

INVESTMENT BANKERS TO THE PUBLISHING, INFORMATION, INTERNET AND EXPOSITION INDUSTRIES

Jordan, Edmiston Is in the Middle Of the Signature Deals in Q3 2000

The pace of magazine publishing and exposition industry mergers and acquisitions increased in the third quarter, with the value of announced North American deals at \$6.2 billion, or \$5.0 billion more than the second quarter volume. The number of deals grew from 28 to 35, or 25% over the number of deals in the second quarter.

The number of integrated B2B media company transactions surged, as trade publishers stepped up efforts to diversify by expanding into expositions, conferences, databases and online properties.

That trend is in marked contrast to the large number of deals in the consumer and

"If I had to pick the most significant trend of the third quarter, it would be the increased number of 'integrated' media transactions," said Wilma H. Jordan, Founder and CEO of The Jordan, Edmiston Group. "Companies have recognized the value of an integrated media approach and are acting on that recognition and driving the volume and value of deals."

trade magazine publishing sectors last year. While these sectors are still active, they are no longer the drivers of today's healthy M&A market. In the integrated B2B media company sector, announced deal volume increased to a record \$2.6 billion from a total of 11 M&A transactions in the third quarter.

A number of B2B magazine publishing companies used acquisitions to jumpstart their integration efforts. For example, Fawcette Technical Publications bought web development conference producer Thunder Lizard Productions, and 75-year-old Gardner Publications entered the exposition sector by acquiring the Bill Communications Plastics Technology Group and the Plasticos de la Americas trade show.

The fourth quarter is expected to pick up where the third quarter left off.

Contributing to the momentum will be the widening pool of buyers—private equity firms, diversified global media companies, cashed out entrepreneurs and media companies—seeking strategic add-on acquisitions to complement their core publishing, exposition or online assets. In recent months, buyers have shaken off the effects of rising interest rates, falling stock prices and slowing economic growth as quality companies continue to sell for high—and sometimes very high—multiples of revenue and EBITDA.

Prices for magazine publishing and exposition properties continued to increase in

the third quarter, as the median non-weighted EBITDA trailing twelve months (ttm) enterprise value multiple increased to 11.2x compared to 10.8x in the third quarter of 1999. The non-weighted median revenue ttm enterprise value multiple also rose to 3.0x compared to 2.4x in same prior-year period. One factor contributing to last quarter's increase in deal multiples is the greater number of contingent payments offered to sellers if they reach certain future revenue and EBITDA goals. In two of the largest announced mergers in the third quarter - the sales of Streaming Media and Duke Communications International to Penton Media—the sellers stand to realize earnouts that will represent a third or more of the total consideration paid by Penton.

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M&A Scorecard: Integration Key To Growth

Many consultants, scholars and members of the business press hold that the typical merger or acquisition is unsuccessful. However, that viewpoint is increasingly coming under scrutiny. In a recently announced survey from The Conference Board, two-thirds of companies making acquisitions in the last 10 years reported either a "very successful" or "successful" outcome in an acquisition, while only one-third reported "less than successful" integration efforts.

David Korse, President and CEO of Imark Communications and James Dolan, President of Dolan Media, are doing their part to change these commonly held perceptions by employing acquisitions to create extremely successful integrated media companies.

The environment for magazine and exposition industry launches is more challenging than ever before. This challenging environment for launches is one of the principal reasons why operators such as Korse and Dolan have embraced a growth through acquisition approach.

There are still many challenges inherent in a growth-through-acquisition approach. Growing through acquisition still means that companies must assume a substantial risk with each new business they acquire, although the chances of success certainly increase with how closely related the acquisition is to the company's core markets and businesses.

Nowadays, media companies are focused on providing marketing solutions for specific industry sectors, principally through

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JEGI Brain Trust Advisory Board Meets



JEGI Capital LLC hosted its second Braintrust Advisory Board meeting at the Four Seasons restaurant in October. (From left), Tom Crowley, Managing Partner of JEGI Capital; Charles Sinclair, CEO, Daily Mail and General Trust; Wilma Jordan, CEO of The Jordan, Edmiston Group and JEGI Capital; Richard Sarnoff, CEO, Random House Digital (Guest Speaker); and Kent Hawryluk, General Partner, JEGI Capital.

