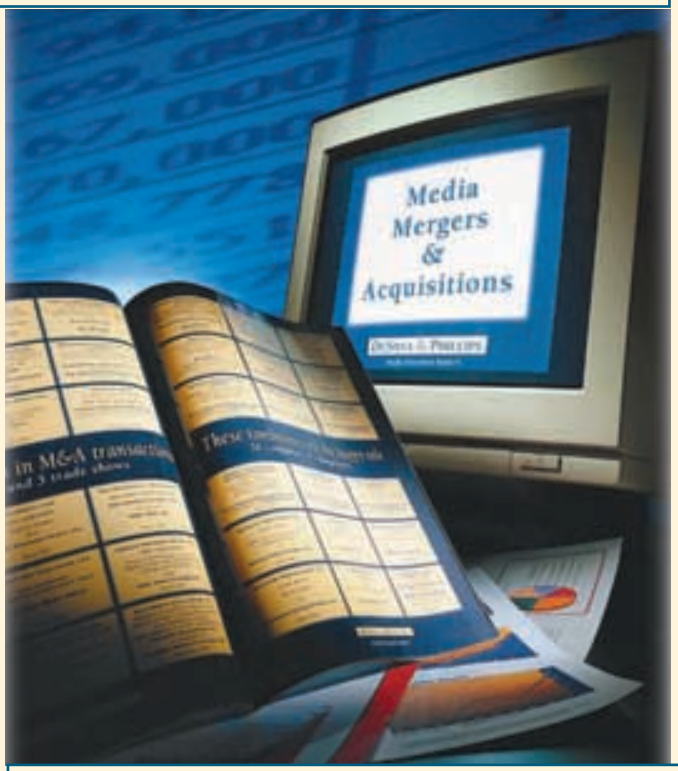
Mergers & Aquisitions

An analysis of the magazine marketplace



The DeSilva & Phillips Report

March 8, 1999

DeSilva & Phillips

Media Investment Bankers

Top Twenty-Five Magazine Transactions of 1998 ($ millions)

	Property Sold	Buyer	Price
1	TV Guide (News Corporation)	Tele-Communications,Inc.	2000
2	The Petersen Companies	EMAP plc	1505
3	Reiman Publications, Inc.	Madison Dearborn Partners	640
4	Mosby, Inc.	Harcourt General	415
5	Waverly, Inc.	Wolters Kluwer NV	388
6	Mecklermedia	Penton	274
7	Plenum Publishing Corp.	Wolters Kluwer NV	258
8	Cowles Business/EnthusiastMedia	Primedia	200
9	Wired	Conde Nast	85
10	TVSM	News Corporation	75
11	American Trucker Group	Primedia	75
12	Travel Agent	Advanstar	70
13	CurtCo Home Theater Group	The Petersen Companies	60
14	Capital Publishing (Fidelity)	Greenwich Street Capital Partners	50
15	Housing Guides	Primedia	50
16	Shore-Varrone	Bill Communications	40
17	Daily Racing Form	Steven Crist/Alpine Capital Group	40
18	Donohue-Meehan	Penton	40
19	Texas Monthly	Emmis Broadcasting	37
20	Miramar Communications	Primedia	34
21	Natural Health	Weider Publications	32
22	Boardwalk	Mecklermedia	30
23	McGraw-Hill technology titles	CMP Media	29
24	Sterling/Macfadden teen titles	Primedia Inc.	25
25	Shutterbug	Primedia Inc.	23
		Total	6475

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Big Is Beautiful in the New Multibillion Dollar Marketplace

Observers of the magazine mergers-and-acquisitions scene may well be wondering how high is up. And with good reason. For the simple truth is that the dollar volume of magazine M & A activity in 1998 went virtually out of sight.

For calendar year 1998, the DeSilva & Phillips database registered 105 magazine industry M & A transactions, valued at $6.85 billion. When last we reported (May of 1998), we noted 97 deals valued at $2.55 billion for the year ending April 30, 1998.

