the Europeans. In addition to its $650 million July acquisition of Miller Freeman, it acquired market researcher ACNielsen in a cash transaction valued at $2.3 billion in U.S. dollars.

Going the other way in 2000 was the U.K.'s United News & Media, which declared its intention to shift emphasis from U.S. publishing to U.K. broadcasting.

Subsequently, its merger with U.K. television's Carlton Communications was cancelled, so it's not clear that the company is making much progress toward that goal. And along the way, United News sold its television properties to British television giant, Granada Media.

But these zigs and zags have left U.S. observers guessing on two counts: (1) What will United News do with the nearly $5 billion it realized from recent divestitures? (2) Will it go all the way by divesting CMP Media and PR Newswire, its last U.S. holdings?

New pattern: financial buyers selling to other financial buyers

Time was when financial buyers exited their media investments by selling to strategic buyers, who would pay a premium for synergy, strategic fit or economies of scale. In 2000, it became clear that financial buyers now are likely to sell to larger financial buyers, who then sell to even larger financial buyers. Last year witnessed the culmination of two of these "financial buyer hat tricks." In Case No. 1, GTCR sold PTN Holdings for $90 million in 1997 to Kelso & Co., which sold it in 2000 for $275 million to ABRY Partners. In Case No. 2, Goldman Sachs in 1996 sold Advanstar for $237 million to Hellman & Friedman, which sold it in 2000 for $900 million to DLJ Merchant Banking Partners. Look for this trend to gain momentum in 2001.

Platform publishing companies seek more scale

Platform magazine publishers again demonstrated that economy of scale was alive and well in 2000 as an acquisition motivator. That was evident in the Time Inc. purchase from Tribune Co. of the Times Mirror magazines, which have been parceled out among Time Inc.'s *Sports Illustrated* and *Southern Progress* publishing platforms. The prospect of such asset leveraging will continue to drive acquisitions of mature, viable titles that are not likely to generate much internal profit growth.

The Key Deals of 2000

Big deals dotted the 2000 M&A landscape. In the b-to-b area, there were CNET's purchase of ZDNet ($1.6 billion), DLJ Merchant Banking's purchase of Advanstar ($900 million), VNU's purchase of Miller Freeman USA ($650 million) and Reed Elsevier's purchase of Miller Freeman Europe ($585 million).

The consumer sector weighed in with the purchase of About Inc. by Primedia ($690 million), and the purchase of Times Mirror magazines and newspapers by Tribune Co. ($8 billion), which sold the magazines seven months later to Time Inc. ($475 million). And out of the consumer sector, of course, came the AOL-Time Warner rocket that propelled the magazine-related M&A grand total to stratospheric heights. At $165 billion, AOL-Time Warner was 12 times the total volume of the top 15 magazine-related deals of 1999.

Presented below, in no particular order, are capsule descriptions and commentary relating to the key transactions of 2000.

Primedia - About.com

In a powerful display of convergence, Primedia announced its $690 million bid for About.com, the seventh-most-visited Web site. About.com obtains access to Primedia's 250 magazines, 200 information products and trade shows, 296 Web sites -and Primedia's 60,000 advertisers. Primedia gains new consumer and b-to-b Internet revenue streams and exposure to About.com's 13 million subscribers.

About.com lost $16.6 million on revenue of $62.8 million during the first three quarters of 2000, which could explain why Primedia's stock price dropped more than 25% after the acquisition announcement. That prompted Primedia CEO Tom Rogers to meet with investors and the press to declare that the deal will produce immediate financial benefits and create a convergent, integrated media company. (The stock is now recovering.)

Wall Street reaction to the Primedia-About Inc.deal was predictable, since acquirers regularly suffer share price losses after transaction announcements. That came out clearly in a Salomon Smith Barney study of acquisitions of $15 billion or more since 1997. It found that the acquirers' stocks under-performed the S&P 500 Index by 14 points and their own industry group by four points after their deals were made public. Considerably smaller than $15 billion, the Primedia-About.com deal nevertheless ran true to form.

Primedia - Kagan World Media

Primedia in October bought Kagan World Media from Paul Kagan for an undisclosed sum. From Kagan, Primedia gets a Cable TV research unit plus Kagan Consulting, Kagan Euromedia and *Asia Cable & Satellite World* magazines and conferences, market reports and newsletters. A subset of Primedia's strategy of transforming itself into an "integrated media company," the Kagan acquisition represents a build-up of core assets. Primedia's pre-existing media market properties are *Cable World, Catalog Age, Direct, Folio:, Telephony* and Simba Information.

AOL - Time Warner

The AOL acquisition of Time Warner finally was approved by the Federal Trade Commission and the Federal Communications Commission. So much has been written and spoken about the monumental, $165 billion, convergence-driven deal that it would be feckless to revisit the details here.

For a full understanding of the deal's strategic underpinnings, however, it's worth noting that the regulatory agencies focused on the issue of access to Time Warner's cable networks by other Internet providers.

AOL is the largest Internet company in the country and Time Warner owns the country's second largest cable television company. Thus, the damage to competition could be devastating, the government fears, if AOL were to prevent other Internet providers from offering fast Internet service through Time Warner's cable networks.

So, from a strategic standpoint, one of AOL's main motivations for acquiring Time Warner was to ensure that it would have unrestricted ability on favorable terms to offer its customers cable access to the Internet. AOL's desire for access to Time Warner's brands and rich trove of multi-media content –the convergence element– of course, was another powerful motivator.

From Time Inc.'s standpoint, according to CEO Don Logan, the union opens three immediate areas of opportunity: "the generation of magazine subscriptions online [among AOL subscribers], the development of a coordinated Internet strategy, and the prospect of advertising sales with a vibrant online component." And, as suggested above, the deal holds out intriguing possibilities of leveraging Time Inc.'s content on AOL's Internet platform.

In an unobvious way, the AOL-Time Warner combination could spur M&A activity. That's because enhanced cash flow was an important selling point of the deal –so cash-intensive magazine launches will likely be superseded by magazine acquisitions.

Time Inc. - Times Mirror Magazines

Time Inc. bid successfully in October to acquire Times Mirror Magazines for $475 million from The Tribune Co., which acquired the Times Mirror titles earlier in the year as part of its $8 billion acquisition of Times Mirror, Inc. Time paid $475 million in cash, a full price reflecting spirited competitive bidding by major consumer publishers. Time topped a joint bid from New York Times Co. and American Media Inc., publisher of the *National Enquirer*.

For both parties, it was a core-business play: Tribune Co. shed non-core assets to enable it to focus on what it calls its "major market media businesses," while Time Inc. acquired valuable niche additions to its core, sports market franchise, headed by *Sports Illustrated*. Among these additions are *TransWorld Snowboarding* and stunt-bike title, *Ride BMX*. It also gained *Field & Stream*, *Golf*, *Ski*, *Skiing*, *Outdoor Life* and *Popular Science*.

