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The Deal

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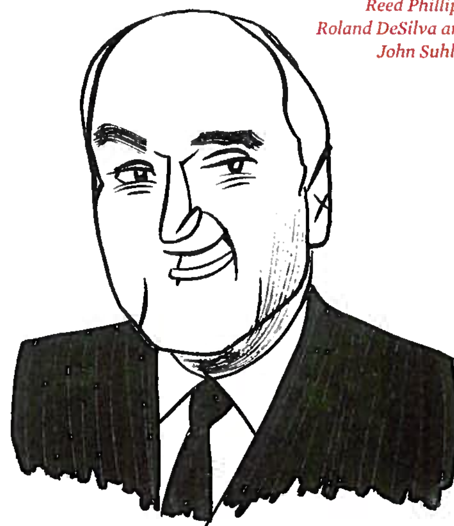
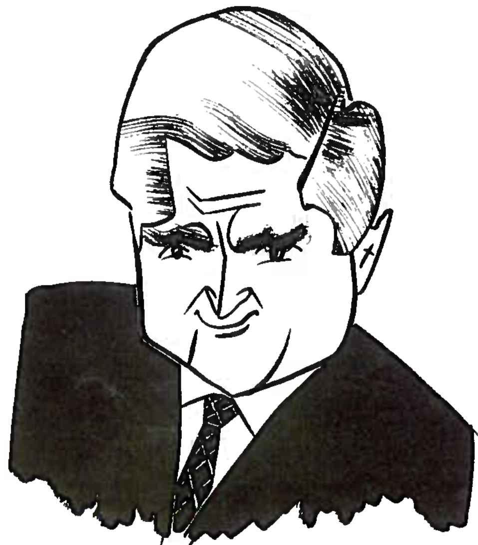
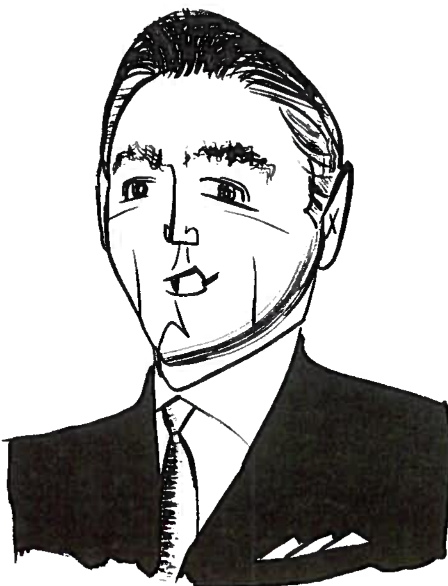
clockwise from top left: Mark Edmiston, Wilma Jordan, John Veronis, Reed Phillips, Roland DeSilva and John Suhler

THE MEDIA BANKERS

THEY'RE CHARMING, SOPHISTICATED AND THEY WIELD SHARP ELBOWS. A HISTORY OF ONE VERY LIVELY CORNER OF INVESTMENT BANKING PAGE 34

A cadre of small investment banks dominate midmarket media deals. Their culture is marked by charm, sophistication and sharp elbows

Wilma's world

by Richard Morgan

illustrations by Tom Bachtell

Wilma Jordan

IN THE SUMMER OF 1998, AFTER MARK EDMISTON and Wilma Jordan quietly disbanded their partnership, a colleague tried phoning Edmiston at the office he had only recently stopped sharing with Jordan. Unfortunately, the colleague was told, Edmiston was on extended sick leave. This news so startled the caller the phone receptionist quickly backtracked. A full recovery was expected, she said, and Edmiston and the clients he had served in the preceding six years could both rest easy. "Wilma's taking all of his calls," the receptionist explained, "and helping out on all of his business."

When informed that his calls were being redirected, a perfectly healthy Edmiston was outraged. But on exiting the partnership known as **Jordan, Edmiston Group Inc.**, he wound up leaving more than just phone messages behind: He left his name, too. And despite suing in federal court to have it removed from the media investment bank, his name remains to this day.

