THE JORDAN, EDMISTON GROUP, INC.

Client Briefing

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April 2000

INVESTMENT BANKERS TO THE PUBLISHING, INFORMATION AND EXPOSITION INDUSTRIES

Major Magazine Publishers Continue to Launch

While the future of consumer magazines in the Internet Age has been called into question, media companies are continuing to demonstrate their faith in the form, if the ambitious launches scheduled for 2000 are any indication.

Among the companies with major rollouts planned for 2000 are Time Inc., Hearst, Rodale and Emap USA.

What separates many of today's launches from those of the past is the increasing frequency of an integrated cross-platform approach that often includes a significant Internet component and even, in Time Inc.'s case, conferences. Still, for the time being, publishers expect the lion's share of revenue to come from magazine advertising and subscription and single-copy sales.

Magazines that have launched already or are scheduled to launch in 2000 include:

eCompany Now Magazine, a monthly, is a new San Francisco-based affiliate of the Fortune Group at Time Inc., a Time-Warner company. Its launch is expected in May. ***eCompany Now's*** aim is to become "the straight-talking sophisticated companion" to business people who face the risks and opportunities the Web brings the business world. The aim is to deliver "great journalism that explains the successes and failures of companies great and small as they come to terms with the Web." Complementing the magazine is a Web site that is to provide daily editorial features and columns and a conference division that will roll out its first in a series of conferences later this year.

O, the Oprah Magazine, is set to launch on April 17, according to its publishers, Hearst Magazines and Harpo Entertainment Group. The magazine is expected to have a distribution of 850,000. ***O*** will publish two double issues: May/June issue (on sale April 17) and July/August (available June 20). The magazine will start publishing monthly in September. The magazine is to focus on advice, spirituality, beauty and fashion, health and fitness, community, family, relationships and books.

Real Simple, another Time Inc. launch, is a new magazine that aims to provide "beautiful actionable solutions for simplifying every aspect of your life: your home, health, food, money, clothes, looks, work, family and holidays," according to the company. The premier April issue was scheduled to go on sale with a circulation of 400,000 - 240,000 from subscriptions and 160,000 from the newsstand. The magazine, launched with a Web site, is expected to publish 8 times in 2000 and 10 times in 2001.

MH-17 a spinoff of Rodale's highly successful *Men's Health* brand, will feature original content addressing "the physical, emotional and personal needs of the nation's 10 million male teenagers, aged 13 to 17," according to Rodale. ***MH-17*** will first debut on the Web in the spring and roll out to newsstands in September with an initial circulation of 125,000. ***MH-17*** will provide teen males with practical information on topics including fitness, dating, relationships, grooming, sports and gear, among others. The aim of the Web site is to provide an "interactive conversation between teens and ***MH-17***." ***MH-17*** will launch with two issues in 2000 during the months of September and December. It is expected to publish with a bi-monthly frequency in 2001 and monthly frequency in 2002.

FHM, by Emap USA, is a US edition of FHM (For Him Magazine), the UK's No. 1 monthly magazine and Europe's No. 1 men's magazine. It was launched in February with an initial rate base of 225,000, which is to scale to 400,000 by September. It targets 18-34-year-old men and expects to publish seven issues in 2000. The editorial mix includes fashion, lifestyle, entertainment, music, books, celebrity interviews, travel and health.

Jordan, Edmiston Gathers Media Industry Leaders

The Jordan, Edmiston Group hosted its annual consumer publishing industry CEO Forum recently at the Four Seasons restaurant in New York. This year's CEO Forum featured speaker was Cathie Black, President, Hearst Magazines. (From left) Jim Dunning, CEO of Ziff-Davis Holdings; Cathie Black, President Hearst Magazines, Wilma Jordan, CEO of The Jordan, Edmiston Group; Ed Lewis, President of Essence Communications; and Ron Novak, COO of Weider Publications.

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What Is Your Business Worth?

The hardest question that prospective clients ask us is, "What is my business worth?" In answering that question, we attempt to identify key factors influencing value, both positive and negative. Providing a pricing range without having detailed knowledge of a business is risky. Hidden factors, whether they are jewels or deal breakers, often become apparent only after extensive investigation.