The Times Mirror magazines had 1999 revenue of $279 million and operating income of $25.9 million after excluding a loss posted by *Sporting News* (which was divested before the Time Inc. deal). Time Inc. will realize significant economies of scale by absorbing the Times Mirror publications into its own publishing platforms.

The Times Mirror magazine acquisition launched Time Inc. squarely onto the buy-side of the M&A marketplace. Given the growth imperative of AOL-Time Warner, it's highly likely that Time Inc. will revisit this scene.

Penton - Professional Trade Shows

Penton agreed to buy Professional Trade Shows Inc. (Fremont, California). Terms were not disclosed. Owned by 1st Communications, Inc., PTS operates 50 events in 40 cities in the U.S. and Mexico. Producer of the Western, Midwestern and Southern Plant Engineering & Maintenance Show, it fits well with Penton magazines serving the manufacturing and machine tool industries. The deal is another case of convergence, but between print and trade shows rather than print and the Internet. Either way, it's the integrated media strategy of serving markets from a variety of media platforms.

VNU - Miller Freeman US

VNU USA acquired Miller Freeman US from United News & Media for $650 million. VNU got sports & apparel, jewelry, gift & merchandise, real estate & construction and travel business units, which were merged into VNU subsidiary, Bill Communications.

Not included in the deal were Miller Freeman's other U.S. properties: CMP Media and related high-tech assets, as well as Miller Freeman's healthcare, paper & packaging units and PR Newswire. Deal multiples: more than 11x current year EBITDA and 3x revenue.

VNU's U.S. operations, pre-Miller Freeman, included 73 trade publications and 35 trade shows and conferences. Post-acquisition, nearly 50% of VNU revenue is coming from its U.S. operations, making it the No.1 b-to-b media company in the U.S. In the U.S. trade show sector, the Miller Freeman addition put VNU virtually on a par with No.1, Reed Exhibitions.

The lingering question: Will United News & Media retain CMP (which it acquired for $920 million early in 2000) after shedding almost all of its other U.S. publishing properties? A divestiture of CMP could well be the biggest b-to-b deal of the year in which it happens.

It's also likely that VNU may not be back on the acquisition trail very soon. Quite the opposite; it would not be surprising if it decided to divest Miller Freeman construction and real estate properties that do not fit VNU's core businesses.

Reed Elsevier - Miller Freeman, Europe

Reed Elsevier acquired Miller Freeman's European properties from United News & Media in a $585 million transaction that represented the second phase of the latter's Miller Freeman divestiture *(See Item Above)*. Deal multiples: 12x EBITDA, 3.3x revenue. United News & Media realized combined proceeds of $1.24 billion on the sales of Miller Freeman's U.S. and European properties. Reed Elsevier's primary target was Miller Freeman's

100 European trade shows, but it also acquired the latter's 50 publications and 66 Web sites.

CNET Networks - Ziff Davis

CNET Networks acquired Ziff Davis Publishing Co. from Japan's Softbank for $1.6 billion. CNET gets ZDNet, *Computer Shopper*, ComputerShopper.com, SmartPlanet.com plus greater international exposure. Estimated 2000 revenue of the CNET-Ziff Davis combination is in excess of $300 million.

In 1999, Softbank sold selected Ziff Davis assets -now Ziff Davis Media- to Willis Stein and Partners and James Dunning for $780 million.

With the change in ownership of ZDNet, Ziff Davis Media has renegotiated a five-year licensing agreement that allowed ZDNet to retain control of online applications of Ziff Davis Media's products (including *PC Magazine* and *Family PC*). The new agreement, effective March 1, has a two-year term and provides for CNET and Ziff Davis Media to share content from 11 of the latter's print publications for one year.

Since then, Ziff Davis Media has formed Ziff Davis Internet and is eager to get on with its own online initiatives. To that end, it has hired Wenda Harris Millard, former DoubleClick key executive, as president of Ziff Davis Internet. A $100 million round of financing gives the company the wherewithal for implementing its Internet plans.

CommerceConnect Media - Cygnus Business Media

CommerceConnect Media acquired diversified b-to-b publisher Cygnus Business Media in a deal valued at $275 million. Multiple: 11x trailing 12-month EBITDA. It was one of the major b-to-b transactions of 2000, involving 74 titles in eight b-to-b markets: imaging, transportation, retailing, construction equipment, shelter and interiors, agro and food, technology and public safety.

Internet.com - ClickZ.com

Internet.com acquired ClickZ.com, a network of online marketing properties and conferences. ClickZ, with 1999 revenue of $2.2 million, fetched a generous $16 million. Internet.com reasons that ClickZ gives it a lock on the marketing/advertising content vertical space, which is becoming increasingly valuable as Internet marketers shun banner ads in favor of more focused messages delivered by e-mail.

Converge - NECX

Converge, an online technology market consortium, has made a deal to purchase NECX, VerticalNet, Inc.'s electronic components/computer systems exchange. Price: $60 million cash. Converge's participants include Compaq Computer, Hewlett-Packard and Samsung.

As part of the deal, VerticalNet gets a 19.9% stake in Converge. The latter has committed to buy $107.5 million of VerticalNet software during the next three years, thereby supporting VerticalNet's plan to transform itself into a software company. VerticalNet acquired NECX for $14.1 million in cash, $70 million in stock and $32.2 million debt assumption, for a total of $116.3 million, a little more than a year ago.

Penton - Streaming Media

Convergence-conscious Penton Media bought Streaming Media from First Conferences for $65 million (plus a $35 million earn-out provision). Penton acquired three tradeshows -Streaming Media East, West and Europe- *Streaming Media* magazine and a Web site (streaming media.com). Streaming media technology enables the transfer of audio and video content on the Internet, providing information seekers with immediate access to all kinds of media in an uninterrupted flow.

DLJ Merchant Banking - Advanstar

DLJ Merchant Banking Partners acquired Advanstar from Hellman & Friedman Capital Partners for $900 million in cash and securities. The multiple was nearly 3x 1999 revenue, calculating out to $663 million more than the $237 million that Hellman & Friedman paid for Advanstar in 1996.

The DLJ acquisition, coming one year after Advanstar withdrew a public stock offering, gives Advanstar the financial backing to go public or grow by acquisition. Thus, the company is likely to be a continuing presence on the buy side of the M&A marketplace.

Advanstar and subsidiaries own 103 b-to-b magazines and directories, more than 100 trade shows and 79 Web sites plus direct marketing services.

VS&A Partners - Phillips Business Information

VS&A Partners acquired Phillips Business Information from Phillips International in a cash transaction valued at $130 million. VS&A paid a multiple of 16x EBITDA for the Potomac, Maryland, publisher with its diversified list of b-to-b newletters and magazines.