Some attribute his failure to get the E out of the specialty bank commonly called JEGI to shoddy lawyering. Edmiston declines to comment except to say that after spending lots of time and money, he dropped the matter on being directed to restart the entire process in state court. But for those who know Wilma Jordan—at once the most revered and most feared investment banker specializing in media—any other outcome is difficult to imagine. "Wilma was determined to keep Edmiston's name on the door," a source says, "because she didn't want people thinking she was running some girls' club."

The sentiment certainly makes sense. A publishing wunderkind of sorts, Edmiston had joined **Newsweek Inc.** as a circulation director in 1973 and risen to president and CEO in 1981. Four years later, while still in his early 40s, he received what's generally considered a lifetime honorific: chairmanship of the Magazine Publishers of America.

The connections Edmiston brought to JEGI could open the door of any publishing prospect not yet receptive to receiving Jordan herself. But if she kept her ex-partner's name to preserve her entrée into the boys' club that is media investment banking—indeed, all of investment banking—Jordan isn't letting on. "We incorporated with that name," she says of keeping the E in JEGI eight years after the person it represents has exited. "It's the same at **Morgan Stanley**. There's no Morgan and there's no Stanley. There'll be people here, too, after I'm gone."

Welcome to investment banking's most competitive corner. It's a corner that accommodates a handful of firms, each with a slightly different view of the media universe. JEGI prides itself on winning sell-side assignments, which account for nearly 80% of last year's total, whereas **AdMedia Partners Inc.**, which embraced Edmiston as a partner five months after he left JEGI, has made a specialty of marketing-services firms. At **DeSilva & Phillips LLC**, which also has a partner from JEGI, there's an even split between consumer media and business-to-business media. **Berkery, Noyes & Co. LLC** thrives on medical and education publishing, while **Whitestone Communications Inc.** has extended its practice to include training companies.

These banks have been allowed to grow up under their hulking counterparts on Wall Street because they set themselves up to handle smaller deals. "Most of the stuff we do, they can't afford to do," Edmiston says of bulge-bracket firms, which have maintained a lock on big-media deals involving Hollywood studios, broadcast networks and cross-media hybrids like America Online Inc. and **Time Warner Inc.**

Increasingly relevant, however, is the ability of these specialty banks to go beyond cookie-cutter valuations. As the media world becomes more complex, only these firms—or so some would argue—have the skill and patience to ferret out the worth of multimedia enterprises with, say, rapidly growing revenues, a host of subscription liabilities, a breakeven trade-show group and a cash-flow-negative Internet division. "We're not dealing with buildings or inventories," Jordan

explains. "We deal with soft assets."

Another banker, who requests anonymity, contends the few bulge-bracket firms who dabble in less-than-blockbuster media deals have ulterior motives. **Goldman, Sachs & Co.** may work for Henry Kravis-controlled **Primedia Inc.**, "[b]ut they're basically protecting their relationship with him," the banker says. And when the big firms do get involved, they often display a lack of facility. "It scarcely matters if the asset is a magazine or a windmill," the source continues. "To them, it all gets presented the same way."

Honing their competitive edge in relative isolation has served these media banks well. Like top-ranked bridge players working the same circuit, their game often strikes outsiders as esoteric. With one another, however, their encounters are sufficiently complex, subjective and time-consuming to impose a vigilance seldom witnessed outside their areas of expertise. Their encounters are also so frequent that old rivalries never die but remain in a constant state of renewal and reinforcement.

Today, as traditional media companies assert themselves in the Internet age, they're taking their media banks with them. And so a competitive spirit once contained is being unloosed on financial institutions serving the high-tech, entertainment and other industries promising media growth. "Their strengths are very transferable," says Jim Friedlich, a partner in **ZelnickMedia Corp.**, a buyout firm that purchased an interest in leading B2B publisher **Naylor Publications Inc.** through a process run by JEGI. "Convergence is turning several disparate media and technology markets into one market."