Price vs. Valuation

To borrow from a fabulously successful buyer and seller of businesses, Warren Buffett, there is an important distinction between valuation and price. From the buyer's perspective, the value of a business is what it is worth to them. The price of the business is the amount for which they can acquire it. A business's valuation should exceed price, preferably by 20% or more. As M&A advisors, we work diligently on behalf of sellers to move buyers from their opening bids to prices much closer to their valuation of the business.

Many advisors rely upon comparable multiples to provide a pricing range to prospective sellers. The problems with this approach are many. Too few transactions report details of price, revenue and EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization). The sample of comparable transactions is frequently too small to be meaningful. In addition, multiples of EBITDA vary in comparability depending on whether the multiple is based on trailing or forward EBITDA, or whether EBITDA is calculated excluding certain G&A costs.

Multiples of revenue are now used with increasing frequency, on the grounds that it is more difficult for sellers to manipulate revenue numbers. However, multiples of revenue may not be comparable, either. For example, are recent acquisitions included or excluded? Were dispositions and write-offs excluded? Finally, it is important to remember that multiples are never audited and can be misleading in the wrong hands.

Key Factors Affecting Valuation

The following factors may affect valuation and impact the price a buyer is willing to pay for a business. We say "may," because no two buyers view a business acquisition candidate in the same way. Beauty is, after all, in the pocketbook of the beholder.

Asset Sale - An asset transaction is usually more attractive to a buyer because of the taxation benefits that effectively reduce the cost of the acquisition. Asset transactions offer the buyer the added benefit of avoiding any unforeseen liabilities.

Must-Have Content - Buyers will value a well-devised group of products and services targeting an industry where high-cost decisions require timely, essential information.

Leading Market Position - Businesses with properties that enjoy leading market share are usually more attractive to buyers and typically command a higher price than those with third- or fourth-place market share.

History of Growth - A track record of impressive revenue and earnings growth, along with an achievable strong growth forecast is another key factor influencing a buyer's assessment of value.

Demonstrated Performance - A demonstrable ability to meet financial performance goals is another critical factor that can influence a business's valuation. Demonstrated year-to-date performance that is at or above budget will help persuade a buyer to base valuation on the current year's performance rather than the previous year's.

Potential for Market Dominance - Potential for growth through logical, attainable, acquisitions that quickly propel the buyer toward market dominance in the target market will positively impact valuation.

Strong Management - A buyer values an experienced management team that is committed to the business and willing to stay with the company.

Timing - Despite the recent and projected interest rate hikes, the current economic environment is still encouraging sellers to test the M&A market while encouraging buyers to use acquisitions to achieve scale and market share efficiently. Typically, a well-run auction among a group of buyers who all have compelling reasons to acquire a business will enable a seller to obtain a price closest to a buyer's valuation of the business. In the absence of a strong buyer pool, prices often fall significantly below buyers' valuations, unless a seller's M&A advisor skillfully manages the process to a seller's advantage.

A Global B2B Internet Company - Penton Media

The Jordan, Edmiston Group hosted its annual B2B media industry CEO Forum on March 9th at the Four Seasons restaurant in New York. This year's CEO Forum featured Daniel Ramella, who spoke about how Penton Media is poised to lead the B2B media industry as it transforms itself into a global B2B Internet company supported by in-print and in-person media assets. (From left) Daniel Ramella, president of Penton Media; Wilma Jordan, CEO of The Jordan, Edmiston Group; and Joe NeCastro, Chief Financial Officer, Penton Media.

Jordan, Edmiston Group Facilitates Investments In Early-Stage Media E-Commerce Companies

Investment Bank Affiliate Establishes $100 Million Venture Capital Fund

JEGI Capital LLC, an affiliate of The Jordan, Edmiston Group, Inc., has launched JEGI Internet Economy Partners, L.P., a fund designed to make equity investments in early-stage e-commerce companies that have technologies and business models of particular relevance to the media sector, said Wilma H. Jordan, CEO, and Thomas A. Crowley, Managing Partner, in a joint statement.