VNU USA - ACNielsen

VNU announced an agreement to acquire market researcher ACNielsen in a cash transaction valued at $2.3 billion.

To help finance the purchase,VNU intends to sell its European consumer magazine business (publications in the Netherlands, Belgium, Hungary and the Czech Republic) as well as its Dutch Internet portals and its textbook publishing operations. A stock offering may also be in the cards.

The purchase will reunite ACNielsen, international purveyor of retail shopping data, with Nielsen Media Research, the U.S. television audience ratings service. Both were spun off by parents Dun & Bradstreet Corp. VNU bought Nielsen Media Research for $3.5 billion in 1999.

Between them, Nielsen Media and ACNielsen have controlling interests in Netratings, Inc., and eRatings, Internet traffic trackers. Accordingly, the ACNielsen acquisition consolidates VNU's position in Internet traffic measurement and makes it a stronger competitor for Jupiter Media Metrix. After the ACNielsen acquisition, VNU will derive more than 50% of its operating income from its U.S. units.

Transcontinental - Telemedia

GTC Transcontinental Group acquired the publishing division of Telemedia Communications in an all-Canadian transaction valued at $102 million U.S. dollars. Multiple: 10x EBITDA. A leader in Canadian consumer magazines, Telemedia publishes *Canadian Living, TV Guide, Style at Home, Vancouver, Western Living, Coupe de Pouce*, among its other titles. It also has interests in *Elle Quebec, TV HEBDO* and *Sympatico NetLife*.

G+J USA - *Fast Company*

G+J USA acquired *Fast Company* magazine from publisher/real estate developer Mortimer B. Zuckerman. Price: a generous $340 million cash plus an earn-out. A "new economy" general business magazine, *Fast Company* was bankrolled in 1995, mainly by Zuckerman, to the tune of about $20 million.

Like other prominent Internet-oriented magazines *(Red Herring, The Industry Standard, Business 2.0, etc.), Fast Company* has delivered an impressive performance. Eleven-month advertising revenue in 2000 was in excess of $70 million, more than double that of 1999, and rate base next year is slated to rise to 680,000 from 538,000 at year-end 2000. Ad pages totaled 1,935 through November of 2000, a 34% increase over the same period of 1999. Estimated 2000 operating income is $20 million.

Another G+J acquisition in 2000 was *Inc.* magazine, for which it paid $200 million. G+J USA's acquisitions of business publications *Fast Company* and *Inc.* represent a striking diversification for a publisher heretofore concentrated in traditional women's titles, *Parents, Child, Family Circle and McCall's*, and the teen-age girls' title, *YM*. It's not unlikely that the company will be on the alert for additional acquisitions in the business media sector.

The *Fast Company* acquisition is a vote of confidence in the "new economy" media category, despite advertising page losses in December and January, and the folding of "new economy" splinter titles, *Industry Standard's Grok* and *Business 2.0's Fuse*. Time Inc. and Conde Nast were seriously interested in acquiring *Fast Company*, but not at Zuckerman's price.

DMG - George Little - Crow Holdings

In a convergence of trade shows and the Internet, DMG World Media, George Little Management and Crow Holdings entered into a $21 million alliance to develop an e-commerce platform in the U.S. gift market. Little is the leading operator of trade shows for the gift industry.

Cahners - CMD

Cahners Business Information paid $300 million for CMD Group, publisher of 17 construction industry magazines, business databases and directories.

Analysis by Sector

Magazines

One-hundred-two magazine sector deals, totaling $189.8 billion, were consummated in 2000. Exclude AOL-Time Warner at $165 billion, and the resulting $24.8 billion still towers over 1999's $14 billion. Of the 2000 total, 57 were b-to-b deals, 43 were consumer and two could go into either category. The 1999 deal count, however, exceeded the 2000 count by nine and broke down into 52 consumer and 59 b-to-b.

Convergence and the equity investment community loaded the roster of buyers with companies whose major concentration is not magazines. As is evident in the table *(See Page 16)*, U.S. "magazine companies" were the buyers in only three of the top 20 magazine-related transactions of 2000. Nine of the acquirers of 2000 were integrated media companies, three were financial buyers, and five had no (or minimal) magazine interests.

The 2000 record was consistent with that of 1999, when only two of the top 15 magazine acquirers were U.S. magazine companies. In 1998, by contrast, 12 of the top 20 magazine acquirers were primarily magazine companies.

Transaction multiples in 2000 reflected the changing economic climate.

Major b-to-b magazine transactions -Miller Freeman USA to VNU US, Advanstar to DLJ Merchant Banking Partners and Cygnus to CommerceConnect- were in the 10-12x EBITDA range. On the high end, financial buyer, Veronis, Suhler & Associates ponied up 16x EBITDA in a pre-emptive bid for Phillips Business Information. But the typical b-to-b deal was done in the 8-11x range early in the year.

In consumer magazines, three of the largest announced transactions –Time Inc.'s acquisition of Times Mirror Magazines and G+J USA's separate acquisitions of *Inc.* and *Fast Company*– were, or will be, consummated at 16-17x EBITDA. Propping up multiples was the short supply of available consumer titles.

By the second half of the year, however, multiples were slipping as the financial environment turned more restrictive. Spooked by interest rate increases, a disappearing high-yield market, a sinking stock market and corporate profit shortfalls, lenders raised the cost of doing deals and effectively discouraged buyers. At year-end, b-to-b multiples were 6-9x and consumer magazine transaction multiples were 7-10x EBITDA.

At 102 magazine transactions, 2000 was slightly below 1999's 111 transactions, but outside of transaction numbers there were striking differences between the two years.

U.S. magazine companies were the buyers in only three of top 20 magazine deals. Five buyers had no magazine interests.

Unlike 1999, 2000 had more than its share of big magazine deals; to the big deals noted above can be added a half-dozen more in the $500 million-plus category *(See Table Page 16)*, including the granddaddy of them all, Time Warner to AOL at $165 billion.

But more important, by far, in the 2000 magazine M&A picture was the dominance of convergence as a driving force.

The reason is simple: magazines no longer are simply magazines, they are brands– and to protect and optimize their brands, magazine publishers must buy into convergence. It means, simply, that they must deliver their content in the medium, or media, in which the audience wants to receive it. Today, that medium can be a magazine, conference, trade show, the Internet, cable and broadcast television, radio, wireless, video or compact disc.

That rushing sound media people are hearing is the convergence of these platforms under publishers' roofs, effectively transforming them into integrated media companies.

Most of the convergence buzz centers on the marriage of print with the Internet, but a slew of less conventional unions were also being consummated in 2000. Two examples: the purchases of RTM Productions by Hachette Productions (Hachette

Filipacchi) and Warren Miller Film Properties by Times Mirror. Both companies will be providing in-house video and television production services that normally are out-sourced.