The many financial players currently interested in media promise to accelerate this trend. "You used to have to argue to use a specialty bank, because the path of least resistance was to go with one of the big guys," says Bob Nylen, who co-founded New England Monthly in 1984 and multifaith e-community Beliefnet.com in 1999. "But all financial players care about now is an investment bank with a great track record, which is what these specialty banks have to offer."

Mark Edmiston

As interlopers, the media banks appear remarkably sanguine about encroaching on turf once the domain of other M&A firms. Some of this confidence comes from their already having arrived. Last year DeSilva & Phillips worked on three deals worth well in excess of what had been the historical, if informal, $100 million cutoff separating specialty-bank deals from bulge-bracket transactions: **J.P. Morgan Partners LLC**'s acquisition of **Hanley Wood LLC** for $650 million; **Abry Partners LLC**'s purchase of **F+W Publications Inc.** for $500 million; and **Citigroup Venture Capital Equity Partners**' buying **Network Communications Inc.** for $380 million.

But a lot of the group's moxie reflects a shared perception that given what they've been through with one another, it's the people in their way who ought to be scared. For reasons of history and temperament, this is especially true of the sector's most visible triumvirate—AdMedia, DeSilva & Phillips and JEGI. Even her competitors allow that Jordan speaks for them, too, when she addresses the convergence-induced free-for-all with a resounding, "Bring it on!"

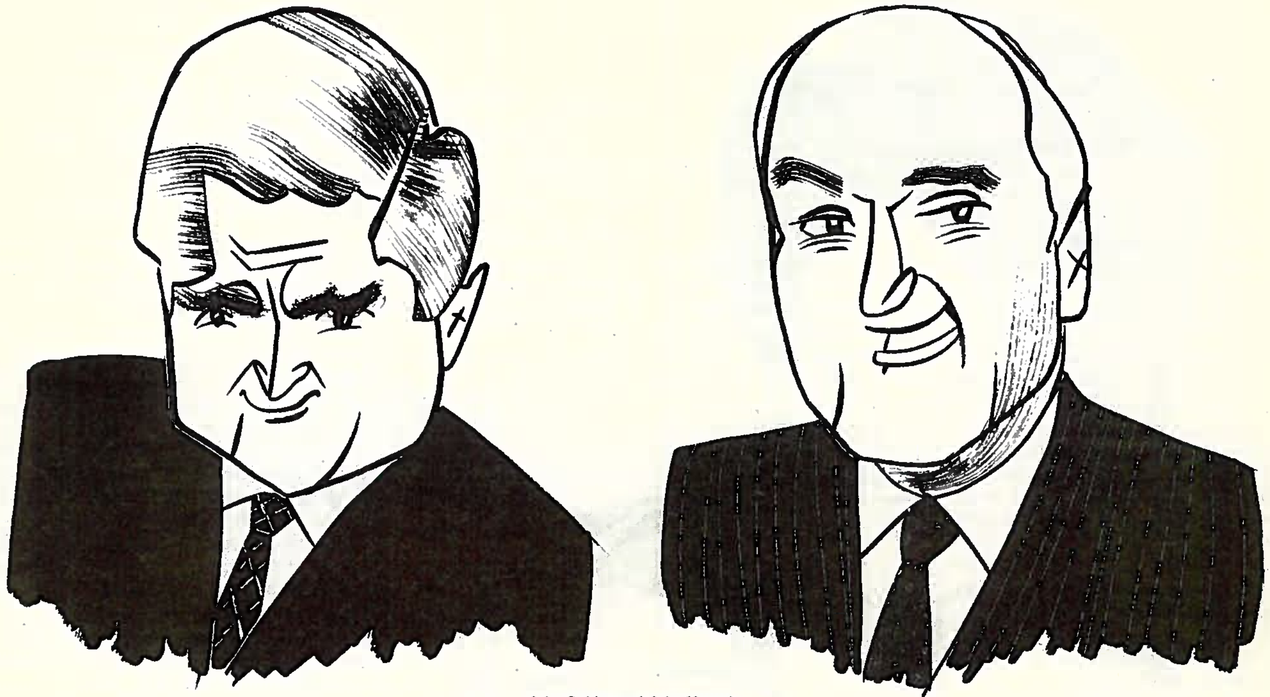
EDMISTON SHOULDN'T HAVE BEEN ALL THAT SURPRISED ABOUT complications arising from his 1998 exit from JEGI. Just two years earlier, with his desk adjacent to his partner's in JEGI's executive suite, he watched Jordan sue a managing director who was leaving to enter into a partnership not unlike their own. The managing director, Reed Phillips III, had impressive operating credentials even before joining JEGI. Highlights included stints at the New Republic as associate publisher, the Washington Weekly as vice president and the Washington Monthly as circulation director. Then, in 1986, he and two others launched a magazine called Fathers.