The sales of *TV Guide* and The Petersen Companies accounted for $3.5 billion of the 1998 total. Even so, the calendar-year 1998 performance was extraordinary, since the leftover was still $800 million more than the 12-month total we reported last May.

TV Guide and Petersen were more than half of the $6.8 billion '98 total

As in previous years, a relatively few deals accounted for the lion's share of the 1998 volume. In this case, the *TV Guide* and Petersen acquisitions accounted for more than half the total, and the top 25 transactions contributed 94%. Included in this group were not only the biggest but the most active players of 1998. Among them: Wolters Kluwer N.V., Primedia, The Petersen Companies, Penton, CurtCo/Freedom Group and Mecklermedia *(See Table)*.

The dynamic 1998 magazine M & A scene was very much a part of the M & A wave that is reshaping the competitive landscape of major industries. Transactions by U.S. companies totaled $1.6 trillion last year, compared with close to $907 billion in 1997. Worldwide, transaction volume was close to $2.5 trillion. Activity was strongest in energy, information technology, financial services and telecommunications.

And the global nature of the M & A game came home to Americans with the announcements of mega-deals such as British Petroleum's acquisition of Amoco, Daimler's acquisition of Chrysler, and Deutsche Bank's acquisition of Bankers Trust.

Familiar Forces: Very much in evidence in 1998 were the forces that have driven publishers into each other's arms during the past four years.

The advantages of scale, for example, lost none of their allure. Acquisitions in the $10-60 million range seemed to have particular appeal for publishers and financial buyers seeking to quickly bulk up. But revenue wasn't the most important thing. Profits came first, and buyers were –and are– paying generous prices for solidly profitable companies.

That's particularly true of financial buyers, who are likely to be utilizing the leverage accruing from a strong bottom line. They have learned that you can take EBITDA to the bank.

Portfolio pruning remained very much in vogue, with publishers shedding unprofitable titles that don't comfortably fit their platforms or core strategies. The other side of that coin is the roll-up. Primedia, for example, simultaneously acquired six different housing guide publishers in 1998 to instantly capture a commanding position in the marketplace.

And there was no letup in the quest for growth through diversification, with the focus very much on conferences and trade shows and Internet businesses.

For business-to-business publishers, in particular, conferences/trade shows (they often go hand in hand) have the twin virtues

of elevated growth prospects and compatibility with the core business. Spending on trade shows is forecast to grow at the rate of approximately 10% per year over the medium term. Trade shows, moreover, offer magazine publishers a new opportunity for growth by acquisition. In 1998, trade shows accounted for 30 M & A transactions, 60% of which entailed price multiples of at least two times total revenue.

What's different in this market? The forces are familiar, but the deals are a lot larger

The Society of Independent Show Organizers declares, "The growth in both event size and transaction multiple is a direct result of the impact of well financed buyers, both strategic and financial...This trend continues with no sign of abating."

Meanwhile, the promise of big rewards from on-line advertising and e-commerce is spurring magazine publishers' Web site investments. And, indeed, there's mounting evidence that their hopes are not misplaced. Internet advertising went over the $1 billion mark in 1998. E-commerce is ringing up multi-billions of dollars in consumer and business-to-business sales and is growing rapidly. E-commerce sales of $400 billion are predicted for 2002.

The American Business Press reports that nearly 90% of its business-to-business publisher members have Web sites, often multiple sites. Adams Business Media is a prominent case in point. The company operates 46 sites in 11 market sectors and has declared itself to be “very pleased” with its Web revenue.

On the consumer magazine side, *Playboy* is pursuing an aggressive Web strategy. Playboy Online generated revenue estimated to be in excess of $6 million in 1998, but was not in the black. The site, which went online in 1994, is expected to sustain losses for several more years. In a new bid to capitalize on the e-commerce potential, *Playboy* is joining with K-tel International to offer a huge selection of music recordings through the site.

As the Internet outlook comes into sharper focus, it’s becoming apparent that the big winners will be publishers which can convert readers to e-commerce users. Favorites have to be business-to-business and enthusiast magazine publishers with their compact, dedicated and clearly defined audiences of known purchasing behavior.