Both consumer and b-to-b publishers will make more such uncommon acquisitions in their quest for greater "brandwidth," or capability to deliver their brands across a range of media. And it will work the other way as well, as convergence-oriented non-magazine publishers contemplate the value of magazines' content, brands and reader loyalty. One recent reverse deal was the acquisition of *Weddingpages* by TheKnot.com.

In the space of one year, convergence underwent a remarkable transformation. At the beginning of 2000, convergence meant print-Internet liaisons, and magazine publishers were giddy with the prospect of quick riches accruing from their dot-com spin-offs.

Today, publishers are still making investments in dot-coms, but as a long-term strategic imperative.

Top Twenty Magazine Sector Transactions of 2000

	Property & Description	Seller	Buyer	$Millions
1	Time Warner, Inc. Magazines, cable TV, entertainment media	Time Warner, Inc.	AOL	165,000
2	Times Mirror, Inc. 19 Consumer magazines plus newspapers	Times Mirror, Inc.	Tribune Co.	8,000
3	Harcourt General, Inc. Business journals, books	Harcourt General, Inc.	Reed Elsevier & Thomson Corp.	5,650
4	Hollinger, Inc. 85 Business magazines plus newspapers Communications	Hollinger, Inc.	CanWest Global	3,500
5	ZDNet, Computer Shopper Internet portal, business magazine	Softbank Corp.	CNET	1,600
6	Advanstar, Inc. 103 Business magazines, 100 tradeshows	Hellman & Friedman Capital Partners	DLJ Merchant Banking Partners	900
7	About, Inc.	About, Inc.	Primedia, Inc.	690
8	Miller Freeman USA 81 Business magazines, 80 conferences/ tradeshows plus online properties	United News & Media	VNU NV	650
9	UAP, Inc. Consumer magazines	United News & Media	Trader Publishing	520
10	Times Mirror Magazines 21 Consumer magazines	Tribune Co.	Time Inc.	475
11	Fast Company New Economy business magazine	Mort Zuckerman	Gruner+Jahr USA	340
12	CMD Group Business databases and directories Information	CMD Group	Cahners Business	300
13	Cygnus Business Media 48 Business magazines, 16 trade shows, 60 Web sites	Cygnus Business Media	CommerceConnect Media	275
14	Inc. Business magazine	Bernard Goldhirsh	Gruner+Jahr USA	200
15	5% Interest in Primedia, Inc.	Primedia, Inc.	CMGI, Inc.	200
16	5% Interest in Primedia, Inc.	Primedia, Inc.	Liberty Media Group	200
17	Phillips Business Information/Hart Publishing Business magazines and newsletters	Phillips International	VS&A Partners	130
18	Springhouse Corp. 7 Business magazines	Reed Elsevier	Wolters Kluwer	120
19	Telemedia Publishing 11 Consumer magazines (Canada)	Telemedia Communications	GTC Transcontinental Group Ltd.	102
20	Duke Communications, Inc.	Duke Communications	Penton Media	90
			TOTAL	188,942

Tradeshows

No substantial b-to-b media company considers itself complete without a set of tradeshows. Indeed, a case could be made that the biggest b-to-b deals of 2000 –VNU/Miller Freeman ($650 million) and DLJ/Advanstar ($900 million)– were done as much for the tradeshows as for the other assets being acquired.

That's because tradeshows offer above-average profitability, do not suffer from the cyclical profit swings that plague advertising media, require little capital investment, and are cash businesses getting their revenue up front. A distinction must be made between tradeshows and conferences, however, which often are produced jointly. As free-standing entities, conferences do not have the same appeal as acquisition targets.

Tradeshow M&A volume was upwards of $2.7 billion in 2000. Top tradeshow-loaded transactions, in addition to those cited above, were Reed Elsevier's acquisition of Miller Freeman Europe ($585 million), CommerceConnect's acquisition of Cygnus ($275 million) and Penton's acquisition of Streaming Media properties. To keep the record straight, it should be noted that these deals, like the ones cited above, included much more than the acquirees' tradeshows.

Typical multiples were 7-9x EBITDA, although the largest deals were in double digits.

Driving tradeshow M&A activity are two strong forces:

Convergence – B-to-b marketers are adopting the "integrated media" mantra calling for 360-degree, cross-media marketing campaigns. To satisfy this demand, print publishers are filling out their media

Top Twenty U.S. Tradeshow Sector Transactions of 2000

	Property	Seller	Buyer
1	KM World Expo magazine, dot-com	Bill Communications	Information Today
2	Six Baby Faire Expos	Baby Faire, Inc.	Primedia
3	Four consumer craft shows	Canadian Craft Show Ltd	MMPI
4	Bar Essentials Expo	Bar Essentials LLC	E.J. Krause
5	Cygnus Business Media	Cygnus Business Media	CommerceConnect
6	Two home shows	Expositions, Inc.	Drug World Media
7	Hill, Holliday Exhibition Services	Interpublic Group	Hill, Holliday management buyout
8	Pizza Expos	Pro-Tech	Macfadden Communcations
9	Fifteen shows	Australian Exhibition Services	Diversified Business Communications
10	Fun Expo	Reed Exhibition Companies	Leisure & Entertainment Trade Shows
11	Equity interest	ProjectWorld	Imark Communications
12	Ten Russian computer food shows	Comtek International	International Trade & Exhibitions
13	Miller Freeman USA 80 tradeshows	United News & Media	VNU
14	Brand Licensing London	Single Market Events Ltd	Advanstar Holdings
15	Urban Expositions	Fairchild Publications	Urban Expositions management buyout
16	Advanstar, Inc. 100 tradeshows	Hellman & Friedman	DLJ Merchant Banking Partners
17	17% interest in ITE Group	ITE Group plc	VS&A Partners
18	25% interest in GLM Shows	George Little Management	DMG World Media
19	Streaming Media East, West and Europe	First Conferences	Penton Media
20	Professional Trade Shows	1st Communications	Penton Media

menus by acquiring trade shows, among other media capabilities. Show producers meanwhile are linking their events to print publications and the Internet. And with their Internet capabilities, producers are providing e-commerce-enabled storefronts for exhibitors. The exciting question: Could producers leverage their physical marketplaces to develop their own online b-to-b exchanges?

Tradeshow Industry Consolidation – Many industry leaders are pursuing mergers and acquisitions to build size and depth in a fragmented industry. Exposition acquirers include strategic buyers, such as leading show producers, integrated media companies and financial buyers.

The tradeshow industry in 2000 was a picture of a substantial media sector ($12 billion estimated sales) whose "product" was proliferating across the b-to-b landscape.

Nowhere was this clearer than in information technology, the largest, most active and most competitive segment of the conference/trade show marketplace. The multiplication of IT events mirrored dynamic developments, mainly in electronic commerce and wireless technology.

The biggest b-to-b deals of 2000 were done as much for the tradeshows as for the other assets being acquired.