Although the idea of a service-oriented men's magazine showed promise, Fathers' backers got scared after the crash of 1987. "They had made all their money in real estate," one of the magazine's co-founders says. "And the real-estate market didn't bounce back as quickly as the stock market did." While the search for replacement financing failed, the effort itself reminded him of an assignment he once had at Washington Weekly to round up additional investors for primary backers Marty Peretz, Mort Zuckerman and Joan Bingham. The deal left him feeling revitalized, and he joined the Jordan Group as an associate in 1989, rising to managing director two years later. Edmiston, whose 1992 arrival at the Jordan Group precipitated its name change, remembers Phillips during their three-year overlap at JEGI as "smart, low profile, but with real substance."

By late 1995, when Phillips agreed over lunch and on a handshake to co-found his own media investment bank, new partner Roland DeSilva had been in media's burgeoning M&A game for more than a decade. He, too, began as an operator, working back in 1983 with Dillon, Read & Co. to acquire Charleson Publishing Co. The deal demanded that DeSilva take on enough debt to qualify him as a leveraged-buyout pioneer. "I was very naive," he says of his stint atop the trade publisher he renamed U.S. Business Press Inc. "I didn't understand what overleveraged meant until I was overleveraged. But I did learn how important it was to have an investment banker at your side."

Three years later, after selling U.S. Business Press to **Thomson Corp.**'s international division, DeSilva got the investment-banking bug himself. He spent the next decade as a publishing dealmaker and recruiter, eventually working out of an office subleased from AdMedia. And though he considered himself a practicing M&A expert by then, an AdMedia managing director recalls otherwise. "We always thought he noticed how well we were doing," the managing director says, "and said, 'Gee whiz, I'll become an investment banker myself.' "

What nobody disputes is DeSilva's role in being dispatched by AdMedia to test Phillips' interest in jumping ship. He was acting as a recruiter for AdMe-



John Suhler and John Veronis

dia—until, that is, Phillips rejected the overture and said he'd rather build equity in his own M&A advisory firm. DeSilva immediately saw the potential of teaming with Phillips, but others also recognized how powerful their pairing could be. "You've got a real Mr. Inside and a real Mr. Outside there," Edmiston says, "whereas Wilma and I were about the same at each. And neither of us was good at math, so we always hired number crunchers."

Elaborating on this theme, a former DeSilva & Phillips managing director confirms a productive balance between Phillips' analytical skills and DeSilva's being "into people issues—and people issues are half of what doing deals is about." Giving those issues as much weight as financial matters would later become a hallmark of the partnership, compelling it to retain a business psychologist—a woman who specializes in stress management—as a senior adviser. "We don't bring her into the deals themselves," DeSilva says of a practice unique among media banks, "but she helps us through the shoals you have to navigate in any transaction. Getting past seller's remorse can be especially tricky."