Something New Too: If the 1998 M&A scene had a ring of familiarity, it also had some features that were distinctly its own. For example:

Transaction multiples rose decisively for profitable, substantial companies with their well-developed publishing platforms. Petersen and Reiman Publications are examples.

EMAP, one of the U.K.'s most aggressive and fastest-growing media companies, paid $1.2 billion for the equity of Petersen and assumed $300 million of debt. The acquisition swells EMAP's revenue to $1.5 billion and gives it a list of 500 magazine titles, more than any other publisher in the world. It’s an enviable position, to be sure, but one bought for a handsome price: a multiple of 17X EBITDA.

The multiples are going up for big companies with their well-developed platforms

The deal stands as a coup for sellers Jim Dunning and Willis Stein & Partners, who acquired Petersen two years ago for $450 million (and were criticized for overpaying).

Reiman, publisher of 10 country lifestyle magazines that take no advertising, represents a more typical case of multiple creep. Equity fund Madison Dearborn paid

$640 million for Reiman's $240 million revenue and $70 million EBITDA –multiples of 2.7 and 9.1, respectively.

The upper end of the range –multiples in excess of 15 for both consumer and business-to-business magazines– is approaching territory normally associated with outdoor and broadcast media.

And while the big companies were attracting the big multiples, there was no shortage of buyers for their smaller brethren. Mid-size deals, in particular, proliferated as more owners of private companies decided to convert their corporate equity into personal wealth.

More mid-size private owners converted corporate equity into personal wealth

It sometimes was hard to tell the buyers from the sellers. A number of particularly active buyers also were prominent sellers. Cases in point:

TV Guide, which acquired TVSM just before being acquired itself by Tele-Communications, Inc.

Petersen, which acquired CurtCo/Freedom Group's Home Theater Group and expo, Mobile Computing and Communications Portable Computing, Dobbs Publishing and Surfer Publications before being acquired itself by EMAP.

CurtCo/Freedom Group, which acquired Home Office Computing from Scholastic, Inc., before selling Home Theater Group to Petersen.

Mecklermedia, which acquired Boardwalk before being acquired itself by Penton.

Cowles Business/Enthusiast Media, which made a string of acquisitions during 1997 and 1998 before being acquired itself by Primedia.

New private equity firms are making their presence felt in the magazine marketplace. Madison Dearborn's $640 million acquisition of Reiman Publications was this private equity firm's first foray into magazines.

MD's other investments are in direct marketers and fast food franchises. And Greenwich Street Capital Partners made its splash with the $50 million acquisition of Capital Publishing, publisher of *Worth*. Like the recent successful IPOs, it's good news for publishers contemplating exit strategies.

Publishers seeking to sell can also be gladdened by the increased interest of foreign buyers in the U.S. magazine market. EMAP, Wolters Kluwer, Reed Elsevier, VNU, Hachette and Bertelsmann will likely be joined in their American investments by other expansion-minded European publishers, who are retreating from the economic turmoil of many developing countries.

The Climate Was Nice: The 1998 magazine M & A marketplace once again was blessed by a favorable publishing business climate and a supportive national economy. Thus, publishers again had money to expand their portfolios.

Amid the rush - it was sometimes difficult to tell the buyers from the sellers

Advertising revenue of consumer magazines rose 7.8% in 1998 compared with 1997, according to Publishers Information Bureau. Ad pages registered a 2.6% year-to-year gain. On both counts, the gains were substantially lower than the exuberant 13.1% gain in ad revenue and the 5.2% page gain in 1997.

Advertising revenue of business-to-business magazines increased an estimated 10% in 1998 compared with 1997.

A conspicuous exception to the general growth trend was the big high-tech magazine sector, where some major publishers

suffered year-to-year advertising page declines.

On the circulation side, subscription yields from the direct-mail-agent source remained depressed, but single-copy sell-through seemed to have stabilized and even registered a small uptick.

Once again, the expense picture was relatively mild with no paper or postage price shocks (although a postage increase was mandated for 1999).