Also swelling the total were the "closed" events being launched by IT marketers to reach customers, users, resellers and partners. These shows eventually could morph into acquisition targets. And especially in the IT field, producers are staging more smaller regional events to reach attendees who do not attend the big shows. The concept is to bring the show to the attendance base.

B-to-b shows drive 30% of attendance at the 25 largest convention centers in North America. The figure is even higher (43%) at the top ten convention centers.

The steady growth of conference-tradeshow demand has resulted in a shortage of venues –the most desirable dates in the top 15 North American cities are reserved years in advance– and a North American convention center construction boom.

Both the public and private sectors are providing support. Municipalities, large and small, continue to view conference/trade show visitors as a key to economic development and revitalization of downtown areas. Private investors, attracted by the industry's strength and stability, continue to build hotels and other venues with exhibit and meeting space.

Internet

In the first quarter of 2000, volume of media-related Internet deals peaked at $51.7 billion (excluding AOL-Time Warner), according to data from Webmergers.com. The first-quarter 1999 number was $13.1 billion. In second-quarter 2000, after the April assault on Internet stocks, deal volume was down to $21.4 billion, slipping to $9.3 billion in the third quarter and $4.6 billion in the fourth quarter. The 2000 total: $87 billion versus $47.4 billion in 1999.

Reflecting depressed dot-com valuations, the average third-quarter transaction was $42 million, less than half that of the previous quarter. Suddenly finding many dot-coms affordable, small, privately held buyers did 50% of the 223 deals in the third quarter.

Shaken by the April decimation of dot-com values on Wall Street, public markets became extremely tight with early-stage Internet investment capital. In response, cash-burning dot-coms sought shelter in the arms of traditional, bricks-and-mortar media companies with their healthy cash flows.

The highest-profile deal of 2000 that fits this scenario is Primedia's $690 million purchase of About.com. Only a year earlier, About.com had market capitalization in the billions of dollars. It still ranks seventh in audience size among all Internet sites. All of which has this deal looking like a steal.

About.com sold for slightly more than 9x trailing twelve-month revenues –which seems close to the

Top Internet Sector Transactions of 2000

Property (Seller)	Description	Buyer	$ Millions
Lycos	search portal	Terra Networks, S.A.	12,500
Go2Net	portal network	Infospace	2,600
Flycast/AdSmart (CMGI)	online ad network	Engage	2,500
ZDNet	IT portal	CNET	1,600
Andover.net	open source portal	VA Linux	913
Move.com (Cendant)	real estate portal	Homestore.com	761
MySimon	online shopping agent	CNET	700
Medscape*	medical information	MediaLogic	700
About.com	Guide portal	Primedia	690
Exactis	e-mail marketing	24/7	500
eGroups	e-mail communities	Yahoo	424
Jupiter Communications*	internet Research	Media Metrix	414
OnHealth	consumer wellness site	Healtheon/WebMD	313
Dialog Online	information database	The Thomson Goup	233
Allbusiness.com	b2b contents and tools	NBCi	225
CareerBuilder	online recruitment	Knight Ridder/Tribune	190
AuctionRover.com	auction agent	GoTo.com	175
Total Sports	event broadcaster	Quakka Sports	130
Family Education Network	online education	Pearson	129
AtPlan?	audience research	DoubleClick	120
Sportsline.com	sports media	MVRcom	120
CDNow	music e-tailer	Bertelsmann	117
NetCreations	email marketing	SEAT Pagine Gialle	118
Vitamins.com	online vitamins	HealthCentral	103
RiskWise International	risk management	Lexis-Nexis	90
iWin.com	lottery site	Uproar	88
Delia's	teenage apparel	iTurf	83
TechRepublic	IT professional site	Gartner Group	80
eLogic	content management	Cahners	79
The Yankee Group (Primark)	research firm	Reuters	75
VoteNet (Netivation)	campaign consulting	Politics.com	67
Wave Technologies	instructional info	Thomson Corporation	45
Matchmaker.com (Metrosplash)	online matchmaking	Lycos	44
SmartRay Network	wireless services	Lifeminders.com	36
ExpertCentral.com	expert advice site	About.com	31
Mountainzone.com	mountain sports portal	Qoukka Sports	25
FerretSoft	meta-search tools	ZDNet	23
Golf.com	golf portal	Qoukka Sports	20
MeasureUp	IT certification	EarthWeb	19
Digital Media	online promotions	CNET	18
CollegeClub.com	college student site	Student Advantage	18
ClickZ	marketing portal	Internet.com	16
eTeamz.com	amateur sports site	Active.com	12

recent average valuations for Internet properties. In the spring of last year, leading Internet companies were trading at 50-plus times trailing twelve-month revenues.

Looked at another way, About.com fetched $31 per unique monthly visitor (UMV), a popular valuation metric. While down from the $1000-plus UMV range that the market was supporting early in 2000, this valuation still is a considerable improvement over the single-digit UMV valuations of business-to-consumer dot-coms after the fall.

Look for large convergence deals involving dot-coms in 2001. There won't be a better time for dot-com acquisitions.

Another noteworthy dot-com buyout by a traditional media company was Cahners' $79 million purchase of eLogic, a Web e-commerce ASP (Application Service Provider).

But, despite these significant points on the curve, it's not easy to conclude that we are really witnessing the "revenge of bricks-and-mortar." Their severely depressed stock valuations didn't inhibit many Internet companies from shopping for bargains. In a July 13 fire sale, for example, Buy.com snapped up wireless e-tailer TheStreet.com for $8 million in stock, even though Buy.com's stock was trading at 85% below its 52-week high.

The fact is that "dot-com to dot-com" accounted for the vast majority (85% of third-quarter dollar volume) of the 900-plus Internet deals done in 2000. Bricks-and-mortar buyers, which were expected to show up in force at the dot-com bargain basement, remained on the sidelines.

International buyers were not as shy. Through the third quarter, non-U.S. buyers accounted for 35% of total Web M&A spending compared with about 4% for all of 1999.

In many cases, the market for dot-coms simply has evaporated completely. More than 200 Internet-related businesses closed their doors in 2000. Among them: such well known names as Pets.com, Furniture.com, Mothernature.com, Pseudo.com and Boo.com.

Carrying on against the odds are many fragile b-to-c players, including media-oriented Web sites such as TheStreet.com, iVillage.com, and Salon.com. They are trying to keep their heads above water in a "deadpool" of Internet companies that seem unable to secure financing or connect with a substantial buyer.

Some of these distressed companies aren't connecting because of their faulty business models. But also to be reckoned with is a growing feeling among traditional media companies that they no longer have to buy the Internet DNA (talent) necessary for success in an increasingly wired world. Nevertheless, there probably won't be a better time for traditional media companies to make dot-com acquisitions. Look for some large convergence deals involving dot-coms in 2001.