By her actions, anyway, Jordan also sensed a formidability about the partnership that would become her biggest competitor. Through JEGI, she filed a complaint against the partial breakaway, charging DeSilva with tortious interference and Phillips with violating a noncompete agreement. Her firm would wind up vacating the action, DeSilva says, but only after the judge let on that JEGI was "crazy for bringing suit." Adds Phillips, "We were flattered that she thought we'd be that competitive."

COMPLEMENTARY SKILL SETS LIKE THOSE CREDITED TO DESILVA AND Phillips weren't new to media investment banking. In fact, the two knockabout magazine veterans who invented the business—John Veronis and John Suhler—have what one former associate calls "the ultimate yin yang." Their firm, known today as **Veronis Suhler Stevenson LLC**, opened in 1981 after Suhler got pushed from his perch as president of the CBS Publishing Group.

Thomas H. Wyman, then CBS' president, publicly attributed Suhler's dismissal to "a perception that the publishing group wasn't doing as well as it could." But the truth may have had more to do with Suhler's hesitancy in glad-handing roles. He started out as the proprietor of a weekly newspaper in Massachusetts, became a direct-marketing consultant as well as a subscription analyst and then toiled, to quote from his corporate bio, "in the application of mathematical modeling to the business of circulation and print order planning and optimization of customer acquisition." Along the way, Suhler served as publisher of Psychology Today, a magazine Veronis co-founded in 1967.

The career of Veronis, even more checkered than his future partner's, included early stops at Ladies' Home Journal, Field & Stream and Popular Science. In 1971, with money from the sale of Psychology Today, he bought the Saturday Review. But it took him only two years to drive the 64-year-old journal of cultural affairs and literary criticism into temporary bankruptcy. Veronis smartly rebounded, however, launching Book Digest with his Psychology Today co-founder, Nicolas Charney, in 1974. Ever the salesman, he seduced **Dow Jones & Co.** into paying $10 million for the book-excerpting monthly in 1978, at which point Book Digest began a decline that didn't end until its death in 1982.

Edmiston, in and out of Veronis' professional life at the time, remembers that Dow Jones executives were so upset on realizing they had overpaid for Book Digest "they probably don't speak to him to this day." By then, though, it scarcely mattered. "John realized he was making a lot more money by selling these things than he could by sticking around and running them," Edmiston explains. From that insight—coupled with a sense of formality unmatched anywhere in publishing, with the possible exception of Time Inc.—the country's first media-only investment bank was born.

Although its original name was Veronis, Suhler & Associates Inc. (Jeffrey Stevenson, who joined the firm in 1982 and would later manage its private equity funds, became a name partner in 2001), publishing types dubbed it "two Johns and a chef." The reason had to with the co-founders' outdoing even Wall Street when it came to private dining. "There were all these special meals and special diets," a former colleague says of lunchtime productions by a salaried chef. "And the china they used was so refined there'd be an ambient clinking sound even with just three people in the room."

In addition to their formality, which another source says created "an uptight tension to the place that crackled from the top down," Veronis and Suhler became known for a division of labor that competitors still envy. Veronis, whom The New York Times depicted in 1988 as "the more socially visible of the pair," tirelessly worked a golden Rolodex. As a publishing executive quoted in the Times' article put it: "John Veronis knows the importance of a face-to-face visit. He'll say, 'Let me pop over.' The meeting may only last five minutes, but he comes himself." He'd also come with so many names to drop that a frequent observer of Veronis' conversational style remarks: "If he hasn't mentioned Jerry Levin, Rupert Murdoch or

Sumner Redstone in the first 30 seconds, then he must be asleep."