The second Braintrust Advisory Board meeting of JEGI Capital, an early stage, Internet-based venture capital fund and affiliate of The Jordan Edmiston Group, was held recently at the Four Seasons restaurant. The meeting's topic was digital publishing and included three presentations that underscored the widely divergent viewpoints about some of the issues and opportunities related to electronic publishing.

Braintrust members heard Dr. Henry Yuen, Chairman and CEO of Gemstar-TV Guide International, Inc., discuss such critical issues as digital publishing's impact on the consumer's value perception of books and how to prevent piracy. Dr. Yuen introduced Gemstar's proposal that electronic publishers imitate the staggered time-release concept that traditional publishers embrace (i.e., hard cover edition, followed by soft cover edition) by first releasing Ebooks to individual readers with premium accounts (using different encryption keys for each reading device) and then following with a general release via the Internet.

Richard Sarnoff, CEO of Random House Digital, in speaking about the inevitable impact of digital publishing on the book industry, brought to life numerous unresolved issues that have broad implications for every step in the book publishing value

chain. Regardless of which companies win the battle to act as content intermediaries, as retailers, and as reading device providers, Sarnoff believes that the reading experience by itself is sufficiently "sticky" that most publishers will avoid adding such digital enhancements as audio and video to most electronic texts.

Also presenting was Bob Stein, Founder and CEO of Night Kitchen, Inc., which is developing new authoring tools for the next generation of electronic publishing. Stein, who believes that the key requirements needed for the take-off of electronic publishing are a good distribution system, vivid display and authoring tools, is an advocate of a media-rich approach to digital reading materials. He also feels strongly that traditional publishers must become more willing to "think outside the box" if they are to provide the innovative approach to electronic publishing that the industry will need.

The Advisory Board meeting also featured a presentation from the Fund's second portfolio company, Bluewater Information Convergence, Inc.. President and COO Howie Lyke, who launched the company in 1999, described how the company engineers, builds and manages world class IT infrastructures and data centers for a growing client base, including Blue Cross Blue Shield and Sun Microsystems.

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databases, Web sites and newsletters. Because of this strategic imperative to build out integrated core market-focused media properties, the amount of time and resources devoted to integrating new acquisitions has increased. Correspondingly, most media companies have raised their expectations for acquisitions to increase profits.

Acquired by Warburg Pincus in the spring of 1999, American Show Management (ASM) has been 'fully-integrated' with Imark Communications, according to Korse.

Because Imark and ASM serve similar markets—producing regional expositions for the information technology industry—a casual observer might conclude that the strategic impetus for this acquisition was to build scale. But there was much more to the merging of ASM with Imark.

Cultures in Agreement

Imark and ASM shared complementary aggressive and creative cultures. "There was no old school versus new school clash," said Korse. An important driver of a successful growth through acquisition approach is the speed and degree to which a seller's culture is assimilated into a buyer's.

The shared corporate cultures of Imark and ASM enabled the enlarged company to employ both company's strengths. "We went out of our way to watch and learn from one another," said Korse. As a result of the merger and the blending of the two cultures, the combined company has been able to significantly increase its revenues through cross-selling and sharing customer databases.

A second factor integral to the success of merging ASM with Imark has been management's credibility. Imark management made it imperative to fulfill the promises they made to ASM's employees. Korse believes that the integration of ASM into Imark has also provided new career opportunities for ASM employees.