The most significant pure-play Internet deal of 2000 was the purchase by CNET of ZDNet for stock valued at $1.6 billion at the time the deal was announced. *(See Page 13)* This was one that could be construed as "triumph of the nerds" versus "revenge of bricks and mortar." ZDNet, after all, started life with the full support of a powerful publishing empire, while CNET was on its own.

The two, by all accounts, were mortal enemies in competing for information technology professionals. The fact that CNET was able to prevail and purchase ZDNet has to rank with AOL's purchase of Time Warner as proof of a media world turned upside down.

Further confirmation of this "bizarro" world was the announcement by TicketMaster Online, a spin-off of TicketMaster, that it would acquire its original parent in a stock transaction valued at $653 million. The combined entity will be able to report positive earnings –a rarity in the pure dot-com arena– which will serve to maintain the high valuation of TicketMaster Online (5x trailing 12-month revenue) despite its $142 million operating loss in 2000.

Internet.com continues its roll-up strategy and is by far the most active acquirer of Internet topic-related Web properties. Its largest transaction to date was the late 2000 purchase of ClickZ.com for $16 million in cash and an earn-out based on performance.

On the b-to-b front, important developments included the spin-off of eBuild.com from Hanley-Wood after the sale of the latter to Veronis Suhler & Associates. Hanley-Wood and its partners have earmarked significant dollars for the creation of a huge database of building products and a true "e-marketplace" for the home building sector.

Also noteworthy was the investment of a consortium of b-to-b publishers –including McGraw-Hill, Primedia, Financial Times and Cahners– in the e-company start-up, Business.com, which aspires to become the Yahoo of the b-to-b marketplace.

Catalogs

Early in 2000, the popular scenario had dot-com merchants avidly seeking to acquire traditional catalogers. The latter possessed real live customers, which the dot-coms badly needed, and the dot-coms had plenty of IPO currency for acquisitions. Later in the year, as their fortunes sank, the dot-coms allegedly became prey for the old-line catalogers.

One notable example was healthy living cataloger, Gaiam, acquiring WholePeople.com, the online natural foods division of Whole Foods Market.

In truth, M&A activity in the catalog industry was tepid, with not much motion in either direction. The major deals of 2000 were catalogers buying other catalogers for traditional reasons: expand market share or market territory, or simply grow revenue.

Some key examples were Square Two Golf, a cataloger of women's golf equipment, acquiring Lady Fairways, a ladies' golf shoes, gloves and socks brand, and Nancy Lopez Golf, a premium golf club line. On the b-to-b side, hardware cataloger Wilmar Industries continued its rapid growth by buying Barnett Inc., giving Wilmar the reach to service 98% of the U.S. population. And German mail order supplier of office, business and warehouse equipment, TAKKT AG, bought Hubert, the $88 million (sales) American food service cataloger that serves 175,000 restaurants, hotels and cafeterias.

Merger activity in 2001 will be driven by marketplace pressure for convergence of the Internet with traditional retail and direct marketing assets. Dot-coms need established customer bases and direct marketing expertise; catalogers need the Web as an ordering channel and need retail stores for quick returns; and retailers need Web sites for new sales. Those who decide that they can more easily buy than build will be out shopping.

Catalogers, however, don't seem to be under very much pressure to acquire dot-coms. Many have done quite nicely with their own Web sites. The Direct Marketing Association Catalog Conference in June heard, for example, that successful operators are deriving 15-20% of business from the Web.

Catalogers don't have to buy dot-coms. Many of them have done quite nicely with their own Web sites.

And business-to-business catalogers, for their part, have not been hurt very much by b-to-b Web portals *(See Page 9)*. Whatever volume they have lost to portals, they have more than gained from their own Web sites, which are now state of the art.

For catalog companies with strong traditional customer bases and well-developed Web strategies, acquisition multiples are in the 8x EBITDA range. Buyers are paying well for the synergy between print and Web promotion and the lower cost of Web fulfillment.

Newsletters

Seekers of newsletter properties outnumber sellers by a wide margin and, to no one's surprise, prices of newsletter properties are high. Four-to-six times EBITDA used to be a typical multiple for an ordinary newsletter transaction. Today, the multiple is likely to be 6-8x, or maybe two-times revenue.

Financial buyers' increasing appetite for newsletters has much to do with present newsletter valuations. As a result of its aggressive newsletter investments, financial buyer Wicks Business Information quickly has become one of the largest newsletter publishers.

Helping to pique the interest of financial buyers in 2000 was the newsletter sector's generally improving financial picture, reflecting the power of the Web to bring down subscription sales costs.

About 50 newsletter company deals were done. Heading the list of deals were major acquisitions by Reed Elsevier and Wolters Kluwer, as well as by financial buyers Wicks Business Information and VS&A Communications Partners.

Financial buyers' yen for newsletters is probably the biggest reason for present, high newsletter valuations.

Reed Elsevier's Lexis subsidiary purchased Mealey Publications, Inc., a publisher of litigation newsletters and a producer of more than 30 annual conferences on litigation topics. Price: $25 million.

Wolters Kluwer acquired the professional tax, accounting and related products of Harcourt's professional publishing group.

Wicks Business Information acquired Georgetown Publishing with its b-to-b newsletters on leadership, employee retention, time management, business etiquette, public speaking, online marketing.

VS&A Partners paid $130 million, an estimated 16x EBITDA, for Phillips Business Information, whose newsletters serve media, communications, cable TV, aviation, energy, among other markets.

Television

Convergence put both print and the Internet into bed with television technology in 2000.

Spearheading the trend, Yahoo and Real TV began building their own streaming video networks. Yahoo established Yahoo Finance Vision with its own studios and talent. Real, through its Real Gold network, will stream special events to subscribers, and expects to launch one or two advertiser-supported niche networks in 2001. And b-to-b media player Penton Media acquired Streaming Media *(See Page 13)*

These networks will consume a lot of specialized content that is the stock-in-trade of magazines. But their needs are also creating opportunities for content providers from the Internet side. The Internet is "screaming for streaming," in the words of CBS Market Watch's Bambi Francesco, who cites Internet players Inktomi, Akami, Digital Island and Ibeam as some of the present content providers.

Convergence with television came from the print side as well. Times Mirror Magazines (now owned by Time Inc.) bought Warren Miller Studios, and Hachette bought television show producer RTM *(See Page 3)*.

At the same time that these deals were being made, the Time Inc. cable TV "magazines" included in CNN's Newsstand were in serious trouble. They will shortly depart the air. (CNN and *People* are trying to find a way to carry on.)

The lesson seems to be that revenues produced by cable ratings do not cover the cost of producing quality magazine programs. It would appear that revenues on the order of those produced by broadcast networks or broadcast syndication are needed to turn magazines into profitable television.