Dealing with the nuts and bolts of the business fell to Suhler, who was 15 years Veronis' junior and possessed what the observer calls "a savant-like understanding of the industry." Specifically, at a time when many in publishing couldn't parse a balance sheet, Suhler could wax on about a company's Ebitda multiples, margin compression and compound annual growth rates, as well as a category's vulnerability to changing media-usage trends. Many of these statistics would later be featured in the firm's Communications Industry Forecast—an annual compilation that, since 1987, has monitored and projected media performance in 12 basic segments. "It was a master stroke," Edmiston says of the compilation's utility as an authority-conferring leave-behind, "because every manager in media keeps one on his desk."

According to Allan Ripp, a public-relations expert who represented Veronis Suhler for six years and drummed up media interest whenever a Communications Industry Forecast was released, the compilation and the partners who published it deserve additional credit for "aggressively expanding the definition of media." This they did by casting a wide net in their data collection, establishing under the rubric of media areas as diverse as trade shows, K-12 instructional materials and even recorded music. "They raised the consciousness of what media means," Ripp says. "It wasn't just CBS, Dow Jones, and **Condé Nast [Publications]** anymore."

Though a business success from the get-go, Veronis, Suhler didn't have much recognition outside its immediate circle of clients and prospects for seven years. Then, in July 1988, Veronis met with 80-year-old Walter Annenberg to assess interest in his privately held Triangle Publications Inc. At the time, few thought Annenberg would even entertain selling such Triangle assets as TV Guide, Seventeen and the Daily Racing Form. Not only was this notion wrong, but Annenberg and Veronis quickly came up with a preferred buyer: **News Corp.**'s Rupert Murdoch, whom Annenberg had met 20 years earlier while serving as the U.S. ambassador to Britain.

Working through Veronis, buyer and seller needed only one month and two face-to-face meetings—at Annenberg's homes in Philadelphia and Los Angeles, respectively—before agreeing to an all-cash deal valued at $3 billion. "That's when everybody stood up and said, 'Wow, there's a real business here,' " Edmiston says of the deal signaling media banking's arrival. "Veronis may have gotten only a small percent, but even that was worth millions."

JORDAN WAS AMONG THOSE WHO WERE moved by Veronis Suhler's success with Triangle. She, too, had entered publishing as an operator, starting as a secretary for a group of fellow University of Tennessee students who in 1970 began a business that would later become 13-30 Corp. This group, fronted by Phillip Moffitt and Chris Whittle, wound up buying Esquire magazine in 1979 for an estimated $5.5 million. Notwithstanding their many successes, 13-30's two "whiz kids" ultimately decided to split up as partners and to divide their business between them. In April 1986, Moffitt took control of assets assigned to Esquire Magazine Group Inc.; his ex-partner broke off with Whittle Communications Inc.

Jordan, who in May 1986 would marry Hearst Magazines group publishing director and future international president George Green, had risen to treasurer and CFO by the time of 13-30's dissolution. And she rose even higher afterward by going with Esquire Magazine Group. There, serving as COO and responding to Moffitt's desire to become a full-time writer, Jordan soon found herself overseeing efforts to divest the non-Whittle half of 13-30. A four-part deal came galloping to a close in December 1986, just in time to preserve lucrative tax benefits that would have been lost in the new year.

Hearst Corp. acquired the flagship, Esquire, while the **American Express Publishing Corp.** picked up New York Woman, still in its maiden year. Whittle's split-off company acquired Esquire Health and Fitness Clinic, which produced "magazines" for the walls of health clubs, whereas the group parceled out its book-publishing and video divisions—Esquire Press and Esquire Video—to existing shareholders. The complicated transaction commanded a total price estimated at $80 million.

For Jordan, who in earlier periods of heady growth had helped recapitalize 13-30 several times, the sales process was no less exhilarating than the payoff. "I sort of attached myself to the hip [of First Boston Corp. investment bankers who worked on the Esquire deal]," she says of an M&A team that included Bruce Wasserstein, who's currently chairman and CEO of **Lazard** and the head of **U.S. Equity Partners**, the fund that owns The Deal. "They were wonderful."