"We were very pleased that Tom Crowley joined us from GE Capital last Fall, to become the Managing Partner of this Fund," said Ms. Jordan. "Tom's extensive track record as an early stage investor and The Jordan, Edmiston Group's media specialization make a powerful combination for attracting quality investments."

"The convergence of content and e-commerce on the Internet is creating many new opportunities for business expansion and diversification in the media sector," said Mr. Crowley. "The continuing development of innovative enabling technologies, software products and new generations of Internet infrastructure by early-stage companies is creating extraordinary opportunities for venture capital investing within the 'media-commerce' sector."

Before launching JEGI Capital, the Supervisory Committee of The Jordan, Edmiston Group carefully explored the concept of establishing an investment vehicle. "We wanted to ensure that we designed this investment fund in such a way that it created no conflicts of interest with the investment bank's corporate client base," said Ms. Jordan. "In fact, JEGI Capital will deliver additional benefits to our clients not only through superior returns for the Funds' investors but also through the learning curve enhancement that highly targeted, early-stage, Internet investment activity will provide."

"We want to see every early-stage e-commerce and Internet-enabled company that has a product, service or business model that will be of interest to media companies. It is the intention that JEGI Capital become a clearinghouse for e-commerce, media-centric business models," Mr. Crowley said. In addition to providing money, JEGI Capital has, through its affiliate network, the ability to facilitate relationships between early-stage companies and established, global media companies, he said. "We also bring extensive media and e-commerce market knowledge and seasoned operational and financial experience to these growing companies."

Kent Hawryluk, a Managing Director who has overseen the new media practice for The Jordan, Edmiston Group since 1997, has become a full-time General Partner of the Fund.

JEGI Capital has established a blue-chip advisory board that includes Bruce Barnet, director of several Internet companies and former CEO, Cahners Business Information; Jonathan Bulkeley, Non-Executive Chairman, QXL, Europe's leading auction business and former CEO, barnes andnoble.com; Anne M. Busquet, President, American Express Relationship Services; Raul J. Fernandez, President & CEO, Proxicom; John A. McKinley, Jr., Executive Vice President & Chief Technology Officer, Merrill Lynch & Co.; and Mark Walsh, President & CEO, VerticalNet.

JEGI Capital LLC's first closing was also announced with $42 million in committed capital from global media companies, media chief executive officers and other industry leaders. A second closing is expected in the Spring of 2000. The Fund plans to reach $100 million in committed capital.

JEGI Internet Economy Partners Makes First Investment in Bowstreet

JEGI Internet Economy Partners, L.P. announced that it made its first early stage investment in Bowstreet. Portsmouth, NH-based Bowstreet is an exciting new Internet infrastructure enabler that promises to transform how companies conduct business using the Internet.

Bowstreet's Business Web Factory enables companies to build and manage mass customized "business webs" (XML-based extensible markup language Web services assembled on the fly). Research estimates are that a majority of the $2.5+ billion application-to-application traffic passing over the Internet software market will be XML-based by 2002.

With the Bowstreet Business Web Factory, companies are able to create customized Web sites for their business partners and customers that are simpler and faster because the system captures and automates what programmers do by hand.

"As we move from a client/server to Web services environment, Web-based systems integration is one of the major gating factors in B2B media e-commerce growth," said Wilma Jordan, CEO and General Partner, JEGI Capital LLC. "And Bowstreet provides a template that can assemble those Internet services to enable B2B media e-commerce on the fly."

JEGI Capital LLC also announced the appointment of Tom Alberg as newest member of its Brain Trust Advisory Board. Mr. Alberg, Managing Director and Co-Founder of Madrona Venture Group LLC, previously served as President of LIN Broadcasting Corporation and Executive Vice President of McCaw Cellular Communications, Inc. He was Chairman of the Executive Committee and Partner at Perkins Coie, a Seattle law firm, and a lawyer with Cravath, Swaine & Moore in New York.

Mr. Alberg is a Director of Active Voice Corporation, Advanced Digital Information Corporation, Amazon.com, HomeGrocer.com and Teledesic Corporation. He is Vice Chairman of the Washington Technology Alliance and former Chairman of the Discovery Institute. He is a graduate of Harvard College and Columbia Law School.