The biggest television-related transaction of 2000 (as well as the biggest M&A transaction in history), AOL-Time Warner had its own lesson for media dealmakers. It proved beyond reasonable doubt that Internet providers must have content and are willing to pay for it.

Media Business: 2000

M&A activity in 2000 occurred in a climate of significant change –from boom to bust in the Internet world, from sunny weather to sudden chill in the advertising outlook, from stability to worrisome escalation in the cost of doing business.

It was the best advertising year in memory for magazines.

Because of the Olympics, the elections, and free-spending dot-coms -plus a mostly good year for the U.S. economy- 2000 was the best advertising year in recent memory for magazines. Even a distinct fourth-quarter slowdown in ad spending was not enough to take the bloom off the rose.

Advertising revenue of consumer magazines totaled a record $17.7 billion in 2000 –a 14% year-to-year increase, the highest since 1985– according to Publishers Information Bureau. Advertising pages surged to 286,932, a 10.1% year-to-year increase.

Edgy lenders and private equity funds raised the cost of doing deals, and transaction multiples dropped.

The increase in advertising spending in 2000 was partly due to money freed up by the completion of advertisers' Web sites. Another positive factor: advertisers were spending to promote their Web sites in magazines and other media. But the big boost came from the national elections and the summer Olympics. With no comparable stimuli, 2001 will suffer by comparison.

December advertising revenue was $1.6 billion. At 3.6%, it was the smallest year-to-year increase of any month in 2000. The December advertising page count, at 24,962, however, registered a 2% decline from the year-ago.

Business-to-business advertising volume increased 12% in 2000, with a marked decline at year-end, according to Business Information Network.

Underscoring the fourth-quarter advertising slowdown, average ad pages for *Business Week* were down more than 12% in October-November after being up more than 20% through the first three quarters. Similarly, Meredith's *Better Homes & Gardens* and *Ladies Home Journal* were down 13% in ad pages in the September-November period.

And if it is any comfort to magazine publishers, the advertising slowdown is squeezing newspaper publishers as well. Tribune Co. expects to miss its fourth-quarter targets while Knight Ridder plans a new round of layoffs. Worst hit was Dow Jones & Co., publisher of the Wall Street Journal, which said earnings per share for the fourth quarter will be 7-10% lower than analysts were expecting. Dow Jones blamed the shortfall primarily on a sharp decline in the initial public offering market, which hurt financial advertising.

Capital was readily available from lending institutions, equity funds and IPOs early in the year. Then, the financial climate cooled and multiples began slipping.

The generous early-year money supply yielded an impressive dollar volume of deals in the third quarter. By the time these big deals closed, however, capital sources were sufficiently rattled by the sinking stock market and the business slowdown to tighten their purse strings. Lenders were giving tougher treatment to new deals and private equity funds were demanding more ownership for their money as multiples slipped. Big deals became disproportionately costlier than smaller ones. Impressive deals were still being made, but it took more time to do them.

The good times in the magazine world prompted publishers to introduce new titles and plan for future launches.

- Time Inc. brought out *Real Simple*, a magazine dedicated to helping readers simplify their lives. Initial circulation was 400,000. Ten issues are scheduled for 2001. Another launch from Time was *eCompany*, a *Fortune* group affiliate, focusing on the "successes and failures of companies great and small" as they come to terms with the Web.
- Rodale brought out *MH-17*, a *Men's Health* offshoot for America's 10 million 13 to 17-year-old male teenagers. Two issues were published in 2000. Plans call for bimonthly publication in 2001.
- Emap USA in February launched the U.S. edition of *FHM* for the 18-34 year-old men's audience. Aiming for 400,000-plus circulation by year-end, the magazine is the American version of the U.K.'s *FHM*, said to be Europe's top men's magazine.
- Hearst Magazines and Harpo Entertainment Group

in April launched *O*, Oprah Winfrey's fashion/lifestyle magazine, with a planned circulation of 850,000. After two double issues, monthly publication was inaugurated in September.

- Vanguarde Media in January launched *Savoy*, an African American lifestyle monthly with initial circulation of 200,000.
- Hachette Filipacchi is planning a September 2001 launch of *Elle Girl* for 12-to-17-year-olds. Initial frequency: four times per year.

And traditional media companies continue to create convergence through start-ups as well as by acquisitions. Some cases in point:

- Pennwell is investing in its new PennEnergy division, which will be employing the PennNet e-commerce Web site to leverage the company's energy transaction business. The company, publisher of *Oil & Gas Journal*, acts as a broker for energy property sales and maintains an exchange for the sale of used equipment. Pennwell CEO Robert Biolchini reportedly wants to put PennEnergy in position for an IPO by the end of 2001.
- Primedia has launched a new b-to-bWeb site in the telecommunications sector. Called TelecomClick, it will operate under the umbrella of Primedia's Internet subsidiary, IndustryClick, and present news and product and vendor information across all telecommunications segments, including wireless, broadband and Internet.
- Medical World Communications (Jamesburg, NJ), publisher of journals and magazines in a score of healthcare markets, has launched HealthBizNews, a portal for the company's 16 other Web sites.
- *Working Woman* is launching the Women & Minority Business Exchange, an online directory and information source for companies interested in doing business with enterprises owned by women or minorities (or both). Early in December, the company secured second-round financing of $20.5 million for the venture.

Higher postage expenses, paper prices and circulation maintenance costs will finish off more marginal magazines

At the same time that newborn magazines were seeing the light of day, other titles were passing from the scene.

Among the 2000 shutdowns: Time Inc.'s *Life*, Conde Nast's *Women's Sports & Fitness*, Hachette Filipacchi's *Mirabella*, Vanguarde's *Emerge*.

Confronted with intense competition in the teen market from spin-offs of *People* and *Cosmopolitan* and the prospect of a spin-off of *Elle*, Primedia decided to discontinue *Entertainmenteen* and *Superteen* and convert *16* to a "special." Henceforth, Primedia's flagship *Seventeen* will sail in the company of only three other Primedia teen monthlies.

Rising circulation costs, postal rates and paper prices will finish off more marginally profitable publications in 2001. Emap USA's *Sport* magazine, however, was torpedoed by another problem: Philip Morris's withdrawal of its cigarette advertising from publications with significant youth readership.

It was a year of unsettling changes on the magazine circulation scene.

The subscriptions-selling sweepstakes operators fought a losing legal battle. In an August round of settlements of deceptive advertising lawsuits, both Publishers Clearing House and American Family Enterprises (owned by Time Inc.) agreed to refund millions of dollars to consumers. In September, American Family Publishers gave up sweepstakes altogether. The action was part of the company's Chapter 11 bankruptcy restructuring.

Sweepstakes have been losing effectiveness for some years. For 40% of the consumer magazine industry, 1999 subscription order volume from this source was off by more than 60%, according to a report by CircTrack. The Web offers the best hope of filling much of the void resulting from the sweepstakes decline. To maintain their circulations, publishers will have to get creative, and may be forced to substantially cut prices.