Building B2B Regional Platforms

Dolan Media was attracted to New Orleans Publishing Group (NOPG) because it believed the local business journal publisher would serve as a strong

Top 10 Announced Magazine Publishing and Exposition M&As By Value

<i>Buyer</i>	<i>Seller</i>	<i>Description (Property)</i>	<i>Transaction Value (\$ Millions)</i>
CanWest Global	Hollinger International	Southam Business Publications and Daily Newspapers	\$2,350
CNET Networks	Softbank Corporation	ZDNet and <i>Computer Shopper</i> Magazine	\$1,600
DLJ Merchant Banking	Hellman & Friedman	Advanstar Communications	\$900
VNU	United News & Media	Miller Freeman North America	\$650
Penton Media	Duke Communications	Duke Communications International	\$150
BISYS	PRIMEDIA, Inc.	Pictorial	\$130
Penton Media	First Conferences	Streaming Media Conferences and Expositions	\$100
Bariston Partners	PRIMEDIA, Inc.	PRIMEDIA Information Directory Group	\$35
Destination Group	Miller Publishing	Miller Publishing Sports Group	\$30
Penton Media	1st Communications	Professional Trade Shows	\$17

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Interest in mergers as an exit strategy for magazine publishers faced with online and trade show competition is strengthening as a growing number of closely held private entrepreneurial companies were sold to strategic and private equity-backed media companies last quarter.

Most magazine entrepreneurs have at some point in their careers considered selling to a larger or better-funded entity. Today, selling has become an increasingly attractive option for entrepreneurs, as they face the prospect of making substantial investments in online and trade show properties in order to stay competitive and provide advertisers and marketers with full-service media solutions.

The flurry of deals in the B2B sector is having a self-reinforcing trend as larger players like VNU and Penton Media grow, raising the bar for the remaining B2B strategic and private-equity backed media companies that need to react to these market leaders.

Another notable trend in the third quarter was the continuing emergence of private-equity backed entrants, such as DLJ Merchant Banking Partners and Bariston Partners, purchasing B2B media company assets. Combined, B2B publishing, exposition and integrated media companies represented more than three-quarters of last quarter's deals, totaling over \$5.8 billion.

Despite CNET's acquisition of Ziff-Davis' remaining assets and financial online web site 123Jump.com's acquisition of *Ticker* from Individual Investor Group, content-driven online media start-ups made very few magazine publishing or exposition industry acquisitions in the quarter. The number of consumer magazine publishing deals also declined in the quarter to 8 deals for \$58 million, compared with 10 transactions valued at nearly \$1 billion in 3Q 1999. Of the six announced exposition transactions last quarter, publishers, integrated media companies and independent show producers each accounted for one-third of the deals.

Cross-border transactions, mergers involving targets and acquirers from different countries, increased in the third quarter of 2000. Among the noteworthy cross-border M&A deals were VNU's acquisition of Miller Freeman North America for \$650 million; Reed Elsevier's acquisition of Miller Freeman Europe for \$585 million; EMAP's acquisition of 25 German and Swiss B2B magazines and directories; Ziff-Davis Media's sale of its UK-based technology magazines to VNU; the Hearst National Magazine Company subsidiary's sale of its consumer magazine group to Gruner + Jahr and Advanstar's acquisition of the Brand Licensing London show.

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platform from which to launch several related publications and information products. "NOPG was a top performer to begin with and we wanted to make sure that we didn't drop the ball," said Dolan. "The acquisition has gone very well, just as we expected," he added.

As one of the leading integrated B2B media companies, Dolan Media is considered by industry observers to be among the most successful at integrating acquisitions. One of the key success factors in Dolan Media's growth through acquisition approach is the company's commitment to undertake intensive research on a prospective acquisition to learn as much as it can in advance about a business's culture, employees and processes. "We do as much learning as possible ahead of time. We spend enormous amounts of time thinking through and working out where every employee fits in," Dolan said.

By the time the deal to acquire NOPG had closed, Dolan Media had an expectation about what every employee's job description, compensation plan and career path would be. Dolan believes that clarity of communication is paramount. "We're not wishy-washy about integration," said Dolan. In the company's acquisition of NOPG, it managed to communicate to every employee on day one the company's strategy and how NOPG and its employees would be critical to Dolan Media's continued success.