Blockbuster Media Mergers Dominate in First Quarter

The planned mergers of America OnLine with Time Warner and Tribune Company with Times Mirror dominated the headlines in the first quarter of 2000. However, Web-related investments and strategic acquisitions emerged as the two major trends.

There were several multi-million dollar Web-related investments announced by traditional media companies in the first quarter. In addition to these investments, traditional publishers strengthened their presence in existing business sectors, contributing to an active merger and acquisition marketplace, led by the exposition and conference media segment.

101 Communications acquired IT Events Ltd.; Wicks Business Information acquired Dow Jones Financial Publishing Corp.; Edgell Communications acquired the Multi-Unit Restaurant Technology Conference; Cahners Business Information acquired Media Publishing International and MarketCast, Inc.; Cygnus Business Media acquired Asphalt Maintenance Technology Expo; and Pfingsten Publishing acquired Mortgage Originator. The Jordan, Edmiston Group, Inc. advised Dow Jones & Co., Inc. and Mortgage Originator.

Each of these strategic acquisitions affords the buyer attractive revenue diversification and margin improvement opportunities.

Traditional Media Industry Web-Related Announcements - 1Q 2000

Month	*Traditional Media Company*	*Web-Related Investment Strategy*	*Amount (Millions)*
March	News Corporation	epartners II venture fund and eVentures incubator	$650.0
March	EMAP plc	EMAP Digital Division	$400.0
March	Wolters Kluwer	Development of community sites for professionals	$250.0
March	Meredith Corporation	Internet and e-commerce investments	$100.0
February	Reed Elsevier	Media migration and new revenue streams	$1,210.0
February	United News & Media plc	U.S. and European Web-based properties	$590.0
January	Pearson plc	Investment in developing Internet enterprises	$425.0

When Structuring an Earnout Deal Makes Sense

When buying or selling a company, the deal may be structured to provide part of the purchase price in the form of an earnout. That is, if the target company meets certain goals, such as revenue or earnings objectives, then the acquiring company will pay an additional amount post-closing. This can accomplish a variety of goals, including motivating sellers who are staying on to manage the business.

Earnout arrangements can run counter to the typical seller's expectations. For one thing, with an earnout agreement the seller is, in a sense, financing a portion of the transaction, something few sellers have in mind at the start of a transaction. And, given the uncertainly of earnout payments, prudent sellers who agree to an earnout must undertake a role reversal and conduct their own due diligence on the buyer.

Nonetheless, there are times when an earnout can end a transaction impasse or yield a seller higher-than-expected multiples on revenue and earnings. This is especially true when the seller has achieved impressive growth rates that are projected to continue. Opposing viewpoints between buyer and seller about the sustainability of this growth trajectory can lead to a significant gap.

When the cash at closing portion of a bid is close to the seller's perception of the property's value, or when it is close in value to the highest all-cash bids received, earnouts offer the potential of a significant premium, often at low risk to the seller. This is especially true if the seller is continuing to manage the business.

In such a case, earnouts also work well for the buyer, who sees these contingent payments as both a hedge against a business downturn and the best available incentive for the carryover management team to perform to its best ability. Achieving the maximum payout on an earnout can be a win/win proposition for buyer and seller.

Clearly, the greater the proportion of the transaction value to be paid in earnouts, the more risk there will be for the seller. This makes it essential to develop an explicit consensus on the operating and accounting policies to be employed by the new ownership.

The easiest way to do this is to agree that the business post-acquisition will be operated in a manner consistent with pre-acquisition operations. The purchase agreement should also explicitly state that the books will be kept using generally accepted accounting principles.

Earnout agreements should also spell out how corporate overhead will be allocated post-acquisition and whether losses in any years will be charged against profits in subsequent years during the payout period.

All-cash-at-close transactions are cleaner, far more common and less liable to legal wrangling than transactions involving contingencies. But there are clearly circumstances in which an earnout can not only help close a transaction but also offer sellers an improved opportunity to maximize value.