But the decline of the sweepstakes source is not the only cause of deteriorating circulation economics. Publishers also must contend with stronger magazine wholesalers, who are asking for larger cuts of cover prices and have begun to charge handling fees for putting slow sellers on newsstands.

Strong advertising sales in 2000 financed the elevated spending required to maintain consumer magazine circulation levels in this unfriendly environment. A declining advertising revenue trend now is sparking publishers' concerns about their ability to sustain a relatively high level of circulation spending without damaging profitability.

Publishers will be responding with rate-base reductions, delayed or foregone circulation increases, use of Internet and other non-traditional sources, and significant price cuts.

In November the Postal Rate Commission ended the periodic guessing game by pegging the January 2001 increase at an average 9.9% for regular-rate periodicals.

A substantial come-down from the Postal Service's request for a 15% rate hike, the decision came as good news-bad news to publishers. It was less than they feared, but still markedly higher than the rate of inflation –which means significant new pressure on their bottom lines.

And the circulation audit agencies sounded the death knell for the venerable "50% of basic price" rule of magazine subscription marketing.

Effective January 1, 2001, BPA audits recognized circulation sold at any price as paid circulation, so long as publishers fully disclose pricing information. The 50% rule, part of the Postal Code for more than a century and followed by ABC and BPA, stated that no subscription could be reported as paid unless it was sold for at least half of the basic subscription price set by the publisher.

The business division of the Audit Bureau of Circulations likewise took steps at its November meeting to discard the 50% rule. The net effect of the change will be to count as paid circulation any magazines sold at any cash price down to one cent. The change will be accompanied by new reporting requirements that will reveal numbers of magazines sold at various prices.

Abolition of the 50% rule for b-to-b publications is expected to be approved by the ABC board in March. The change should not have much impact on b-to-b publications, almost all of which rely wholly on controlled (i.e., free) circulation. But it could help consumer publishers who may have to consider steep price cuts as a strategy to offset the decline of sweepstakes sales. With the 50% rule gone, media buyers will need detailed disclosure of copies sold at different prices to allow them to evaluate a publication's circulation quality.

The demise of the 50% rule came after the filing in U.S. District Court in New York of the second round of lawsuits disputing the rule. The suits claimed that the magazine industry was conspiring to keep single-copy and subscription prices –and by extension, advertising rates– high by preventing magazines from being sold at less than 50% of their stated value.

The new rule: circulation sold at any price down to a penny a copy can be counted as paid circulation

Business-to-business magazine publishers again had reassuring news about the loyalty of their readers, but consumer magazine publishers received mixed reviews.

According to Media Intelligence 2000, a study by Fairfield Research, time spent reading business and trade magazines was up 39% since 1999, and 37% of American adults were spending at least 40 minutes a day reading business-to-business publications. The highest demographic of b-to-b readership, at 16.8 million, is the 18-34-year-old male. The second highest demographic, at 12.7 million, is the 18-34-year-old female executive.

The Fairfield Research survey found that time spent reading consumer publications is down 24%. But the good news is that 43% of respondents to a Magazine Publishers of America survey said that they are more likely to trust magazine advertising than advertising found in other media.

In a Pew Research Center survey, 33% of respondents said they get news on a regular basis from online sources rather than print or broadcast. That was a 65% gain from 1998. Nearly half (46%) of respondents under age 30 go online for news at least once a week, compared with just 20% of those 50 and over.

Media Business Outlook

The 2001 media scene is significantly different from that of 2000. Here are four important reasons why:

(1) Where revenue growth is concerned, 2000 is a tough act to follow. All media sectors are feeling the drag of a general business slowdown. But the advertising media will suffer more in year-to-year comparisons. That's because corporate profits, the main driver of advertising spending, are not in the best of health.

Business-to-business publications, whose advertising sales volumes closely track their clients' profit curves, are even now feeling pain. Compounding the problem for the consumer publications: no Olympics or national elections in 2001, as there were in 2000. Another 10% gain in total U.S. advertising expenditures, as happened in 2000, is not in the cards unless the economy unaccountably goes up like a rocket, Nevertheless, the advertising pundits are taking a positive view. Most advertisers and ad agency media executives expect advertising budgets to remain stable or increase in 2001. More than 87% of them took that position in a 102-individual year-end survey conducted by media-newsletter publisher Myers Reports Inc. (New York).

Most advertisers and agency people still expect advertising budgets to remain stable or increase in 2001.

A 4-6% gain in 2001 for advertising expenditures in general, with the second half better than the first, seems to be the consensus. That's the same degree of growth that media analysts are forecasting for magazine ad revenues, with the b-to-bs running a tad better.

(2) Cost control is a high priority for magazine publishers, burdened in 2001 by both postal rate and paper price increases. Once again, they are reviewing the usual options: reduce rate bases, trim sizes, paper weights, and make the familiar line-item operating cuts. And the longer-term outlook isn't encouraging. The Postal Service even now is sending signals that another rate increase request may be coming very soon, perhaps in six months. A substantial new increase coming soon after the recent one would be very bad news for magazine profits. B-to-b magazines, unable to take advantage of efficiency options available to big-circulation books, could be especially hard hit. The specter of future increases will discourage magazine startups.

(3) Consumer publishers are intensely focused on critical problems in a basic function of their business: circulation. Both single-copy and subscription sales *(See Page 24)* have been under-performing for years. In the balmy advertising climate of 2000, publishers could afford to boost spending to maintain their circulation numbers. But in the chillier environment of 2001, they could be hard-pressed to do the same.

Necessity being the mother of invention, consumer magazine publishers are considering some adventurous innovations. Direct-to-retail is one of them. The Internet is also being enlisted –in one of the earliest payoffs of the AOL-Time Warner union, AOL produced 500,000 new subscribers for Time Inc. magazines in a five-month period. And subscription agent Magazines.com, is testing a scheme to allow consumers to purchase subscriptions at retail checkout counters by swiping a bar code printed on a magazine's cover.

(4) As for new business opportunity and a new M&A driver, look at wireless. Fifty-one percent of U.S. households now have at least one mobile phone. Forty percent of U.S. adults use mobile phones regularly, up from 33% in 1999, according to research by Dataquest. Media companies are scrambling to deliver information to this huge market. B-to-b media, in particular, could capitalize in a major way on their capability for delivering specialized news to targeted recipients. Wireless is the new hot button that might very well re-energize the technology IPO market.

Absent another AOL-Time Warner or a few $50 billion-plus deals, it's highly unlikely that 2001 will be the ninth successive record year for media M&A. But, given a soft landing for the economy and a fairly decent stock market to help America's 80 million shareholders feel wealthier, it could turn out to be a not-bad year at all for the media business and media M&A.

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