Where size is concerned, What was once unthinkable is now eminently do-able

The national economy, as measured by Gross Domestic Product, grew at a brisk rate –probably somewhat higher than 3.5%– and inflation remained below 2%.

A Friendly '99? Will 1999 be as friendly to the magazine M&A marketplace as 1998 was? Let's begin with the national economic scene.

The sheer duration of national economic growth has the forecasters edgy. The conventional wisdom is that an eight-year growth cycle is overdue for a fall. But the conventional wisdom had a similar message last year and the year before. At the moment, however, there's no indication of an imminent recession.

Far from it, the latest economic data are unexpectedly strong. Manufacturing activity in February expanded for the first time in nine months, according to the National Association of Purchasing Management. And the Department of Commerce reported that personal income, consumer spending and construction spending all made significant gains in January. Employment, too, showed a gain.

The stock market, despite occasional nervous-making plunges, remains strong and an important contributor to consumers' sense of well-being. However, another currency crisis in a far-away place could cause another spine-tingling dive. There's just no predicting if or when that will happen, or if the market would recover with the same vigor as in the past.

Likewise, there's no foretelling a confidence-rattling political shock that could damage consumer and investor confidence. But the Clinton impeachment drama is now behind us, so, at the very least, we won't be getting any new tremors from that quarter.

Assuming no recession, sustained stock market decline, war or political shock, 1999 should be a decent year for magazines. Best guess is that magazine ad revenue will grow at least 5%.

If January consumer magazine results are any indication, that number won't be hard to achieve. Publishers Information Bureau recorded a 9.4% year-to-year increase in ad revenue for the 234 consumer magazines it tracks. Ad pages increased 3.7%.

Sheer momentum dictates that 1999 won't be very much different from 1998 where M & A is concerned.

The same essential forces will be pressuring more mid-size magazine publishers to cash in while the getting is still good. But don't be surprised to find more big deals being consummated.

Y2K: Will we find ourselves back in Year 1900 come next January 1?

TV Guide and Petersen decisively broke the billion-dollar barrier in magazines. CMP Media (market value in excess of $600 million) has put itself into play. In February, Evercore Capital Partners acquired American Media, Inc., (*Star, National Enquirer*) for $294 million and assumed $473 million of debt.

In their willingness to think bigger than ever, publishers are emulating the goings-

on in the broad M&A arena, which in 1998 witnessed the five biggest U.S. transactions ever: acquisition of Mobil by Exxon ($80 billion), Ameritech by SBC ($62 billion), GTE by Bell Atlantic ($52 billion), Tele-Communications by AT&T ($32 billion) and Amoco by British Petroleum ($48 billion).

In terms of transaction size, what was once unthinkable is now eminently do-able.

If aggregate M & A activity is any indicator, it should be another banner year for publishing deals. An eye-popping $1.32 billion worth of mergers and acquisitions was tallied across all industries in January, a very fast start, indeed, for 1999.

For the longer term, of course, Y2K should be taken into account. If the doomsayers' worst fears are realized, we could find ourselves back in Year 1900 next January 1. The good news is that we would be getting a second chance to get it right in the 20th Century.

Bulk Up for a Bigger Multiple

More so than ever before, transaction multiples (i.e., price divided by EBITDA) tend to mirror the size of the property being acquired -the bigger the property, the bigger the multiple. That's as it should be, since scale has become synonymous with cost efficiencies and competitive advantage in the magazine marketplace. An analysis of 1998 multiples clearly reveals the size effect:

Size of Transaction	Average EBITDA Multiple
Under $5 million	5 - 8
$5 - 50 million	9 - 11
$50 million plus	11 - 15

These numbers may be regarded as generally applicable to magazine transactions, since consumer and business-to-business multiples are now essentially at parity. The increased power of EBITDA should also be noted. Of all the non-size factors –i.e., growth prospects, management, brand strength– EBITDA had most impact on prices paid for magazine properties in 1998. Also making their presence felt in valuations are Internet brand extensions incorporating e-commerce capability.

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