After the deal closed, while sidelined by a noncompete clause, Jordan received a call from Texas Monthly founder and majority owner Mike Levy. The affable publisher, who was such a friend of Jordan's husband that a close observer calls them "doppelgängers," had a lot of debt from his unsuccessful ownership of California magazine for three years in the early 1980s. "He asked if I could come down and help him figure out his balance sheet," Jordan says. "So I did, and it became clear he needed a capital infusion."

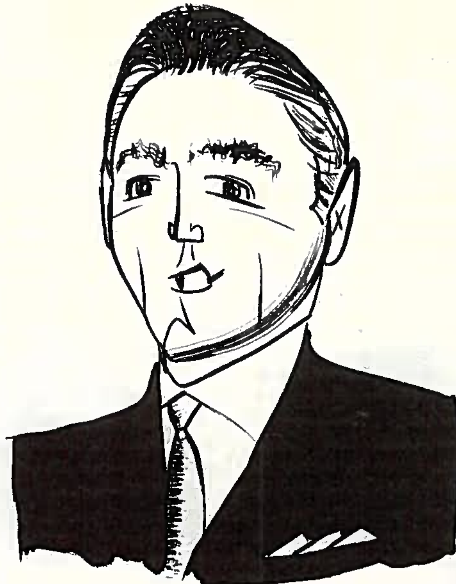
Jordan next solicited backers on behalf of Levy's publishing company, Austin-based Mediatex Communications Corp., which in addition to Texas Monthly owned Texas Homes and Houston City and was launching a home-and-lifestyle quarterly called Domain. It didn't take long to reel one in. In October 1987—the same month JEGI considers its official start date—Mediatex announced Dow Jones as a minority partner. The transaction not only gave Jordan her first commission but Veronis Suhler its first overt competitor.

Reed Phillips

MUCH OF THE MEDIA INVESTMENT banking landscape today is a function of Jordan's going on from that first deal to strongly influence—if not actually train—those colleagues who would later become rivals and those who would take their place at JEGI. Foremost of the former, of course, are Edmiston and Phillips. Equally important among the latter are Bill Hitzig, Jordan's current "Mr. Inside," who previously managed the Children's Television Workshop Publishing Group; Richard Mead, a former Dow Jones executive who now leads the firm's B2B push; and Scott Peters, a co-founder of AngelSociety, who is JEGI's point man for consumer-magazine clients. Already together for nearly a decade, this team constitutes what JEGI

calls "the core of its current team."

Of the media investment banker so central to all of these careers, Nylen, the New England Monthly and Beliefnet.com co-founder, says: "Wilma reminds me of another native Southerner, Elizabeth Dole. Both are smart, engaging, incredibly connected and married to powerful men. Both also have a great sense of presence." While the similarity even extends to looks (Jordan could pass as Dole's daughter or much younger sister), Nylen's sense-of-presence characterization elicits mixed reactions. One source says it is so developed, it evokes Winston Churchill. "You've got to recognize that what's of least importance to Wilma is still more important than your greatest concern," this source says, paraphrasing a Churchillian perception. JEGI's clients have mostly benefited from Jordan's heightened sense of purpose. Her staff less so, particularly during her transformation from media operator to media banker. The re-invention even included a growing-up-in-public phase that JEGI alums continue to mine for its anecdotal richness.



Roland DeSilva

On hearing a particularly important statistic had "doubled," one such anecdote begins, Jordan the neophyte banker insisted the increase couldn't possibly have been the 100% recorded by an underling. Rather, she said, it had to have been 200%—just as the word "doubled" so clearly implied. The underling's rejection of this reasoning prompted Jordan to set up a conference call with her husband, whose disembodied voice from Hearst Corp. headquarters verbally tap-danced between being mathematically correct and maritally supportive. "Well, you do have a point," a listener recalls Green telling Jordan's obdurate underling. "But then Wilma's point—directionally at least—has validity, too."

More than anecdotes, though, JEGI alums took from Jordan a sense of commitment and competition. Commitment is what has made her so revered. Year in and year out, Jordan has invariably been involved in a handful of top 20 deals in the media, information and, increasingly, Internet sectors. And socially, with and without her Hearst honcho husband, she has been present and popular wherever media types gather.

That she is also feared reflects the lengths Jordan has been known to go to protect her and JEGI's position in this firmament. Others in the alum club, which includes several high-ranking executives who returned to their operating roots after exiting the specialty bank, had departure experiences not unlike those already recounted for partners turned competitors. "Her sense of teamwork is so great," a source says, "it's always profound when the team comes apart. She can't help thinking, 'They don't like me, and I don't like them.' "

Some have reconfigured the qualities they took from JEGI, not only to suit their sensibilities but to separate themselves from the pack. Edmiston appears to have pushed AdMedia to the fore of the fast and the foreign. His brief last year to shop Inc. and Fast Company magazines for **Gruner + Jahr AG & Co. KG**—announced after the German publisher cut a deal to sell its other U.S. titles to **Meredith Corp.**—came with a 39-day deadline. Edmiston no sooner finished that task, making the sale to **Morningstar Inc.** founder Joe Mansueto for $35 million, when his AdMedia-run auction for Grupo Editorial Expansión, Mexico's No. 2 magazine publisher, identified Time Inc. as its winner. Terms of that deal have not been disclosed, but the price is believed to be around $75 million.

DeSilva & Phillips, meanwhile, set up shop south of New York City's 42nd Street in a commercial corridor chock-a-block with traditional and new media. "We moved here intentionally," Phillips says, "to signal our willingness as investment bankers to roll up our sleeves and work side by side with the people we serve." For similar reasons, a former DeSilva & Phillips colleague reports, the firm demands even its partners fly coach. The positioning distances the firm about as far as it can from Veronis Suhler Stevenson—and still be in the same business. Which raises a final point:

A quarter of a century after inventing media investment banking, Veronis Suhler Stevenson is in the process of abandoning it. The firm plans instead to focus exclusively on its four buyout funds and a mezzanine fund. With $2.5 billion already under management, it's easy to understand why.

The annual fee of 1.5% to 2% for investments under active management works out to about 1% for all the funds. That alone generates around $25 million a year for having identified which media assets are worth owning in part or in total. And when one of these investments closes out, Veronis Suhler Stevenson is entitled to the standard 20% of the profits.

All agree it's a great business, made even greater for absolving the investment-bank-turned-merchant-bank of conflict-of-interest charges stemming from its participation in media markets as both an adviser and a player. Then, too, it removes the firm from the very competition it engendered—a rough-and-tumble scene that's increasingly unpalatable to a bank whose founders not only aspire to such gentility but have realized yet another rich opportunity. ■

The pecking order Competitive analysis of 2005 deals

	INVESTMENT BANKS				PRIVATE EQUITY FIRM	
	AdMedia	D&P	JEGI	Veronis	Veronis	TOTAL
Consumer magazines	4	4		1		9
B2B magazines		6	7		12	25
Medical media		2			1	3
Tradeshows/conferences			9		3	12
Newspapers				1	1	2
Internet/software	4	1	5			10
Marketing services	3	1	2		1	7
Yellow Pages					10	10
Books						0
Education		1			3	4
Information services					3	3
Agency	1					1
Training/testing					1	1
Other (telecom, research, etc.)	1			2	4	7
TOTAL NUMBER OF DEALS	13	15	23	4	39	94
Total deal value ($bill.)	$0.7	2.0	1.0	0.8	3.9	
Average deal value ($mill.)	$53.9	133.5	43.5	200.0	100.0	

Source: Specific banks, The Deal